WTO GCMUN Study Guide 2024

Agenda: Exploring De-Dollarization and Its Implications on the World Economy, along with alternative currencies

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LETTER FROM THE EXECUTIVE BOARD

Esteemed delegates,

On behalf of the Executive Board of the World Trade Organization at GCMUN 2024, we extend our warm greetings and welcome you to this prestigious gathering of aspiring diplomats and future leaders. It's with immense pleasure and anticipation that we address this letter to express our gratitude for your commitment to international affairs and global politics.

In the coming days, we will collectively explore, discuss, and deliberate on issues that are present at the core of our shared humanity. We encourage you to embrace this unique opportunity, exchange perspectives, and work together toward meaningful solutions.

A respectable fraction of you have predictably been involved in the world of Model UN for years together while the rest of you are embarking on your first MUN experience. However, as your Executive Board, we can assure you that regardless of your experience in the field of Model UN, you will leave this two-day conference with a better understanding of the world around you. This committee not only provides you with a platform to explore a multifaceted agenda, but it also allows you to develop a better understanding of global affairs, hone your debating skills, and forge bonds that last beyond the duration of the conference.

That being said, we strongly urge you to thoroughly read this background guide which has been intricately woven with relevant research regarding the agenda, key historical events, the current scenario, and our expectations from this committee, among other items. In keeping with this spirit, we will not accept "the background guide" as an official source when asked to present proof for a statement made in committee.

Your Executive Board,

Priyansh Sata, Chair
Basieem Sidhique, Chair

MANDATE OF WTO

The World Trade Organization (WTO) is an international body established to oversee and regulate global trade. Its core mission is to ensure that trade flows as smoothly, predictably, and freely as possible. The WTO achieves this by providing a framework for negotiating trade agreements, a forum for resolving trade disputes, and a platform for monitoring and enforcing trade policies. In brief, the World Trade Organization (WTO) is the only international organization dealing with the global rules of trade.

Key Functions of the WTO:

1. Trade Negotiations:
    a. Facilitating trade negotiations among member countries to reduce barriers and promote free trade.
    b. Administering trade agreements, ensuring that they are implemented fairly and effectively.

2. Dispute Resolution:
    a. Providing a structured process for resolving trade disputes between member countries.
    b. Ensuring that disputes are settled based on agreed legal foundations and precedents.

3. Trade Policy Review:
    a. Monitoring and reviewing national trade policies to ensure transparency and compliance with WTO agreements.
    b. Providing a platform for member countries to discuss and address trade-related issues.

4. Capacity Building and Technical Assistance:
    a. Offering technical assistance and training to developing and least-developed countries.
    b. Helping these countries build the capacity to participate effectively in the global trading system.

5. Global Trade Cooperation:
    a. Acting as a forum for ongoing dialogue and cooperation on trade issues among member countries.
    b. Promoting sustainable development and inclusive trade practices.

Objectives of the WTO:

1. Promote Free Trade:
    a. Encouraging the reduction of tariffs, quotas, and other barriers to trade.
    b. Enhancing market access for goods and services globally.

2. Ensure Fair Competition:
    a. Preventing unfair trade practices such as dumping and subsidies that distort the market.
    b. Implementing rules to ensure a level playing field for all member countries.

3. Foster Economic Growth and Employment:
    a. Supporting economic growth by promoting a stable and predictable trading environment.
    b. Contributing to job creation and higher living standards worldwide.

4. Enhance Global Welfare:
    a. Promoting sustainable development and environmental protection through trade policies.
    b. Ensuring that the benefits of trade are shared broadly and equitably.

5. Support Multilateral Trade System:
    a. Strengthening the multilateral trading system and ensuring its relevance in the face of changing global dynamics.
    b. Encouraging member countries to adhere to agreed rules and commitments.

LIST OF KEY TERMS:

1. **Currency-** A standardization of money in any form, in use or circulation as a medium of exchange. Eg: Banknotes, coins, Bitcoin, etc.

2. **De-dollarisation-** The process of reducing the US dollar's dominance in global markets by substituting it as the primary currency for various financial transactions.

3. **Foreign Exchange Reserves-** Assets held in foreign currencies on reserve by a central bank.

