



UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Greetings Distinguished Delegates:

Welcome to GatorMUN IX! My name is Rachel Chang and I will serve as your director for the United Nations Conference on Trade and Development (UNCTAD). I am a third year Economics major with a Chinese and Entrepreneurship double minor at the University of Florida (UF), I have been involved with Model United Nations (MUN) since my senior year in high school and this will be my third year being on GatorMUN staff. In addition to directing, I have traveled across the United States to attend various MUN conferences. Attending MUN conferences has helped me gain valuable insight about the world we live in. I hope that GatorMUN IX will provide the same opportunity for you.

Aside from MUN, I am highly involved with the Warrington College of Business at the University of Florida. I am an alumnus of the Florida Leadership Academy, a part of the Undergraduate Ethics Case Competition Team, and I volunteer for Students in Free Enterprise Small Business Consulting. This past summer, I was a Financial Management Intern for the Division of Pulmonary, Critical Care, and Sleep Medicine at the UF's College of Medicine.

The topics for UNCTAD are Integration of Developing Countries in Global Supply Chains, Streamlining Financial and Monetary Systems for Sustainable Development, and Providing Technical Cooperation to Aid Disadvantaged Nations. These topics are geared toward international economics with GatorMUN's theme of "Empowerment through Information" in mind. You will be challenged to tackle some of the world's toughest economic problems and propose solutions that will not only benefit the economies of nations but also the societies and technologies of nations.

Delegates for this committee will need to do extended research beyond the contents of this background guide in order to be able to facilitate good debate. Therefore, position papers are required for this committee as part of your preparation. More information regarding position papers is provided in the Committee Description section of the background guide. Also, please review the GatorMUN Rules of Procedure prior to committee.

I look forward to working with everyone and I cannot wait to see what innovative ideas are brought to the committee. If you have any questions or concerns about this committee, your position, or GatorMUN in general, please do not hesitate to contact me at gatormun@gmail.com. Good luck with your research and I will see you all in committee!

Sincerely,

Rachel Chang
Director of the UNCTAD



Committee Description

The United Nations Conference on Trade and Development (UNCTAD) is a “subsidiary organ of the United Nations (UN) General Assembly.”¹ Therefore, the committee will be run like any General Assembly committee would be, meaning that delegates will be expected to debate, negotiate, and write resolutions. All delegates will be treated equally and will each have one vote per delegation. UNCTAD will follow GatorMUN Rules of Procedure and the Delegate Code of Conduct, which can be found under “Delegate Tools” on the GatorMUN website.

The topics being discussed in this committee are Integration of Developing Countries in Global Supply Chains, Streamlining Financial and Monetary Systems for Sustainable Development, and Providing Technical Cooperation to Aid Disadvantaged Nations. This background guide will provide you with a brief overview of what each topic entails. You are expected to do your own research from the standpoint of your assigned country.

Position papers are required for this committee and will be collected during the first committee session of the conference. Late position papers will not be accepted under any circumstance. Please refer to the “Position Paper Writing Guide: Assembly Committees” link on the GatorMUN website for more information on how to write and format your position papers. Your position paper should include a brief overview of your country’s economic history, current economic policies with regards to the topics being discussed, and solutions to these topics. “Solutions” encompasses new ideas for implementation or ideas to reform or improve on existing policies. Please cite your sources properly; plagiarism will not be tolerated.

A list of references for research is provided at the end of each topic section in this background guide. Footnotes also list more references. However, please do not limit your research to just those references. Once again, if there are any questions or concerns regarding this committee, your position, or GatorMUN in general, please do not hesitate to contact me at gatormun@gmail.com.

An Overview of UNCTAD

The United Nations Conference on Trade and Development (UNCTAD) was established in 1964 in order to promote “the development-friendly integration of developing countries into the world economy.”² UNCTAD currently has 193 members and is a member of the United Nations Development Group. This body has three main functions: 1) to serve as a forum for international debate between experts to build consensus on trade and development issues, 2) to conduct research, analyze policy, and collect data to better understand the economies of

¹ <http://www.unctad.org/Templates/Page.asp?intItemID=3361>

² <http://www.unctad.org/Templates/Page.asp?intItemID=1530>

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developing nations, and 3) to provide technical assistance to developing nations in cooperation with other organizations and nations.³

UNCTAD convenes once every four years. The conference itself carries out the first function of UNCTAD, to serve as a forum for international debate between experts to build consensus on trade and development issues. Intergovernmental bodies meet in between these quadrennial sessions to follow up on the policies and progress of nations after each UNCTAD session. The Trade and Development Board, which oversees UNCTAD operations when UNCTAD is not in session, has one regular session annually with special and executive sessions called as deemed necessary to assist with urgent policy matters in a timely manner. UNCTAD's various commissions and working groups meet annually. Each commission has the authority to call expert meetings on specified topics as deemed necessary.⁴



Figure 1 (above): The official logo of the United Nations Conference on Trade and Development

The permanent Secretariat for UNCTAD has its headquarters in Geneva, Switzerland. The Secretariat serves to facilitate two of the three main functions of UNCTAD: conducting research, policy analysis, and data collection, as well as providing technical assistance to developing nations. The current Secretary-General of UNCTAD is Dr. Supachai Panitchpakdi of Thailand. The current Deputy-General of UNCTAD is Petko Draganov of Bulgaria.⁵ “The Secretariat is composed of about 400 staff members with an annual regular budget of approximately \$50 million and \$25 million of extrabudgetary technical assistance funds.”⁶

A History of UNCTAD

To date, UNCTAD has had twelve conferences with the first being held in Geneva, Switzerland in 1964. The most recent conference was held in Accra, Ghana in 2008. The next conference is scheduled to occur in Doha, Qatar in 2012.⁷

