



Southern China International MUN

Official Background Guide

Ecofin Committee: Alleviating the economic burden resulting from COVID-19 in LEDC's through regional cooperation

Agenda overseen by Douhyeong (Dominic) Kim

1. Description of the Issue

1.1 History of Issue

Since dawn of civilization, diseases have plagued humans, governing their lives in both beneficial and malign ways. As time progressed, however, interactions between humans and animals naturally increased, for the best or worst, resulting in the exponential increases in the frequency of diseases.

On March 11th, 2020, the WHO declared COVID-19 as a pandemic and, since then, many nations experienced sudden loss of demand, causing a domino effect of global supply and demand distribution. The reason for this domino effect is quite evident by referring to history: since the dawn of early civilizations, humans distinctly marked their territories as their own and invaded territories of lesser might. Inequality is often prevalent in our lives, thus exacerbating the discontent in a more transparent society. Economic inequality is well-rooted in history: for example, during the 1920s, America was becoming a prosperous nation- at the expense of others. They encroached upon native and other foreign powers' rights. However, in the 21st century, such tendencies are still evident in nations. Nations aim to prosper themselves, even at the expense of others. As these tendencies compound, it serves to draw distinctions between the haves and the have nots. In terms of nations, these two are analogous to the MEDCs and the LEDCs, respectively. Historically, in times of economic recessions, such economic failures did not occur in tandem. This was primarily due to several factors, but mostly due to the lack of connectivity- trade. Take, for example, Italy in 1350: at this period, Italy experienced the Black death, killing double-digit percentages of the population. Meanwhile, Southern African kingdoms were beginning to flourish under the newfound demand for Gold and like goods. This stark polarity in the nations' status quo is no longer evident in modern times, as nations are so interconnected: a pandemic raging in one country's borders may spell trouble for another in no time. Thus, in an interconnected era, the LEDCs are predominately affected by global issues; hence, the importance of regional cooperation, which can mitigate economic effects.

On a final note, the NCoV outbreak has manifested the results of different responses to mitigate the spread of the disease. Some countries had lax oversight whereas others imposed "draconian" measures. Regardless of individual responses, alleviating the economic burden

resulting from COVID-19 in LEDCs requires international cooperation and trust between nations notwithstanding political relations, be it bilateral or multilateral.

1.2 Recent Developments

The impact of COVID-19 in peoples' lives is indubitable, yet the extent of its impact differs greatly, from unemployment to loss of a loved one. Among nations, this analogy holds: MEDCs had better infrastructure and were quick to react, while the LEDCs were severely limited in the responses, exacerbating their economic contractions.

Pre-pandemic, LEDC economies were growing at a steady pace: South Sudan- the nation with the lowest real GDP per capita in 2019- grew at approximately 5.8% in 2019- a 0.5% increase from 2018. This year, however, South Sudan's fate may be much grimmer. Some economies, like South Sudan, were in volatile positions and could not afford a mishap. Thus, when the pandemic struck, it struck a blow to many LEDC's economic aspirations: for some nations, achieving previous economic targets would now require a miracle.

The effect of COVID-19 was devastating: every nation on earth, regardless of region, is projected to face or have faced an economic downturn or a recession- some even at the risk of defaulting on their loans. Nations with the inability to mint their own currency- i.e., Italy, Greece, and Liberia- are in much more volatile spots as their responses are impeded by the plethora of hindrances to provide ample stimulus. Furthermore, COVID-19 is projected "to slash global economic output by \$8.5 trillion over next two years"², which is a huge amount undepictable is words.

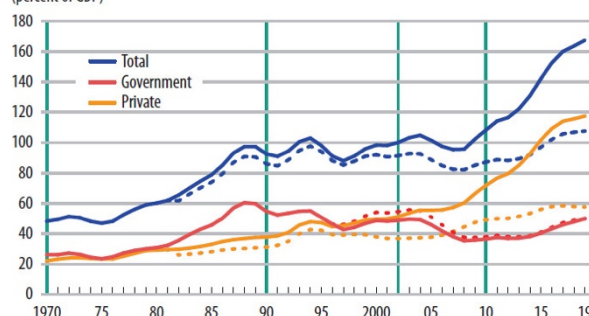
To make matters worse, COVID-19 is to cause 34 million people to fall into extreme poverty- 56% from African nations. By 2030, another 130 million people are projected to join those in extreme poverty, further undermining the attempts to alleviate those in extreme poverty and to eradicate world hunger.² In terms of the working laborer, the income inequality will begin to exacerbate due to the instability of these jobs. Thus, the low skilled, low income, jobs will be inequitably affected. In terms of nations, this analogy holds once more: with LEDCs being so burdened by this economic fallout, they will begin to lag even further behind in terms of development to their more developed counterparts.

