



GENERAL ASSEMBLY

Topic: "External debt as a threat to the future's worldwide economy".

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I. COMMITTEE BACKGROUND

The General Assembly is the first committee of the United Nations (UN). Here, delegates meet to discuss contentious issues, mainly those related to international peace and security. As well as this, the General Assembly is also responsible for overseeing the UN budget, the general functioning of the organization and the admission of new members.

Today, the General Assembly is made up of 193 UN members, each of whom has a voice and a vote. And all have a collaborative responsibility to find solutions on important issues such as political, humanitarian, social, economic and legal matters. Its objective is to reach a general agreement to achieve the 4 purposes of the UN. Such as: to maintain international peace and security, to foster relations between nations and to favor international cooperation to solve problems and always respect human rights

II. HISTORY OF THE TOPIC

a. Introduction of the topic

External debt can be defined as the owing of money to another country, international bank or organization. In today's world it is a magnificent tool for development as well as aid for those countries unable to finance projects or for those donors being an act of goodwill. However, debt has its positive and negative factors. While it serves as a great means, it can lead one or many countries into a financial crisis, furthermore affecting not only the national economy, but the worldwide economy as well. In the following case, the world's future will be discussed as well as the necessary action in order to prevent future crises.

In a UNDP report, it is acknowledged that most countries who are in sovereign debt are those with low and middle income countries. Even before the covid-19 pandemic, some countries were in terrible debt and were furthermore plunged into tension during the pandemic. A clear example is Sri Lanka's case, who according to the past report, is "the third country to default on sovereign debt after Zambia and Lebanon in the Covid-19 era. Meanwhile, high income countries have been aiding those in need through infrastructure projects such as China and its several projects in Africa.

b. Evolution of the topic

Throughout history, many countries have fallen in and out of debt. However, in some cases it was such a crisis that other countries were also taken down by its influence. A report made by the World Bank was published in 2019 and it framed the debt evolution during the last decades. As described in the latter, debt can be seen as a wave... until now there have been four. The first three are identified as the following: the Latin America Crisis (1980), the Asian Financial Crisis (1997), the European.

It is here where the important role of debt can be seen with its positive and negative aspects. On one hand, external debt can be a great tool when investing on important projects that aid development. On the other, the risk can be great and these same investments can be unprofitable. Human overconfidence and the sense of prosperity only led to an excess in projects and capital, which in the end was not used in its totality.

Considering this year's context, a crisis was inevitable by 2019 when the covid-19 pandemic started and has been into recovery ever since. In the following cases, the three waves of the past 50 years will be briefly explained and furthermore used for the understanding of the topic.

In the 1970s oil prices started to rise, starting a great crisis in the following decade. Also known as the Latin American crisis or "Lost decade", Mexico and other Latin

American countries and several banks faced several challenges. In 1982 Mexico accepted that it was unable to repay external debt. Mexico started by owing \$80 billion dollars, reducing its peso to 1/3 of its value resulting with unemployment rates skyrocketing by 12%. It is here where the country's interest began to interfere with the citizens' safety.

After Mexico other countries followed suit: Argentina and Brazil found themselves in a crisis as well and it took a meeting with the international banks in order to brace for the worst. It was then that the Brady deals were made at the start of the 1990s. By surrendering their loans, the banks would come to an agreement in exchange for the surrendering. However, interest rates were not addressed which became a problem for countries like Argentina and Brazil. However, the market grew again, becoming a success story. When in the 1980s investors would not want a part in the Latin American projects, today they have become popular and on demand.

On the other side of the world, the Asian Financial Crisis took place in the late 1990s starting in Thailand. In this decade, South Korea and the Asian countries had a boom in its economy by receiving a great amount of investments through capital. With high economic growth and controlled inflation, there was nothing to worry about. With the feeling of prosperity came the decision from the Thai government to encourage in Bangkok a new financial industry as well as inducement to taxes. All of these investments came from external loans, and with planned profitability.

However, the risk was too great when the projects became unprofitable too soon. The external debt was then unable to be paid and the Thai government announced that its currency, the baht, would no longer be pegged to the U.S. dollar. By doing so, neighboring countries and their currencies plunged. The Indonesian rupiah dropped 80%, the Thai baht more than 50%, the South Korean won almost 50% and the Malaysian ringgit dropped 45%. Moreover, by 1997 it had become a global crisis when the Russian and Brazilian economies were damaged. By being able to resist the International Monetary Fund (IMF) and its demands, many countries' GDP

decreased, as well as the rate of unemployment, businesses closing and capacity of growth.

