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Economic and Financial Committee (ECOFIN)

#BACKGROUND GUIGE

Table of Contents

Introduction 4

Topic A: Water as the New Oil: Discussing the economic measures needed to combat the effects of increasing water scarcity in the 21st century 5

- Statement of the Problem 5
- History of the Problem 6
- Current Situation 9
- Questions a Resolution Must Answer 12
- Bloc Positions 13
- Suggestions for Further Research 15

Topic B: Preventing Financial Crises after COVID-19 16

- Statement of the Problem 16
- History of the Problem 17
- Relevant UN Actions 23
- Proposed Solutions 24
- Bloc Positions 26
- The Economic Impact of COVID-19 27
- Tackling the Crises 32
- Suggestions for Further Research 33

History of the Committee

The Economic and Financial Committee (ECOFIN) is the second of the General Assembly's main committees. Its primary aim is to tackle issues through the use of 'international co-operation in the economic field' (United Nations, 1945). More specifically, the committee is outlined as endeavouring to further economic development and growth within member states. This includes discussions of 'macroeconomic policy questions; financing for development; sustainable development; human settlements; globalization and interdependence; eradication of poverty; operational activities for development; agriculture development, food security and nutrition; information and communications technologies for development; and towards global partnerships.' (United Nations, 2017).

At the 72nd session, chaired by Estonian diplomat (and former UNICEF President) Sven Jürgenson, a wide range of topics were examined; resolutions looked at included coercion against developing countries, the role of the United Nations regarding globalisation, and even World Bee Day (United Nations, 2017). Whilst agendas change from session to session, many items are common throughout, brought forward time after time due to their complex and ongoing nature. 2018 sees the beginning of the 'Third United Nations Decade for the Eradication of Poverty (2018–2027)' and as such the committee must continue to view its work with the question of poverty always in mind.

Though the World Trade Organization, the World Bank, and the International Monetary Fund have similar remit and comparable goals, the ECOFIN committee has a larger number of represented nations, each with an equal vote no matter the size (United Nations, 1945). It is not uncommon for ECOFIN resolutions to have knock on effects in these other bodies, leading to substantial change within the world economy. Though resolutions are non-binding, it is clear that decisions made within the committee have a profound effect.

Topic A: Water as the New Oil: Discussing the economic measures needed to combat the effects of increasing water scarcity in the 21st century

Statement of the Problem

Despite the apparent abundance of water on the planet we inhabit, in actuality only 0.014% of Earth's water is accessible and fresh. This fresh water is unevenly spread from country to country, and, as demand grows alongside population, nations will become either water rich or water poor. UN Water annually reviews the issues surrounding water scarcity, and its 2021 update highlighted that three regions in the world already show substantial amounts of water stress[1].

Around a fifth of the world's population are affected by physical water scarcity, where natural geography inhibits water supply, whilst a quarter of the world is affected by economic water scarcity, where insufficient infrastructure, management and technology makes the harvesting of natural freshwater resources more difficult (Ganter, 2015). Different sources of consumption will exacerbate the issue further, with agriculture and standards of living representing two marked increases in the level of water demanded across the globe. As technology has advanced, so has the amount of pollutants released into potential water sources, rendering them unsafe for humans as well as threatening biodiversity within the ecosystem (Juuti, Katko, & Vuorinen, 2007). Rural, industrial and individual consumers must explore measures to ensure sustainable water use and availability for the future. Overall, the water crisis represents perhaps the greatest threat to our planet in the coming century, with both domestic and international conflicts already beginning to arise as nations compete for this precious and life-giving resource.

1 https://www.unwater.org/publications/progress-on-level-of-water-stress-2021-update/

History of the Problem

The importance of water has been known for millennia; the Ancient Greeks and Romans not only observed the importance of clean water for health but also the dangers of water pollution (Juuti, Katko, & Vuorinen, 2007). As such, water conflicts have been prevalent throughout history; in 30AD the Roman government diverted a stream headed to Jerusalem (Pacific Institute, 2018). This led to a great number of Jewish protestors being killed at demonstrations. In fact, the term 'rivals' comes from the latin 'rivalis', meaning 'one using the same river as another' (Tulloch, 2008). It should therefore be no surprise that throughout history groups have clashed over this resource.

Fights are often common between nations, tensions grew in the middle east in 1964-1967 as Israel and its Arab neighbours (Syria, Jordan, Lebanon) fought over control of the region's water sources, an area whose cooperation is still precarious. During 2004-2011, tribal disagreements over water supply in both Ethiopia and Kenya led to numerous conflicts and deaths (Pacific Institute, 2018). This highlighted again the difficult relationship between existing cultural groups in regions at odds with the arbitrary colonial borders, creating artificial tension. Africa in particular finds itself at risk of both economic and natural scarcity, feeding the unease. The 'Grand Ethiopian Renaissance Dam' began construction in Ethiopia in 2011. It will be the largest hydroelectric power plant in Africa and was primarily financed by Chinese banks. It would, however, let Ethiopia control the flow of the Nile which feeds both Sudan and Egypt. The Egyptian military had considered action against the building however it is now complete and beginning to fill (Marshall, 2015). Since 2020, Sudan has also changed its rhetoric regarding the dam, after talks mediated by the African Union broke down[2].

Meanwhile, in Asia, Malaysia and Singapore had disputes over renegotiation of water supply and demand -- with the Malaysian PM arguing they were incurring in loss of revenue.

2 https://www.bbc.co.uk/news/world-africa-56799672

Singapore represents one of the most water poor nations and Malaysia represents one of the most water rich. and the first agreement between the two nations was in 1927 (Pacific Institute, 2018). Nonetheless, Malaysia has been facing issues with water consumption, having pledged to diminish it by 18.3% by 2025[3].

