CISMUN 2015

ECONOMIC AND FINANCIAL AFFAIRS COUNCIL

AGENDA: EUROZONE CRISIS

CISMUN 2015, Jalandhar

UNITED NATIONS GENERAL ASSEMBLY

ECOFIN

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LETTER FROM THE EXECUTIVE BOARD

Welcome to the simulation of GA-ECOFIN at CISMUN 2015. We hope that by now your research is well on its way and you have gained a fair idea about the agenda at hand. Kindly go through this study guide and make note of the pointer questions and research links provided as they shall be of utmost importance in ensuring a high level of debate during committee proceedings and it shall be expected that the delegates steer the discussion on those lines. However, the given list of topics is not exhaustive and it is not intended to be. The list is simply indicative of pressing issues and topics of concerns which must be addressed and will give you a bird's eye view of the gist of the issue. The delegates are at full liberty to bring up any other relevant point for discussion. We understand that MUN conferences can be an overwhelming experience for first timers and a tiring one for those who are familiar with the concept. We strongly suggest the first time MUNners to participate fully in the conference and if any doubt persists in their minds (either substantive or related to parliamentary procedure), they do not hesitate to clarify the same. The success of GA- ECOFIN as a committee depends on each and every delegate of the committee. Apart from the research on the agenda that shall be required of all the delegates in the committee, we would like to emphasize the importance of ensuring that the delegates are aware of their country's historical background and current situation in the global politics and international relations. It is imperative that the delegates come to the conference with a clear and decisive foreign policy as the representative of their respective countries. On a final note we must advice all delegates to act in the capacity of representatives of their respective countries and thus conduct themselves with proper decorum and diplomacy. Please feel free to contact the executive board if any doubts persist. Best Wishes.

*** Please note that nothing mentioned in this background guide may be used as an established fact in committee without the presentation of a credible news source and substance mentioned henceforth may act only as a source for your basic understanding of the agenda.

CHAIRPERSON | Kushal Kathuria

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THE ECOFIN COMMITTEE

The Economic and Financial Committee, also known as ECOFIN is the second of the six committees of the United Nations General Assembly. It was formed with the rest of the General Assembly when the UN was established after the Second World War in 1945. The committee first met in London in January 1946. Its primary roles include addressing issues related to economic growth and development with specific regard to macroeconomic policy on international trade and external debt sustainability, securing financing for sustainable development, poverty eradication and globalization and interdependence. In recent times, the Millennium

Development Goals and special situations related to Least Developed Countries and Landlocked Developing Countries, as well as recovery and restructuring in the aftermath of the 2008 Financial Crisis has been focused on increasingly. The ECOFIN is open to all member nations of the UN, each of which has equal representation and voting rights. Though resolutions adopted by the committee are not enforceable, they carry the weight of the international community's will. The GA also has the power to convene an emergency special session and act to ensure peace security. The ECOFIN regularly updates its working methods and practices to enable deeper debate and greater impact of the committee's deliberations and decisions. These efforts include streamlining the agenda, holding "question time" sessions with secretariat officials after the presentation of substantive reports and reducing the number and length of draft resolutions adopted. The Committee currently holds a dialogue with the Executive Secretaries of the Regional Commissions as well as a number of side events as part of its programme of work.

BACKGROUND

1. The Eurozone: a short introduction

The Eurozone is an economical and financial union of 19 members of the European Union who have adopted the Euro as their common currency, consisting of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain. By using a common currency, trading is made a lot easier between the member states, though some nations in the European Union have not yet adopted the Euro as their legal currency, namely

Bulgaria, Croatia, Czech Republic, Denmark, Hungary, Poland, Romania, Sweden and the United Kingdom. The monetary policy of the Eurozone member nations is managed by the European Central Bank (ECB) and the Euro system - which consists of the national central banks of the member nations, and those who are members of the European Union but not part of the Eurozone do not have a representation in the system. The Eurozone is politically represented by the Euro group, the gathering of finance ministers from their respective nations; however, this has changed since the global recession a couple years ago, and the head of governments have often met directly in discussing and forming agreements for the group's collective benefit.

