2018 Economic and Financial Affairs Committee (ECOFIN)

Background Guide

The University of Notre Dame Model United Nations Conference
February 1-3, 2019
Dear Delegates,

Welcome to ECOFIN at NDMUNIII, it is my distinct pleasure to serve as your chair for what I am sure will be an exciting and thoroughly stimulating weekend. A little about myself – I am a Junior from Minneapolis, Minnesota studying economics and political science. In my free time I can be found playing a variety of intramural sports, reading the Wall Street Journal or agonizing over the shortcomings of Minnesota sports teams. I have been involved with Model UN since I was a sophomore in high school, and I am very excited to see how you will tackle some of the world’s foremost economic issues.

The topics that we will be deliberating on in this committee are: sustainable development in South America and cryptocurrency in a global context. Both issues have come to the forefront of global consciousness in recent months and pose significant challenges that must be addressed. Sustainable development is an integral part of ensuring that our society can meet the needs of the present without compromising the promise of the future. Cryptocurrencies have recently exploded in popularity, however with their rise has come ample criticism, as well as questions about their power to shape international market activity. I am excited for this weekend of deliberation and debate, and to see thoughtful, creative and comprehensive economic solutions to these issues.

If you have any questions, comments, or concerns please do not hesitate to reach out to me via email. Good luck with your preparation, I am excited to get to meet all of you in a few short months.

Sincerely,
Jack McCabe
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Topic A: Cryptocurrency

History and Topic Overview

A cryptocurrency is a digital or virtual currency that utilizes cryptography for security, these currencies are usually based on blockchain technology.¹ A blockchain is digital information that is stored in public databases distributed throughout a network with a record of transactions having taken place maintained in a public ledger. Each transaction is linked using cryptography, each block contains data about the previous transaction.² Because of this, cryptocurrencies are naturally organic, and have no central regulation, making it difficult to manipulate or counterfeit. While transactions are kept in a public ledger, no personal information about the sender or the recipient are made available to the public, maintaining anonymity among users.

The first, and most well-known blockchain-based cryptocurrency is Bitcoin, which was created in 2009 by a mysterious individual or group known as Satoshi Nakamoto.³ While almost nothing is none about Nakamoto, Bitcoin has become the world’s largest cryptocurrency by a wide margin.⁴ In the wake of Bitcoin’s popularity, many other forms of cryptocurrency were launched via initial coin offerings, more commonly known as ICOs. These ICO’s are similar to initial public offerings (IPOs) of corporate stock.⁵

Cryptocurrencies have been hailed as a simpler and easier way to directly transfer funds between parties, without the need for a third party such as a bank or credit card company to be involved. Transfers are facilitated through the use of public and private “keys” which help to enhance security. A user’s account address, also known as their “wallet,” holds the public key, and the private key is used to sign transactions.⁶ Another major benefit of cryptocurrencies is that, unlike bank transfers which often charge high fees, these transfers are usually free or at a very low cost.

Because all transactions are recorded in a public ledger and verified by the ledgers of each user in the market, it makes it almost impossible to forge transaction histories or counterfeit cryptocurrencies.⁷ However, because there is no central regulator or repository, there is no back up of an individual’s wallet. If their computer crashes, their data is destroyed, or they forget their private keys, an individual may lose their entire holdings. There are many stories of people disposing of old computers or hard drives only to realize that they had thrown away cryptocurrencies worth hundreds of thousands of dollars.

Another threat to bitcoin users is hacking. While the blockchain system itself is nearly impossible to hack, there are other vulnerabilities. Since cryptocurrencies are stored on an individual’s hard drive, it is possible for hackers to gain access to an individual’s computer and steal their crypto. One of the most notorious occurrences of this was in 2014 when Mt. Gox, at the time the world’s largest Bitcoin exchange handling over 70% of transactions worldwide, was the victim of a massive hack.⁸ Hackers made off with around 740,000 Bitcoins, 6% of the total circulation at the time, and valued at over $500 million at the time, and over $3 billion near

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¹ https://www.investopedia.com/terms/c/cryptocurrency.asp
² https://www.investopedia.com/terms/b/blockchain.asp
³ https://www.investopedia.com/terms/c/cryptocurrency.asp
⁴ https://coinmarketcap.com/
⁵ https://cointelegraph.com/bitcoin-for-beginners/what-are-cryptocurrencies
⁶ https://www.investopedia.com/terms/c/cryptocurrency.asp
⁷ Ibid.
⁸ https://blockonomi.com/mt-gox-hack/
Bitcoin’s peak in Late 2017. This is only one occurrence of hacking that has affected the cryptocurrency market, but is generally considered to be the most well-known.