Not only do tensions rise between nations, but also intranationally, amongst rival states (Ganter, 2015). 1990 saw the legal conflict between the US states of Georgia, Florida and Alabama regarding access to the shared Apalachicola-Chattahoochee-Flint River Basin and the Alabama-Coosa-Tallapoosa River Basin.It continues still today (Pacific Institute, 2018). There is a particular difficulty in the differing treatment of rural vs urban regions (Tulloch, 2008). In 2008, the Chinese government was criticised for diverting rural fresh water towards Beijing in time for the Olympics, whilst polluted water was sent the other way (Tulloch, 2008). There have been cases of bribery aimed at progressing urban enterprises and industry (through water) at the expense of countryside areas.

The 19 and 20th century saw water management becoming institutionalized across developed countries, with sanitation through scientific methods leading to safer supplies of water for the population (Juuti, Katko, & Vuorinen, 2007). Nations have continued to trial out differing methods of private and public institutions that have had varying levels of success (The Economist, 2003). From 2000 onwards, the IMF and World Bank commonly required loan recipients in developing countries to begin privatising their water (Marin, 2009). The World Water Development Report 2003, produced by the UN, drew the conclusion that water crises were the product of poor governance and management of water resources. They found that corruption, a lack of investment, inadequate national and transnational institutions, and sector fragmentation were most commonly to blame (United Nations, 2003). In addition, A 2009 publication by the World Bank claims that Public-

3 https://www.straitstimes.com/asia/se-asia/water-supply-in-peril-yet-again-sin-chew-daily-contributor

Private Partnerships (PPP) has helped give water to over 24 million people in developing countries (Marin, 2009). The world bank has long been a supporter of these schemes. One of the largest examples of this ongoing success of privatisation is the UK. OFWAT, the UK regulator of water, released data showing the privatisation of supply had led to higher pressure, less interruptions, and higher responsiveness to complaints.

There is much opposition to this stance, including notable reversals of these systems in Argentina, Bolivia and the Central African Republic (Marin, 2009). The Netherlands banned the existence of water privatisation in 2004 (they do however go on to bid for water contracts in Africa through state-owned companies). Tanzania terminated its own private water contract in 2005, reverting to nationalisation. The contract was signed in 2003 following findings that the water supply managed to lose 73% of its resources through leaks and unauthorised use, as well the prevalence of irregular supply and low-quality water. A series of Bolivian protests in 1999-2000 over the privatisation of the water supply leads to a civilian death during police clashes with tens of thousands of protestors. This resulted in the reversal of the government's decision (The Economist, 2003).

2017-18 has seen violent protests and conflicts in Iran, Mali, South Africa, Somalia, Guinea, Algeria, Morocco, Nigeria, Iraq, Sudan, Tunisia, Kenya, Yemen, Ghana, India (Pacific Institute, 2018). Most commonly the conflicts revolve around protests over disrupted/ ill-managed water supplies (both public and private). These conflicts have seen the government/military injure or even kill protestors. In 2010, the UN declared access to clean water a human right and The World Economic Forum's Global Risk 2015 reports calls the global water crises the biggest threat of the coming decade (Ganter, 2015). They blame 'extreme weather events; failure of national governance, state collapse or crisis; rapid and massive spread of infectious diseases; and failure of climate change adaptation,'. It is imperative that these issues are resolved (Ganter, 2015).

Current Situation

Privitisation vs Nationalisation

There is much debate as to whether there should be private sector participation within the management and delivery of water services. Even within pro-privatisation groups, the extent to which they should operate is disagreed upon (The Economist, 2003).

The underlying argument for privatisation of any service is that it brings about a more efficient market for both the service they provide and the labour they use. This would in theory mean a drop in the price of water services whilst ensuring a better standard of product and delivery. The poor quality of service is the most cited cause of privatisation, with government run systems all too often being inadequately managed (Marin, 2009). It is estimated that 13% of the world population is already using water in some way provided by the private sector. This range of participation includes: full privatisation, lease contracts, mixed-ownership, concessions and full nationalisation. The World Bank reports the success of several privatisation projects in the developing world and has frequently sought to use it to improve access, quality and efficiency (The Economist, 2003). They have particularly aimed to ensure dense urban areas of LEDCs are suitably serviced.

On the other side of the debate is those who believe water should remain (or revert to) a nationalised service. Water is often a natural regional monopoly, allowing vendors to charge high prices for a service that is fundamental to survival (Marin, 2009). If water services become purely about money, then price movement to ensure maximal profit is said to be inevitable. Believers of this argument go on to say that it may indeed be incompatible with the UN's view of water as an inalienable human right (The Economist, 2003).

There are numerous examples of both systems working well, so it may indeed differ from country to country, though as to what characterises a nation as receptive to privatisation or not it is not fully understood and requires future research.

Collaboration Between Neighbours

Cooperation is a necessity surrounding the use of water across the world. River Basin Organisations (RBOs) have become the standard for this collaboration, aimed at ensuring security and fairness in the use of this precious resource (Tulloch, 2008). The effectiveness of these RBOs depends on a few key factors (Strategic Foresight Group, 2013).

Firstly, the functions of the RBO must be agreed upon and adhered to. The role of the RBO may involve the improvement of management, investment, allocation decision, lines of communication, and sustainability. Many existing RBOs only include a brief allocation agreement but fail to go further (Strategic Foresight Group, 2013). This acts as a significant barrier to meaningful collaboration.

Secondly, the members of the RBO must agree upon the frequency of meetings and as to whether the agreements made there will be lawfully binding or solely recommendatory. Even with a long list of responsibilities allotted to the organisation, it must then take its work and develop it into actionable resolution as intended (Strategic Foresight Group, 2013).
Lastly, RBOs should ensure that participation in the group is taken seriously and with a common goal or objective that can be worked towards. All too often RBOs can be exclusionary or unable to enact any consequential development. This limits the scope of any resolutions and means that the RBO is rendered functionally useless (Strategic Foresight Group, 2013).