2. The global recession and its effects on the Eurozone

The Global Financial Crisis of 2007-2008 has impacted many nations and economic associations around the world, and the Eurozone was, unfortunately, affected as well. Although using a collective currency allowed member nations smoother trading relations, this also meant that their entire economic system would be collectively affected since they are using the same currency and must coordinate through the ECB and other organs in the European Union. There are multiple causes to the Eurozone crisis. One of the factors is high risk money management actions in the early 2000's that resulted in debt build up. Another factor ties back to the 1990s; in 1992, members of the European Union signed the Maastricht Treaty, which declared that membership nations must reduce debt levels and deficit spending, but several nations such as Greece and Italy – through intentional circumvention of the rules and due to rampant corruption within their political systems - have been unable to achieve this goal. Ironically, these nations' debt problems had intensified. Another major problem of the Eurozone system is the structural contradiction inside the Eurozone system itself. The Eurozone is a monetary union as the members use the common currency, yet it is not a fiscal union, where member states share common financial practices such as taxation levels. As thus, although member nations are supposed to abide by the ECB and adopt similar financial policies, many member nations chose not to do so and placed a collective strain on the entire system. Quoting columnist Thomas Friedman, “When countries with such different cultures become this interconnected and interdependent — when they share the same currency but not the same work ethics, retirement ages or budget discipline — you end up with German savers seething at Greek workers, and vice versa.”

3. The European Financial Stability Facility (EFSF)

The EFSF was created in 2010 to combat the worsening Eurozone crisis - which induced shifts of power in 8 out of the 17 Eurozone member nations. The mandate of the EFSF is to “safeguard financial stability in Europe by providing financial assistance to Eurozone states”; the system may do so via bonds, lending money to nations. The problem with the current system is its passiveness, mainly out of safety concerns. Currently, a Eurozone member must request assistance first before the EFSF is able to obtain permission to raise the funds in several working days. Prior to that, the nation must negotiate with the European Commission as well as the IMF to draft a work programme, which must be approved by unanimous vote from the Euro Group.

4. The Bottom 5 “PIIGS”

The PIIGS is a derogatory acronym (extremely discouraged) referring to the nations of Portugal, Italy, Ireland, Greece and Spain, the most severely hit nations of the Eurozone crisis. Out of these nations, Italy and Greece are infamous for their financial and cultural problems; Italian prime ministers have been accused of severe corruption cases, while in Greece tax evasion and corruption have become a way of life for most that are in business. Also social unrests and general discontent is a brooding ground for potential social-political disorders.

CURRENT SITUATION

The most significant repercussion of the Eurozone crisis is the confusion it has brought forth to its members. The current state of affairs within the Euro area is briefly summarised by the term: 'persistent identity crisis; the crisis might have brought substantial financial and economic troubles to the global economies, but it has brought back the awkwardness of what the 'leaders of Europe' should do with this experiment that is called the European single currency. Currently, the Eurozone is inconspicuously inclining toward a selectively-integrated economic union, that is that the European elite is choosing the areas that it integrates, id est banking union under the intended Single Supervisory Mechanism (SSM) and the ECB. A more cautious and restrained approach was initiated with the temporary European Financial Stability Facility on 9 May 2010 (continuing its programme in Greece, Portugal and Ireland) and its permanent 'seed' the European Stability Mechanism (ESM-since 8 October 2012), both entitled to rescue euro-economies in cases of emergency by issuing bonds and "other instruments on capital markets". However the extent to which the chronic trade imbalances and relative trade independence of

