



PMUNC

2015

Economics and Finance Committee

Chair: Andrew Chung

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Chair's Letter

Dear Delegates,

My name is Andrew Chung, and I would like to personally welcome you to ECOFIN, the economics and finance committee at PMUNC 2015. I am a sophomore at Princeton University majoring in economics with certificates in finance and Spanish. As my academic plans reveal, I am very interested in the world economy and financial affairs, so I am looking forward to chairing ECOFIN. I hope all of you are excited as well!

A bit more about me: my hometown is Houston, Texas, so I'm not yet completely used to the cold weather of the North! At Princeton, I am involved with Model United Nations, a financial investments club, and several other organizations. Throughout my high school years, I played basketball, lacrosse, and volleyball, and I currently am on the Princeton club volleyball team. I am an avid fan of the NBA although the Houston Rockets frustrate me at times. Apart from sports, in my free time, I enjoy jamming on the drums and the guitar, hanging out with friends, eating good food, and watching movies.

Additionally, here's a bit of background information for the committee itself. ECOFIN at PMUNC is based – albeit, a bit loosely – on the General Assembly of the United Nation's "Second Committee," which deals with economic development and international financial matters. In our version of this committee, we will be discussing two topics in particular: post-conflict economic and social recovery and commodity price dependency. Both topics are quite relevant today and can be taken in various directions. Regarding post-conflict economic and social recovery, we will initially focus on countries with particularly damaged economic and financial institutions, namely Somalia and Ukraine. The major general question will be as follows: how should countries go about rebuilding and/or reforming institutions to promote, in the most efficient way possible, future economic growth and financial stability? With regard to the second topic, this past year, we saw oil take a huge tumble, leading to repercussions for various countries around the world. One of ECOFIN's purposes is to design frameworks and encourage policies that promote economic independence within countries, such as Venezuela, that have poorly diversified economies. Although oil is of great importance, the commodities discussed will not be limited to oil.

Lastly, I would like to urge you all to not be intimidated even if it is the first time you have discussed anything related to economics or finance. Although we wish for you all to come to the conference prepared, we welcome delegates with economic knowledge of all levels.

I look forward to meeting you all, and see you soon!

Andrew Chung
Chair, ECOFIN

Topic A: Post-Conflict Economic and Social Recovery

Introduction to Topic A:

Topic A focuses on the economic rebuilding process of countries torn apart by devastating conflicts. The following two subtopics highlight two countries, Somalia and Ukraine, which will require ECOFIN's special attention. However, in addition to addressing the country-specific problems of Somalia and Ukraine, ECOFIN should also look to develop more general policies regarding post-conflict recovery that can be expanded beyond Somalia and Ukraine and used in the future in other areas that are trying to restart after horrible conflicts.

Subtopic A.1: Somalia

Introduction

Located in Eastern Africa, Somalia has long been considered a country with a great need for aid and reform. Deemed by many to be the world's prime example of a "stateless society,"¹

¹ <https://mises.org/library/rule-law-without-state>



Somalia is characterized by internal conflict, a defunct economy, and a poverty-stricken population.

Somalia's informal economy is largely based on livestock, remittances, and telecommunications.² Agriculture is the largest sector of the nation's economy, accounting for about 40% of GDP estimates. In contrast, industry accounts for a very low percentage of GDP, and much of what once existed as part of Somalia's industry has been looted. Generally, clan warfare has created an unstable environment. Many businesses cite security concerns as the primary reason for Somalia's poor economic operations, and establishments often rely on private security militias.

² <https://www.cia.gov/library/publications/the-world-factbook/fields/2116.html#so>

Quite problematically, the government based in Mogadishu lacks the ability to effectively collect domestic revenue, so the country has fallen farther and farther into debt. Finally, the country lacks a legitimate banking sector, and money transfer and remittance services dominate.

ECOFIN has been given the objective of rebuilding this struggling country, with a focus on setting up the country for economic recovery. All resolutions should have the goal of strengthening Somalia to the point where the nation's economy can function well without international aid.

History

The roots of Somalia's woes largely lie in the country's conflict-filled past. As is the case in much of Africa, the legacy of colonialism continues to play a large role in the struggles of Somalia. After the Berlin Conference in the late 19th century, Somalia was divided up into the northern British Somaliland and the southern Italian Somalia³. Largely neglected by the British, Somaliland remained very rural whereas the

³<http://www.cja.org/article.php?list=type&type=287#2>

southern portion of Somalia under Italian control became more developed. These differences in development can still be seen in Somalia to this day.

In 1960, the two regions merged to form the Somali Republic.⁴ Despite some tension, the new Somali state was generally peaceful, and some consider it to be one of the highest points in recent Somali history.

Unfortunately, this peace was not to last. In 1969, General Siad Barre seized power and initiated a reign of terror with the help of his National Security Service, which has since drawn comparisons with the Nazi SS.⁵ Also, the effects of the Cold War were felt in Somalia in that Barre aligned the nation with the Soviet Union and therefore received aid from communist powers. In a poorly guided attempt to consolidate his power, Barre outlawed clan loyalties while still promoting officials from his own clan, thereby accentuating clan tensions.⁶

⁴ Ibid.

⁵<http://www.britannica.com/biography/Mohamed-Siad-Barre>

⁶<http://www.cja.org/article.php?list=type&type=287#2>

In 1978, Barre attempted to conquer the ethnic Somali regions of Ethiopia, initiating the Ogaden War; however, the Soviet Union backed the new Marxist regime and withdrew aid from Somalia.⁷ This marked a shift in Somali international relations. Barre then used Cold War rivalries to seek American aid and succeeded to some extent in that the U.S. gave Barre funds in exchange for military bases in the area.⁸ With this aid, Barre continued his campaign of repression, which subsequently sparked rebellions and violent dissent. In 1991, the United Somali Congress, a rebel group, drove Barre out of Mogadishu.⁹

However, after Barre's overthrow, no one group came in to guide the country down a better path. Instead, Somalia plunged into confusion and violent clan warfare.