Response was seen primarily from the IMF, who then loaned on the short term almost \$118 billion to Thailand, Indonesia, and South Korea. Yet these loans came with the cost of increasing taxes, decreasing spending and eliminating subsidies. Recovery was seen until 1999.

c. Relevant events

Covid-19 Recovery

It was only during and after the covid-19 pandemic that attention was really directed towards the financial worldwide crisis. Never in history had external debt and inflation rates been so high. Not only were low and middle-income countries affected, but well developing countries as well. Countries that were already prior to the pandemic in excessive debt were evidently the most affected. With a worldwide crisis, international banks like the IMF and World Bank were quick in taking action in order to preserve safety and balance.

Sri Lanka Debt

One of the countries with greater external debt, Sri Lanka faces great challenges at the moment of recovering from the covid-19 pandemic. After failing in efficient economic management, Sri Lanka has had to rely on negotiations in order to improve its situation. For example, one of the big projects financed by the Chinese government was the Hambantota port, which was meant to be a positive addition to the country. However, after being unable to pay it back, the Sri Lanka government was obliged to lease the port for 99 years in 2017. This has only been one of the many projects funded that turn out to be highly unprofitable in Sri Lanka by China. The former country has already been negotiating with the IMF in order to release \$2.9 billion in order to restructure the debt.

Sino-African Relations

After taking into consideration China's actions in Sri Lanka, it is clear that by having great power it has seen the need to expand its projects to other countries. During the last decade, a great focus for its investments has been Africa. By building roads, trains, ports, mines and immense infrastructure projects, China has been seen as a great donor to the African government. By sharing a similar past with Africa, China's investment is seen as an act of goodwill for the African population.

From building a national parliament to a stadium, China has spent over \$300 billion dollars in pure goodwill. Nonetheless, it is important to take into account the increase of labor in China, as well as its immense growth in the past 50 years. By coming to Africa, China benefits with cheap labor, natural resources and influence. By funding these numerous projects, attention was inevitable. While the Chinese government claims that it is all in the name of friendship and goodwill, controversy has risen when the United States' decisions are taken into account. By also aiding Africa with an estimate of \$18 billion in deals, the U.S. focuses on democratic and development projects. On the other hand, China's focus is directed towards infrastructure and construction projects. All of this information becomes relevant when taking a wider perspective.

Considering China and Sri Lanka's history, it is clear that Africa is incapable of paying back the numerous projects that have been funded. Despite being an "act of goodwill", the possibility of China claiming territory or projects in the future is probable. Regardless of the countries' true intentions, it is undeniable to confirm that the latter have had a great impact on the African population.

III. CURRENT EVENTS

a. Panorama

The covid-19 pandemic has left damage, yet encouraged goodwill across nations. External debt not only has created fear in governments, but increased the risk of future and worse economic consequences. The impact that past debt crises have had on the present are evident.

Not only have they created great weaknesses but have been a constant repetition of history. If the governments are ready to learn from past mistakes, real goals and actions are to be taken. International banks as well as powerful countries have aided through different means. Danger in the poorest countries have been worldwide

news and are demanding instant and effective decisions from those who have the ability to act.

b. Points of view

China

As already mentioned, China has been a great donor and power in the last 50 years since its recovery from extreme debt. Its infrastructure projects have had a huge impact on Africa, as well as other countries. However, part of their unsuccessful investments are mirrored in their own debt, which in the last three years has increased exponentially.

According to experts, China's debt to GDP has risen 73% in 2021, 78% in 2022 and is following a trend up to 2027. On the other hand, it has acted as a competition to the IMF when concerning loans. Some of the countries that owe the most to China are Djibouti, Angola, Maldives and Laos, adding up to \$170 billion borrowed in total by China to other countries in 2020. By carrying poor countries with debt, it is inferred that when being unable to pay back, countries will surrender by giving geopolitical power.

United States

In the United States the treasury handles two types of debt: intergovernmental debt and public debt. Concerning the former, a total of \$31.12 trillion dollars in debt was reached in 2020. Inside their major debtors are Japan, by owing \$1.23 trillion of debt, followed by China with \$967.8 billion as well as the United Kingdom with \$615.4 billion of the national debt. The United States' role in international debts is crucial due to their great power and aid to countries in poor economic status.

