Forum: Advisory Panel Question on Economic Inclusion (APQ)

Issue: The question of diversifying developing economies to reduce economic inequality

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Introduction

The economy is one of the core pillars of society. Our currencies serve as “a universal medium”, representing the values of our realities - from natural resources, products, infrastructures, to more abstract concepts such as the worth of individuals, ideas, and even nations. The global community as we know it now lives by the unanimous principles of modern economics. Therefore, to further comprehend and improve our lives, societies, and humanity, an examination of how the economy runs is necessary. This year's Advisory Panel Question on Economic Inclusion tackles the question of reducing economic inequality, specifically employing the methods of economic diversification with an emphasis on developing countries as its guiding principles.

Economic inequality has long since been a critical issue whose detrimental effects reverberate to cause other major issues in society such as the lack of healthcare accessibility, unequal distribution of resources, political polarization, economic instability and much more. Over the years the gap between the rich and poor continues to widen: one often hears the phrase “the poor get poorer while the rich get richer”. 1 percent of the world population holds more than half of the total wealth in the world by 2013. Diversification is considered a popular and viable solution for economic inequality as places an emphasis on sustaining healthy economies. The challenge for this committee would be to determine the best ways to carry out economic diversification in developing countries while employing methods to reduce economic inequality in all member states.

Definition of Key Terms

Economic Inequality

Economic inequality refers to the disparities among income, wealth, and opportunities among members of society or between different societies. The phenomenon occurs in a variety of configurations and contexts. The following chair report will provide some insight into economic inequality, however, its exact definition and significance should be explored by delegates themselves.

Economic Diversification

Economic diversification is the process of shifting an economy away from a single income source toward multiple sources from a growing range of sectors and markets. The diversity of an economy strongly correlates to its stability. A diverse economy implies that the market would be resilient to unforeseen economic shocks. Essentially, economic diversification is an approach against putting all your eggs in one basket.

Gross Domestic Product (GDP)

Gross Domestic Product is the total value of all the goods and services in a nation's economy over a specific period. It is the most common and observed indicator of a country's economic status. There are two types of GDPs - Nominal GDP and Real GDP. The difference is that real GDP takes into account inflation rates while Nominal GDP does not.

Gini Coefficient

Developed by Italian statistician Corrado Gini, the Gini index measures the distribution of income across a population. This index is a common tool used in quantifying economic inequality. The index ranges from 0 to 1 (100%), with 0 indicating perfect economic equality and 1 indicating the opposite. Understanding the Gini coefficient may help understand the extent of inequality in a region or nation. Since the Gini index can be calculated in many different ways with different sets of data, this report will only be referencing the World Bank version. The link to the source of all Gini indexes references in the report can be found in the bibliography.

Palma Ratio

An alternative to the Gini coefficient, this indicator of inequality was developed by Alex Cobham and Andy Sumner, taking into consideration that in most countries, about 40-90% of the population accounts for half the country's income. This ratio takes the income share of the top 10% of the population and divides it by the bottom 40% share. Like the Gini coefficient, the higher the numbers the greater the inequality.

Table 5: Comparison of Palma and synthetic Gini values

Decile	Income shares (%)									
1	6.25	4.17	3.13	2.50	2.08	1.79	1.56	1.39	1.25	1.14
2	6.25	4.17	3.13	2.50	2.08	1.79	1.56	1.39	1.25	1.14
3	6.25	4.17	3.13	2.50	2.08	1.79	1.56	1.39	1.25	1.14
4	6.25	4.17	3.13	2.50	2.08	1.79	1.56	1.39	1.25	1.14
5	10	10	10	10	10	10	10	10	10	10
6	10	10	10	10	10	10	10	10	10	10
7	10	10	10	10	10	10	10	10	10	10
8	10	10	10	10	10	10	10	10	10	10
9	10	10	10	10	10	10	10	10	10	10
10	25.00	33.33	37.50	40.00	41.67	42.86	43.75	44.44	45.00	45.45
Palma	1	2	3	4	5	6	7	8	9	10
Gini	0.225	0.350	0.413	0.450	0.475	0.493	0.506	0.517	0.525	0.532

Source: Cobham and Sumner, 2013.

Free Trade Agreement (FTA)

A Free Trade Agreement is essentially an agreement amongst two or more countries to reduce trade barriers between the relevant actors. Free trade, often defined as the lack of government restrictions and influence in a nation's economy, is popularized by the notion that this particular theory is the key to creating a diverse, healthy economy. It is advised to pay close attention to FTAs relevant to your county when researching this topic.

Background Information

The context of economic inequality

The development of economic inequality throughout human history is a phenomenon composed of multiple complicated factors. It is commonly accepted that hunting-gathering societies were the most equitable out of all variations of communities. The first agricultural revolution, around 10,000 BC, was when humanity began to see the first signs of economic disparity - since communities can now cultivate resources and properties in a single location, wealth became hereditary. Competition for lands and properties for survival led to the exploitation of a more advantaged group to another, and this phenomenon continued to grow and evolve into the substantial economic disparities integrated into our modern social order. Furthermore, inequalities prevail from the upper class's struggle for power and control. The rich will often take extreme measures to perpetuate their power after they acquire them, preventing the loss of or distribution of privileges.

