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ECONOMIC AND FINANCIAL AFFAIRS COUNCIL (ECOFIN)

LXXII
SEVENTY-SECOND SESSION

LETTER FROM THE CHAIR

What's up Delegates!!!

Welcome to the Economic and Financial Committee for BMUN 72! My name is Shaan Pathak and I am so excited to be your Head Chair at BMUN this year! I am currently a sophomore at UC Berkeley double majoring in Business Administration and Legal Studies. ECOFIN is especially interesting to me because of its intersection between international affairs and business/economics. A little bit more about me, I grew up in the suburbs of Chicago, and have been involved with Model UN for over six years at this point. In my free time, I love playing sports, working out, learning to cook, watching Suits, and meeting new people. My amazing Vice Chairs and I are beyond excited to meet all of you in March for BMUN 72!

The topics in ECOFIN this year are two pressing yet often neglected issues within the international community. The first topic addresses the Venezuelan Economic Crisis. The second topic is Deglobalization and Trends Towards Economic Isolationism. Both topics are designed to provide a well rounded ECOFIN experience. The first topic is a more specific one, focusing on the economic struggles of a particular country, Venezuela. While Venezuela has experienced one of the worst economic and humanitarian crises of the 21st century, its plight receives little attention in the news. The effects of the crisis was worsened by the onset of the COVID-19 pandemic, and it is my hope that researching this topic will reveal the true magnitude of the problems in Venezuela. Meanwhile, the second topic is a more broad one that directly affects every country in the world in some way. The effects of globalization are inherently global, and countries have been impacted by it in many different ways. This topic is important to understand multiple perspectives on a topic that is extremely complex and nuanced.

This year, I am especially excited to be joined by many amazing Vice Chairs: Jan, Jocelyn, Bebby, Matt, and Zak!

Jan is a sophomore at Berkeley and he intends to major in political science while minoring in economics. This will be his second year being in any MUN and as a Chair, which makes it even more exciting to be able to serve as a Vice Chair for the ECOFIN committee this session. In his free time he enjoys listening to music, running, playing a bit of tennis, watching movies (Star Wars in particular), reading books, and reading the news from time to time.

Jocelyn is a senior double majoring in Business Administration and Political Economy. She's particularly interested in international business development and its intersection with technology and social infrastructure. This is her fourth year in BMUN, and she was a MUN delegate all four years of high school (and attended BMUN for all four years too). You can also find her making Spotify playlists, trying out new cafes and restaurants, or taking naps in libraries.

Matt is a third-year majoring in political science and minoring in public policy. Doing MUN in high school, Matt is well prepared to Chair for his first time at BMUN, and he's excited to be a part of BMUN's best committee. Outside of BMUN, his interests include non-profit work, activism, going to the beach, traveling, and watching Cal occasionally win in football. Matt's looking forward to seeing everybody work together to tackle the given topics and to hopefully see delegates reach some comprehensive solutions for his first BMUN conference.

Bebby is a first year student studying Business and Economics at UC Berkeley. This is her first year of doing and chairing MUN. She is excited to learn more about international relations and global issues through BMUN. She spent a lot of time learning and exploring women's rights in East Asia. In her spare time, she likes to listen to K-pop music and watch movies. Bebby is looking forward to communicating with you all and sharing opinions!

Zak is a second-year political science major intending to add a global studies double major. He has done MUN since freshman year of high school and joined BMUN this year! Zak is interested in how the economy is a tool in keeping people together and also keeping people apart. He also participates in the Berkeley Political Review, Paws for Mental Health, and the Undergraduate Legal Honors Society here at Cal. In his free time, Zak likes to play video games, go on walks, watch anime, and learn about public transit. Back home in LA, Zak has a pet dog, tortoise, parakeet, and cat. He's really looking forward to some interesting speeches from this committee and hopes you all can get out of your comfort zone and have some fun!

Best,

Shaan Pathak
Head Chair of ECOFIN
Email: spathak@bmun.org

TOPIC A: THE VENEZUELAN ECONOMIC CRISIS

TOPIC BACKGROUND: VENEZUELA AS A PETROSTATE

The Discovery of Oil In Venezuela

Venezuela stumbled upon an economic gold-mine in the early 20th century, albeit under strange circumstances. In 1922, geologists from Royal Dutch Shell breached an oil well known as Barossa 2 in the Maracaibo Basin, a historic region in the far northwest of the country (Gibbs). When Barossa 2 was breached, a jet of crude oil shot up over 30 meters in the air, and hundreds of thousands of barrels of oil covered the surrounding areas (Gibbs). This discovery instantly transformed Venezuela from an extremely underdeveloped country with few exports into a booming destination for foreign investment and trade (Gibbs). In just a few years, hundreds of foreign oil companies were producing oil within the country. So rapid was Venezuela's rise that by the end of the 1920s, the country had the second highest rate of oil production of any country in the world, behind only the United States of America (Gibbs).

Gradual Nationalization of the Industry

After the discovery of oil in Venezuela, the country developed a crippling overreliance on the resource to support its burgeoning economy. In 1935, oil accounted for 90% of all exports, despite its discovery just 13 years earlier (Berg). Even worse, the industry was monopolized by just a few foreign giants. At the time, 98% of Venezuela's oil market was controlled by the Royal Dutch Shell, Gulf, and Standard Oil companies from the United Kingdom and the United

States (Berg). Dictator General Juan Vicente Gomez responded by passing the Hydrocarbons Law of 1943 (Berg). The Hydrocarbons Law mandated that oil companies hand over 50% of their overall profits to the Venezuelan state (Berg). This law had a few short term impacts. Given that Venezuela was such a large producer of oil at the time, the steep tax brought in large amounts of money to the government. Within just half a decade of passing the Hydrocarbons Law, the government's revenues had increased by six times. Unfortunately, this bill also transformed Venezuela into a full-on petrostate. A petrostate is defined as a country that is highly dependent on fossil fuel income to fund its government and economy (Cheatham). Venezuela became dangerously reliant on oil for revenue, and fluctuations in global prices could cripple the government if severe enough.

To alleviate these concerns, Venezuela banded together with other oil-producing nations to attempt to stabilize the global price of oil. Thus, Venezuela joined the Organization of Petroleum Exporting Countries (OPEC) in 1960, along with other oil-rich nations, including but not limited to Kuwait, the United Arab Emirates, and Saudi Arabia. Originally, OPEC was created to combat the oil dominance of what was known as the "Seven Sisters" (Brief History). The Seven Sisters were composed of large oil corporations such as Exxon-Mobile, Chevron, Shell, and British Petroleum, having immense influence over the global oil market (Oil - The). Creating OPEC allowed for its member states to collaborate with the goal of using their shared oil production to alter the oil market itself. Right after its creation, OPEC nations began to negotiate higher global posted prices of oil and pursued greater control over their own oil industries (Chatzky).

Initially, the organization was moderately successful in accomplishing its aforementioned objectives. Then, OPEC was thrust into the spotlight with the outbreak of the Yom Kippur War in 1973, a short conflict that took place between Israel and many Arab states such as Egypt and Syria (Berg). OPEC altered the conflict by implementing an oil embargo against all countries that supported Israel in the war. Despite the embargo lasting just five short months, global oil prices spiked by 300% (Berg). This is because the oil embargo drastically reduced the supply of oil that was available on the market. OPEC was composed of some of the largest oil producers in the world. Since much of the world was cut off from OPEC oil supplies, global demand for oil greatly outpaced supply for oil. As a result, prices spiked sharply. This spike allowed Venezuela to prosper greatly, ultimately capturing the highest GDP per capita of any country in Latin America in the 1970s (Berg).

Creation of the PDVSA

The Petroleos de Venezuela S.A. (PDVSA) is arguably the most important entity relating to Venezuela's oil production. The PDVSA is the state oil company that has controlled Venezuelan oil for decades, and is partly responsible for Venezuela's economic collapse.

