UNITED NATIONS GENERAL ASSEMBLY ECONOMIC AND FINANCIAL COMMITTEE

Dear delegates,

It is with great delight that we welcome you to this session of the Calcutta International School Model United Nations. The ECOFIN has been the primary body of the United Nations General Assembly for deliberating on economic affairs, and has been instrumental in providing executive bodies with a suitable course of action on matters relating to globalisation, sustainable development and macroeconomic policy. We look forward to resolving the two major problems at hand in a similar fashion in 3 exciting and stirring days of debate!

Meet the EB :

An economics aficionado and a debating wizard, Anjali started her MUNing career by going absolutely expecto patronum on the dementors in her committee. She has taken part in numerous MUNs acquiring some of the finest experiences of national and international MUNing conferences as a delegate and as an executive board member. Calling her tall and fat will always get you some amazing marks in committee but comparing her height to that of her vice chair's will definitely get you debarred.

Your vice chairperson, Kushagra Poddar has been in the MUN circuit for quite a while and has MUNed with some of the best to do it. Despite his incredibly small frame (which he classifies as a vertical challenge) and cute face, he is not afraid to let down the rules. Otherwise, you'll often catch him watching NBA games (Raps for life) or playing FIFA on his PS. He is a strong meme addict and a admirer of banter, however any jokes relating to height will lead to downmarking (unless they're directly related to the tiny chairperson, Anjali).

From not knowing what the difference between a delegate and logistics, to quoting law in his sleep, Aryan's MUN journey happened. A stellar munner who has made his name in the circuit over the past 3 years, his love for MUNs is shared by books about the stock market,

Suryaansh, whose name is often butchered to several laughable spelling (like satyansh or surbanash), is another approachable member of the EB. He loves the art of public speaking and is no stranger to it. He always takes criticism as constructive in his stride. Unlike the rest of the EB, he has terrible sense of humour. He loves TV shows and good twist in the tail in everything he does. Although very lethargic sometimes, he builds up a good work ethic(but usually chooses to spend it on random things) and also plays rugby.

AGENDA 1 - DISCUSSING MACROECONOMIC POLICIES FOR THE AVERSION OF FUTURE ECONOMIC CRISIS WITH SPECIAL EMPHASIS ON EUROPE

The Great Recession

Like all previous cycles of booms and busts, the seeds of the subprime meltdown were sown during unusual times. In 2001, the U.S. economy experienced a mild, short-lived recession. Although the economy nicely withstood terrorist attacks, the bust of the dot-com bubble and accounting scandals, the fear of recession really preoccupied everybody's minds.

To keep recession away, the Federal Reserve lowered the Federal funds rate 11 times - from 6.5% in May 2000 to 1.75% in December 2001 - creating a flood of liquidity in the economy. Cheap money, once out of the bottle, always looks to be taken for a ride. It found easy prey in restless bankers—and even more restless borrowers who had no income, no job and no assets. These subprime borrowers wanted to realize their life's dream of acquiring a home. More home loans, more home buyers, more appreciation in home prices. It wasn't long before things started to move just as the cheap money wanted them to.

This environment of easy credit and the upward spiral of home prices made investments in higher yielding subprime mortgages look like a new rush for gold. The Fed continued slashing interest rates, emboldened, perhaps, by continued low inflation despite lower interest rates. In June 2003, the Fed lowered interest rates to 1%, the lowest rate in 45 years. The whole financial market started resembling a candy shop where everything was selling at a huge discount and without any down payment. "Lick your candy now and pay for it later" - the entire subprime mortgage market seemed to encourage those with a sweet tooth for have-it-now investments. Unfortunately, no one was there to warn about the tummy aches that would follow.

But the bankers thought that it just wasn't enough to lend the candies lying on their shelves. They decided to repackage candy loans into collateralized debt obligations (CDOs) and pass on the debt to another candy shop. Soon a big secondary market for originating and distributing subprime loans developed. To make things merrier, in

October 2004, the Securities Exchange Commission (SEC) relaxed the net capital requirement for five investment banks which freed them to leverage up to 30-times or even 40-times their initial investment. Everybody was on a sugar high, feeling as if the cavities were never going to come.

But, every good item has a bad side and several of these factors started to emerge alongside one another. The trouble started when the interest rates started rising, and home ownership reached a saturation point. From June 30, 2004, onward, the Fed started raising rates so much that by June 2006, the Federal funds rate had reached 5.25% (which remained unchanged until August 2007).

There were early signs of distress: by 2004, U.S. homeownership had peaked at 70%; no one was interested in buying or eating more candy. Then, during the last quarter of 2005, home prices started to fall, which led to a 40% decline in the U.S. Home Construction Index during 2006. Not only were new homes being affected, but many subprime borrowers now could not withstand the higher interest rates and they started defaulting on their loans.

This caused 2007 to start with bad news from multiple sources. Every month, one subprime lender or another was filing for bankruptcy. During February and March 2007, more than 25 subprime lenders filed for bankruptcy, which was enough to start the tide. In April, well-known New Century Financial also filed for bankruptcy.

Problems in the subprime market began hitting the news, raising more people's curiosity. Horror stories started to leak out.

According to 2007 news reports, financial firms and hedge funds owned more than $1 trillion in securities backed by these now-failing subprime mortgages - enough to start a global financial tsunami if more subprime borrowers started defaulting. By June, Bear Stearns stopped redemptions in two of its hedge funds and Merrill Lynch seized $800 million in assets from two Bear Stearns hedge funds. But even this large move was only a small affair in comparison to what was to happen in the months ahead.