Relevant International Actions

Due to the chaos after Barre's overthrow, the international community began a humanitarian campaign to aid civilians who were suffering amidst the

clan warfare. In 1992, UNOSOM I (United Nations Operation in Somalia I) was launched and had the mandate of monitoring a ceasefire in Mogadishu and escorting deliveries of humanitarian supplies to distribution centers in the city.¹⁰ The forces involved in UNOSOM I focused on establishing infrastructure to deliver humanitarian aid to the Somali people. This operation is widely regarded as a success.

In 1993, after a famine left 500,000 Somalis dead, a coalition led by the United States increased international involvement in Somalia through Operation Restore Hope. Because clan



⁷ Ibid.

⁸ Ibid.

⁹ <http://www.britannica.com/biography/Mohamed-Siad-Barre>

¹⁰ <http://www.un.org/en/peacekeeping/missions/past/unosomi.htm>

warfare was increasingly interfering with the international famine relief efforts, President George H. W. Bush sent American troops to lead a larger peacekeeping force, known as UNITAF, tasked with creating a secure environment.¹¹ Marines arrived in Mogadishu to establish more infrastructure to relieve the poor, and the operation was considered a “humanitarian success.”¹² A quite notable development during Operation Restore Hope was the use of an international engineer force in designing infrastructure in Somalia’s rough climate and terrain.¹³ These engineers were able to improve wells, lengthen roads, and overall set up infrastructure that would prove useful for the Somalis long after Operation Restore Hope.

To further strengthen UNITAF’s efforts, the United Nations in 1993 launched UNOSOM II with the expressed mandate of taking appropriate enforcement measures to establish throughout all of Somalia a secure environment for humanitarian

assistance.¹⁴ At this point in operations, it was clear that the United States did not want to stay much longer in the hostile environment of Somalia, so UNOSOM II was meant as a transition policy to allow other international forces and Somalia itself to begin defending its own infrastructure.¹⁵ However, several tragedies occurred, including the notorious event known as “Black Hawk Down,” leading to the deaths of 18 American servicemen at the hands of Somali faction warfare. In a development dubbed the “CNN effect,” American television news channels televised dead bodies to the American public, leading to public outrage at American involvement in Somalia and a hasty withdrawal from Somalia.¹⁶ By 1995, all troops had been withdrawn as the rest of the coalition members followed suit. Thus, UNOSOM II is widely regarded as a complete failure due to the hasty withdrawal and poor enforcement practices of the operation.

Since international withdrawal in 1995, Somalia has been in constant turmoil due to the power vacuum. The

¹¹http://www.globalsecurity.org/military/ops/restore_hope.htm

¹²http://www.globalsecurity.org/military/ops/restore_hope.htm

¹³ Ibid.

¹⁴<http://www.un.org/en/peacekeeping/missions/past/unosom2.htm>

¹⁵http://www.monitor.upeace.org/archive.cfm?id_article=397

¹⁶ Ibid.

country witnessed the rise and fall of the Union of Islamic Courts in 2005-2006 and has been targeted by Islamist insurgents, namely the al-Shabab group, who in 2012 announced allegiance to the global terrorist group al-Qaeda.¹⁷ Due to the constant conflict, there have also been an increasing number of Somali refugees flooding into nearby countries such as Kenya and Yemen. Ethiopia has also been heavily involved in Somali affairs. Also, in 2012, NATO undertook an anti-piracy operation, known as Operation Ocean Shield, which has been quite successful in deterring piracy.¹⁸ NATO will continue to operate in the area until the end of 2016.

Current Situation

Expounding on the introduction, Somalia currently faces many problems. The country lacks a strong economic infrastructure and is consistently running into difficulties collecting taxes and implementing fiscal and monetary policy.¹⁹ Tied with North Korea, Somalia ranks last place in Transparency

International’s Corruption Index, a measurement that reveals the internal corruption that inhibits economic and social development within the nation.²⁰

The ongoing civil war also continues to promote violence and chaos within the country. In fact, the country is by many considered to be divided up into three autonomous regions as it is.²¹ The Hawiye clan dominates the south



and the capital, thereby having control

¹⁷<http://www.heritage.org/index/pdf/2015/countries/somalia.pdf>

¹⁸http://www.nato.int/cps/en/natohq/topics_48815.htm

¹⁹ <http://www.reuters.com/article/2014/02/26/us-somalia-economy-idUSBREA1P0EV20140226>

²⁰ <http://www.transparency.org/country#SOM>

²¹ <http://mgafica.com/article/2015-05-18-who-really-rules-somalia-the-tale-of-three-clans>

over the internationally recognized entity of Somalia. President Hassan Sheikh Mohammed and the Central Bank of Somalia are part of this southern section of Somalia.²² However, this government located in Mogadishu has no ability to collect taxes or control many of the regions particularly due to the Isaaq clan in Somaliland and the Darods in Puntland (see map for clan distributions)²³.

Due to these separations within the nation, the central government lacks the capacity to address state problems, such as crime, violence, and poverty. Additionally, kidnappings, murders, and other human rights violations go largely unchallenged due to the statelessness of Somalia.²⁴

The economy of Somalia is also in shambles. Only 7.2% of Somalia's GDP derives from industry, and most of the factories have been looted or destroyed. Additionally, Somalia's labor force is poorly trained, and social mobility within the country is almost

non-existent due to a poor education system. Only 37.8% of the population is literate, and many kids of school age are picking up guns rather than books: only 42% of school-age children are actually in school.²⁵ Poverty and hunger also continue to be problems that hamper Somali economic and social recovery. According to the UNDP, the poverty rate is 73%, meaning that more than 73% of the population live on less than \$2 a day.²⁶ Additionally, food shortages and malnutrition plague the nation.