Created in 1976, the PDVSA was thought to be a way to launch Venezuela's economic development into new heights (Cheatham). At the time, President Carlos Andres Perez provided his plan for "La Gran Venezuela" (Berg). La Gran Venezuela was an economic development plan that aimed to use oil wealth in order to increase prosperity within Venezuela (Berg). Ultimately, Perez believed that this plan was an important step to increase Venezuela's wealth and important on the international stage. The most important component of La Gran Venezuela involved the creation of the PDVSA. With the goal of reducing reliance on foreign oil companies, Perez fully nationalized the oil industry in 1976. This meant that the Venezuelan government obtained full control of the oil industry within the country, and it was no longer up to foreign oil companies to provide oil activity. The PDVSA controlled every single step of the oil process, including exploration, production, refinements, and exports (Cheatham). Interestingly, the PDVSA did not immediately ban foreign oil companies from doing business in Venezuela. Instead, foreign oil companies could operate within Venezuela as long as the PDVSA held at minimum a 60% stake in all joint ventures (Cheatham). In addition, the PDVSA was designed to operate as an independent business, minimizing influence from governmental officials despite legally being an entity of the Venezuelan government. The PDVSA had significant success in the short term. Within its first four years of production, its output reached 2.3 million barrels per day (Cheatham). For context, that number rivals the modern daily output of oil-rich nations such as Qatar and Kuwait, and is also comparable to the output of other powerful nations such as Mexico and Norway (Pistilli). Venezuela was ahead of its time, and had the potential to become an overall economic powerhouse.

Unfortunately, rampant levels of corruption throughout all levels of the PDVSA clouded its ability to operate efficiently. The PDVSA's freedom as an independent business meant that there was a lack of oversight, ultimately resulting in corruption. For example, Venezuelan politicians would frequently steal money from PDVSA reserves and other government resources (Coronel). It is estimated that the Venezuelan economy lost approximately USD 100 billion during this time period due to corruption and government mismanagement (Coronel). President Perez was even ousted from power due to suspected involvement in embezzlement (Coronel). Ultimately, Venezuela and the PDVSA failed to capitalize on its resource-rich environment and immense economic potential during the early stages of oil nationalization. Instead, corruption became ingrained within the oil industry, and has become a plague from which the country could not and cannot rid itself.

Mismanagement Under Hugo Chavez

Many experts place Hugo Chavez at the root of Venezuela's current economic catastrophe (Walsh). A charismatic socialist, Chavez rose to power on a pop ulist platform. He promised to end the problems that had plagued Venezuela in the 1980s and 1990s, such as corruption, political division, and abject poverty (Walsh). Indeed, the country had suffered through five recessions between 1990-1998 alone. Successfully resonating with an increasingly restless citizenry, Chavez won the presidential election in 1998 with 56% of the popular vote, one of the largest margins of victory in decades (Cheatham).

Immediately after entering into office, Chavez planted the seeds for a transformative plan that would be even more ambitious than Carlos Andres Perez's "La Gran Venezuela". Known as the Bolivarian Missions, Chavez aimed to fundamentally reform all aspects of the country, with the goals of reducing poverty, improving the economy, and reducing political instability. These Bolivarian Missions included extremely large social programs with large amounts of government spending. One example of the Bolivarian Missions was called Barrio Adentro (McCarthy). Barrio Adentro was a large healthcare service that provided care to Venezuela's most impoverished people (McCarthy). The healthcare services included large clinics that would be built in impoverished neighborhoods and the creation of high-tech diagnostic centers (McCarthy). Another example of a Bolivarian Mission was Mercal (McCarthy). Mission Mercal had a goal of increasing accessibility to food at a low cost (McCarthy). Supermarkets called Mercals would be created in which food would be sold at a discounted price (McCarthy). At a point, there were 12,000 Mercals throughout Venezuela and 47% of Venezuelans shopped at Mercals for regular groceries (McCarthy). Initially, Chavez' Bolivarian Missions reduced poverty in Venezuela by 20% (Cheatham). For the first time in a long time, many of the most impoverished Venezuelan citizens felt empowered by a leader who was attempting to transform their lives. Unfortunately, while Chavez seemed to be helping millions of Venezuelan citizens, his administration was mired with devastating problems that would ultimately destroy the country.

Overspending And Debt

Chavez's vast implementation of social programs for Venezuela's impoverished citizens required an immense amount of governmental spending, which created long term dangers for the Venezuelan economy. During the oil boom of the early 21st century (2004-2012), the Venezuelan government did not invest its increased resources into things that could generate a return. To fund his incredibly ambitious Bolivarian Missions, Chavez sextupled the public debt during this period, digging a continuously deeper hole for the country (Walsh). In the future, foreign markets would deem that Venezuela's debt was too large and stop lending to the country, collapsing the price of oil and crippling the Venezuelan state. In addition to irresponsibly using governmental funds, Venezuela developed extremely risky economic relationships with other countries such as China, Russia, and Cuba. For example, 45% of all Chinese policy-bank loans since 2005 have gone to Venezuela (Berg). Russia has also invested billions of dollars into Venezuela's military and oil industries. Due to the magnitude of the loans and Chavez's decisions to not save money during the oil boom, Venezuela was forced to give away some of its oil exports to pay down debt, with a third of PDVSA oil in 2012 being sent to China (Berg). Overall, horrible economic decisions without a long term strategy caused Venezuela's debt burden to skyrocket during the Chavez years, setting the stage for a financial crisis.

Authoritarianism and Corruption

Although Chavez's economic decisions were damaging, what might have been even worse were his political decisions. Preferring to give loyalists power instead of the most experienced candidates, Chavez removed practical experience from management positions in his government, creating instability. In 2002, Venezuela experienced an attempted coup, in which Chavez was removed from power for a short period of time (Beeton). The military engaged in a two-day long coup d'etat, in which they attempted to permanently remove him from power. However, he was returned to power with demands from his citizens to fundamentally reform Venezuela (Beeton). Thousands of PDVSA workers then went on strike after he regained power, protesting Chavez' authoritarian style of leadership. The strike was so severe that oil production in the country dropped to 50,000 barrels per day for a period of time (The Americas). For context, normal production in the country was well into the millions of barrels per day. Instead of adapting his leadership style to accommodate PDVSA concerns, Chavez retaliated by firing 18,000 PDVSA workers, gutting half of the company's labor force (Berg). He replaced the workers with loyalists to the Chavez regime (Berg). Unfortunately, many of these loyalists were gravely underprepared to lead the Venezuelan oil industry, and the sector had a worrying dearth of talent. The long term consequences of this decision were severe. Since 2003, the country has never reached oil production levels of three million barrels per day (Berg).

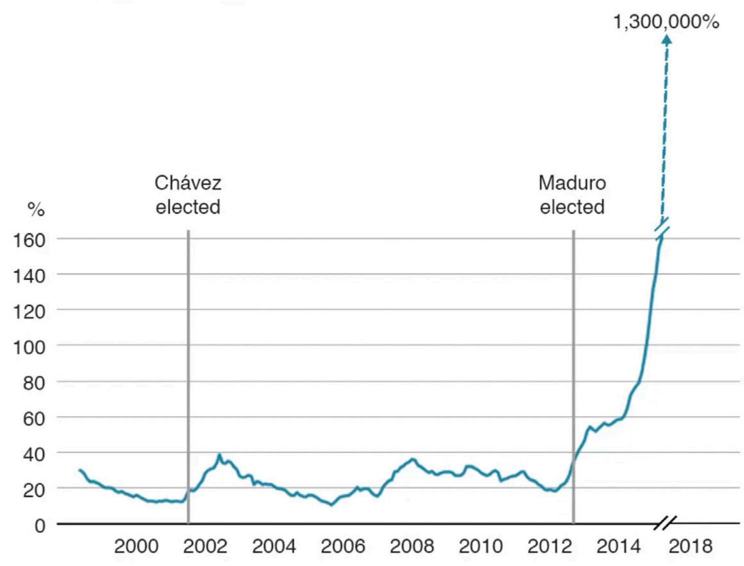
THE CURRENT CRISIS

Overview

Venezuela's economy was already ailing before the outbreak of a full fledged crisis. Public spending was far too large, thus allowing debt to balloon to unfathomable levels. Corruption and authoritarianism were gutting the Venezuelan government of experience and expertise, and production was lagging. The collapse in oil prices in 2014 sent the country into a full on free fall, and officially began the catastrophic era in which the country is still entrenched to this day. At the time, 95% of Venezuelan exports were still solely in oil, meaning the country's lifeblood was bound to global oil prices (Venezuela:). Unfortunately, a growing supply and lack of efficiency caused a global oil shock in 2014, in which oil prices would tumble by 70% over the next two years (Stocker). Venezuela's economy has shrunk by over 75% since 2014 (Closing the Escape). While oil prices would recover, the Venezuelan economy did not. Due to a combination of economic mismanagement, governmental corruption, and international sanctions, the nation was not able to recover its past prosperity as a thriving petrostate. This crash destroyed the Venezuelan economy, and started the current crisis as we know it.

