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PM's Remarks at the Plenary Session of the G20 Summit

The Prime Minister, Dr. Manmohan Singh addressed the Plenary Session of the G20 Summit in Seoul today. Following is the text of the Prime Minister's remarks:

"Mr. President, I join other colleagues in thanking you for the excellent arrangements made for the Summit and for the warmth of your hospitality.

The G20 has only been in existence for two years. Yet it can claim several important successes in this short period which has led to its emergence as the premier forum for international economic cooperation.

We acted swiftly to respond to the crisis of 2008 with a massive and coordinated stimulus which almost certainly avoided what could have been a precipitous collapse of the world economy. We successfully initiated a process of reforms of the World Bank and the IMF which has already yielded good results. We have launched a much needed reform of financial regulation through a broad based Financial Stability Board (FSB). And we are currently engaged in an ambitious process of coordinating policies in our countries to achieve a strong and sustainable recovery.

Efforts to achieve a strong recovery in the global economy are particularly important at present. Our discussion yesterday on the state of the world economy reveals a mixed picture. There is some good news. Industrialized countries have resumed growth in 2010, although output gaps remain large and unemployment is still at crisis levels.

Emerging market countries have done well on the whole, and especially so in Asia. I am happy to say that the Indian economy has rebounded fairly well from the crisis. We grew at 9% in the four years prior to the crisis, but slowed down to 6.7% in the 2008-09. The economy recovered to 7.4% growth in 2009-10 and is likely to grow at 8.5% in 2010-11. We hope to achieve 9% in 2011-12.

However, high unemployment in industrialized countries threatens a revival of protectionist sentiment, especially since the use of conventional monetary and fiscal tools to revive the economy has been exhausted. Uncertainty about the prospects of industrialized countries affects the investment climate and dampens the medium term growth prospects of emerging market countries. All this suggests that much remains to be done to bring our economies back to the path of strong, sustainable and balanced growth.

The problem facing us in rebalancing the global economy is well known. Major industrialized countries were running unsustainable current account deficits which have to be reduced to manageable levels. If this is not to have a contractionary impact on the world economy, it must be offset by reducing current account surpluses elsewhere. This rebalancing requires pursuit of appropriately coordinated policies in our countries.

The Mutual Assessment Process we adopted in Pittsburgh was a unique G20 initiative to achieve such coordination. We saw the outcome of the first stage in Toronto, at the level of country groupings. We had expected to move to the second stage of considering country specific recommendations by the time of the Seoul Summit.

We are not there yet, and for good reasons. It is not easy to reach agreement on what are sustainable current account balances for individual countries given the structural differences across countries, the many uncertainties that prevail, and the multiple goals that each country has to balance. It is even more difficult to agree on a particular combination of policies to achieve these targets.

Despite these difficulties, we must persevere to develop a workable G20 mechanism for international coordination. I believe there is considerable agreement on some broad principals.

First, we must at all costs avoid competitive devaluation and resist any resurgence of protectionism.

Second, advanced deficit countries must follow policies of fiscal consolidation, consistent with their individual circumstances so as to ensure debt sustainability over the medium term. This means that fiscal correction need not be frontloaded everywhere.

Third, while structural reforms are necessary everywhere, these should increase efficiency and competitiveness in deficit countries, while expanding internal demand in surplus countries. This rebalancing will take time, but it must begin.

Fourth, exchange rates flexibility is an important instrument for achieving a sustainable current account position and our policies must reflect this consideration. At the same time, reserve currency countries have a special responsibility to ensure that their monetary policies do not lead to destabilizing capital flows, which can put pressure on emerging markets.

To these well known ingredients, I would add another that has not been sufficiently discussed. Even as we try to avoid a destabilizing surge of volatile capital flows to developing countries, there is a strong case for supporting long term flows to these countries to stimulus investment, especially in infrastructure. The economic performance of emerging markets, including many countries in sub-Saharan Africa, has improved greatly in recent years. These countries are now in a position to absorb capital flows aimed at an expansion in investment, which would inject much needed demand into the global economy. Multilateral Development Banks have an important role to play in this process through recycling of global savings. Many emerging market countries are also in a position to attract private investment, including into infrastructure.

Recycling surplus savings into investment in developing countries will not only address the immediate demand imbalance, it will also help to address developmental imbalances. In other words, we should leverage imbalances of one kind to redress imbalances of the other kind.

The G20 would convey a powerful signal to markets if we commit ourselves to a second stage MAP process aimed at coordinating policies in these areas. Our Finance Ministers and Central Bank Governors could be asked to develop these ideas further, with the assistance of the IMF and produce, as quickly as possible, a credible approach to identifying sustainable trajectories for external balances for our countries and to assess the policies proposed by each country to achieve these.

I recognize this is not going to be easy and we must allow considerable flexibility to accommodate learning by doing. However, if we can actually do this, we will have made a lasting contribution to a new style of global governance.

I would like to compliment the Korean presidency for the initiative it took to include development as an accepted item in the agenda of the G20. The G20 was borne at the time of a crisis and as such it has been preoccupied with the short term agenda of crisis management and global rebalancing. However, one of the biggest imbalances facing us the development imbalance and putting development on the G20 agenda fills an important gap.

I have already mentioned that developing countries performed well in the years before the crisis and have also done well in subsequent years. However, we need to ensure that the global economic environment, including especially the environment for trade, and investment flows remains strongly supportive of development.

The Seoul Development Consensus and the associated Multi- Year Action Plans which are before us provide a comprehensive agenda with timelines which we should pursue in all relevant fora in the months ahead.

I am particularly happy to endorse the focus on facilitating investment in national and regional infrastructure projects and the call for establishing a High Level Panel to recommend measures to mobilize private, semi-public and public resources for infrastructure investment and to review MDB policy in this area. Infrastructure is a critical constraint to rapid and inclusive growth in most emerging markets and we need to find innovative ways of meeting the enormous costs of infrastructure development. This should be made a major focus of the MDB agenda.

The emphasis on development of employable skills is also extremely important. We in India are giving high priority to skill development in our effort to provide access to quality jobs to the large numbers of new entrants' labour force.

The Seoul Summit is also delivering on the promise of reform of the IMF. We have agreed to a shift in quota shares of 6% to emerging market countries and the composition of Board is being changed to reduce the European representation. With the additional resources already provided to the IMF, we have not only provided the IMF with the firepower that it needs to perform its stabilization role, but also moves it in the direction of greater democratization. Further moves are necessary in this direction and we welcome the decision to comprehensively review the quota formula by 2013 to reflect the growing economic weight of the emerging market countries.

This should be fully reflected in the next quotas review due to be completed by 2014.

Finally, Mr. President, we must ensure that the Doha Development Round of multilateral trade negotiations is brought to a satisfactory conclusion. We have seen a resurgence of protectionist sentiment in the world in the wake of recessionary trends. It is commendable that actual protectionist action has been more limited. The only way to ensure that protectionism does not gain the upper hand is to restore momentum to the trade talks. I hope the G20 will land in their weight to this objective.

In the end, I would like to say that the G20 was an apt response to an adverse situation that the world faced. A few years down the line, the world will ask as to what else did G 20 achieve other than averting a total breakdown due to the global financial crisis. Fortunately, through the dynamic leadership shown by the Korean Presidency the G20 has moved forward and arrived at a rich agenda of things to do. I would once again like to thank Korea for their tireless efforts. I am also confident that the G20 will be able to translate this agenda into tangible outcomes under the forthcoming presidency of France and I wish them success in our common endeavour.”

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