Devising Solutions

Due to the variety of issues in Somalia, there are clearly many ways through which ECOFIN can begin to tackle the country's problems. Somalia has already begun to see some progress with the help of the international community. According to a 2015 IMF report on Somalia, the first of its kind in decades:

“Economic conditions improved rapidly in 2012-14, with real GDP rising by 3.7 percent during 2014. The

²²<http://country.eiu.com/article.aspx?articleid=1261523110&Country=Somalia&topic=Summary&subtopic=Political+structure>

²³ http://www.lib.utexas.edu/maps/africa/txu-pclmaps-oclc-795784383-somalia_2012_clan_distro.jpg

²⁴ <http://www.globalsecurity.org/military/world/war/somalia.htm>

²⁵ <http://www.africaw.com/major-problems-facing-somalia-today>

²⁶ <http://www.so.undp.org/content/somalia/en/home/countryinfo.html>

recovery was led by growth in livestock and fisheries, and a very active private sector resurgence of the services industry, notably telecommunications, construction, and money transfer services, mainly associated with the return of diaspora Somalis. If security improvements continue, the entrepreneurial private sector will continue to be the most dynamic contributor to economic growth.”²⁷

Thus, there is hope for the country. However, in the same report were calls for increased international assistance and reforms of various aspects of the country. According to the IMF, economic and social recovery must include the following steps: **building sound institutions, mobilizing government revenue, devising a sustainable budget, fostering good governance, enhancing civilian confidence, improving education, devising and regulating a new financial system, and reforming its**

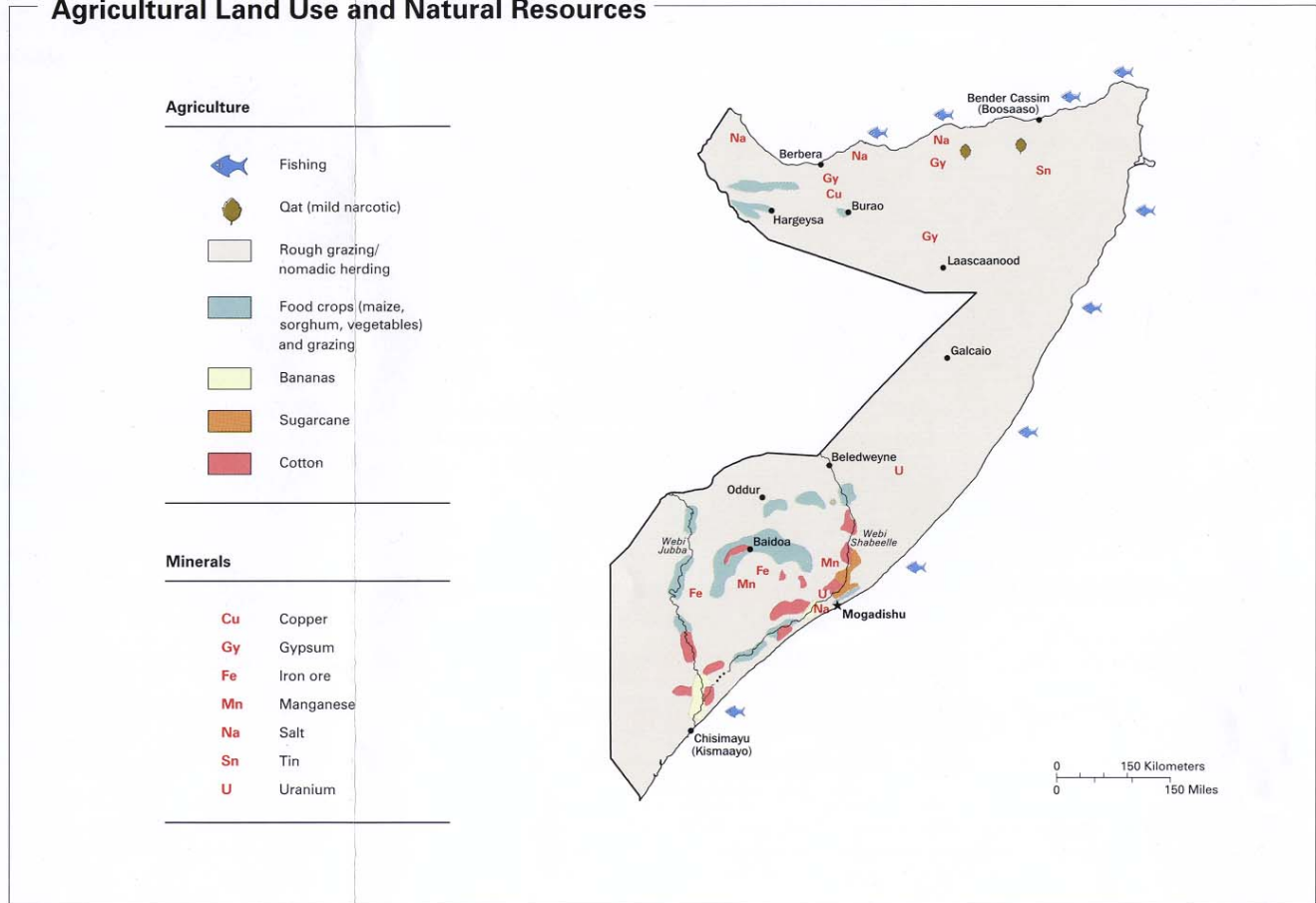
currency.²⁸ Because the country has essentially lacked funds for the past quarter of a century, Somalia will have to rely on donor grants from foreign countries and needs to form new partnerships with foreign powers. Unfortunately, due to a buildup of debt (\$328 million in debt), Somalia is banned from receiving money from the IMF, so the country will have to look to diplomacy to raise funds.

Additional measures that the international community should look into include enhancing the country’s security in an effort to improve the functioning of businesses and to aid in the tax collection effort. Corruption and the prevalence of counterfeit bills should be addressed, potentially with task forces and new regulations.

²⁷<http://www.imf.org/external/pubs/ft/survey/so/2015/car072915b.htm>

²⁸ Ibid.

