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2024

## Economic and Financial Committee (ECOFIN)

#Background Guide

# ECONOMIC & FINANCIAL COMMITTEE (ECOFIN)

Director: Raymond Jin



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## Letter from the Dais

Dear Delegates,

Welcome to the **Economic and Financial Committee (ECOFIN)**, the Second Committee of the United Nations General Assembly. This committee has been an essential part of the UN since the international organization's inception, tackling economic and financial issues around the world to improve people's livelihoods. This year, the committee will focus on two of the most pressing issues the world faces today: artificial intelligence (AI) and the global economy and sustainable investing. These are complex and nuanced topics with potentially far-reaching effects on the world and no clear resolution as to how they should be handled. However, through in-depth research and thorough debate, I am confident that you and the committee as a whole will be able to develop a wide range of solutions that help ensure the prosperity of current and future generations around the globe.

Hey everyone! My name is Raymond Jin, and I will be your chair for this committee. I'm from Farragut, Tennessee which is a town near the city of Knoxville, but I was born in Starkville, Mississippi. I'm currently a sophomore at Yale studying Economics and Mathematics with a certificate in Energy Studies. Outside of classes, I lead the Small Cap investment team in The Urban Philanthropic Fund, serve as a member of Yale's Committee on Majors, participate as a member of Yale's Fed Challenge Team, and conduct research in Yale's Department of Economics. I participated in MUN for all four years of high school as a delegate and have had the opportunity to serve as a vice-chair and chair at Yale MUN for the past two years. If you ever have questions about anything, feel free to reach out to me via email ([raymond.jin@yale.edu](mailto:raymond.jin@yale.edu)). I hope to see you all soon in committee!

As a delegate in this committee, we hope that you will be able to learn about the topics that we have prepared for you while also gaining a deeper understanding and appreciation for ECOFIN and the United Nations as a whole. We also hope that through your interactions with other delegates, not only will you learn more about the countries they represent, but you will also come to know them as individuals and potential lifelong friends. Throughout debate, remember to remain respectful of others and genuinely listen to any ideas they may present; only in this way can proper solutions be developed for the problems you will discuss in committee. Additionally, do not ever be afraid to speak up. It can sometimes be difficult to do so in front of such a large group, but everyone's ideas and perspectives are worth hearing, and all of them can contribute to the debate. Of course, also have fun and enjoy your time at the conference. If you have any questions or concerns at any point before, during, or after the conference, know that we, the ECOFIN dais, are here to help. We look forward to seeing and hearing from everyone in committee come May 2024!

Best Regards,  
Raymond Jin

## Committee History

The Economic and Financial Committee (ECOFIN), or the United Nations Second Committee, was established with the inception of the United Nations in 1945. Since its first meeting in April of 1945, ECOFIN has held 78 sessions with its most recent one ending in late 2023. As a committee in the General Assembly, every single one of the 193 member states of the UN are in ECOFIN. At the highest level, ECOFIN engages with all topics related to the global economic and financial system. The committee delineates the scope of its work into eleven categories: macroeconomic policy; operational activities for development; financing for development; groups of countries in special situations; globalization and interdependence; eradication of poverty; sustainable development; information and communication technologies for development; agriculture development, food security, and nutrition; human settlements and sustainable urban development; and sovereignty of the Palestinian people over their natural resources. Outside of its own proceedings, ECOFIN also works in tandem with the Economic and Social Council of the United Nations (ECOSOC) as well as the International Monetary Fund (IMF) and World Bank to aid certain member states. Five other bodies in the UN also report to the General Assembly through ECOFIN: two programmes - the United Nations Environment Programme (UNEP) and the United Nations Human Settlements Programme (UN Habitat) - and the governing bodies of the three Rio Conventions: the Convention on Biological Diversity (CBD), the Convention to Combat Desertification (UNCCD), and the Framework Convention on Climate Change (UNFCCC).

With its incredibly long history, ECOFIN has passed a slew of resolutions that cover a wide range of topics. As such, it is difficult to say which resolutions in ECOFIN's history have been particularly noteworthy in comparison to others. However, in recent years, resolutions pertaining to climate change and sustainable development have been very prevalent. For example, resolution A/C.2/76/L.58 titled Promoting Investments for Sustainable Development was adopted by the 76th session of ECOFIN. Among many other things, this resolution called for “the promotion of sustainable and innovative financing opportunities and mechanisms to unlock new capital for sustainable investment and upscale sustainable business models...” and called attention to the necessity of foreign direct investments, especially to less developed countries, for promoting sustainable development. What ECOFIN has not discussed at great lengths yet are the impacts of new technology like artificial intelligence on the global economy. Resolutions like resolution A/C.2/78/L.48 passed in the 78th session have noted the importance of science and innovation for sustainable development, but it does not address any specific technology nor does it lay out guidelines in the event that a piece of technology has negative side effects on the world. This brief introduction to some of the work ECOFIN has done demonstrates the breadth of the topics covered by the committee as well as the many areas that it has not extensively touched on yet.

Like other committees in the UN, solutions developed by member states of ECOFIN are presented as resolutions if they pass the committee. Similarly, as with all other committees besides the Security Council, resolutions passed by ECOFIN have no binding power over member states to ensure that they retain national sovereignty. Because of this, resolutions are merely suggestions and potential solutions the committee provides for its member states; whether or not passed proposals are implemented is almost entirely dependent on individual member states' decisions. That being said, although resolutions have no legally binding power, they are still incredibly influential as they can set the direction for how member states will tackle the various economic problems they may face. As such, the policies and directives that member states in ECOFIN decide on play a vital role in improving people's lives around the world.

