THE HYDERABAD PUBLIC SCHOOL RAMANTHAPUR

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The United Nations Economic and Social Council (ECOSOC)
Background Guide

Agenda:
Global Debt Crisis and Economic Stability

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INTRODUCTION

The United Nations Economic and Social Council (ECOSOC) is one of the six principal organs of the United Nations, responsible for coordinating the economic and social fields of the organization, specifically with regard to the fifteen specialized agencies, the eight functional commissions, and the five regional commissions under its jurisdiction.

ECOSOC serves as the central forum for discussing international economic and social issues and formulating policy recommendations addressed to member states and the United Nations System. It has 54 members. In addition to a rotating membership of 54 UN member states, over 1,600 nongovernmental organizations have consultative status with the Council to participate in the work of the United Nations.

ECOSOC holds one four-week session each year in July, and since 1998 has also held an annual meeting in April with finance ministers heading key committees of the World Bank and the International Monetary Fund (IMF). Additionally, the High-Level Political Forum (HLPF), which reviews the implementation of the 2030 Agenda for Sustainable Development, is convened under the auspices of the Council every July.

ROLE AND FUNCTIONING

The Economic and Social Council (ECOSOC) coordinates the work of the 14 UN specialized agencies, ten functional commissions and five regional commissions, receives reports from nine UN funds and programmes and issues policy recommendations to the UN system and to Member States.

Under the UN Charter, ECOSOC is responsible for promoting higher standards of living, full employment, and economic and social progress; identifying solutions to international economic, social and health problems; facilitating international cultural and educational cooperation; and encouraging universal respect for human rights and fundamental freedoms. ECOSOC's purview extends over 70 percent of the human and financial resources of the entire UN system.

The Council's 54 member Governments are elected by the General Assembly for three-year terms. In carrying out its mandate, ECOSOC consults with academics, business sector representatives and more than 2,500 registered non-governmental organizations.

Recent meetings and Resolutions

On 25 July, the United Nations Economic and Social Council (ECOSOC) adopted its 2023 resolution on the Joint United Nations Programme on HIV/AIDS by consensus, at a meeting presided over by the Vice-President of ECOSOC, Ambassador Paula Narváez, Permanent Representative of Chile to the United Nations in New York.

During its session on June 5, 2024, the Economic and Social Council (ECOSOC) Committee for Development Policy proposed several key solutions for countries graduating from the Least Developed Countries (LDC) category. Notably, the committee recommended a five-year preparatory period for Cambodia and Senegal's graduation, recognizing the need for thorough preparation. The committee also deferred the graduation of Djibouti, Kiribati, and Tuvalu due to their unique challenges, particularly concerning climate change and other vulnerabilities. Enhanced monitoring mechanisms were also recommended to better respond to emerging crises and support these countries in their transition.

On 25 July 2024. The 2025 session of the Economic and Social Council (ECOSOC) opened with a strong focus on its upcoming agenda, which prioritizes addressing the global displacement crisis, harnessing artificial intelligence (AI) to accelerate progress on the Sustainable Development Goals (SDGs), and strengthening cooperation with international financial institutions to close development financing gaps. Significant events include the coordination segment on February 6-7, 2025, the operational activities segment on May 20-22, 2025, and the High-Level Political Forum from July 14-18, 2025. The agenda also emphasizes gender equality and ensuring that efforts in these areas are sustainable and inclusive.

INTRODUCTION TO THE AGENDA

Global Debt Crisis and Economic Stability

The global debt crisis, a looming threat to economic stability, is a multifaceted issue with far-reaching implications. It's a complex interplay of factors, including historical events, economic policies, and geopolitical dynamics.

Public debt or debts raised by respective governments sustainability depends upon four key ingredients: primary balances, real growth, real interest rates, and debt levels. Higher primary balances—the excess of government revenues over expenditures excluding interest payments—and growth help to achieve debt sustainability, whereas higher interest rates and debt levels make it more challenging.