The creation or improvement of RBOs is beneficial to all countries involved if executed properly, however, for some nations reaching a mutual agreement with local adversaries can be difficult or avoided altogether, especially if the status quo lends itself to a marked advantage for any parties that must be given up. All too often nations refuse to work on infrastructure due to ongoing political conflict which should instead remain irrelevant to the process. Interestingly, a telling statistic from the Strategic Foresight Group is that no two countries engaged in a shared water program have ever gone to water with one another (Strategic Foresight Group, 2013).

Potential Conflicts

As water scarcity further enters the attention of governments across the globe, certain nations will find themselves with insufficient water to serve their population. This can (and in some cases already has) lead to conflicts either domestically or between countries (Pacific Institute, 2018). Whilst in recent history, oil has been the resource that has most notably seen clashes arise, many experts are predicting that water related conflicts will be a primary source of wars in the 21st century.

Infrastructure for long term decision making will alleviate the build-up of already existing conflicts as well as ensuring they are less likely to arise in the future (Strategic Foresight Group, 2013). Without it, nations risk both intranational and international disagreements, threatening future safety of civilians. In some cases, water control can be used as a weapon, with the destruction of water supply lines and structures being used as a form of attack. The destruction of these critical assets constitutes a massive danger to a population’s wellbeing, possibly leading to drought, famine or disease (Pacific Institute, 2018).

Reducing Water Consumption

The UN is already beginning to address mismanagement of water resources, particularly in the Middle East, through its International Hydrological Program and its Potential Conflict to Cooperation Potential operation. By educating water professionals and wider influential occupations (lawmakers, diplomats, students), the UN hopes to alleviate the waste caused by malpractice within the water industry (UNESCO, 2018).

One of the largest sources of water consumption is agriculture, and, more specifically, agriculture required for the consumption of livestock; in the US, 56% of all water is used for this purpose with the average country using around 30% (Jacobson, 2006). In fact, a person who follows a vegan diet reportedly consumes 1/13th the water of a meat-eating peer (One Green Planet, 2012). This is one strategy to reduce overall dependency on water, though the methods used to impact consumer behaviour, whether industrial or household, are up to the respective government. For LEDCs, this will allow them to focus water usage into industry rather than livestock, therefore boosting their economy and opportunities for global trade.

Questions a Resolution Must Answer

- Is privatisation or nationalisation in the best interests of citizens/progress the UN's goal of water for all?
- Should the UN be taking an active role in water ownership?
- How can River Basin Organisations be created that sufficiently create co-operation?
- Are existing organisations fit for purpose? If not, how can they be improved?
- How do we foster cooperation in 'rival' countries?
- What measures can be used to facilitate trade of water and water services that is fair for all parties?
- How do we stop the use of water as a weapon and a trigger in intranational and

international conflicts?

- How will population growth and climate change affect the scarcity of water? How should this be counteracted?
- How can water consumption be lowered? Is this enough to remedy the ongoing increase of worldwide consumption?

Bloc Positions

Middle East

The Middle East is fraught with international water struggles and largely ineffective River Basin agreements (Marshall, 2015). The remedying of this situation could be an avenue towards future cooperation across the political spectrum however it is clear that nations in the region are often apprehensive to work together.

In 2013, the Strategic Foresight Group released research outlining the failure of River Basin Organisations to facilitate a sufficient level of cooperation across borders considering shared water sources. The worst of these are:

- Yarmouk (Syria, Jordan)
- Jordan (Lebanon, Syria, Israel, Palestine, Jordan)
- Tigris-Euphrates (Turkey, Syria, Iraq, Iran)
- Orontes (Lebanon, Syria, Turkey)
- El Kabir (Syria, Lebanon)
- Mountain Aquifer - Coastal Aquifer (Israel, Palestine)
- (Strategic Foresight Group, 2013)

Central & South America

Forecasts are high for likelihood of continuing economic water scarcity, endangering citizens of the region. Whilst international organisations have long pushed for private intervention as

a way to alleviate these pressures, however, a spate of unsuccessful corporate endeavours has left the population mistrusting of these private partnerships, though many governments rely on the income (Marin, 2009).

India, USA & China

As these nations continue in the 21st century as powerhouses that boast 40% of the world's population, they must take water scarcity seriously, specifically learning to handle disputes between their own states/provinces. A balance must be struck between rural and urban needs before the issue sparks (further) civil unrest (Pacific Institute, 2018). However, it is difficult for such water dependant countries to execute environmental changes without risking falling behind its rivals.

Africa

Many African nations suffer from a dangerous mix of both economic and natural water scarcity. As industrialisation and population begins to grow faster than anywhere else in the world, water infrastructure must be improved. Furthermore, as colonial borders continue to exacerbate cultural disputes, steps must be taken to ensure water is neither the cause of conflicts nor a weapon during ensuing struggles (Marshall, 2015).

Europe

Europe is home to a number of high-profile private water companies, mainly residing in France, Spain, Germany, Italy and the UK (The Economist, 2003). The companies work both domestically and abroad, profiting on water around the world. The recent summer heatwave in 2018 has, however, shown the need to prepare for the possibility of seasonal water scarcity in the future.

Suggestions for Further Research

Ganter, C. (2015, 01 16). Water crises are a top global risk. Retrieved from World Economic Forum: https://www.weforum.org/agenda/2015/01/why-world-water-crises-are-a-top-global-risk/

Global Trade Alert. (2018, 16 9). Countries. Retrieved from Global Trade Alert: https://www.globaltradealert.org/countries
(Search your own nation)

Marin, P. (2009). Public-Private Partnerships for Urban Water Utilities: A Review of Experiences in Developing Countries. World Bank.

Marshall, T. (2015). Prisoners of Geography. London: Elliott & Thompson.
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Strategic Foresight Group. (2013). Water Cooperation for a Secure World. Mumbai: Strategic Foresight Group.