4. **Reserve Currency-** A foreign currency held by central banks and major financial institutions as part of their foreign exchange reserves.

5. **Gold Reserves**- Gold held by central banks as a store of value and as part of foreign exchange reserves.

6. **Digital Currencies**- Electronic forms of money, including central bank digital currencies (CBDCs) and cryptocurrencies, can play a role in de-dollarisation efforts. Eg: Bitcoin, Ethereum, Solana, etc.

7. **Fiat Money-** A government-issued currency that is not backed by a precious commodity, such as gold or silver

8. **Monetary Policy-** Monetary policy is a set of actions to control a nation's overall money supply and achieve economic growth. Monetary policy strategies include revising interest rates and changing bank reserve requirements.

9. **Fiscal Policy-** Fiscal policy is the use of government spending and taxation to influence the economy typically to promote strong and sustainable growth and reduce poverty.

10. **Dollar Hegemony-** A defining structural feature of the modern international financial order, which confers significant economic and political privileges on the US giving the dollar a superior status over other global currencies.

11. **Bretton Woods System**- The international monetary system established after World War II, which pegged major currencies to the US dollar and the dollar to gold through the creation of a fixed currency exchange rate.

12. **Speculation-** Refers to the act of purchasing an asset that has a substantial risk of losing value but also holds the hope of gaining value in the near future. Hence, speculation can be both negative and positive in nature.

13. **BRICS-** An acronym for Brazil, Russia, India, China, and South Africa, countries that have discussed de-dollarisation efforts.

14. **Recession-** A period in the business cycle where there is a significant decline in economic activity spread across the economy that typically lasts two fiscal quarters.

15. **Inflation-** A persistent rise in the General Price Level (GPL) over a year of time, typically one year. Inflation increases the cost of living in an economy.

16. **Stagflation-** The simultaneous occurrence of slow economic growth, high unemployment, and rising prices in an economy at a given period of time.

17. **Economic Sanctions-** Restrictions imposed by one country on another's financial transactions, often using the dominant role of the US dollar in international economics.

18. **Currency Swap Agreements**- A form of fixed currency agreement between two countries who decide to exchange currencies and facilitate trade without using the US dollar.

19. **Exchange Rate Mechanism (ERM)**- A system by which governments can influence the relative price of their national currency in forex markets.

20. **Currency Basket**- A portfolio of selected currencies with different weightings, used to determine the market value of a particular currency. The currency basket is used to manage exchange rate risk and hence, reduce reliance on a single currency.

21. **Currency Peg**- A policy of fixing the exchange rate of a country's currency to another currency, typically the US dollar. Eg: The India Rupee (INR) is pegged to the US Dollar (USD): 1 USD= INR 83.43 (date of record 20/06/2024)

22. **Bilateral Trade Agreements**- Trade agreements between two countries that are likely to be conducted in their respective currencies rather than the US dollar.

23. **Multilateral Trading Systems**- Trade agreements involving multiple countries aimed at facilitating trade without the use of a dominant currency like the US dollar.

24. **Government Debt-** A country's government debt is the financial liabilities of the government. Changes in government debt over time reflect primarily borrowing from the IMF, World Bank, or allied nations due to past government deficits.

25. **Central bank-** A public institution that is responsible for implementing the country's monetary policy measures, managing the currency of a country, or group of countries, and controlling the overall money supply.

26. **Currency Crises**- Economic crises precipitated by sudden and severe devaluations of a country's currency, often influenced by shifts in global currency dynamics.

INTRODUCTION TO THE AGENDA

The dominance of the United States dollar (USD) in global trade, finance, and reserves has been a defining feature of the international economic system for decades. However, in recent years, there has been a growing discourse around "de-dollarization" - the process by which countries seek to reduce their reliance on the USD in favour of alternative currencies. This trend is driven by various economic, geopolitical, and strategic considerations.

The US dollar's supremacy and US global leadership have been increasingly questioned since the 2007–2008 global financial crisis. The fact that this crisis originated in the United States raised concerns about the reliability of US leadership and the rationality of preserving the dollar's hegemonic position in the global financial system. This crisis also created an opportunity for rising powers to seek greater status and representation in global governance.