For a long time, debt dynamics remained very benign. That's because real interest rates were significantly below growth rates. This reduced the pressure for fiscal consolidation and allowed public deficits and public debt to drift upwards. Then, during the pandemic, debt increased even more as governments rolled out large emergency support packages.

As a result, public debt as a fraction of gross domestic product has increased significantly in recent decades, specially across poor, emerging and middle-income economies. It is expected to reach 120 percent and 80 percent of output respectively by 2028.

For instance, the 2008 financial crisis, triggered by the collapse of the housing market in the United States, led to a surge in government debt as countries implemented stimulus packages to prevent economic collapse. This, coupled with low-interest rates, encouraged excessive borrowing by both governments and corporations. Additionally, rising inequality, globalization and technological advancements, has further exacerbated the debt problem. The concentration of wealth among a small elite in developing countries has made it difficult for governments to generate sufficient revenue, while geopolitical tensions, such as trade wars and regional conflicts, have disrupted global supply chains and increased borrowing costs.

The consequences of the debt crisis are severe and can have a profound impact on economies, societies, and even global stability. Financial stability could become strained in emerging markets with relatively weaker economic fundamentals, as high debt burdens make them much more vulnerable to capital outflow pressures, exchange rate depreciation, and increased expectations of future inflation.

For example, when governments or corporations default on their debt, it can trigger financial crises, such as bank failures and stock market crashes. This, in turn, can lead to job losses, reduced consumer spending, and a decline in economic activity. Moreover, the debt crisis can also worsen existing social inequalities and contribute to political instability.

Addressing the global debt crisis requires a multifaceted approach that involves both domestic and international cooperation. Some potential solutions include debt restructuring for countries with unsustainable debt levels, fiscal consolidation to reduce government deficits, financial regulation to prevent future crises, and international cooperation to coordinate policy responses. Additionally, addressing the underlying causes of the debt crisis, such as inequality and geopolitical tensions, is crucial for achieving long-term sustainability.

By understanding the complexities of the global debt crisis and implementing effective solutions, it is possible to mitigate its risks and promote economic stability. However, it requires a concerted effort from governments, businesses, and international organizations to address this pressing global challenge.

Rising Debt Levels in Developing Countries

Developing countries have faced a persistent challenge of rising debt levels in recent decades. This phenomenon is influenced by a complex interplay of factors, including historical legacies, economic policies, and global economic conditions.

One of the primary factors contributing to rising debt levels in developing countries is their historical experience of colonialism and economic dependence. Many developing countries were forced to borrow heavily to finance infrastructure projects and industrialization, often under unfavorable terms imposed by colonial powers. This legacy of debt has continued to burden these countries, making it difficult for them to achieve sustainable economic growth.

In addition, developing countries have often pursued policies that have exacerbated their debt problems. For example, some countries have adopted expansionary fiscal policies, leading to increased government spending and higher deficits. Others have relied heavily on foreign capital inflows, which can be volatile and can increase a country's vulnerability to debt crises.

Furthermore, global economic conditions can also contribute to rising debt levels in developing countries. For instance, the 2008 financial crisis led to a surge in borrowing costs for developing countries, making it more expensive for them to finance their debt obligations. Additionally, trade wars and other geopolitical tensions such as Russia-Ukraine war can disrupt global supply chains and reduce economic growth in developing countries, making it more difficult for them to generate the revenue needed to service their debt.

The consequences of rising debt levels in developing countries can be severe. It can lead to economic slowdown, financial instability, and social unrest. For example, when countries are unable to meet their debt obligations, they may be forced to implement austerity measures, which can lead to job losses and reduced living standards. Moreover, the debt burden can also limit a country's ability to invest in essential services, such as education and healthcare.

Addressing the problem of rising debt levels in developing countries requires a multifaceted approach. Some potential solutions include debt restructuring, fiscal consolidation, and structural reforms. Additionally, international cooperation is essential for addressing this global challenge. By understanding the underlying causes of rising debt levels and implementing effective solutions, it is possible to help developing countries achieve sustainable economic growth and improve the lives of their citizens.

