Ontario Model United Nations III

Group of Twenty, Background Guide

April 7th to April 8th, 2018
omun.ca

Letter from the Chair

Dear delegates,

Welcome to OMUN III! My name is Michael Kagan and I will be your chair for the G20 committee this year. I am currently a Grade 12 student at UCC and I have had the privilege of being a member of the UCC Model UN team for the past two years, travelling to McGill, Harvard, Berkeley and Columbia to compete in their prestigious conferences. Having started my Model UN experience at OMUN I, I am excited to help facilitate an exciting weekend of debate with all of you delegates at UCC. I hope that you will all enjoy OMUN as much as I have enjoyed all of my Model UN experiences, and I look forward to getting to know all of you.

Your vice-chairs for this committee will be Scott Cable and Morgan Headrick. Scott is a Grade 12 student at UCC who began his MUN career at OMUN I a few years ago. He is very interested in global financial affairs and is excited to help facilitate your debate at OMUN III. Morgan is a Grade 12 student at Branksome Hall with significant MUN experience, having travelled to McGill in Montreal to compete at SSUNS. She is also very excited to join you all for the G20 committee at OMUN.

Our committee, the G20, was founded in 1999 with the goal of promoting international financial stability. The 20 members represent the world's largest and most influential economies, and collectively account for around 80% of world trade and two-thirds of the world population. The G20 has dealt with a number of issues since its conception and we hope that you delegates will be able to move forward in the same vein. Our two topics of debate, free trade and cryptocurrencies, are two of the most significant financial topics that the planet faces today. How will the evolution of the world's economies be impacted by changes in free trade and cryptocurrencies? It is your job to come together as a committee and determine what you believe the way forward will look like.

I would like to take this opportunity to remind you all that position papers are due at the start of our first committee session on Saturday, April 7th, in order to be eligible for committee awards. Position papers would preferably be submitted by email to g20@omun.ca, but can also be handed in as a hard copy at the first committee session.

If you have any questions or concerns about the conference, don't hesitate to reach out. Best of luck to all of you, and I am excited to get started on what promises to be a great weekend!

Michael Kagan, Chair
Scott Cable, Vice-Chair
Morgan Headrick, Vice-Chair

Topic 1: Free Trade

Background

In 1947, The World Trade Organization (WTO) replaced the General Agreement of Tariffs and Trade (GATT) as the world's leading trade body. The WTO is an international organization that sets rules for global trading and resolves disputes between its member countries. It aims to ensure that global trade occurs smoothly, freely, and predictably, and that free trade increases over time.[1] The WTO creates and enforces the legal framework which governs around 97% of global trade. Unlike other intergovernmental bodies, the WTO is unique in its ability to exercise domestic jurisdiction over member nations' activities pertaining to global trade.

The WTO aims to promote free trade, and serves a number of functions. It can administer trade agreements, provide a forum for trade negotiation, provide assistance and training for developing countries and handle disputes between member countries. If it rules that a member nation has committed a violation, the WTO may either choose to resolve conflict through negotiation or take more affirmative action, such as the imposition of trade sanctions on the violating country.

By definition, free trade is the economic policy of not discriminating against imports from and exports to foreign jurisdictions.[2] Free trade permits an international exchange of goods/services among countries without the imposition of barriers, such as tariffs, import quotas, and production subsidies. These actions are known as barriers to trade or forms of protectionism. There are a number of arguments to be made both in favour of and against protectionism.

Those in favour of protectionism would argue that it acts as an effective means to protect domestic employment by minimizing foreign export revenue and increasing domestic production of the good. Protectionism can also protect the economy from foreign low-cost labour and maintain a country's national standards, such as those surrounding environmental, health and safety concerns. Furthermore, protectionism can help to minimize the threat of dumping.

However, according to the economic theory of comparative advantage, free trade should (almost) always be seen as a positive. Comparative advantage refers to the ability of one country to produce a good/service more efficiently (and at a lower opportunity cost) in comparison to

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[1] Heakal, Reem. "What Is the World Trade Organization?" Investopedia, 31 Jan. 2018, www.investopedia.com/articles/03/040203.asp

[2] Staff, Investopedia. "Free Trade." Investopedia, 31 Jan. 2018, www.investopedia.com/terms/f/free-trade.asp.

another country. Free trade enables countries to specialize their resources on producing goods/services where they have a comparative advantage. Moreover, free trade allows for more competition in the international market, which, in turn, results in lower prices for the consumer, more choice, and increased efficiency. Furthermore, free trade can help foster positive political relationships between participating nations, which may give rise to trading blocs.