The Maduro Regime

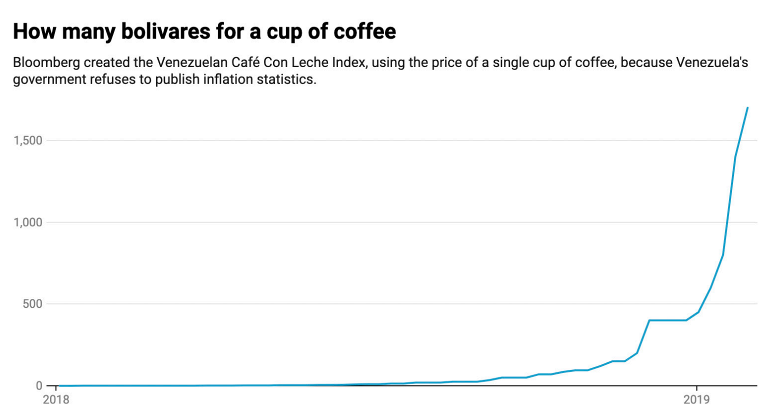
Since Nicolas Maduro's election in 2013, his regime has been known as one of the most corrupt regimes in the world. He has continued many of the policies of Hugo Chavez to a greater degree. Right after getting elected, the Maduro government began a destructive persecution campaign against leadership in the PDVSA, attempting to gain total control over the company (Ramirez). This removed hundreds of leaders in the organization from power, and further gutted the oil sector of any experience (Ramirez). Those who were installed in power were extreme Maduro loyalists, who demolished the PDVSA's operational abilities and all of its accountability measures (Ramirez). Money has been constantly diverted from the company to fund corrupt measures by the government, neglecting the needs of the oil industry and the Venezuelan people. Specifically, Maduro and his inner circle have been frequently accused of funneling PDVSA profits into their personal bank accounts and to pay off military officials that support the Maduro regime (Otis).



Inflation rates in Venezuela over the years (Bailey)

Hyperinflation

One of the worst aspects of the Venezuelan crisis is the historic levels of hyperinflation that the country has experienced over the last decade. Inflation and hyperinflation cause devaluation of the value of a currency. Venezuela had a very large debt burden for years due to spending policies of previous administrations. After the oil crash of 2014, Venezuela's ability to repay its debt decreased due to its overreliance on oil for the economy. President Maduro's solution was to print more money (Carmody). Generally, printing more money can be seen as an effective way to recover from a short term price shock Carmody). However, in Venezuela's case, oil revenues did not recover, international investors left the country, and the value of the bolivar decreased (Carmody). In fact, printing more money only compounded these effects by pushing down the value of Venezuelan currency (Carmody). This combination of factors caused severe hyperinflation in the country, the extent to which has rarely been seen in the world. Because a currency is devalued, prices rise. Hyperinflation is defined as a period in which inflation rates are 50% or more on a monthly basis (Coppola). What this means is that prices of general goods in a country are increasing by 50% or more every month. This has drastic impacts for everyday Venezuelans. The minimum wage in Venezuela was five million bolivares a month in 2018 (Daniels). That was worth around USD 41 at the time (Daniels). However, with the bolivare gradually decreasing in value due to inflation, it ended up being worth below USD 40 (Daniels). Studies in Venezuela have shown that inflation reached an annual rate of above 1.3 million % in 2018, with prices doubling every 19 days on average. That means that a minimum wage level salary in Venezuela would lose half of its purchasing power in just about three weeks. At the beginning of 2022, Venezuela officially exited its period of hyperinflation. Still, inflation between June 2021 and June 2022 was 170% (Thomas). For context, the United States has averaged a 1.88% inflation rate over the past 10 years (Q.Ai). At one point, the Venezuelan Bolivar (national currency) was so worthless that it would be less expensive to use cash instead of toilet paper in the bathroom. This has resulted in large scale dollarization throughout the country. In 2019, Venezuelans began to adopt the US dollar as their primary currency. Now, around 70% of all transactions in the country are made with dollars (Glass). Unfortunately, dollarization does not help with the long term economic stabilization of the country. Adopting the dollar has relieved some of the immediate inflationary concerns within Venezuela given that the country is now primarily using the world's reserve currency. However, dollarization has also widened economic inequality within the country. Specifically, public sector employees earn substantially less in a dollarized economy than private sector employees, because the public sector did not generate enough foreign currency to pay its two million employees in US dollars (Armas). As a result, many workers have left public sector jobs. Given that many of Venezuelan's most crucial industries are run by the state, a shortage of public sector workers threatens to further destroy the Venezuelan economy. Without a rebound in the country's own currency, its prospects are bleak.



*Visualization of the rise in prices of staple goods due to hyperin*flation (Carmody)

Poverty and Humanitarian Issues

Since the onset of the economic collapse in 2014, Venezuelan citizens have been living through one of the worst humanitarian crises in the world. This has included extreme poverty, malnutrition, disease, violence, and a refugee exodus. Specifically, 9.3 million people in Venezuela are food insecure. 59% of households in Venezuela cannot buy enough food, and the average Venezuelan lost 11 kilograms in just 2017 (Venezuela:). Food insecurity is so dire that oil workers and school children have been reported to be passing out from hunger (Johnson). At the same time, Venezuela's murder rate skyrocketed, surpassing countries like Honduras and El Salvador, a country that formerly had the highest murder rate in the world (Johnson). As a consequence of the economic and humanitarian crisis, almost 6 million Venezuelan refugees have fled the country since 2014 (Johnson).

INTERNATIONAL RESPONSES

Sanctions

While much of the world blames Venezuela's crisis on its own economic mismanagement, the Maduro government and its limited allies are quick to place the entirety of the blame on sanctions imposed by Western nations. While the true cause of the crisis is likely a combination of the two, there is no doubt that sanctions have drastically harmed the ability of the Venezuelan economy to recover from its freefall. Sanctions are economic measures roughly defined as the restriction of trade and financial relations for various geopolitical purposes (Seelke). The primary powers that have instituted sanctions against Venezuela are the United States and the European Union (Berg). The United States has imposed some form of sanctions against the country for over a decade and a half, but some of the more broad economic sanctions have been imposed more recently (Seelke). For example, in 2019, the United States government blocked all American entities from interacting with the PDVSA and froze the company's American assets, meaning Venezuela could no longer engage in oil-based trade in the United States (Seelke). Before that, the US was the largest customer of Venezuelan oil which accounted for almost all of Venezuela's exports (Cheatham). Millions of barrels of oil became wasted resources, sitting on Venezuela's shoreline with no purpose. In addition, other governments such as the European Union, Canada, and Mexico sanctioned the Maduro regime, compounding the effects of the United States sanctions tanking the economy (cheatham). The US has claimed that reasons behind the sanctions involve limiting Maduro's access to US financial markets and resources that he can use to take advantage of the Venezuelan economy and people (Epatko). The US and many European governments have also stated that the goal of sanctions is to ultimately force the Maduro regime to step down and restore democracy within Venezuela (Cavanaugh).
In March 2020, then US Secretary of State Mike

Pompeo outlined support for a transitional government in Venezuela led by opposition candidate Juan Guaido (The United States).

The effects of sanctions are greatly disputed in the international community. Some argue that the Venezuelan crisis was primarily caused by governmental mismanagement, and sanctions limited Maduro's ability to cause disaster within Venezuela (Berg). In contrast, critics of sanctions argue that the policy has simply accelerated the humanitarian crisis within the country, actually allowing Maduro to strengthen his power while destroying the livelihoods of millions in the country (Weisbrot). While agreement has not been reached, it appears very likely that sanctions have hurt the Venezuelan economy. Specifically, Venezuela experienced a 35% decrease in GDP in 2019 when broad sanctions were imposed (Additional Tracking Could).

