ECOSOC

ECONOMIC AND SOCIAL COMMITTEE

MSMUN INTERNAL MODEL 2022

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Official Language

English

Topic A

Measures to protect the international market due to growing national expenses and deficits in nations worldwide

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1.0 Welcoming letter

Dear Delegates,

It is with absolute honor for us as your ECOSOC committee presidents, that we welcome you into this enriching and nourishing experience. A day's worth of knowledge that will contextualize you on the wonders of present world economics and its social aspects.

As your presidents, we ask you to prepare yourselves, since to build a wonderful debate arena it is of utmost importance that you put the best of your abilities into researching and participating during times of debate. We know economics may sound a little scary, but there's no need to panic, as we will always be there to answer any doubts or questions you may have before, and during the model.

We couldn't be more excited to guide you through this wonderful adventure and discuss global, impactful, and ongoing issues. We hope you fall in love with the MUN experience as much as we are.

Now, without further ado, Welcome to ECOSOC!

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Economic and Social Committee

2.1 History

The Economic and Social Council, supervised by the power granted to the General Assembly, correlates both the Social and Economic affairs of the United Nations. The United Nation's most complex subsidiary body, ECOSOC, was established back in 1945, yet amended in the years of 1965 and 1972 to enlarge its size from 18 to 54 members. The council was designed to become the UN's main venue for the discussion of International, economic, social, and cultural issues, with the goal of achieving economic, and social stability. During the mid-90s, the UN Charter allowed ECOSOC to grant consultative status to NGOs and it has been this way ever since; in fact, in the early 21st century more than 2,500 NGOs were granted consultative status. ECOSOC's funding comes primarily from the VETO members of the Security Council, including Russia, The United States of America, The French Republic, amongst others, as they have been re-elected as primary members to back up global stability and safety.

2.2 Objectives

Being part of the United Nation's 6 principal organs, The Economic and Social Council has a lot of untalked responsibilities, which involve the perspective of all 54 members of the Council. Amongst them we can include, its service as the central forum for discussions of economic and social issues, the promotion and seeking for higher standards of living, full employment and economic progress, the encouragement to find universal respect for the observance of human rights and fundamental freedoms, to make or initiate studies and reports with civility towards international economic and social matters, to prepare draft conventions for submission to the General Assembly, to coordinate the work of the specialized agencies and programs and their functional commissions, and five regional commissions, and finally to maintain its alliances with organizations such as The World Bank, and the IMF (International Money Fund).

Topic A: Measures to protect the international market due to growing national expenses and deficits in nations worldwide.

3.1 Conceptual framework

a) <u>GDP:</u>

The Gross Domestic Product is the sum of all the finished goods and services inside a nation's boundaries within a certain time period in terms of money or market value. Because it measures the overall domestic production, it serves as a comprehensive agenda in which the country's economic health is given.

b) <u>Goods:</u>

In economics, goods are items that add a benefit to the lives of the individuals who buy them. These goods are made to be sold and can be exchanged by money.

c) <u>Services:</u>

In economics, a service is a specific task performed for the benefit of a recipient. For example, legal advice, accounting services, etc.

d) <u>Market</u>

System of institutions, rules, and procedures relating to the exchange relating to the exchange of goods and services between persons or organizations.

e) <u>International market</u>

A market outside the international borders of a company's country of citizenship.

f) Inflation

Is a persistent increase in the general price level of goods and services in an economy. Inflation is typically a broad measure, such as the overall increase in prices or the increase in the cost of living in a country.

g) Deficit

A deficit may occur when a government, company, or a person spends more than it receives in a given period, usually a year. It occurs when the expenses overpass the revenues, when the imports surpass the exports, or when the liabilities exceed the assets in an economy.

h) Trade & International Trade

Trade is an exchange of goods and services between different economic actors. In macroeconomics, trade usually refers to the "International Trade" which is the system of imports and exports that connect the entire world on a web. Exports are products sold in the global market and imports are products bought from the global market.

i) Macroeconomics

Is the study of how a national or regional economy behaves as a whole. It focuses on comprehending macroeconomic events including the total volume of products and services produced, the rate of unemployment, and the behavior of pricing in general.

j) Foreign Direct Investment (FDI)

Is a type of international investment that represents the desire of an investor to acquire a long-term stake in a company located in a different country.

k) Fiscal Policy

Fiscal policy is the use of government spending and taxation to influence the economy. Governments typically use fiscal policy to promote strong and sustainable growth and reduce poverty (IMF, 2020).