³ <http://www.unctad.org/Templates/Page.asp?intItemID=1530>

⁴ <http://www.unctad.org/Templates/Startpage.asp?intItemID=1942>

⁵ <http://www.unctad.org/Templates/StartPage.asp?intItemID=3535>

⁶ <http://www.unctad.org/Templates/Page.asp?intItemID=1931>

⁷ <http://www.unctad.org/Templates/Page.asp?intItemID=3375>

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Phase 1 – 1960s and 1970s

Phase One of UNCTAD occurred during the 1960s and 1970s. During this phase, UNCTAD gained recognition in the international community for the analytical research and advice on development policies. UNCTAD encouraged debate on a series of proposals developed by developing nations called the New International Economic Order (NIEO). NIEO was aimed to improve trade and development assistance through tariff reductions, nationalizing foreign property on favorable conditions, having the freedom to set up commodities associations, and other means. However, NIEO was criticized by economists as being mercantilist and Marxist, because it also proposed restrictions on free trade.⁸

During this time period, UNCTAD made significant advances in international trade and development policies. The Generalized System of Preferences in 1968 exempted nations from the most favored nation principle, which states that nations should treat any other nation the same as it would their most favored trading partner. For example, under the most favored nation principle, tariffs would be the same for all nations; however, under the Generalized System of Preferences, a nation could lower/not impose tariffs for developing nations.⁹



Figure 2 (above): Commodities play a huge part in world economies and are governed by various agreements between nations and international organizations, including the many Commodities Agreements set forth by UNCTAD.

Many International Commodities Agreements were aimed to stabilize prices for exports crucial for developing nations, such as oil, precious metals, and food staples. Examples of these commodities are shown in Figure 2. Additionally, the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices set standards and restrictions on competition and the concentration of economic capital and power, as well as encouraged economic innovation for the benefit of all developed and developing nations.¹⁰ The Convention on a Code of Conduct for Liner Conferences in 1974 facilitates “the orderly expansion of world sea-borne trade¹¹” by preventing discrimination against shipping parties, and

⁸ <http://www.unctad.org/Templates/Page.asp?intItemID=3358>

⁹ <http://www.unctad.org/Templates/Page.asp?intItemID=2309>

¹⁰ <http://www.unctad.org/Templates/Page.asp?intItemID=3358>

¹¹ <http://www.admiraltylawguide.com/conven/liner1974.html>



ensuring the interests of said parties, whether they are the supplier, ship owner, or nation conducting trade through shipping.

In addition to the advances in policy, UNCTAD was also a significant contributor in defining how much development aid should be given to developing nations by developed nations. In 1970, it was determined that developed nations should strive to give 0.7% of their gross domestic product (GDP) as development aid to developing nations. UNCTAD also aided in the identification of Least Developed Countries (LDCs) to better focus trade and development efforts on these nations. This group of LDCs was known as the Group of 77. UNCTAD gradually became the United Nation's primary governing body for economic-related issues in LDCs.¹²

UNCTAD also promoted North-South cooperation, that is, cooperation between developed nations and developing nations. Figure 3 on the next page depicts a map illustrating the North-South divide. Please note that the terms "north" and "south" do not refer to the geographic locations of nations. Instead, in an economic sense, these terms refer to developed and developing nations, respectively, regardless of their geographic location. A nation, like Australia, considered to be a developed nation, would be referred to as part of "the North" even though it is in the Southern Hemisphere.

Phase 2 – 1980s

Phase Two of UNCTAD occurred during the 1980s. During this phase, UNCTAD placed a heavy emphasis on addressing the issues of changing economic theory, the growing debt crisis during the era, and the economic interdependence of nations.¹³ UNCTAD began evolving from the NIEO philosophy to being more market-oriented with specific focuses on "trade liberalization and the privatization of state enterprises"¹⁴. Debate concentrated on macroeconomic management and international financial and monetary issues, especially dealing with the global debt crisis that greatly affected developing nations and their economic growths.¹⁵

During this time period, UNCTAD focused on providing technical assistance to developing nations, increasing trade efficiency (especially in customs facilitation and multimodal transport), and negotiating rescheduling of payments on official debt to other nations. UNCTAD pushed for South-South cooperation, that is, cooperation between developing nations in global

¹² <http://www.unctad.org/Templates/Page.asp?intItemID=3358>

¹³ *ibid*

¹⁴ *ibid*

¹⁵ *ibid*

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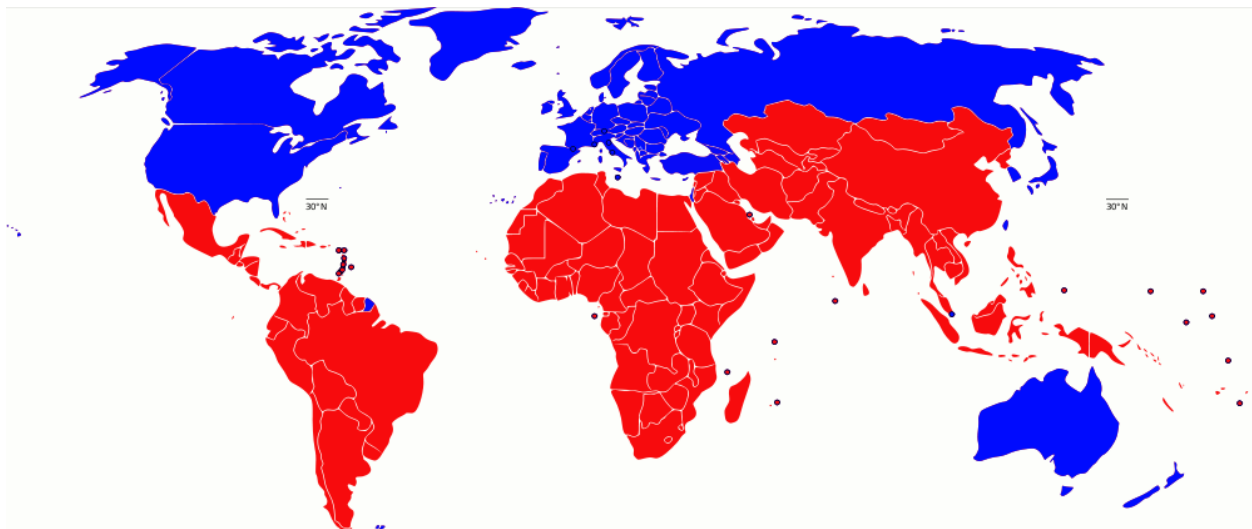


Figure 3 (above): A map of the global north (blue) and the global south (red).