Current Situation

At present, a number of countries around the world seem to be adopting a more protectionist stance with regards to international trade. In line with changing political stances, including a rise in xenophobia and a world that is beginning to shift to a more nationalist mentality, the international community is experiencing a shift away from free trade.

Case Study 1: Brexit[3]

Currently, European nations benefit from the European Union's Single Market, whereby protectionist barriers (i.e. quotas, tariffs, etc.) are prohibited between nations in the EU. However, this dynamic intra-European flow of trade may be greatly disrupted by Britain's recent decision to leave the European Union (Brexit). The vote leave campaign was driven by four principal arguments: 1) economic gain, 2) immigration control, 3) lower costs, and 4) strict EU bureaucratic regulations.[4] The Vote Leave campaign was a proponent of Britain forging its own trade deals and negotiating in favour of British manufacturing. In light of the Syrian Refugee Crisis, immigrants were flooding into the EU. This put a strain on public social services, such as education and health care. In terms of lowering costs, after exiting the EU, the UK gained access to more efficient foreign markets with lower costs of imports. Moreover, they relieved themselves of extensive EU regulations and red tape, which became a limiting factor in trade.

In 2015, 44% of UK export was directed towards EU member nations and 53% of imports came from EU countries. Britain's withdrawal from the EU will increase the price of trade between the UK and other EU member nations, thus negatively affecting both parties. Countries that are most affected by Brexit include Belgium, the Netherlands, and Germany. The move by the UK has prompted other countries, such as Poland to potentially follow suit.

Sectors of the economy that will be most impacted by Brexit include motor vehicles and parts, electronic equipment, and processed foods. The UK is one of the greatest exporters of motor vehicles to neighbouring EU countries. The service sector, which makes up 80% of the UK's

[3] Velthuijsen, Jan Willem. "PricewaterhouseCoopers." Brexit Monitor The Impact of Brexit on (Global) Trade, 13 Oct. 2016, https://www.pwc.nl/nl/brexit/documents/pwc-brexit-monitor-trade.pdf
[4] Reklaitis, Victor. "5 Arguments in Favor of a U.K. 'Brexit' from the EU - and 5 Against."MarketWatch, 23 June 2016,
www.marketwatch.com/story/5-arguments-why-uk-should-vote-for-a-brexit-and-5-against-2016-04-29.

economy, will also be greatly affected, as ⅓ of all financial services exported from the UK are directed towards EU nations.

One of the primary consequences associated with 'Brexit' is increased trade costs due to trade barriers (quotas and tariffs), increased administrative burden (customs formalities and VAT), and behind-the-borders rules that define the extent of non-tariff barriers (NTBs) to trade (i.e. health, safety, and environmental standards). These increased costs will likely be passed onto consumers. There are minimal prospects for a new Free Trade Agreement in the near future, as they typically take 5-10 years to negotiate. 'Brexit' will also have a direct impact on EU member nations' GDP. If the EU and UK revert to WTO rules, the remaining 27 EU countries would experience a 0.8% GDP reduction in 2030.

Case Study 2: NAFTA

The North American Free Trade Agreement, or NAFTA, is a trade agreement that has eliminated most trade barriers between Canada, the United States and Mexico[5]. NAFTA was signed in 1993, and while most provisions were implemented immediately, others were implemented over the next fifteen years. After twenty-five years, NAFTA's future is in imminent danger due to controversy of the agreement. The president of the United States has put renegotiations of the agreement in progress, in hope that the adverse effects of NAFTA in the United States can be remedied.

NAFTA has many positives and negatives, to begin with, due to cheaper labour costs in Mexico, many manufacturing corporations have moved their production to Mexico leaving 682,900 United States workers unemployed. This cheap labour is a result of Mexico's labour laws straying far from the USA's and Canada's. NAFTA has also crippled the Mexican farming industry, as they are unable to compete with the heavily subsidized and mechanized United States farming industry with no tariffs to protect their local farmers. The environmental landscape in Mexico was also heavily distorted as Mexican farmers used more fertilizers in attempt to compete, as well as expanding into marginal land resulting in deforestation at a rate of 630,000 hectares per year.

