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Dear delegates,

It is my distinct honor to welcome you to the very first edition of the Massachusetts Institute of Technology's Model United Nations Conference in China!

MITMUNC China will be the first chapter of our conference outside of the United States and represents a new, exciting opportunity. Among many things, MITMUNC China represents the power of cooperation across nations in this ever more integrated world. We are delighted to be co-hosting this conference with ASDAN China, united by our common mission of developing tomorrow's leaders.

In late August, we will all convene in Shanghai for a weekend full of debate. As a delegate, you will be tasked with the challenge of representing your assigned delegation and presenting novel, feasible solutions to the world's most pressing issues. It will be your responsibility and privilege to engage in purposeful dialogue with your fellow delegates throughout the course of three days in which you will learn extensively. However, you will not be the only ones in this endeavor. This will be my first time in China which is also the case for the majority of the MITMUNC China committee directors. As such, we are very excited in getting to know you and experiencing Chinese culture firsthand.

A great deal of planning and work from many people has gone into this conference. Thus, I invite you to take full advantage of MITMUNC China. **Prepare yourself for your committee, think freely and creatively, and do not be afraid to speak up.** The beauty of Model United Nations lies in the peaceful coordination of unique thoughts and ideas coalescing to simulate the work of real world leaders, so your work as a delegate will certainly be important.

Use this background guide as your first step in preparation. Read it in its entirety and use it as a base to conduct individual research. Your committee director has prepared it for your benefit.

As MITMUNC China's founder, I very much look forward to giving you a warm welcome in late August! See you in Shanghai!

Sincerely,

William A. Rodríguez
Secretary-General & Founder
MITMUNC China

Promoting Globalization and Reducing Income Inequality

Introduction

According to the International Monetary Fund (IMF), economic globalization refers to the "increasing integration of economies around the world, particularly through the movement of goods, services, and capital across borders" [1]. The term globalization in its current form gained popularity in the 1980s after technological advance increased the ease with which international trade and financial transactions could be completed. In addition to the economic aspects, globalization has developed cultural, political and environmental dimensions as a result of factors such as migration and climate change [1].

Global economies have become more integrated over the past few decades with increase in trade, foreign direct investment (FDI) and migration. Trade as a fraction of world GDP has increased from 25% in 1960 to 58% in 2015 while net outflow of FDI

has grown from 13 billion in 1970 to over 3 trillion at its peak in 2007 [3]. In addition, the total number of global migrants has increased from 78 million in 1960 to 244 million in 2015 [4]. The increase in the economic integration of global markets has brought about improved efficiency as a result of more competition between firms and better division of labor. Economic integration also opens up a large market with a wider variety of products and technologies. The improved access to technologies and products can have profound implications, from improving healthcare standards to facilitating education and business.

Although globalization begets many benefits, they are not always shared evenly among the population. In many parts of the world, the gains from globalization have disproportionately benefited the richest portions of the population relative to the poorest. This inequality has lead many to fear globalization, thinking that it will threaten employment, living standards and social progress. Reverting back to isolationist policy can threaten progress towards improving the rate of technological progress. Such fears require the attention of the IMF whose fundamental mission is to "ensure the stability of the international monetary system"[5]. As such the goal of this committee will be to come up with policy that promotes globalization while reducing the income inequality gap present between the richest and poorest segments of the global population. The IMF fulfills its fundamental mission using three major tools: **Surveillance**, **Lending** and **Technical Assistance**. This committee will be using a combination of these tools to suggest policy [5].

Factors Affecting Globalization

Trade

Many of the benefits from globalization have come as a result of an increase in trade. By reducing the barriers to trade, such as transport costs and lowering import tariffs, governments have improved the efficiency of trade and stimulated growth. The increase in imports of foreign goods has provided domestic firms with motivation to improve their efficiency and quality in order to stay competitive, which has resulted in cheaper products with a higher quality and increased the volume of exports. Trade has also increased foreign direct investment, with the potential to spur job growth. Trade also theoretically allows for better division of labor, resulting in products being fabricated by the most efficient manufacturers, which further reduces costs and increases quality. The availability of a more diverse range of products at higher quality and lower costs has had a positive impact on global consumers. Trade also increases flexibility of global economies since imports can help compensate for negative supply and demand shocks while exports can help compensate for positive supply and demand shocks.