Member States is addressed is debatable. At the same, international markets and economies keep a close eye on the developments occurring within the Eurozone, for three main reasons. Firstly, Europe houses the largest and for many, the most prosperous consumer market, comprising 500 million consumers and trading $17 trillion annually, according to Eurostat. Secondly, due to its aforementioned size and significance, Europe can commence a chain effect across world economies. The precedent of the crisis transmission from the US market to the Eurozone, indeed expressed as a debt crisis, marks the potential danger of reoccurrence toward other directions as well; therefore world economies also endorsing globalisation and seemingly 'fortressed' against crisis transfusion run a 31 possible risk. Thirdly, the Eurozone crisis is of particular interest to third states because the world markets had invested huge amounts of money in the euro experiment, in terms of loans, investment funds and currency reserves, but more importantly huge amount of confidence in the Eurozone, and the severe crisis has hampered this trust. It took five years for the stock market indicators to recover their pre-crisis levels of confidence, and even though these levels might have been restored, the central confidence deficit created by the crisis has left the Eurozone much less genuinely and unconditionally trusted. The above-mentioned parameters are only the beginning of a huge list of reasons why the world is interested in the Eurozone, however they briefly summarise three areas where the Eurozone debt crisis has alerted the world economies in a way that shifted their spheres of priorities.

CASE STUDY: GREECE

Over the last decade, Greece went on a debt binge that came crashing to an end in late 2009, provoking an economic crisis that has decimated the country's economy, brought down a government, unleashed increasing social unrest and threatened both Europe's recovery and the future of the euro. The Greek government has

been kept afloat by its fellow euro zone countries, but at a steep price: the austerity measures demanded by France and Germany in return for two massive bailout packages have ripped holes in the Greek safety net and plunged the country into a recession of near-Great Depression dimensions. After long resisting the idea of a default, European officials in March 2012 helped Greece negotiate a landmark debt restructuring deal with the vast majority of its private sector lenders, who agreed to swap 177 billion in Greek debt for new bonds worth as much as 75 percent less. It was the largest default in history.

The deal cleared the way for Europe to begin releasing funds from the second, $150 billion bailout package, avoiding an uncontrolled default that loomed a mere 10 days away. But many economists said it still left Greece saddled with unsustainable debts and little prospects for growth. Unable to devalue its currency and with its economy spiralling down, officials are pinning their hopes on longer-term measures like the reform of Greece's sclerotic labour markets. The technocratic government that negotiated the deal is due to be replaced after elections in April that are likely to be shaped by the rising anger of Greeks over their economic plight and what is widely seen as a loss of sovereignty. But attitudes toward Greece have hardened elsewhere as well, leaving little chance of more aid or a more flexible position on the part of the European Union.

Causes Downfall of tourism industry:

By the time it joined the Euro-zone in 2002, its tourism industry was going downhill for several reasons. First of all, tourists were beginning to realize that they were being ripped off under the garb of Greek exotica. The Greeks naively believed that they could overcharge unsuspecting tourists because Greece has wonderful natural beauty and numerous World Heritage Sites. They failed to appreciate that tourists are discerning and will always look for a bargain. Sure enough, tourists deserted Greek beaches in alarming numbers and instead chose to go to Turkey which can offer much the same holidays and quality of service as Greece. Turkey also boasts of amazing beaches and World Heritage sites, and as far as cities go, at least in my opinion, Istanbul rivals Athens as an attractive tourist destination. The Turks are very charming and charge much less than their Greek counterparts for tourism related services. The price hikes caused by switching to the Euro meant that Turkey was a more attractive option for tourist coming from the rest of Europe and the Americas.

Over spending by the Government:

In 2009, Greek government expenditures accounted for 50% of GDP. According to the OECD, as of 2004, spending on public administration as a percentage of total public expenditure was higher than in any other OECD member, —with no evidence that the quantity or quality of the services are superior. During the past six years, the central government‘s expenditures increased by 87%, while revenues only grew by 31%, leading to budget deficits above the EU‘s agreed-upon 3% of GDP threshold. Observers identify a large and inefficient public administration in Greece, costly pension and healthcare systems, tax evasion, and a general—absence of the will to maintain fiscal disciplines major contributors to Greece‘s debt. An aging Greek population—the percentage of Greeks aged over 64 is expected to rise from 19% in 2007 to 32% in 2060—could place additional burdens on public spending and what is widely considered one of Europe‘s most generous pension systems. In the absence of reform, total Greek public pension payments are expected to increase from 11.5% of GDP in 2005 to 24% of GDP in 2050.