Economic inequality in the present day

To put into perspective how polarized the division of wealth is, as of 2015, the top 60 wealthiest people in the world own more than half of the poorest half of the world's population. Wealth disparities and the existence of social norms that perpetuate them prove to be the major barricades to further civic advancements. Since money is the medium used to access living necessities, it is essential for anyone's survival. The lack of economic rights often indicates a community's lack of consideration for human rights.

The extent of economic inequalities across countries differ. According to the World Bank, the Gini index by country across the world ranges from the 20s to the 60s, with the Czech Republic having the lowest index of 24.9 and South Africa having the highest index number at 63.0.

The Negative Cycle

Economic inequality has become such structural support for the modern social order that forms of it exist in both the material world and our conscious minds. It is almost as if societies are designed to keep the poor poor. Some prevalent issues in society today are economic inequalities manifested: such as food insecurity, worker rights, homelessness, and healthcare availability. The poor suffer because they do not have access to basic living necessities. Housing prices are high, healthcare is expensive, jobs pay low and the only affordable foods available are unnutritious fast foods. At the same time, discriminatory ideas such as "the poor are poor because they are lazy" lead to the underrepresentation and social marginalization of the socially disadvantaged. All these factors only lead to a decreased chance of getting decent jobs. The negative cycle will not end unless drastic measures are taken.

The sustenance of economic inequality

Wealth inequality is advantageous for the rich. It provides them with more motivation and opportunities to conduct their interests and one of their interests is often to maintain this upper hand. This often results in corruption, bribery, and fraud that only serves to widen the wealth gap and polarize groups of society, often until a breaking point. Take the French Revolution for example the French royalties heavily taxed the commoners to keep up with their lavish expenses, until the people were forced to such an extreme point of poverty that they revolted, starting a conflict that lasted for decades.

Economic diversification for developing countries

Developing countries are usually characterized by specific, local markets that do not have much variety of industries and income sources place these economies in extremely vulnerable status in the face of the globally interconnected market. Economic diversification is considered the ideal method of strengthening an economy for developing countries. The goal is to expand the number of quality jobs by better distributing human resources from low-productivity jobs to high-productivity jobs, adding value and credit to the market. Developing countries are seeking to transition from secondary to tertiary sectors of the economy.

Obstacles developing countries face

Despite all benefits, economic diversification remains a lower priority for most developing countries. The country might be facing even more critical issues, such as disease, famine, or warfare. It is also possible that developing nations lack the proper political infrastructures to carry the necessary reforms. For example, Yemen is currently facing a humanitarian crisis, caused by the struggle for power between two political parties, with 24 million people in need of humanitarian assistance. Without political stability or a proficient government, the economy will not improve. It may also be the case that local monopoly powers actively prevent the emergence of competing markets or contenders.

The importance of education

Formal education is imperative to a diversified market, especially for countries that seek to expand into the tertiary sector. Tertiary industries such as healthcare, finance, banking, education require skill sets and experiences only accessible through higher education. Learning skills such as problem-solving, communication, and social interaction are often necessary for stable, high wage, and productive jobs. Essentially, education expands opportunities for economic growth by widening the range of available jobs for citizens.

In the context of COVID-19

The pandemic of COVID-19 only serves to further reveal the flaws and injustice of economic and healthcare systems around the world. After all, diseases do not discriminate. The nature of diseases implies that without robust global recovery, the pandemic would persist and widen inequality gaps. There is no better time than now to reflect upon our disproportionate society, learn from the experience, and better prepare ourselves for the future.

How COVID responses reflect economic inequality

Countries' economic prosperities have direct correlation with their successes in combating the virus. Nations with poorer economies would have a harder time handling the economic inactivity resulting from the virus, as well as being more vulnerable to casualties due to the lack of accessible healthcare resources. More importantly, economic inequality is the dominating factor that determines a country's competence in facing pandemics compared to overall economic prosperity. Extreme wealth polarization within societies results in unequal protection against the virus. In the US, for example, there are significant differences in recovery rates between different demographic groups. Low wage workers , hispanics, mothers, and other disadvantaged groups are not returning to work at the same rate as white collar workers. Disadvantaged groups also have less access to healthcare and pandemic prevention resources.

Obstacles presented by COVID-19

The Coronavirus has inevitably taken a heavy toll on the global economy. The virus has forced many countries into lockdowns, greatly limiting economic activities, resulting in the loss of jobs, incomes, and profits. According to the IMF, the global economy will shrink as much as 3% as a result of this pandemic, a loss comparable to the Great Depression in the 1930s. This stumble would no doubt stunt any economic development efforts in developing countries. The outcomes of education disruptions, job losses, and halted social work would ripple across generations, further perpetuating existing inequalities.

That is not to say that economic recessions during pandemics is completely unavoidable. According to data collected by Our World in Data, Taiwan has the smallest economic recession amongst countries in the world, at only 0.6% decline of GDP. This success is not an accident. The Central Epidemic Command Center (CECC) responded quickly and efficiently, minimizing death rates and economic impacts. Additionally, Taiwan has a Gini index of under 0.4, among the lowest of the world. Taiwan's accomplishments provide an example of what can be realities for other countries, and that economic equality is an achievable prospect, not just a far-fetched dream.