South.¹⁶ Figure 3 on the next page illustrates the nations considered in the global South. That is not to say that UNCTAD did not also promote North-South cooperation during this timeframe.

In 1981, UNCTAD organized the United Nation’s first Conference on Least Developed Countries.¹⁷ Since then, there have been 2 more conferences held at 10 year intervals. In 1989, UNCTAD adopted the Global System of Trade Preferences among Developing Countries (GSTP) as a “framework for the exchange of trade preferences among developing countries in order to promote intra-developing-country trade.¹⁸” through tariff concessions.

Phase 3 – 1990s to Present

Phase Three of UNCTAD started in the 1990s and has been ongoing since. UNCTAD is currently exploring the relationships between trade, investment, technology, and enterprise development through further research and data analysis. In 1993, the United Nations Centre on Transnational Corporations was merged into UNCTAD and is now under the jurisdiction of UNCTAD's Division on Investment, Technology and Enterprise Development. Today, UNCTAD continues to expand and diversify its technical assistance programs to developing nations, resolve issues pertaining to international business, and strives to push for a positive agenda for international trade negotiations for developing nations.¹⁹ UNCTAD continues to interact and cooperate “with a variety of other organizations within and outside the United Nations system²⁰” to achieve its mission and goals.

¹⁶ <http://www.unctad.org/Templates/Page.asp?intItemID=3358>

¹⁷ <http://www.unctad.org/Templates/Page.asp?intItemID=3358>

¹⁸ http://www.unctadxi.org/templates/Press___897.aspx

¹⁹ <http://www.unctad.org/Templates/Page.asp?intItemID=3358>

²⁰ <http://www.unctad.org/Templates/Page.asp?intItemID=3357>

Additional References

- The New International Economic Order - <http://www.chicagobooth.edu/faculty/selectedpapers/sp49.pdf>
- Generalized System of Preferences - <http://www.au.af.mil/au/awc/awcgate/crs/rl33663.pdf>
- The Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices - <http://www.unctad.org/en/docs/tdrbpconf10r2.en.pdf>
- Global System of Trade Preferences among Developing Countries - http://www.unctadxi.org/Secured/GSTP/LegalInstruments/gstp_en.pdf

Topic I: Integration of Developing Countries in Global Supply Chains

A supply chain is defined as a “network created amongst different companies producing, handling and/or distributing a specific product.”²¹ A product can be a physical item or a service rendered to a customer. Supply chains are becoming increasingly global, and this phenomenon is proving to not be a fad. For many companies, especially in the developed world, it is more cost-effective to use outsourced labor and to obtain raw materials from a developing country. Through global supply chains, companies can take advantage of time zone differences, favorable legislation, the abundance of labor, and other perks to deliver more goods at a faster pace to their customers.²²

At minimum, a supply chain has five players: the supplier, manufacturer, distributor, retailer, and customer. The supplier provides the raw or semi-processed materials needed to make a product. The manufacturer processes the materials into a usable product and the distributor transports the finished product to the retailer. The retailer sells the product to the customer and the customer uses the product. These roles may overlap; a manufacturer may also be the distributor of a product. With any supply chain, there will be multiple of the same players competing for business.²³ The diagram below shows an example the movement of inventory between the various players in a global supply chain.

²¹ <http://www.investopedia.com/terms/s/supplychain.asp>

²² ACG2071 Principles of Managerial Accounting - Spring 2011 at the University of Florida

²³ *ibid*

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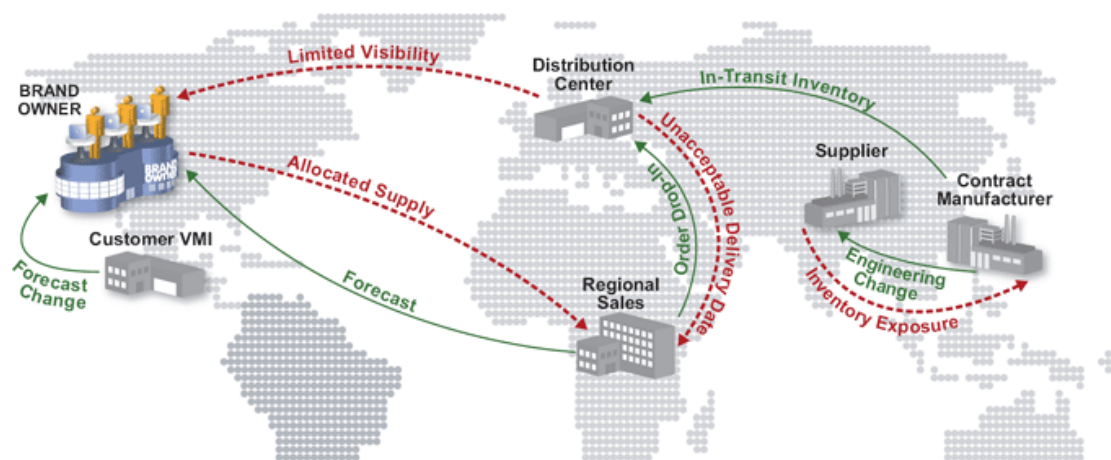


Figure 4 (above): Diagram of the movement of inventory in a supply chain. The green arrows represent positive movement and the red arrows represent problems that may occur.