Chart 1

Ballooning debt (1970–2019)

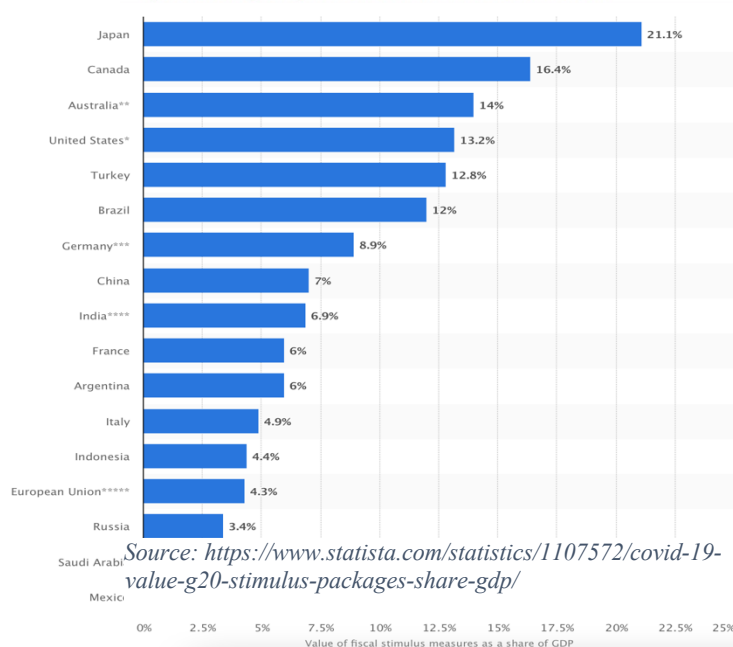
During the past decade, total debt in emerging market and developing economies rose to a historic peak.

(percent of GDP)



Sources: International Monetary Fund; Kose and others (2020); and World Bank.

Note: Aggregates are calculated using current US dollar GDP weight and are shown as a three-year moving average. Dashed lines show debt, excluding China. The vertical lines represent the beginning of debt waves in 1970, 1990, 2002, and 2010.



Source: <https://www.statista.com/statistics/1107572/covid-19-value-g20-stimulus-packages-share-gdp/>

As for why LEDCs have a stagnant recovery, a majority are burdened with public debt and other chronic fiscal deficits, which are undermining their ability to implement successful fiscal policy to provide more liquidity in the financial markets and other sectors. Thus, these fiscal policies have minimal effects: the average value of the fiscal packages of LEDCs was less than 1% of the GDP. In contrast, Germany, a nation regarded as having a moderately sized fiscal stimulus plan, had a fiscal package worth 8.9 % of the GDP. However, the size of the GDPs of MEDCs and LEDCs differ by billions of dollars. Therefore, even if some LEDCs were to implement fiscal packages of similar proportion to their GDP as MEDCs, the stimulus would be inadequate due to the relatively trivial amount. Many nations dependent on exports, tourism, commodities, and other volatile revenue areas are being pressured with an increasing pile of debt- raising the question of debt sustainability. In short, their debt burden is undermining and also deterring them from implementing appropriate fiscal packages.²

In all, this topic - Alleviating the economic burden resulting from COVID-19 in LEDCs through regional cooperation- is quite challenging: a clear-cut solution to

tackle the complications that entail a world-wide shutdown does not exist. For the most part, the United Nations and leaders' efforts to address these issues have been futile due to the inherent idiosyncratic attributes evident in nations: some pursue a free market, whereas others adopt a centralized government. For example, the UN cannot enforce coordinated stimulus packages as each nation's primary role is their own, thus reducing cooperation in pivotal areas. Ergo, the status quo highlights the pivotal role regional cooperation can play in alleviating the burden, as the current efforts from LEDCs, for the most part, have been met with futile results. The bottom line is that every country differs and requires different policies to recover their economy, so an ad-hoc panacea to alleviate the economic burden on LEDCs does not exist.