It became apparent in August 2007 that the financial market could not solve the subprime crisis on its own and the problems spread beyond the UnitedState's borders. The interbank market froze completely, largely due to prevailing fear of the unknown amidst banks. Northern Rock, a British bank, had to approach the Bank of England for emergency funding due to a liquidity problem. By that time, central banks and governments around the world had started coming together to prevent further financial catastrophe.

The subprime crisis's unique issues called for both conventional and unconventional methods, which were employed by governments worldwide. In a unanimous move, central banks of several countries resorted to coordinated action to provide liquidity support to financial institutions. The idea was to put the interbank market back on its feet.

The Fed started slashing the discount rate as well as the funds rate, but bad news continued to pour in from all sides. Lehman Brothers filed for bankruptcy, Indymac bank collapsed, Bear Stearns was acquired by JP Morgan Chase (NYSE: JPM), Merrill Lynch was sold to Bank of America and Fannie Mae and Freddie Mac were put under the control of the U.S. federal government.

By October 2008, the Federal funds rate and the discount rate were reduced to 1% and 1.75%, respectively. Central banks in England, China, Canada, Sweden, Switzerland and the European Central Bank (ECB) also resorted to rate cuts to aid the world economy. But rate cuts and liquidity support in itself were not enough to stop such a widespread financial meltdown.

The U.S. government then came out with National Economic Stabilization Act of 2008, which created a corpus of $700 billion to purchase distressed assets, especially mortgage-backed securities. Different governments came out with their versions of bailout packages, government guarantees and outright nationalization.

The financial crisis of 2007-08 has taught us that the confidence of the financial market, once shattered, can't be quickly restored. In an interconnected world, a seeming liquidity crisis can very quickly turn into a solvency crisis for financial institutions, a balance of payment crisis for sovereign countries and a full-blown crisis of confidence for the entire world. But the silver lining is that, after every crisis in the past, markets have come out strong to forge new beginnings.

As the global financial crisis unravelled, governments across the globe increasingly recognized the severity of the downturn and the urgency to intervene in order to avoid a catastrophic collapse of the financial markets and real economy. The response has consisted of three main interventions: 1) bailouts and injections of money into the financial system to keep credit flowing; 2) cutting interest rates to stimulate borrowing and investment; and 3) extra fiscal spending to shore up aggregate demand. These measures have sought to prevent further economic deterioration and ultimately keep workers in jobs where possible and help create new jobs to provide opportunities for the unemployed. Overall, this response has helped avoid a far more severe downturn, though effectiveness has varied considerably across countries.

Towards the end of 2009, a variety of indicators showed that the worst of the global financial crisis was over in most countries. Stock markets have recovered from their nadir that was evident in March 2008 and also exhibit far less volatility than at the height of the crisis (World Bank 2010). Third quarter figures for GDP did indicate that most OECD countries technically exited recession (besides Greece, Hungary, Iceland, Spain and the UK). At the same time, one is even witnessing an incipient asset price boom. Later in 2009, trade and industrial production statistics suggested that a recovery is underway. Figures on manufacturing activity in China, Europe, the US, and other badly-hit countries indicate that the global recovery was beginning to strengthen at the start of 2010. Most notably, US industrial activity reached its highest level since August 2004.

The Euro-zone Crisis

The Euro-zone crisis was the inability and struggle faced by European countries (namely Greece, Ireland, Spain, Portugal and Italy) to pay off their public debt and reduce their government budget deficit. Their inability to do so resulted in third party intervention and aid, from other EU countries, the IMF, etc. as a means to avoid defaulting on their bond. In return of the aid provided, the receiving countries were required to implement several austerity measures in order to curb their deficit and ensure that a similar situation was not met with again.

The European debt crisis erupted in the wake of the Great Recession around late 2009, and was characterized by an environment of overly high government structural deficits and accelerating debt levels. When, as a negative repercussion of the Great Recession, the banking sector had suffered large capital losses, most states in Europe had to bail out several of their most affected banks with some supporting recapitalization loans, because of the strong linkage between their survival and the financial stability of the economy. As of January 2009, a group of 10 central and eastern European banks had already asked for a bailout. At the time, the European Commission released a forecast of a 1.8% decline in EU economic output for 2009, making the outlook for the banks even worse. The many public funded bank recapitalizations were one reason behind the sharply deteriorated debt-to-GDP ratios experienced by several European governments in the wake of the Great Recession.

By early 2010, concern regarding the ever-growing public debt resulted in lenders charging high interest rates to countries with a high deficit and debt levels, resulting in affected countries not being able to refinance their existing debt. This eventually lead to 4 out of 18 EU countries requiring to be rescued by sovereign bailout programs by the International Monetary Fund (IMF), the European Commission (EC) and even the European Central Bank (ECB).

Causes-

The causes of the Euro-zone crisis vary significantly between affected countries and hence cannot be easily broadened under one big cause. However, it can be credited to a variety of reasons, which can be best explained through the use of examples of countries which were a part of the crisis. The three main causes to consider include the global economic situation during the time, the formation and bursting of economic bubbles and even the introduction and adoption of the Euro along with the lack of a common fiscal policy in the EU.

The bursting of housing bubbles around the world, especially in European countries played a major role in the crisis. The best example of this is in the case is seen in Ireland. The Irish economy became excessively dependent on the housing and construction market as their main source of government revenue and economic growth by 2007. However, following the great recession of 2008, housing prices dropped severely. This proved to be dire for the Irish economy as heavy loan losses on the development property portfolios acquired at the peak of the market became inevitable for commercial banks. The decline in property prices and the collapse in construction activity resulted in severe losses in the Irish banking system despite the 'quantification of risks' they had undertaken at the time of supplying the loan. This in turn resulted in the Irish government having to purchase these loans at a highly discounted value and then partake in bailing out of commercial banks, single handedly causing the government budget deficit, as measured by the general government balance, to increase from 7.3% to 31.2% of GDP in the span of 2 years. By 2010, the Irish government had to request other EU countries to finance their debt problem. Spain experienced a similar phenomenon in that time period too.

