Forum: Economic and Social Council (ECOSOC)

Issue: Measures to minimize economic shock in a globalized economy

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Introduction

The world was recently faced with its first pandemic in almost a hundred years. The COVID-19 pandemic affected the social and economic order of the world in various ways. This is evident as from 2019 to 2020, the median global GDP decreased by 3.9%, marking the worst economic downturn since the Great Depression.

The global economy faces unpredictable changes and challenges frequently. Challenges in recent years include COVID-19, The Russia-Ukraine conflict and the recession in the United Kingdom. These challenges include financial crises, which affects developing countries the most yet these changes affect entities all over the world resulting in an increase in inflation expectations. Rising inflation further causes people to believe prices will increase again in the future, making them demand higher wages, yet not delaying purchases. Economic shocks can have many other negative effects, such as recessions, high interest rates etc. These are some of the many negative effects of economic shocks, and thus the issue focuses on addressing how to minimise these shocks and their effects.

Definition of Key Terms

Deflation

Deflation occurs when prices decline to the point where the rate of inflation becomes negative and purchasing power increases. It is the complete opposite of inflation.

Demand

Demand describes the consumer's desire and willingness to purchase a product or service at a specific time or over an extended period of time. Additionally, consumers must be able to afford the items they want or need based on their estimated disposable income. Demand therefore has an impact on market expansion and economic growth.

Economic Globalisation

Economic globalization refers to the expanding interdependence of global economies as a result of the expanding scale of cross-border trade in goods and services, the movement of international capital and the widespread and rapid spread of technological advances.

Foreign Exchange Reserves

Assets held by a nation’s central bank in a foreign currency are known as foreign exchange reserves.

GDP (Gross Domestic Product)

GDP calculates the monetary value of the final goods and services—those purchased by the consumer—produced in a nation during a specific time period (say a quarter or a year). It accounts for all the output produced inside a nation's boundaries.

Global Markets

The market in which goods and services of one country are purchased or sold to people of other countries.

Inflation

The term "inflation" refers to a rise in prices, which can be translated to a gradual decline in a person's ability to purchase goods and services. The average price increase of a selected basket of goods and services over some time can show the rate at which purchasing power decreases. As a result of price increase, which is often expressed as a percentage, currency effectively costs less to buy.

Labor Productivity

Labor productivity is defined as real output per labor hour. Workers are able to produce more goods and services for a given number of work hours if labor productivity increases.

Monetary Policy

Monetary policy is the macroeconomic policy laid down by the central bank. It involves management of money supply and interest rate and is the demand side economic policy used by the government of a country to achieve macroeconomic objectives like inflation, consumption, growth and liquidity.

Singular Economic Shock

This type of economic shock is a short-term event. Its usual after-effects include either costs or gains not being priced into the market. Long-term trends would not be considered economic shocks as the economy would have time to adjust.

Supply

Supply is referred to as the total quantity of a particular good or service that a supplier makes available to customers at a particular time and price. Usually, market activity determines it. For instance, increased demand can prompt a supplier to boost their supply.

Supply Chains

The order in which a product's production and distribution are carried out.

Trade Wars

When a country places restrictions and sanctions on another country's imports.

Unexpected Economic Shock

As evident in the name, this type of economic shock is not planned or foreseen. Usually, businesses and investors spend according to demographic trends. These unexpected shocks cannot be predicted and thus causes unexpected changes to the economy, having unpredictable consequences.

Key Issues

General Issues

Recessions

A recession is a prolonged period of significant decline in market-wide economic activity. Real income, employment, industrial production, and retail wholesale sales are all impacted. The rise in unemployment rates during recessions makes them a significant issue. People who aren't affected by unemployment strikes face issues with future salary increases and bonuses, along with facing reductions in pay and benefits.

A recession can also cause "scarring," or long-term harm to people's financial situations and the economy as a whole. Long-term impacts of recessions include:

Academic achievement: Early childhood nutrition can be threatened by unemployment and income losses, which can lower educational achievement; reducing families' capacity to provide a conducive learning environment, which includes stable housing, summer activities, and adequate health care;and by forcing plans for college to be postponed or abandoned.

Opportunity: Individuals and families can suffer long-term consequences from job and income losses brought on by the recession. For instance, the increase in poverty that will occur as a result of the recession will have long-lasting effects on children and the economy.

Private capital: Through the second quarter of 2009, total non-residential investment is down 20% from peak levels. For many years to come, production capacity will be reduced as a result of the investment reduction. The investment slowdown is also likely to slow the adoption of new innovations, as technology is frequently integrated into new capital equipment.