2. Emphasis of the Discourse

2.1 Right Wing Approach

The right-wing is a political terminology that pertains to politicians or states with conservative and nationalistic tendencies, at times valuing tradition and freedom over unity. It tends to include countries or politicians with capitalist tendencies. They embrace the view that social orders and hierarchies are natural and desirable; thus, they tend to be content with the status quo. They believe that the role of the state is to impose minimum regulations for economic activities. After all, they believe in individual will and market principles. During the pandemic, notable right-wing nations openly advocated for left-leaning economic policies. However, some countries provided minimal support to the people, often citing fear of inflation and debt unsustainability for justifying their rationale. Most of the fiscal policies implemented by South Korea and the United States are to provide aid or to reduce taxes. Most countries that impose right-wing regulations implement policies that encourage individuals to provide economic stimulus rather than restrict economic activities. While some say that this is an approach to respect individual freedom and minimize government intervention in the market, critics say that the government's grazing attitude is quite paradoxical with the raging virus within their borders.

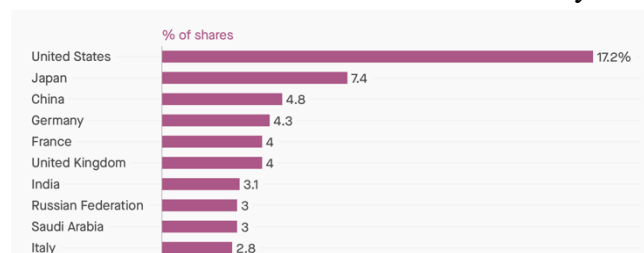
2.2 Left Wing Approach

A left-wing approach is synonymous with a politician or state with progressive or socialist ideas and tendencies. In some cases, they are radical, reformative, prioritize equality over freedom, and insist on change. When it comes to the COVID-19 situation, some countries had an active intervention. China shut down each province and controlled flights between countries as the virus began spreading domestically in China. Along with this act, other policies have led to greater intervention in the Chinese free market. Left-wing policies were designed to prioritize the wellbeing of society and to maintain a more systematic order. Numbers of countries, including China and Mongolia, have taken control of flights. It is said to have effectively prevented the spread of the virus. A noteworthy point is that the mortality rate from the virus in countries that used left-wing politics was lower than those of right-wing countries. Critics claim that such intervention encroaches and undermines personal liberty, a prevalent claim among the opposition to centralized control is that intervention in the market has reduced the number of free decisions people can make, causing chaos to international markets.

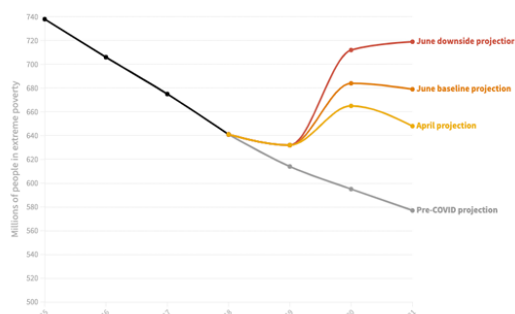
2.3 Stance of Intergovernmental Organizations

Intergovernmental Organizations (IGOs) include the UN, Organization for Economic Cooperation and Development (OECD), International Monetary Fund (IMF), The World Bank, and the International Labor Organization. Each of these organizations aims to hold an impartial stance; however, they often fall prey to being held liable for national issues, though, in some cases, it is justified.

The IMF is an IGO that oversees the stability of the global monetary system, with its major



Source: https://theatlantic.com/charts/B1_EmJ4Hf



Source: <https://blogs.worldbank.org/opendata/updated-estimates-impact-covid-19-global-poverty>

members and key funders being individual states. Thus, the IMF had an efficient response to the economic contraction caused by COVID-19. On IMF.com, they have stated that they have provided emergency financing, grants for debt relief, call for bilateral debt relief,