Although consumers and governments benefit from trade, certain producers and workers in an economy can be negatively impacted. Certain firms and industries may not be able to compete with their foreign counterparts and maybe forced to shut down. Workers that lose jobs from these closures are usually low skilled and find it difficult to apply their narrow skill set in new industries. Globalization can threaten the employment, living standards and social progress of these individuals who are being left further behind as trade and competition increase.

Over the past couple of decades income inequality has grown in many countries. The richest segments of the population have gained more from globalization than the poorest segments. **GINI coefficient**, which is a measure of income inequality, has increased in many advanced and emerging economies (Figure 1). These types of inequality have lead to resurgence in protectionism, which is the restriction of trade in order to reduce competition that local producers face, in some advanced and developing economies. Protectionist policies include implementing quotas and increasing tariffs on imported goods. Such policies can have negative consequences for an economy since they generally result in higher price of product for consumers who tend to already be poor. Generally, protectionism increases inefficiencies in production. Developing policy

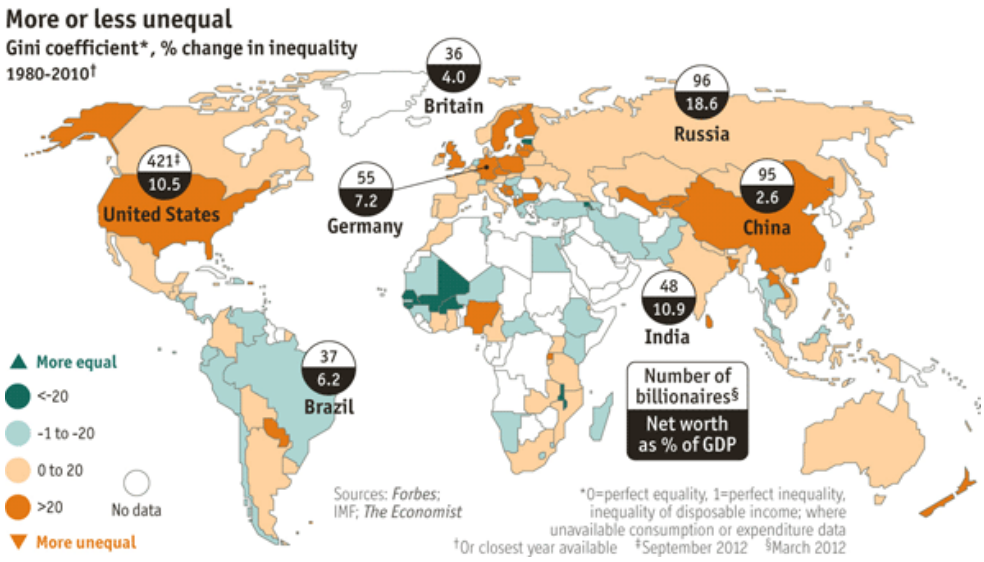

Figure 1: Change in income inequality between 1980 and 2010. [8]

that can be used as an alternative to protectionism is necessary in order to ensure that globalization benefits all segments of the population. Potential solutions can include education schemes for individuals who lose jobs as a result of globalization or increasing investment in alternative industries in area that are negatively impacted to counter job loss.

The negative impact of protectionist policies was very visible in certain developing countries before the 1980s. Many developing countries got rid of or reduced the amount of policies that were barriers to trade. This change in policy has led many countries, especially in the Asia, to see significant growth over a relatively short period of time [1]. China can best exemplify the drawback of protectionist policy and the benefits of a more integrated and open economy. Before 1980, China was one of the most impoverished nations in the world with a GDP per capita PPP of $310 in 1980 in large part due to its protectionist policies [7]. In 1978, the Chinese government spearheaded economic reform to increase China's rate of growth. A major component of this reform was **liberalizing foreign trade and investment**. This reform quickly resulted in the Chinese economy to grow at an average real rate of over 9% annually over the next 15 years [6]. In 2015, the GDP per capita PPP is still growing and has reached a staggering $14,400 [7]. China's more open and integrated economy has played a major role in this growth combined with other factors, such as improved education of the workforce and more investment in rural areas [6]. Although average tariff and limits on imports are higher in developing countries as compared to advanced economies, they had decreased significantly over the past couple of decades. In most developing countries unencumbered by conflict, GDP per capita has been steadily increasing [1].