With any supply chain, effective communication is critical for efficiency and for avoiding costly mishaps. However, because of the distance between each player in the supply chain, it is easy to make communication errors. A miscommunication in delivery date results in customers not receiving their products in a timely manner. A misinterpretation by the manager of a distribution center could result in the retailer having too much of one product and too little of another to sell. Little mishaps can cost a company thousands of dollars to fix these issues and results in less revenue generated.²⁴

The language barrier between nations contributes to discrepancies while delivering the specific information needed to produce a good or to render a service. For example, call centers are often criticized for incompetent customer service. Many call centers are outsourced to developing nations like India so that a company can provide 24-hour customer service to its clients at a much reduced cost than having to hire representatives to work over night in domestic call centers. However, customers are not satisfied with the quality of service provided.²⁵

Therefore, supply chain management is critical to the success of businesses and the third parties involved. A recent McKinsey survey found that 68% of global executives think supply chain risk will increase in the next five years²⁶. One way to mitigate this risk is through supply chain management. The figure below diagrams the components of supply chain management.

²⁴ ACG2071 Principles of Managerial Accounting - Spring 2011 at the University of Florida

²⁵ ENT3003 Principles of Entrepreneurship - Summer 2011 at the University of Florida

²⁶ <http://www.forbes.com/2011/01/21/supply-chain-future-leadership-managing-mckinsey.html>



Figure 5 (above): There are many components to supply chain management; however, all components are inter-related.

Developing nations are having great difficulties entering global supply chains because they lack the resources and expertise to compete at a level sustainable for growth. According to the Indian Institute of Materials Management, “the dynamics of supply chains are dependent on the following key issues:

- Dependable infrastructure and distribution of power, communication facilities, and transportation by air, rail, road, inland waterways and shipping through high seas levels of automation
- Macro level support from the government
- Access to sophisticated supply-chain capabilities
- Purchasing power of the customers
- Industrial climate of the country
- Availability of technology
- Quality of labor and management
- Security of systems and normal law and order situation
- Global outlook
- Corruption-free environment
- Bureaucratic barriers and hassle-free systems and procedures
- Healthy and hygienic environment²⁷”

²⁷ http://www.iimm.org/knowledge_bank/1_dsc-in-developing-nation.htm



Nations lacking any of these traits will have a more difficult time being integrated into existing global supply chains. Without this integration, it is hard for developing countries to accelerate their industries and increase their trade competitiveness²⁸. Many nations fear that opening up to trade will impede on their sovereignty or harm them in the long-term, but from an economic standpoint, it is to a nation's advantage to integrate into global supply chains.

Small and Medium Enterprises (SMEs)

In 2010, UNCTAD published a document entitled "Integrating Developing Countries' SMEs into Global Value Chains." This joint effort by (UNCTAD), the Organization for Economic Cooperation and Development (OECD), and the Universities of Geneva and Fribourg provided an analysis of SMEs and how they can create value in global supply chains. The document presents policy options for both developed and developing countries to help them integrate their SMEs into the global market.²⁹ Six key areas were identified as obstacles to SMEs entering global supply chains. They are:

- "the need to upgrade technology and innovation capacity
- the lack of adequate finance and human capital for this process
- the inability to meet standards and certification requirements
- the necessity to better manage intellectual assets, including the protection of intellectual property rights (IPRs) when appropriate
- the difficult bargaining position SMEs face with large contractors
- the need for diversification to reduce dependence on one or a few customers"³⁰

Many case studies were done by highlighting prominent companies like Toyota, IBM, and Microsoft and their incorporation of developing nations into their supply chains. These case studies highlighted the issues these companies had in developing nations, the solutions used to resolve the issue, and the growth that resulted. This research emphasized the "need for a coordinated approach by the different institutions directly involved in building the enabling environment favorable to the integration of SMEs³¹" in global supply chains.

With these case studies, UNCTAD was able to come up with a set of recommendations to promote in order to better integrate SMEs into the global supply chain. These recommendations include:

²⁸<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,,contentMDK:22432174~menuPK:2644066~pagePK:64020865~piPK:51164185~theSitePK:239071,00.html>

²⁹ http://www.unctad.org/en/docs/diaeed20095_en.pdf

³⁰ ibid

³¹ ibid



- *Skills development* – education and training to ensure that employees are competent to perform their jobs to uphold quality standards, developing the basic skills and advanced skills needed for an SME to run efficiently
- *Technological upgrading* – constant innovation to keep up with the demands of the global supply chain and to enable SMEs to run more efficiently and effectively through basic and information technology
- *Quality and standards* – ensuring that SMEs are accredited, certified, and compliant to quality standards to build credibility for the SME as a trusted and reliable part of the global supply chain
- *Transnational corporation linkage* – cooperating with transnational corporations to improve the investment climate of the SMEs. In many cases, the corporation will provide the capital, training, and/or technology to the SME, and the SME provides the labor and/or resources for mutual benefit while doing business with each other.
- *Clusters and territorial development* – for governments to encourage local economic development and to “establish close communication with companies and clusters in growing industries that are already internationally connected
- *Intellectual property right protection* – enforcing copyright and anti-piracy laws to stimulate economic activity and to protect intellectual assets³²,

With the implementation of these recommended suggestions, an SME has the potential to keep up with global demands, despite their size, or even to grow and expand in size. However, each nation’s government and legislative policies play a huge part in implementing these solutions. If a government is not supportive of these measures or do not allocate the right resources to developing these SMEs, a developing nation will have a difficult time integrating into global supply chains.

Questions To Consider:

1. What role does your country play in global supply chains? Do these roles overlap?
2. Does your nation exhibit all of the key factors that influence global supply chains as stated by the Indian Institute of Materials Management?
3. What are some initiatives your country can implement to overcome the barriers SMEs have in trying to penetrate into existing global supply chains?