In contrast to these negative results of the agreement, there are also many positives. For one, trilateral trade between the members of NAFTA has increased to $1.14 trillion in 2015[6]. This has led to economic growth in all areas, while exports of goods and services have increased. Cost for consumers in each member nation has decreased, as efficiency increases and transportation costs through supply chains have decreased. Although approximately 682,900

[5]Floyd, David. "NAFTA's Winners And Losers." Investopedia, 30 Jan. 2018, www.investopedia.com/articles/economics/08/north-american-free-trade-agreement.asp.
[6]Amadeo, Kimberly. "6 Pros and Cons of NAFTA." The Balance, 10 Feb. 2018, www.thebalance.com/nafta-pros-and-cons-3970481.

manufacturing jobs were lost to NAFTA, 5 million have been created, many of which are higher paying jobs. Foreign direct investment in every country has also greatly increased, helping grow insurance, banking and manufacturing sectors. Finally, NAFTA has also reduced government spending, as government contracts became available to companies in each country, increasing competition and reducing the cost. Overall, NAFTA has given the opportunity to compete with global competitors such as the EU and China, making NAFTA a necessity in this increasingly globalized world.

Delegates must be prepared to discuss the future of global trade and how we should react to the changes in the free trade structure that we are witnessing on a global scale. You should come prepared to provide ideas and solutions as to how to move forward.

Questions to Consider

1. With reference to economic, social and/or sustainable development, are free trade agreements beneficial to member nations?
2. Should the G20 condone or encourage the creation of new Free Trade Agreements? Why or why not?
3. What are the positives and negatives of implementing protectionist policies?
    a. Based on the negatives, how can the WTO and other organizations mitigate the effects?
    b. Based on the positives, how can the WTO encourage nations to take protectionist-minded measures?
4. How can free trade be used as a mechanism to achieve economic development and higher standards of living among less economically developed countries (LEDC's)?

Further Reading

1. Bruce-Lockhart, Anna. "What's the Deal with Global Trade? The View from Davos 2018."*World Economic Forum*, 26 Jan. 2018, www.weforum.org/agenda/2018/01/davos-2018-trade-trump-tpp-nafta/+.
2. Manning, Robert A. "Will Global Trade Survive 2018?" *Foreign Policy*, Foreign Policy, 5 Jan. 2018, foreignpolicy.com/2018/01/05/will-global-trade-survive-2018/.
3. Mankiw, N. Gregory. "Why Economists Are Worried About International Trade." The New York Times, The New York Times, 16 Feb. 2018, www.nytimes.com/2018/02/16/business/trump-economists-trade-tariffs.html.
4. Funabashi, Yoichi. "In America's Absence, Japan Takes the Lead on Asian Free Trade." *The Washington Post*, 22 Feb. 2018, www.washingtonpost.com/news/global-opinions/wp/2018/02/22/in-americas-absence-japan-takes-the-lead-on-asian-free-trade/?utm_term=.a09f94437871.

Topic 2: Cryptocurrency

Introduction

Within the past decade, the global economy has experienced the rise of a new financial phenomenon — cryptocurrencies. These digital currencies both store value and facilitate peer-to-peer transactions and are incredibly difficult to regulate due to the decentralized systems through which they operate. While current online banking or money transferring systems are heavily tracked and regulated, cryptocurrencies operate much like physical banknotes (or paper money), where the passing of money from one individual to another is not overseen by any governmental authority. The best- known example of a cryptocurrency is Bitcoin, used around the world for everyday transactions, and heavily invested in among financiers. Monero, another popular cryptocurrency, is used most widely in the online illegal drug trade, which places security and anonymity at the forefront of its development.[7] Another cryptocurrency, Ethereum, is utilized by the World Food Programme, and is becoming increasingly popular in the technology industry.[8] As is illustrated by these three examples, cryptocurrencies have a wide range of functions which will be explored in greater detail throughout this Background Guide.

Cryptocurrencies are defined as "a medium of exchange that functions like money (in that it can be exchanged for goods and services) but, unlike traditional currency, is independent of national borders, central banks, sovereigns, or fiats."[9] Most traditional money currently in circulation is considered fiat currency. Fiat currencies are issued and regulated by a central bank, and historically developed from commodity-backed currencies that could be exchanged for gold or silver.[10] Commodity-backed money is distributed by a central bank like fiat money; however, it is in turn redeemed for a commodity of equal value.[11] In exploring the difference between these two types of currencies, delegates can understand the level of risk associated with each: commodity-backed currencies are safer because they are founded in a concrete material, while fiat currencies rely on governments to back them up. Cryptocurrencies differ from these traditional forms of currency in that they are not backed by any government authorities or central banks, and exist exclusively electronically and with no central regulation system.