UN INVOLVEMENT

Beginning in 2008, the international community suffered a profound financial dilemma which crippled several European Union economies. The Eurozone debt crisis was not triggered by one universal mishap but by sovereign mismanagement. Low economic ambition and poorly handled public and privatized finances were large contributors to the downfall of countries, such as Greece, Spain and Portugal. With the crash of these nations, in addition to several others and the EU as a whole, many fundamental flaws arose in regards to the structure of the monetary union and its economic solidity. In order to combat this colossal problem, the European Union itself implemented several ordinances in hopes of completely revamping its future fiscal promise. In collaboration with ECOFIN, the European Union helped establish the six-pack agreement, in December of 2011, which strengthened the current Stability and Growth Pact (SGP) in regards to its fiscal policy and economic governance. Called the six-pack for its six added regulations, this agreement calls for balanced macroeconomics with an added focus on prevention opposed to intervention at the national level. Also adding onto the SGP, the two-pack legislative proposal was put into action in May 2013. The two-pack honed in on two specific areas: the creation of a similar monetary agenda and increased surveillance towards struggling nations. Outside of the European Union's legal endeavours, the Euro Plus Pact and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union both work with the EU and several non-Eurozone members to help establish stricter financial discipline and coordination between European nations. At the peak of the sovereign debt crisis in 2010, several temporary agencies were created by the EU and the Euro group to facilitate arising issues, such as the problem in Greece. However, one of the few permanent programs remaining is the European Stability Mechanism whose main function is crisis management. Instead of going through the IMF and other organizations for economic relief, the ESM possesses the ability to loan needing Eurozone nations up to $625 billion US dollars. In regards to the promotion of the public sector, the European Union implemented the Compact for Growth and Jobs, in 2012. This organization pumped €120 billion into the Eurozone economy, aimed at further stimulating the decreasing employment rate throughout Europe. Another €6 billion will be allocated to the EU's growing generations through the youth employment initiative which looks to lower the 25 percent youth unemployment rate. Through the adoption of resolutions such as A/RES/61/188, the United Nations has proved its willingness to work with the crippled economies of the world in order to create a more stable international community.

BLOC POSITIONS

Through the discussion of the Eurozone crisis, the PIIGS phenomenon and their global effects on the markets it should be clear what each country's economic relation is with the Eurozone. Thus, it is logical that the European South, periphery and the PIIGS will once again put forth their argument for 'smoother' harmonised fiscal policies and will pressure for more effective political union with their active participation in the decision-making. It is thus expected that arguments for political restructuration of the union will be brought up. 32 The European "core" on the other hand, is expected to bring up arguments for more solid compliance (fiscal honesty and discipline) with the set economic limits and requirements. However, in order to both contain the effects of the crisis overseas and effectively handle the crisis from the inside, economies like Germany, Denmark, and Austria will want to bolster the union's current structure and maintain the status quo, without further unconditional fiscal integration. For the emerging economies, the Eurozone crisis might be an issue of either increased interest or marginal and occasional scrutiny. For instance, China has renewed its interest in the Eurozone and has instigated several policies to help contain the effects of the crisis both within and outside the Euro Area, through investment funds and opening trade relations. Other members of the BRICS take up a more cautious and perfunctory stances toward the Eurozone crisis, signifying much of the interest 'shift-away'. Similarly, there have been attempts from Greece and Italy to engage the oil-rich Near East, but these pleas have not been enthusiastically entertained and in many cases talks stagnated, indicating the lower priority placed on European affairs ad crisis. Contrarily, many countries of the underdeveloped and gradually developing world are extremely interlinked with the European economies like Mozambique or Kenya and will be deprived of significant humanitarian aid and developmental funds from the EU, if the latter fails to resolve the crisis. Nevertheless, others like Mali, Burkina Faso and other CFA franc-zone countries will profit immensely from a depreciated euro, as they have pegged their currency to the euro, by boosting their exports, and thus are keen on maintaining the situation in the Eurozone destabilised and hence the euro at certain low levels. The determination of the blocs heavily depends on the trade/terms of exchange relations of each delegation's economy with the Eurozone in this debate. For this reason consultation of European

Commission's site with the trade statistics of the EU with foreign economies/trading partners might expound important factors for each delegation's stance on the debate:

http://ec.europa.eu/trade/policy/countries-and- 33 regions/statistics/index_en.htm

QUESTIONS TO CONSIDER

• Tracing the cause of the Eurozone crisis, what are the lessons learnt from the EU's approach to the Eurozone crisis, and are the derived preventive and corrective measures adequate or legitimate in preventing the possibility of another crisis from happening?

