## General Assembly

# The question of protecting and supporting low-income countries during periods of global economic crisis in an interconnected world.

## Introduction:

This research paper will cover the question of protecting and supporting low-income countries during periods of global economic crisis in an interconnected world. Involved and affected countries and groups, conflicts and issues caused by relevant resolutions, and current situations will all be taken into consideration when researching all of the possible solutions for this issue. This paper will therefore aim to define the issue, the causes and examples involved, and furthermore possible resolutions.

Following recent events around the world, countries have had to face unprecedented financial issues. The impacts of Covid-19 are still affecting world nations, especially low income countries that don't have the appropriate resources to pick their economy back up and out of the economic crisis. According to the U.S. Global Leadership Coalition, in the year 2020 economic devastation was even worse than that of the economic recession of 2008. The financial crisis particularly affected areas such as “Latin America and the Caribbean, Southern Europe, and Southern Asia”. Poverty has enhanced and unemployment reached its highest levels.

In the interconnected world that is today, the concept of building power relationships between nations has increased social and economic development. Political decisions have to consider perspectives and ideas of diverse cultures and societies to achieve equality and overall consensus. However, certain nations may be reluctant to provide financial aid to low income countries as it would impact their own economies. This controversy is common in an interconnected society that aims at collaboration but countries are reluctant to work together. In the past few years, however, globalization and connections have improved and enhanced cooperation and world organizations have started to economically support emerging nations. The International Monetary Fund, for instance, has aided low income countries during the 2020 pandemic emergency by lending finances without any interests.

As the world moves back to an economic stability, interconnection is essential to initiate funding programs for those countries who are having a harder time reinstating financial security amongst their populations.

## Definition of some key terms:

**Economic crisis:**

An economic crisis is when a country's economy suddenly collapses as a consequence of a financial crisis. The country will struggle with an exponentially decreasing GDP, inflation or deflation, and extreme variations in prices. (Zafiu and Saracu, 2013)

**GDP:**

GDP is an acronym for gross domestic product, it refers to the measurement of monetary value of final goods and services – produced and sold in a specific period of time by a country. (OECD, 2022)

**Inflation:**

Inflation refers to the increase in general price levels of services and goods that are part of an economy. (Bank, 2022)

**Deflation:**

Deflation occurs when the general price levels of services and goods that are part of an economy decrease, therefore increasing the purchasing power of consumers. (“Deflation: Definition, Types & Consequences | StudySmarter”)

**Interconnected:**

Interconnected is a state where different things are mutually joined or related. (Cambridge Dictionary, 2022)

**Global Leadership Coalition:**

The Global Leadership Coalition is a U.S. nonprofit organization with headquarters in Washington D.C., which mission statement is “a smart power approach of elevating diplomacy and development alongside defense in order to build a better, safer world” (“U.S. Global Leadership Coalition”, 2022).

**IMF:**

IMF stands for the International Monetary Fund; an international financial institution of the United Nations. Its main function is to monitor “the international monetary system and global economic developments to identify risks and recommend policies for growth and financial stability” (“International Monetary Fund - Homepage”).

**LICs:**

LICs is an acronym for low-income countries, and those countries are determined with analytical income classification (Asian Development Bank).