Both emerging and developed economies are pursuing de-dollarization efforts. These efforts include diversifying foreign exchange reserves, conducting bilateral trade in local currencies, and establishing regional payment systems independent of the dollar. Countries like China and Russia have been at the forefront of this movement, advocating for a more multipolar currency system that reflects the changing dynamics of the global economy.

The implications of de-dollarization are profound and multifaceted. For the global economy, a reduced reliance on the USD could lead to significant shifts in trade patterns, financial stability, and economic sovereignty. It may also affect the US's ability to exert influence through economic sanctions and monetary policy. Conversely, the rise of alternative currencies such as the Euro, Chinese Yuan, and even digital currencies could reshape the international monetary landscape, offering new opportunities and challenges for global trade and economic governance.

As delegates of the World Trade Organization (WTO), it is crucial to examine the potential impacts of de-dollarization on international trade and economic cooperation. This includes understanding the motivations behind de-dollarization, assessing the viability of alternative currencies, and exploring how these changes might influence global economic policies and agreements.

KEY HISTORICAL EVENTS

1944: The Bretton Woods Agreement

During the tumultuous times of World War 2, The Bretton Woods Agreement was negotiated and established in July 1944 with 44 signatories at the United Nations Monetary and Financial Conference. As part of the Bretton Woods Agreement, gold was the basis for the value of the US Dollar, and other currencies around the world were pegged to the value of the dollar. This was the first-ever collective international currency exchange regime where monetary consensus was met to value the currency of a particular country with the following procedure:

1. Determination of starting currency
2. Establishing the fixed exchange rate
3. Conversion of the starting currency to the US Dollar (Fluctuations of only +-1%)
4. Conversion of US Dollar to Gold (Fixed rate of $35 per ounce)

The Agreement was multifaceted in nature because it led to the eventual establishment of the International Monetary Fund (IMF) which was created to monitor exchange rates, provide loans to countries facing trade balance problems, and promote international monetary cooperation around the globe and the World Bank that focused on providing financial assistance for post-war reconstruction and development projects in member countries. These two institutions continue to be deemed as the two biggest players in the global financial market nearly a century after their inauguration.

1948: Dollar Imperialism by the Marshall Plan

Amidst rising tensions during the Cold War, President Harry S. Truman and the 80th United States Congress enacted the Truman Doctrine that pledged “support for democracies against authoritarian threats”. The capitalists further fructified the Truman Doctrine into the Marshall Plan/European Recovery Plan which was an American initiative in the wake of providing foreign aid to European allies after the devastation of World War 2. In totality, the US transferred $13.6 billion (estimated to be $173 billion as of 2024) as part of its recovery plan to 16 independent European states.

However, the plan wasn't entirely selfless because the aid given to said countries stimulated economic growth in the US by creating a new market for American exports in Europe. There were also layers of conditions embedded with the trade such as the removal of trade barriers such as tariffs and quotas for American goods and the stabilization of the recipient country's currency in accordance with the US Dollar.

Shortly after the inauguration of the Marshall Plan, the European alliance formed the European Economic Community (EEC) in late 1957 which transcended into the Modern European Union. Howbeit, the stimulated economic growth and increased political allyship didn't stop Stalin and the USSR from marking the recovery initiative as "Dollar Imperialism". The communist nations deemed the plan as a guise for spreading capitalist ideals, increasing the reliance on the dollar, creating new markets for the Americans, and containing the spread of communism by buying off the Western European states.

1971: Nixon Shock

The Nixon Shock refers to the series of economic measures that President Richard Nixon implemented under his, "New Economic Policy" initiative starting 15th August 1971. These policies included wage and prize freezes, regulatory changes on imports, and the most significant being the economic policy that ended the automatic conversion of the US dollar into gold, effectively ending the Bretton Woods Agreement.

Since the US would no longer continue to convert the dollar held by foreign governments into gold, the direct link between the dollar and gold deteriorated and led to increased volatility in the commodities market. Moreover, there were increased price fluctuations in the global currency markets because the conventional fixed exchange rate was now replaced with a floating exchange rate with the dollar becoming a fiat currency, something the global community was unprepared for.