Throughout the 1990s, Venezuela produced around 3.2 million barrels of oil daily. Production fell to 1.4 million barrels per day in 2018, but after sanctions were imposed, it decreased further to just 558,000 barrels per day in 2021 (Cheatham). A UN Special report criticized Western nations for their economic sanctions, claiming that the measures violate international law and have worsened the humanitarian crisis within the country (Pozzebon). U.S. President Joe Biden has discussed easing sanctions on Venezuela to prompt negotiations between the Maduro regime and US-supported opposition leader Juan Guaido regarding elections scheduled in 2024 (Cheatham). Overall, there has been extensive debate regarding the efficacy and practicality of sanctions imposed on the Venezuelan economy, but a resolution has yet to be reached.

Economic Partnerships

Isolated economically from a majority of the West, Venezuela has turned to other nations to attempt to revive its partnerships around the world. Unfortunately, to strengthen these relationships, the government has engaged in many of the same mistakes that put itself in this place to begin with. For example, the Venezuelan government has become increasingly close with the Russian government in the wake of Western sanctions (Newton). This partnership has involved strengthening their economic ties with large investments and loans as well. For example, Venezuela owes Russia USD 10 billion for its purchase of Russian fighter jets, over USD 1 billion for investments in oil fields, and has received over USD 4 billion in other investments from the Kremlin. Venezuela has also strengthened its partnership with China because of the crisis. As of today, China is Venezuela's largest economic partner, and the country currently has a staggering USD 60 billion worth of Chinese loans (Patrick). The second largest borrower of Chinese loans within Latin America is Brazil, with just half of Venezuela's amount (Roy). Trying to recover from its crisis, Venezuela has become further indebted to countries such as Russia and China through risky economic agreements, similar to how it accrued debt in the Chavez era (Newton).

NGO Efforts

For many Venezuelan civilians, NGOs, or non-governmental organizations, have become a lifeline. Because sanctions have prevented much international trade, it is up to NGOs to provide assistance to Venezuelans. Many of the goods that would normally be circulating through the Venezuelan economy and society due to trade can no longer enter the country. Venezuelans have therefore been increasingly reliant on NGOs to provide essential goods for survival. Unfortunately, the future of NGO work in Venezuela is at risk. The Venezuelan government, and Nicolas Maduro specifically, has attacked these organizations as "agents of Western donors", beginning to crack down on their work (Frangie-Mawad). In fact, a draft of a new law proposed by the National Assembly includes a host of restrictive provisions on NGOs, including the creation of a fund in which all international donations would be funneled for the government to control the financing of humanitarian activities (Frangie-Mawad). NGOs would have just half a year to adjust their operations to align with these rules created. Ultimately, this law would make NGOs vulnerable to control by the Venezuelan government, leaving millions of already vulnerable citizens even more at risk to the humanitarian crisis (Frangie-Mawad). Not only could NGO funds be embezzled into government accounts, but NGOS would be forced to align their activities with government policies (Frangie-Mawad). Amidst increasingly repressive behavior by the Venezuelan government against any organization from outside the country, NGOs are at risk of being severely censored or even closed, thus harming their ability to help Venezuelan citizens (Frangie-Mawad).

QUESTIONS TO CONSIDER

1. What were the true causes of the economic crisis? Is it economic mismanagement? Is it external factors? Is it sanctions from Western nations? How can understanding the cause(s) of the crisis guide solutions?

2. What are some ways in which Venezuelan citizens can be immediately helped in their economic struggles? Are there any short-term solutions that ECOFIN can pursue to alleviate some of the impacts of the crisis?

3. Is the country and world better off with sanctions on Venezuela? Do sanctions have any beneficial impact on the Maduro government's grip on power, or do they simply embolden him and his allies? In a world without sanctions, would the economic crisis in Venezuela be alleviated?

4. Does a world in which Venezuela's economy recovers involve a situation in which Maduro is ousted for power? Is it possible to obtain economic recovery within Venezuela without regime change?

5. How can a process of economic diversification be started in Venezuela in a way that does not create a shock within the Venezuelan economy due to change that is too rapid?

6. What are some ways to reintegrate Venezuela into the global economy?

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Topic B: Deglobalization and Trends Towards Economic Isolationism

Topic Background

What is Globalization?

Generally, globalization refers to the process by which the world has become increasingly interconnected through trade and the spread of technology (Globalization). Centuries ago, humans operated at a local level. Interactions between civilizations happened on a smaller scale given that worldwide movement was very difficult. As technology advanced, it became easier and easier to connect with people that were previously inaccessible. An analogy can be made between globalization and a spider web. Over time, the threads of a spider web grow and connect in more complex ways, with the number and reach of the threads gradually increasing (Globalization). Likewise, the world has gradually become more interconnected, especially in modern industrialized eras.

In the 21st century, true globalization is characterized by a few aspects. It is not sufficient to have limited interactions between two countries across the world. The entire world must be involved in economic systems to represent globalization. Some essential features of globalization include a free trade environment, cross-border integration, and interdependence of nations (Globalization). In other words, countries must be in an environment that encourages rather than discourages worldwide trade. In addition, globalization is characterized by a dependence of various nations on each other and an integrated world economy rather than separate national economies.

History of Globalization

Global Economic Relations Before the 15th Century

Globalization is a relatively modern phenomenon confined to the 20th century. However, global economic interactions have been happening for thousands of years. Important trade routes stretched across entire continents, even if the pace of trade was much slower than it is today. One of the most prominent examples of some form of globalization happened through the Silk Road. Importantly, the Silk Road is not considered an example of true globalization since many of the goods traded on the route were luxury. In addition, exports along the Silk Road contributed to a very small portion of the global economy, and numerous intermediaries were necessary for trade to happen (Vanham). However, as goods originating in Han China ended up in Europe around the second century BCE, the world was gradually becoming more and more interconnected. Modern-day countries such as China, Kazakhstan, Russia, India, Iran, and more became part of a large trade network through which goods, ideas, and culture could flow (Chong). For the large empires that controlled much of the Silk Road, this new development was nothing less than a gold mine. The Roman Empire and Han China became exponentially more wealthy as new markets opened for their goods, and they gained access to new resources themselves.

As time progressed, different civilizations had the opportunity to prosper from this Silk Road. A benefit of global trade was that wealth is not limited to those who only have immense natural resources. Effective commerce allowed for a civilization to be substantially more prosperous than it otherwise would have been. Between the 7th and 15th centuries, the spread of Islam outside of the Arabian heartland coincided with a boom of economic activity coming into the region. The start of Islam dates back to the year 610 CE. The religion's founder, the Prophet Muhammad, was also a merchant, demonstrating that trade was interconnected with the early development of the religion (Vanham). Overall, as Islam facilitated greater cultural and religious exchange across Eurasia, it also facilitated more productive economic exchange. Located between Europe and Asia, the Arabian peninsula was a vital region that facilitated the spread of goods across the region. One good that Islamic merchants specifically focused on was spices. Importantly, many of the spices in highest demand (cloves and nutmeg) originated far from Europe, within the Spice Islands of modern-day Indonesia. Islamic merchants had easier access to these far-off regions through maritime routes in the Indian Ocean. As a result, Muslims controlled large portions of the entire Silk Road by the mid-8th century, less than two centuries after the founding of Islam (The Spread of Islam). Importantly, this interconnectedness was not a true form of globalization due to the fact that much of the world was cut off from Eurasian trade at the time. Yet, for the first time, there were large land-based and maritime-based trade routes that spread all the way from Europe to Asia, meaning the world was becoming gradually interconnected.

The Age of Discovery: 15th-18th Centuries

The 15th century is well known as the beginning of European exploration and colonialism around the world. Spanish explorer Christopher Columbus led an expedition to what he thought was India in 1492 but ended up in what is now the modern-day Bahamas (Christopher Columbus). Around half a decade later, Portuguese explorer Vasco De Gama led an expedition around the southern tip of Africa with the hopes of reaching India (Campbell). Between 1519 and 1522, Portuguese explorer Ferdinand Magellan successfully circumnavigated the entire globe (Brockmeier). In the previous era, expansive maritime expeditions and movements were led by merchants from the Arabian peninsula, but Europeans began to dominate maritime trade and movement in the Age of Discovery. Europeans no longer required Arab middlemen to access goods from the Spice Islands or other parts of Asia; they could navigate to those regions themselves.