Entrepreneurship and the formation of businesses: Small and new businesses frequently lead technological development.Small businesses are experiencing a double squeeze as a result of the credit crunch and the decreased demand from consumers. For instance, 43,500 businesses filed for bankruptcy in 2008, up from 28,300 in 2007 and more than twice as many as in 2006. In contrast to the average of 163 initial public offerings in the four years prior, only 21 active businesses conducted one in 2008.

High Interest Rates

Higher interest rates have several effects, some of which include:

Borrowing becomes more expensive: The overnight lending between banks using reserves held at the Fed is the only type of lending that is subject to the Fed's key policy rate. To put it another way, it doesn't directly affect borrowing by consumers or (non-bank) businesses. However, the distinction is meaningless because it is so closely linked to rates that do directly affect these borrowers.

Deposits yield more after a period of time: Banks, which take deposits as collateral for loans, are also subject to higher borrowing costs. To put it another way, the savings account that currently pays out a few dollars a year, if that.

Supply-Side Economic Shocks

The usual cause of supply-side economic shocks would be changes in the weather. If access to raw materials becomes difficult due to a storm or another natural disaster, it becomes more difficult to produce goods based on the raw material in question.

Political Economic Shocks

This type of economic shock is usually based on politically motivated actions; it often comes from a public policy. An example would be:

- A significant change in the Federal Reserve's (USA) interest rate, as it could affect the economy as a whole based on a policy decision.

Other examples of political economic shocks

Geopolitical events (war, terrorism) or trade wars would also be considered political shocks as they affect the economy based on politically motivated acts.

Recent Real-life Issues

COVID - 19

Estimates indicate the virus reduced global economic growth in 2020 to an annualized rate of around -3.2%, with a recovery of 5.9% projected for 2021. Global trade is estimated to have fallen by 5.3% in 2020, but is projected to grow by 8.0% in 2021. According to a consensus of forecasts, the economic downturn in 2020 was not as negative as initially estimated, due in part to the fiscal and monetary policies governments adopted in 2020. In most countries, economic growth fell sharply in the second quarter of 2020, rebounded quickly in the third quarter, and has been mostly positive since.

Turkish Currency and Debt Crisis

The Turkish currency and debt crisis is an ongoing financial and economic crisis in Turkey. It is characterized by the plummeting value of the Turkish lira (TRY), high inflation, rising borrowing costs, and, in turn, rising loan defaults.

The economic issues facing Turkey keep getting worse. In 2022, its deficit in foreign trade has reached an average of $8 billion per month. The average monthly gross energy imports increased from $3-4 billion to $7-8 billion as a result of the sharp rise in global energy prices this spring as a result of Russia's invasion of Ukraine. The current account deficit—the gap between imports and exports for all goods and services—continues to widen despite a decrease in energy imports and a rebound in tourism. Further deficit was anticipated.

European Sovereign Debt Crisis

The sovereign debt crisis led to a contraction in GDP, the loss of jobs, and social unrest. The public reacted negatively to the austerity measures, which included reducing wages and pensions in the public sector and raising income taxes. A severe sovereign debt crisis began in 2010 when the Greek government was unable to finance its debt on the markets, despite the fact that the Great Recession had already had a significant impact on the (peripheral) countries with large housing market booms (such as Ireland and Spain).

The Conflict in Ukraine

The rise in commodity prices, which will exacerbate already-existing inflationary pressures, was the primary economic repercussion of the conflict. Net importers of energy and food products were particularly affected by rising commodity prices, raising the possibility of significant supply disruptions in the event of an even greater escalation of the conflict. Global trade was also hampered by Europe's declining demand.

As many economies in the Asia-Pacific region are net energy importers, led by China, Japan, India, South Korea, Taiwan, and Thailand, the impact was felt almost immediately through higher import prices, particularly energy prices.

The conflict was felt through the price channel and the slowdown in European growth due to the limited trade and financial ties between North America and Russia and Ukraine. Recent geopolitical events are not expected to derail monetary policy in North America despite the possibility of slower economic growth and higher inflation.

Major Parties Involved

People's Republic of China

With a GDP of $17.7 trillion, the People's Republic of China is the most economically influential country in the world. It is the tenth largest exporter in the world. It is driven by industrial production, manufacturing of goods and export. The country is commonly known as 'the world's manufacturing hub' as it is amongst the largest goods exporters, making it an economic superpower. It also has a strong business ecosystem, low taxes and duties and competitive currency practices. In 2020, China contributed 18.3% of the world's GDP, making it evident that changes in China's economy affects the globalized economy.