Another cause for the crisis may be credited to the links between the banking systems of EU countries amongst each other and with the rest of the world. This is especially true during the American financial crisis. The best example of this can be seen with Italy. The American financial crisis greatly affected the Italian economy. The transmission mechanism was the contraction in the interbank loan market that was the immediate consequence of the crisis. Banks refused to lend money to each other because of a lack of liquidity and the uncertainty about the financial soundness of borrowers. Besides the contraction in liquidity, Italian banks were also affected by their close links with central and eastern European countries where they had built a network of branches and affiliated banks. There was a risk of the collapse or illiquidity of this part of the network. The government responded to the risk of banking crisis by guaranteeing bank deposits to a maximum of €103,000 in the event of a bankruptcy. This avoided a bank run on deposits. However, banks reacted to the liquidity crisis by reducing credit to clients and consumers and raising the amount of collateral required for new loans. This in turn led to a fall in consumption and investment causing aggregate demand to decrease tremendously. This meant that GDP growth and production rates stunted as the economy deteriorated. The reduction in economic activity cut the amount of tax collected and anti-cyclical policies increased public expenditure. As a result, there was a significant increase in the public deficit. Although Italy did not have to resort majorly on external finance sources to pay off their debt, it was a key point to consider in future scenarios.

One further cause may be best understood by taking Greece as an example. Greece joined the Euro-zone in 2001 and as a result of that it had to give up one of the most important tools a country has to reduce its budget deficit: devaluation of its currency. The euro, and its appreciation, resulted in a loss of external competitiveness in the Greek economy, which led to a persistent deficit in the current account. An appreciation of the real exchange rate increased the purchasing power of domestic incomes in terms of imported goods. More imports and fewer exports resulted in a slowdown in economic activity. Tax revenues declined, while the government felt compelled to keep or increase public expenditure to make up for the decline in private demand. As a result the budget deficit and so did public debt. Increasing demand for funds by the public sector leads to an increase in interest rates, which depressed economic activity again. Greece then later had to resort to financial aid from EU countries.

Policies taken to resolve the crisis:
The ECB played a crucial role in the crisis response. From the start of the crisis, particularly through its longer-term refinancing operations (LTRO) programs, the ECB mitigated the negative effects of rapidly reversing cross-border private capital flows. Growing divergence in Target II balances within the Eurosystem substituting for private intra-euro-zone loans reflected this assistance. By providing cheap credit the ECB has thus saved the banking sectors in, and thereby the economies

of, the crisis-hit countries from a collapse. Other euro-zone member states also benefitted, as a collapse would have had a severe, and possibly fatal, impact on the monetary union as a whole.

Access to other sources of finance was more constrained. Financial support packages in the form of official intra-eurozone and IMF-loans also helped accommodate the balance of payments, banking and sovereign debt crises that the peripheral countries fell prey to. However, sovereign bond yields, which had risen to elevated levels in all countries, only fell to more sustainable levels after Mario Draghi's (the former president of the ECB) promise in July 2012 to do "whatever it takes" to preserve the euro and the subsequent announcement of Outright Monetary Transactions. As a result, most crisis countries and governments gradually regained market access.
In return for financial support from other euro-zone members, program countries (Greece, Ireland, Portugal, Spain and Cyprus) had to push through reforms and severe austerity measures, the idea of which was and still is strongly backed by Germany's Chancellor, Angela Merkel. Italy never requested a support program, but implemented austerity measures to comfort financial markets and to live up to Europe's budget rules. In all the crisis countries, austerity strongly contributed to high unemployment and a sharp and protracted contraction of GDP.
The crisis also resulted in the creation of the European System of Financial Supervision (ESFS) to aid in the current crisis and ensures that such a future catastrophe was avoided at all costs.

Global implication of the crisis:
The global translation of the Euro-zone problem is subject to many arguments and disagreements. There is one school of political economics that indicates the main influence of the Euro-zone crisis in the global markets and other economies being of general economic nature. Livio Stracca's report for the ECB suggests that trade links, or namely "economic links" are a more significant factor for outward contagion of the Euro-zone crisis than "financial channels". This school, in tandem with findings that measure for financial integration which cannot justify the incident of crisis. They argue that economic events are transferred across economies primarily via the economic

links, that is the real economy: exports-imports in an economy, international trade etc. Contrarily, the opposite school argues that spillovers of economic incidents occur mainly through financial episodes, currency crises and borrowing. This disagreement of what caused the transmission of the crisis into the Euro-zone and what can potentially cause its contagion to other economies is central to the quest for measures to contain the Euro-zone crisis.

However there is also some debate on these 'economic links' and the extent to which in the case of the Euro-zone crisis have been generalised or sector-specific, that is whether the economies across the globe have been affected in specific areas, like bilateral trade with the Euro-zone or whether they have experienced a major tremble of their domestic economics. For instance, the ECB report suggests that the euro's exchange rate is touched against other currencies like the US dollar or the Swiss franc, but this does not entail but marginal effects of the exchange rate between them.