Agricultural Land Use and Natural Resources



Finally, building up industry is a key priority that the international community should also address. Attracting foreign investment and establishing new factories would highly benefit Somali communities by creating jobs and wealth while foreign companies would benefit from access to Somalia’s vast amount of untapped natural resources. Above is a map of the general locations of natural resources in the country of Somalia.²⁹ If ECOFIN

could devise a strategy for building industry and attracting foreign investment to certain areas of Somalia based on the presence of natural resources, the economy of Somalia would then be well on its way to recovery.

Country Policy

Somalia

First and foremost, the delegation of Somalia will obviously have an important role. Because ECOFIN begins with the historical premise that Somalia

²⁹http://www.lib.utexas.edu/maps/africa/somalia_nat_res_2002.jpg

has invited aid from the international community, the chair will strike any attempts to completely negate foreign intervention. However, Somalia still maintains some influence in the degree of foreign intervention; therefore, the delegation must decide what type of foreign assistance and how much of it they will seek. Of course, the delegation is also only one vote in ECOFIN and must therefore rely on diplomacy to see its desires come true.

Neighboring Countries:

Countries in the nearby region, including other African countries and nations such as Yemen, strongly desire some form of resolution to the Somali problem and therefore would push for more active foreign assistance. With refugees overflowing into neighboring areas and with refugee centers, such as Kenya's Dabaab camp, filled to the brim,³⁰ regional countries desire rapid Somali recovery in almost any way possible so that Somali refugees will return home.

Developed Countries & Western Powers

Western powers, including the United States and members of the European Union, also desire an improved Somalia. Many have already been involved with Somalia through donor grants, humanitarian efforts, and anti-piracy campaigns. While western powers are less willing to commit troops, they are highly willing to be active if it means rapid resolution of Somalia's issues.

Developing Nations & anti-West Powers

Other developing countries and nations with prevalent anti-West ideologies remain wary of western involvement. While countries in Latin America and other developing regions may encourage some degree of foreign intervention in Somalia, they are wary of the international community overstepping its bounds and overly infringing on Somali sovereignty. Additionally, countries with very little national interest in Somalia will look for ways to benefit from diplomacy over the Somali issue.

³⁰<http://refugeesinternational.org/where-we-work/africa/somalia>

Questions to Consider in Developing Country Policy:

- Does your country have a national interest in the resolution of the Somali civil war?
 - o Are they affected by the refugee crisis?
 - o Are they affected by international piracy?
 - o Have they previously committed funds?
- Will they favor heavy involvement or light involvement in the improvement of the Somali economy?

Questions to Consider in Resolution:

- Which issues should be of higher priority within ECOFIN in order to resolve the Somali crisis?
 - o The faulty economic and political institutions?
 - o The inability to collect tax revenue?
 - o The lack of industry and a well-functioning economy?
 - o The poor education system?
 - o The high level of corruption?
 - o The ongoing civil war and conflict?

Note: the committee will have time to address most of the problems; however, each delegation should think about which issues are of utmost importance and should come ready to compromise.

- Does your country have a well-functioning economic system?
 - o What does your tax system (tax rates, enforcement, etc.) look like, and could it serve as a model for the Somali system?
 - o What other aspects of your economy could perhaps be useful as a model for Somali growth?
- **Important:** What lessons are learned from Somalia regarding post-conflict economic recovery policies that can be extended and/or used as a model in the future for other countries in similar situations?

Subtopic A.2: Ukraine



Introduction

Ukraine, an eastern European nation that borders the Black Sea and Russia, has recently been in turmoil. In 2014, Russia annexed the Crimean Peninsula and deployed forces, leading to a deadly conflict and a standoff between Russia and “the West,” which includes the United States and most of the countries in the European Union.³¹ Although this conflict is quite controversial on the international stage, two things are for certain: Ukraine’s economy is hurting, and its people are feeling the pain.

³¹ <https://www.cia.gov/library/publications/the-world-factbook/geos/up.html>

In 2014, the economy shrunk by 6.8%, and these woes have continued in 2015.³² Public debt is at an all-time high, which recently made imperative an IMF bailout program.³³ Additionally, areas of Ukraine have been destroyed by the conflict, and the people are suffering.

ECOFIN has been give the objective of finding some form of resolution to the economic crisis. The solution should go beyond simply ending tensions: ECOFIN has been tasked with devising a plan to help Ukraine get back on its feet and to restructure certain institutions in Ukraine that helped cause the crisis in the first place. Additionally, ECOFIN should keep in mind its desire to find more general policies that can serve as a model for other countries in similar situations to Ukraine.



³² <http://country.eiu.com/ukraine>

³³ <http://www.focus-economics.com/countries/ukraine>

History & International Actions

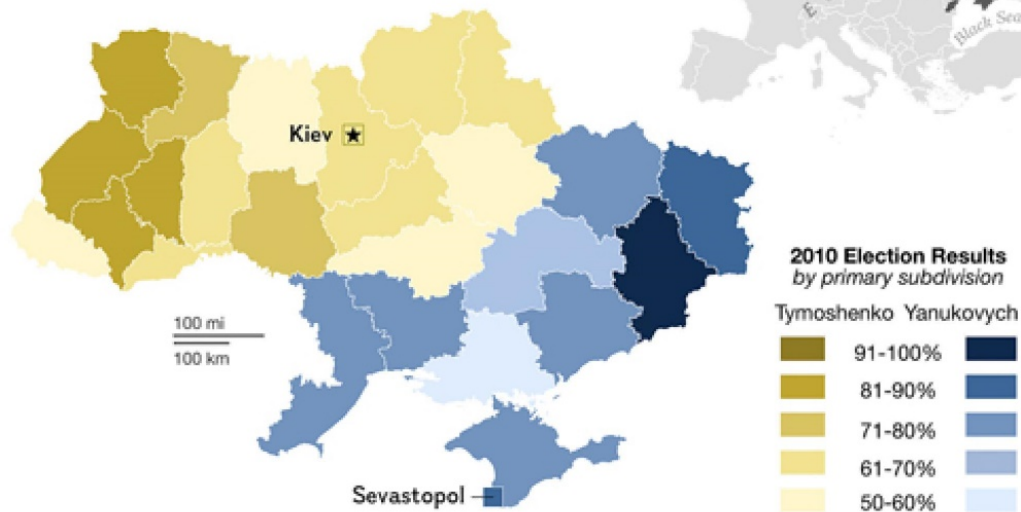
Since the dissolution of the Soviet Union in 1991, Ukraine has struggled to find its footing. Despite the promises of various rounds of administrations, there has been little resolution of internal divisions and hardly any economic reform.³⁴ In fact, oligarchs gained control of economy: in 2010, approximately 50% of Ukraine's economy (measured as a percentage of GDP) was owned by the 50 wealthiest Ukrainians.³⁵