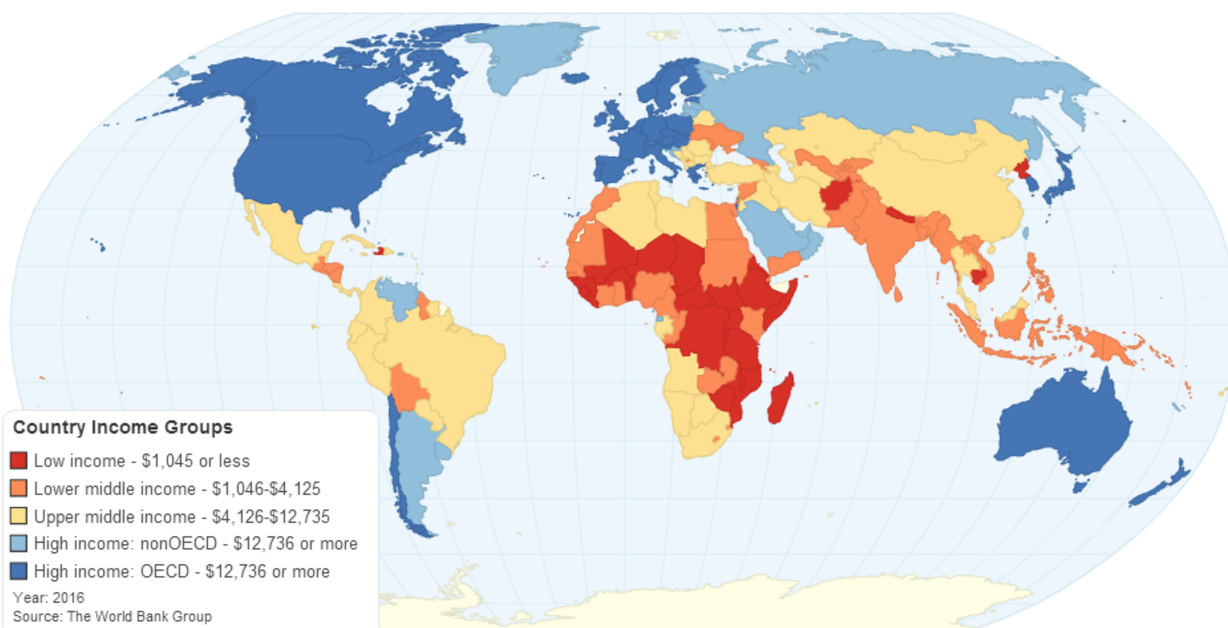
## Background Information:

Global financial crises have a massive effect on LICs especially. Due to their increased economic integration with the global economy through trade, Investment, and remittances, LICs are much more vulnerable to the global crisis than more developed countries. Through decreased export demand, crises have a substantial impact on these nations. Because many of them are producers of resources, they are severely impacted by the steep drop in both resource demand and prices. Reduced remittances and foreign direct investment (FDI) have a negative impact on many LICs, and assistance flows are in jeopardy which also worsens the LIC’s situation. The most damaging aspect of an economic crisis is the slowing of international trade,  exports during global crises usually drop precipitously, heavily hitting resource producers.

Additionally, during global crisis, LICS face escalating funding issues. This indicates both the severe decline in commodity prices and investor apprehension. Borrowing money in times of crisis comes with a hefty price tag and, in certain situations, might not be possible at all. Money transfers during crisis are also projected to decline as a result of the advanced and emerging economies, where people with a low income have found jobs, experiencing considerably slower expansion. Furthermore, in times of crisis, assistance flows are in danger due to financial difficulties in donor nations. The international finances of the LICs are severely harmed by these factors (The Implications).

## Major Countries and Groups Involved in The Issue:

As seen in the image below, low income countries are mainly located in (some parts of) Africa, South Asia and South America.



(ChartsBin)

More specifically a list of LIC (is provided attached), which also shows the risk of debt distress.

