

Economic and Financial Affairs Council

ECOFIN

Thomas Jefferson Model United Nations Conference

TechMUN XXXI



Middle School General Assembly

Co-Chairs: Shanna Chung & Rushil Kukreja

Thomas Jefferson High School for Science and Technology

April 12-13, 2024

Dear Delegates,

Welcome to Techmun XXXI, and the Economic and Financial Affairs Council (ECOFIN)! We, as your chairs, are thrilled to spend the second weekend of April with all of you, listening to what each one of you guys has to say about international economic relations throughout the world. This committee takes place throughout the present world, and we will be covering some of the prominent economic and financial issues that can be found throughout international relations. Each pair of delegates will be representing a delegation that is part of the Economic and Financial Affairs Council in the United Nations. No one delegation is more important than the other, and each delegation holds an important role throughout the committee. As the weekend progresses, it is of utmost importance to diplomatically represent your country from the beginning to the end of TECHMUN XXXI. The first topic addresses the inevitable United States Dollar Hegemony and the second topic addresses Regulations on Cryptocurrency.

As co-chairs leading one of the most prestigious conferences in Northern Virginia, we will be expecting to see delegates who deliver unique speeches, diplomatically debate their solutions, and effectively cooperate with all other delegations, with not a single delegation neglected from the group. As delegates, this iteration of TECHMUN may be one of your first conferences, or your last. No matter how many conferences you have been to, how many speeches you have given, or how many working papers you have sponsored, we strive to facilitate TECHMUN to be a memorable conference for each one of you. If you have any questions, please do not hesitate to reach out to us at ecofintechmun2024@gmail.com!

Shanna Chung & Rushil Kukreja,

Co-Chairs, The Economic and Financial Affairs Council (ECOFIN)

Introduction to the Economic and Financial Affairs Council

Welcome, delegates, to the Economic and Financial Affairs Council (ECOFIN)! As we are gathered here for the weekend, we as a committee will be discussing topics located within arguably one of the most important United Nations committees – ECOFIN. For decades, the Economic and Financial Affairs Council has been a significant stepping stone in connecting countries from all over the world through international trade and financial affairs. The Economic and Financial Affairs Council is a platform where delegates are responsible for discussing and creating the policies of three main sectors: Economics, Taxation, and Financial Markets. However, in recent years due to the COVID-19 pandemic and many economic burdens, there is a need for reform on certain policies regarding international trade.

As young leaders today, we will be debating, and further proposing, new and innovative solutions to combat arduous issues. Our discussions will focus on two topics: “The United States Dollar Hegemony” and “Cryptocurrency Regulations”. Throughout our first topic, delegates will discuss methods and ways in which officials can make an effort to mitigate the globalization of the United States Dollar as a standardized currency and address the potential effects of altered policies on international relations. For our second topic, delegates will address the potential global economic outcomes from the rise of new cryptocurrencies and propose adequate legislation to regulate the harmful effects. Throughout the conference, as delegates, please keep in mind that we are not only proposing policies for the short-term efficacy of international economics, but we are also hoping to cater to long-term solutions that will ultimately shape the future of ECOFIN and the global market. We encourage you to share unique ideas that will lead to fruitful discussions, productive committee sessions, and productive resolutions. Remember, make sure to have fun, and let’s make this iteration of TECHMUN XXXI the best iteration yet!

Topic 1: The United States Dollar Hegemony

Introduction

The word ‘hegemony’ is defined by Merriam-Webster as the “preponderant influence or authority over others,” or “domination.” Many examples of hegemonies are found worldwide, such as the global spread of the English culture and language. Another example of a hegemony found worldwide is the United States Dollar hegemony. For the past half-century, the U.S. Dollar has served as the world’s preeminent international currency, leading to the development of the world’s largest and deepest financial markets located in the United States (Tavlas). Today, 65 countries are pegged (have a fixed exchange rate) to the U.S. Dollar, and along with the five U.S. territories, 11 other countries, such as Ecuador, Panama, and Zimbabwe use the U.S. Dollar as their official currency (Bildén). When looking at the use of money throughout economies, you can almost always find a fundamental difference between the use of money in a single economy and the use of an international currency in a multi-economy perspective. In the former case, governments typically declare the currency that is used as legal tender within their jurisdictions (Tavlas). However, internationally, the choice of currencies responds to the predominant market forces, whose effects are ratified, rather than guided by the international agreements (Tavlas). Although the process determining the use of international currencies responds to market forces, there may be some inertia owing to the costs of changing currencies.