In 2004, the Orange Revolution,

which occurred after a rigged election named Viktor Yanukovich as the country's next leader, resulted in a more reform-minded government. However, Ukraine's problems of high corruption, an economy favoring the elite, and internal divisions continued to fester, and the global economic crisis in 2008 worsened the situation. In 2010, promising more alignment with Russia, Yanukovich came into office, resulting in yet another cycle of corruption and cronyism; experts believe that the

Ukraine's east-west divide

Ukrainians voted their regional identities in the 2010 elections, with the east staunchly supporting the pro-Russian winner for the presidency, Viktor Yanukovich.



JASON TREAT, KELSEY NOWAKOWSKI, NG STAFF
SOURCE: OFFICE FOR DEMOCRATIC INSTITUTIONS AND HUMAN RIGHTS

³⁴ <http://www.cfr.org/ukraine/ukraine-crisis/p32540>

³⁵ Ibid.

Yanukovich family alone embezzled up to \$10 billion.³⁶

In 2013, Yanukovich dropped a potential trade agreement with the European Union due to pressures from Russia.³⁷ This action sparked protests against corruption from Ukrainians who wished to align themselves more with Europe. A bloody conflict ensued that eventually ended with Yanukovich's ouster and the institution of the pro-West Petro Poroshenko's administration. Poroshenko was and is still one of the elite oligarchs of Ukraine. After Poroshenko's election, conflict continued and became a battle between pro-Russian separatists and government forces under Poroshenko. This conflict

has its roots not only in the recent events surrounding Yanukovich and Poroshenko but also, more importantly, in the longstanding east-west divide within Ukraine, which represents the country's greatest internal division.³⁸ While the east favors Russian alignment, the west favors European Union alignment.

The main event that made this conflict no longer simply an internal affair was Russia's annexation of Crimea and its subsequent deployment of troops. Now, various international powers have interests in the resolving the conflict. International institutions like the IMF have economic reasons for desiring the resolution of the conflict while many entities abroad, for humanitarian reasons, wish to see the tension resolved.

Current Situation

Ukraine's current situation is one of tense conflict and a degrading economy. War has slashed government revenues, destroyed infrastructure, and



³⁶ <http://www.cfr.org/ukraine/ukraine-crisis/p32540>

³⁷ Ibid.

³⁸ <http://news.nationalgeographic.com/news/2014/02/140224-ukraine-protests-president-ousted-history-geography-background/>

increased military spending.³⁹ In Vladimir Putin's eyes, Russian actions are meant to "safeguard ethnic Russians from lawlessness."⁴⁰ While this may be true to some extent, in reality, Russia is mainly interested in Ukraine because the nation serves as a major economic partner, a key player in Russia's energy trade, and a buffer state against western interests.⁴¹ Russia also has military bases and vital pipelines in certain areas of Ukraine.

In the eyes of the United States and other "western" powers, "Russia's actions in Crimea and eastern Ukraine are in breach of international law, including the nonintervention provisions in the UN Charter; the 1997 Treaty on Friendship and Cooperation between Russia and Ukraine, which requires Russia to respect Ukraine's territorial integrity; and the 1994 Budapest Memorandum on Security Assurances."⁴² Of course, Russia denies violating international law.

In addition, Ukraine suffers from a large amount of corruption in the

government and at the highest levels of businesses.⁴³ Cronyism is widespread and undermines civilian confidence in the government. On top of this problem of corruption, Ukraine has also been historically poor at budgeting: its government has spent money generously, racking up expenditures of tremendous magnitude in the past.⁴⁴ Coupled with the loss of revenue from war-torn areas, such as the heavily industrial Donbass region, which contains the money-making coal and steel industries, these problems have crippled Ukraine's ability to respond to the crisis. As a result, Ukrainians must deal with increasing prices and increasing poverty with little government support.

Finally, related to these issues, Ukraine's public debt is extremely high, and its government has little hard currency. Fortunately for Ukraine, the IMF agreed to a \$17.5 billion bailout in March 2015, and Ukraine gained immediate access to \$5 billion to help bolster the economy.⁴⁵ Although this

³⁹ <http://www.bbc.com/news/world-europe-30846185>

⁴⁰ <http://www.cfr.org/ukraine/ukraine-crisis/p32540>

⁴¹ Ibid.

⁴² Ibid.

⁴³ <http://qz.com/343660/ukraine-is-heading-for-a-total-economic-collapse/>

⁴⁴ <http://www.bbc.com/news/world-europe-30846185>

⁴⁵ <http://www.wsj.com/articles/imf-approves-bigger-ukraine-bailout-1426094519>

measure benefited the country in the short term, Ukraine and the international community must eventually work to target the roots of the crisis as well.

Devising Solutions

To address the Ukrainian crisis, the international community must take a resolute, yet delicate approach, keeping in mind that its member states are divided on the issue. Less controversial measures would include ones that address high corruption within Ukraine and provide ideas through which the Ukrainians can downsize their large bureaucracy, rebuild infrastructure, and decrease expenditures. Such measures could be in the form of UN task forces, budget committees, and other more typical forms of international intervention and aid. Additionally, ECOFIN may provide forms of economic and energy aid, ranging from loans with strings attached to providing advisors to engage in economic reforms. Regardless of what the specific measures look like, the international community can definitely take several less controversial steps to help Ukraine.