One of the most unique aspects of Bitcoin and other cryptocurrencies is its volatility. The exchange rate between cryptocurrencies and traditional currencies is almost entirely based on speculation, which can lead to rapid increases or decreases in price. Cryptocurrencies are not usually backed by any type of asset or material good, so there is very little understanding of where prices are going at any given time.

Statement of the Problem
While cryptocurrencies have created a new form of secure transaction, and have made international transactions easier and more frequent, there are certainly tradeoffs. Cryptocurrencies have been accused of making illegal transactions easier and more common. Because these transactions are untraceable as far as the sender and the recipient are concerned, it has made it the go-to instrument for black market and dark web exchanges. Criminals use cryptocurrencies such as bitcoin to remain untraceable while purchasing drugs, weapons, and illegal services, as well as to launder money. While there has been some success by law enforcement agencies in tracking criminals through Bitcoin transaction logs, it is a long and difficult process that is really only used in cases of severe crimes. As cryptocurrencies gain more notoriety there must be some way to prevent them from being used in illegal activities to the extent to which they are now.

Additionally, there have many concerns about the security of cryptocurrencies. A major issue that must be addressed is how to prevent theft, loss and hacking. In the past several years, many Bitcoin exchanges have been hacked, leading to the loss of billions of dollars of Bitcoins. While there are many commercial solutions that claim to be able to protect your crypto stash, the whole system has lots of room for security improvement.

The decentralized and unregulated nature of cryptocurrencies has also been brought up as a major issue and something that must be addressed. Without any sort of policing body, these currencies can be used and abused in a huge variety of ways. The international community has grappled with ways to make the system safer and more transparent. Some countries have taken a laissez faire attitude, while others have banned the use of cryptocurrencies outright.

Another issue is the volatility of cryptocurrencies. As was previously mentioned, there is very little backing to the price of cryptocurrencies as they are not supported by the government of a country or any tangible assets. One of the best examples of this volatility is Bitcoin, which has fluctuated between $60 and over $19,000 in the past five years. This may not be perceived as one of cryptocurrency’s main issues, however it can make its application for any sort of productive cause very difficult. Cryptocurrencies are also not widely accepted at legal online retailers, making them more useful for buying illegal products on the dark web than for buying clothes or electronics.

Possible Solutions
There have been many proposed uses for Cryptocurrencies, and the United Nations has already begun to implement some. One such use is cash-based transfers (CBTs) which the U.N. has used instead of delivering perishable resources such as food and medicine. In 2015, the initiative transferred $680 million in aid to various recipients. In the first six years of the

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Ibid.

https://www.investopedia.com/terms/c/cryptocurrency.asp

https://coinmarketcap.com/currencies/bitcoin/historical-data/

program, 9.6 million people received aid through CBTs. Including cryptocurrencies in this program could prove to be an exceptionally beneficial use of the technology. They have also explored ways to utilize cryptocurrencies as a way to accept donations from individuals and groups. Another idea proposed in a U.N. paper was using crypto to facilitate payment in developing countries. This could help to circumvent hyperinflation often seen in these countries and also lower the barriers to exchange, helping to stimulate emerging economies.

Other possible solutions to this issue would be to create some sort of central governing board that regulates cryptocurrencies and is provided with more information about individual transactions. While this would significantly reduce the amount of privacy provided by the use of crypto, it could help to cut down on its use in illegal transactions. If more retailers begin to accept cryptocurrency, it would also be viewed more favorably, and would become more popular, which could help to reduce volatility. Having a larger share of legitimate transactions would help currencies gain a more favorable image and would increase accessibility for those in developing nations.

Additionally, solutions that implement more security surrounding the exchange and storage of cryptocurrencies would be widely welcomed. With the issue of hacking ever present, it would be of paramount interest to enhance security for both cryptocurrency exchanges, as well as for individuals personal computers.