Additional References

- Integrating Developing Countries’ SMEs into Global Value Chains - http://www.unctad.org/en/docs/diaeed20095_en.pdf

³² http://www.unctad.org/en/docs/diaeed20095_en.pdf



- Integration of Poor Countries in Global Supply Chains: A Global Buyers' and Producers' Perspective - http://siteresources.worldbank.org/INTRANETTRADE/Resources/Internal-Training/287823-1229467556379/Integration_of_Poor_Countries_in_Global_Supply_Chain_Jan28,2010.pdf
- The New Supply Chain Challenge: Risk Management in a Global Economy - <http://www.fmglobal.com/pdfs/ChainSupply.pdf>
- Building Value at the Top and Bottom of the Global Supply Chain: MNC-NGO Partnerships and Sustainability - <http://gemseminar.scripts.mit.edu/docs/Perez-Aleman%20Background%20Paper%2009.pdf>

Topic II: Streamlining Financial and Monetary Systems for Sustainable Development

What is Debt?

Debt is loosely defined as the amount of money one party borrows from another and is expected to pay back.³³ A country can have internal debt or external debt. Internal debt is money owed to creditors within the nation. Internal debt is sometimes referred to as domestic or national debt. External debt is the amount of debt a country borrows from “from foreign lenders including commercial banks, governments or international financial institutions.³⁴” Combined, internal and external debt makes up a country’s total debt.

Nations can be categorized as either a debtor nation or a creditor nation. A debtor nation is one that borrows external debt. “A debtor nation has negative net investment after recording all of the financial transactions it has completed worldwide.³⁵” In essence, a debtor nation owes money to another nation. According to the CIA World Factbook, the top 10 debtor nations (excluding the European Union as an entity) are:

1. United States - \$13,980,000,000,000 in debt as of June 30, 2010
2. United Kingdom - \$8,981,000,000,000 in debt as of June 30, 2010
3. Germany - 4,713,000,000,000 in debt as of June 30, 2010
4. France - 4,698,000,000,000 in debt as of June 30, 2010
5. Japan - 2,441,000,000,000 in debt as of September 30, 2010
6. Ireland - 2,253,000,000,000 in debt as of September 30, 2010
7. Norway - 2,232,000,000,000 in debt as of June 30, 2010
8. Italy - 2,223,000,000,000 in debt as of June 30, 2010

³³ <http://www.investopedia.com/terms/d/debt.asp>

³⁴ <http://www.investopedia.com/terms/e/external-debt.asp>

³⁵ http://www.investopedia.com/terms/d/debtor_nation.asp



9. Spain - 2,166,000,000,000 in debt as of June 30, 2010
10. Luxembourg - 1,892,000,000,000 in debt as of June 30, 2010³⁶

A creditor nation lends money to other nations. “A creditor nation has positive net investment after recording all of the financial transactions completed between it and the rest of the world.³⁷” According to the CIA World Factbook, the top 10 creditor nations (excluding Taiwan) are:

1. China - \$272,500,000,000 current balance as of 2010
2. Japan - \$166,500,000,000 current balance as of 2010
3. Germany - \$162,300,000,000 current balance as of 2010
4. Russia - \$68,850,000,000 current balance as of 2010
5. Norway - \$60,230,000,000 current balance as of 2010
6. Saudi Arabia - \$52,030,000,000 current balance as of 2010
7. Switzerland - \$49,350,000,000 current balance as of 2010
8. Netherlands - \$46,690,000,000 current balance as of 2010
9. Singapore - \$44,080,000,000 current balance as of 2010
10. Kuwait - \$38,200,000,000 current balance as of 2010³⁸

A nation can be both a creditor and debtor nation. For example, both Germany and Norway are listed as creditor and debtor nations; although they borrow money from other nations, they also lend money to nations. In addition, a nation can switch from being a creditor nation to a debtor nation or vice versa. For example, in the 1980s, the United States was a major creditor nation, but now, the United States is the largest debtor nation.

Causes of Debt

Debt is not caused by one single factor; it is often a combination of many factors that create an economic downturn in a nation’s financial systems. Some of the common causes of debt are:

Legacy of Colonization

After decolonization, many nations lacked the economic structure to manage their nation’s financial systems. Rulers of colonial empires “concentrated on finding and exploiting the most profitable natural resources in each colony” and neglected to build their colonies socially and economically³⁹. Colonies became dependent on the mother nation for goods and services. During periods of decolonization, nations that were once colonies had to transition from

³⁶ <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2079rank.html>

³⁷ http://www.investopedia.com/terms/c/creditor_nation.asp

³⁸ <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2187rank.html>

³⁹ <http://exploringafrica.matrix.msu.edu/students/curriculum/m7b/activity3.php>



being a heavily export-based entity to becoming self sustainable, which led to many internal conflicts, as there was no supportive infrastructure built to aid this transition.

Odious debt

Odious debts are monies that the nation as a whole incurs due to government actions or the actions of the nation's leaders. Because these monies were borrowed on behalf of the nation, some economists feel that odious debts do not have to be paid back because it's not an individual's "fault" that their nation borrowed that money.⁴⁰ Alexander Nahun Sack, author of *The Effects of State Transformations on their Public Debts and Other Financial Obligation* divided odious debts into several categories: war debts, subjugated or imposed debts, and regime debts.⁴¹ Furthermore, if this debt is not liable to be paid by the debtor nation, then who is responsible for paying it?

