








3<sup>rd</sup> Draft

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For the purpose of the conference held by Forum for the 21<sup>st</sup> Century on 29<sup>th</sup> November 2010

Forum for the 21<sup>st</sup> Century on Global economic issues, with regards to the positions of participating actors,

#### Notes:

-  In the era of global financial and economic crisis, the global economic environment is changing at considerable pace. Both the countries coming out economically stronger than ever and the ones being affected substantially can be observed. At times, the backbone of rapid economic recovery lies in instruments that hinder the recovery of other countries.
-  Throughout the world, there are still many countries which are, almost exclusively, reliant on help from the developed countries. That being said, it is essential to come up with new impulses of development that will help diminish the poverty in the least developed countries.
-  Despite significant progression in eliminating barriers of world trade, there are still many measures which, besides hampering maximization of effectiveness in the world merchandise exchange, do not allow attaining the most effective distribution of labour on the worldwide scale based on the countries' comparative advantages and thus penalize the countries exporting with less favourable terms of trade.
-  The “brain drain” phenomenon remains one of the global development issues. In many cases, people educated in their home countries free of charges, leave without the home country being compensated for the resources spent on the education itself. Therefore, it is necessary to implement rules that would permit developing countries to recoup the resources spent on the people who leave the country and do not contribute to the its gross domestic product after benefiting from the free education.
-  US dollar slowly loses its dominant position as the world's reserve currency. Consequently, it is necessary to look either for alternative reserve currencies or for an entirely new system of preserving countries' national wealth.



- Finding a way to protect small and economically weaker countries against speculative attacks on their currencies and hence their economies is essential. Forum for the 21<sup>st</sup> Century recognizes the pressing issue of improving legal ways of protecting national economies against such actions.
- The global dispute over the depletion of conventional sources of energy does not provide enough space for those who oppose pessimistic scenarios of future development. Redirecting resources and scientific capacities into economically and ecologically sustainable and more profitable sources of power is fundamental.

### Proposes:

- Forum for the 21<sup>st</sup> Century calls for quick finalization of the Doha Development Round. With the agriculture sector being one of the most problematic issues on the worldwide scale as well as in the Doha Development Agenda, the Forum sees the earliest possible agreement highly essential. The tariff restrictions on agricultural products import from the developing countries should be minimized to a maximum of 3% by the end of year 2015 and completely removed by the end of year 2020 so that even the countries not being in the WTO's Generalized System of Preferences will have the access to the world agricultural markets without the current disadvantages. Already benefiting from extensive subsidies, agricultural production from developed countries holds twice the advantage on the world markets. As the world food prices soar, the suspension of subsidies and removing tariff restrictions must be gradually adopted in order to stop the steep increase in food price levels that endangers the already troublesome access to nutrition in the poorest regions of the world. Such an action would provide developing countries with vital incomes to spur their progress and at the same time cheaper food in developed countries. Moreover, according to research from organizations such as OECD, suspension of subsidies would greatly contribute to increase the world's GNP output.

Besides withdrawing from using free market-deforming instruments, the Forum calls for research activities to be carried out by participating countries in order to identify new means of aid to the countries suffering from the lack of food. The Forum expects the reports to be presented by the end of year 2012. Until the policies resulting from the research are adopted, participating countries should direct the development aid into the technical assistance, mainly the irrigation facilities that will enable developing countries to raise their food sovereignty.