**List of LIC DSAs for PRGT-Eligible Countries**
**As of November 30, 2022**

| Country | Per latest DSA publication | | | Latest DSA discussed by the Executive Board but not yet published 2/ |
|---|---|---|---|---|
| | Latest publication date | Risk of debt distress 1/ | Joint with the World Bank | |
| Afghanistan | 6/28/2021 | High | Yes | ... |
| Bangladesh | 3/7/2022 | Low | Yes | ... |
| Benin | 7/25/2022 | Moderate | Yes | ... |
| Bhutan | 5/24/2022 | Moderate | Yes | ... |
| Burkina Faso | 11/18/2020 | Moderate | Yes | ... |
| Burundi | 7/29/2022 | High | Yes | ... |
| Cambodia | 12/9/2021 | Low | Yes | ... |
| Cameroon 3/ | 8/4/2022 | High | Yes | ... |
| Cabo Verde 3/ | 7/21/2022 | Moderate | Yes | ... |
| Central African Republic | 2/1/2021 | High | Yes | ... |
| Chad | 12/15/2021 | In debt distress | Yes | ... |
| Comoros | 10/29/2021 | High | Yes | ... |
| Congo, Democratic Republic of | 7/5/2022 | Moderate | Yes | ... |
| Congo, Republic of 3/ | 7/18/2022 | In debt distress | Yes | ... |
| Côte d'Ivoire | 7/1/2022 | Moderate | Yes | ... |
| Djibouti | 5/12/2020 | High | Yes | 2/23/2022 |
| Dominica 3/ | 2/14/2022 | High | Yes | ... |
| Eritrea | ... | ... | ... | 7/22/2019 |
| Ethiopia | 5/6/2020 | High | Yes | ... |
| Gambia, The | 6/27/2022 | High | Yes | ... |
| Ghana | 7/23/2021 | High | Yes | ... |
| Grenada 3/ | 5/10/2022 | In debt distress | Yes | ... |
| Guinea | 7/6/2021 | Moderate | Yes | ... |
| Guinea-Bissau | 6/27/2022 | High | Yes | ... |
| Guyana 4/ | 9/27/2022 | Moderate | Yes | ... |
| Haiti | 7/1/2022 | High | Yes | ... |
| Honduras | 9/14/2021 | Low | Yes | ... |
| Kenya | 12/22/2021 | High | Yes | ... |
| Kiribati | 1/24/2019 | High | Yes | 4/26/2021 |
| Kyrgyz Republic | 8/2/2021 | Moderate | Yes | ... |
| Lao P.D.R. | 8/8/2019 | High | Yes | 3/2/2022 |
| Lesotho | 6/7/2022 | Moderate | Yes | ... |
| Liberia | 9/14/2022 | Moderate | Yes | ... |
| Madagascar | 3/16/2022 | Moderate | Yes | ... |
| Malawi | 11/23/2022 | In debt distress | Yes | ... |
| Maldives | 4/23/2020 | High | Yes | 11/23/2022 |
| Mali | 3/30/2021 | Moderate | Yes | ... |
| Marshall Islands | 5/27/2021 | High | Yes | ... |
| Mauritania | 9/16/2020 | High | Yes | ... |
| Micronesia | 11/1/2021 | High | Yes | ... |
| Moldova 3/ | 5/13/2022 | Low | Yes | ... |
| Mozambique | 4/29/2020 | In debt distress | Yes | 5/9/2022 |
| Myanmar | 1/28/2021 | Low | Yes | ... |
| Nepal | 1/27/2022 | Low | Yes | ... |
| Nicaragua | 11/20/2020 | Moderate | Yes | ... |
| Niger | 12/20/2021 | Moderate | Yes | ... |
| Papua New Guinea 3/ | 9/20/2022 | High | Yes | ... |
| Rwanda | 1/13/2022 | Moderate | Yes | ... |
| Samoa | 3/19/2021 | High | Yes | ... |
| São Tomé and Principe | 9/20/2022 | In debt distress | Yes | ... |
| Senegal | 6/27/2022 | Moderate | Yes | ... |
| Sierra Leone | 7/29/2022 | High | Yes | ... |
| Solomon Islands | 1/21/2022 | Moderate | Yes | ... |
| Somalia | 7/19/2022 | In debt distress | Yes | ... |
| South Sudan | 8/3/2022 | High | Yes | ... |
| St. Lucia 3/ 5/ | 9/9/2011 | Moderate | No | 10/17/2011 |
| St. Vincent and the Grenadines 3/ | 11/17/2022 | High | Yes | ... |
| Sudan | 7/1/2021 | In debt distress | Yes | ... |
| Tajikistan | 2/18/2022 | High | Yes | ... |
| Tanzania | 8/5/2022 | Moderate | Yes | ... |
| Timor Leste 3/ | 9/22/2022 | Moderate | Yes | ... |
| Togo | 4/16/2020 | Moderate | Yes | ... |
| Tonga | 8/26/2022 | High | Yes | ... |
| Tuvalu | 8/4/2021 | High | Yes | ... |
| Uganda | 3/15/2022 | Moderate | Yes | ... |
| Uzbekistan 3/ | 6/22/2022 | Low | Yes | ... |
| Vanuatu | 9/14/2021 | Moderate | Yes | ... |
| Yemen, Republic of | 9/24/2014 | Moderate | Yes | 6/1/2016 |
| Zambia | 9/6/2022 | In debt distress | Yes | ... |
| Zimbabwe 3/ | 4/8/2022 | In debt distress | Yes | ... |