The Nixon Shock inherently gave central banks greater flexibility in managing their monetary policy measures and supply-side policies to further focus on more domestic goals like stable price levels and maximum employment.

However, after the declaration of President Nixon's New Economic Policy, currencies began to float freely against each other, marking a shift to the modern floating exchange rate system that dominates today's currency market landscape. The policy itself is immensely critiqued because the Nixon Shock was met with increased volatility in the commodities and currency markets respectively, and the initiative itself exposed the global currency market's economic dependence on the US Dollar.

2008: Global Financial Crisis

The Global Financial Crisis of 2008 was triggered by the collapse of the United States housing market and it led to one of the most devastating economic crises in the history of modern geopolitics.

At the time, real estate and house prices had been declining since 2006 and borrowers were unable to meet their mortgage payment requirements leading to high defaults. Eventually, the increase in default payments caused a devaluation of mortgage-backed securities (MBS) causing radical losses for financial institutions globally and bankruptcy amongst commercial banks became a commonality.

In retrospect, the 2008 financial crisis had a major impact on the US dollar. Amidst increased volatility and global uncertainty, the rate of the dollar fluctuated more than any other major global currency, however, the dollar was perceived as a stable reserve currency and had seen high investment during the time and it proved to be a safe-haven investment for financial institutions amidst the devastation of the global financial crisis. However as the crisis intensified, there was negative speculation regarding the US economy which caused the dollar to eventually weaken.

The involvement of the US government and the Federal Reserve had led to a widened budget deficit, and currencies across the globe had depreciated compared to the dollar. While the dollar did remain a strong reserve currency compared to its alternatives, the origin of the conflict was rooted in the crash of the US housing market and unfortunately, its ripple effect was witnessed on a global scale.

2020: Covid-19

Covid-19 was a global pandemic that led to a worldwide health emergency by March 2020. The virus itself caused over 7 million deaths globally and eventually led to economic disruption due to a global lockdown.

The pandemic caused significant speculation over the dollar's value with initial high investments owing to the dollar being a safe investment, however, the Federal Reserve's decision of fiscal stimuli led to predicted inflation in the US and concerns over dollar depreciation. Ultimately, the pandemic acted as a catalyst for accelerating overt dialogue and discussion surrounding de-dollarisation because of the political uncertainty and increased reliance on the US for global economic stability.

In totality, the pandemic severed trade relations between foreign countries and created strong regional trade alliances due to the restriction on overseas commerce. This eventually led to increased use of regional currencies for trade with specific blocs like ASEAN and the Middle Eastern Union, further reducing the reliance on the dollar. Moreover, the heightened geopolitical rivalry driven by trade wars between the US and other major economies like China and Russia caused pro-dollar countries to diversify their forex reserves to minimize their dependence and subsequent vulnerability of the dollar.

CURRENT SCENARIO

The U.S. dollar's dominance as the global reserve currency is declining, but it remains the preeminent currency for international trade and finance. The dollar's share of allocated foreign exchange reserves has fallen from over 70% in 2001 to around 58% as of 2022 Q4. This gradual decline is not a collapse, as similar drops have occurred before.

While countries are seeking to reduce their reliance on the U.S. dollar, there is no clear alternative currency that has emerged to challenge the dollar's status. The Chinese Renminbi's share of global reserves remains relatively small at around 2.5%. Other currencies like the Euro, Yen, and British Pound have not significantly increased their share either.

Instead, central banks have been diversifying their reserves into nontraditional currencies like the Australian dollar, Canadian dollar, and South Korean Won. Around three-quarters of the shift away from the dollar has gone towards these smaller, regional currencies.

Countries have also been increasing their holdings of gold as an alternative to the dollar. Central bank gold demand reached a 72-year high in 2022, up 152% year-over-year.

Geopolitical factors, such as the U.S. sanctions on Russia following its invasion of Ukraine, have accelerated the de-dollarization trend, as countries seek to reduce their vulnerability to U.S. financial power.

It’s essential to understand that de-dollarization is an intricate and gradual process, and the dollar still enjoys significant advantages like high liquidity and a stable political system owing to the US being a global superpower. While there are currencies like the Eurozone and the Chinese Renminbi that aspire to become the world’s primary reserve currency, they lack a concentrated international market, global recognition, and convertibility to reduce the dollar in practice.

