SIMULATION COMMITTEE GUIDE

UNCTAD

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Andrés Montehermoso & Simón Mejía

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Presidents’ Letter

Dear Delegates,

Welcome to the UNCTAD committee and to version XXI of CCBMUN. We are Simón Mejía and Andrés Montehermoso, both 10th grade students from Colegio Colombo Británico. We are proud to have the opportunity to serve as your presidents. We have participated in many UN models and we have decided to take on the challenge of chairing the UNCTAD committee.

We hope that in this committee you will be able to come up with solutions to the issues raised, think outside the box, and work together as a committee to be able to tackle such new and challenging topics. Our topics will be focused on trade and its effects on development. In a world as globalised as the one in which we live, the way of moving value has changed; international trade has evolved to new forms, such as digital currencies, where regulations are not present. These new ways of trade could bring advantages for developing countries with unstable currencies, but it is still an open question whether these advantages would really be present in a scene where fewer and fewer people have confidence in fiat and where central banks want to take control over transactions. In addition, international trade with a relatively open market has opened the way for a handful of companies to control specific sectors, which leaves small competitors behind. This leaves small companies with no room to play on the board, harming developing countries which have suffered this problem.

This is why we are eager for you to be able to come up with original ideas to tackle these issues in ways that are favourable, not only for your delegation's development, but having in mind the impact on your people. “The current course of action is hurting vulnerable people everywhere, especially in developing countries. We must change course” (Rebeca Grynspan, Secretary-General of the UN Conference on Trade and Development). As presidents, we look forward to you enjoying this experience while at the same time gaining a better understanding of current trade and development issues. We encourage you to participate and always share your ideas, as each delegation may have a different perspective, which could change the course of the topic debated.

If you have any queries about the topics to be discussed or about the model itself do not hesitate to contact us - you can do so through the email below.

Cordially,

Simón Mejía and Andrés Montehermoso (UNCTAD Chair)
unctad@ccbcali.edu.co

Simulation topic: *Debt Accumulation Among Emerging and Developing Economies*

I. History/Context

One of the major defining causes of human development and evolution throughout history is our use as a society of a currency system for trading. Currency is a medium that societies use to be able to meet their needs, acquire goods and services. A currency allows our society to assign a value to a specific good or service as well as accumulating wealth, making a currency a very stable and reliable medium of exchange. Nevertheless, in the prehistoric era of humanity there was not any form of currency, instead, the only way of acquiring any good or service was through exchange or bartering.

Bartering refers to the direct exchange of goods and services between individuals. In early human civilization, bartering was the most common form of exchange yet it was also very faulty and inefficient. In order to have a successful exchange, someone had to have the good demand while still being willing to exchange it with someone else who not only wanted the service, but also offered something that was demanded by the other person. For instance, if someone needs an apple, in order to get one they will need to find another person with multiple apples that is willing to give up one one. However, the other person needs a fish in order to give you the apple. This means that the person trading for apples will also need to have a large amount of fish in order to give them to the other person in exchange for some apples. For this reason bartering was a system that took a lot of time and effort to use, this is largely due to the fact that not everyone gave the same value to each good involved in the exchange.

Bartering was the main form of exchange for centuries, however, due to its inefficiency, civilization started to use certain goods as a better medium of exchange, for example, salt, animal skins and weapons. These were used as everyone gave them a more determined value yet it was still negotiable in most cases.

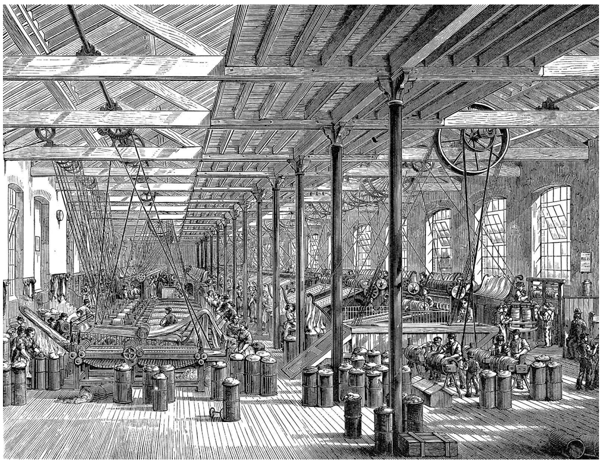
(Hernandez, 2015)

It was not until the Mesopotamian civilization, in about about 3000 B.C. that the first ever form of metal currency was created. This form of currency allowed everyone to give the same value to it, facilitating exchange. Nonetheless, it was not until 600 B.C that currency as known today emerged. It was during this time that the first ever gold and silver coins emerged in Lydia and Ionia. According to Investopedia, “Lydia's currency helped the country increase both its internal and external trading systems, making it one of the richest empires in Asia Minor.” (The History of Money: From Bartering to Banknotes to Bitcoin, 2023).

