Economic & Financial Committee PRAMUN 2017 Synopsis

Topic #1 External Debt Sustainability in Developing and Transition Economies

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I. Background Information

Nearly 200 various nations hold some form of external debt, whether it is little to none or immense. It should be well noted that External Debt, which may also be referred to as foreign debt, is a type of debt in which one nation owes some form of currency to another nation. To further reiterate things, debt at its simplest definition is defined as "an amount of money borrowed by one party from another." While it's completely possible for a nation to be debt free, it is not wise for a nation to be entirely debt free, yet it is also not wise for a nation to hold too much debt. This is mainly due to the concept on how there are various forms of debt; in the financial world there are two main forms of debt, "good debt" and "bad debt." It's very rare for governments to hold bad debt as when they do borrow money from either the IMF, international banks, or other nations, they tend to put it towards something that will either generate them income, or put it towards a project that may have a positive impact on society, such as a bridge. If you have any questions pertaining to the core concepts of good debt and bad debt please refer to the PRAMUN 2017 Economic and Financial Facebook page where I will make clear of these concepts.

The issue of the sustainability of external debt, as a whole, has been recognized as one of the largest economic issues worldwide; it should be noted that external debt has occurred since the dawn of human civilization or at the very least, has occurred since the formation of countries. The issue beforehand is more so, how a country can sustain their debt to foreign nations or to the International Monetary Fund (IMF). External Debt sustainability all together, can be seen as a plan for one nation to sustain their debt, while meeting their payments to nations that they may owe funds to or to owe funds to that of the IMF.

Inconclusively, the issue previously stated can be asked more so as, what would happen if nations do not meet their payments and sustain their debt? Essentially, when a country cannot sustain their external debt and is unable to further pay funds to the IMF, this would lead to an arrange of catastrophic effects. The first effect to this down spiraling issue would ultimately lead to every other nation, to further halt lending of any form of currency to the country that is unable to sustain their debt and meet their payments. While this may be temporary, this would then lead the nation to cut back on expenses, which would result in domestic violence. Not only this but if the issue reaches a widespread concern globally, then foreign and domestic investors could potentially quit the stock market and sell all investments, which at a worst case scenario would result in a stock market crash and would destroy domestic companies, leading to further domestic riots.

As a result of these down spiraling issues, a currency collapse or at the least a currency devaluation would further initiate; this can be seen in 2001 when the Argentinian Peso defaulted. Moreover, as a symptom of these issues commencing, this would lead to inflation, which of course would extinguish savings, investments, and wealth throughout the country. Aside from this, undoubtedly domestic violence and riots could easily dispatch if all of these indications were present. At it's worst, the rest of the world may look at various countries that have experience similarities to these scenarios and learn from them; one of these nations whom have experienced these symptoms would be none other than Greece. Greece may be used as a learning experience as it indicated the first time in history when a developed nation failed to make a payment to the IMF. This had occurred when Greece defaulted on its debt and failed to make it's payment of €1.6 billion to the IMF; A currency devaluation, inflation, as well as a portion of foreign investors leaving Greece along with forms of domestic chaos had also occurred. Consequentially, one may refer to Greece and may authorize this scenario on what would occur if a nation defaults and fails to make the payment to the IMF, as truth.

Seeing as though the consequences of a nation being unable to sustain its debt, and how this ultimately would lead to missing a payment to the IMF, the external sustainability of debt should be considered as one of the most disastrous events any nation may face as it may trigger a currency collapse or at the least an economic meltdown. The issue arises and becomes increasingly intimidating when one looks at the statistics and fully understands how the global debt has currently grown to $57 trillion, which currently outperforms the world GDP growth. It is now not so much as one or two nations getting into debt, the situation entirely has developed into the global debt outperforming the global growth, or in simpler terms, globally the world is spending more than what it may produce.

In a sense, the World Bank has concluded that the increase in external debt is a result of "global economic growth and it's reliance on short-term growth, such as that of increasing public and private debt rather than promoting long-term investment practices through jobs and the income in which they generate." To sum things up, the growth of external debt may be rooted on how nations have been relying on short-term growth methods rather than long-term investment planning and delegates should be asked which form of growth they wish to dispose of if they wish to halt or reverse the growth of external debt.

While if not all, most of the world powers have currently doubled or tripled their debt, the question arises at what point would a nation enter the condition that Greece had reached? In this current age of globalization that the world subsists in, in which everything is connected and one nation's issue is the world's problem, the issue emerges and asks how may one countries collapse affect every sovereign nation? Where and what is the key turning point and deciding factors into the world entering a global economic meltdown if one of the world powers were to further unable to meet their payment and trigger an economic downfall as that of Greece? On this note I ask delegates to truly understand the importance on why every nation should facilitate a resolution in order to mandate the sustainability of external debt, whether a fully developed or transitioning economy.