Another aspect of increasing economic globalization during this period is the growth of large global corporations. A prominent example of this is the Dutch East India Company, otherwise known as the United East India Company, or VOC. In the 16th century, Dutch merchants were sent to the Far East in search of spices such as cloves, cinnamon, and turmeric. They realized that profits from this trade were remarkable. Merchants who sold spices in Europe could do so at an extreme markup. According to one author, "what could be had for a basket of rice [in Indonesia] ... might be worth a fortune in silver [in Europe]" (Phelan). As a result, in 1602, the Dutch government created the Vereenigde Oost-Indische Compagnie (VOC) (Phelan). An important condition of the creation of the VOC was that the Dutch government granted it a monopoly within the spice trade (Phelan). To enforce this monopoly on the other side of the globe, merchant ships in the VOC were heavily armed, and the Dutch frequently used violence to enforce their claims in the Far East (Phelan). In some areas, the VOC resembled a ruthless military campaign, as native Indonesians could be tortured and killed for resisting the economic control of the VOC.

Throughout the Age of Discovery, the VOC was undoubtedly the most powerful and richest company in the world. The VOC had control over global trade but was also involved in manufacturing such as construction, sugar refining, tobacco curing, and weaving (Phelan). At its peak, the VOC was worth 78 million Dutch guilders. That is equivalent to almost USD 7.9 trillion today (Fisk). To put that into context, only two countries today have GDPs that are higher than USD 7.9 trillion: the United States (USD 23.3 trillion) and China (USD 17.7 trillion). The third largest global economy today is Japan, which has a current GDP that is just over half of the value of the VOC at its peak (USD 4.2 trillion). GDP, or gross-domestic-product is the value of all of the goods and services produced in a country (Fernando). In other words, it is a rough calculation of the total economic output within a country. This means that the VOC, at its peak, had almost as large of an economic output as the modern economies of Germany and Japan combined.

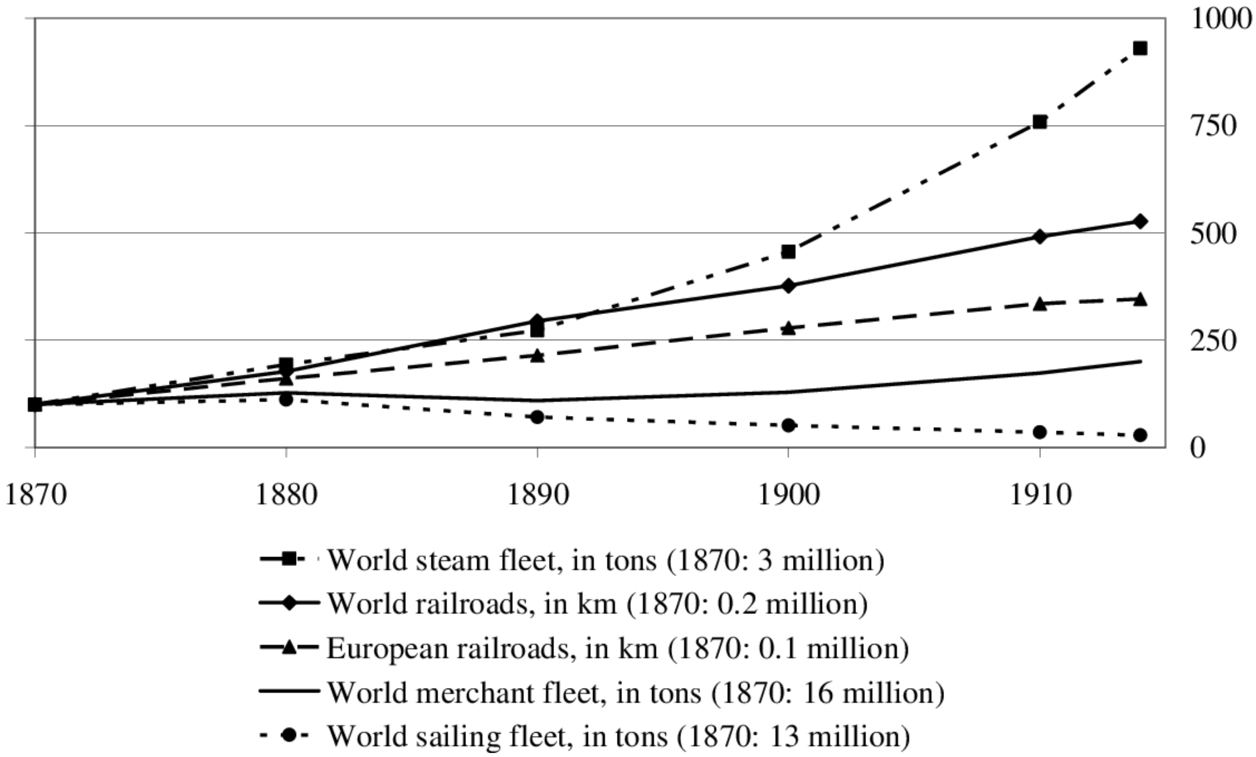
According to some scholars, the Age of Discovery marked the beginning of globalization as it is seen today. Many indicators of globalization were present during this era. For example, the global price of many goods decreased as they circulated around the world more frequently. In addition, new goods such as coffee and chocolate were introduced to Europe (Vanham). However, most economists agree that this era did not resemble true globalization. The global economy at this time was dominated by European powers who subjugated native populations in the Americas, Asia, and the entire world. Global supply chains were created not on the basis of free interactions, but on the basis of colonial exploitation. Importantly, many forms of exploitation that were present during this era continue to exist in the modern globalized system through the growth of large multinational corporations. Productive mercantilist and colonial economies were created, but a true globalized economy did not yet exist (Vanham).

Early Globalization in the 19th Century and Early 20th Century

Colonial empires began to create developed economic interactions between the 15th and 18th centuries. Yet, these interactions could not be considered true globalization. As previously stated, interactions were dominated by a select few, including large colonial powers and the mega-corporations that they created. In addition, total trade volumes were relatively low in comparison to total output. Before the 19th century, the sum of worldwide exports and imports never exceeded 10% of global output (Ortiz-Ospina). What this means is that a majority of economic output was being used to sustain domestic societies rather than used as trade pieces. However, gradual expansion of global trade networks and technological advancements throughout the 17th, 18th and 19th centuries allowed for globalization by the end of the 19th century. Specifically, "The First Wave of Globalization" is known as the period that spanned between 1870 and 1914 (Chandy). Many economists recognize this time period as the beginning of true globalization.

One of the main reasons behind the period 1870-1914 being recognized as "The First Wave of Globalization" is because of the establishment of the global gold standard. In 1821, England became the first country to formally adopt the gold standard (Lioudis). Adopting the gold standard means that the value of a country's currency is directly linked to the price of gold. A reason why the gold standard was adopted was to create currency stability. Because the value of gold does not fluctuate heavily, linking a currency to the gold standard means that its value would also be less likely to fluctuate, decreasing the risk of inflationary shocks or other forms of instability. Throughout the 19th century, there were large global discoveries of gold as a result of increases in trade and production. This accumulation of large amounts of gold allowed countries to maintain stockpiles of gold to base their currencies (Lioudis). In 1870, many countries established the global gold standard after Germany instituted the gold standard itself, and most developed nations around the world had adopted the gold standard by the start of the 20th century (Lioudis). Interestingly, the period between 1870 and 1914 was considered to be the pinnacle of the global gold standard, the same period that was characterized as "The First Wave of Globalization" (Lioudis). A benefit of the gold standard at the time was that it reduced the risk of trade and encouraged foreign investment. Advanced economies became increasingly financially integrated with each other due to exchange rate stability caused by the gold standard. Due to the low risks, countries were encouraged to develop joint economic interactions around the world (Learning from).

Another main factor behind early globalization was technological advancements caused by rapid industrialization in countries such as the United Kingdom and the United States. Innovations such as the steamship substantially reduced travel times between various locations and allowed for trade to happen much quicker (Vanham). As a result, more goods could be shipped over longer distances, and overall trade volumes skyrocketed. Industrialization also resulted in the production of many new goods that were in high demand themselves. These included iron, textiles, and other manufactured goods that could be mass-produced in newly constructed factories (Vanham).