(IMF, 2022)

Other than the actual low income countries, the IMF is also involved in the issue as it is able to provide financial assistance when countries are hit by a crisis which can be either domestic, hence when the country has inappropriate policies related to finance and money, and/or is politically unstable, or an external factor such as, natural disasters or sudden changes in the (global or local) market, current examples of factors are: Covid-19 and the Ukraine war. Additionally countries can receive financial support from the World Bank, which "is an international financial institution that provides loans and grants to the governments of low- and middle-income countries for the purpose of pursuing capital projects." (World Bank, 2023). Another option is countries (mainly Western) supporting directly low-income countries in health programs or specific projects that would in the longer term improve the LIC's economy (Hamza, 2023).

## UN Treaties/Historical Events:

**UNRIC**

**Target 8.A:** Increase Aid for Trade support for developing countries, in particular least developed countries, including through the Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries, (Sustainable)

**MAECI**

Italy's foreign policy includes international collaboration for sustainable development as a key component. It is based on the tenets of the European Union's Fundamental Rights Charter and the UN Charter. According to the constitutional concept outlined in Article 11, it must operate in a way that promotes justice and peace while also developing shared and equitable interactions amongst peoples that are based on interconnection and cooperation. (Ministero)

## Main Issues:

During times of hardship and global crisis, trade decreases and because many LICs' economies mostly rely on trade this has an incredible impact and makes LICs especially vulnerable.

During the global crisis, there is a reduced amount of remittances and foreign direct investment. Many developing countries need FDI to facilitate economic development or restoration as it raises living standards in emerging markets. Remittances are especially important for LICs as they account for nearly 4 percent of their GDP while for middle-income countries only about 1.5 percent of GDP.

Financial aid would also be decreasing as the countries providing the money would probably be trying to be saving as much of it as possible in times of global crisis.

## Relevant UN Resolutions:

**IMF**

The IMF raised nearly $2.9 billion in the first seven months of 2009 compared to $1.2 billion for the year 2008 for sub-Saharan Africa alone. Loans in 2009 and 2010 reached a maximum of $8 billion. This indicates that the IMF went go further than the request made by the G-20 Leaders at their summit in London in April 2009 for a further

$6 billion in loans over the following two to three years. (The IMF)

**UN**

The epidemic jeopardized LIC's development. It had worsen long-standing disparities and increased hunger, malnutrition, and disease risk. Already, there was a decline in the demand for goods, travel, and transfers from Africa. Millions may now live in abject poverty as a result of the delayed inauguration of the trade zone. In order to mitigate the effects in the 50 most vulnerable nations, the UN mainly generated funding for the urgent medical and multi-sectoral requirements associated with COVID-19 in more than 50 target nations. The strategy, which supports the pleas of the International Red Cross and Red Crescent Movement and NGOs, was being managed by OCHA with IASC partners, including WFP, FAO, WHO, IOM, UNDP, UNFPA, UN-Habitat, UNHCR, and UNICEF. (Un)

## Possible Solutions:

*Requests* LIC’s to receive reliefs on their interest payment to immediately aid those countries and encourage other donors and creditors about the urgent needs the LIC required.

*Encourages* high-income countries (or HICs)g to help provide external funding which satisfies the various needs of low-income countries to aid the LICs and give relief to the countries.

*Draws attention* to the poor infrastructure in LIC’s which can be improved with HIC’s investing in large-scale development projects, such as for example building roads, dams and factories.

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