Mismanaged Funds

For the world economy to function efficiently there must be a constant flow of capital between nations. Developed nations need capital to finance their budget deficits⁴² while developing nations need capital to fuel development efforts. Misbehavior, whether intentional or accidental, in forms not limited to fraud, larceny, and other crimes, throws the international financial system off balance, which in turn makes credit less available and more costly.⁴³

Subsidization

A subsidy is defined as "a benefit given by the government to groups or individuals usually in the form of a cash payment or tax reduction. The subsidy is usually given to remove some type of burden and is often considered to be in the interest of the public."⁴⁴ Subsidies are a form of government intervention intended to provide some economic relief as a means to balance out a nation's economy. While subsidies are beneficial, some economists argue that subsidies disrupt free trade by interfering with Adam Smith's Invisible Hand theory.

Interest Rates

When money is loaned to another nation, interest must be paid in addition to the principle balance owed. In most cases, interest rates are compounded. The longer it takes the borrower to repay the creditor, the more interest they have to pay. High interest rates make it difficult for borrowers to repay their loans because it increases the total amount the borrower needs to repay

⁴⁰ <http://www.odiousdebts.org/odiousdebts/publications/ODashfaqEURODAD.pdf>

⁴¹ http://www.unctad.org/en/docs/osgdp20074_en.pdf

⁴² http://www.unctad.org/en/docs/gdsddf2009misc1_en.pdf

⁴³ Ibid.

⁴⁴ <http://www.investopedia.com/terms/s/subsidy.asp>



the creditor. In fact, the amount of interest repaid after a loan can exceed the principle amount initially owed given either enough time elapsed, a high interest rate, or a combination of both.

Imbalance of Trade

The balance of trade is simply defined as “the difference between a country's imports and its exports.⁴⁵” Balance of trade takes into account not only the imports and exports of a country, but also foreign aid, domestic spending abroad, domestic investments abroad, foreign spending in the domestic economy, and foreign investments in the domestic economy. If a country imports more than it exports, it has a trade deficit. If a country exports more than it imports, it has a trade surplus.

War and Other Conflicts

“Wars are expensive (in money and other resources), destructive (of capital and human capital), and disruptive (of trade, resource availability, labor management).⁴⁶” Wars disrupt trade when embargos and high tariffs are imposed imports and exports, thus hindering economic development. Other consequences of war are inflation, destruction of infrastructure needed for sustainable development, and an imbalance of trade. Nations may have to borrow funds from allied nations to fund military operations, thus creating debt.

Effects of Debt

Unsustainable debt may lead to a financial crisis. A financial crisis is defined as “a situation in which the value of financial institutions or assets drops rapidly.⁴⁷” Signs of a financial crisis include sale of assets on a large scale by investors and mass withdrawal of monies from savings accounts. Because of this, banks are closely monitored to detect these signs. Some of the consequences of a financial crisis include:

- Rising unemployment
- Rising food prices
- Increased debt
- Currency devaluation
- Panic and fear

UNCTAD's Debt Management and Financial Analysis System (DMFAS) Programme

The DMFAS Programme provides debt management services to nations and is one of the key activities of UNCTAD. This program is operational in sixty-nine nations worldwide and has

⁴⁵ <http://www.investopedia.com/terms/b/bot.asp>

⁴⁶ <http://www.joshuagoldstein.com/jgeconhi.pdf>

⁴⁷ <http://www.investopedia.com/terms/f/financial-crisis.asp>



helped governments expand their ability to manage debt for several years. The program is financed through donations from member-nations, namely France, Germany, Ireland, Italy, the Netherlands, Norway and Switzerland.⁴⁸

The DMFAS Programme aims to tackle Target 8.D, Deal Comprehensively with Developing Countries' Debt, which is a component of Millennium Development Goal 8, Develop a Global Partnership for Development. The DMFAS Programme's solutions for debt management center on:

- "Capacity-building through specialized debt management and financial analysis software (DMFAS) designed to meet the operational, statistical and analytical needs of debt managers and bodies involved in elaborating public debt strategies, and training in its use;
- Capacity-building through the Programme's advisory services, including needs assessments and advice on technical, administrative, legal and institutional debt management issues, assistance in software installation and maintenance;
- Capacity-building in debt management skills and through the Programme's modules in debt data validation, statistics and debt analysis.⁴⁹"

Conclusion

Debt has many causes and the consequences can be devastating. Recessions and depressions hinder economic development and severely affect the lifestyles of a nation's population. However, with proper financial management and responsible borrowing, a nation could take advantage of debt to financial development efforts for the benefit of the public. The main challenge to achieve responsible borrowing is that there is little infrastructure that encourages responsible borrowing, which leads to odious debt, mismanaged funds, etc. What can be done to streamline existing monetary and financial systems created by creditors and debtors to prevent financial crises for sustainable development? That is the ultimate question.

Questions To Consider:

1. What is your country's debt status and how does that impact global economics?
2. What are the factors causing debt in your nation and what can be done to mitigate these factors?
3. Has your country ever experienced a financial crisis due to unsustainable debt levels? If so, how was this crisis resolved?

⁴⁸ <http://r0.unctad.org/dmfas/intro.htm>

⁴⁹ <http://r0.unctad.org/dmfas>



Additional References

- The Concept of Odious Debt in Public International Law - http://www.unctad.org/en/docs/osgdp20074_en.pdf
- Responsible Sovereign Lending and Borrowing - http://www.unctad.org/en/docs/gdsddf2009misc1_en.pdf
- Effective Debt Management - <http://r0.unctad.org/dmfas/docs/efdebm-en.pdf>
- Global Financial Crisis - <http://www.globalissues.org/article/768/global-financial-crisis>

Topic III – Providing Technical Cooperation to Aid Disadvantaged Nations

Many nations have the raw materials and resources necessary to better their current economic situation, however, what these nations lack are the educational background, science, and technology to tap into these resources and raw materials. UNCTAD places special attention to these disadvantaged nations, especially to least developed countries (LDCs), landlocked developing countries (LLDCs), and small island developing countries (SIDS)⁵⁰. These nations play an important part in the world economy and have the potential to exert great influence on economic trends.

