



THE GENERAL ASSEMBLY SECOND COMMITTEE: ECONOMIC AND FINANCIAL

Purview of the Simulation: The Second Committee makes recommendations on means to improve the economic development of Member States and maintain the stability of the international financial and trade network. The economic issues considered by the Second Committee are distinguished from those considered by the Fifth Committee in that this Committee deals solely with financing the economic assistance to Member States, whereas the Fifth

Committee address the budgetary issues within the UN System. The Second Committee does not address social issues that impact development; such issues are considered by the Third Committee. For more information concerning the purview of the UN's General Assembly as a whole, see page 16.

Website: www.un.org/ga/61/second/second.shtml

INDUSTRIAL DEVELOPMENT COOPERATION

Industrial development has been a key topic of discussion in the United Nations for decades. However, until recently, the results have been far from positive. With the population explosion in recent decades, the need to foster industrial development has become greater than ever; according to the United Nations, over 700 million world citizens will enter the labour market between 2005 and 2010. This explosion of workers combined with the forces of globalization, international trade and capitalist markets has pushed industrial development to the forefront of UN overall development goals. The issue of industrial development cooperation is one of global importance, and the problem is not specific to a particular geographic location.

Traditionally, the UN has actively encouraged programmes and Conferences that foster industrial development. The cornerstone of UN efforts to promote development has been the adoption of International Development Strategies (IDS); there have been four IDS documents, each created at the beginning of a decade, starting in 1960. The Millennium Development Goals (MDGs) have served as the IDS since their implementation in 2000. Additionally the UN has sponsored several major international Conferences on industrial development such as the Conference on Population, the Paris Declaration and the Programme of Action for the Least Developed Countries.

In 1966 the United Nations Industrial Development Organization (UNIDO) was founded in order to assist developing member states with key services. Presently, UNIDO is at the heart of the current framework for industrial development cooperation. UNIDO operates under three themes which tie industrial development to overall development. The largest theme of the organization is the eradication of extreme poverty through productive activities. The second theme encompasses trade capacity building by bolstering technical infrastructure at the same time as the support services needed in export sectors. The third theme is sustainable energy development. The UN is dedicated to ensuring that industrial development comes hand in hand with environmental protection; this goal requires extensive cooperation on the part of business, governments and citizens.

What makes UNIDO an industrial cooperative agency is its focus on trade capacity building. The organization aims to transfer knowledge to developing states through training programs and data bases technology. Within the past year UNIDO has supported hundreds

of training sessions, including food inspection, fish tracking, tractor maintenance, marketing, information technology and even training of future trainers. This unprecedented cooperation from states all over the globe, other UN agencies and private investment has been attributed to directly improving industrial conditions in several states. Recent efforts concerning industrial development have resulted in the first positive economic outlook in developing states in nearly 30 years. However, many argue that this progress has occurred only in a limited number of states, creating an inflated and misleading statistical result.

Aside from UNIDO, the UN has also taken several other recent steps to invite further industrial cooperation. New partnerships have emerged such as UNIDO and the World Trade Organization (WTO), UNIDO and the United Nations Conference on Trade and Development (UNCTAD) and UNIDO and the United Nations Development Organization (UNDP). These partnerships have been able to take advantage of expertise in industrial development in unprecedented ways. Also of note is the increasing importance of Special Unit for South-South Cooperation (SU/SSC) established within the UNDP. While the SU/SSC was established in 1978, the idea of a cooperative movement between countries facing the same conditions had been around since the mid-1960s. The SU/SSC has attributed recent success to two factors: a program called WIDE (Web of Information for Development) which aims to provide as much technological information as possible, and its emphasis on Public-Private Partnerships (PPP).