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# Artificial Intelligence & the Global Economy



# Artificial Intelligence and the Global Economy

## Introduction

The development and proliferation of artificial intelligence (AI) has rapidly increased in recent years. Due to its numerous capabilities, AI could both drastically enhance and damage the global economy. As such, its possible effects must be evaluated, and potential guidelines should be created to ensure the world remains a prosperous place for all.

## Glossary

**Artificial Intelligence (AI):** a type of program that replicates the problem-solving and learning abilities of humans; distinct from traditional computer programs in that AI is able to react and adapt to different situations without human intervention

**Gross Domestic Product (GDP):** the total output of goods and services produced in a given period of time within the border of a country or region; describes the amount of stuff an economy makes

**Industrial Revolution:** a period of global transformation through the late 1700s and early 1800s when agrarian and small-scale production economies shifted to become manufacturing economies that relied heavily on machinery

**Productivity:** a measure of economic performance that compares the amount of output (goods, services, etc.) created in comparison to the amount of input (workers, machines, etc.) used

**Labor Market:** the supply and demand for jobs wherein employees provide the supply and employers provide the demand; an all-encompassing term to describe work in the context of economics



## Topic History

Throughout human history, many technological shifts have drastically changed the way people live. Nearly one million years ago, the ancestors of Homo Sapiens first learned how to control fire. If fire can be considered a technology, then this technological advancement fundamentally altered the path of human evolution and society so that the world exists as it does now. Only three hundred or so years ago, the Industrial Revolution once again revolutionized how people lived across the world. This time in humanity's history saw sharp increases in agricultural productivity, completely new forms of labor with the proliferation of the factory, and broader access to a wider range of consumable goods. At a higher level, the world's GDP went from growing less than half a percent over an entire century to growing more than 2% annually after the Industrial Revolution. Today, computing technology, specifically artificial intelligence (AI) has the potential to do the same if not even more for the global economy.

Although AI has only just recently become more common in everyday discourse, the idea itself has existed since the 1950s. One of the first people to conceptualize the notion of AI was Allen Turing, a British mathematician who worked extensively with computing. Even though computers at the time were not advanced enough to complete any complex task, let alone run AI programs, Turing developed what is often referred to as "The Turing Test" in his 1950 paper Computing Machinery and Intelligence. At its most basic level, The Turing Test is meant to test if a computer can exhibit behavior so similar to a human that it could be described as having "intelligence." The first actual program that could be described as AI was developed by Allen Newell, Cliff Shaw, and Herbert Simon in 1955. This program, called Logic Theorist, was meant to imitate the problem-solving skills that humans have. Today, AI has become far more advanced and has the ability to do much more than what scientists and mathematicians in the mid-20th century could have ever imagined.

That being said, AI is still a relatively new technology that has only just begun to permeate into people's daily lives. In its earliest stages, research into AI was largely theoretical, so few tangible products came about from it. Even as computing power rapidly increased through the late 1900s and early 2000s, many of AI's applications were proofs of concept rather than actual programs that could be used by consumers, businesses, or governments. For example, even as recently as 2016, one of AI's most significant achievements occurred when Google's AlphaGo defeated the top Go player in the world. Prior to the past few years, the most tangible product related to AI has likely been autonomous vehicles. Companies like MobileEye and Waymo have been developing and refining the technology while companies like Tesla and Hyundai are already selling cars that have the ability to drive themselves. However, the vehicles that are commercially available are not truly driverless yet since they require specific conditions to function properly and safely. As such, this application of AI to daily life has not been fully realized yet, and thus, its economic impacts have been relatively minor.

The previous example illustrates a broader fact about AI's relationship with the economy: the technology is so new that there is a great degree of uncertainty surrounding what its exact effects may be. AI may have been around in theory for decades, but it has only been used in practice for a few years. The novelty of the technology also means that very few local, national, or international guidelines and laws have been passed regarding its usage. This was not an issue even a few years ago when there was a wall between the theory behind AI and its everyday uses. However, today, the situation is incredibly different, and it continues to rapidly evolve as AI becomes incorporated into various facets of the economy.

## Current Situation

The catalyst for AI's sudden presence in various segments of the economy occurred in late 2022 when a startup called OpenAI released ChatGPT (Chat Generative Pre-trained Transformer) to the public. Within a month or so of its release, the application already had over 100 million active users. The rapid dissemination of ChatGPT around the world can be attributed to two facts. The first is that the program was both free and easy to use, allowing consumers from a wide variety of backgrounds to access it. Second, ChatGPT was likely the first computational product consumers had interacted with that truly resembled an artificial human of sorts. Not only could a person ask simple questions to ChatGPT, but they could also hold lengthy conversations with the program, asking it to solve various types of problems or provide the user with advice. Of course, consumers were not the only ones enthralled with this technological advancement; companies of different sizes and in vastly different sectors and markets all began incorporating AI into their operations and products. In the span of less than two years, AI has moved from being a research topic and tool for niche applications to a far-reaching technology with the potential to drastically change the economy and people's lives.

### AI and Productivity

Within economics, productivity is an incredibly important concept. At a very high level, all it refers to is how much output (eg. cars, smartphones, etc.) can be produced with a given number of inputs (eg. bolts, semiconductor chips, labor, etc.). In many basic economic models (that is, math equations that attempt to describe and represent the economy), production is split into two components: labor and capital. Labor includes all of the people working to create something or provide a service while capital includes the machines being used. Productivity deals with both of these components and increases in productivity mean that more can be done with the same or even less labor and capital. Because of how powerful it is, AI could drastically change productivity across the global economy.