Role of International Financial Institutions in Debt Relief

International financial institutions (IFIs) play a crucial role in providing debt relief to developing countries facing unsustainable debt burdens. These institutions, such as the International Monetary Fund (IMF) and the World Bank, offer a range of financial and technical assistance to help countries manage their debt and achieve sustainable economic growth.

One of the primary ways IFIs can provide debt relief is through debt restructuring. This involves renegotiating the terms of existing debt, such as reducing interest rates, extending repayment periods, or even forgiving portions of the debt. By restructuring debt, IFIs can help countries reduce their debt burdens and improve their ability to service their obligations.

In addition to debt restructuring, IFIs can also provide financial assistance to help countries implement economic reforms and strengthen their fiscal management. This can include providing loans to support structural adjustment programs or technical assistance to improve tax collection and public expenditure management. By improving their economic fundamentals, countries can enhance their ability to generate the revenue needed to service their debt.

Furthermore, IFIs can play a role in coordinating debt relief efforts among multiple creditors, including bilateral creditors, commercial banks, and other private lenders. By facilitating dialogue and cooperation among creditors, IFIs can help ensure that debt relief efforts are fair, equitable, and sustainable.

However, it is important to note that IFIs also have certain limitations in their ability to provide debt relief. For example, they may require countries to implement specific economic reforms as a condition for receiving assistance. These reforms can sometimes be controversial and may impose hardship on the population. Additionally, IFIs may be constrained by their own financial resources and the need to balance their lending activities with other priorities.

Despite these limitations, IFIs remain essential players in providing debt relief to developing countries. By offering a range of financial and technical assistance, these institutions can help countries manage their debt burdens and achieve sustainable economic growth. However, it is important to recognize that debt relief is a complex issue that requires a comprehensive and coordinated approach involving both IFIs, governments, and other stakeholders.

Strategies for Sustainable Debt Management and Economic Growth

1. Fiscal Discipline:

Governments should strive to reduce budget deficits and avoid excessive spending. This can be achieved through a combination of revenue enhancement and expenditure cuts. Tax reforms, such as closing tax loopholes, broadening the tax base, and improving tax collection efficiency, can increase government revenue without imposing undue burdens on the population. On the expenditure side, governments can identify and eliminate non-essential spending, prioritize essential services, and improve the efficiency of public spending.

2. Prudent Borrowing:

Governments should seek financing options with favorable terms, such as lower interest rates and longer repayment periods. This can help reduce the cost of debt servicing and improve a country's debt sustainability. Diversifying funding sources, including domestic and international capital markets, can also help reduce the risk of interest rate fluctuations. Additionally, careful management of the maturity structure of debt can ensure that governments have sufficient resources to meet their debt obligations.

3. Debt Transparency:

Governments should provide accurate and timely information about their debt levels, composition, and servicing costs. This can enhance investor confidence and attract more favorable borrowing terms. Public disclosure of debt information can also increase accountability and reduce the risk of corruption. Governments should make their debt data accessible to the public, civil society organizations, and investors.

4. Economic Diversification:

Countries that heavily rely on commodity exports should diversify their economies to reduce their vulnerability to price fluctuations. This can be achieved by promoting industries with high growth potential, such as technology, manufacturing, and services. Governments can support these sectors through policies such as tax incentives, subsidies, and infrastructure development. Additionally, investing in education and training can help develop the workforce and enhance the competitiveness of the economy.

5. Structural Reforms:

Strengthening institutions and combating corruption can enhance economic efficiency and attract investment. This can involve measures such as improving governance, reducing regulatory burdens, and promoting competition. Governments can also invest in infrastructure development, such as transportation, energy, and telecommunications, to improve productivity and attract investment.

6. International Cooperation:

In cases of unsustainable debt burdens, countries can seek debt relief or restructuring from international financial institutions and bilateral creditors. This can help alleviate the financial strain on indebted countries and promote global economic stability. International cooperation can also be essential for addressing systemic debt problems and promoting global economic growth. For example, the G20 has played a significant role in coordinating global responses to economic crises.

