

Forum: ECOSOC

Issue: Assisting states which are close to default

Student officer: Paul Tereshchenko

Introduction

Nowadays global economic system is multinational and everything in this system is interconnected. Economic crisis in one country may cause a collapse of global economic system and each country is interested in stable economic situation in their neighboring countries and trade partners. Therefore, countries with advanced economies should help less advanced countries in preventing their default and organize financial aid to these countries in order for them to overcome crisis.

Definition of key terms

Sovereign defaults

Sovereign borrowers such as nation-states generally are not subject to bankruptcy courts in their own jurisdiction, and thus may be able to default without legal consequences. In such cases, the defaulting country and the creditor are more likely to renegotiate the interest rate, length of the loan, or the principal payments.

Orderly defaults

In times of acute insolvency crises, it can be advisable for regulators and lenders to preemptively engineer the methodic restructuring of a nation's public debt also called "orderly default" or "controlled default". Experts who favor this approach to solve a national debt crisis typically argue that a delay in organizing an orderly default would wind up hurting lenders and neighboring countries even more.

Sovereign strategic default

Sovereign borrowers such as nation-states can also choose to default on a loan, even if they are capable of making the payments. In 2008, Ecuador's president Rafael Correa strategically defaulted on a national debt interest payment, stating that he considered the debt "immoral and illegitimate".

Government debt

Government debt is also known as public debt, national debt, or sovereign debt. It is the debt owned by a central government.

Background information

Question of assisting states which are close to default is quite modern. But despite its recent emergency, this issue is becoming more and more urgent with each year. This is happening this way because international trade system consists of many countries and economic situation in one state is connected with economic welfare in numerous other states. And welfare of each state which is involved into international trade relations is a common interest of every state with advanced economics. When state announces default it means that investments in the country will be decreased and the country will not be able to develop its own market and soon this state would face an extreme crisis: there will be no possibilities to work, to pay taxes, to develop business. And this will cause massive migration to the nearest countries and markets of these countries will be overcrowded with cheap labor force which will cause instability of economic situation in this country.

Major countries and organizations involved

Countries which are interested in prevention of default in other countries are those states with advanced economic sphere. In fact each country may announce its default anytime it wants. States do not do so only because economic consequences will be too severe.

Nowadays several countries with unstable economic situation are considered to be: Venezuela, Greece, and Ukraine. These countries face serious difficulties with repayments of their debts.

Among the countries with stable economic situation and high creditworthiness Germany, Switzerland, Sweden, the USA, the UK, Australia, South Korea may be named.

Relevant treaties and UN resolutions

There is a resolution adopted by United Nations General Assembly on the 19th of December 1991 in which principles of assisting less developed states in case of any emergency situations were outlined. However, there is still no resolution considered or adopted on the question of assisting countries which are close to economic default.

Possible solutions

Possible solutions to this issue may include restructuring and rescheduling the debt of the state close to default as well as conciliation of a part of the countries' debt. Another

way is to allow the state to lend money in order to fulfill its previous obligations and increase the attractiveness of the economy for foreign investments. Therefore, it may be necessary to set up clear and equal conditions to each country to lend money from International Monetary Fund and set up equal conditions of lending money from other countries if a state will cross the fixed border of inability to pay back its debts. These measures if developed could help to solve the discussed issue.