Expansion in technology during the "First Wave of Globalization" (Morys)

At the same time that the gold standard and technological advancements made global trade more lucrative and efficient, governments around the world were also embracing liberal trade policies. Liberal trade policies and economic liberalism support market economies based on individualism and minimal interference. At an international level regarding trade, this meant that countries were trading freely with each other and cooperating whenever possible. For example, Great Britain and France signed a free trade pact in 1860. In response to the British and French agreement, many European countries immediately embraced free trade systems themselves. Overall, this era is known as the "embodiment of the liberal open economic paradigm," and may have been even freer economically than any period coming after (Chandy). Without burdensome tariffs, manufactured goods in the West were freely exchanged for valuable commodity goods in developing countries (Chandy). The stable global exchange system caused by the gold standard allowed for the free flow of capital so it could generate the highest returns possible. For example, around 50% of all British savings were invested abroad during this era, and 50% of Argentinian capital stock was owned by foreign entities by 1914 (Chandy).

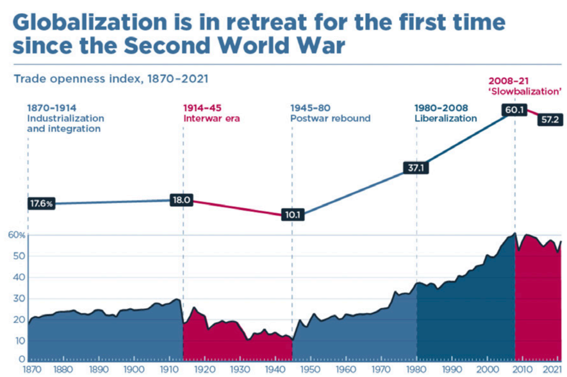
The results of this global change are very clear: global trade skyrocketed. During the 16th and 19th centuries, global trade volumes increased at a rate of about 1% every year (The Three Waves). After 1820, global trade volumes increased at a rate of at least 3.5% annually, and during the entire 19th century, trade in Europe increased by 40% (The Three Waves).

The export share of total output during the period 1870-1914 increased from 4.6% and 8% globally (Learning from). This means that in 1870, exports accounted for 4.6% of total output, increasing to 8% of total output at the end of the "First Wave of Globalization". Globalization was also not limited to just movement of goods and economic interactions. Movement of people and immigration also increased during this period, with around 60 million people leaving Europe to seek prosperity in the United States (The Three Waves).

This period of globalization and free trade slowed down in 1914 with the outbreak of World War I and protectionist attitudes that reversed liberal trade policies. However, this period marks a beginning to true global interactions. Developed and developing nations interacted with each other freely. While colonial rule prevented many countries from accessing the global system, global trade was much more accessible during this period than it was in previous centuries.

Shifting Attitudes towards Globalization

While much of the world has operated on a globalized economic system for decades, attitudes are slowly shifting, possibly signaling the rise of an anti-globalization sentiment. While globalization has created global economic super powers such as the United States and China, it has also left some countries behind. Middle class workers in the West and around the world are beginning to resent an economic system that has caused economic inequality, social instability, and mass immigration in some cases, even if overall economic growth was increasing (Vanham). Many indices and metrics also indicate that globalization is slowing, or at the very least increasing at a slower pace than in the past. One example is the trade openness index, which measures the ratio of world imports and exports to world GDP (Irwin). In other words, the trade openness index measures what portion of total global output can be accounted for through global economic interactions. Between 1945 and the global financial crisis in 2008, trade openness increased by almost six times (Irwin). Since 2008, trade openness has decreased, ushering in an era that is referred to by economists as "slowbalization" (Irwin).



Decrease in the Trade openness index over the past decade (Irwin)

There are also numerous examples of countries and groups of people that have been harmed because of globalization. While globalization has improved the overall world economy, it has hurt some of the most vulnerable populations. This is even true in advanced market economies such as the United States. According to a study by the U.S.-based National Bureau of Economic Research, globalization has widened income inequality in recent decades (Soergel). The incomes of wealthy executives have risen sharply while those of working and middle class families have stayed relatively stagnant (Soergel). Between 1978 and 2014, top executive pay in the United States rose by an average of 997%, while the wages of more general workers rose by an average of just 10.9% (Soergel). At the same time, the United States and the world were embracing globalization, as seen by the signing of the North American Free Trade Agreement and China joining the World Trade organization.

Another clear example of the possible negative effects of globalization can be seen through the exploitation of developing countries by large multinational corporations. Today, multinational corporations (MNCs) drive the global economy, with production throughout the world and hundreds of thousands of employees in some cases. However, MNCs have also exploited the people of developing and third-world nations by providing very low wages and subjecting workers to horrible working conditions. In addition, an estimated 250 million children are forced to work in sweatshops around the world. These children sometimes work 16 hour days with little pay simply to produce clothing, toys, and products that are enjoyed by consumers around the world (Thelwell).

There are numerous examples of abusive behaviors by large corporations towards their employees around the world. For example, Coca Cola built a bottling facility in the country of El Salvador, which has a poverty rate of above 25% (Thelwell). The company hired sugar cane harvesters, and the country was eager for the influx in jobs. However, studies revealed that workers were paid below minimum wage. In addition, harvesters faced frequent physical risks such as exhaustion, lacerations, and burns. This is because harvesters were forced to cut cane stalks with machetes in chemically treated fields, meaning they were exposed to dangerous chemicals on a daily basis (Thelwell). The example of Coca Cola is just one of many corporations exploiting people around the world. Countless other companies including Walmart, Chevron, Nike, and Apple have also been exposed for their treatment of workers abroad.

At the same time, while attitudes have been shifting against globalization in some aspects, there still continues to be evidence that global economic interactions are crucial overall. One example is the Belt and Road Initiative (BRI) led by China. Launched in 2013, China has spent billions of dollars developing economic relations with primarily developing nations, funding infrastructure projects and other relations with these countries. Sold by Chinese leadership as the "project of a century," over 150 countries have taken part in the BRI in some way or another (Gong). One example of a project through the BRI is the creation of a high speed rail network linking the cities of Jakarta and Bandung in Indonesia (CPIC Global). The Chinese government loaned the equivalent of USD 4.5 billion to the Indonesian government to fund this project, and Indonesia is projected to generate USD 18 billion in revenue because of development along the rail line (CPIC Global). Another example of an ambitious project is the creation of an international airport in Gwadar, Pakistan that is fully funded by China (CPIC Global). The airport is projected to cost around USD 250 million and will be designed to have world class infrastructure and modern amenities, with the goal of transforming the general region (CPIC Global). Overall, the BRI has received both praise from some and immense criticism from others for many of its economic tactics. However, what it does signal is that amidst changing attitudes towards globalization, there are still prominent examples of globalization to the global economy today.

CASE STUDIES: PHASES IN THE BACKLASH AGAINST GLOBALIZATION

1st Phase: Financial Stagnation

Brexit

For centuries, the United Kingdom has been a world economic power. In the colonial era, it had an expansive global empire that stretched across the entire world. Its modern economy is extremely advanced and modernized, powered by London, one of the world's most influential cities. However, much of its modern economic success can be attributed to its past participation in the European Union. The European Union (EU) is one of the largest, if not the largest, economic alliances in the world, and includes some of the world's most advanced economies, such as Germany, France, Italy, and Spain.

As an organization, the EU represents one of the clearest examples of true globalization in the world today. The union has essentially created one singular economic market for all of its members, removing economic borders and implementing a common currency for most of its members (the Euro) (Bergsten). EU citizens can travel freely through its borders without a passport thanks to the Schengen Agreement, and the EU often acts as a singular bloc when interacting with the rest of the world on trade. Up until 2016, the United Kingdom was an extremely vital member of the EU. However, on June 23, 2016, British citizens voted with a very slight majority to leave the European Union, and the move went into effect in 2020 (Ashcroft). Many of the motivations behind Brexit involved an increased desire for the United Kingdom to regain control over issues that it previously had to cooperate on with the rest of the EU. This included decision-making sovereignty, immigration, and economics. Specifically, 49% of supporters for Brexit said that the main reason behind their support was "the principle that decisions about the UK should be taken in the UK" (Ashcroft).