More important than what is currently in place is the question of how the UN will proceed. The fight for industrial development has seen a major paradigm shake up over recent decades, going from complete focus on economic forces to a more moderate mix of economic and intellectual forces. It is essential for knowledge to be more readily available if developing states are to succeed. Another part of the puzzle could depend on the success of UN reforms over the next few years, and whether the organization will be able to effectively deliver the services and cooperation which is necessary to help develop industrial areas in the face of many on-the-ground problems such as lack of infrastructure and potential and actual corruption. The UN needs to move forward with building more partnerships in order to reach more people in more ways than ever before, but how will that be done. In order to meet the challenges of the next generation, the international community must find a way to further promote industrial development cooperation swiftly and efficiently.

Questions to consider from your government's perspective on this issue include:

- What institutions or mechanisms exist to share vital information on industrial development? Are the existing mechanisms successful? What alternatives could be implemented?
- What role can be played by the international community in industrial development? How can the UN and other international institutions promote industrial development?
- What role does industrial development play in overall development? To what extent should international development initiatives focus on industrial development?

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UN Documents:

- A/C.2/54/L.27
A/RES/61/215
A/RES/51/170
A/RES/49/108
A/RES/46/151
A/RES/S-18/3
A/RES/45/199
World Industrial Report for 2005
UNIDO Annual Report 2007

Additional Web Resources:

- www.unido.org – UN Industrial Development Organization
www.undp.org – United Nations Development Programme
www.tcpc1.undp.org – Special Unit for South-South Cooperation
www.unctad.org – UN Conference on Trade and Development
www.worldbank.org – World Bank
www.wto.org – World Trade Organization

EXTERNAL DEBT CRISIS AND DEVELOPMENT

The external debt crisis traces its origins to the oil crisis of 1973-74, when international banks awash with "petrodollars" from oil-producing states made numerous substantial loans to developing countries. Many of these LDCs at the time had economies which were heavily dependent on a single export commodity; when global commodity prices dropped significantly as part of the 1981-82 global

recession, these countries found themselves unable to pay back their loans on schedule. This marked the beginning of the external debt crisis that confronts the majority of Member States. Since 1990, the total external debt stock of developing countries has risen from \$1.3 trillion to \$2.85 trillion in 2006. In response, the General Assembly Second Committee has frequently addressed the topic of the external debt crisis and its impact on development during past sessions.

The current external debt crisis stems from a variety of causes. During the Cold War many loans were made to developing countries with the hopes of winning those non-aligned countries to one side of the ideological conflict. Because these loans were motivated by strategic concerns, often the recipients were corrupt or had no real prospect of repayment. Critics contend that the lending policies of the International Monetary Fund (IMF) and the World Bank continue to reward countries that are pro-Western by making loans without stipulations for democratization or human rights advances. The IMF and World Bank have additionally been criticized for tying aid to conditionalities which often require the aid recipient to devalue its currency and increase taxes in the face of a weak economy. This confluence of factors makes it often unlikely or impossible for impoverished countries to repay debt partially or in full.

Guided by the framework of Goal 8 of the Millennium Development Goals (MDGs), the issue of external debt relief has been addressed by a number of UN initiatives.

The Heavily Indebted Poor Countries (HIPC) Initiative was proposed by the World Bank and the IMF in 1996 to reduce lesser developed countries' (LDC) external debt to manageable levels. Additionally, the 2002 Monterrey Consensus addressed the topic of external debt, recognizing that debt relief was an important measure for freeing country resources to be used for development purposes. In stressing mutual accountability between creditor and debtor countries, the Consensus recommended that efforts be continued under the London and Paris Club arrangements. The Monterrey Consensus also called for the creation of a framework to mobilize development financing while guarding against the accumulation of unsustainable debt. In response, the Paris Club introduced the Evian Approach in 2003 to address the debt burden of non-HIPC countries. The Debt Sustainability Framework (DSF) was subsequently introduced in April 2005 to address this challenge. At the September 2005 Millennium+5 Summit, deliberations over debt relief figured prominently, resulting in the affirmation of commitment to long-term sustainable debt financing.