However, that being said, ECOFIN must somehow address the conflict and the more controversial issues. Military aid and sanctions would be difficult but perhaps necessary. In fact, the US, the EU, and Japan have already imposed various sanctions on scores of Russian and Ukrainian officials and businesses, which have taken the form of travel bans, asset freezes, and other punitive measures.⁴⁶ Obviously, these measures are controversial and would require strong diplomacy and compromise. In any case, improving Ukraine's suffering economy and providing aid to the suffering Ukrainians in some form or fashion must be the end goal of any innovative policy or measure that ECOFIN decides to implement.

Country Policy

Ukraine

The UN representatives of Ukraine represent Poroshenko's regime, so they desire policies and international actions that are anti-separatist. However, at the same time, maintaining some degree of

⁴⁶ <http://www.cfr.org/ukraine/ukraine-crisis/p32540>

national sovereignty should have an impact on their diplomacy as well.

European Union and pro-“West”

Nations:

Deeming Putin’s actions to be violations of international law, these nations would support more active intervention measures within Ukraine. Obviously, there are specific exceptions to this generalization, but pro-West forces overall do not want to let Russia get away completely with its annexation of Crimea. However, they still must tread carefully to avoid initiating conflict on a larger scale with Russia.

Russia and pro-Russian Nations

Russia and other pro-Russian nations favor measures that allow citizens of Ukraine who are ethnically Russian to be more aligned with Russia. They also deny claims that Russia is disobeying international law and support Russia’s takeover of Crimea. Additionally, they wish to repeal existing sanctions and avoid all similar measures in the future.

Questions to Consider in Developing Country Policy:

- Most importantly, does your country side with Russian or EU interests?
- Does your country have a particular national interest in the resolution of the Ukrainian crisis?
 - o Has your country donated funds or given loans?
 - o Does your country wish for existing sanctions to be repealed?

Questions to Consider in Resolution:

- How should the international community handle the fragile situation in Ukraine?
 - o Should actions be limited to humanitarian aid, task forces, infrastructure rebuilding, and other similar, less controversial actions?
 - o Should the United Nations lend funds?
 - o Should military intervention be considered?
- Beyond the conflict, how should Ukraine deal with the problems

- that helped begin the crisis, such as high corruption, internal divisions, and high government spending?
- What lessons can be learned from the Ukrainian situation that can carry over to other countries looking to recover from similar situations?

Topic B: Commodity Price Dependency

Introduction

A commodity is a basic good – often a raw material or agricultural product – that can be bought and sold in commercial markets. Oil, copper, gold, wool, and corn are all commodities. View the chart below for a list of common commodities.⁴⁷

Agriculture	Metals	Energy
Cattle	Aluminum	Bunker fuel
Coffee	Copper	Crude oil
Corn	Gold	Diesel: low and ultra-low sulfur
Cotton	Lead	Gasoline
Cheese: cheddar, class III milk, dry whey, non-fat dry milk	Nickel	Heating oil
Ethanol	Palladium	Jet fuel
Peanut hogs	Platinum	Natural gas
Soybean complex (including meal and oil)	Steel	Natural gas liquids
Sugar	Tin	Resins
Wheat	Zinc	

Within commodity markets exist both buyers and sellers, and, on the general international stage, buyers are net importing countries while sellers are net exporting countries.

In these markets with buyers and sellers, commodity prices are of extreme importance, and they often change quite dramatically. At the most basic level,

⁴⁷<http://comtrade.un.org/db/mr/rfCommoditiesList.aspx>

commodity prices are a function of supply shocks, such as the discovery of large new reserves, and of global demand for the commodity. An increase in supply or a decrease in demand for a particular commodity will generally lead to a decrease in the price of the commodity.

However, diving deeper one finds that commodity prices are quite volatile for various reasons.⁴⁸ Primarily, supply for commodities is quite inelastic, meaning that **the extraction or production of many commodities is difficult to adjust quickly if global demand increases or decreases.**⁴⁹ For example, because extraction facilities for oil not only are expensive but also take a long time to construct, oil producers are usually unable to adjust how much oil they are extracting even if there is a sudden shift in the number of customers who want the oil.

Additionally, certain commodity prices are often dependent on business cycles, weather patterns, and exchange rate fluctuations.⁵⁰ Export dumping, in

⁴⁸http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Towards%20Human%20Resilience/Towards_SustainingMDGProgress_Ch2.pdf

⁴⁹ Ibid.

⁵⁰ Ibid.

which countries like the US and certain European nations export excess crops overseas and sell under competitive prices, can also lead to huge drops in commodity prices. This process originates from the presence of excess crops, which were often encouraged by farm subsidies in the US and other countries, and developing nations often have no say in the matter. In any case, as we can see, commodity prices are prone to volatile swings for a variety of reasons, and this volatility has been called by some, “The Commodity Price Super-Cycle,” because commodity prices move up and down in a volatile, often unpredictable manner.⁵¹

Now, the main problem that ECOFIN will address for this topic is the **dependency of many less-developed nations on high commodity prices for what they produce**. For example, Venezuela is highly dependent on the price of oil, so, holding other factors constant, the country suffers when crude oil prices take a hit, as they have in the past year. ECOFIN’s goal in this case is to propose frameworks and policies at the international level that increase awareness of this dependency and

encourage economic diversification within member states. On the opposite side, ECOFIN also works with net importing countries that benefit from price decreases to see how the economic gains can be most efficiently and effectively transformed into the greatest international benefit. Thus, knowledge about your particular country’s exports and imports is imperative. Additionally, while nations in other areas may be discussed, the **geographic focus of this topic will be Africa, Latin America, and the Middle East**, which are all regions where commodity price dependency is an issue. Finally, as a general note, the best approach may be to determine general models and guidelines for helping the typical, developing country struggling with commodity price dependency.