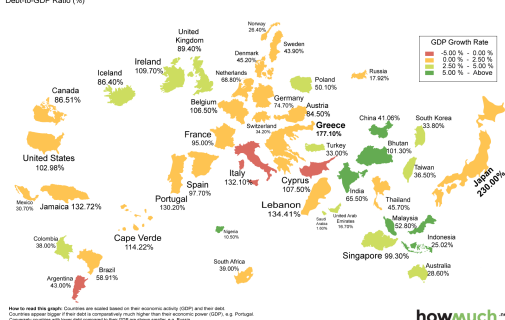
enhancing liquidity, adjusting existing lending arrangements, policy advice, and capacity development. The IMF has a tremendous ability to provide loans; however, they often provide loans in not-so-ample amounts for clear reasons. The IMF has also provided ample debt forgiveness: “Today, I am pleased to say that our Executive Board approved immediate debt service relief to 25 of the IMF’s member countries under the IMF’s revamped Catastrophe Containment and Relief Trust (CCRT) as part of the Fund’s response to help address the impact of the COVID-19

pandemic.”⁴ These small loans or debt forgiveness have aided LEDCs in their recovery, but IMF Managing Director, Kristalina Georgieva, has stated, “The global economy is beginning to climb back from the depths of the crisis, but this calamity is far from over”, setting a cautious tone for future recovery⁴.

Unlike the IMF, The World Bank is an IGO that aims to reduce poverty in LEDCs. With that said, during the pandemic, many LEDC economies were stalled in terms of recovery due to a lack of stimulus. This, consequently, has exacerbated poverty rates globally, as evident in the figure above. In response, The World Bank “is making available up to \$160 billion in financing tailored to the health, economic and social shocks countries are facing, including \$50 billions of IDA resources on grant and highly concessional terms.”¹¹ However, to put that into context, the World Bank’s potential stimulus of \$160 billion is very inadequate for fully stimulating LEDC economies. On average, most MEDCs individually have packages easily worth over \$160 billion, which is to be shared among LEDC nations from the World Bank. Of course, this is not free money; however, the World Bank only charges above 0.5% above its cost to borrow, highlighting the deal.

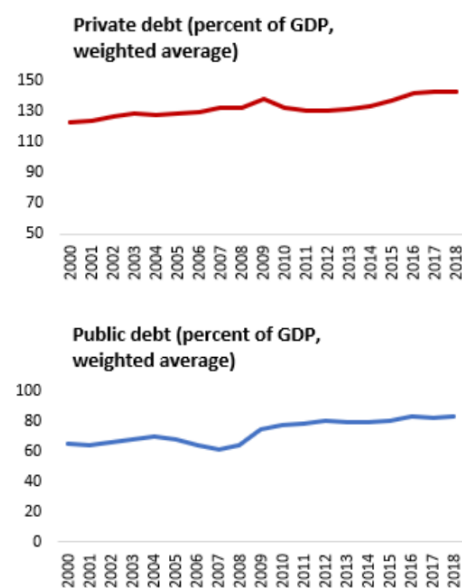
There are other prominent IGOS, but the most impactful ones were The World Bank and the International Monetary Fund; thus, it is not necessary to understand the efforts of the other IGOS.

Countries Scaled to the Unsustainability of their Debt
Debt-to-GDP Ratio (%)



Trends in world debt

The global debt ratio was stable in 2018.



Source: IMF Global Debt Database, IFS, and WEO.

INTERNATIONAL MONETARY FUND

also slashed the repo and reverse repo rates by 115 and 155 basis points, signaling a decisive move to inject liquidity into the financial system.⁶

2.6 Stance of Developing Countries

Most developing nations are located on the southern hemisphere. These countries are not able to provide ample stimulus due to chronic deficits or because they are saddled with debt. Regardless of the reason, such poor stimulus hinders their effective economic recovery and will leave them further behind in progress relative to the MEDCs. Thus, it becomes evident that these LEDCs require aid from IGOs and generous interest loans to continue their economic expansions from earlier in the year. However, most LEDCs are fully aware of a plethora or ploys used by several nations, not to name any. Thus, the citizens of these nations and several politicians are hesitant about receiving foreign aid, often citing hidden interests from the creditors.¹⁰

2.4 Stance of Developed Countries

Most developed states have provided ample stimulus packages, and some are on track to full recovery by Q2 of 2021. These nations, however, have incurred some debt, which, in the long run, some speculate as being unsustainable⁶. Some nations like Japan, Italy, and Greece have debt levels that are much above the global average, which was 226% in 2018.⁶ There fore, some of these nations are taking a more conservative approach in terms of overall government spending, anxious about running high deficits. In the west, the United States has provided ample stimulus by pivotal actions: the US \$2.3 Trillion Coronavirus Aid Relief and Economy Security Act (CARES act), US \$483 billion Paycheck Protection Program (PPP), and Health Care Enhancement Act, and other copious aid. (Policy)