Further study :

https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1573.pdf?40ae3304b4924411e5ee781637bcfc3d

<u>Case Study 1 - Greece</u>

The Greek crisis was triggered by the turmoil of the Great Recession, which lead the budget deficits of several Western nations to reach or exceed 10% of GDP. What was exceptional for Greece, was that the high budget deficit (which, after several corrections, was revealed that it had been allowed to reach 10.2% and 15.1% of GDP in 2008 and 2009, respectively) was simultaneously coupled with a high public debt to GDP ratio. Thus, the country appeared to lose control of its public debt to GDP ratio, which already reached 127% of GDP in 2009. In addition, being a member of the Eurozone, the country had essentially no autonomous monetary policy flexibility.

Finally, there was an effect of controversies about Greek statistics. Consequently, Greece was "punished" by the markets which increased borrowing rates, making impossible for the country to finance its debt since early 2010.

Causes -

In January 2010, the Greek Ministry of Finance published Stability and Growth Program 2010. The report listed five main causes, poor GDP growth, government debt and deficits, budget compliance and data credibility. Causes found by others included excess government spending, current account deficits, tax avoidance and tax evasion.

GDP growth:

After 2008, GDP growth was lower than the Greek national statistical agency had anticipated. The Greek Ministry of Finance reported the need to improve competitiveness by reducing salaries and bureaucracy and to redirect governmental spending from non-growth sectors such as the military into growth-stimulating sectors.

The global financial crisis had a particularly large negative impact on GDP growth rates in Greece. Two of the country's largest earners, tourism and shipping were badly affected by the downturn, with revenues falling 15% in 2009.

Government deficit:

Fiscal imbalances developed from 2004 to 2009: "output increased in nominal terms by 40%, while central government primary expenditures increased by 87% against an increase of only 31% in tax revenues." The Ministry intended to implement real expenditure cuts that would allow expenditures to grow 3.8% from 2009 to 2013, well below expected inflation at 6.9%. Overall revenues were expected to grow 31.5% from 2009 to 2013, secured by new, higher taxes and by a major reform of the ineffective tax collection system. The deficit needed to decline to a level compatible with a declining debt-to-GDP ratio.

Government debt:

The debt increased in 2009 due to the higher-than-expected government deficit and higher debt-service costs. The Greek government assessed that structural economic reforms would be insufficient, as the debt would still increase to an unsustainable level

before the positive results of reforms could be achieved. In addition to structural reforms, permanent and temporary austerity measures (with a size relative to GDP of 4.0% in 2010, 3.1% in 2011, 2.8% in 2012 and 0.8% in 2013) were needed. Reforms and austerity measures, in combination with an expected return of positive economic growth in 2011, would reduce the baseline deficit from €30.6 billion in 2009 to €5.7 billion in 2013, while the debt/GDP ratio would stabilize at 120% in 2010–2011 and decline in 2012 and 2013.
After 1993, the debt-to-GDP ratio remained above 94%. The crisis caused the debt level to exceed the maximum sustainable level (defined by IMF economists to be 120%). According to the report "The Economic Adjustment Programme for Greece" published by the EU Commission in October 2011, the debt level was expected to reach 198% in 2012, if the proposed debt restructure agreement was not implemented.

Budget compliance:
Budget compliance was acknowledged to need improvement. For 2009 it was found to be "a lot worse than normal, due to economic control being more lax in a year with political elections". The government wanted to strengthen the monitoring system in 2010, making it possible to track revenues and expenses, at both national and local levels.

Data credibility:
Problems with unreliable data had existed since Greece applied for Euro membership in 1999. In the five years from 2005 to 2009, Eurostat noted reservations about Greek fiscal data in five semiannual assessments of the quality of EU member states' public finance statistics. Previously reported figures were consistently revised down. The misreported data made it impossible to predict GDPGovernment spending.

The Greek economy was one of the Eurozone's fastest growing from 2000 to 2007, averaging 4.2% annually, as foreign capital flooded in. This capital inflow coincided with a higher budget deficit.

Greece had budget surpluses from 1960 to 1973, but thereafter it had budget deficits.From 1974 to 1980 the government had budget deficits below 3% of GDP, while 1981–2013 deficits were above 3%.
Pre-Euro, currency devaluation helped to finance Greek government borrowing. Thereafter this tool disappeared. Greece was able to continue borrowing because of the lower interest rates for Euro bonds, in combination with strong GDP growth.

Case Study: Brexit

Brexit is the procedure by which the United Kingdom was set to formally leave the European Union after British Prime Minister, Theresa May, invoked article 50 in the March of 2017. Since then the UK has requested extensions and is now set to leave by the 31st October of this year. Throughout the procedure of coming to consensus and striking an agreed upon deal with the EU, both parties have been greatly affected economically and the impacts of the withdrawal may be long lasting.

Most economists are in consensus that a departure from the EU will adversely affect the UK. It leads to a large fall in confidence in the economy as well as investment, along with several other problems. Following the Brexit referendum, many companies shifted assets, offices, or businesses operations out of Britain and to continental Europe. By the beginning of April 2019, banks had transferred more than US$1 trillion out of Britain, and asset management and insurance companies transferred US$130 billion out of Britain. A March 2019 report from the independent research institute New Financial identified 269 companies in the banking or financial services sector that had relocated portions of their businesses or staff following Brexit; of these moves, 239 were confirmed as Brexit-related. A UK-based economic forecasting group suggested that the country would experience a short shallow recession as the economy suffered severe confidence effects on spending and business. The group also cut its economic growth forecasts for the UK from 2.6% to 0.4% in 2017, and 2.4% to 1.4% for 2018. The group's chief economic adviser argued there would be more long-term implications, and that the UK may have to adjust to a permanent reduction in the size of the economy, compared to the trend that seemed possible prior to the vote. The International Monetary Fund (IMF) also reduced its 2017 economic growth forecast for the UK from 2.2% to 1.3%. Several studies have also indicated that, following the referendum, inflation rates rose by 1.7% and cost of living to an average household increased too, while national British income fell by 0.6% and 1.3%. 2019 and 2017 surveys of existing academic research found that the credible estimates ranged between GDP losses of 1.2–4.5% for the UK, and a cost of between 1–10% of the UK's income per capita. These estimates differ depending on whether the UK does a Hard or Soft Brexit. This, in turn, resulted in a large fall in the balance of payments and a new low in the value of the pound in recent years. Investment has also been greatly affected as businesses are uncertain of their future due to a lack of consensus and assurance the UK government has been able to provide to its people. Aggregate demand has also taken a hit in the process as well, as a result of it.