The United States of America

The United States Dollar is the currency that is most frequently used in trade and financial operations, and the USA bond and equities markets are the biggest and most liquid in the entire world. As a result, the US monetary policy and investor confidence are key determinants of the state of the global financial system. The rise of American wealth has been significantly influenced by the process of opening global markets and boosting commerce, which was started in the United States in 1934 and constantly continued after the end of World War II.

Russia

Oil and natural gas are two of Russia's abundant natural resources. In terms of nominal GDP and PPP, it is the world's ninth-largest economy as of 2022, ranking fourth in Europe. USD 2.1 trillion (nominal, 2022 est.) $10.4 trillion (PPP, 2022 est.). It ranks in the top 5 producers of steel, nickel, and aluminum and is the world's third-largest producer of oil. Additionally, it exports the most wheat globally.

United Kingdom

The United Kingdom contributes about 2.33 percent to the global economy. London is also extremely important to the global economy. London is not only the capital of the United Kingdom, but it is also one of the top financial hubs for worldwide trade and business, as well as one of the "command centers" for the world economy. The United Kingdom recently underwent a recession.

India

India's GDP in 2021 was $2.7 trillion, and by 2030, it is expected to reach $8 trillion, making it the third-largest economy in the world. India improves domestic production, makes it easier for foreign technology to be transferred, and, as a result, gains a competitive advantage in various industries. During the COVID crisis, the country's crucial role in providing vaccines to other nations increased its global significance.

Previous Attempts to Solve the Issue

Economic Crisis in a Developing Country: India

India has substantial international currency reserves, it also has huge budget deficits that provide limited room for increasing spending. As a result, India focused on monetary reforms, including improving credit access alternatives for manufacturers. However, for many developing nations, these monetary policy tools are carefully constrained since easing interest policy affects the exchange rate of their currency as well as the pace of inflation. Conversely, the effect of currency depreciation as a specific export incentive policy would most likely be limited as long as global demand did not grow more sharply. In contrast, several governments have imposed selective trade restrictions on non-essential luxury products.

Demonetization in India

Prime Minister Narendra Modi made the demonetisation initiative public in a televised address on November 8, 2016, at 8 p.m., with the intention of achieving four goals: preventing Pakistan from funding terrorism, preventing the printing of counterfeit currency, combating corruption, and combating black money. From midnight on November 8, 2016, the Rs 500 and Rs 1,000 currency notes ceased to be legal tender as a result of the demonetisation move. Inflation decreases as a result of the market's decreased liquidity and cash flow following demonetization. The money supply shrank as the black money left the system. The decision also led to a check on food inflation in the country. GDP growth plummeted from levels of 9 percent to 3 percent.

Economic Crisis in a Developing Country: Qatar

Funding for the Doha Development Conference was set aside from the financial and economic crisis to review progress since the 2002 Monterrey Conference on Financing for Development. However, the food, energy and financial crises played an important role throughout the preparations, clearly influencing the meeting and the decisions taken. The Doha Conference decided to host a high-level UN conference on the financial crisis and its impact on the poorest countries in 2009. The United Nations thus maintained its role in the reform process of the global financial structure.

Dealing with the COVID-19 Crisis

Many emerging countries have made substantial macroeconomic improvements in recent years. As a result, some of them are more prepared for the crisis than they were previously. These countries are not vulnerable to the crisis without any form of protection. Many governments in developing nations have taken actions within their own jurisdictions. They have increased their (regional) collaboration. The United Nations, the International Monetary Fund, the World Bank, and other international organizations have also attempted to assist developing nations. Non-governmental organizations and various academic institutions encouraged them to act.

Wealthier countries responded with large-scale fiscal interventions. Many developing countries also launched similar programs. China announced a 4 billion yuan program to invest in domestic infrastructure, social security, technology, environment and education in 2009 and 2010. 2009). However, procedures based on each country's individual programs were considered inadequate, and a multilateral coordinated approach was called for. Most developing countries had, and far less, the financial resources to undertake economic stimulus and social measures to protect the poorest. Using a special fiscal capacity indicator, a UNESCO team found that 43 of the 48 low-income countries surveyed had no room for stimulus measures for the poor (UNESCO 2009). More bilateral aid and liquidity support from international financial institutions could significantly expand the range of options for these countries.