- Of the main imbalances present in the world economy, the Forum finds China's long-term trade surpluses and, on the other hand, US trade deficits the most pressing one. Yuan, China's national currency is still considerably undervalued compared to US dollar as well as other ones. Taking this into consideration, it is apparent that China's exports hold unfair advantage in the world trade. Moreover, the amount of Chinese monetary reserves in US dollars creates the unprecedented situation when the exchange rate of the main world reserve currency, that US dollar still remains, could be significantly influenced by the economic policy of China. Therefore, the Forum recommends that China, as well as other countries, namely Japan and South Korea; stop intervening in favour of keeping the exchange rates at artificially low levels and gradually level their present value with the real ones at the rate of at least 7% p.a. This process should be finalized by the end of the year 2015 so that the domestic exporters will be given sufficient time for accommodation. On the other hand, the Forum does not consider US monetary policy, namely the recent "quantitative easing", to be appropriate and calls for restricting such unilateral actions. As the US dollar remains the most important reserve currency throughout the world, such actions does not only influence the United States themselves, but the world economy on the whole.
- With its value falling due to its the long-term depreciation, the unique position of US dollar slowly but steadily deteriorates. Furthermore, no national currency ought to become a sole reserve currency, as a single country will not be able to guarantee its long-term stability and liquidity. The Forum proposes that the use of the International Monetary Fund reserve currency shall be augmented. The Forum recommends the SDR currency basket to be composed of five to six currencies based on the respective countries' share in the world trade as well as the amount of their currency reserves that would provide stability in the times of general monetary instability. Both these prerequisites would amount to 50% of SDR's value (based on the weighted average). At the same time, it should be revaluated every year in order to reflect the economic reality with no currency being granted an automatic share. It is clear that even the augmented use of SDR cannot completely replace traditional currency reserves. Taking this into account, the Forum suggests that the currencies of regional economic leaders were to be used more on the intra-regional level. Besides diversifying monetary reserves themselves, this would lower foreign exchange losses.
- As the examples from the past showed, countries' currencies, and thus countries themselves, can become victims to speculative capital originating from uncontrolled sources, such as hedge funds. As means of protection, the Forum advises countries to adopt legal provisions limiting the flow of their currencies. The amount of currency that could be bought and sold by a single investor, with the exception of national banks and Greenfield investments, should be restricted to 0.5% of a country's



monetary base per month and 4% per year. This kind of precaution will prevent the speculative attacks on currencies and so protect countries' economies on the whole.

- Similarly to the volume restriction of foreign exchange trade, the Forum calls for adoption of legal provisions in order to protect vulnerable countries against the outflow of speculative capital in form of portfolio investment. To ensure protection, the outflow should be restricted to 5% of country's GDP per month.
- To counterbalance drawbacks caused by the "brain drain" phenomenon, the Forum recommends the adoption of measures that would guarantee the return of funds invested in education of individuals who do not contribute to the gross domestic product. As a possible solution, the Forum proposes using remittances to help the least developed countries in their progress. Remittances frequently represent the key component of income for people living in the least developed countries. On the other hand, gathering resources for the improvement or construction of infrastructure presents a difficult challenge for countries. Utilizing remittances as a source of funds provides a unique option to hasten the development. As income from remittances is mostly used for consumption and not supplementing much-needed investments, imposing a 10% tax on them could be an adequate way to gather required financial resources. To prevent double taxation, such a tax ought to be based on one's nationality instead of a place of one's residence. New funds under the supervision of the World Bank would be created to guarantee effective use of money, with each country being in possession of one. Funds could be used only for projects improving country's infrastructure (road network, construction of schools, sanitary facilities, research facilities etc.) that would create healthy and sustainable basis for future growth.
- Forum for the 21<sup>st</sup> Century recommends that, in the global dispute over the sources of energy, greater space is given to scientists who oppose pessimistic scenarios concerning the depletion of conventional sources of energy. Existing scientific studies, which question the pessimistic scenario accepted worldwide without contradicting voices being heard, provide us with a different perspective regarding the future use of energy resources. Using financial resources and scientific capacities to further improve efficiency of already existing facilities is substantial. Funding the development of alternative sources of energy should be done based on both environmental and economic arguments. The Forum suggests that the countries re-evaluate their spending on the economically ineffective energy sources and, by the end of the year 2013, prepare reports measuring the efficiency of the particular sources in their respective conditions. To ensure objectiveness, reports are to be carried out by three independent committees, one of them being international with the



# The Model Conference Global Economic Issues

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other two being national – one from the private sector and one from the public sector. Based on these reports, the countries ought to ensure that the share of the most efficient energy source, except the ones producing greenhouse gases, will rise by at least 10% by the end of the year 2020. The Forum regards reopening the debate on the use of nuclear energy highly essential. To make nuclear energy even safer, creating a scientific team consisting of the world's best experts is advised to be done by the end of the year 2011 with its focus being to find environment-friendly way of disposal of the nuclear waste which remains one of the few negative sides to the nuclear energy.



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