The Economist. (2003, 07 17). Private Passions. Retrieved from The Economist: https://www.economist.com/special-report/2003/07/17/private-passions

Tulloch, J. (2008, March 19). Water Conflicts: Fight or Flight? Retrieved from Allianz Knowledge Partnersite: http://knowledge.allianz.com/en/globalissues/climate_change/natural_disasters/water_conflicts.html

Topic B: Preventing Financial Crises after COVID-19

Statement of the Problem

Just over a decade ago, the world experienced the worst economic disaster in 79 years. Not since the Great Depression of 1929 had such a sudden and devastating economic shock occurred. The Great Recession that followed saw unemployment soar, economic growth plummet and the US Treasury spent USD 429.6 billion buying bank and car stocks alone. Housing prices fell by 31.8% across the western world, as poverty, homelessness and austerity gripped nations globally. An overheated housing market bubble had burst, with many banks that had traded profitable derivatives or mortgage-backed securities facing losses they could not absorb. Firms such as AIG had insufficient funds to cover the level of credit default swaps issued and collateral behind loans crumbled in value. Interbank borrowing costs rose sharply and a collapse in confidence in the banking system triggered an international financial crisis. The crisis necessitated mass government intervention globally and many member states have been left with significant levels of national debt that will remain as a reminder of the crisis for years to come. Since 2008, efforts have been made toward regulation of the banking system to prevent such a disaster occurring again. The Dodd-Frank Wall Street Reform

Act in the US and the Bank Recovery and Resolution Directive (BRRD) of the EU are examples of some legislative measures that have been introduced to prevent banks taking on excessive risk. However, the COVID-19 pandemic has shown us that targeted measures of this type are insufficient in preventing future financial crises. This is because financial crises may have various causes, such that prevention requires a more generalised approach. The Economic and Financial Committee is mandated to seek solutions on aspects of macroeconomic policy. While many individual nations have passed legislation in the wake of the financial crisis and to help alleviate the financial strain caused by COVID-19, there

has been a distinct lack of action by the United Nations to ensure that such an unmitigated disaster never grips the global economy again[4].

As will be immediately apparent, the financial crises that preceded COVID-19 and that caused by COVID-19 differ in important ways. As such, this background guide will not attempt to treat these together. Were we to treat both of these crises together, no adequate account of either could be presented. As such, the background guide on this topic will be split into three parts. First, the guide will discuss finance theory and the 2008 financial crisis. Thereafter, the guide will discuss the COVID-19 pandemic and its economic impact. Finally, this guide will offer a brief overview over the strategies that may be employed to tackle both of these crises.

History of the Problem

Origins of Finance Theory

Since the emergence of the modern financial system, financial crises have posed a risk to economic stability around the world. From the 1792 near collapse of Treasury Secretary Hamilton's new financial system, to Britain's suffering at the hands of the first emerging-markets crisis in 1825, to the rise of increasingly global crashes such as 1857, which began in the USA and spread to Europe, financial crises have been around for as long as we have had financial systems. However, when the Wall Street Crash and resulting Great Depression hit in 1929, the world experienced a financial crisis on an unprecedented level. Increase of interest rates in 1928 combined with declining investor confidence led industrial production to fall at an annualised rate of 45%. The crisis spread internationally, with the London Stock Exchange crashing in September and the Dow Jones falling by 45% in two months. Banks

4 https://www.thebalance.com/2008-financial-crisis-3305679. The notable exception is the Initiative on Financing for Development in the Era of COVID-19 and Beyond (https://www.un.org/en/coronavirus/financing-development).

failed across the USA and later Europe, with Austria and Germany among the worst affected countries. Almost 11,000 banks failed between 1929 and 1933, and unemployment rose to 25%.

Efforts to reduce risk in the financial system were introduced in the aftermath. Public capital was injected to the amount of USD 1 billion, the Glass-Steagall rules introduced to separate stock market operations from lending operations and gave the federal reserve increased regulatory powers over banks. The Federal Deposit Insurance Commission (FDIC) was established in 1934 to protect customer bank deposits and reduce spiralling effects of issues such as the common 'run on the bank'. The measures were effective and a revitalised financial system emerged with central banks and deposit insurance instilling confidence in the economy once more[5].

Financial Crises of the Last 40 Years

Nevertheless, in the last 40 years, financial crises have continued to persist around the world. In 1982, the Latin American sovereign debt crisis hit Mexico, Brazil and Argentina. These and other nations in the region had borrowed funds for infrastructural and developmental projects, however when the global economy went into recession in the 1970s the situation changed. Exchange rates collapsed and interest rates on bond payments rose, with the International Monetary Fund (IMF) bailing out the nations involved in exchange for strict austerity programmes. The Asia crisis followed in 1997– 1998. Thailand's currency, the baht, rapidly lost value when the government floated it on the open market, and outstanding budget deficits rapidly increased. Similarly to the Latin American crisis fifteen years earlier, the trouble spread across the region; Laos, Singapore, Hong Kong, Malaysia, Indonesia, South Korea and Cambodia were among the affected countries, highlighting the potential for financial crises of this nature to spread with viral

5 https://www.economist.com/news/essays/21600451-finance-not-merely-prone-crises-it-shaped-them-five-historical-cri-ses-show-how-aspects-today-s-fina

severity. Once again, the IMF stepped in with a USD 40 billion bailout before a crisis in Russia the following year compounded the situation. Next came the Dotcom bubble in 1999–2000. It followed a familiar pattern of financial crisis where a rush into a particular industry or sector (in this case internet equities), leads to the development of a bubble which ultimately bursts. A slowing economy and interest rate increases signalled the overheated end of the Dotcom dominance[6].