I) <u>Interest Rates</u>

The sum that the lender demands from the borrower in addition to the principal amount is known as the interest rate. Regarding the recipient, a person who deposits money in a bank or other financial institution also makes extra money due to the time worth of money, which is known as interest earned by the depositor.

Depending on the purpose and recipient of the funds, interest rates on loans and deposits may vary. (The Economic Times, 2021)

J) <u>Rollover fund</u>

A rollover may entail a number of actions such as a way of making money for a specific purpose, such as immediate income from day trading or for saving on taxes, but often refers to the transfer of the holdings of one's retirement from one account to another without having to pay taxes. Watch the video on this website to understand further:

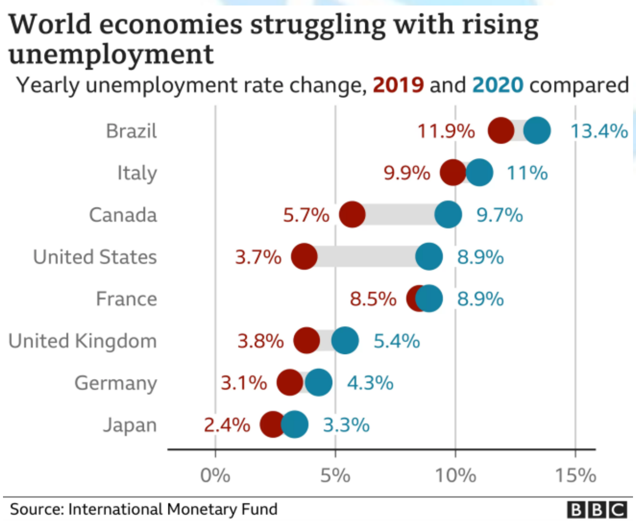
https://www.investopedia.com/terms/r/rollover.asp

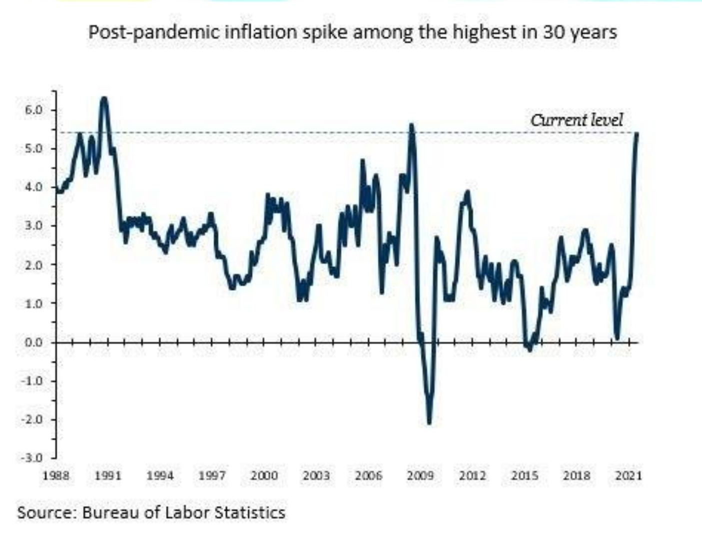
3.2 Historical Context

It is important to begin by saying that the instability of international trade and the deficits that multiple countries around the globe are experiencing can variate through time and can be caused by multiple factors. The global economy has suffered a significant hit or decline in the last decade, for example, the entrance of the 2010's decade with the ending of the great recession, the continuous commercial war between the world's biggest superpowers: China and The United States of America, the unexpected COVID - 19 pandemic, and last but not least important the commencement of the Russo-Ukrainian war in 2022.