Financial Markets

Improvements in communication technologies as a result of globalization have resulted in more open and integrated global financial markets. This has resulted in increasing global capital flow. The majority of this integration is occurring in advanced economies. Still, emerging markets are also being more integrated. These integrated financial markets have increased the amount of investment capital available, increased the efficiency with which capital is allocated and have allowed for economies to share the burden of **international risk**, which has encouraged growth in many economies. Although globalization in financial markets can encourage economic growth, it can also increase the volatility within these financial markets, which can have far reaching implication when they experience shocks.

Completely shutting out globalization can result in lower international trade, reduced investment capital, and less economic incentives for investors. While on the other hand, completely allowing unrestricted capital flow can lead to unintended financial crisis during negative shocks due to strong linkage with external economies. In order to benefit from the globalization of financial markets, emerging economies should develop policies that strike a balance between the providing protections from the volatility of these markets while still being able to gain from the increased amount of capital investment. Policies that create a macroeconomic framework that can respond to various shocks to the economy or limit the times of FDI can be possible solutions. [1]

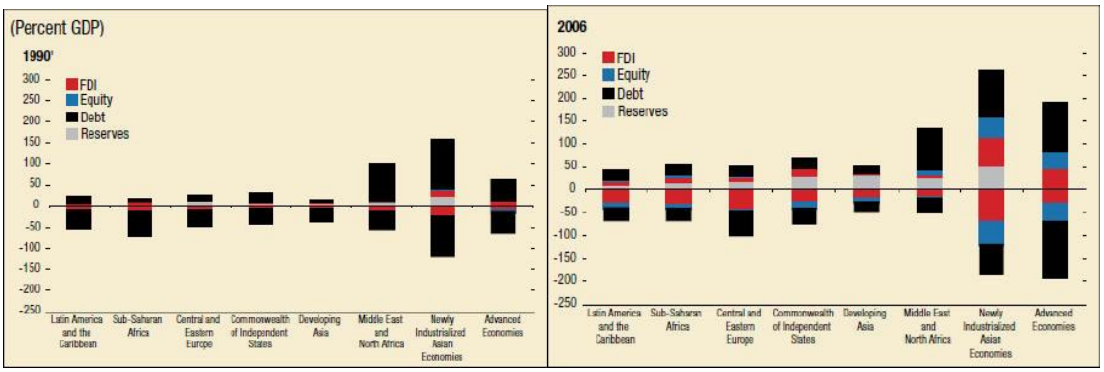

Figure 2: Cross-board assets and liabilities (% of GDP) for 1990 and 2006 [1]

Country Blocs

The issues of globalization have been very divisive. Some segments of the population in advanced economies have elected nationalist leaders that may be inclined to implement more protectionist policies. Many developing economies may fear the volatility in global financial markets and push for less integrated markets, encouraging alternative forms of trade. Some emerging economies that have benefited from globalization have pushed for more open trade.

Conclusion

The main focus of this committee will be to come up with policy that promotes inclusive globalization. Policies that help integrate global economies should reduce the inequality gap present between the richest and poorest segments of the global population to ensure the stability of the international monetary system. The policies suggested should be geared towards providing solutions that will have positive economic and social impact. The IMF is an international financial organization, which means that the IMF exists to create an economic framework that countries can use to generate stable and sustained economic growth and development. Policies should be focused on using the IMF's framework to reduce inequality and encourage globalization. As mentioned earlier, the tools at your disposal include **surveillance, lending and technical assistance**. Resolutions should not only be aimed at finding solutions to the individual problems faced in advanced, emerging or developing economies. Different countries will have different concerns relating to globalization that many also include non-economic issues. These elements should be taken into account when coming up with economic policy.