II. United Nations Involvement

The United Nations involvement has been present as of the year 2001, seeing as though this was the first year they passed their first resolution pertaining to this topic, GA resolution 56/184. Not only this but the United Nations are still currently involved in this matter; As recent as August 2nd, 2016, the United Nations posted and created a document that is available on their website, pertaining to the general assembly of the External debt sustainability and development of it. This report reveals not only just the history, but recommended agendas and goals to be set in the future concerning the resolutions of this issue. As a result of this recent report posted by the General Assembly, as well well as their past involvement as of 2001, it can be stated that they have been involved in this issue in the past and present, and see it as an a problematic subject that can be resolved.

III. Bloc Positions and Possible Solutions

The standing of External debt sustainability and its development in transitioning economies has reached a widespread consensus on many national levels where international methodologies have formed. The three main international organizations whom assess debt sustainability consist of – Heavily Indebted Poor Countries Debt Relief Analyses, the Low Income Countries Debt Sustainability Framework (LIC-DSF), and the Middle-Income Countries Debt Sustainability Framework (MIC-DSF). According to the Development Finance International group, these three international administrations "involve making projections of intended borrowings and economic variables over a maximum 20-year period, and then using ratios comparing debt stock, present value or service with the GDP, exports or budget revenue to assess payment capacity."

Not only are these three International methodologies present, the organization that works closest to external debt sustainability would be none other than the International Monetary Fund (IMF) but would not be considered as a bloc, as it is more so, an extension of the United Nations, while it remains as an independent entity altogether.

Delegates will first identify whether their nation holds some form of external debt, if this is valid then they should classify if it has increased or decreased recently, this may give insight on where the external debt may lead to. Once this has been determined, delegates will be working together on identifying what types of policies may help their nation's external debt to be sustainable, if it is not already sustainable as well as what policies may be enacted internationally to help the widely addressed economic issue of sustaining debt.

Delegates are encouraged to produce creative solutions that agree with their country perspective, as well as solutions that can be smiled upon internationally. Afterwards, delegates will form resolution groups with others whom policies are similar and decide together what they wish to do with this topic.

IV. Questions to Consider

- IV.a. Does my Nation hold some form of external debt?
    1. If so how much?
    2. Is my nation benefiting from external debt or suffering from it?
- IV.b. What is my Nations' stance on External debt sustainability? Does my nation argue if it is a positive or negative?
- IV.c. Which nation is my external debt most prevalent in? If not from a nation, where is my funding coming from?
- IV.d. If my countries external debt derives heavily from one specific nation, is it a possibility that they may cut my borrowing?
- IV.e. Is my nations external debt problematic or sustainable?
- IV.f. Does my nation plan on making our foreign debt sustainable if it is not currently?
- IV.g. How can I make my external debt more sustainable?
    1. Which policies should I help implement to make it more sustainable?
    2. What policies have the United Nations already enacted? What else can be added on?
    3. If there are no further policies that may benefit my nation, is there anything else that I could do such as cut borrowing, commence paying off debt, or possibly even move away towards short-term growth and focus on long-term growth that my aid my nation from proceeding towards sustainability?

IV.h. How can we aid nations whose economies have already crashed?
IV.i. In what way does External debt affect not just one nation, but the world?

V. Sources and Useful Links

V.a. United Nations General Assembly External Debt sustainability and development
http://unctad.org/meetings/en/SessionalDocuments/a71d276_en.pdf

V.b. World Bank - When is External Debt Sustainable?
http://siteresources.worldbank.org/DEC/Resources/KraayNehruDebtSustainabilityWBER.pdf

V.c. Official UN Documents on Financing for Development – General Assembly: External Debt
http://www.un.org/esa/ffd/documents/ga_debt.htm

V.d. External Debt Definition
http://www.investopedia.com/terms/e/external-debt.asp
World Bank External debt data
http://data.worldbank.org/topic/external-debt?end=2014&start=1960

V.e. External Debt total by Country
http://www.globalfirepower.com/external-debt-by-country.asp

V.f. Debt Sustainability Analysis (DSA)
http://www.worldbank.org/en/topic/debt/brief/dsa

V.g. Understanding the Downfall of Greece's Economy
http://www.investopedia.com/articles/investing/070115/understanding-downfall-greeces-economy.asp?lgl=bt1tn-no-textnote

V.h. What happens if a country fails to pay back a loan (defaults) from the IMF?
https://www.quora.com/What-happens-if-a-country-fails-to-pay-back-a-loan-defaults-from-the-IMF

V.i. Debt and (not much) deleveraging
http://www.mckinsey.com/global-themes/employment-and-growth/debt-and-not-much-deleveraging

V.j. Current Account Sustainability in Transitioning Economies
http://pages.stern.nyu.edu/~nroubini/papers/EastEurope.pdf

V.k. Debt Sustainability
http://www.development-finance.org/en/topics-of-work/debt-strategy-information/debt-sustainability.html