

General Assembly Second Committee: Economic and Financial

Welcome

Dear Delegates,

Welcome to the Economic and Financial Committee (ECOFIN) at BUSUN 2010. My name is Raaj Parekh, and I will be chairing ECOFIN this year.

Before we dive into the bulk of this background guide, a little about myself. I am currently a sophomore most likely concentrating in Economics and Political Science. This is my second year involved with Brown Model United Nations, and I have four years of high school Model UN experience. Last year at BUSUN, I served as director of a crisis committee; this will be my first year serving as a chair at BUSUN.

To get the most out of this guide, I would suggest using it as the starting point, rather than the end point, of your research. Preparation will serve you well, and it is crucial not only to be well-versed with the information in this guide, but also to stay apprised of current events regarding issues addressed by this committee. I suggest you look into not just your country's positions and relevant history, but also that of your likely allies and foes. If all the delegates do so, I'm sure you will collectively have a far more enjoyable and fruitful BUSUN experience.

I look forward to reading your position papers and working with all of you at BUSUN 2010. If you have any questions before the conference, please don't hesitate to contact me. Please email your position papers and any questions you might have to ECOFIN@busun.net.

I wish you the best of luck in your preparation for the conference and look forward to meeting you!

Best,
Raaj Parekh
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Committee History

The Economic and Financial Committee (ECOFIN) is the Second Committee among the six standing, or permanent, committees of the UN General Assembly. ECOFIN primarily addresses issues of macroeconomic concern like international trade policy and maintenance of the global financial system. However, the Second Committee also deals with broader questions of economic growth, the eradication of poverty, sustainable development, human settlements, migration, and the consequences of globalization. ECOFIN makes considerable efforts to address the challenges faced by countries experiencing extreme economic difficulties, namely Least Developed Countries (LDCs). Much of ECOFIN's work is performed in pursuit of furthering the UN Millennium Development Goals (MDGs): a set of benchmarks that strive to reduce poverty and promote economic growth by 2015. This year, ECOFIN's tasks are more challenging as the world emerges from the global economic crisis that destabilized the international financial order. However, this also makes ECOFIN's work more relevant than ever.

Topic I: Integration of Economies in Transition into the World Economy

Overview

The past two decades have seen many countries begin and work through the process of transitioning from command to market economies. Today, these countries run the gamut from those very close to completing this process to those that are still working to establish the fundamental institutions of a capitalist economy. Of particular interest is how the international community can be of assistance to these countries in which are in the process of joining the global economy. In order for economies in transition to successfully integrate, they must develop several key systems and institutions:

- Rule of law: Many command economies were known for uncertainty regarding government policy. Sudden changes of policy or arbitrary enforcement of existing laws makes entrepreneurship a daunting notion.
- Adequate competition: Economies in transition are emerging from systems in which many

industries were dominated by one or a few firms. Systems such as these create inefficiencies in the market and discourage development. In order to be competitive on the global stage, countries must foster competition by removing supports for current monopolies and oligopolies, as well as by establishing policies that encourage competition.

- **Diversification**: Countries that are overly dependent on a few sectors are poorly equipped for the dynamism necessary for being a competitive player in the global economy. These countries must focus on diversification by fostering the development of different industries. The economies of less diversified countries are more dangerously vulnerable to shocks in the market of one particular sector, while greater diversification insulates countries from this sort of external risk.
- **Labor force**: Having a stable, educated, and able labor force that can fill the ranks of a developing economy is a key ingredient to successfully making the transition to a healthy market economy. Without a strong labor force, a developing economy may be relegated to the lower tiers of economic interactions, and it will struggle to fully integrate into the global economy.

Current Situation

In total, there are 29 countries that the International Monetary Fund (IMF) recognizes as transition economies, all of which are located in Europe and Asia. All of them stand to benefit from improvements in each of the above recommendations for economic development. While the initial conditions that these countries are faced with when beginning their transitions to market economies, research has shown that government policy remains an effective and powerful tool for influencing the success of their market reforms.

Countries can be grouped into three categories of economic performance: consistent growth, growth reversals, and little to no growth. Countries within each of these three groups tend to share similar economic policies. Looking at growth trends in the 1990s, the Central European countries

(Croatia, the Czech Republic, Hungary, Poland, the Slovak Republic, and Slovenia) all saw consistent growth, as did the Baltic states (Estonia, Latvia, and Lithuania). Southeastern European countries, however, did not have such consistent success: while Macedonia saw consistent growth, Albania, Bulgaria, and Romania all saw growth reversals. The former Soviet Republics, on the other hand, are split between those which have seen economic success and those whose economies have stagnated. Armenia, Azerbaijan, Belarus, Georgia, the Kyrgyz Republic, and Uzbekistan all saw consistent growth, while Kazakhstan, Moldova, Russia, Tajikistan, Turkmenistan, and Ukraine all saw little or no growth.