Causes of Financial Crises

There are several root causes of financial crises. Many argue that they occur as a result of the mechanism by which markets function with booms driving excess and fuelling high prices, and busts or crashes causing the economy to plummet. Regulations usually follow this period of recession or economic slowdown, however crises appear to persist with dogged frequency. Firstly, financial crises are caused by excess leverage and insufficient liquidity. Essentially, banks must balance between requirements for liquidity and profitability and an overextension of the loan book can often lead the latter to be prioritised at the expense of the former. The impact of this is heightened when banks creatively disguise the true nature of their balance sheets through innovative accounting practices. Another cause of financial crises is naivety in the financial system, often manifesting itself in a belief that banks are too big to fail. These systemically important financial institutions become such integral parts of economies globally that we choose to believe they can never fail as we hope they never will. While the benefits of scale are evident, efficiency and resiliency must be considered in tandem to ensure diversity and decentralisation of banking systems, as the oligopolistic nature of the industry can often cause seismic effects if one singular bank collapses.

Conflicts of interest are another cause of financial crises, both between different arms of the multifaceted banks of today, and the interests of banks and of society. This links to the idea that governance, or rather misguided governance, can be a significant cause of crises.

6 https://www.ifre.com/story/1291951/a-history-of-the-past-40-years-in-financial-crises-0dxjlzsrcx

The financial system has a direct impact on most if not all citizens globally, and its collapse can impact individuals socially and economically around the world. While much of the accountability for financial crises is apportioned to financial institutions, poor policy from a governmental perspective can be just as pivotal in causing systemic collapse. Types of financial crises include currency crises, balance of payments crises, sovereign debt crises, banking crises and household debt crises. As to where the next financial crisis, if any, will originate and what form it will take, we can only speculate.

The 2008 Financial Crisis

The question of financial crises was the focus of much discussion during the 2010s. Many countries were still recovering from its impact and the Great Recession that followed it when the COVID-19 pandemic hit. The crisis was the largest post-war era downturn. It arose against a backdrop of continuously rising house prices in the 1990s and early 2000s. Prices appreciated by over 10% yearly between 2004-2006 and home ownership levels reached record highs. Eager to capitalise on these appreciating house prices, financial institutions began offering subprime mortgages to lenders with weak credit and little to no down payment. This would have been sustainable had house prices continued to rise, however, this was not the case. Tranching and securitisation of loans also grew at this time with large investment banks such as Goldman Sachs, Morgan Stanley, Lehman Brothers and Bear Stearns issuing mortgage-backed securities (MBS). Banks purchased residential mortgage loans from original lender banks and reorganised them together to create securities backed by subprime loans which promised high returns. The crash itself came about after house prices began to fall substantially in 2006. This left mortgage holders with repayments beyond the scope of what they could afford. As house prices continued to fall, they fell into negative equity, with foreclosures and delinquency rates rapidly rising. The impact of falling house prices caused by subprime mortgages soon spread to prime mortgages as the wider financial system became consumed. Default rates soared and investors began

selling mortgage-backed securities in vast quantities thus depressing the price. Financial institutions that had issued such subprime loans had vast losses, however the worst was yet to follow. Banks became distrustful about the solvency of their counterparts, as industry losses increased and inter-bank lending became more and more restricted as a consequence. The impact soon spread to Europe. In September 2007, Northern Rock experienced a run on the bank as the institution held insufficient assets to sustain operations, and customer confidence collapsed. The resulting Bank of England emergency loan caused confidence to plummet further. This in turn led to decreased consumption and investment in economies globally as nations across six continents experienced difficulties due to the interconnected nature of the 21st century financial system. Lehman Brothers bank failed officially when bankruptcy was declared in September 2008, making it the largest US financial institution, or indeed corporation in any industry, to file for bankruptcy. As a pillar of the financial system, it also defaulted on borrowings to other banks thus causing even further losses across the industry and widespread financial panic. Sellers of credit default swaps (CDS), or insurance against the default of mortgage-backed securities, promised to pay buyers if market prices of underlying securities fell below a certain prescribed level. These were heavily issued in the 2000s and tied to mortgage-backed securities. When prices of these securities fell between 2006–2008, payments occurred on CDSs sold by firms such as AIG, who had to be bailed out to cover associated losses. A money market fund crisis followed later in 2008, as financial panic consumed economies globally and stock markets fell rapidly around the world. This reduced consumer wealth, and the resulting credit crunch stifled investment as banks were barely solvent enough to consider lending. Unemployment rose as aggregate demand fell and this lower consumption reduced the need for workers. Recession gripped much of the global economy as uncertainty multiplied across sectors and investment levels fell. Governments around the world reacted with a variety of policy measures, from quantitative easing-based injections that led to balance sheet expansion, to tight austerity measures with fiscal cutbacks across sectors. Stock prices began to rise again

from 2010 onwards, however recession and unemployment persisted across member states[7].

2008-2019

Despite the origin of the crisis in the US, its impact spread across the globe. In the UK, the government offered USD 88 billion to complete loan buy backs, as well as guaranteeing USD 438 billion in bank loans. Governments in the Netherlands, Luxembourg and Belgium nationalised several banks, while Germany's federal government was forced to rescue several financial institutions. The Swiss government acquired a 9% stake in UBS, however it was Greece, Hungary, Iceland and Ireland that felt the severe economic effects of the crisis. The European Central Bank (ECB) cut interest rates to 0-1% by way of unilateral response. Japan and China's export-dominant economies were hit by the decline in consumption in the West with 3.7% contraction in the former in 2008. China's growth slowed considerably, with the World Bank reporting that essentially no country, developing or developed, had escaped the impact of the crisis[8]. Fast forward ten years to 2019, and the global economy had hit its weakest spell since the financial crisis. The significant loss of spend in 2018 placed world growth at 2.1 percent, down around 4 percent from the same time last year. While Federal interest-rate hike pauses and US-China trade relaxation offer hope for the future, many question whether another crisis could be around the corner. Recovery has been slow and steady in many nations, with the Eurozone sovereign debt crisis 2011–2014 an example of the many setbacks that nations have faced to smooth regeneration.