Sri Lanka

Currently facing an economic crisis, Sri Lanka's inflation increased by 50% in January of 2022, major power cuts have become common and poverty is rising. In May of 2022 the country accepted it was not able to pay its external debt for the first time and has since been lacking the capacity of investment in basic resources. From

transportation to energy, civilians are exposed to poverty as well as political instability. Concerning its debt, Sri Lanka owes a total of \$51 billion in which \$6.5 billion are owed to China. Such a crisis has initiated negotiations with well developed countries in order to decrease their debt as well as special loans from the World Bank and the IMF to Sri Lanka and India.

Laos

Laos was subject to China's investments with a railway that has been a burden with an additional Chinese ownership of 30%. What some call a "debt trap" has not only affected Sri Lanka but Laos too. By creating 183 projects, an equivalent of \$16 billion in Sri Lanka, China continues raising controversy and questioning its true intentions. However, by investing in projects with a positive impact on the population, authorities welcome any help.

IV. UNITED NATIONS AND EXTERNAL ACTIONS

a. United Nations

The UN Development Program is constantly striving to create a positive impact on countries, and at the face of the debt crisis the facts were given: "54 countries that are home to more than half of the poorest people on the planet need urgent debt relief now". By accepting their incapacity to pay their loans, the UNDP published "Avoiding 'Too Little Too Late' on International Debt Relief" where high-income countries are called to aid and provide support for them.

b. External Actions

HIPC Initiative

In 1996 the HIPC Initiative was founded by the World Bank, IMF and other commercial creditors in order to address the debt crises. By decreasing the overwhelming debt, these organizations aimed at relieving and showing possible support concerning the crises. In order to be eligible, countries had to meet several criteria in order to be granted the debt relief as promised. However, some challenges were presented with countries in concern, management and participation.

G20's Debt Service Suspension Initiative (DSSI)

By suspending debt after the covid-19 pandemic, the G20 aided 43 of the 73 eligible poorest countries. Debt services were in total \$12.9 billion from bilateral official lenders. Through liquidity support, the G20 have been able to ease the already critical situation. However, this initiative does not include debt relief. The effects of this initiative in sub-Saharan African countries were “valuable but limited”, according to an IMF report. Compared with the amount of resources needed by these countries, the savings are small yet meaningful.

V. CONCLUSION

In conclusion, a problem that seems excessively grand can potentially be solved by common goals and honest action. External debt is a double edged sword... it can help economies recover but can as well drive them to poverty in a couple of days. With the actual context as the pandemic and past crises, it is imperative to protect the future of the worldwide economy, as well as find the best solutions for everyone to benefit. By maintaining an external focus on those in poverty and danger, hopes are that resolutions can be reached in peace.

VI. IMPORTANT QUESTIONS

- How can the past crises help at the resolution of the present ones?
- What are some methods that can be employed in order to secure the countries that owe the most?
- What can be done respecting the sino-african relations as well as the Sri Lankan debt?
- If the international banks have already created awareness of the excessive debt of countries, what can each country do in order to decrease its debts?
- If external debt creates unemployment and poverty, how can countries recover if their reserves are no longer sufficient?
- How can the cycle of debt be avoided? Are debt relief and loans crucial?

VII. ADVICE AND RECOMMENDATIONS

- Research!

- Preparation is key.
- Represent your country realistically. This means you must stay in “character” during the sessions (let aside your personal beliefs and opinions).
- Listen to others while you consider and evaluate their proposals and opinions.
- Be the leader, although I must remind you that being the leader does not mean you need to stand out, but rather work collaboratively.
- Do not forget that the use of personal pronouns (I, you, she, he, we, they, us, them) is strictly prohibited. Instead, refer to yourself and others as a delegation.
 - To refer to yourself: *my delegation*.
 - To refer to someone else: *your delegation/the delegate of (ex. France)*.
 - To refer to everyone: *the committee*.
- I strongly advise you to make a position paper, not just to present it, for it is also beneficial to you and your preparation.
 - Note: I would, personally, like to encourage you to recite your position paper. Not only will you practice your public speaking skills, but you will also express your delegation’s position and solutions, which would be marvelous for more coalitions or collaborations!
- Diplomacy is the best way to conduct affairs and communicate with others.
- Of course, do not forget to check all of the delegate’s information (located in CMMUN’s official webpage) for any concerns regarding dress code, parliamentary procedure, schedules, position paper guidelines, etcetera.

VIII. REFERENCES (AT LEAST 3 MAX. 5)

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