Throughout history, when humanity has seen a leap forward in technology, it has also seen a corresponding increase in productivity. The Industrial Revolution of the 18th and 19th centuries may be the clearest example of this, but even recent developments in computing technology have had a similar effect. Research has shown that through the 1990s, the large increases in productivity that were observed can in fact be attributed to the growing prevalence of computers and other information technologies. Current estimates from institutions like Goldman Sachs indicate that AI could increase productivity growth rates by 1.5% every year for the next 10 years. Such a rise in productivity would correspond to a 7% increase in global GDP, akin to an additional seven trillion USD being added to world output. More optimistic predictions put this growth rate at 10 or even 30 percent for the next few years. Seeing as the world GDP has grown at an average of about 4% per year in the past few decades, such an increase could be transformational in terms of how much the world could produce.

Although AI could increase productivity by a significant amount, there is no guarantee that it will actually do so. The proliferation of AI throughout the global economy is still in its infancy, but so far, data has not shown any clear changes in productivity. It will be difficult to confidently say what AI's impact on this aspect of the economy will be until many more years have passed, but if it turns out that, for whatever reason, AI is not as transformative as it has been touted to be, an important question must be asked: what then should countries and the world do? Should they boost investments into AI to improve its capabilities to a point where it will be able to tangibly improve productivity? Should they work with businesses to develop better strategies for implementing AI? Or, should they do nothing and potentially allow AI to fade away as businesses and other organizations move on to the next technological advancement? There are no clear answers to these questions, but given the many hypothetical benefits AI could bring to productivity, it is worthwhile to keep in mind alternative paths for a world where AI does not immediately succeed at altering the global economy.

Putting aside the question of whether or not AI will actually boost productivity, how could people's lives improve if it did? For one, if AI can enable higher production without increasing labor, that means people could work less. Looking at history, since the 1950s, the number of hours worked annually in the G-7 countries (ie. the United States, United Kingdom, Canada, France, Italy, Japan, and Germany) has decreased from more than 2,000 hours to just around 1,800 hours. During this time, productivity has, of course, also been increasing. Fewer working hours mean people have the opportunity to pursue other hobbies that add to their lives, their communities, or even the economy. Of course, the full story of AI's impact on labor is far more nuanced, and it will be discussed in more depth in a later section.

More directly, as mentioned before, increases in productivity tend to lead to higher GDP growth. Here, it should be noted that a higher GDP is not necessarily a good thing. For example, one argument is that pursuing GDP growth could lead to a further deterioration of the environment, thus harming the world and humans. While these arguments certainly hold merit and should be considered, there are several good reasons why most economists and other professionals associate greater GDP growth with a better world. For one, due to the very way GDP is defined and measured, a higher GDP means that more stuff - whether it be food, shelter, or clothing - would become available to people. As a result, in less economically developed countries, increases in GDP directly correlate with improvements in life expectancy, health outcomes, and various other measures of well-being.

Since richer countries generally already have these basic necessities met, GDP increases do not have as drastic of an impact on people's lives. That being said, it does still have positive consequences. For example, many countries have a retirement system wherein retired people receive money to live from the people still working. That is to say, today's workers support today's retired individuals. As a result of modern-day population dynamics, the ratio of retired people to workers will increase across much of the world, putting significant strain on the system. If GDP were to stop growing or even shrink, that would mean in the future, each retired person would functionally have access to less stuff, whether it be

food, clothes, or anything else. On the other hand, if GDP continues growing or even increases in growth, this problem could be avoided, ensuring that the retired are able to live comfortable lives. Another benefit of higher GDP is that it enables countries, not just richer countries, to spend more resources on tackling existential issues like climate change. For these reasons and many others, increased production due to AI would generally be a good thing.

Even though AI has the potential to improve the economies of countries around the world, it may not do so evenly. According to a study conducted by the International Monetary Fund (IMF), this divergence in AI's impacts could occur in three ways. The first is through what it calls "share-in-production." Essentially, because countries with more advanced economies tend to also have higher wages, firms in those countries will be more likely to invest in AI that increases production. As a result, these countries will benefit more in the long run from AI than countries with less advanced economies will. The second reason why benefits from AI may occur unequally across the world is that richer and poorer countries will have different levels of investment flows. This may occur because returns on investments in AI would be higher in more developed countries due to their advantage in current technologies and production strategies; this would simultaneously cause investments to move away from less developed countries, further hindering the growth and deployment of AI in those places. Finally, the very structure of a country's economy could lead to differences in AI's impacts. Countries with less developed economies may rely more heavily on unskilled labor and use less sophisticated capital, thus lessening the degree to which AI can be effectively integrated and therefore limiting its potential positive impacts. In more developed countries, the opposite effect would occur, leading to an even greater divergence in benefits received from AI. These discussions of inequality between different countries can also be translated to discussions of inequality within individual nations.

Why then might this unequal distribution of AI's benefits be harmful to the world? To understand this question, it is useful to first look at global inequality as it currently stands. Since the 1980s, the degree of inequality has been decreasing, but it still remains too high. As of 2021, the richest 10% of the world population took home 52% of global income while the poorest half earned only 8%. To put more numbers on this, someone from the top 10% of earners is expected to make about 122,100 USD per year while an individual from the bottom half will make only 3,920 USD in a year. Wealth inequalities within many countries follow a similar pattern. These disparities are already incredibly significant, but AI could make them much worse. Not only does inequality lead to social and political instability, but it could also hinder sustainable economic growth in the long run. To put it simply, vast inequalities between and within countries tend to hurt people much more than they might help any small segment of the population. In line with Goal 10 of the UN's Sustainable Development Goals, reducing inequalities related to AI's development is just as important as helping overall economic growth.