This eventual recovery may be short-lived, however, as IMF forecasters predict that another global crash may occur in 2020, against a backdrop of rising consumer debt and corporate borrowing[9].

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7 http://www.econ.ucla.edu/sbigio/papers/Crisis_Slide.pdf

8 https://www.britannica.com/topic/Financial-Crisis-of-2008-The-1484264

9 https://www.theguardian.com/business/2019/jan/05/global-economic-crash-2020-understand-why

Efforts to Reduce the Chance of Recurrence

Since the 2008 crisis, attention has turned again to the reaction of the international community in attempting to prevent a repeat of the events that caused the Great Recession. This recession has since receded, however, subsequent deleveraging was minimal and the global debt of governments, households and corporations has risen by USD 72 trillion since the start of 2008. China alone accounts for over a third of this debt, with government debt growing around the globe due to tax revenue fall and social-welfare rise post-2008. Fiscal stimulus measures in nations like the US and China also required issuance of debt, which now exceeds annual GDP in several Organisation for Economic Cooperation and Development (OECD) states. Public debt in emerging economies is more measured, 46% of GDP at most, yet foreign currency weakening has hit nations such as Argentina and Ghana across South America and Africa. Banks, in general, are safer now than they were in 2007, however this has come at the expense of profitability in many cases. Tier 1 capital ratios have risen from 4% to 15% in US and Europe between 2007–2017. European banking directives and regulations levy further requirements for systemically important institutions who are asked to hold capital buffer. With this reduced risk there have been reduced returns, and more stringent lending in general. Return on equity (ROE) for banks is considerably lower as many institutions fear excessive liquidity and leverage requirements are stifling their ability to generate a profit. Since 2007, gross cross-border capital flows have also fallen by 50% as a less interconnected financial system reduces risk of regional crisis breakout[10].

Relevant UN Actions

Unilateral UN action to prevent financial crises is limited. The Department of Economic and Social Affairs (DESA) supports intergovernmental dialogue, interacting with the

10 https://www.mckinsey.com/industries/financial-services/our-insights/a-decade-after-the-global-financial-crisis-what-has-and-hasnt-changed

UN Conference on Financing for Development and the commissions of the Economic and Social Council to research the impact of financial crises. The UN Conference on the World Financial and Economic Crisis and Its Impact on Development in 2009, saw efforts and identified both long and short-term responses to mitigate the impact of crises, but little focus on future prevention. DESA's work in capacity development, including the supplementary advisory capacity (SMAC) focuses predominantly on mid and post-crisis measures, while prevention is under prioritised[11]. The International Monetary Fund (IMF) as a specialised agency of the United Nations under Article 57 of the UN Charter, carries out much of the UN's work with regard to ensuring global economic prosperity. The IMF provides policy advice to allow nations to build healthy economies and offers loans to countries facing balance of payments/deficit issues. Chapter IV in the UNCTAD Trade and Development Report 1998 deals with the 'Management and Prevention of Financial Crises', however aspects of recommendations are outdated, and the report is theoretical rather than practical in nature.

Proposed Solutions

This topic seeks unilateral solutions specifically, so solutions proposed should aim to maintain a cross- border sentiment. Delegates should identify the stance of their member nation regarding prevention of financial crises, focusing particularly on economic policy of the nation to get a strong understanding of measures used, or that would be used in the context of financial crisis prevention. Consistency should be maintained in this regard throughout research, resolution-writing and indeed the conference itself.

One possible international approach to financial crisis prevention is through a framework of measures for financial institutions. This exists in the form of the Basel Accord which is a

11 https://www.un.org/en/development/desa/financia

voluntary global set of standards regarding bank capital adequacy, stress testing and market liquidity risk, focusing on areas such as capital and leverage requirements through the recommendation of ratios. Delegates could look to explore creating or amalgamating such a framework under UN jurisdiction in their resolutions[12].

Other possible solutions include establishing advisory committees to work with the IMF on crisis prevention specifically through information collection and monitoring. Delegates could establish international financial system warning standards, to illustrate the threat posed when a certain country experiences financial system difficulty[13]. This would reduce the risk of spillover effects. Efforts to improve financial literacy globally could address financial crisis prevention from a household point of view, while stricter punishments for those found guilty of financial crimes that lead to considerable system failures would deter negligent governance from institutions and governments. It is important to keep in mind the jurisdiction of the UN when formulating your ideas. GA resolutions are, by their nature, not legally binding on member nations. However, measures that infringe on national sovereignty considerably will struggle to gain consensus. While international cooperation is crucial in an issue that specifies unilateral action, ensuring that solutions are approached in a way that respects the individual autonomy of states involved, could prove valuable. Please keep in mind that these proposed solutions are merely some ideas to get you started. They are in no way exhaustive and simply constitute basic points which you may want to explore in your research. A key point to remember is that, although your country's policy will dictate the direction your solutions take, exploring other options with a view to seeing how you could reach consensus and collaborate could help to bring your ideas to fruition at the conference.

12 Basel III – Implementation - Financial Stability Board". www.fsb.org

13 https://www.riksbank.se/en-gb/financial-stability/the-riksbanks-financial-stability-tasks/preventing-financial-crises/

Bloc Positions

Individual country policy on this topic will vary. Understanding of economic and financial matters, coupled with the nation's experience of crises including but not limited to the 2008 crash, will allow delegates to vote in accordance with appropriate stance. UN member states approach issues such as financial institution regulation with varying levels of zeal:

- Czech Republic, Guatemala, Luxembourg, Panama, Sweden, Chile, Singapore and Norway, Hong Kong, Australia, New Zealand, Canada, South Africa and Finland may form one voting block as they are renowned for a strong regulatory environment and promotion of proactive, preventionist policy[14].
- North Korea, Somalia, Libya, Eritrea, Turkmenistan, Venezuela, Syria, Zimbabwe, Sudan and Yemen are known for weak financial regulatory systems and may favour a less stringent approach to monitoring of institutions[15].
- The USA, China and the Eurozone countries should be treated separately and with careful research.