However, Brexit may not only affect the UK negatively, but EU member states as well. Although due to the uncertainty of the type of exit the UK will have with the EU (hard or soft) economists have widely speculated the impact of either type of deal with results suggesting various economies in the EU will be harmed, especially the Republic of Ireland. In the case of a no-deal Brexit, EU27 countries will bear severe harm as the exit will result in trade barriers, such as high tariffs) and protectionist measures being implemented in accordance with the WTO regulations. Ireland will thus face the brunt of this, as almost 14% of their exports go to the UK and it also imports almost 80% of its oil products and 90% of gas products from the UK. Furthermore, the common border the UK and Ireland share is also area for concern as it may be restricted with border checks and customs, along with the fact that the Good Friday Agreement may also be in jeopardy. Studies have also shown that, apart from regions in the UK itself, Ireland and its respective counties will be most in trouble. Studies have also ascertained that in the best case scenario Ireland would still face a permanent GDP decline of nearly 2% by the year 2030. Member states such as Germany, Belgium, Cyprus and Netherlands may also face several complications as trade declines in various strategically important industries all while the potential enforcement of British EEZs could adversely affect France's fishing industry. The free movement of people may also be negatively impacted, of which Poland may see potential losses as a large proportion of income occurs as a result of Polish residents working in the UK sending/paying funds back home. This is, however, entirely subjective as the conditions of the exit are yet to be finalized.

Future Scenario :

The global economy faces a number of complex challenges from technological change and globalization, and the lingering effects of the 2008-9 financial crisis. At the same time, we are witnessing lower levels of trust in the core institutions that have helped to deliver tremendous growth and prosperity over the past 40 years. These developments threaten to fragment the international order that has governed the global economy.

The symptoms of this fragmentation include rising trade tensions, discord with and within some multilateral institutions, and a dilution of efforts to address the profound cross-border challenges of the 21st century, such as climate change, cyber-crime, and refugee flows. The question inevitably arises: if this is occurring at a time of solid global growth and relative financial stability, what might the next economic downturn produce?

History suggests such a downturn is somewhere over the horizon, and recent signs of slowing global growth should underline the imperative to prepare for unexpected developments.

The distrust of institutions is not confined to the multilateral realm. National governance has in many respects fallen into disrepute – witness the turmoil resulting from recent elections in many countries. If we are to forestall the next economic downturn, and mitigate the impact when it arrives, countries need to shore up their defenses now.

These defenses comprise financial firepower, policies to fight crises and regulatory regimes, many put in place after the global financial crisis. However, as matters stand now, there is no guarantee that they will be sufficient to keep a "garden variety" recession from becoming another full-blown systemic crisis.

On monetary policy, there is considerable discussion about how central banks can respond to a deep or prolonged downturn. For example, past US recessions have been met with 500 basis points or more of Federal Reserve easing, and in the global financial crisis, the central banks used their balance sheet extensively. However, with policy rates still so low in so many countries and balance sheet normalization still underway, that same policy response may not be available.

Some suggest that unconventional monetary measures may provide the scope to respond to a crisis through negative rates, forward guidance pledges to hold rates at lower levels longer than justified by inflation targets or policy rules, or other innovations. But with the effectiveness of these ideas at best uncertain, there is reason for concern about the potency of monetary policy.

The next line of defense is fiscal policy, where many observers insist that the room for maneuver has been narrowing in the advanced economies. Public debt has risen – notably in the US in the wake of tax cuts and spending increases. Indeed, in many countries, deficits remain too high to stabilize or reduce debt. At the same time, if the next slowdown creates unemployment and economic slack, we should expect the multipliers to grow. That would restore some potency to fiscal policy, even at high debt levels. However, we should not expect governments to have the room in their budgets to respond as they did 10 years ago. With high sovereign debt levels, fiscal stimulus may be a hard sell politically.

One lingering resentment growing out of the global financial crisis was the perception that bankers were saved at the expense of the average worker. As a result, a future recession that endangers the finances of small businesses or homeowners would likely lead to calls to help relieve debt burdens. Supporting a larger share of the economy could further stress already stretched public finances, but failing to do so could deepen political divides.

If recession once again threatens the stability of banks, the recourse to bailouts is now limited in law, following financial regulatory reforms that call for bail-ins of owners and lenders. But those new systems remain underfunded and untested.

We should not lose sight of the fact that the impairment of key US capital markets during the global financial crisis, which might have produced crippling spillovers across the globe, was robustly contained by unorthodox central bank actions supported by backstop funding from national treasuries. The capacity to do so again also is unlikely to be readily available.
The point is that national policy options and public financial resources may be much more constrained than in the past. The right lesson to take from that possibility is for each country to be much more careful to sustain growth, to limit vulnerabilities and to prepare for whatever may come.
Another takeaway is the importance of multilateral preparedness and action. Institutions like the IMF have played a crucial role in responding to crises and keeping the global economy on track. The ability to respond effectively to these challenges has required a constant process of reform that needs to continue.