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Promoting Biodiversity in Developing Nations

Introduction

Biodiversity refers to the diversity of species, the genetic diversity within species, as well as the diversity of environments and climates [1]. Though biodiversity is mostly discussed in the context of the loss of species, this broader definition is preferable because it accounts for the health of species through genetic variation, as well as the health of the environments that supports these species. This is meaningful to the IMF because "studies increasingly confirm that the environment itself may affect macroeconomic conditions… research shows that environmental degradation and depletion can… reduce economic growth prospects" [3].

The issue of biodiversity is especially prevalent due to its present decline at an astounding rate: "The world is losing species at a rate that is 100 to 1000 times faster

than the natural extinction rate" [2]. This rate of biodiversity loss puts this generation in the largest extinction crisis since the dinosaurs. It has been argued that IMF policies may be damaging to the environment of the nations who they are aiming to help.

Since biodiversity loss is a negative externality of economic policy, it is difficult for the IMF to address because it is not directly measured with economic indicators. However, it is clear that biodiversity is valuable nonetheless. The preservation of diverse species ensures that the environment is able to adapt to changing conditions. Though not all of these segments can be demonstrated in economic indicators, they are of economic value. It is for these reasons that the IMF focuses on promoting "high quality growth" that works to preserve the environment as economies develop.

In the case of biodiversity, successfully curating economic policy that protects the loss of species is particularly difficult. The IMF itself admits that "not all national environmental problems can be readily addressed by the IMF. This is particularly true for biodiversity loss… such problems often call for the development of specific environmental, scientific, or social programs that fall outside the IMF's mandate and area of expertise" [3]. Thus, the IMF often works in collaboration with organizations better equipped to tackle environmental issues such as the OECD or United Nations so that it may craft solutions that assist economic growth without creating severe consequences to biodiversity.

Subtopics

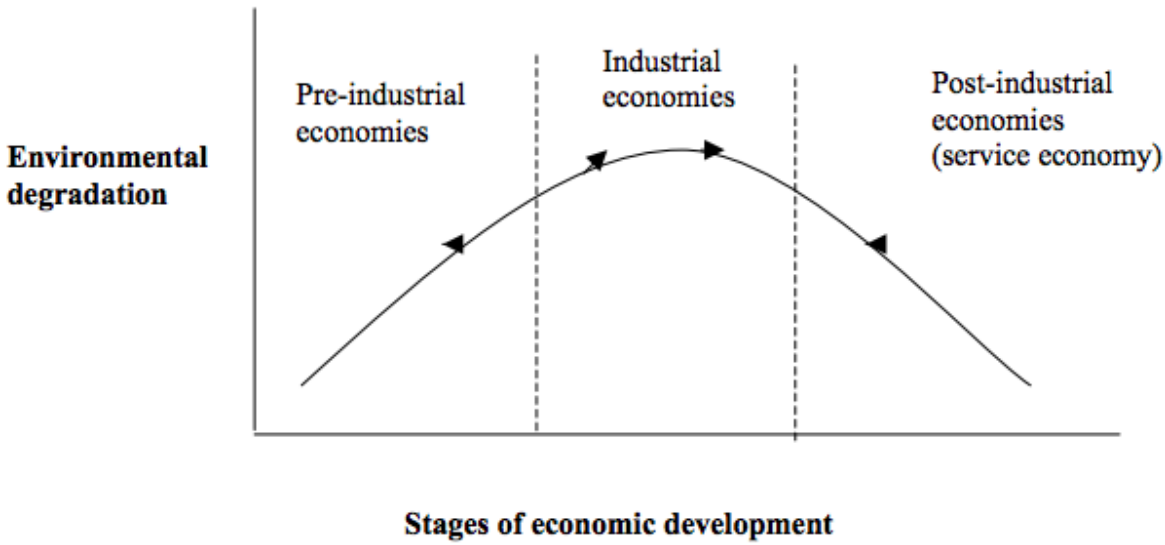
Case Study: Cameroon

A case study of Cameroon provides an example of the conflict between economic growth and preservation of biodiversity that many nations face. After an oil