History

After reaching tremendous heights in the 1970’s, commodity prices generally stagnated in the 1980’s and 1990’s (see graph).⁵² However, from 2000 to 2011,

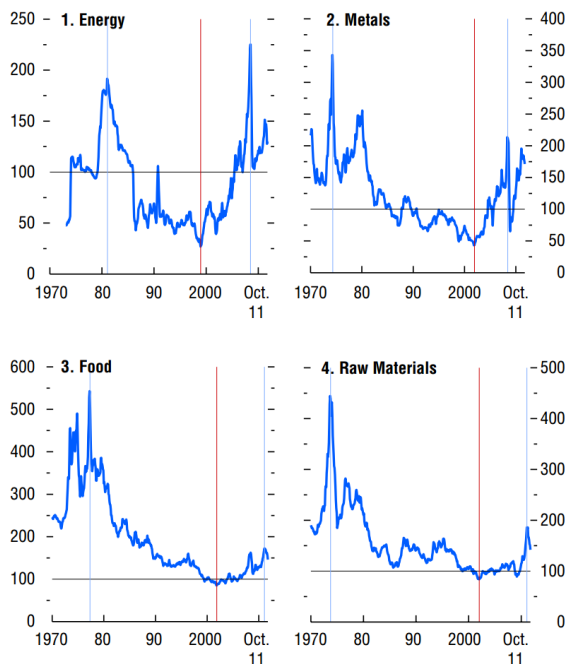
⁵¹ Ibid.

⁵²<https://www.imf.org/external/pubs/ft/weo/2012/01/pdf/c4.pdf>

commodity prices rose again, and broad indices of commodity prices tripled, thereby outpacing global growth.

Figure 4.1. World Commodity Prices, 1970–2011
(in real terms)

There has been a broad-based rise in commodity prices during the past decade.



Source: IMF staff calculations.

However, since 2011, many commodities have experienced ferocious falls. Most notably, crude oil, which peaked at \$115/barrel in June 2014, has fallen below \$45/barrel at times.⁵³

For consumers and net importing nations, these decreases in commodity prices act like tax cuts, giving consumers

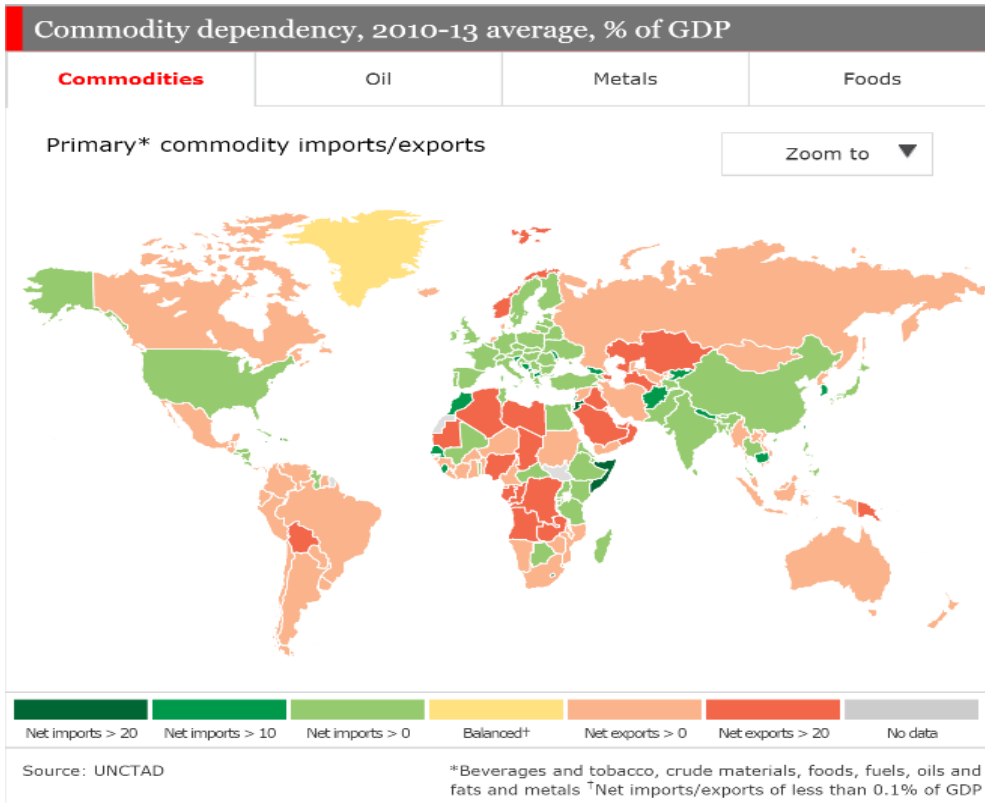
more disposable income because what they are buying is cheaper. However, for most net exporting nations, these sharp downward swings in commodity prices spell trouble because many of these nations rely on high prices to bring in vital revenue to the nation's industries and government.⁵⁴ In fact, for some countries, government spending often relies heavily on high prices of commodities, and large projects were undertaken by some governments that believed the commodity prices would hold at high levels. Among others, countries like Russia, Venezuela, and Angola did not manage their resources in a manner that would allow them to be prepared for huge commodity price swings. This problem of commodity price dependency becomes even graver when one takes into account the fact that most producing countries (net exporters), many of which are member states of the United Nations, are relatively poor and have suffering populations.

⁵³ <http://www.economist.com/news/finance-and-economics/21621875-tumbling-resource-prices-suggest-world-economy-slowing-oil-and-trouble>

⁵⁴ Ibid.