• Should the EU move towards greater integration or revert towards Intergovernmentalism?

• Is there a democratic deficit in the EU in the areas of European Governance related to the crisis?

• How should the world tackle the perception of a democratic deficit?

• How can Europe reconcile a Common Monetary policy with separate Fiscal Policies?

• How should Europe tackle its unemployment crisis, especially the youth unemployment crisis?

• How should the EU address rising Euro scepticism?

- Should the EU have common Financial Regulations? Is the European Stability Mechanism sufficient as a permanent mechanism, or is it just a, temporary stopgap solution to a likely recurring problem?

• Has austerity failed in the EU, or should the EU stick to the course?

• What is the role the UN should play in the Welfare system and fiscal systems of various nations (I.e.: Unemployment, Pensions, National Budgets, etc.)?

CONCLUSION

Many politicians, commentators, journalists, political scientists and economists have attempted to suggest an alternative or even to predict the effects of a policy in the case of the Eurozone, but really few have succeeded anything more than adding a little bit of worries and concerns. However, ECOFIN's task will be to primarily define the effects of the Eurozone crisis in the outer world and determine the extent to which it might be of interest overseas or the idea of the Eurozone's "bringing together of economies" might seem obsolete or provoking nothing but the globe's nonchalance. Ultimately, the Eurozone crisis is a multi-dimensional issue affecting multiple facets of European Politics. Delegates must ultimately negotiate with one another to identify the most tractable and salient issues to be addressed within this crisis. So suit up and be geared to go. Happy MUNning. For any queries/ doubts, feel free to contact:

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FURTHER READING

BBC: ‘Eurozone crisis explained’

http://www.bbc.co.uk/news/business-16290598

Council on Foreign Affairs: ‘What is the impact of the Eurozone crisis on the US economy?’ http://www.cfr.org/financial-crises/impact-eurozone-crisis-us-economy/p31407

European Commission: ‘Trade Statistics’

http://ec.europa.eu/trade/policy/countries-and-regions/statistics/index_en.htm

European Journal of Economic and Political Studies: ‘The Effects of Global Crisis into Euro Region: A case study of Greek crisis’

http://ejeps.fatih.edu.tr/docs/articles/132.pdf

Huffington Post: ‘The European Debt Crisis: A Beginner’s Guide’ http://www.huffingtonpost.com/2011/12/21/european-debt-crisis_n_1147173.html

NPR: ‘The crisis in Europe, explained’ http://www.npr.org/blogs/money/2012/06/04/154282337/the-crisis-in-europeexplained

The Centre for European Policy Studies

http://www.ceps.be

The Economist: ‘Europe’s rescue plan’

http://www.economist.com/node/21534849

The Guardian: ‘Eurozone debt crisis poses serious threat to emerging markets’ http://www.theguardian.com/global-development/2012/jun/19/eurozone-debt-crisisemerging-markets

The Nature of Reports, Proofs/Evidence

Evidence/Proof –

News Sources: 1. REUTERS - Any Reuters article which clearly makes mention of the fact or is in contradiction of the fact being stated by a delegate in council. http://www.reuters.com/

2. State operated News Agencies. These reports can be used in the support of or against the State that owns the News Agency. These reports, if credible or substantial enough, can be used in support of or against any Country as such but in that situation, they can be denied by any other country in the council. Examples - IRA (Iran) and BBC (United Kingdom).

3. Government Reports: These reports can be used in a similar way as the State Operated News Agencies reports and can, in all circumstances, be denied by another country. However, a report that is being denied by a certain country can still be accepted by the Executive Board as credible information.

4. UN Reports: ALL UN Reports are considered as credible information or evidence for the Executive Board.

Note: Acceptance and denial of reports is may be dependent on the foreign policy of the particular member. So I wish you all a very good luck delegates. Happy MUNning!