Relevant Issues

Currently, the United States Dollar has dominated the global markets since the end of World War II. Nearly 60% of global foreign exchange reserves are held in dollars and around 90% of transactions in foreign exchange markets are invoiced in dollars (Lahiri). Because so much of global transactions are made with the U.S. Dollar, the United States government, economy, and citizenry reap significant benefits from the dollar's "exorbitant privilege," as a former French finance minister called it. Because of the strong global demand for the U.S. Dollar and dollar-backed securities such as the United States treasury bonds, the United States can borrow at far lower interest rates than other countries. The United States government and firms are also able to borrow from foreign creditors in dollars rather than foreign currencies as well, meaning that the value of the debt does not change with fluctuations within exchange rates (Lahiri).

Globally, the U.S. Dollar's hegemony allocates the United States government power to ultimately impose crippling sanctions and wage forms of financial warfare against adversaries. Since 9/11, the United States has used this power with increasing frequency. In 2022, more than 12,000 entities were under sanction by the United States Treasury Department, which is more than a twelve-fold increase since the turn of the century (Lahiri). Although the United States sanctions have not had the best record in changing the behaviors of entities, they did ensure that their targeted adversaries paid a significant price for continuing to engage in actions that the United States opposes. Sanctions placed by the United States are often noncontroversial, however, if they are used excessively, they could make many countries, including their allies, want to move away from the dollar-based financial system. For example, European countries considered developing an alternative to the SWIFT and dollar-based systems. While this idea

went nowhere, even if the U.S.-based allies considered alternatives to the dollar-based system, it would not be surprising that adversaries like Russia and China have been attempting to undermine the current United States Dollar hegemony.

Possible Solutions

While addressing the issue of the United States Dollar hegemony requires careful consideration of various factors including exchange rates, politics, and international relations, some possible solutions include the diversification of reserve holdings and the promotion of alternative reserve currencies.

First, encouraging the central banks to diversify their foreign exchange reserves away from a heavy reliance on the U.S. Dollar can be the first step to approaching this issue. This could involve increasing the holdings of other popular currencies, such as the European Euro, the Chinese Yuan, or the Japanese Yen, as well as alternative assets such as gold or special drawing rights (SDRs) which are issued by the International Monetary Fund.

Second, supporting the development and internationalization of alternative reserve currencies such as the European Euro or the Chinese Yuan, as mentioned previously, could aid in providing greater choices and reduce dependency on the United States Dollar. This solution could potentially involve enhancing the liquidity and the stability of these currencies, promoting their use in international trade and finance.

TJMUN

Questions to Consider

- 1) What were the main historical events that led to the United States Dollar Hegemony?
- 2) What are the main drivers of the United States Dollar hegemony, such as the size and stability of the United States economy, the depth and liquidity of United States financial markets, and the use of the Dollar in international trade and Finance?
- 3) What are the geopolitical implications of the United States Dollar's role as the primary reserve currency, particularly in terms of the United States' influence over global economic governance and financial sanctions?
- 4) What are the risks and vulnerabilities inherent in the current international monetary system, and how might they be addressed?
- 5) What policy recommendations or reforms could help promote a more balanced and stable international monetary system, and how feasible are these alternative solutions?