View the graphic below for a general map showing commodity price dependent countries.⁵⁵

commodity price booms well, saving money in sovereign-wealth funds, building up foreign exchange reserves,



pursuing economic reforms, and maintaining wise budgets.⁵⁶ Overall, economists also highlight two reasons in particular for better preparation in some countries. First, producing countries that are friendlier to businesses usually manage to become less commodity dependent.⁵⁷ Good

However, while there are many countries that suffer due to lack of preparation for commodity price downturns, some producing economies have more wisely managed gains from good times and as a result have reserves to turn to when times get tough with regard to commodity prices. For instance, while still not perfect, Colombia, Indonesia, and Peru are among several countries that used

business environments encourage foreign direct investment, which in turn encourages diversification as new sectors and industries grow within the nation. This trend can be seen in parts of sub-Saharan Africa. Second, countries that practice counter-cyclical fiscal policy, meaning at the most basic level that they cut expenses during good times and spend during bad times, usually fare

⁵⁵<http://www.economist.com/blogs/graphicdetail/2015/08/commodity-dependency>

⁵⁶<http://www.economist.com/news/leaders/21638197-why-some-commodity-exporters-are-coping-better-lower-prices-others-what-vlad-can-learn>

⁵⁷ Ibid.

better when a commodity price collapses.⁵⁸

Current Situation & Potential Solutions

In general, expounding on what has already been discussed, the current problem is that many poor, exporting countries are finding themselves at the mercy of volatile commodity prices. These low-income developing nations are found around the world, and decreases in prices cripple their economies and their governments' ability to respond. Additionally, high poverty can often be attributed to commodity price dependency, showing that this dependency can cause real international suffering.⁵⁹ Because commodity prices are bound to be unstable and cannot be completely harnessed in the free market (view chart), ECOFIN must instead focus on helping the typical commodity dependent state become more independent.

Note on following image: a price instability of 22% means that short-term commodity price changes on average were 22% above or below the long-run trend, a sign of large short-term instability in prices.

Table 2.1: Average Monthly Price Instability, 1995–2010

Commodity Categories	Price Instability
All Primary Commodities	22%
All Food	20%
Minerals, Ores and Metals	34%
Crude Petroleum	31%

Source: Calculated using data from UNCTAD, *Commodity Price Statistics, 2010*

In resolutions, ECOFIN can target various aspects of the countries in need. Measures to lower debt levels, strengthen existing economic institutions, and build fiscal room to enable countercyclical policy should commodity prices decrease are among some policy options for ECOFIN.⁶⁰ Also, measures meant to enhance education and improve the technology of developing countries could help diversify the economies of the countries, enhancing the technology-based and/or skill intensive industries within the country.⁶¹ Beyond reform and economic upgrading, international agreements can

⁵⁸ Ibid.

⁵⁹ http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Towards%20Human%20Resilience/Towards_SustainingMDGProgress_Ch2.pdf

⁶⁰ <https://www.imf.org/external/pubs/ft/weo/2012/01/pdf/c4.pdf>

⁶¹ http://www.cggc.duke.edu/pdfs/093005_Farfan_Commodity_Dependency_Uma_WB.pdf

also be reached among member nations.

Country Policy:

Developing Countries (esp. net exporters)

Commodity dependent developing countries must balance the desire to enhance their economies with the desire to remain sovereign over their own national affairs. **View the attached PDF** for a general list of commodity dependent developing countries from 2013.

Developed Nations (esp. net importers)

Developed nations will, with some exceptions, go for a more active approach as they look for new sources of material and try to gain economically from working with developed countries. Also, humanitarian goals remain important within developed nations, so many of these countries will be looking to aid the poverty-stricken populations of the commodity dependent developing nations.

Questions to Consider in Developing Country Policy:

- Is your country a net exporter or net importer?
 - o What commodities and natural resources does your country specialize in producing?
 - o Is your country highly sensitive to volatile commodity prices?
- To what degree would your country be considered developed?
- How active is your country on the international scene?

Questions to Consider in Resolution:

- How can ECOFIN work with existing economic institutions to encourage and/or directly enhance commodity price *independence*?
- How can ECOFIN encourage less developed nations to become more technology-based or skill-intensive?



LIST OF COMMODITY-DEPENDENT DEVELOPING COUNTRIES, 2012-2013

DEVELOPING ECONOMIES: AFRICA

Developing economies: Eastern Africa

Burundi
Djibouti
Eritrea
Ethiopia
Kenya
Madagascar
Malawi
Mozambique
Rwanda
Seychelles
Somalia
Uganda
United Republic of Tanzania
Zambia
Zimbabwe

Developing economies: Middle Africa

Angola
Cameroon
Central African Republic
Chad
Congo
Democratic Republic of the Congo
Equatorial Guinea
Gabon
Sao Tome and Principe

Developing economies: Northern Africa

Algeria
Libya

Developing economies: Southern Africa

Botswana
Namibia
South Africa

Developing economies: Western Africa

Benin
Burkina Faso
Cabo Verde
Côte d'Ivoire
Gambia
Ghana
Guinea

Guinea-Bissau
Liberia
Mali
Mauritania
Niger
Nigeria
Senegal
Sierra Leone
Togo

DEVELOPING ECONOMIES: AMERICAS

Developing economies: Caribbean

Bahamas
Cuba
Jamaica
Saint Lucia
Trinidad and Tobago

Developing economies: Central America

Belize
Guatemala
Nicaragua

Developing economies: South America

Argentina
Bolivia (Plurinational State of)
Brazil
Chile
Colombia
Ecuador
Guyana
Paraguay
Peru
Suriname
Uruguay
Venezuela (Bolivarian Republic of)

DEVELOPING ECONOMIES: ASIA

Developing economies: Eastern Asia

Democratic People's Republic of Korea
Mongolia

Developing economies: Southern Asia

Afghanistan
Iran (Islamic Republic of)
Maldives

**Developing economies: South-Eastern Asia**

Brunei Darussalam
Indonesia
Lao People's Democratic Republic
Myanmar
Timor-Leste

Developing economies: Western Asia

Bahrain
Iraq
Kuwait
Oman
Qatar
Saudi Arabia
Syrian Arab Republic
United Arab Emirates
Yemen

DEVELOPING ECONOMIES: OCEANIA

Fiji
Kiribati
Micronesia (Federated States of)
Nauru
Palau
Papua New Guinea
Solomon Islands
Tonga
Tuvalu
Vanuatu