To commence, the great recession was the opening to disturbances in the international market. Because it was the biggest economic downturn in US history since the great depression in the 1930s, the global trade was forced to see the U.S. consumer disincentive on foreign goods, and every country that exported goods into the United States had to put a halt to their businesses until the economy was restored. The great recession caused an increase in home mortgage foreclosures worldwide and caused millions of people to lose their life savings due to the collapse of state-owned banks. Moreover, in the second half of the decade, the commercial war waged between China and the US is in full rage. The US presents an increased deficit in commerce with China, because they are buying much more products from the nation than they are selling them. The US has withdrawn production sites and commercial relations with China, which means that China no longer has its largest buyer and their production level would decrease and also increase in value, meaning that other nations that have current affairs with China would have to pay higher prices.

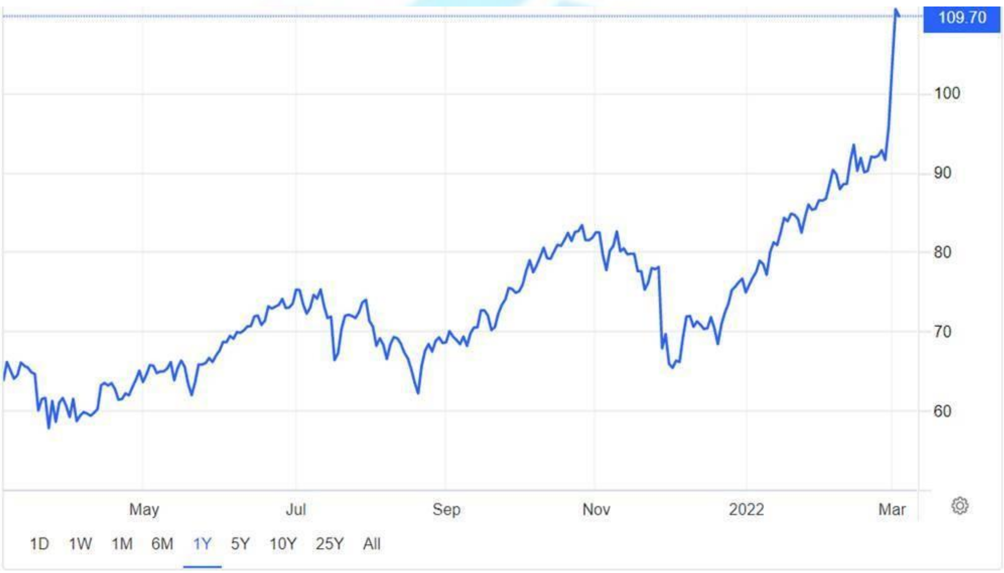
The most significant impact to the economy is provided by the COVID - 19 pandemic that started in late 2019 and persists unceasingly. The virus is considered to be more contagious than influenza, it has a more rapid transmission due to its resistance to surfaces, there was a known delay in the production of vaccines, and it has the ability to evolve into different strands of new SARS viruses (Frontiers in Public Health, 2021). With all of this present, the world came into a shock. No one could have an on-site presence exchange, the global community had to be preventively isolated, and the working ambit had to re-invent itself to homework. With these effects, the economy crashed. The subsequent months were placed to the highest unemployment rates seen in most of the world's economies, the disruption of the production and the supply chains, as goods and commodities in the upstream supply chain has been produced in lower quantities, and sometimes not at all (Advance Technology Services, n.d), the increased costs of manufacturing, the sudden stop that transportation for trade suffered, the crumbling of the worldwide tourism industry, and more worryingly, with the pandemic there was a decrease in demand due to government restrictions in consumer behavior and when the restrictions were released the demand outgrew exponentially the supply and because companies had a slow functioning and were adapting themselves, the productions costs rose and it could be evidenced in the consumer price index spiking to 5.4 % in mid-2021 (Nationwide Economics, 2021).





3.3 Current situation

On the 24th of February 2022, Russia decided to invade Ukraine to try and evade their union with the western hemisphere and overthrow their government, to try and unite the people of Ukraine and Russia because they are “brother nations”. Since the start of the war the Ukrainian territory has been ravaged by Russian military troops and the international community couldn’t have let this pass. Inside Russia’s numerous economic sanctions are: a 50% decrease in imports, a decrease in their workforce due to migration, a decrease of $75 billion in Putin's foreign exchange reserves, and finally the ban of Russian oil and gas. In particular, this last one has hurt the world the most because of the decline in the supply of oil, and due to this, its price has risen dramatically impacting not only the common mobility but also trade transportation methods like vessels, slowing the overall international trade. In Ukraine, due to the ongoing geopolitical conflict, the exports of fertilizers have plummeted and throughout the world, soil-derived products have experienced an increase in their prices.



