



STATEMENT ON BEHALF OF THE GROUP OF 77 AND CHINA BY MR. KHALED HUSSEIN ALYEMANY, MINISTER PLENIPOTENTIARY, MISSION OF THE REPUBLIC OF YEMEN TO THE UNITED NATIONS, ON AGENDA ITEM 18, MACROECONOMIC POLICY QUESTIONS, AT THE SECOND COMMITTEE OF THE 65TH SESSION OF THE UNITED NATIONS GENERAL ASSEMBLY (New York, 11 October 2010)

Madam Chairperson,

1. I have the honor to deliver this statement on behalf of the G77 and China.
2. The multiple and interrelated crisis, particularly the global economic and financial crisis, the ongoing concerns over food security and energy price volatility, as well as the challenges posed by climate change, are seriously testing our capacity to promote development. The world financial and economic crisis has reversed many important developmental gains in developing countries and threatens to seriously undermine the achievement of the internationally agreed development goals, including the Millennium Development Goals.
3. Two years after the outbreak of the global financial crises, developing countries have still not fully recovered from its social and economic effects. The economic recovery remains fragile, uneven and uncertain and requires urgent measures of support. Furthermore, the crisis is projected to have long lasting negative effects on development, depressing potential output for years to come, raising the cost of capital and tightening the availability of credit, as well as impairing the economic and financial stability of many developing countries.
4. In terms of human and social development, developing countries are still bearing the brunt the crisis. According to the World Bank, 64 million more people are expected to be living in poverty because of the crisis, most of them in developing countries. The International Labour Organization estimates that 31 million people lost their jobs or may be unable to find full time employment in developing countries because of the crisis. Despite the recent improvement, FAO estimates that the crisis has pushed more than 100 million people back into hunger, placing the number of chronic hungry people in the world at 925 million. Unless the international community provides additional support for development, the achievement of the internationally agreed development goals (IADGs), including the millennium development goals (MDGs), may be seriously affected.
5. The Outcome of the United Nations Conference on the World Financial and Economic Crisis and its Impact on Development recognizes that the majority of the world's developing countries lack the fiscal space to implement countercyclical measures to combat the effects of the crisis and ensure a sustained recovery. It further acknowledges that many developing countries are facing severe foreign exchange constraints as a direct consequence of the crisis. It therefore calls for a mechanism to ensure that adequate resources are provided to developing countries, especially the least developed countries. As mentioned in the Outcome Document, developing countries should not be financially burdened by the crisis for which they are not responsible
6. According to World Bank estimates, developing countries faced an external financing gap of approximately US\$ 350 billion in 2009. Many developing countries were forced to curb domestic demand or to draw down on their international reserves (or both). Overall, developing countries consumed approximately US\$362 billion of their international reserves last year. Developing

countries had to rely on increased borrowing from the international financial institutions and the international markets. The World Bank increased its lending commitments by US\$12.8 billion in 2009 to record levels, and the IMF made additional commitments of US\$70 billion. Against such backdrop, G77 and China urges international financial and development institutions and in particular the World Bank to refrain in their activities from exercising non-technical considerations or conditionalities.

7. As a result of the crisis, as well as of tighter financial regulations, the cost of capital to developing countries is projected to be higher, on average, in the medium term, than before the crisis. The tighter availability of funds is expected to affect economic prospects of developing countries, depressing their potential growth by as much as 0.2 to 0.7 percentage points annually, for 5 to 10 years.

8. This year, it is estimated that developing countries will face a financing gap of US\$ 315 billion. Most likely, this gap will remain large for the next few years. In order to adequately respond to the crisis and address its long-term effects, therefore, both short-term liquidity, long-term development finance and grants will need to be made available to developing countries, as a matter of priority. International support is also needed to allow developing countries to implement countercyclical policies, in accordance with their national priorities and development strategies.

9. In this regard, we believe that it is extremely important ensuring enough policy and fiscal space for developing countries, in order to allow them to design and implement appropriate development policies and strategies.

10. The G 77 and China also stresses the need for appropriate and necessary measures to bring about a more rapid solution to the current economic and financial crisis. To that end, the Group believes that most developed countries should use, as appropriate, fiscal policy to stimulate aggregate demand, thus giving a positive signal to the markets to increase its rate of investment and hiring, enhancing disposable income from consumers. It is the public sector, in the present circumstances, that has the means to promote more dynamic markets and therefore a virtuous circle of new economic expansion. In such a new environment, our countries could also benefit and take advantage, through international trade, of a more robust and rapid recovery of the global economy.

Madam Chairperson,

11. On Agenda Item 18(b), we recognize that the main causes of the crisis are linked to the fragilities and inequalities in the current international economic order. Failure of multilateral surveillance and lack of early warning systems, overconfidence and over reliance on market self-regulation, have resulted in serious deficiencies in the global financial and economic architecture.

12. These factors were made acute by an outdated global financial and economic architecture, as well as major failures such as the lack of proper regulation, supervision, and monitoring of the financial sector, compounded by an overall lack of transparency and financial integrity, excessive risk-taking, unsustainably high asset prices, over leveraging, and unsustainable patterns of consumption fuelled by easy credit and inflated asset prices in developed countries. The unfolding crisis has demonstrated the need for a robust and more focused role of the State in the economy and in the formulation and implementation of social policies.