(Augustin, 2022)

With the passing of time, coins made of precious metals started becoming the standard form of exchange across the world. Coins were easy to manufacture, use and transport, yet as trading expanded, more and more quantities of these coins were needed more frequently increasing the complexity of transportation of these coins and increasing the shortage of precious metals for their manufacturing. Due to this, around the 16th century, paper bills started to replace coins as the main form of currency "banks eventually started using paper banknotes for depositors and borrowers to carry around in place of metal coins. These notes could be taken to the bank at any time and exchanged for their face value in metal, usually silver or gold, coins. This paper money could be used to buy goods and services. In this way, it operated much like currency does today in the modern world." (The History of Money: From Bartering to Banknotes to Bitcoin, 2023).

With such a fast growing economy, debt started to emerge as a way of borrowing monetary resources in order to buy or invest in an asset and then return it. Borrowing money from someone else always existed yet, with time, it became common as it gave anyone the opportunity to use the monetary resources that they did not actually have. With the Industrial Revolution, the growth of large cities at enormous rates meant the need for investment by many individuals and even the government. To accommodate for this investment, individuals and businesses were required to use debt as a way to grow their income. Additionally, governments started using debt as a medium of borrowing monetary resources to increase their investment in infrastructure and development for large cities.



(*Industrial Revolution | Definition, History, Dates, Summary, & Facts*, 2023)

Unfortunately, with the uncontrolled growth of the Industrial Revolution and large cities the amount of debt held by the government, banks and individuals grew so large that the amount of debt they had accumulated was excessive. This caused multiple market crashes across the world, from which, the most prominent was the stock market crash of 1929 in the US. According to Investopedia, “Factors that led to the stock market crash of 1929 included significant market speculation, expansion of debt, a decline in production and spending, and a distressed agricultural sector” (Stock Market Crash of 1929: Definition, Causes, Effects, 2023).

With the passing of time, nations started to implement policies to keep debt levels under control, for instance, in 1917 the US created a “Debt ceiling” which established a maximum amount of federal debt that could be had by the federal government. Yet with the passing of time these measures have proven to be ineffective, as every time the debt levels have reached the “Debt Ceiling” the US has raised the debt ceiling instead of lowering their debt levels. According to the BGR Group, “The national debt has increased under every presidential administration since Herbert Hoover. The United States has raised its debt ceiling at least 90 times in the 20th century. It has never been reduced. Since 1962 until 2011, the debt ceiling was raised 74 times, including 18 times under former President Ronald Reagan, eight times under former President Bill Clinton, seven times under former President George W. Bush, and five times under former President Barack Obama” (History of Debt Limit and Why It Matters | BGR Group, 2021).

II. Current Situation

During the past few decades international trade has evolved at a historical rapid rate. With this, emerging economies have experienced challenges in how to obtain further economic development and have leaned towards debt. Although having strong financial muscle to be able to tackle investments may bring prosperity and be critical for economic growth, if not managed cautiously it may create economic risks.