Source: The World Economic Forum

3.4 Previous resolutions

-Governments: How to reduce inflation

When discussing international trade we need to understand that Inflation and interest rates affect imports and exports primarily through their influence on the exchange rate. Higher inflation typically leads to higher interest rates. Whether or not this results in a stronger currency or a weaker currency is not clear. Leaving the following solutions to be implemented:

1. Price controls: government-mandated minimum or maximum prices set for specific goods and services.
2. Contractionary Monetary policy: refers to the reduction of government spending, especially when it comes to deficit spending. It can also mean a reduction in the rate of financial expansion by a central bank. It is a type of macroeconomic tool designed to combat rising inflation or other economic distortions created by central banks or government interventions.
3. Discount rate: Through the discounting system, the primary purpose to fulfill banks' short-term liquidity needs and maintain stability in the banking system, can be achieved as another technique to fight inflation in a certain nation.
4. Fiscal Policy: A higher rate of income tax could reduce spending, demand, and inflationary pressures through fiscal policy.
5. Pegging (Fixing) the value of the national currency: This strategy involves modifying/ fixing the exchange rate at a fixed value to that of the other country so that its inflation rate will eventually gravitate to that of the other country.

Another issue that is in need of a solution, and that the ECOSOC committee is looking forward to resolve is the different ways to reduce a government's spending, and what can be done to increase their budget in order to prevent a deficit: Here's what can be done:

Cut a government's unnecessary spending habits: by reusing a period's unused funds to finance the next fiscal year, governments could significantly reduce their expenses instead of promoting spending behaviors. This is often called the "use-it-or-lose-it" budget rule. Rollover fund rules also apply to this solution, as governments tend to spend 4.9 times more in the final week of the fiscal year than any other week in the year. This means that no taxes will be charged for the storage of these unused funds.

-Increasing taxes: Some groups want to increase federal revenue to offset the deficit. This could largely be achieved by increasing taxes, particularly on the wealthy, who, in spite of the deficit, and pandemic-induced recession are still doing very well.

-Increasing growth: The government can also increase tax revenue by stimulating growth in the economy. When the economy is growing, people are making more money. And when there's more money being made, there's more money eligible for taxation, increasing the total tax revenue the government can collect. Increasing growth is tricky.

3.5 Useful Resources

Understanding a United Nations Model:

https://www.youtube.com/watch?v=gt1LT4XKP5Q

Points and Motions:

https://www.youtube.com/watch?v=d85TN6hbMPc

Understanding Inflation:

https://www.youtube.com/watch?v=te85D9rBNPs

How can governments control inflation + monetary policy explained:

https://www.youtube.com/watch?v=gsc75H7OU0g

https://www.investopedia.com/ask/answers/111314/what-methods-can-government-use-control-inflation.asp

Find your delegation's inflation rate:

https://tradingeconomics.com/country-list/inflation-rate

Effects of inflation on International Trade:

https://www.investopedia.com/articles/investing/100813/interesting-facts-about-imports-and-exports.asp

Understanding a budget deficit:

https://mint.intuit.com/blog/planning/budget-deficit/

Use it or lose it Budget rule:

https://www.nber.org/digest/mar14/use-it-or-lose-it-budget-rules

4.0 Support Questions/ QUARMAS

1. Has your delegation experienced any major changes in response to the current inflation crisis worldwide? How has their economic and social system responded to the secondary effects of inflation?
2. What impacts has inflation generated on the Global trading market?
3. What is the current inflation rate in your delegation?
4. How has inflation affected the distribution of resources and trading systems worldwide? How is it different for developing nations?

5. Has inflation contributed to scarcity and deficits of fundamental resources? If so, has this happened in your delegation?
6. What is your delegation's annual spending budget? When has it been at its highest?
7. Is your delegation facing a deficit crisis? If so, what has it done to stop it, or reduce it?
8. Why and what is a governmental spending budget deficit? What are some solutions your delegation proposes to fight this current worldwide deficit?

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