Bloc Positions

- **Countries where Bitcoin and other cryptocurrencies are legal and widely accepted. These countries likely want to keep things the way they are, or possibly implement some element of regulation.**
  - Many Western countries such as the U.S., Canada, Australia, and E.U countries have generally taken a favorable stance towards cryptocurrencies. These countries have mostly focused on trying to prevent cryptocurrencies from being used in illegal transactions, but regulation is generally limited, and cryptocurrencies are even accepted at some online retailers. Some countries have taken steps to tax cryptocurrencies or have chosen to incorporate them into derivatives markets in order to formalize them as legitimate financial instruments.

- **Countries where Bitcoin and other cryptocurrencies are illegal/banned in some way. These countries likely want to ban cryptocurrencies worldwide or want strict regulation.**
  - Countries including China, Russia, Egypt, Saudi Arabia, Vietnam, Bolivia, Columbia and Ecuador have all placed limits on the use of cryptocurrencies. Some countries such as China, Bolivia, Egypt, Saudi Arabia, and Ecuador have banned cryptocurrencies outright, whereas others such as Russia, Vietnam and Columbia have banned their use for payment purposes, have regulated their use in other ways or have separated them from the country’s financial system.

- **Countries where cryptocurrencies do not yet have a major presence. These countries likely want extract whatever benefit they can get out of cryptocurrencies and may be looking for new and creative ways to utilize them.**
  - Most countries that do not have a substantial presence of cryptocurrencies are developing countries, mainly in Africa, the Middle East, and South America. Use and mining of cryptocurrencies is usually not regulated in these markets because many residents do not have access to computers or stable internet connections.

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13 Ibid.
International Organizations like the U.N. have suggested these countries embrace cryptocurrencies as a way to modernize as well as a means to mitigate hyperinflation or extreme currency volatility that is present in these nations.

Questions to Consider
1. Should cryptocurrencies be regulated if so, how? Is this possible in their current state?
2. What would be some useful institutions to legitimize cryptocurrencies?
3. Are cryptocurrencies financial instruments (like stocks or options) or currencies?
4. What role can cryptocurrencies play in the development of emerging markets/countries?
5. Are cryptocurrencies the first step in the transition to a unified world currency? Would this be a good thing? What are some challenges and benefits?
6. Do cryptocurrencies help to enable/support illegal transactions, international crime, and criminal organizations?
7. What risks do the volatility of cryptocurrencies like Bitcoin pose to the world economy?

Position Paper Expectations
The main thing that I would like to see from position papers on this topic is that you have a strong grasp of your assigned country’s position on the issue of cryptocurrency. Many countries have not been particularly outspoken on this issue, so I challenge you to dig deep and get granular in terms of your country’s policy and their proposed solutions. Papers should comply with all of the guidelines indicated on the NDMUNIII website, with the additional note that formatting goes a long way insofar as the way that papers present themselves. Make sure that you cover the past action/context of the issue as it pertains to your country, present policies and future solutions to the issue at hand.

Recommended Readings
• Great intro cryptocurrencies, specifically Bitcoin: https://www.upfolio.com/ultimate-bitcoin-guide
• United Nations Reports on Cryptocurrencies and other frontier technologies and how they can be used for sustainable development and to improve the world: https://www.un.org/development/desa/dpad/tag/cryptocurrency/
• Good overview: https://cointelegraph.com/bitcoin-for-beginners/what-are-cryptocurrencies
• Article about ways that cryptocurrencies can go wrong: https://www.theatlantic.com/technology/archive/2017/05/cryptocurrency-ponzi-schemes/528624/
**History and Topic Overview**