In 2005, the G8 proposed the creation of the Multinational Debt Relief Initiative (MDRI) to further the MDGs. 67 countries are estimated to require debt cancellation in order to attain the MDGs by 2015. The HIPC Initiative identifies 41 countries as currently eligible to receive debt relief; as of December 2007, 23 of the 41 HIPCs had reached completion point. The debt relief granted under HIPC and the related Multilateral Debt Relief Initiative (MDRI) has totaled \$110 billion. Consequently, debt service as a percentage of exports for the 23 HIPCs has decreased considerably, from 16.6% in 2000 to 5% in 2007, while poverty reduction expenditures as a share of GDP have simultaneously risen.

While the debt relief accorded under the HIPC and related initiatives has been substantial, some continue to criticize the policy conditionalities attached to debt relief, arguing that outright full

debt cancellation for LDCs is necessary instead. Since Monterrey, advocates for debt cancellation have also introduced the concept of “odious” or illegitimate debt, which argues that the citizens of LDCs should not be held responsible for the debts accrued by previous undemocratic political regimes. As the debate continues, econometric studies show that over the past six years, developing countries’ total public debt-to-GDP ratio decreased by approximately 5 percentage points. However, this net improvement has been largely driven by a small number of large countries. Furthermore, UNCTAD reports that the total external debt of developing countries and reserves continued to increase at a record rate during 2007. It has been observed that half of HIPC countries reaching completion point have already slipped back into unsustainability. Since 2000, the composition of external debt and debtors has also shifted; as the amount of long-term external debt owed to official creditors has decreased, the share of total long-term external debt owed to private creditors has increased from 59 to 71% in 2006. A number of countries are now facing aggressive litigation stemming from debt collection by commercial creditors and “vulture funds;” these efforts have the potential to eviscerate the impact of debt cancellation on poverty reduction in affected countries.

The international community has recognized that solving the external debt crisis is essential to the achievement of sustainable development and the MDGs. Several countries have proposed the creation of an international debt commission to oversee a multilateral approach towards resolving external debt problems as well as the establishment of independent debt arbitration and debt resolution mechanisms. Preparations are currently underway for the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus in Doha in late 2008, where issues pertaining to external debt crisis will again be on the agenda.

Questions to consider from your government’s perspective on this issue include:

- Have the current mechanisms to address the external debt crisis been successful?
- What should the international community’s response be to the growing role of private creditors in the external debt crisis? Bearing in mind the past efforts and actions taken, what solutions can the Second Committee offer to address the topic of long-term debt sustainability?
- How could future debt relief initiatives be integrated with other forms of development aid and financial assistance?
- What common interests exist between debtor and creditor states, and how can the Second Committee build off of such common aims to promote future debt relief initiatives?

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United Nations Conference on Trade and Development, Note by the UNCTAD Secretariat. “Review session on chapter V of the Monterrey Consensus: External Debt,” 10-11 March 2008, www.unctad.org/sections/gds_debt/docs//gds_ddfb_002_en.pdf.

UN Financing for Development Review Session on Chapter E of the Monterrey Consensus, Background Paper on “External Debt,” 7 March 2008.

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- A/RES/ 62/189
- A/RES/61/152
- A/RES/60/1
- A/RES/59/223
- A/RES/58/203
- A/62/119
- A/62/418
- A/61/152
- A/C.2/61/L.54
- Monterrey Consensus

Additional Web Resources:

- www.clubdeparis.org/
- www.imf.org/external/np/exr/facts/hipc.htm -- Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative Factsheet
- www.un.org/esa/ffd/index.htm -- Financing for Development, developments leading up to Doha
- www.globalpolicy.org/socecon/develop/debt/index.htm -- Global Policy Forum
- www.jedh.org -- The Joint External Debt Hub
- www.worldbank.org/hipc/ -- World Bank main site for the HIPC initiative