Measures taken by the World Bank and the International Development Association to minimize the effect of economic shock

The International Development Association (IDA) has increased its grants for interest-free loans or gifts to a record $14 billion, up by a quarter from the same period last year. IDA has accelerated the process so that the poorest countries can receive their funds more quickly.

The World Bank's subsidiaries, the Multilateral Investment Guarantee Agency (MIGA) and the International Finance Corporation (IFC), which are responsible for direct assistance to the private sector, also stepped up their activities. They made loans, invested in companies, and provided guarantees. The latter is important as local businesses in developing countries find it increasingly difficult to obtain trade credit and bank guarantees from major international banks.

The World Bank worked through a specially established Crisis Response Facility. The World Bank estimates that the funding gap in developing countries is significantly larger. According to this scenario, the World Bank estimates his funding needs in 2009 at US$350 billion to US$635 billion.

Possible Solutions

Expansionary Fiscal

Tax reductions, rebates, and increased government spending on projects like infrastructure enhancements are all examples of expansionary fiscal policy. It could, for instance, raise discretionary spending by the government, providing the economy with additional funds through government contracts. The availability of funds increases as a result of expansionary policies, which in turn increases consumption and economic growth. Companies increase production when they have more money at their disposal, which raises demand for all production factors, including human capital. This policy can be used to control the effects of a recession.

In recent years, Southeast Asian countries frequently implemented the expansionary fiscal policy. The purpose behind the usage of these policies was to address domestic challenges. These countries include Indonesia, Malaysia, the Philippines, Thailand and Vietnam - these countries almost exceeded $500 billion in fiscal. The implementation of these policies, however, posed an economic risk. In Indonesia, the Philippines, Singapore, and Thailand, budget deficits are anticipated to increase by 0.1 to 0.4 percentage points of GDP this year, according to a recent Citigroup report, presumably contributing to the growth of public debt.

Monetary Policies

The control of an economy's supply of money and the channels through which new money is supplied is referred to as monetary policy. The strategy of monetary policy is influenced by economic statistics like GDP, inflation, and growth rates specific to industries and sectors. The economy's interest rates, such as those for home loans, business loans, and savings accounts, are influenced by monetary policy. People's decisions to invest or spend are influenced by changes in interest rates, which ultimately affect economic growth, employment, and inflation.

Conducting monetary policy to attain price stability (low and stable inflation) and assist in managing economic fluctuations is a critical component of central banks. Over the past few decades, significant alterations have been made to the policy frameworks within which central banks conduct their operations. New Zealand was the origin of the inflation targeting strategy to monetary policy. Australia, Brazil, Canada, Chile, Colombia, Czech Republic, Hungary, New Zealand, Norway, Iceland, Philippines, Poland, Sweden, South Africa, Turkey, and the United Kingdom are among the countries that have utilized it.

Supply Side Policies

According to supply-side economics, a country's economic growth is correlated with an increase in the supply of goods. To encourage increased production, practitioners of supply-side fiscal policy frequently focus on lowering borrowing rates, reducing taxes, and deregulating industries. Two distinct types of supply-side policies exist:interventionist and market-based. Policies on the supply side of the free market promote competition, market reform, and incentives. Trade liberalization, privatization, and deregulation are all examples of free-market policies. According to supply-side economics, a country's economic growth is correlated with an increase in the supply of goods. To encourage increased production, practitioners of supply-side fiscal policy frequently focus on lowering borrowing rates, reducing taxes, and deregulating industries.

An example of a country using supply side policies would be France. Supply side policies just extended a change that had already taken place in the second half of previous president, François Hollande's administration. Despite being elected in 2012 on a blatantly left-leaning platform, Hollande abruptly shifted toward supply side measures in 2014 while keeping his communication style vague. In fact, from 2014 to 2016, Macron, the current president, served as the economy minister and oversaw some of these initiatives. After that, he could carry on this momentum as President while freely discussing it because it was consistent with his campaign platform.

As a result, France overtook Germany and Spain as the leading large Euro countries in terms of supply-side changes from 2014 to 2019. Previously, Germany and Spain had been the leaders in this area (forced down this road from 2012 to 2015).

Subsidies

A subsidy is a payment to individuals or businesses, either directly or indirectly, typically in the form of cash from the government or a targeted tax cut. Subsidies can be used to offset market failures and externalities to increase economic efficiency, according to economic theory. An industry can allow its producers to produce more goods and services when the supplier receives government subsidies. This lowers the overall price of that good or service because it increases the overall supply, which in turn increases the quantity of that good or service that is demanded. Subsidies are intended to assist or support what are thought to be essential components of the economy or national infrastructure.

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