## AI and Labor

One area that has almost always been affected when significant technical advancements have been made is the labor market. In the Industrial Revolution, the advent of machines meant that much more could be produced, but it also meant that many jobs were no longer necessary. As the next potentially significant technical advancement, AI is almost certain to also have drastic impacts on the labor market. This link between the two is quite salient since AI can, in some ways, be seen as an artificial human. Although the technology has not advanced so far yet, it is possible that one day, a computer program could learn and act just as a human does. At that point, it is incredibly clear to see how AI could have very real effects on how and if people work, but even now, recent AI developments have begun creating changes in the labor market. To ensure that the global economy continues to serve and benefit people, it is vital to consider AI's impacts on labor and what can be done to mitigate or increase those impacts.

There are three main facets of AI's potential impact on the labor market, all of which are closely interconnected. The first possible effect aligns with the previous discussion of increases in productivity. Essentially, it is possible that AI can be a complement to human labor, allowing people to do their jobs more efficiently and effectively. As a result of this, the marginal benefit of workers (that is, the value that adding one more worker would bring) may increase, thus incentivizing firms and other organizations to hire more people. Moreover, if production can truly increase due to gains in productivity from incorporating AI, workers' wages could also increase. Such outcomes would undoubtedly be positive as it means more people will be able to find better work, enabling them to lead more financially secure lives. That being said, if AI were to complement human labor, its effects would likely vary depending on the job in question. This means that within countries, some segments of the population may see significant benefits in wages and job opportunities because of AI while other segments may see little to no improvements. Looking at a global scale, such differences would also exist between countries since they have distinct economic structures. As discussed in the previous section, such disparities are important to keep in mind, and they will be a recurring theme when talking about AI's impacts on the labor market. Instead of acting as a complement to human labor, it is also very likely that AI will be a substitute for human labor. That is to say, AI could replace human workers because the technology is more effective and cost-efficient for firms and other organizations. This would, of course, lead to job losses for many people, forcing them to try and find another job or else potentially living destitute lives. Given the adaptability of AI to various tasks, these job losses could be seen across entire economies instead of being concentrated in a specific region or sector. To further illustrate this point, globally, almost 40% of jobs could be affected by AI, meaning that the negative consequences it brings to the labor market would be very severe. Of course, these job losses would not be uniform across the labor market. Jobs that provide lower wages are much more likely to be replaced by AI and automation than higher-wage jobs because they tend to be jobs that require unskilled labor. It is also imperative to note that job losses are not a one-time shock to the amount of money people are

able to earn. While a person will certainly earn less immediately after they lose their job, studies have shown that even after they find employment again, their new wages will likely be lower than before. All of these effects illustrate just how AI could detrimentally impact people's lives. If there is to be a future world that allows all people to live prosperously, then it is vital that certain measures, whatever they may be, are discussed and implemented to mitigate AI's negative effects.

The third main way AI is connected to the labor market is its ability to create new jobs. Part of this job creation may stem from AI's ability to boost productivity (as mentioned previously), but many of these jobs may be entirely new ones that are created in direct response to AI. This type of job creation would not be unprecedented based on history. During the Industrial Revolution, factory jobs formed a major part of the labor market even though they were practically nonexistent when societies around the world were predominantly agricultural. Even looking at more recent history, computers have created completely new positions like software developers and data scientists. As such, AI will likely have a similar effect on the labor market. Although it is challenging to predict exactly what these new jobs might look like, they will likely be skewed in the direction of skilled labor. Of course, this creates disparities in who will be able to benefit from these new jobs and especially stands in stark contrast to the fact that many of the jobs AI could replace are those that require lower-skilled labor. Once again, because of these inequalities, it is incredibly important to think about measures that help ensure all people, regardless of their background, have the opportunity to lead prosperous lives.

## **Conclusion**

Although AI as a technological concept is not very new, its implementation in the real world has only very recently occurred at a large enough scale to create real effects for people, firms, and governments. The novelty of this technology also means that there are significant uncertainties surrounding just how it may impact the global economy. Two facets of the economy - productivity and the labor market - have been focused on thus far, but several other areas may be just as important. For example, other worthwhile things at the intersection of AI and the global economy to think about are the new industries AI may create; regulations on AI to maintain the effectiveness of concepts like copyright; the impacts of AI on financial markets; and much more. It would be impossible to discuss all of these varied topics in a single place, but delegates are encouraged to explore them, especially if a topic is particularly pertinent to their country. Regardless of the exact area delegates would like to focus on as it relates to AI and the global economy, it is vital that solutions are developed in response to the many issues that AI will bring with it. Given the lack of past guidance directly related to AI and the rapidly evolving situation across the world, these solutions may be difficult to think of and incredibly complex in nature. Whatever the case may be, international cooperation will play an essential role in solving this global problem. Delegates are strongly encouraged to learn from past technological advancements, understand how various parts of the economy interact with each other, and work closely with others to ensure the world remains a place for all even as it undergoes monumental changes.

## Questions to Consider

1. What is your country's economy like (economic system, major industries, major imports/exports, level of wealth inequality, etc.)?
2. How has AI already impacted your country's economy, if at all?
3. In the future, how might those impacts change or increase in severity?
4. What does your country think about the role of AI in its economy?
5. Has your country passed any regulations or legislation related to AI's economic impacts?
6. If so, what have the effects of those laws been?
7. If not, is your country discussing similar legislation? What have those discussions been about if they are occurring?
8. What are your country's views surrounding the global proliferation of AI and its corresponding effects?