Economic reasons for Brexit involve reinvigorating the United Kingdom as a global economic powerhouse. While the United Kingdom was still an influential country economically even before Brexit, many British citizens and government officials had aspirations of returning the nation to its past of being a true economic powerhouse. Indeed, many British people believed that Britain's economic growth was being stagnated by participation in the EU. They believed that the EU was stuck in overregulation and slow growth, hampering the ability of a more vibrant Britain to grow (Niederjohn). EU policies were deemed as unnecessarily burdensome, with restrictions even being placed on the shape and form of fruit that can be sold within the Union (Niederjohn). In addition, many domestic economic problems within Britain were blamed on the EU and outsiders in general. These included high levels of unemployment, high housing prices, and frequent economic shocks (Dunin-Wasowicz). In addition, the perception of an ailing economy in general can lead people to develop more hostile views towards outsiders, including immigrants and entire nations (Dunin-Wasowicz). Economic stagnation within Britain may have led many British citizens to become critical of the EU, ultimately placing the blame on the EU itself. In addition, British citizens may have become more cynical about immigration, a tenet of globalization, and many of the free-movement agreements that are enshrined within the EU.

Proponents of Brexit, including former Prime Minister Boris Johnson, claimed that the move allowed for the creation of a "Global Britain," that embraces globalization rather than rejects it. However, this move also means leaving the most comprehensive economic alliance in world history, which provided free trade, movement, and cooperation to all of its members.

The move by the United Kingdom to leave the EU can be considered a fundamental rejection of many of the principles of globalization. According to a member of the Turkish government, "[Brexit] is a key pullback to more trade openness, labor movements and globalization in general. So in a way, globalization is running out of steam" (Chandran). European countries have been the largest sources of U.K. exports and the largest providers of foreign investment (Mueller). The EU even helped London transform into the global economic powerhouse that it is today (Mueller). Indeed, some negative impacts of the Brexit decision have already been seen in the short term. Short term decreases in imports after finalizing Brexit in 2020 ranged between 14 and 25% (Spisak). Trade openness decreased by 8 percentage points between 2019 and 2021 (Spisak). Red tape and regulatory burdens faced by British businesses have increased, despite an original motive behind Brexit as an escape from overregulation (Spisak). Overall, the British economy seems to be underperforming even what forecasts predicted as a result from Brexit (Spisak).

Leaving the EU marks a shift in attitudes within the British government and public. There is a larger focus on inward development and success rather than participating in global economic systems. Overall, Brexit is one example of how deglobalization has already manifested itself in the real world. Whether or not it is a one-time occurrence or a more general trend is still not known for sure, it is very plausible that Brexit laid the foundation for countries who are gradually becoming less reluctant to participate in global economic systems.

America-China Trade War

The trade war between the United States and China has been a continually impactful example of deglobalization in the world today. While the two are undoubtedly still engaging in large amounts of trade, the actions of two towards the other have signaled a move away from interdependence. Both the United States and China are looking to reduce their reliance on each other for trade and economic stability. Some experts have pointed to the weakening relationship of China and the United States as a "decoupling" between the two. Importantly, this "decoupling" does not mean that economic integration between the two superpowers is eliminated (Irwin). It simply means that integration is reduced, as one piece in a larger puzzle of deglobalization.

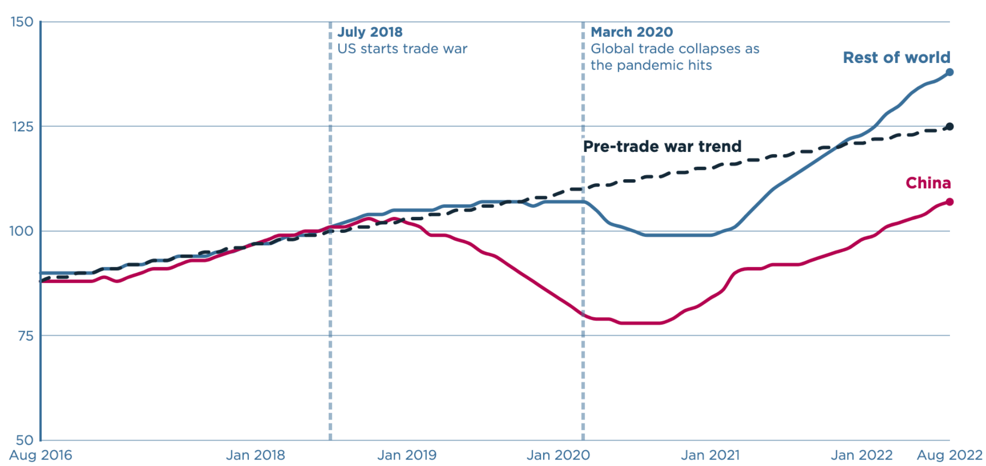
The United States and China currently have the two largest economies in the world by far. The two countries make up over 40% of the global GDP just by themselves (Silver). They also have a very substantial history of economic relations with each other. Before the 1970s, diplomatic and relations were minimal. The two powers frequently opposed each other in conflicts, with the two most famous being the Korean and Vietnam wars. However, 1971 marked a turning point in their relationship, as U.S. diplomats and journalists became some of the first Americans to be allowed into China since 1949 (Timeline). The year 1979 ended up being the most important year economically. In that year, the United States and China officially established diplomatic relationships and established a bilateral trade agreement (Research Guides). Over the next few decades, trade between the two countries would explode, and they would become each other's largest trading partners respectively. In 1979, total trade value between the United States and China was USD 4 billion (Research Guides). By 2017, it had reached USD 600 billion on an annual basis (Research Guides). However, after February of 2019, China dropped to being the third largest trading partner of the United States, behind Canada and Mexico (Research Guides). While trade volume is still very large to this day, there is one main reason behind that drop off.

In July of 2018, the U.S. government began a trade war with China that was characterized with protectionist measures such as tariffs (tax on imports). The justification behind these measures was that China had been engaging in unfair economic practices and commercial measures. Specifically, between July and August, the United States government imposed 25% tariffs on products covering around USD 50 billion worth of imports (Bown). This was soon followed by restrictions on China's ability to access U.S.-based technology and foreign investments (Huang). Unsurprisingly, China retaliated, placing similar tariffs on imports of U.S. goods while lowering tariffs on imports from the rest of the world (Gorman). Soon after, the U.S. placed more tariffs on Chinese goods, with a 25% tariff placed on an additional USD 200 billion worth of goods (Bown). Overall U.S. exports to China fell 26.3% and Chinese exports to the US fell 8.5% (Gorman).

Figure 1

US imports from China have only recently returned to pre-trade war levels, while imports from the rest of the world are above trend

Value of US goods imports from China and rest of world, 2016–2022 (June 2018 = 100)



"Four Years into the Trade War, Are the US and China Decoupling?" (Bown)

Many economists claimed that the trade war was not a signal of changing attitudes towards globalization. Rather, they believed that the restrictive policies were just a result of the choices of a particular administration, and that liberalized trade policies with China would follow with a new administration (Goldberg). However, this has not happened. The Biden Administration has maintained many of the tariffs imposed by the Trump Administration against the Chinese economy, and it is unlikely for this to change in the near future (Khalid). This indicates that the change in attitudes towards globalization may be more permanent than what was previously thought (Goldberg). Overall, United States/China trade has increased from the beginning of the trade war, and global trade volumes actually increased due to the trade war. However, the United States/China trade war does indicate a gradual shifting in attitudes compared to what happened between the two nations in the previous four decades. Ramifications have even been seen outside of U.S.-China relations. Many other countries began considering protectionist measures in response to the trade war. For example, Japan recently increased regulations on exports to South Korea, and the United States has threatened tariffs against many European industries (Herrero). Given that the trade war has primarily involved the two most powerful economies in the world, it has the possibility to fundamentally alter attitudes around the world in the long term.