Least Developed Countries

A country is categorized by UNCTAD as least developed if they meet the following three criteria:

- *Low income* as measured by gross national income per capita
- *Weak human assets* as measured by the Human Assets Index
- *Economic vulnerability* as measured by the Economic Vulnerability Index⁵¹

Gross national income (GNI) per capita is the gross national income of a nation divided by its mid-year population.⁵² “GNI is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad.⁵³” GNI is also called gross national product (GNP).

Countries are defined by UNCTAD to have low income if the GNI per capita of that country falls under \$750 USD (for countries to be newly added to the list of low income countries) or under \$900 USD (for countries continuing to have low income) based on a three-

⁵⁰ <http://www.unctad.org/Templates/Startpage.asp?intItemID=3617>

⁵¹ <http://www.unctad.org/Templates/Page.asp?intItemID=3618>

⁵² http://www.unicef.org/infobycountry/stats_popup7.html

⁵³ <http://data.worldbank.org/indicator/NY.GNP.PCAP.CD>

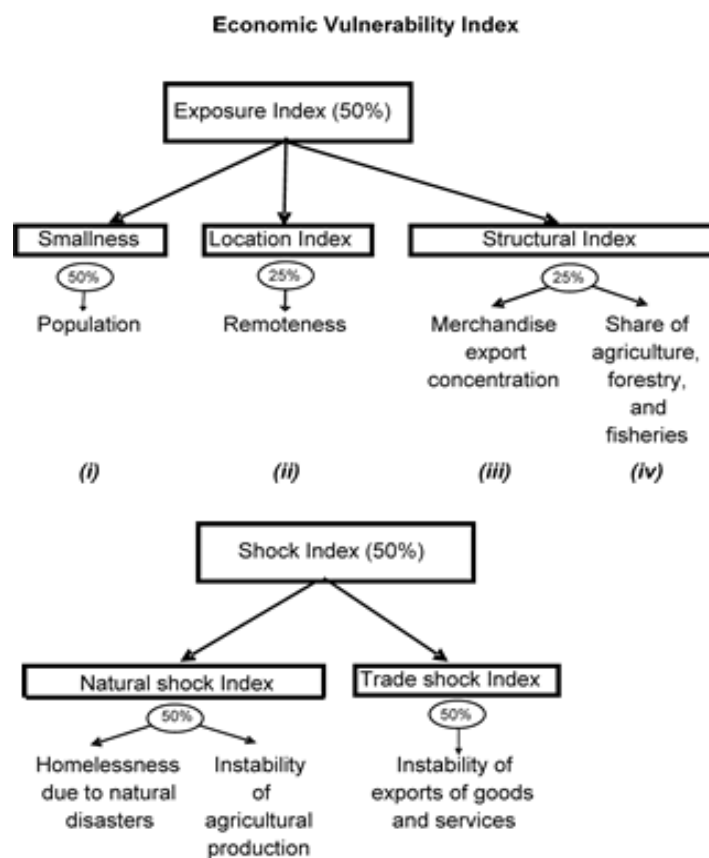
year average estimate of GNI per capita⁵⁴. A country with low GNI per capita means that residents are not producing enough income to support their population, leading to or due to factors such as food shortage, unemployment, civil strife, etc.

The Human Assets Index (HAI) measures human capital development levels through four other indicators. The four indicators carry equal weight when calculating the HAI. The first two indicators, the percent of the population undernourished and the mortality rate for children ages 5 and under, are health and nutrition indicators. The second two indicators used, the gross secondary school enrollment ratio and adult literacy, are education indicators.⁵⁵ In essence, this index is a rough indicator for whether or not a population is healthy and educated enough to contribute to a nation's productivity.

Economic vulnerability refers to how much impact economic exposure and economic shocks would have on a nation. Examples of these include changes in the prices of commodities or sudden loss of population. Generally, a more resilient nation has a better structured economy that can withstand or minimize such shocks. A more vulnerable nation has a lesser structured economy and suffers a greater impact from these shocks. Economic vulnerability is calculated based on the following factors:

- population size
- remoteness
- merchandise export concentration
- share of agriculture, forestry and fisheries in gross domestic product
- homelessness owing to natural disasters
- instability of agricultural production
- instability of exports of goods and services

The first four factors make up the exposure index, which measures



⁵⁴ <http://www.unctad.org/Templates/Page.asp?intItemID=3618>

⁵⁵ http://www.un.org/en/development/desa/policy/cdp/ldc/ldc_criteria.shtml#hai



how exposed the nation is to economic shock. The latter three factors make up the shock index, which measures how likely the nation is to be affected by economic externalities. The chart to the right shows the composition of the economic vulnerability index.⁵⁶

UNCTAD proposes three solutions to aid LDCs in increasing income, strengthening human assets, and decreasing economic vulnerability. These solutions are to provide support:

- in the multilateral trading system
- in the field of development financing, and
- in technical assistance.

Multilateral trading is an integral part of this world economy. UNCTAD proposes to provide special concessions to LDCs. One such concession is the “Everything but Arms” initiative implemented by the European Union. Forty-nine LDCs receive special economic treatment via tariff exemptions when trading any products with members of the European Union through this initiative, with the exception of arms and ammunition⁵⁷. The science of economics has proven over time that international trade is a benefit to all parties involved and initiatives like “Everything but Arms” promotes this benefit.

Another solution proposed by UNCTAD is development financing. This refers to donors and financial institutions giving special accommodations to LDCs when they seek funding to finance their development. These special accommodations could be lower interest rates on loans, loan consolidation, a greater loan repay period, etc. While providing loans is a great way for LDCs to finance their development, many borrowers do not have the education to manage their loans. One way to overcome this lack of education is through distance learning.