By implementing these strategies, countries can effectively manage their debt levels, promote economic growth, and enhance their resilience to economic shocks.

POINTS OF DISCUSSION:

1. The debt crisis threatening many developing countries necessitates coordinated international efforts and a commitment to principles of transparency, equity, and sustainable development. The challenges presented by the Common Framework (a unique mechanism to provide low-income countries with orderly and coordinated debt restructurings, with broad creditors' participation) and the role of creditors like the PRC underscore the need for a more flexible and inclusive approach to debt relief. Going through the experiences under the HIPC (Heavily Indebted Poor Countries) initiative from entities like PRC & USAID, come up with a framework keeping in mind the need for transparency, equity and sustainable development and also the contrasting expectations of entities like PRC & USAID to ensure the future economic stability and sovereignty of indebted nations.

2. Although the scale of financial support to the poor countries, from the PRC and USAID is similar, the nature of their support varies significantly. China's assistance largely comes via loans to be repaid, allowing Beijing to maintain significant influence over how debt crises are resolved, including through the Common Framework, bilateral negotiations, and its dominant presence in creditor committees. Because USAID assistance is offered primarily through development grants, which provide a significant source of hard-currency earnings for many of the most critical debt cases. USG aid agencies have no voice or vote in debt crisis resolution, despite the implications of this process for their mission, work, results, and return on investment. Both PRC & USG are required to meet the needs of poor nations though both of them have different

ways in which they fund countries. Discuss on what role the international agencies like IMF and WTO need to play in such a scenario.

3. Challenges of Debt Relief and Restructuring - In response to rising debt pressures, the G20 and the IMF introduced the Common Framework for Debt Treatments in 2020, aiming to streamline debt restructuring for distressed low-income countries by coordinating debt relief among all public and private lenders, setting treatment standards, and ensuring equitable relief requirements and loss sharing across creditors. The framework's effectiveness has nonetheless been hindered by several challenges: it lacks clear rules for ensuring uniform debt relief among creditors; it excludes marginally better-off indebted countries; and it provides no effective guidelines for countries to manage their debt. There has also been disagreement over which loans to include and how to share losses, especially given China's unwillingness to follow the fact pattern of previous defaults set by the Paris Club and the IMF. This has led to very slow or stalled negotiations. Meanwhile, the collective debt of developing countries reached about $9 trillion in 2022, with approximately 60 percent of the world's 75 poorest countries in or near debt distress. Discuss and come up with a binding framework for debt relief and restructuring.

Note from Executive Board

Dear Delegates,

As we approach the upcoming HPSR IPSC Model United Nations conference, we would like to underscore the significance of thorough and comprehensive preparation. The background guide provided serves as an essential starting point for your research, offering foundational information on the crucial topics of economic stability and countering the global debt crisis.

However, it is imperative to recognize that this guide is merely a starting point and should not be your sole source of information. We strongly encourage each of you to conduct extensive research beyond the background guide. A well-rounded understanding of the issues at hand will be crucial for effective participation and debate. In addition to the content outlined in the guide, please ensure you explore recent developments, diverse perspectives, and the latest research related to the agenda items.

Key areas for your research include:

- The causes and consequences of the global debt crisis
- The role of international financial institutions like the IMF and World Bank in addressing debt relief
- The impact of the Common Framework on debt restructuring
- The contrasting approaches of the PRC and USAID in providing financial assistance to developing countries
- The challenges and opportunities for sustainable development in indebted nations
- The importance of transparency, equity, and sovereignty in debt relief efforts

Moreover, a deep understanding of foreign relations and the positions of various countries on these issues will enhance your ability to engage in meaningful discussions and negotiations. Familiarizing yourself with different national policies, international treaties, and geopolitical contexts will provide valuable insights and enable you to represent your assigned country's stance more effectively.

We look forward to your active participation and well-informed contributions at the conference. Thank you for your dedication to thorough preparation.

Best wishes,

Executive Board
(ECOSOC)