crisis in 1982, Cameroon implemented IMF structural adjustment policies, which required Cameroon to diversify its economy. The growth of the lumber industry paired with reduced taxes on forest goods created a booming lumber sector. However, the environment has suffered since the logging of 75% of the forest cover in Cameroon has been proposed. This is a pertinent to biodiversity because Cameroon is the only home for 150 unique species of plants [4]. In addition to pushing the growth of the lumber sector, the IMF also mandated that administrative costs be cut, which materialized in the form of sizeable cuts to agriculture and forestry [5].

The Environmental Kuznets Curve (EKC) and Implications

Preservation of biodiversity is especially difficult because preindustrial countries who are most in need of aid from the IMF are those who are most reliant on the exploitation of natural resources. This conflict is modeled by the **Environmental Kuznets Curve (EKC)** shown in Figure 1. The EKC describes the relationship that low-income nations are poor at growing and preserving their environment because lack the regulatory mechanisms ensure that their economy is responsible with respect to the environment, while high income nations are able to curb their environmental footprint more easily through regulatory agencies and technological innovations. Though this relationship may make it seem as though it is reasonable to forgo environmental regulation in the present in order to gain it in the future, empirically this is not the case; "in rapidly growing middle income countries the scale effect, which increases pollution and other degradation, overwhelms the time effect [while] in wealthy countries, growth is slower,



and pollution reduction efforts can overcome the scale effect" [6]. In other words, pollution will often increase faster than the progression of an economy can account for.

The EKC necessitates that in order for the environment to be adequately protected, environmental degradation must be accounted for during growth. Historically this has not been the case. An empirical analysis of the impacts of IMF conditions "show that currency devaluations – that have been a frequent IMF condition until the 80s – significantly increase deforestation over a sample of 112 developing countries and 38 years. Trade liberalization – which is a frequent condition in IMF programs – might imply negative consequences for the natural environment as "dirty" industries migrate to liberalized developing countries, where environmental standards and thus the costs of pollution are lower" [7]. These results were clear in Cameroon, and can also be seen in a plethora of other cases such as Cote d'Ivoire, Central African Republic, Tanzania, and Chile. In each case, the use of environmental resources to boost the economy, often in concert with a mandate that countries decrease administrative spending, leads to irreparable damage to natural forests and lakes. Should economies expand at the expense of the adulteration of natural resources?

Augmenting Economic Indicators

The IMF can work to impact policy through recommendation. The IMF has recently accepted the Carbon Tax as a way for nations to reduce carbon emissions and also raise revenue [8]. The IMF has begun to work to incorporate environmental wellbeing into its economic assessments as well as develop more research efforts into carbon pricing [9].

Country Blocks

What divides nation's positions on this topic is how much they value rapid growth over environmental protection. Some think that certain nations such as China, India, Indonesia, Congo, etc. that wish to grow rapidly would value their growth over environmental protection. Meanwhile, developed nations with relatively constant growth rates will feel more comfortable working to alter current practices to promote biodiversity. In addition, it is worth considering which nations would be creating the loan conditionality and which ones would be restricted by it.

Conclusion

How the IMF should address biodiversity loss directly, or even if it should, is a complicated question. Following this, how the IMF could better work in concert with the World Bank and United Nations in its loan conditionality could possibly be a powerful tool to prevent the loss of biodiversity. In addition, there is also difficulty in how these organisms could work to create a cohesive biodiversity goal, given that each nation's ecosystem is wildly different. Further, it is important to consider that in many cases there is a tradeoff between preservation of biodiversity and economic growth, as illustrated by the EKC. In this instance, the IMF would need to proceed carefully in a manner to promote economic growth in balance with potential negative externalities. From the opposite perspective, could the IMF ever promote a policy with possible economic harms, such as a carbon tax, for the sake of biodiversity preservation while still aligned with its mission?

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