2nd Phase: The COVID-19 Pandemic

The COVID-19 Pandemic marked an important shift regarding attitudes towards globalization. One specific principle of globalization became criticized by many members in the international community: global value chains, or GVCs. Global value chains refer to production sharing, in which production of a good is broken up into multiple different stages (Seric). These different stages might be held in various different countries around the world. Famed economist Adam Smith is thought to be one of the main developers of this concept. One example of GVCs can be seen with the production of a pin. Within a factory, the production of a pin is divided into multiple different stages, with each stage performed by a different worker. In the case of global value chains, operations are spread across countries and the products that are made are substantially more complex (Seric). One common example of a GVC can be seen through the production of a smartphone. While the smartphone might be assembled in China, it may include graphic design elements from the United States, precious metals from Bolivia, silicone chips from Singapore, and computer code from France (Seric). GVCs allow the value of the final product (smartphone) to be significantly higher than the sum of the individual components had they not been combined (Global Value Chains). This cross-border flow of goods has been made possible due to general trade liberalization and globalist attitudes, and the growth in GVCs has been primarily driven by large transnational corporations with the ability to conduct operations in numerous different countries (Seric). For example, the smartphone example that was introduced might be a global value chain run by Apple or any large manufacturer of smartphones. In addition, the importance of global value chains to global production could be a reason why defense over Taiwan has been increasingly strong by the United States and its allies. Taiwan plays a crucial role in global supply chains through its production of advanced semiconductor chips. 60% of all semiconductor chips and 90% of the most advanced ones are produced in Taiwan (Taiwan's Dominance). Most large technology corporations rely on Taiwan as a part of their global value chains to produce their most vital products. Countries like the United States are apprehensive that if China exerts control over Taiwan, they could lose access to part of their GVCs that fund large parts of their economies. Overall, 70% of total global trade today happens through GVCs, meaning that the global entirely is wholly reliant on the success of GVCs for its own success (Global Value Chains).

Fragility within GVCs was seen due to the onset of the COVID-19 pandemic. The entire world was experiencing lockdowns, in which movement of goods and people were severely limited. Overall, total trade volume decreased 8% in 2020, the largest decrease in any year since the global financial crisis of 2008-2009 (Brenton). Severe shortages of multiple goods throughout the pandemic highlighted possible vulnerabilities in GVCs. For example, short run shortages of personal protective equipment, toilet paper, paper towels, and other basic necessities were linked to disruption of GVCs as a result of the pandemic (Goldberg). Disruptions in GVCs became even more pronounced at the end of 2020 and into the beginning of 2021. Problems with shipping and delays at ports were exacerbating supply shortages in critical products such as baby formula. These problems gave rise to increasing anti-globalization sentiment (Goldberg). A naturally thought of solution to increase supply chain resiliency was to restore as many links to a given supply chain to a domestic economy (Goldberg). This change is known as reshoring.

The COVID-19 pandemic could have long-lasting impacts on globalization as an economic system. Within the short term, it seems as if the world has recovered from the COVID-19 pandemic, and globalization has not taken a permanent hit. Further, some argue that global supply chains were resilient and stood the test of the pandemic (Goldberg). Overall, the global economy and its GVCs have proved to be resilient. According to most economists, "there is no longer support for market-driven, unbridled globalization" (Goldberg). French President Emmanuel Macron furthered that the pandemic "will change the nature of globalization, with which we have lived for the past 40 years," adding that it was "clear that this kind of globalization was reaching the end of its cycle" (Irwin). Various countries have began to rethink their own attitudes towards the current globalized system. The Prime Minister of Australia explained, "open trading has been a core part of our prosperity over centuries. But equally, we need to look carefully at our domestic economic sovereignty as well" (Irwin). Japan has been investigating ways to reduce economic reliance on China and improve supply chain resiliency at home (Irwin). Even the European Union has begun thinking about ways to ensure its own economic autonomy (Irwin). It will be important for delegates to consider the ways that the COVID-19 pandemic exposed some vulnerabilities in the globalized supply chain solutions, and identify ways to fix these vulnerabilities in the long term.

3rd Phase: Geopolitical Turmoil Amidst the Russia-Ukraine War

Brexit, the United States-China trade war, and the COVID-19 pandemic all involved disruptions to the system of globalization that the world has relied upon for the better part of a century. Luckily, the world has mostly recovered from all three. However, the three events set the foundation for a new event that could be a significant turning point in globalization (Goldberg). In this new case, national security and geopolitical turmoil drove changing attitudes toward globalization, while economic turmoil continued to become a factor. This new event was the war in Ukraine and Russia.

The Russia-Ukraine war had immediate and severe economic impacts that reverberated worldwide. An important trend that resulted from this war is an increase in "friend-shoring." This means trading predominantly with friendly nations and reducing trade reliance on nations that could be considered hostile (Goldberg). Amidst the war, friend-shoring was encouraged to reduce Europe's decades-long reliance on Russia for energy production (Goldberg). Unsurprisingly, energy prices became extremely volatile with the onset of the war, and cooperating with a country deemed an enemy in this context was not a wise idea. Even since the existence of the Soviet Union, Russia has been extremely involved with Europe in the energy trade. Russia wanted export markets for its energy resources, while Europe wanted a direct energy source to deliver through a pipeline (Jenkins). Consequently, Europe and Russia trade immense amounts of energy. Before the invasion of Ukraine, 60% of Russian oil exports and 74% of dry natural gas exports went to Europe (Jenkins). However, this reliance was exposed as a vulnerability due to the war. Price shocks and inflation drastically harmed European energy markets due to the war. Analysis of the Russia-Ukraine war has led to more general concerns about the resilience of the global supply chain to geopolitical risks (Goldberg). In other words, geopolitical adversaries are increasingly seen as threats to economic stability, compelling countries to cooperate less with those not considered friends.

Indeed, new groups of collaborators have emerged for the energy trade. Different groupings of "friendly" countries can be seen. One main grouping is between the United States, Canada, Latin America, and the EU. According to U.S. and EU perspectives, "there is now a preference for "good" over "bad" oil and gas, with the distinction relating to the political orientation of the supplier country" (Kupchan). The most important relationship within this group has been growing energy interdependency between the United States and EU. Right now, two-thirds of United States liquid natural gas is being sold to Europe, which is roughly double the level seen before the Ukraine invasion (Kupchan). Even though European gas consumption is dropping, the U.S. role in supplying gas to the continent is growing (Kupchan). In addition, strong energy relations between Latin America, the United States, and Canada have been maintained throughout the war. With a distinct preference for "good" energy over "bad" energy, relationships between the United States, EU, Latin America, and Canada have become increasingly important, especially as many in this bloc stray away from adversaries such as Russia and China (Kupchan). At the same time that this bloc of "friendly" nations has been increasing energy ties with each other, Russia and China have also been forming closer ties. These two countries consider many Western nations, such as the United States and European nations, adversaries. As Russia is gradually losing access to European markets for oil, China has increased purchases of Russian oil by 300,000 barrels per day (Kupchan). At a point, China may become the only reliable large market for energy to which Russia has access. Clearly, friend-shoring affects all types of countries.

The increasing influence of "friend-shoring" can be seen in other areas aside from energy sources in the context of the Russia-Ukraine war. One example is the imposition of restrictions by the U.S. government on collaboration with the Chinese semiconductor industry (The Semiconductor Showdown). Given that the United States and China are global adversaries, the U.S. government wanted to reduce reliance on Chinese industries due to geopolitical risks that it considered. Overall, this increase in "friend-shoring" has not been a trend for long. However, preliminary evidence suggests it could have long-term impacts encouraging regionalism rather than globalization. While economic interaction will undoubtedly continue, it may be more primarily focused on interactions with friendly countries. Unfortunately, a truly globalized world requires economic cooperation and interaction across the world, not just with a few friendly countries.

QUESTIONS TO CONSIDER

1. What are some main reasons behind maintaining global networks of trade and commerce, and what are some reasons to trend towards deglobalization? What does a world without globalization look like in comparison to a world with it?

2. What are some underlying causes for changing attitudes behind global economic interactions? Is the current global economic system being fundamentally challenged? Are there simply some minor problems with this system that need to be addressed, or are there more underlying issues?

3. What are some steps, if any, that should be taken to regulate various aspects of globalization, such as the influence of multinational corporations and exploitation of developing nations by economic superpowers?

4. How would your country be personally affected by a change in global economic systems, whether that means expanding currently global economic networks or taking an approach based on deglobalization?

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