In the face of the discontent with multilateralism in some advanced economies, it is essential for the process of IMF evolution to continue – across the range of lending, analytical and research activities – so that we continue to meet our core mission of supporting global growth and financial stability. This will become all the more important if national policy tools prove insufficient to meet a crisis.
The IMF's lending capacity was increased during the global financial crisis to about $1 trillion – a forceful response from our membership at a time of dire need. From that point of view, it was encouraging that the G20, at the November meeting in Buenos Aires, restated its commitment to support the global financial safety net, with a strong and adequately financed IMF at its center.

IMF managing director Christine Lagarde has called for a "new multilateralism", one that is dedicated to improving the lives of all this world's citizens and ensures that the economic benefits of globalization and technology are shared much more broadly. This is an essential goal, and one element is to ensure that we can prevent future crises – and respond effectively to the next recession. This is a practical and pragmatic way to overcome distrust in institutions and build a shared and prosperous future.

Further Study :

https://voxeu.org/sites/default/files/file/reboot_upload_0.pdf

https://ec.europa.eu/info/system/files/eucountries-responses-to-financial-crisis.pdf

AGENDA 2 - FOSTERING SUSTAINABLE ECONOMIC DEVELOPMENT IN THE ARCTIC REGION

Why Arctic?

A new political paradigm arose in the Arctic with the end of the Cold War and the softening of the region's geopolitical lensing, based on institutional frameworks that support and facilitate collaboration on mutual interests and difficulties.

For the A-5 countries, the Arctic is an increasing strategic priority: the USA, Russia, Canada, Denmark, and Norway. Over the past decade, they have all promulgated multi-dimensional approaches that explicitly state that their main interest (although not only) is to exercise sovereignty over their northern regions and achieve other national security interests, including a stable regional order.

About 4 trillion dollars worth of oil, more than a thousand and a half trillion cubic feet of natural gas, and a major resource avenue for the fishing industry, this circumpolar northern region called the Arctic is certainly one of, if not the most attractive region in the world. But the problem is the trade-off.

One of the most pristine and immaculate environments on the planet, home to a large tourism industry as well, would be under indubitable threat.

Problems -

Warming:

The fragile Arctic is warming in the most unpredictable way. In September 2013, Greenpeace 'Arctic 30' activists were arrested and put on trial in Russia following a protest against Arctic offshore oil drilling by Gazprom. Their protest was part of a larger concern for the fate of the Arctic environment, in view of the gold rush to exploit its resources. But what has evoked renewed strategic interest in this region is Russian President Vladimir Putin's reported order for larger military presence in the Arctic in response to Canada's claims? The impact of climate change on Arctic is clearly visible in the form of declining sea ice, melting glaciers, thawing permafrost, and changing landscape. The Arctic ice levels are now at the lowest covering a much smaller area than 30 years ago and it is 4 predicted that, if melting continues at the current rate, the Arctic will be free of ice all year round by 2030.

Global warming and climate change are the most instrumental factors in the ongoing destruction of the Arctic, especially the Tundra biome, where irreversible damage has been done to the habitats of local animals like polar bears.

A degree of permanent change in the climate may not seem like much, but it is essentially enough to change the climate of, for example, Paris to that of somewhere in the middle east, like Istanbul.
Climate change is most definitely unfavourable for the region, but a warming Arctic makes it much easier to extract its resources. The cost of a barrel of oil currently costs between 50 to 55 US dollars, but a barrel of oil extracted from the Arctic would cost about 80. This is due to the added costs of tougher drilling through the ice, sailing in ice breaker ships, setting up transport chains, etc. This makes it an extremely expensive source, that is, until the ice melts.

Territorial claims:

Under the Exclusive Economic Zones(EEZ) established by the Third United Nations Conference on the Law of the Seas, which essentially means that a country has sovereign rights over 200 nautical miles from its coast, 8 countries have jurisdiction over the Arctic. They are Canada, Norway, Russia, Denmark, Iceland, Sweden, Finland and the United States. However, wants are unlimited. That is the reason the Arctic is caught in the crosshairs of territorial disputes which regularly escalate to military ones, with NATO even staging the Trident Juncture military exercise in Norway, involving about 40,000 troops. This was done for the first time in a decade.

The assertive foreign policy of the most major countries has been very explicit with regard to this region. Russia in particular, has been very interested in gaining control over the Arctic, with it even planting a flag on the seabed on what it claims to be connected to its continental shelf. This comes as no surprise due to the clear advantages it would gain from control over the region, including a much larger control over global oil prices.

Lomonosov Ridge

Canada, the Kingdom of Denmark (via Greenland), and the Russian Federation each assert that the Ridge is an extension of their own continental shelf. Proof of its continuation would provide the State with access to the sea bed and natural resources beyond the present limit of 200 nautical miles (nm). The U.S. claims to be an oceanic ridge and therefore not an extension of the continental shelf of any state, and therefore refutes any claim to ownership.

Hans Island

Canada and Denmark (via Greenland) continue to dispute the status of Hans Island. Both states currently dispute the territorial status of a small - 1.3 square kilometres- island in the Kennedy Channel of the Nares Strait between Canada's Ellesmere Island and northern Greenland. The uninhabited island lies between the equidistant boundaries determined by a 1973 treaty between the two States. At the time, negotiators could not agree on the status of 6 the island and left its status out of treaty negotiations. As recently as April 11, 2012, both States acknowledged the idea of splitting the island, but an agreement has yet to be reached.