Distance learning or distance education is defined as “education that takes place via electronic media linking instructors and students who are not together in a classroom.⁵⁸” This is conducted through electronic platforms, such as radio, television, and computers. However, distance learning is not taken advantage of due to poor infrastructure and affordability of these electronic platforms. For more technologically advanced platforms, lack of computer literacy hinders the process⁵⁹.

The third solution to aid LDCs in trade and development is through technical assistance. UNCTAD, in conjunction with other UN bodies, such as the World Bank and the International Monetary Fund, have implemented the *Integrated Framework for Trade-related Technical Assistance to Least Developed Countries*. One of the core objectives of this framework is trade

⁵⁶ http://www.un.org/en/development/desa/policy/cdp/ldc/ldc_criteria.shtml#evi

⁵⁷ <http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-preferences/everything-but-arms/>

⁵⁸ <http://www.merriam-webster.com/dictionary/distance%20learning>

⁵⁹ http://siteresources.worldbank.org/AFRICAEXT/Resources/dl_ict_education.pdf



mainstreaming, in other words “integrating trade into national development and poverty reduction strategies⁶⁰” However, some of the obstacles encountered in trying to implement this framework are:

- Limited capacity to conduct trade analysis
- Human, financial, technical and management constraints that affect implementation
- Fragmented administration and weak leadership
- Political culture of limited participation, and
- Mutual accountability of government and development partners.⁶¹

Land-locked Developing Countries

There are 31 land-locked developing nations: 5 are located in Africa, 12 in Asia, 2 in Latin America, and 2 in Central and Eastern Europe. UNCTAD considers these nations as severely disadvantaged for their lack of a seaport, which has led to:

- a poor physical infrastructure,
- weak institutional and productive capacities,
- small domestic markets,
- remoteness from world markets, and
- a high vulnerability to external shocks.⁶²

Arguably the biggest problem with land-locked nations is their reliance on other nations to transport goods overseas. This lowers the amount of profit made off the sales of these goods due to higher transportation costs. The Almaty Program of Action in 2003 emphasizes partnerships with nations with seaports geographically adjacent to land-locked nations for the mutual benefit of both nations. There are five priorities of this program:

- *Fundamental transit policy issues* – reforming and modernizing the transportation sector to handle increased trade traffic to accommodate trade from land-locked nations
- *Infrastructure development and maintenance* – promote the development of railroads, roads, ports, inland waterway transport systems, pipelines, air transport, and maintaining open communication when developing and maintaining these transport channels
- *International trade and trade facilitation* – providing assistance to promote and strengthen international trade between land-locked nations and other nations and taking into the account the special needs of land-locked nations to conduct international trade

⁶⁰ http://www.enhancedif.org/EN%20web%20pages/Hot%20topics/Trade_mainstreaming.htm

⁶¹ <http://www.enhancedif.org/documents/EIF%20toolbox/practical-guide-to-mainstreaming-trade.pdf>

⁶² <http://www.unctad.org/Templates/Page.asp?intItemID=3619>



- *International support measures* – providing technical assistance and financing to land-locked nations to fund transit reform, as well as trade agreements and favorable trade policies
- *Implementation and review* – carrying out this program of action and evaluating its results to expand and make better the program⁶³

Small Island Developing Countries

Small island developing countries are scattered world-wide. UNCTAD, for the purposes of analysis, names 29 unofficial SIDS, as there is no specific criteria used by the United Nations to determine if a country should be considered a SIDS or not⁶⁴. “SIDS are deemed to be facing a greater risk of marginalization from the global economy than many other developing countries.” This is due to the following factors:

- small size,
- remoteness from large markets (a factor of high transport costs), and
- high economic vulnerability to economic and natural shocks beyond domestic control.⁶⁵

The *Mauritius Strategy for the Further Implementation of the Programme of Action for the Sustainable Development of SIDS* outlines a framework UNCTAD recommends for SIDS. The main objectives of this framework are:

- *Enhancing the United Nations response system* – making more apparent to the United Nations the integral part that SIDS play in the world economy and continuing to solicit support from the United Nations Secretariat for program coordination and collaboration
- *Strengthening national ownership* – implementing trade and development strategies that will increase support on stakeholder and governmental levels and garnering local support for these initiatives
- *Regional and international support* – partnering with other nations to establish trade agreements, increasing awareness of the economies of SIDS on a global level, and continuing to have meetings to discuss SIDS and their role in the world economy⁶⁶

Conclusion

Many nations are at a disadvantage economically due to geographical location, lack of resources, and other factors, which hinder their ability to conduct trade and develop their infrastructure to support a healthier, more educated national population. However, there are strategies and technologies that exist that can be implemented to alleviate these obstacles that

⁶³ http://www.unctad.org/en/docs//aconf202d3_en.pdf

⁶⁴ <http://www.unctad.org/Templates/Page.asp?intItemID=3645>

⁶⁵ <http://www.unctad.org/Templates/Page.asp?intItemID=3620>

⁶⁶ http://www.unctad.org/en/docs//a60d401_en.pdf



LDCs, LLDCs, and SIDS face. This committee is challenged to evaluate existing initiatives and to formulate new initiatives to put LDCs, LLDCs, and SIDS on a more equal playing field in the global economy.

Questions To Consider:

- Is your nation considered to be a disadvantaged nation? If yes, how so?
- What initiatives can be implemented or improved upon to aid lesser developed countries?
- What initiatives can be implemented or improved upon to aid land-locked countries
- What initiatives can be implemented or improved upon to aid small island developing countries?

Additional References:

- Programme of Action for the Least Developed Countries – <http://www.unctad.org/en/docs//aconf191d11.en.pdf>
- Statistical Profiles of the Least Developed Countries – http://www.unctad.org/en/docs/ldcmisc20053_en.pdf
- Asunción Platform for the Doha Development Round – http://www.unctad.org/en/docs//a60d308_en.pdf
- Programme of Action for the Sustainable Development of SIDS – http://www.unctad.org/en/docs//aconf167d9_en.pdf