Delegates should focus on both the quality/extent of regulation and prevention measures in nations considered. In many cases, poor regulatory standards may be due to a lack of technical assistance and resources, rather than an ideological stance against limiting or monitoring the financial system. A strong grasp of national economic and financial affairs will allow delegates to contribute extensively to debate.

14 https://www.independent.co.uk/news/business/analysis-and-features/14-countries-list-safest-countries-global-business-industry-banking-safety-a7676706.html

15 https://www.theglobaleconomy.com/rankings/wb_regulatory_quality/

The Economic Impact of COVID-19

Introduction

Given that all delegates will have lived through the COVID-19 pandemic and have had their lives substantially affected by it, this section of the background guide will be rather brief. It will provide a brief account of the pandemic and will aim to provide delegates with a global account of the economic impact that the pandemic has had. The latter is particularly important, given that, although all delegates will be familiar with the pandemic and its history, delegates' experience of the economic impact of the pandemic may be substantially shaped by where they were throughout most of 2020 and 2021. Given that this means the personal experience of delegates may differ, it is the object of this guide to provide you with an outline of what the rest of the world looks like today. learning in various countries, two of which are related to the UK. It is a very useful resource as it not only provides a snapshot on the strength and weaknesses of the VET system in various countries, but it also links these reports for further reading. This would likely prove to be helpful in generating solutions.

Looking for other third party resources may also be helpful, as they can help shape your thoughts on such legislation. Keep in mind the source of your information and what type of bias they may have on the topic you are writing on. When it comes to legislations that have been put in place, it might be useful to read news articles and opinion pieces as they may provide a wide variety of perspectives.

A Brief History of the Pandemic

The history of the COVID-19 pandemic is well-known, such that few citations are needed for this purpose. It is said that the SARS-CoV-2 virus first appeared in Wuhan, in the People's

Republic of China (China) in December 2019[16]. Due to its high transmissibility, it quickly spread throughout the rest of China and, thereafter, the rest of the world. As of October 2021, there have been over 200 million reported cases of COVID-19 and over 4.5 million people have died from the disease[17]. The spread of this disease had a profound impact on the economy of countries. This occurred in one of two ways. First, because people were ill, they were unable to go to work, thereby slowing production. Secondly, the governments of most countries implemented various measures to slow the spread of COVID-19. These measures included decreasing the maximum number of persons allowed in certain physical spaces, asking some people to work from home, and, in the most extreme cases, preventing persons from leaving their homes altogether. It should be immediately apparent that all of these measures had a significant impact on the economic productivity of the countries the governments of which imposed them.

The Econmic Impact of COVID-19

Most, if not all, countries have suffered economic set-backs as a result of the COVID-19 pandemic. However, the nature and magnitude of these set-backs have differed from country to country. The following section will outline the economic impact that the pandemic has had on a selection of countries along with some general effects that have been felt by all.

The United States of America:

Some numbers help outline the substantial impact that the pandemic has had on the US economy. In the second quarter of 2020, the country's real GDP dropped by 31.40%[18]. The country's unemployment rate peaked at 14.7% in 2020, having been at 3.5% in February

16 McKibben and Fernando, 'The Economic Impact of COVID-19' in Richard Baldwin and Beatrice Weder di Mauro (eds) Economics in the Time of Covid-19
17 https://www.worldometers.info/coronavirus/.

18 https://www.forbes.com/sites/mikepatton/2020/10/12/the-impact-of-covid-19-on-us-economy-and-financial-markets/?sh=5aae32952d20

2020[19]. Restaurant bookings in the US had dropped by 99.35% by March 2020. Car sales dropped by up to 59% in March 2020. This is all to show that the entirety of the US economy was substantially impacted by the pandemic. It is particularly the unemployment rate that gave the government cause for concern, resulting in the government sending out three direct relief payments and waived taxes on some unemployment benefits[20].

It is worth briefly mentioning the impact that the pandemic has had on the financial markets in the US. The following quote by Mike Patton, a senior contributor at Forbes, puts the point best:

"U.S. stocks peaked February 12, held steady until February 19, then fell over 37%, bottoming March 23. From there, stocks rose substantially until they peaked again September 2. It's important to point out that stocks (i.e. the entire U.S. market) were more than 58% overvalued at the February peak. By September 2, stocks were a whopping 87.5% overvalued, the highest number ever, surpassing even the Tech Bubble in March 2000 when stocks were 49% overvalued.[21]"

Since Mike Patton wrote his article, the NYSE index has risen by a further approximately 3,000 points. It seems we must, at the very least, be conscious of the risk that we are in a bubble once again, heading towards a crash.

The People's Republic of China (China):

China, having taken measures early on to combat the spread of COVID-19, has fared better than many other countries. Over the course of 2020, the Chinese economy expanded by 2.3%, making China one of the few countries to register positive growth that year[22]. In fact, in the fourth quarter of 2020, China's gross domestic product grew by 6.5%, beating most

19 ibid.

20 https://home.treasury.gov/policy-issues/coronavirus/assistance-for-American-families-and-workers

21 https://www.forbes.com/sites/mikepatton/2020/10/12/the-impact-of-covid-19-on-us-economy-and-financial-markets/?sh=5aae32952d20

22 https://www.ft.com/content/ac22618a-4bab-4905-af81-a031a54e9617

forecasts[23]. This is largely attributable to the rising industrial production in China[24]. Despite these positive signs, the Chinese economy has begun to struggle more recently. A new outbreak of the Delta variant of COVID-19 has resulted in the reimplementation of certain lockdown measures, thereby curbing productivity, decreasing consumption, and creating supply chain disruptions[25]. In addition, Chinese property developer Evergrande is facing a liquidity crunch. This has caused large protests by people worried that the building of their homes will not be completed[26]. Although it may seem that the worst of the economic impact of the COVID-19 pandemic has been overcome in China, the Delta variant and a housing crunch may prove otherwise.