Control over sea trade:

Due to melting ice, the number of shipping routes has increased. The ones passing through Russia’s EEZ, the Northern Sea Route(Northern Sea Route) in particular, have been very strictly regulated, with rules including submitting a 45-day prior notification before passing through, etc. A vessel violating said rules would be ‘removed’. A military connotation is not explicit.

Shipping Routes are a major advantage of the melting ice. Routes like the Northern Sea Route and the Northwest Passage, the latter falling mostly into the Canadian EEZ, requiring Canadian authorisation for sailing through it. The USA however, has contravened this regulation in its ice breaker routes before. The Northwest passage in many regards is more economically viable than the Northern Sea Route, primarily due to Russia being uncontrovertibly in charge of it due to its geographic advantages. Moreover, apart from a few northern nations, the Northern Sea Route is a longer route from the Atlantic to the Pacific. It is also further north than the Northwestern passage, which makes ice more of a problem.

The International Maritime Organisation, a UN specialised agency for regulating shipping.

Militarisation:

Despite non-proliferation treaties keeping the Arctic secured from nuclear attacks, it remains to be an area of great military advantage ever since the cold war. Russia, especially after escalations with Ukraine, has increased its military presence in the Arctic. It also has the largest sector of the Arctic, providing it with a great military advantage. The USA has also been present in the Arctic, with its EEZ from Alaska covering some of the Arctic. The establishment of its northern military command or NORTHCOM, alongside one of its Arctic policy directives being homeland security, and a US Air Force official calling the 'Arctic the first line of defense'. The US Coast guard also recently invested in a fleet of icebreakers.

While increasing, the real magnitude of military forces ' capacities and activities in the Arctic remains mainly restricted to within the state boundaries of the A-5. In September 2013, even the much-hyped Russian armada took place under relatively better weather conditions and near the coast. Furthermore, many military exercises, such as Nanook and Cold Response, occur in the summer months, due to the difficulties of conducting them in the weather extremes, which characterise much of the year.

Procurement and funding problems are also a restriction for some Arctic states in constructing and retaining such capacities. Developing regional expertise in equipping, training, and stationing forces is a significant challenge and they compete with other priorities of military and expenditure.

Legal aspect:

United Nations Convention on the Law of the Seas

The questions of jurisdiction over the Arctic as well as its militarization have not yet been the topics of any major international treaty. The most important agreement regulating sovereign rights in the Arctic (and other sea areas) is the United Nations Convention on the Law of the Sea (UNCLOS), which is currently the only international piece of legislation governing the rights and duties of states regarding the seas and oceans in the world.

It describes the limitations that each state should adhere to. The treaty is often referred to as the 'constitution for the oceans' and it was concluded in 1982 after nine years of work of the United Nations Conference on the Law of the Sea (UNCLOS III) and came into force in 1994 after being ratified by the 60th country (Guyana).

To date, 158 countries have ratified the Convention, however, not the USA. Nevertheless, the US helped shape the Convention and also signed the 1994 Agreement on Implementation. Despite the fact that the treaty was not specifically designed to deal with the Arctic region, the Convention is crucial in regulating navigation in the Arctic waters and particularly in the Northwest Passage.

According to the Convention, each country can extend its sovereign territorial waters to a maximum of 12 nautical miles (22 km) beyond its coast, but foreign vessels are granted the right of innocent passage through this zone, as long as they do not engage in hostile activities against the coastal state.

The Convention also empowers the new concept of 'transit passage,' which is in fact a compromise that combines the legally accepted provisions of innocent passage through territorial waters and freedom of navigation in the high seas. The concept of transit passage reserves the international status of the straits and gives all countries the right of unimpeded navigation and flight over these waters.

Observing international regulations on navigational safety and civilian air-traffic control as well as proceeding without delay except in distress situations and refraining from any threat or use of force against the coastal state are the only conditions that have to be satisfied by vessels or aircraft in transit passage.

However, the Convention is not flawless and nowadays it tends to be slightly outdated. For some it is too unclear or drafted in overly general terms.

Most experts affirm that navigation through the Northwest Passage should be free and unencumbered if it is to be considered an international strait. However, Canada regards the Passage as part of its internal waters. This policy is rejected by several countries and has led to several incidents.

Such problems are usually resolved on the basis of subsequent bilateral treaties between the countries concerned, but some voices are being persistently raised suggesting that it might be the time for a specific treaty regime for the Arctic.

Another aspect of the militarization of the Arctic to which the Convention on the Law of the Sea is relevant is the issue of territorial claims in the region. According to the Convention, all coastal states can establish exclusive economic zones extending up to 200 nautical miles (370 km). They can exercise their sovereign rights over both the waters and the seabed within this area. Furthermore, a country's sovereign territory may be extended depending on how far the continental mass extends out under the ocean, if the outer boundaries of this so-called continental shelf are precisely defined and documented.

The Convention also employs the definition of continental shelf adopted by the International Law Commission in 1958, which defined the continental shelf to include 'the seabed and subsoil of the submarine areas adjacent to the coast but outside the area of the territorial sea, to a 12 depth of 200 meters, or, beyond that limit, to where the depth of the adjacent waters admits of the exploitation of the natural resources of the said areas'.
Exact borders are determined by a number of factors including the structure of the ocean floor, sediment thickness and ocean depth. These factors are a matter of dispute in the case with the Lomonosov Ridge, where determining whether this geological formation is part of the continental shelf of Canada, Russia or Greenland. It is crucial to establish which country has sovereign rights over the seabed around the North Pole.

The Commission on the Limits of the Continental Shelf was established in order to control claims extending beyond 200 nautical miles or to handle conflicting claims. The Commission considers evidence data and gives recommendations to the United Nations.