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[7] Andy Greenberg, "Cryptocurrency Monero is Skyrocketing Thanks to Darknet Druglords," *WIRED,* 25 January 2017, accessed 8 June 2017, https://www.wired.com/2017/01/monero-drug-dealers-cryptocurrency-choice-fire/.
[8] "Blockchain Crypto Assistance at WFP," *World Food Programme,* last modified 25 January 2017, http://innovation.wfp.org/blog/blockchain-crypto-assistance-wfp.
[9] "Cryptocurrency: A Primer," *Latham* & *Watkins,* accessed 6 June 2017, https://www.lw.com/thoughtLeadership/LW- cryptocurrency-a-primer.
[10] "Bitcoin vs. Electronic Money," *The World Bank,* last modified 23 January 2014, http://documents.worldbank.org/curated/en/455961468152724527/text/881640BRI0B0x30WLEDGENOTES0Jan02 014.txt.
[11] Ibid

Despite their volatility and high prices on the market, individuals and companies across the world continue to invest in cryptocurrencies. As cryptocurrencies become more conventional and accepted in the world of finance, concerns regarding accessibility, regulation, and reliability need to be addressed by the international community. Online banking has already become commonplace in the world's developed states, and in a similar fashion, digital currency appears to on the rise among consumers. The phenomenon of cryptocurrencies has been one of the most significant innovations that has developed since the creation of modern banking. This new system has the potential to fundamentally change the face of global trade and finance by destabilizing the way central banks operate and revolutionizing the way money is moved from one place to another. If cryptocurrencies continue to play an increasing role in the global economy, they will have major impacts on law and economic regulation across the world. Thus, the international community should be prepared to adapt to the shift from centralized currency systems and understand the ramifications that may follow.

Current Situation

Being so new and largely unregulated, cryptocurrencies currently occupy a legal gray area. The legal status of cryptocurrencies varies from country to country and depends widely on the wording of existing laws that were passed before cryptocurrencies existed. The regulation of cryptocurrencies provides a unique challenge to the G20 as it focuses on monitoring and the facilitation of economic growth and development. Cryptocurrencies are identified, to varying degrees, as a helpful supplement to traditional currency, an inconsequential variable, or an outright threat to the stability of traditional monetary and financial institutions.[12] The discrepancies between cryptocurrency law from country to country are an issue that delegates need to take into consideration. Up to this point there has been no major regulation or recommendation of regulation from an international governing body. While international organizations, such as this committee, cannot enforce regulation, these bodies are useful in other important ways. For example, international guidance can lead to standards and best practices that can be applied and encouraged in a broad array of national contexts.

Due to a lack of regulation and legal provisions, illicit transactions using cryptocurrencies are very easy to execute. Blockchain technology ensures security and privacy, making cryptocurrencies an ideal medium for terrorist financing, money laundering, fraud, and tax evasion.[13] Perhaps the best- known interaction of cryptocurrencies with dark web markets was

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[12] "Risks and Threats of Cryptocurrencies," *US Department of Homeland Security*, last modified 31 December 2014, https://www.anser.org/docs/reports/RP14-01.03.03-02_Cryptocurrencies%20508_31Dec2014.pdf.
[13] Dong He et al., "Virtual Currencies and Beyond: Initial Considerations," *International Monetary Fund StaffDiscussion Note* (January 2016): 5, accessed 1 September 2017, https://www.imf.org/external/pubs/ft/sdn/2016/sdn1603.pdf.

the shutdown of the online marketplace Silk Road in 2013.[14] Silk Road was essentially the dark web equivalent of Amazon, where anonymous individuals bought and sold a wide range of illegal drugs, stolen credit card information, weapons, child abuse materials, and even paid killings.[15] Silk Road existed in the dark web, a sector of the online web that can only be accessed by those with the right information and technology.[16] Through the use of special security browsers like Tor or I2P, all of a user's internet browsing is encrypted and relayed through a system of servers called Tor nodes that obscure the identity of the given user.[17] In most cases, this allows the entirety of a user's internet use to be completely anonymous. Due to this anonymity and the large number of cryptocurrencies available, the sale of illegal substances online is a logical choice for cyber criminals and modern drug dealers.

The use of cryptocurrencies to facilitate crime has not gone unnoticed by the UN or its member states. As part of its comprehensive Programme on Cybercrime and the Global Programme against Money Laundering, the UN Office on Drugs and Crime (UNODC) created a Cryptocurrency Investigation Training (CIT) program that focuses on capacity building for national law enforcement agencies.[18] As aforementioned, cryptocurrencies are used especially in the context of the dark web to execute such illicit transactions and activities. In 2015, the number of people who bought drugs over the internet using cryptocurrencies rose by 50%, indicating the success of the practice.[19] The anonymity of using cryptocurrencies in conjunction with the similar anonymity of the dark web leads to a powerful market for drugs and other illicit materials.[20]

This anonymity of cryptocurrencies is intentionally built into its supporting software. For example, the cryptocurrency Monero uses special encryption protocols on a private blockchain which differs from other cryptocurrency blockchains that are typically in the public domain. This