13. It has highlighted the urgent need for a substantive and comprehensive reform of the

international economic and financial system and architecture, including mandates, scope and governance of the International Financial Institutions.

14. In relation to the Bretton Woods Institutions (BWIs), we stress the importance of undertaking ambitious and expeditious reform, particularly in their governance structures, based on full and fair representation of developing countries, in order to address the democratic deficit of these institutions. The reforms must reflect current realities and ensure full voice and participation of developing countries in the decision making and norm-setting process of the BWIs.

15. In this context, G-77 and China considers it imperative to promote an open, inclusive and transparent discussion for a new international economic and financial system and architecture. The Group is prepared and willing to enter into dialogue in good faith with all interested parties, and also commands all efforts to facilitate dialogue between interested parties on this issue.

16. The United Nations plays a unique role, as an inclusive forum that can promote a better understanding of the social and economic impact of the crisis, and can fashion appropriate responses. The Working Group on the Financial and Economic Crisis has more than proven its worth. The proceedings of the Working Group have shown the importance and usefulness of an open, transparent and inclusive multilateral forum for dialogue and discussion of proposals with a view to addressing the crisis, in line with the mandate provided by the decisions of the conference on the "World Financial and Economic Crisis and its Impact on Development" and the relevant General Assembly resolution.

17. The Member States of the United Nations need a forum in which to discuss the global economic crisis and its impact on development, and to also discuss proposals to address the problems and issues emanating from the crisis. The G77 and China firmly believes therefore that the Working Group should continue its deliberations in the current 65th General Assembly Session. In particular, it should build upon recommendations set out report prepared by the co-facilitators, and focus on implementation, and the design of concrete actions. The format of the discussions of the Working group should be reviewed in order to make its work more effective and action oriented.

Madam Chairperson,

18. With regards to item 18(c) of the agenda, the financial and economic crisis has demonstrated, once again, the vulnerability of developing countries to exogenous shocks, affecting their capacity to continue servicing their debt obligations, regardless of their good practices in the past. As a result, fewer funds are now available for financing developing and the international agreed development goals, including the MDG's This situation has been compounded by the difficulties to obtain much needed foreign investment and financing. Many countries may be faced with the stark choice of either investing in social programs, or servicing their external debt.

19. Many developing countries, including those that benefited from the current debt-relief initiatives, face enormous pressures on external payments and fiscal budgets. As of March 2009, the debt levels of almost 30 countries exceeded 60 per cent of their GDP. The situation has been aggravated due to the fall in foreign-exchange earnings, the reduction in export revenues, the higher-cost for imported food and fuel, currency depreciations and deterioration of tax revenues.

20. At the same time, reducing debt-service payments is not sufficient to avoid the risk of debt distress. Thus, the debt situation of a number of HIPCs that have reached the completion point remain highly vulnerable to external shocks, among other reasons, because many of them continue to be heavily dependent upon commodity exports. Even prior to the global economic crisis, only

about 40% of the post-completion point HIPC's had a low risk of future debt distress, and the number of countries with a high risk of debt distress has increased from one to four. On the other hand, middle-income countries and low income countries that are not considered HIPC's, face longstanding external debt problems which need to be addressed. Without international support, therefore, developing countries may face another debt crisis in the years to come.

21. Developing countries, including low and middle-income countries facing a shortage of foreign exchange because of the fallout of the crisis, should not be denied the right to resort to debt standstills in order to mitigate the adverse impacts of the crisis.

22. It is clear that even in the presence of a more coherent international financial system, sovereign defaults are bound to happen. It is thus desirable to explore the possibility of the establishment of a debt resolution mechanism aimed at guaranteeing a speedy and fair resolution of sovereign debt crisis. UNCTAD has proposed the creation of such a mechanism since 1985, the proposal was reviewed in 1988 and was taken up by the IMF in 2001. The proposal of a Sovereign Debt Restructuring Mechanism (SDRM) within the IMF was rejected.

23. The Outcome Document opens the door to the design of such a mechanism, through the mandate to "explore the need and feasibility of a more structured framework for international cooperation in the area of sovereign debt restructuring". The Secretary General Report corroborated this proposal and emphasized the need for an international discussion on the design of a mechanism aimed at facilitating the resolution of sovereign insolvency.

24. This mandate is reaffirmed in General Assembly Resolution 64/191, emphasizing the special importance of a comprehensive and durable solution to the debt problems of developing countries, the need for coordinated policies aimed at fostering, inter alia, debt restructuring, and calling upon all countries to contribute to the discussions in the International Financial Institutions and other forums, on a more structured framework for international cooperation in debt restructuring.

25. Finally, the G77 and China looks forward to our deliberations within the Second Committee on all issues under the macroeconomic cluster, which acquires significant importance, and we commit to working to devise and adopt action-oriented resolutions and decisions, on a timely and effective manner. The Group considers that items related to macroeconomic policy questions are of vital importance to the deliberations of the second committee and should be an important part of our agenda to continue analyzing profoundly its impact and repercussion.

I thank you.