The European Union (EU):

As the Member States of the EU took various different approaches to combatting the spread of COVID-19, it is difficult to come to general conclusions when discussing the economic impact that the COVID-19 pandemic had on the EU. A few things may, however, be said with a healthy degree of confidence. First, GDP growth rates for 2020 Q1 dropped in almost every country in the EU[27]. Secondly, despite this economic slump in the first part of 2020, the EU looked primed to make an economic recovery in 2021. This should have been the result of a widespread and quick vaccination effort[28]. However, rising infections caused by the Delta variant earlier this year have been met with renewed lockdowns, slowing the economic recovery[29].

23 ibid.
24 https://www.ft.com/content/9e1e4e6b-c19b-446a-bf78-733c3445a4fe

25 https://www.ft.com/content/b586748e-a429-4532-94c3-402fca31747f
26 https://www.ft.com/content/e099e0e3-4fba-45a4-92e2-08891c2f8b0e
27 https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Impact_of_COVID-19_on_main_GDP_aggregates_including_employment#GDP_estimates_published_for_2020-Q1
28 https://www.ft.com/content/e818cea3-998f-4eef-ac0f-8f11894ac9af

29 ibid.

Africa:

Africa is a large continent, composed of many different countries, many of which took differing approaches to dealing with COVID-19. This, again, makes it difficult to generalise. A few observations can be made. There was a 2.1% decline in economic growth in Africa in 2020[30]. Furthermore, given many of the countries that normally invest in the development of the African economy spent more on the recovery of their own economies, foreign aid and investment dropped from $85.5 billion in 2019 to $78.3 billion in 2020[31]. Finally, whereas the regions discussed above may be able to fuel their economic recoveries through effective vaccination programs, this is less feasible for Africa. Whereas 62% of people have been fully vaccinated in the EU and 55% have been fully vaccinated in the US, only 4.4% have been fully vaccinated in Africa[32]. Without alterations to the global distribution of vaccines, it appears that the solution to the African economic crisis must lie elsewhere.

Some General Implications:

There are a few general economic effects of COVID-19 that are worth discussing. These cannot be pinned down as specific to any region, and so warrant their own section. Jet fuel prices have almost doubled over the course of the past year, making a recovery for the aviation industry substantially more difficult[33]. Freight costs (i.e. the costs for shipping cargo from one place to another) are now at 10 times pre-pandemic levels. This has had an impact on all parts of the retail sector[34]. Across the world, the young and unskilled have lost more jobs than anyone else, furthering class divides[35]. All of these issues must be addressed in order to adequately address the impact of the present economic crisis and to prepare for future crises.

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30 Anyanwu and Salami, 'The Impact of Covid-19 on African Economies: An Introduction' (2021) 31 African Development Review S1.
31 ibid.
32 https://www.bbc.co.uk/news/56100076.
33 https://www.ft.com/content/cb53e204-362d-4dd1-b84d-9e697b92e692
34 https://www.ft.com/content/5341d046-7206-47aa-a919-a8d4e3d82d5b

35 https://www.ft.com/content/dac75674-3d6b-4eaa-b3fe-51af3b7b0f40

Tackling the Crises

It should be immediately apparent that the 2008 crisis is of a different nature to the 2020 crisis. The 2008 crisis was the result of human actors, whereas the 2020 crisis was the result of a foreign virus. As such, it should be no surprise that both crises cannot be addressed in the same way. However, the impact of both crises was felt around the entire world. No country was able to stay immune from the impact felt in other countries. Given this symbiotic relationship, it may be advantageous to devise a global scheme for the prevention and mitigation of such crises in the future.

There are a few things we should think about when it comes to designing such solutions. First, whereas prevention is a plausible, and likely desirable solution for the tackling of a financial crisis of the type we faced in 2008, prevention is more difficult when it comes to economic crises generated by natural events/disasters. Even where prevention is seen as possible (e.g. through the creation of rapid lockdowns and diversified supply chains), prevention takes a substantially different form for each type of crisis. As such, in order for delegates to develop a resolution which effectively addresses both types of crises, they will have to think of various different ways in which the causes underlying the differing crises may be addressed. A single solution to both types of crises is unlikely to be found.

Secondly, prevention, while important, is not the only manner in which these crises may be addressed. Mitigation is important, especially when dealing with crises induced by natural events/disasters, like the COVID-19 crisis. A structured, global approach to mitigating the economic impact of COVID-19 may have helped prevent the difficulties that supply chains faced during the 2020 and 2021 and may have helped limit increases in freight and fuel prices.

Finally, delegates must keep the interests of the various stakeholders in our economic markets in mind when designing solutions. Aggressive governmental intervention for the benefit of individuals may impose hardship on companies, thereby stifling economic development. Equally, too little governmental intervention may impose unnecessary hardship on individuals and lead to increases in inequality.

Suggestions for Further Research

- https://www.mckinsey.com/industries/financial-services/our-insights/a-decade-after-the-global-financial-crisis-what-has-and-hasnt-changed
- https://www.theguardian.com/business/2019/jan/05/global-economic-crash-2020-understand-why
- https://www.economist.com/news/essays/21600451-finance-not-merely-prone-crises-it-shaped-them-five-historical-crises-show-how-aspects-today-s-fina
- McKibben and Fernando, 'The Economic Impact of COVID-19' in Richard Baldwin and Beatrice Weder di Mauro (eds) Economics in the Time of Covid-19.
- https://www.forbes.com/sites/mikepatton/2020/10/12/the-impact-of-covid-19-on-us-economy-and-financial-markets/?sh=5aae32952d20
- Anyanwu and Salami, 'The Impact of Covid-19 on African Economies: An Introduction' (2021) 31 African Development Review S1.