2.5 Stance of Newly Industrializing Countries

Prominent developing nations such as China and India have pursued mid-sized stimulus packages, which is evident in many developing nations. China, for example, has implemented an RMB 4.8 Trillion fiscal stimulus package, geared towards low-income earners. The People's Bank of China has also injected liquidity into their financial system via the open market and other methods. India, similarly, has implemented direct fiscal stimulus geared towards low-wage workers. The Reserve Bank of India has

3. Possible Solutions

3.1 In Favor of Developed Countries

Developed nations have the privilege to provide stimulus packages of value to their citizens. Currently, most developed countries do not have a problem with stimulating their economies. Take the United States: as a result of the plethora of policies they pursued, they have hit record- low-interest rates, boosting home sales³, and smashing previous records in terms of equity prices. For most, incomes have not fallen; most of the population has not had their lives drastically change. Therefore, the solutions that favor developed countries are policies that leave them out of the equation: they do not want to partake in helping a nation service its debts as it means lower returns to the creditors (which tend to be MEDCs)¹. Further, this often results in bailouts, which results in the creditors not recovering their initial investment. Furthermore, some MEDCs have yet to fully recover their economies, lowering the priority of LEDCs at this point; yet, obviously, the doors are still open for future action. Thus, most efforts for recovery in LEDCs have come from domestically or from support from IGOs. Increasing the cooperation among regions, such as the North America region with the rest of the world, is beneficial. However, such generous aid for foreign nations depends on the foreign policy of the president in office. For example, under the Trump administration, many foreign tariffs were imposed, and negative foreign sentiments began to increase, stalling foreign cooperation.

3.2 In Favor of Developing Countries

Most developed economies are debt-based- money loaned into existence. When the COVID-19 recession occurred, there was not enough income to service debt, leaving businesses debt-riddled and the economy deteriorating. An inherent flaw with a debt-based economy is that the economy would contract if new loans are not issued. Many hold the notion that the logical solution is for the central banks to lower interest rates by using tools such as quantitative easing, and other tools to inflate the money supply, firing the economy up. This notion, however, is fallacious, especially for LEDCs. The LEDCs do not have the privilege to manage their money supply with such autonomy. Usually, the LEDCs do not have credibility or even trust from their citizens on their side. Increasing their money supply will entail trouble as these currencies are volatile and lack in demand to back them; thus, causing many to avoid these currencies, often citing fear of inflation.

As for fiscal measures, debt from LEDCs is used for strategic reasons, including debt-trap diplomacy and a plethora of other economic ploys. Thus, with low demand and a predominant creditor, it becomes challenging to fund such extensive packages.

Therefore, the most logical solution would be to 1) increase the stability of the national currency by pursuing the appropriate monetary policy (for example, contractionary monetary policy in states suffering from high inflation) and 2) to curb inflation or other inconsistencies in currencies. By doing so, debt could become more valuable, which could fund more programs; also, an increase in the money supply may not cause confounding effects such as capital flight. Another reasonable solution would be to 3) decrease foreign dependency in LEDCs for funding infrastructure projects, which many LEDCs succumb to. However, an increase in funding will have detrimental effects on its right; therefore, though it may not be realistic, a continental trade organization could help spur regional demand, allowing domestic industries to develop and recover.

However, in all honesty, a simple consideration of the facts will manifest that such regional trade organizations frequently prove inefficacious, as globalization is convenient access to capital and economic growth. Thus, such efforts at fostering regional trade may backfire, as many in similar regions tend to suffer from similar dilemmas. Regional cooperation need not limit to a physical locale; rather, it can be across borders and between regions. These troubled regions can then set up mutual industries, which can be beneficial for international trade.