In 2015, all United Nations Member States adopted the 2030 Agenda for Sustainable Development. This agenda outlines goals for all countries to enhance the peace and prosperity of the global community and improve the lives of their citizens. These member nations recognized that these goals require extensive commitment and significant resources, but the final outcome would be beneficial to all. The Sustainable Development Goals recognize that in order to create a more peaceful world, countries must strive for the elimination of poverty, hunger, and inequality, while also improving education, access to food and water and protecting the environment. Beginning in June 1992, the global community has attempted to assemble a set of sustainable development goals that improve the lives of people around the world, as well as protect the environment. The U.N. has defined the concept of sustainable development as an organizing principle for meeting human development goals while sustaining the ability of the environment to provide natural resources and ecosystem services that are required by both societies and economies. The ideal scenario is a society where living conditions and resource use meet or exceed acceptable standards in the present time without compromising the ability of future generations to succeed. Countries in South America have struggled with these goals for many reasons. Many states in the global south have been plagued by government instability, poverty, terrorism and warfare. However, despite this, they are still trying to meet these goals. Countries like Venezuela, Haiti, and Guatemala have all struggled to meet their goals because of internal factors, and lag behind many developed countries in metrics such as Human Development Index, per capita GDP growth, life expectancy, poverty rates and equality. The goal of this committee is to figure out ways which South America can be brought up to par with North America and European Countries in terms of their growth and achievement.

**Statement of the Problem**

The 2030 Agenda for Sustainable Development is undoubtedly ambitious. It brings together a wide variety of almost existential issues and attempts to extract action from U.N. member nations. Countries must determine the best way to approach these issues in a cost-effective way that is also feasible to institute. It is important to avoid lofty goals, and to hone in on practical solutions. The United Nations put forth 17 goals that countries should strive to achieve by 2030, and each one poses its own challenge. Many of these goals are difficult to complete in reference to others, further complicating the issues at hand. At this conference, you will be tasked with devising a plan by which these goals can be achieved by all countries, with special consideration to developing countries in Central and South America. Many of these countries have floundering economies, which make it very difficult to find the funds needed to institute programs that pursue the Development Goals. Solutions should address this, as well as the fact that political instability, terrorism/organized crime and lack of resources all impede these countries growth. Because of this, many solutions instituted do not take into account the importance of the environment and natural resources in providing for future generations. For example, thousands of acres of Amazon rainforest have been destroyed for economic purposes as

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15 https://sustainabledevelopment.un.org/?menu=1300
16 Ibid.
18 https://sustainabledevelopment.un.org/?menu=1300
part of short-term solutions to long-term problems. It is essential that countries take into account the fact that their decisions today will impact every future generation.

Possible Solutions

There are many possible solutions to this issue, and it is important to think creatively. It is important to realize however, what works in developed countries may fail in countries without proper infrastructure, stable governments, and ample natural resources. While many countries have provided aid in the form of subsidies, these funds are often misused. Other countries have provided aid to South American countries in exchange for favors in a quid pro quo scenario that benefits the donor more than the recipient. It is essential that any resolutions on this topic aim to prevent the exploitation of South American and other developing countries. Successful resolutions should also aim to address the need for equality and basic human necessities that many citizens of these countries lack. At the same time, it is important to consider state sovereignty and the importance of self-sustainability

Bloc Positions

- **South American Countries**
  - These countries want to control development on their terms. While they are open to assistance from other countries, they hope to maintain some semblance of control over development within their borders.

- **Western Countries (i.e. U.S.A., U.K, Canada, E.U. Members, etc.)**
  - These countries are interested in aiding development in South America in order to expand their influence. They value democracy highly and take issue with authoritarian regimes and infringement on human rights.

- **Russia, China, Iran, Eastern Bloc Allies**
  - These countries want to expand their influence in South America and view development aid as a means to do this. They favor strong leadership and are tolerant of a wide latitude in terms of human rights and the treatment of citizens or political dissenters. Having control over the way that their aid is used is of upmost importance to these countries.

Questions to Consider

1. What are the best ways to pursue the Sustainable Development Goals?
2. Are there cultural factors that impact or impede countries’ abilities to achieve these goals?
3. What are the biggest threats to sustainable development and how can they be addressed?
4. What are the most important sustainable development goals to your country?
5. Are there any goals that should be added or that were notably omitted?
6. Have past efforts by your country or by the U.N. been successful so far? What are ways that they could be improved?
7. What institutions are best suited to aiding in the pursuit of these goals?

Position Paper Expectations

As with the previous topic, the most important thing that I would like to see from your position papers is a strong understanding of your country’s position on the topic of Sustainable Development in South America. Examining your country’s history with respect to the topic should give you a good sense of the way that they aim to approach it going forward. Aim to present solutions that are viable both in scope, as well as within the current international context.
Make sure that you cover the past action/context of the issue as it pertains to your country, present policies and future solutions to the issue at hand.

**Recommended Readings**