## Additional Resources

[https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_us/topics/ai/ey-a-historical-perspective-macro-economics-ai-v6-new.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_us/topics/ai/ey-a-historical-perspective-macro-economics-ai-v6-new.pdf)

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<https://education.nationalgeographic.org/resource/industrialization-labor-and-life/>

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# Sustainable Investing



# Sustainable Investing

## Introduction

One of the most serious existential threats the world faces today is climate change. In order to mitigate climate change's numerous effects and ensure humanity's continued prosperity on this planet, vast sums of investments will be needed to change how the world works on a variety of fronts.

## Glossary

**Anthropogenic Climate Change:** human caused shifts in long-term temperatures and weather patterns around the world; these changes are primarily driven by the emission of greenhouse gasses (GHGs) like carbon dioxide and methane

**Investing:** the act of using money to purchase things called assets which have the opportunity to generate profit for the purchaser; an asset is simply a resource that individuals or companies own and can use for some purpose, including selling the asset to generate money

**Sustainable Investing:** in general, sustainable investing is a form of investing where investors attempt to promote long-term environmental or social values alongside financial returns; for the purposes of this topic, sustainable investing will only refer to investments connected to environmental values

**Stocks:** at the most basic level, a stock represents a share in the ownership of a company, including a claim on the firm's earnings and assets; stocks are bought and sold on electronic markets called stock exchanges; a stock's price reflects the relationship between its supply and demand in the market

**Bonds:** represents a loan made by an investor to a borrower that is often a company or government; bonds are fixed-income instruments, meaning that they have a guaranteed amount that will be returned to the investor in addition to the original value of the bond

**ESG:** an acronym that stands for environmental, social, and corporate governance; these are a set of considerations that investors can use to help screen potential investments; these considerations are often used if an investor wants to ensure an investment can create other benefits outside of financial returns

**Sustainable Development Goals (SDGs):** the SDGs are a list of 17 goals adopted by the United Nations in 2015 that serve as a universal call to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity

## Topic History

The world is a constantly evolving place. Much of this change occurs naturally and has no significant negative impact on the entire globe. However, in recent decades, numerous anthropogenic alterations have led the world to be a less hospitable place for many forms of life, including humans. Chief among these alterations are the human activities that have directly contributed to climate change. This issue has only recently come to the forefront of global attention, but it is something that has been known about for decades. As early as 1896, Swedish scientist Svante Arrhenius proposed the idea that humanity's burning of fossil fuels like coal, which release large amounts of carbon dioxide into the Earth's atmosphere, could lead to an increase in the world's average temperature. However, it was not until the mid-20th century that the scientific community seriously began looking into the potential for global warming due to human activity. Even then, it took multiple decades of intense research before the link between human activities and climate change could be widely accepted. Global consensus on climate change as an emerging threat was finally reached in 2001 when the Intergovernmental Panel on Climate Change (IPCC), with the support of governments and experts around the world, announced that human civilization faced severe global warming. With the existence of anthropogenic climate change firmly established, it was now necessary to develop strategies to combat this existential issue. Although seemingly daunting, many solutions to anthropogenic climate change are not actually that complex. Nearly all of them revolve around the concept of decreasing the amount of carbon dioxide and other greenhouse gasses (GHG) in the atmosphere. For example, one of the sectors that produces the most carbon emissions is electricity production. A simple way of reducing the amount of pollution from electricity generation is to transition from using fossil fuels like coal and natural gas to cleaner sources like solar and wind. Fundamentally, the technologies to make such a transition already exist. However, both this specific example and the many other methods to combat climate change will not find great success without a concrete way to implement them. In today's world, one of the best ways to incite change is by using vast sums of money in one form or another. Indeed, the way money is used throughout the world will be a core part of mitigating the effects of climate change.

For most people, money is simply something used to purchase goods or services that are subsequently used up. For example, money is used to buy clothing, food, haircuts, and many other things. However, another vital way money can be used is by investing it in something. At the most basic level, an investment is simply an asset bought using money that may allow the purchaser to generate additional wealth in the future. Common examples of investments include stocks, bonds, and real estate. Other than individual people, governments, corporations, and other institutions can also invest in various things, from the construction of a new factory to new public transportation systems. Investing is an incredibly common practice done throughout the world since, generally speaking, people and organizations have a desire to acquire more money so that they can fulfill their wants and needs. Of course, there is no guarantee that an investor will earn a return on their investment (that is, to make more money than they spent on some asset), but on average, rational investors should see a net gain in

their wealth. The prevalence of investing throughout the world means that it is one of the main ways large amounts of money can be used to guide the actions and decisions that are made in the world. Indeed, global capital markets (the place where savings and investments go from one person or firm to another) alone have over 250 trillion USD that investors can use to influence corporations and other institutions. In this way, investments will play a key role in creating a more sustainable world.

Although there have been many notable international agreements regarding the Earth's climate (eg. the Montreal Protocol, the Kyoto Protocol, etc.), the one that has been most influential on financial markets and investments thus far is the Paris Agreement, otherwise known as the Paris Accords or the Paris Climate Accords. This legally binding treaty was signed at the UN Climate Change Conference (COP21) in 2015 by 195 parties (194 countries plus the European Union) and officially went into effect in 2016. Although the treaty itself does not specify actions related to sustainable investing, its strong language on international cooperation to fight climate change put the issue at the forefront of many financial institutions. Not only were these organizations compelled to begin thinking about the problem of climate change because entire nations were developing strategies to change their economies for a sustainable future, but they also began to recognize the material risks that climate change posed to their own operations. The relatively recent nature of these developments means that there are not yet any concrete strategies for sustainable investing, although many ideas are currently being used and tested. Some of these ideas will be introduced in the next section.