BLOC POSITIONS

BRICS

Founded in 2009, BRICS is an intergovernmental organization that brings together the world's most important developing countries from different geographies to challenge the conventional economic power bestowed upon North America and Western Europe; the motion of de-dollarisation perfectly aligns with their purpose.

China has been the primary advocate for de-dollarisation and the establishment of the Chinese Renminbi is a cornerstone of their initiative. China has continued to develop currency swap agreements with various member states including Saudi Arabia, UAE, Iraq, and Argentina among others. The Chinese also established the Asian Infrastructure Investment Bank (AIIB) to promote the Yuan in international trade including exports, importance, and foreign payments within and in Asia.

Similarly, Russia has also actively pursued its de-dollarization efforts as an act of rebellion against Western sanctions on the Ukraine-Russia War. Russia has continued to increase its gold reserves and promote the use of the Russian Ruble when trading with close partners like China and India.

While India also aims to reduce its reliance on the dollar, especially in its energy imports, they haven't taken any concrete steps in that direction besides exploring bilateral trade in the Indian Rupee with Iran and Russia respectively. Similarly, Brazil and South Africa are supportive of de-dollarization efforts within the BRICS framework to enhance financial stability and reduce dependency on the dollar.

European Union

Ever since the 2008 financial crisis, the EU has pushed for de-dollarization efforts. Moreover, post the inflicted tariffs on EU steel and aluminum by the Trump administration, the geopolitical tensions haven't eased the situation, but rather, heightened the notion of de-dollarization in Europe.

The promotion of the Eurozone by EU leaders like France, Italy, and Germany has also caused other European countries to pivot and promote the Euro as an alternative reserve currency; most recently, Croatia joined the Eurozone in January 2023. Additionally, the European Central Bank's (ECB) efforts to deepen the euro's international role have continued to reduce the bloc's dependency on the dollar.

Middle East (Gulf Cooperation Council)

The Gulf Cooperation Council has historically pegged its currencies to the dollar due to oil trade and a harmonious geopolitical relationship. Saudi Arabia in particular has been a close ally and trade partner of the US and has publicly acknowledged their loyalty to the dollar. However, the global community at large has seen the GCC showing an increased interest in diversifying their currency options for exports. Since 2022, members of the GCC have made notable oil transactions using the Chinese Yuan with China and other Asian allies.

Amongst members of the GCC who advocate for de-dollarization, Iran stands out to be a leading exemplar of the cause. The Irani government has pushed for trade in euros, yuan, ruble, and other currencies with its trading allies because of the arms ban and near-to-total economic embargo that the US has imposed on Iran.

ASEAN

The ASEAN bloc has shown interest in de-dollarising the economies of its respective members. The members of the bloc have a primary objective of reducing their vulnerability on the dollar and hence, making them less susceptible to fluctuations. Moreover, the ASEAN countries have a secondary objective of boosting regional trade with the use of domestic currencies to lower transaction costs and boost economic cooperation in the region.

Primarily, ASEAN+3 stands out as a leading swap agreement between China, Japan, and South Korea to enhance financial stability in the East Asian region. There are also local currency agreement frameworks in place such as the bilateral trade agreement between Thailand, Indonesia, and Malaysia.

However, while de-dollarization is desired from a theoretical lens, the currency markets are still developing in ASEAN countries with added liquidity obstacles making de-dollarization increasingly difficult to execute.

African Union (AU)

African countries have explored de-dollarization to foster economic independence and sovereignty in the continent. The African Continental Free Trade Area (ACFTA) and

Pan-African Payment and Settlement System (PAPSS) have been put into place by the African Union to promote intra-African trade through the use of local currencies. Moreover, for free-flowing foreign direct investment (FDI), the AU has opened trade settlements with its allies, most notably, China with the use of the Chinese Renminbi (RMB).

Howbeit, the AU's de-dollarization efforts and the promotion of local currencies have been impeded by corrupted governments, war-struck political systems, and a lack of cooperation among members.