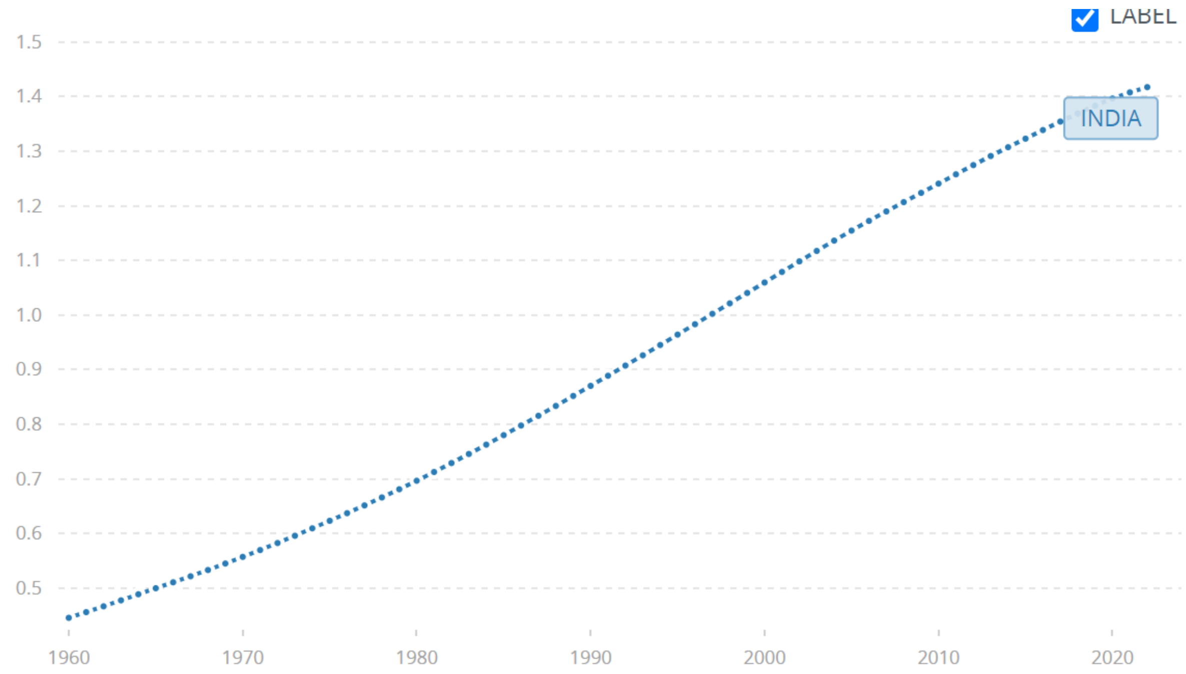
Foreign debt can be defined as “at any given time, the outstanding actual (rather than contingent) liabilities (and assets) vis-à-vis non-residents” (*Balance of Payments and Other External Statistics*, n.d.). In other words the external debt of a country can be defined as the total amount of actual liabilities owed by a country to non-resident (foreign) entities. For debt to be considered as external debt, the creditor of a debt has to be foreign. On the other hand, internal debt is when both creditor and debtor are from the same country.

There are two main types of international debt, public and private debt:

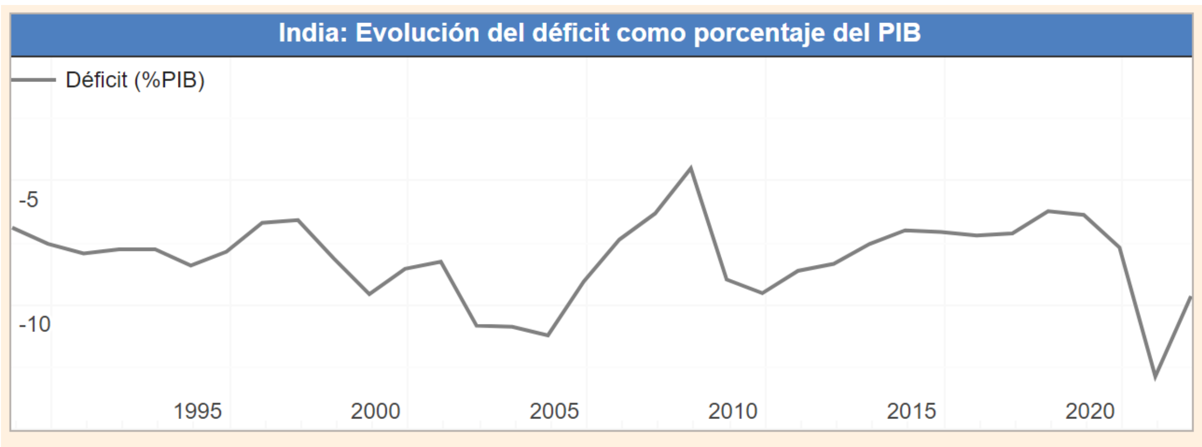
Public debt: Debt where the debtor is the state.
Private debt: Debt where the debtor is either a private company or an entity.