Helpful Links

- <https://www.realinstitutoelcano.org/en/analyses/is-us-dollar-hegemony-under-threat/>
- <https://www.jstor.org/stable/4416354>
- <https://oxgs.org/2023/11/30/is-us-dollar-hegemony-ending/>
- <https://www.cfr.org/background/dollar-worlds-reserve-currency>
- <https://www.project-syndicate.org/commentary/why-us-dollar-hegemony-will-survive-by-carla-norrlof-2023-09>

Topic 2: Cryptocurrency Regulations

Introduction

Cryptocurrency, otherwise commonly known as crypto, is a form of digital currency that does not rely on third parties such as central banks or governments to verify the transactions of users. The name comes from the cryptography and encryption algorithms used to pseudonymize transactions on a decentralized network rooted in blockchain technology, allowing for successful trade authorization without the need for a financial institution. Moreover, this technology implements secure peer-to-peer networking, eliminating the possibility of counterfeits or double-spending. The first and most common form of cryptocurrency is



Bitcoin, invented in 2009 by Satoshi Nakamoto, and many alternative coins (also known as “altcoins”) have grown in popularity the most notable being Ethereum and Tether. Although crypto was invented primarily for online transactions, physical purchases can also be made; despite being completely dissociated from governments, this allows financial institutions to levy taxes on individual profits and losses. While virtually every country has shifted from a community-based currency to fiat money, the prices of cryptocurrencies are based entirely on user supply and demand. This comes with the advantages of being untouchable by inflation, but also the disadvantages of an extremely volatile price that can be shifted entirely off of market sentiment, exacerbated by its low liquidity. While cryptocurrencies offer potential benefits, their adoption and regulation remain a topic of ongoing debate and discussion among governments, financial institutions, and regulatory bodies worldwide.

Relevant Issues

When creating an ungoverned system in the public space, there are issues bound to come with a rise in technology. The biggest concern with cryptocurrencies comes with their privatized nature: the anonymity of transactions prohibits the tracking of illicit and illegal activities, such as money laundering, tax evasion, and terrorism financing. Without robust mechanisms to identify the real-world individuals behind cryptocurrency wallets and transactions, criminals can more easily move and conceal illicit funds across borders outside of the traditional financial system's anti-money laundering (AML) and combating the financing of terrorism (CFT) controls. Moreover, the decentralized nature of cryptocurrencies means there is no single entity responsible for implementing AML/CFT measures or reporting suspicious activity. This regulatory loophole poses significant challenges for law enforcement agencies and financial intelligence units tasked with tracking financial crimes and disrupting criminal networks.

Additionally, crypto exchanges and wallets have been targets of hacking and cyber attacks, leading to the theft of funds. The irreversible nature of cryptocurrency transactions also makes them vulnerable to losses resulting from human error or fraud. Users also lack protection from market manipulation, speculative trading, and slow transaction times due to low scalability. Paired with the significant fluctuations in prices over a short amount of time, regulatory uncertainty creates challenges for businesses, investors, and consumers to integrate a technological currency into their lives.

Cryptocurrencies are created as “blocks” of data which transactions are encoded into. Developers create crypto using a hard fork to create a new chain of data in the blockchain network. However, there exists a separate, exhaustive mechanism called cryptocurrency mining, where an individual utilizes copious amounts of hardware and software to generate a

cryptographic number that undergoes computationally intensive calculations to prove that it matches the decentralized criteria. The miner is then rewarded with an amount of Bitcoin to incentivize the legitimizing and monitoring of transactions, as they just added a new block of transactions to the chain. The energy-intensive nature of these mining processes have raised concerns about their environmental impact and sustainability. A UN study previously found that mining's high dependence on fossil fuels alone produces enough greenhouse gas "to push global warming beyond the Paris Agreement's goal of holding anthropogenic climate warming below 2 degrees Celsius".

Possible Solutions

As cryptocurrency operates in a largely unregulated space, coordinated international efforts must be enacted that establish regulatory frameworks to balance innovation and risk mitigation. Enacted policies must keep international safety at the forefront without undermining technologies created with privacy as their purpose.