Questions to consider

1. How can the international community assist countries in transition with their integration into the global economy? What incentives does it have for doing so?
2. How will countries in transition respond to external involvement in their economic development policies?

Topic II: Preventing and Combating the Transfer of Illicit Funds, and Returning Such Assets to Their Countries of Origin.

Overview

Money laundering is an issue for most countries. The International Monetary Fund estimates that \$600 billion to \$1.8 trillion are laundered every year—a sum that constitutes between 1% and 3% of the world's annual GDP. While for developed nations with resilient and stable economies this type of crime is a relatively minor and manageable problem, for others it threatens the stability of the entire country. For many developing countries corruption and money laundering can be a mortal threat: by draining foreign aid and currency reserves and destabilizing political and economic institutions, it makes further development increasingly difficult. Combating this issue requires global cooperation along with powerful deterrents such as the ability to reliably return illegally transferred funds to their countries of origin.

Current Situation

In 2003, the United Nations adopted the Convention against Corruption (CAC). Together with preexisting mechanisms, such as Resolution 56/186 (2001), which established the responsibility of member states to work towards curbing and combating illegal transfers of funds, the CAC was a major step forward in the fight against corruption. However, so far only 19 member states have reported to the United Nations their action plans for fulfilling their responsibilities to combat corruption in this regard. This means that there is still much distance to cover if this issue is to be meaningfully addressed by the international community.

The CAC established four prongs of action for states to consider when enacting policies to address corruption and illicit transfers of funds; these should serve as the framework for any solutions put forth at this conference. The first is international cooperation – all signatories of the convention must agree to cooperate with investigations and not to provide shelter to money launderers. The second is prevention – much of this prong entails identifying problem areas that may foster corruption so that problems can be addressed at the source. As part of this effort, financial transactions are required to be much more transparent, and public officials are to be subject to greater restrictions and oversight in order to combat corruption. The next prong is criminalization – the ability to bring to justice and effectively prosecute those who commit crimes is crucial to deterring corruption and money laundering. The last prong is asset recovery, the importance of which was already established above. The CAC establishes the framework by which countries must cooperate to return funds to their countries of origin.

Questions To Consider

1. How can an effective solution be developed that will meet the need for international oversight, cooperation, and prosecution without transgressing state sovereignty?
2. How will asset recovery mechanisms function in a modern global economy with such complicated financial instruments and funds flowing through many intermediary countries?

Topic III: Improving United Nations Funding Mechanisms

Overview

The United Nations is currently funded by a dues system paid by member states, with the size of dues determined by member states' gross national incomes. There are a few caps imposed on this system, including a ceiling which states that no member country can pay more than 22% of the UN's operating budget. The United States is the only country to have met that cap. The least developed nations are given an alternate cap of not paying more than .01% each of the UN's operating budget. However, there are no binding enforcement mechanisms to ensure the United Nations actually receives this money, and as a result the United Nations faces the perennial problem of collecting all the money it is owed by its member states. A classic example is the United States, which purposefully fell behind by almost \$500 million in arrears during the 1980s. The United States refused to pay its full amount because it deemed that the United Nations policies of the time were insufficiently sympathetic to its own interests. The United States also cited what it saw as an inefficient bureaucracy and the channeling of many funds towards special programs away from programs of the general interest.

Current Situation

Funding is weighted very heavily to a few of the richest countries in the world – as of 2003, the dues of the United States, Germany, and Japan together comprised 51.3% of the UN's operating budget. There is debate as to whether it is preferable that funding be proportional to representation in the various bodies of the United Nations. For the United States, this participation rate is 7.2%. There is also debate as to whether the small financial contribution many smaller countries make to the operating budget decreases their interest and investment in the administration of the United Nations. While the United Nations repeatedly tries to consider alternative ways of assessing funding, nothing has come to fruition. The most recent of these re-evaluations was in July

2010, when the Economic and Social Council discussed the challenges and best practices of funding at a country level. At the moment, however, there is gridlock in considering any deviation from the norm, as few countries other than the few largest contributors stand to benefit from any change in the current system. A more equitable system may well have to consider alternatives to the current system of assessing international dues.

Questions To Consider

1. Broadly, how can the United Nations derive its funding in the most equitable fashion?
2. What enforcement mechanisms can be used to ensure that the United Nations will fall short of the funds necessary to fully finance its annual operating budget.

Helpful Resources

World Bank Research Database:

<http://econ.worldbank.org>

An IMF Paper on Transitioning Economies:

<http://www.imf.org/external/pubs/ft/fandd/1999/06/havrylys.htm>

Information on Illicit Funds Transfers:

<http://unjobs.org/topics/social-conditions-and-equity/crime-and-criminal-justice/illicit-funds-transfer>

Current UN Funding Framework:

<http://www.un.org/News/Press/docs/2006/gaab3787.doc.htm>