Outside of binding treaties, there are other organizations and resolutions that hold significance for sustainable investing within the context of the environment. One such noteworthy organization is the UN Principles for Responsible Investment (PRI). Established in 2006, the PRI is an international body with over 4,900 participating financial institutions that promotes sustainable investing practices. It does not focus strictly on environmental sustainability, but the organization's core ideals encompass investing practices that are pertinent to this topic. In particular, the PRI lays out six principles for investing:

- 1. We will incorporate ESG issues into investment analysis and decision-making processes.*
- 2. We will be active owners and incorporate ESG issues into our ownership policies and practices.*
- 3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.*
- 4. We will promote acceptance and implementation of the Principles within the investment industry.*
- 5. We will work together to enhance our effectiveness in implementing the Principles.*
- 6. We will each report on our activities and progress towards implementing the Principles.*

These principles are quite far-reaching, but they neither represent all that there is to sustainable investing nor are they necessarily the best principles to act on to ensure a sustainable future. Understanding some of these principles will be important to understanding the current realm of sustainable investing, but should not inherently form the basis of any future solutions without extensive research and discussion.

## Current Situation

The need for sustainable investing has never been greater than it is today. Just recently, the year from February 2023 to January 2024 was the first year where average global temperatures were 1.5°C higher than pre-industrial averages. Surpassing this benchmark temperature increase set by the Paris Agreement indicates that the world has already reached a point where climate change has wide-reaching detrimental impacts on both the environment and human society. As such, potentially drastic changes are needed to ensure that more extreme damages are not incurred on the world, and investing will play a large role in that change. However, it is not as simple as some may think for investing to play such a role. Not only are there many unknowns about the exact impact that many of today's sustainable investing strategies have, but at the end of the day, the goal of investing is to generate profit. This is especially the case for many financial institutions which have a fiduciary duty to generate financial returns for their clients. Unfortunately, these two goals may not always align. As various sustainable investing strategies are discussed throughout this section, it is essential to keep in mind the tensions between investors' fiduciary duties and environmentally sustainable practices.

### **ESG**

One of the most significant developments in sustainable investing is ESG, or environmental, social, and corporate governance. Within the realm of finance, ESG provides investors with an additional lens through which to view a company. Beyond just how much profit a company can generate, ESG captures how a corporation is affecting the environment (environment), how it interacts with stakeholders like the local community (social), and how responsibly the corporation is run (corporate governance). The principle ideas of ESG investing have existed since the 1960s when investors began selecting the stocks of publicly traded companies based on their involvement with the tobacco industry or South African apartheid. However, it has only been in the past decade or so that financial institutions have explicitly incorporated ESG values into their investment decisions. While ESG does include factors outside of environmental sustainability, its wide usage across the industry means that considerations of the ideas it represents are closely related to sustainable investing. There are two closely related sides to ESG investing. The first is to use ESG principles to screen which companies to invest in. For example, if company A has lower carbon emissions per dollar of revenue it generates than company B, then an ESG investor may view company A as a better investment. The second side is to use ESG principles to screen which firms to divest from. For example, using the same companies as before, if an investor's portfolio includes both companies A and B, then they may choose to divest from company B since it has higher emissions and is thus worse for the environment. Of course, ESG is only another tool that can be used to evaluate firms. If company B's stock had a much greater potential for significant returns on investment, then an ESG investor may still decide to invest in it or not divest from it as a means to make more money. In this way, ESG principles are just another metric by which investors and financial

institutions can evaluate a company and are likely not the sole manner through which companies are being compared.

The key idea behind ESG investing is that by increasing or decreasing the flow of funds into a company, investors can influence how a corporation operates. By directing capital to companies that, say, are more environmentally friendly, investors are incentivizing other companies to decrease their negative impacts on the environment so that they can receive more money. On the flip side, by divesting from companies that, say, actively disrupt marginalized communities, ESG investors are disincentivizing corporations from acting in certain ways. Although almost no single investor or organization has enough money to sway corporations using these incentives and disincentives strategy, if financial institutions collectively used similar ESG metrics, it would be possible to significantly expand or constrict the resources a company has access to. In terms of the environment, ESG investing would thus ideally promote and sustain companies that are causing less harm or even helping the environment while forcing companies that are bad for the environment to go out of business.

As it stands, ESG investing has become very widespread throughout the financial industry. Globally, the amount of ESG-related assets under management (ie. investments) totaled around 18.4 trillion USD in 2021 and is expected to grow to as much as 33.9 trillion USD by 2026 according to some estimates. To illustrate just how widespread ESG has become, it is enough to look at the world's largest investment manager: BlackRock. With over 10 trillion USD assets under management, BlackRock manages an incredibly large amount of money from pension funds, university endowments, sovereign wealth funds, and many other sources that give it incredible sway within the financial world. In 2020, the long-time CEO of BlackRock, Larry Fink, issued a letter to other CEOs demonstrating just how crucial a consideration for the environment is. In the letter, Fink states "The evidence on climate risk is compelling investors to reassess core assumption about modern finance... Climate risk is an investment risk." To have such an influential figure in finance make such a strong statement indicates how investors have come to see ESG considerations as incredibly important.