First, protecting the rights of citizens and preventing illicit activity can be promoted through the creation of a regulatory framework on the tracking technology of cryptocurrencies. This might incorporate cooperation among nations to establish common standards, information sharing, and cross-border enforcement mechanisms. Most importantly, this legislation must clearly define the legal status of cryptocurrencies and the obligations of businesses operating in the crypto space.

Second, implementing a decentralized artificial intelligence system to flag suspicious behavior could help governments and developers identify malicious activity done with cryptocurrencies. The purpose of this tool would be to incorporate the pseudonymization of this technology with its tracking system, searching inside while being invulnerable to outside attacks.

Questions to Consider

- 1) What is the most important aspect of cryptocurrency that must be preserved regardless of newly formed regulatory frameworks created by you as delegates?
- 2) How can governments implement legislation on decentralized currencies without impeding on their security and privacy?
- 3) How can cryptocurrency users be protected from market manipulation tactics?
- 4) What can be done to monitor and punish illegal transactions that occur on an encrypted blockchain network?
- 5) How can the environmental effects of the cryptocurrency mining industry be mitigated while maintaining the benefits of adding to the crypto circulation?

Helpful Links

- <https://www.un.org/development/desa/dpad/tag/cryptocurrency/>
- <https://www.investopedia.com/terms/c/cryptocurrency.asp>
- <https://www.rba.gov.au/education/resources/explainers/pdf/cryptocurrencies.pdf?v=2024-03-06-01-44-47>
- <https://www.pelico.in.com/blog/what-is-the-economic-impact-of-cryptocurrency>
- <https://www.weforum.org/agenda/2022/11/the-macroeconomic-impact-of-cryptocurrency-and-stablecoin-economics/>

TJMUN

Works Cited:

#11 *The US Dollar as the World's Reserve Currency.*

<https://www.linkedin.com/pulse/11-us-dollar-worlds-reserve-currency-andrew-j-bilden>.

Accessed 3 Mar. 2024.

Chen, Penny. "Calls to Move Away from the U.S. Dollar Are Growing — but the Greenback Is Still King." *CNBC*, 24 Apr. 2023,

<https://www.cnbc.com/2023/04/24/economic-and-political-factors-behind-acceleration-of-de-dollarization.html>.

De-Dollarization: The End of Dollar Dominance? | J.P. Morgan.

<https://www.jpmorgan.com/insights/global-research/currencies/de-dollarization>.

Accessed 4 Mar. 2024.

Definition of HEGEMONY. 2 Mar. 2024,

<https://www.merriam-webster.com/dictionary/hegemony>.

Eswar, Prasad. "Enduring Preeminence." *International Monetary Fund*, June 2022,

<https://www.imf.org/en/Publications/fandd/issues/2022/06/enduring-preeminence-eswar-prasad>.

"Is the U.S. Dollar's Dominance Under Threat?" *Morgan Stanley*,

<https://www.morganstanley.com/ideas/dollar-currency-2023>. Accessed 4 Mar. 2024.

sbusch. "Dollar Dominance: Preserving the US Dollar's Status as the Global Reserve Currency." *Atlantic Council*, 9 June 2023,

<https://www.atlanticcouncil.org/commentary/testimony/dollar-dominance-preserving-the-us-dollars-status-as-the-global-reserve-currency/>.

Serkan , Arslanalp. “Dollar Dominance and the Rise of Nontraditional Reserve Currencies.”

International Monetary Fund Blogs, June 2022,

<https://www.imf.org/en/Blogs/Articles/2022/06/01/blog-dollar-dominance-and-the-rise-of-nontraditional-reserve-currencies>.

“The Future of Dollar Hegemony.” *Council on Foreign Relations*,

<https://www.cfr.org/blog/future-dollar-hegemony>. Accessed 3 Mar. 2024.

The Future of US Dollar Hegemony.

<https://www.abrdn.com/en-us/investor/insights-and-research/the-future-of-us-dollar-hegemony>. Accessed 4 Mar. 2024.