SOURCES TO USE

The Right Sources:

1. Official UN Websites, Articles, and Libraries
2. UN Ratified Sites. Eg: Aljazeera, Britannica, Amnesty International
3. Governmental Websites (of your country)
4. Websites ending with ".org".
5. Websites of NGOs (that your country is associated with)

These sources are verified with accurate information your portfolio could use. A UN website is the most reliable because it's UN-ratified and gives you more in-depth information about your country's stance.

The Wrong Sources:

1. Buzzfeed
2. Wikipedia
3. Quora
4. Websites ending with ".com"
5. Op-ed articles

All of the sources listed above are opinionated with the perception of the article's writers. These sources also answer questions from a person's individual knowledge domain with no proven accuracy.

PREAMBULATORY AND OPERATIVE CLAUSES

Preambulatory phrases:

Acknowledging	Expressing its appreciation	Noting with appreciation
Affirming	Expressing its satisfaction	Noting with approval
Alarmed by	Fulfilling	Noting with deep concern
Approving Aware of	Fully alarmed	Noting with regret
Believing	Fully aware	Noting with satisfaction
Bearing in mind	Fully believing	Observing
Confident	Further deploring	Pointing out
Congratulating	Further recalling	Reaffirming
Contemplating	Guided by	Realizing
Convinced	Having adopted	Recalling
Declaring	Having considered	Recognizing
Deeply concerned	Having considered further	Referring
Deeply conscious	Having devoted attention	Reminding
Deeply convinced	Having examined	Seeking
Deeply disturbed	Having heard	Taking into account
Deeply regretting	Having received	Taking into consideration
Deploring Desiring	Having studied	Taking note
Emphasizing	Keeping in mind	Viewing with appreciation
Expecting	Noting further	Welcoming

Operative phrases:

Accepts	Encourages	Recommends
Affirms	Endorses	Regrets
Approves	Expresses its appreciation	Requests
Asks	Expresses its hope	Resolves
Authorizes	Further invites	Seeks
Calls for	Further proclaims	Strongly affirms
Calls upon	Further recommends	Strongly condemns
Condemns	Further requests	Strongly urges
Congratulates	Further resolves	Suggests
Confirms	Hopes	Trusts
Deplores	Proclaims	Transmits
Designates	Proposes	Urges

QARMA

Definition and Scope

- How does the resolution define "de-dollarization" in the context of international trade and the WTO?

Implementation Strategy

- What steps are member countries encouraged to take to transition away from the US dollar in trade transactions?
- What timeline is proposed for implementing de-dollarization measures?

Alternative Currencies and Mechanisms

- What alternative currencies or baskets of currencies are proposed for international trade?
- How will these alternatives ensure stability and confidence in trade markets?

Support and Cooperation

- What kind of support (financial, technical, or advisory) will be provided to countries undertaking de-dollarization?

Trade Agreements and Policies

- How will de-dollarization impact existing and future trade agreements under WTO rules?
- What measures will be taken to ensure compliance with WTO rules and regulations during the transition?

Monitoring and Evaluation

- What indicators and benchmarks will be used to monitor the progress of de-dollarization in trade?
- How will the success of de-dollarization efforts be measured and reported within the WTO framework?

FURTHER RESEARCH LINKS

1. Link

Impri India: "De-Dollarization: Unveiling India's Growing Influence In Global Trade" - This article discusses India's role in de-dollarization and its implications for the global economy.

2. Link

Drishti IAS: "Promoting De-Dollarization" - This editorial highlights the need for countries to reduce their dependence on the US dollar and the benefits of de-dollarization.

3. Link

Orfonline: "BRICS and De-dollarisation: Global Implications" - This article explores the implications of de-dollarization on the global economy, particularly in the context of BRICS (Brazil, Russia, India, China, and South Africa).

4. Link

Foreign Policy: "China is Quietly Trying to Dethrone the Dollar" - This article discusses China's efforts to reduce its dependence on the US dollar and promote the use of the renminbi as a global reserve currency.

5. Link

The Geopolitics: "India-Bangladesh Trade Settlement in INR: A New Trend of De-dollarization of South Asia" - This article highlights the trend of de-dollarization in South Asia, particularly in the context of India-Bangladesh trade.