4. Keep in Mind the Following

While researching your position, focus on the nation's status quo, foreign dependency, economic partners, sovereign debt, foreign capital holdings, trade volume, trade balance, political allies/ enemies, and commercial stance. Below are some questions to consider:

1. To what extent should foreign organizations involve in providing relief to LEDC economies?
2. Are the public debt levels of this nation unsustainable? If so, who are the largest creditors, and are they beneficial for economic growth? (*Keep in mind that short terms foreign capital injections may come with a tradeoff, in the long run, thus being a façade in the short-term.*)
3. How much are the foreign exchange holdings of this particular nation? Are they at sufficient levels to underpin currency stability?
4. Do the political allies align with dependent nations? If so, what is jeopardized in exchange for that relationship.
5. What is the public response to a specific program- be it fiscal stimulus or infrastructure projects? (*Keep in mind that, in many LEDCs, the legitimacy of leaders may be exerted through ostentatious infrastructure projects, which many citizens may be oblivious to the means!*)
6. Are there current attempts of this particular nation to partake in regional trade alliances or lessening foreign dependency?

5. Evaluation

“The challenges loom large. Much more than 1 million people have died from the COVID-19 pandemic. More than 100 million people are being pushed into extreme poverty. Hunger has doubled. Famines loom, inequalities are growing. Disruption to education is risking to create a “lost generation”, especially for children trapped on the wrong side of the digital divide. And even the gender equality gap is widening, and women’s labour force participation – a key driver for inclusive growth – has been set back decades. Now as we face an urgent need for climate action and building a sustainable and circular economy, we need to do different and let’s recognize that developing countries, in particular, are on the precipice of financial ruin... We also must mobilize the financing to build forward and put economies on a sustainable path.”⁹ Hence, the road to putting the economies on a sustainable path is quite unclear at this point; it’s exactly why you need to represent your state accurately and adduce creative resolutions based in reality. On a final note, your solutions, and your voice, will be amplified when you are ready to apply your knowledge to the real world. You need to show consistency in your approaches and also exhibit pragmatism, which will bear fruitful results.

6. Bibliography

1. "Advantages and Disadvantages of Aid - Aid - GCSE Geography Revision - BBC Bitesize." BBC News, BBC, www.bbc.co.uk/bitesize/guides/zpcrs8/revision/2.
2. "COVID-19 to Slash Global Economic Output by \$8.5 Trillion over next Two Years." *United Nations*, United Nations, www.un.org/en/desa/covid-19-slash-global-economic-output-85-trillion-over-next-two-years.
3. Friedman, Nicole. "U.S. Home Sales Rose to 14-Year High in October." *The Wall Street Journal*, Dow Jones & Company, 19 Nov. 2020, www.wsj.com/articles/home-sales-rise-to-14-year-high-in-october-11605798326.
4. "IMF Executive Board Approves Immediate Debt Relief for 25 Countries." *IMF*, 13 Apr. 2020, www.imf.org/en/News/Articles/2020/04/13/pr20151-imf-executive-board-approves-immediate-debt-relief-for-25-countries.
5. McCollum, Betty. "Actions - H.R.266 - 116th Congress (2019-2020): Paycheck Protection Program and Health Care Enhancement Act." *Congress.gov*, 24 Apr. 2020, www.congress.gov/bill/116th-congress/house-bill/266/actions.
6. "New Data on World Debt: A Dive into Country Numbers." *IMF Blog*, 17 Dec. 2019, blogs.imf.org/2019/12/17/new-data-on-world-debt-a-dive-into-country-numbers/.
7. "Policy Responses to COVID19." *IMF*, www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19.
8. "Questions and Answers: The IMF's Response to COVID-19." *IMF*, www.imf.org/en/About/FAQ/imf-response-to-covid-19.
9. "Secretary-General's Opening Remarks at the Third Roundtable of Renowned Economists on Rebirthing the Global Economy [as Delivered] Secretary-General." United Nations, United Nations, www.un.org/sg/en/content/sg/statement/2020-11-24/secretary-generals-opening-remarks-the-third-roundtable-of-renowned-economists-rebirthing-the-global-economy-delivered.
10. William Gumede South African economist and political scientist, et al. "The China-Africa Relationship Criticized across the Continent." 4DID, 21 Feb. 2018, ideas4development.org/en/china-africa-relationship/.
11. "World Bank Group's Operational Response to COVID-19 (Coronavirus) – Projects List." *World Bank*, www.worldbank.org/en/about/what-we-do/brief/world-bank-group-operational-response-covid-19-coronavirus-projects-list.