The UNCLOS was considered a 'sea constitution' rather than a final treatment of the Law of the Sea. Therefore, in this aspect the UNCLOS remains the primary international treaty. The UNCLOS was also supposed to serve as a basis for dealing with a myriad of legal issues that would arise in drafting more specific, regional treaties

UNCLOS I

In 1956, the United Nations held its first Conference on the Law of the Sea (UNCLOS I) in Geneva, Switzerland. UNCLOS I resulted in four treaties concluded in 1958:

• Convention on the Territorial Sea and Contiguous Zone, entry into force: 10 September 1964
• Convention on the Continental Shelf, entry into force: 10 June 1964 • Convention on the High Seas, entry into force: 30 September 1962 8

• Convention on Fishing and Conservation of Living Resources of the High Seas, entry into force: 20 March 1966
Although UNCLOS I was considered a success, it left open the important issue of breadth of territorial waters. This was followed by UNCLOS II and UNCLOS III.

UNCLOS II

In 1960, the United Nations held the second Conference on the Law of the Sea ("UNCLOS II"); however, the six-week Geneva conference did not result in any new agreements. Generally speaking, developing nations and third world countries participated only as clients, allies, or dependents of the United States or the Soviet Union, with no significant voice of their own.

UNCLOS III

The convention set the limit of various areas, measured from a carefully defined baseline. (Normally, a sea baseline follows the low-water line, but when the coastline is deeply indented, has fringing islands or is highly unstable, straight baselines may be used.) The areas are as follows:
• Internal Waters
• Territorial Waters
• Archipelagic Waters
• Contiguous Zone
• Exclusive Economic Zones (EEZs)
• Continental Shelf

Other important documents and organisations:

Arctic Council

The Arctic Council is a high-level intergovernmental forum that addresses issues faced by the Arctic governments and the indigenous people of the Arctic.

It has eight member countries: Canada, Denmark, Finland, Iceland, Norway, Russia, Sweden, and the United States.

Approved intergovernmental and inter-parliamentary organisations (both global and regional) and non-governmental organisations can also obtain Observer Status.

They include the Arctic Parliamentarians, International Union for Conservation of Nature, the International Red Cross Federation, the Nordic Council, the Northern Forum, United Nations Development Programme, United Nations Environment Programme; and a handful of non-governmental organisations such as the Association of World Reindeer Herders,
the University of the Arctic, and the World Wide Fund for Nature-Arctic Programme.

The Arctic Council convenes every six months somewhere in the Chair's country for a Senior Arctic Officials (SAO) meeting. SAOs are high-level representatives from the eight member nations. Sometimes they are ambassadors, but often they are senior foreign ministry officials entrusted with staff-level coordination. Representatives of the six Permanent Participants and the official Observers also are in attendance.

At the end of the two-year cycle, the Chair hosts a Ministerial-level meeting, which is the culmination of the Council's work for that period. Most of the eight member nations are represented by a Minister from their Foreign Affairs, Northern Affairs, or Environment Ministry. A formal, though non-binding, "Declaration", named for the town in which the meeting is held, sums up the past accomplishments and the future work of the Council. These Declarations cover climate change, sustainable development, Arctic monitoring and assessment, persistent organic pollutants and other contaminants, and the work of the Council's five Working Groups.

Illulisat Declaration:

The Ilulissat Declaration was announced on May 28, 2008, by the five coastal states of the Arctic Ocean (United States, Russia, Canada, Norway and Denmark), meeting at the political level during the Arctic Ocean Conference in Ilulissat, Greenland to discuss the Arctic ocean, climate change, the protection of the marine environment, maritime safety, and division of emergency responsibilities if new shipping routes are opened.

One of the chief goals written into the declaration was blockage of any "new comprehensive international legal regime to govern the Arctic Ocean".

An additional pledge for "the orderly settlement of any possible overlapping claims," was expected as the conference invitation originated in 2007 as a consequence of several jurisdictional disputes, including Hans Island and Arktika 2007.

Because the objective of the meeting was to discuss legal regimes and jurisdictional issues in the Arctic Ocean, only the five coastal states of that ocean were invited. The Arctic Council, being the only circumpolar Arctic international forum, which also includes the three Arctic states that do not border the Arctic Ocean (Sweden, Finland and Iceland) was deliberately not used as a forum. These three states are therefore not a party to the Ilulissat Declaration.

Likewise, the Arctic indigenous peoples, who have a prominent position within the Arctic Council, were not involved in the Ilulissat negotiations.

For your convenience, a timeline of relevant events can be found at: http://www.stimson.org/infographics/evolution-of-arctic-territorial-claims-and-agreements-a-timeline-1903-present/

The Arctic area is a unique ecosystem appearing in this world, yet being endangered by global warming. Moreover, now we are we are worsening its situation even further by mining and other human interventions. Dear delegates, the future of this region is now in your hands – whether to protect its uniqueness or to industrialize it and use its resources.

Further study:

http://worldoceanreview.com/en/wor-1/law-of-the-sea/limits-to-the-law-of-the-sea/

http://www.arcticcentre.org/EN/SCIENCE-COMMUNICATIONS/Arctic-region

http://www.amap.no/

http://geology.com/articles/arctic-oil-and-gas/

http://www.exploringgeopolitics.org/

http://www.theguardian.com/environment/2011/jul/05/oil-supplies-arctic

http://www.arctic-council.org/index.php/en/

http://routemag.com/tag/arctic-council/

http://www.international.gc.ca/arctic-arctique/council-conseil.aspx?lang=eng

With that, we hope you will be well researched before steeping into committee, and if you have any questions - feel free reach out to your chairpersons or any member of the EB!