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[14] Andy Greenberg, "End of the Silk Road: FBI Says It's Busted the Web's Biggest Anonymous Drug Black Market," *Forbes,* 2 October 2013, accessed 6 August 2017, https://www.forbes.com/sites/andygreenberg/2013/10/02/end-of- sil-road
[15] Ibid.
[16] Andy Beckett, "The Dark Side of the Internet," *The Guardian*, 25 November 2009, accessed 8 September 2017, https://www.theguardian.com/technology/2009/nov/26/dark-side-internet-freenet.
[17] Eyder Peralta, "N.H. Public Library Resumes Support of 'Tor' Internet Anonymizer," *NPR*, 16 September 2015, accessed 8 September 2017, http://www.npr.org/sections/thetwo-way/2015/09/16/440848324/n-h-public-library-resumes-its-support-of-tor-network.
[18] "Thailand strengthens capacity to trace and investigate cryptocurrencies," *UNODC Southeast Asia and Pacific*, last modified 31 July 2017, http://www.unodc.org/southeastasiaandpacific/en/2017/07/cryptocurrencies/story.html.
[19] Yury Fedotov, "Remarks at the VIII International Meeting of High-level Representatives in charge of security issues," *UNODC*, last modified 24 May 2017, http://www.unodc.org/unodc/en/speeches/2017/security-240517.html.
[20] "The Amazons of the dark net," *The Economist*, 1 November 2014, accessed 22 August 2017, https://www.economist.com/news/international/21629417-business-thriving-anonymous-internet-despite-efforts-law- enforcers.

technology protects individual users' identities even if they aren't using the dark web.[21] The marked increase in criminal use of cryptocurrencies highlights the urgency of international and regional cooperation that standardizes national regulations. The use of cryptocurrencies as a means to enable criminal activity continues to be problematic for law-enforcing bodies as well as those using this currency system as an alternative to fiat money. The delegates of the G20 must be prepared to discuss regulation in the context of criminality as well as the global financial and monetary system.

Delegates will find that different countries will have different stances on cryptocurrencies. The primary point of division comes from government regulation and the effects that unmanaged cryptocurrencies could have on economies. While some countries are open to the idea of cryptocurrency systems for use in the open market, others see decentralized methods as a threat to their legitimacy and ability to regulate their own economies. Some nations will have very anti-cryptocurrency viewpoints, and will want to have strict control over the currencies. Countries in this bloc will be likely to develop state-sponsored cryptocurrencies in order to maintain control over their economies. On the other hand, many countries don't see the rise of cryptocurrencies as a threat to their economies. Many currencies, like the US dollar and the Euro, are well-known forms of currency that are used as reserves by other nations. Citizens of these countries are unlikely to abandon their established and successful currencies for something new and experimental.

Delegates must come prepared to discuss the future of cryptocurrencies. They should equip themselves with solutions to the issues discussed in this background guide, as well as other potential problems that aren't brought up.

Questions to consider

1. How can we limit the use of cryptocurrencies on the dark web and in illicit transactions?
2. Can international legislation be crafted to regulate the use of cryptocurrencies, or must this be done on a national level?
3. What action can be taken to ensure that cryptocurrencies are treated as a legitimate currency, instead of as an investment for people looking to make money?

Further Reading

1. "Bitcoin vs. Electronic Money." *The World Bank*. Last modified 23 January 2014. Accessed 6 June 2017.

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[21] "Cryptocurrency Monero is Skyrocketing Thanks to Darknet Drug Lords," *Wired*, 25 January 2017, accessed 7 July 2017, https://www.wired.com/2017/01/monero-drug-dealers-cryptocurrency-choice-fire/.

http://documents.worldbank.org/curated/en/455961468152724527/text/881640BRI0B0x30WLEDGENOTES0Jan02014.txt.

2. "Governance in Blockchain Technologies & Social Contract Theories." *Ledger*. Last modified December 2016. http://www.ledgerjournal.org/ojs/index.php/ledger/article/view/62.

3. Scott, Brett. "How Can Cryptocurrency and Blockchain Technology Play a Role in Building Social and Solidarity Finance?" *United Nations Research Institute for Social Development*. Last modified 10 February 2016. Accessed 5 September 2017. http://www.unrisd.org/unrisd/website/document.nsf/(httpPublications)/196AEF663B617144C1257F550057887C?OpenDocument.
4. "Cryptocurrencies and the Aid Industry." *Integrated Regional Information Network*. Last modified 13 November 2014. Accessed 7 July 2017. http://www.irinnews.org/analysis/2014/11/13/crypto-currencies-and-aid-industry.