With regards to creditors of these debts, debts can be owned by financial corporations, foreign banks, foreign governments and others. This debt is normally set in foreign exchange currencies, generally international hard currencies, such as the US dollar. In terms of specific details, depending on the case it may have different interest rates, either fixed or variable as well as long or short term payments.

According to the World Bank, developing countries have experienced four waves of debt accumulation over the past fifty years. The last, which developed during 2010, has opened the pathway to the fastest paced increase in emerging economies debt levels. According to the same organisation, total debt for developing countries was stranded in 2018 at a historic peak of 170% of GDP. This means that debt surpassed what developing countries produced in a year and a half.



(*Data World Bank*, n.d.)



(*Public deficit India 2021*, n.d.)

Taking India as an example, its debt levels have risen drastically during the last decades, both as a gross quantity and in relation to its GDP. On top of this, the public deficit has not contributed to India's debt situation. In 2021, India's deficit stood at 9.65% of its GDP, which accounts for 256,748 million Euros. As of March 2022, its debt is stranded at 620.7 billion US dollars, showing an 8.2% increase by 2021. Although its debt level rose in monetary value, in relation to its GDP the debt decreased; as of December of 2022, this ratio stood at 19.1% in comparison to 23.7% the year before. This demonstrates that, although debt levels in numbers might rise, they might drop in relation to GDP, depending on each year's productivity.

Due to its fiscal deficit, India's government is obligated to go into debt to be able to pay its expenses. India is one of the countries which most recurs to its domestic financial institutions to cover those expenses, as for 2021 only 7% of its debt was not domestic. Although this debt has mainly helped to fulfil the payout of expenses, it has also opened the door for the Indian government to fund new projects, such as the MMRDA Twin Tube Road Tunnel, which will further open the access to transport between Borivali and Thane, Mumbai, and other major cities. Therefore, it is opening the door to new trade opportunities in the country.

Although debt has opened major opportunities in infrastructure which might boost economic growth, debt can and has brought new problems to the nation. Due to India's rupee loss in value (in comparison to the USD), India's government has faced problems in the payment of its debt, as it has been more expensive for them to repay it. However, as the debt is quite reasonable, it has not been a major problem. Additionally, the increase in opportunities and labour force have made it possible for India to increase its GDP, lowering its debt in comparison to what is produced. Overall its debt levels are manageable.

(*Indian Rupee to US Dollar Exchange Rate Chart*, n.d.)

Sustainable Development Goals (SDG) focus

Since the SDG's were established, UNCTAD has always been focused on the 17th target which is: Partnership for the Goals, more specifically emphasising targets 17.10, 17,11 and 17.12. Although the committee has a specific focus on target 17, it does not limit itself to working only within this target, as it also works within its line of discussion topics that concern other SDG targets. Nowadays, countries normally use debt not to foster economic growth, but rather debt has converted into a necessity for governments to be solvent economically. Therefore, the UNCTAD committee works so that countries are able to develop while being financially solvent or, in worst case scenarios, not having insolvency in debt payments. An example of this is the approach the committee has to the 17.4 SDG target, which is Monitoring Aid Delivery. By fostering practices in developing countries which would benefit them economically or implementing policies that will have the same effect as for example: doubling exports, implementing multilateral trading systems or having more market access for LDCs. UNCTAD, by working with partner organisations, is able to monitor aid delivery depending on the effectiveness of the efforts and each country's case.

LDCs: Least Developed Countries

III. Key points of the debate

- Debt risk to emerging countries economic stability and growth prospects
- Debt accumulation as a tool to foster development
- Role of international financial institutions in providing loans to emerging and developing economies
- Alternative strategies for economic development that do not rely heavily on debt

IV. Guiding questions

1. What is your country's trade balance?
2. How big is your country's external debt? What is your country's debt to GDP ratio?
3. What laws or restrictions does your country have regarding debt? Does it have a debt ceiling?
4. What has your government done to deal with external debt? What policies have been taken?
5. What controls/policies are needed globally to ensure that debt accumulation does not limit the development of emerging economies?
6. What laws or restrictions does your country have regarding the production and consumption of mass market products, if any?
7. In what ways (negative or positive) does mass production affect your country's economy?
8. If your country imports any mass market products, what does it do to ensure that minimum wages are being paid in the countries where they are produced?
9. What controls are needed globally to ensure that manufacturing workers are paid fair wages?

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