Although ESG has become one of the most widely used instruments for sustainable investing, it has several issues that may make it far less effective than it otherwise might be. One major issue with ESG is that there is no universal way to assess how companies perform with regard to social, environmental, and corporate governance concerns. For example, two organizations attempting to assign companies ESG scores are Morgan Stanley Capital International (MSCI) and Sustainalytics. From the very start, these two organizations already take different approaches to measuring ESG because MSCI uses a letter ranking system (AAA is the best and CCC is the worst) while Sustainalytics uses a numerical system (companies with higher ratings have worse performance from an ESG perspective). Moreover, even within the rankings themselves, companies have different positions relative to each other. For example, by MSCI's assessment, Coca-Cola had a better ESG rating of AAA than PepsiCo's AA rating. However, according to Sustainalytics, PepsiCo has a better rating of 16 compared to Coca-Cola's 22.5. Looking

beyond just this limited sample, the OECD conducted research that looked at ESG assessment methods from five different organizations for ten different companies. It found that every single company had vastly different ESG ratings depending on which method was used. This is in stark contrast to credit ratings where, no matter which institution is the one assessing a company, that company will receive about the same rating. The issue with this lack of agreement between different ESG ratings is that it means investors cannot accurately determine if a company is actually good or bad for the environment. At that point, ESG ratings become much less useful since it is difficult to tell if the additional information it is supposed to provide reflects the true world in any way.

An apt way to summarize ESG ratings up to this point is that they are wholly incomplete. Efforts are, of course, being made to rectify the issue discussed above. For example, a nonprofit initiative called the Sustainability Accounting Standards Board (SASB) is attempting to improve and standardize the way ESG ratings are created. Its end goal is to create a system much like the International Financial Reporting Standards (IFRS) or the Generally Accepted Accounting Principles (GAAP) which govern how companies report data about their finance to governments and the public. Another group attempting to achieve a similar goal is the Task Force on Climate-Related Financial Disclosures (TCFD). The TCFD was formed in response to a letter from the G20 asking for ways to better assess how climate change might impact global financial stability. Both the SASB and TCFD are still very much a work in progress, but they offer potential ways for the world to move forward with a more uniform and informative system of assessing companies' ESG impacts.

The rise of ESG has also led to another issue: greenwashing. With more emphasis being put on ESG considerations, companies are incentivized to take actions that help the environment. However, in the case of greenwashing, a company may want to reap the benefits of receiving a higher ESG rating or being perceived more positively in terms of ESG without making any actual changes that would benefit the environment. One notable example of this occurred with Volkswagen in 2015. For many years, Volkswagen had been marketing its vehicles with diesel engines in the U.S. as cleaner and better for the environment than competitor's vehicles. However, subsequent investigations found that the company had installed software in its cars that altered the engine's operations when it detected that a test was being conducted. As a result, although Volkswagen touted its environmentally friendly cars, in reality, they were no better or possibly even worse than other cars on the road. The issue of greenwashing is significant to sustainable investing because it undermines credible efforts that companies take to address climate change and environmental sustainability. As before, if what a company says can no longer be trusted, then what difference would it make to an investor if a company was "green" or not? The somewhat related issue of brownwashing, which is where companies underreport the way they are helping the environment, can also have detrimental effects on the effectiveness of sustainable investing practices. There are many potential solutions to both of these problems, but a key part will be more accurate and transparent data.



Another incredibly pertinent question for sustainable investing is whether ESG, in its current form, can even influence how businesses act in any meaningful way. At the surface, the concept behind today's most common ESG-based investment practices and how they could change businesses' actions make sense. If green companies are given more money, then it would seem plausible that brown companies would want to become greener to gain access to more funds. On the other hand, if companies are financially constrained because they are too brown, then it would be reasonable for them to try and become greener so that they can continue to receive adequate levels of capital for their operations. However, some recent research has shown that what seems to be common sense does not quite play out as such in the real world. For example, a recent working paper by Kelly Shue at Yale's School of Management and Samuel M. Hartzmark at Boston College's Carroll School of Management indicates that the primary ESG investing practice used today may have little or even the opposite effect from its intended purpose. The reason for this is two-fold. First, the paper showed that providing more money to firms that were already green has very marginal effects on making them even greener. Second, it showed that increasing the barriers to financing may actually make brown firms even browner. It may seem somewhat counterintuitive at first, but this phenomenon might occur because it likely takes a significant amount of money for a company to become greener. Without that type of funding because of divestments, the business may decide to revert to or continue using the cheaper, dirtier methods it has historically used to carry out its operations. This is still a somewhat burgeoning field of research, but it may offer important insights into how ESG-based investing can be improved to lead the world down a more sustainable path.

One final issue to touch on is the relationship between ESG investing and returns on investments. As noted earlier, nearly all financial institutions and investors have a fiduciary duty to generate money on their investments. Because of this, for investing practices based on ESG principles to have any real chance at success, they must demonstrate the ability to create equal or even higher returns. In theory, taking ESG factors into consideration should positively benefit investments. The reason for this is that investments that consider ESG essentially factor out the risk associated with potential environmental, social, and corporate governance issues that a company might face. However, the research on this question does not offer a clear answer quite yet. A sizeable amount of the literature seems to suggest that portfolios that take ESG considerations into account perform comparably to traditional asset portfolios. That is, ESG investing practices are no better or worse in terms of returns compared to investment practices that do not take ESG factors into account. Some studies have shown that ESG investing practices, when done in certain ways, can indeed outperform traditional investing practices. On the other hand, in 2022, of the top ten largest ESG funds by assets, eight saw decreases greater than the S&P 500 (a standard benchmark of the U.S. stock market). This ambiguity means that there is no definitive answer as to whether or not ESG investment practices run counter to financial institutions' fiduciary duties. Regardless of the true situation, it will be vital to keep in mind the importance of investment performance as considerations for the future of ESG are made.

So far, the discussion of ESG has covered a large number of different topics, but they are by no means exhaustive. Moreover, it should be noted that ESG-based investing practices are by no means the only way for sustainable investing to occur, but they are incredibly influential in today's financial world and may give insights into what sustainable investing could look like in the future. Today, ESG investing has seen a significant amount of political backlash, and investors have begun moving away from incorporating ESG considerations into their decisions. When considering possible solutions for the future of sustainable investing, this recent shift should also be taken into account since ESG has many implications for sustainable investing due to their interconnected nature. As one of the most significant tools for engaging financial markets in the fight against climate change, ESG should be well understood if proper solutions for the future are to be developed.

### **Foreign Direct Investments**

Oftentimes, conversations about sustainable investing focus on how investments can be used to influence public and private corporations, particularly in more economically advanced countries. However, the issue of climate change is very much a global one where the actions of any country can have impacts on others and the world at large. At the same time, the effects of climate change do not occur evenly across the world, and it is often the places that suffer the most that also have the fewest means to mitigate the effects of climate change. The importance of developing countries cannot be overstated when it comes to talks of sustainable investing and a future where people do not have to endure the negative consequences of climate change. Especially because these countries are so frequently overlooked, it will be vital to consider what role developing countries have in creating a more sustainable future and how that role can be financed.

Foreign direct investments (FDI) are one of the main ways through which developing countries receive adequate funding to do things like transition to more renewable energy sources. As the name suggests, FDIs are simply investments made in a different country. One prominent example of FDI in the modern era is the vast amounts of money the U.S. invested in Europe following World War II. These investments, collectively known as the European Recovery Program (or more commonly, the Marshall Plan), would eventually total over 12 billion USD and played a major role in rebuilding the European continent after the war. From the perspective of the U.S., a major reason for these investments was to deter the influence of the Soviet Union in the region, but the Marshall Plan also brought many direct benefits to the U.S. including the establishment of Europe as a major trade partner. Although this is just one example, it shows how impactful FDI can potentially be on developing countries and the world at large.

In recent years, the world has made many great strides in improving developing countries' access to financing for advancing sustainable practices. FDI saw significant increases in 2021, although it decreased by about 12% globally in 2022 due to various overlapping international crises like the war in Ukraine and shocks to food and energy supply chains. Much of this decrease was seen in developed

countries, but FDI for developing countries only grew at about 4%, and this growth was only seen in a handful of countries. One positive development in 2022 was that investments in greenfield projects (projects like a new solar farm where a private entity or a public-private joint venture builds and operates a new facility for a period specified in the project contract) increased by 15% in 2022. These numbers demonstrate how although FDI continues to increase in many places, these investments are highly sensitive to the global macroeconomic situation and vary greatly depending on what may be occurring in the world at any given point in time.

Beyond the broad scope of FDI, the development of the Sustainable Development Goals (SDG) in 2015 also brought about a call for investments that would help developing countries meet these goals. Of the 17 SDGs currently listed, five relate to climate change and sustainability in very direct ways while one, Goal 13, specifically outlines climate action as an important part of creating a better world for all. International investments in SDG sectors grew for developing countries in 2022, but looking at the larger picture, developing countries have only seen modest increases in SDG investments since 2015. Even more worrying than this lack of substantial growth is the widening gap between what developing countries need to meet the SDGs and what they are receiving. In 2015, the annual SDG investment gap for developing countries was already an incredible 2.5 trillion USD, but that value has since increased to over 4 trillion USD as of 2022. Much of this gap - about 2.2 trillion USD - comes from developing countries' needs for energy investments that will allow them to not only provide more people with electricity but also do so in a manner that is less detrimental to the environment. When looking at renewable energy developments specifically, developing countries need about 1.7 trillion USD in investments to truly meet their goals, but in 2022, they only received about 544 billion USD. The world has made significant progress in providing financing to developing countries in recent years, especially when it comes to helping them with the fight against climate change. However, current investments are not nearly enough if the world is to avoid suffering drastic consequences for the changing environment. More needs to be done to support developing countries as they look to play a key role in mitigating the effects of climate change, and various strategies must be developed to ensure those countries are getting the investments they need. Only in this way can the world move towards a better future together.

## **Conclusion**

Sustainable investing is an incredibly broad topic to explore, but it will be an important part of the solution to one of the most significant existential threats the world has faced to date. ESG investment practices and FDI have been discussed extensively so far, but both are far too complex for any single document to summarize every aspect of them. Beyond this, although these two facets of sustainable investing were the only ones touched on in this topic guide, there are many other areas that delegates are encouraged to explore. For example, an alternative or complement to ESG investing is activist or impact investing. Delegates should look into these other strategies for sustainable investing and determine which ones are most relevant to their country and its current positions. As always, regardless

of what exact solutions are developed and proposed, international cooperation will be essential. Climate change is a global issue, and it is only by cooperating with each other that the problem can be effectively and truly solved.

## Questions to Consider

1. How do anthropogenic climate change and other environmental changes impact your country?
2. What does your country think the role of investing should be when it comes to mitigating the effects of climate change?
3. Has your country made any explicit or implicit attempts to promote or hinder sustainable investing, and if so, how?
4. What is your country's relationship with FDI?
5. Does it primarily provide money for FDIs, receive money, or both?
6. How does your country use any FDIs it receives?
7. How is the money your country sends to other countries generally used?
8. What have public and private firms in your country been doing with regard to sustainable investing?
9. Are there any notable examples of companies engaging in sustainable investing within your country?
10. What other potential strategies are there for sustainable investing?

## Additional Resources

[https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_gl/topics/banking-and-capital-markets/ey-climate-change-and-investment.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/banking-and-capital-markets/ey-climate-change-and-investment.pdf)

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