Major Countries and Organizations Involved

As economic inequality is an underlying trend that influences almost every other social issue, the aim to eradicate it is a shared goal of the global community. Therefore this report does not list specific countries for this section, but rather the bigger, more influential organizations and institutions that specialize in the topics of economic inequality and economic diversification, in addition to country alliances that play significant roles in global economics.

European Union (EU)

Comprising 27 member states and established in 1993, the European Union is an international organization whose goal is to facilitate social, economic, and political interactions between its member states. One of the officially stated goals of the European Union is to promote "sustainable development based on balanced economic growth and price stability, a highly competitive market economy with full employment and social progress, and environmental protection". As one of the most influential and prominent regional organizations, the EU collectivized the major powers of Europe and significantly influenced country policies both within and outside Europe. The organization even has its military and Court of Justice.

International Labour Organization (ILO)

Acting as an affiliated agency with the United Nations, the ILO aims to promote labor standards throughout its 187 member states. In addition to representatives from the member states, trade unions and state employers also have a delegation in the annual International Labour Conference. a 56-member governing body elected by the Conference carries out executive decisions. ILO international civil services participate in local efforts to strengthen the workforce, foster cooperative organizations, and compile relevant data and research.

International Monetary Fund (IMF)

The founding of the IMF at the UN Monetary and Financial Conference in Bretton Woods in 1994 was prompted by nations' desire to stabilize currency exchange rates. Now with 190 member countries, the IMF conducts the loaning of funds, provides assistance to, and finances its member states as well as balancing currency exchange rates. The IMF holds annual sessions with its board of governors, who are usually important officials in countries' economic departments. Apart from the board of governors is an executive board, with eight individual directors (China, France, Germany, Japan, Russia, Saudi Arabia, the United Kingdom, and the United States) facilitating the fund's day-to-day operations. Member states also have to contribute quota subscriptions, which are money committed to the organization's available funds. The number of the required quotas is reviewed every five years, based on a country's economic performance.

Organization for Economic Co-operation and Development (OECD)

Although only comprising 37 nations, its members produce up to two-thirds of the world's goods and services. The organization was founded in 1960, acting as a consultative assembly with the goal of achieving economic growth and employment among member countries as well as providing economic aid to developing countries. OECD operates mainly in seminars, conferences, and publications since the organization holds no substantial power to enforce its policies in member states. However, by sustaining collaborations with multiple other government and international organizations, economic data and publications are held in high regard amongst the global community.

World Bank

The World Bank was founded in 1946 at the UN Monetary and Financial Conference to finance economic development projects to its member states. It is comprised of five institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). Each of the institutions provides and raises funds for different parties on different terms, with ICSID responsible for settling any disputes between actors and the organization. For instance, IBRD lends loans to developing countries while IFC operates with private investors. The bank now has 189 members and is the largest source of financial assistance for developing countries.

World Trade Organization (WTO)

Established in early 1995, the WTO includes 164 member states, all dedicated to the supervision and liberalization of the world economy. Treaties and policies made between the WTO member states, such as General Agreement on Trade in Services (GATS), Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and the Understanding on Rules and Procedures Governing the Settlement of Disputes provide universal “laws" that nations abide by when conducting trade. WTO also takes an active role in integrating developing economies into the global market

Timeline of Events

Note that economics is a difficult trend to pinpoint specific dates to. It is also particularly impracticable to produce a series of specific events for this topic as economies develop at individual paces. This timeline is an attempt to give an overview of general trends of global economics. However, keep in mind that the occurrences below may not account for your country stances or developments.

Date	Description of event
1776	"The Wealth of Nations” by Adam Smith is published - Adam Smith, considered the Father of Capitalism, is a Scottish economist. His philosophy of free markets which proposes that competition is what generates wealth within a nation, is the general structure the modern economy follows today.
1929-1933	Great Depression - Beginning with the stock market crash of 1929 and worsened by the Dust Bowl, is the most severe economic recession experienced by the industrialized western world, causing dramatic decline in employment, profit, and product prices around the world.
1991	Creation of the Internet - The creation of the internet provided an entire new platform to facilitate economics. The internet is now the primary platform to conduct economic activities, especially during the current pandemic. However, the invention of this new platform also served to widen the inequality gap, as only limited groups have access to equipment required to use the internet.

2007	Great Recession - The most significant economic recession since the great depression, the event occured in the late 2000s after the US housing market went bust
2009	Bitcoin - created in 2009 by unknown actors, bitcoin is a digital currency that promises transparency and lower transaction fees. Although lacking in any backing banks or governments, the currency remains popular.
2018	China-United States trade wars begin - As an attempt to boost the US economy, President Trump imposed tariff policies on more than 360 billion dollars worth of Chinese goods, and the Chinese government taxed 100 billion dollars in retaliation. Since then the two countries are stuck in tense relations with each other. The trade war has taken a toll on the global economy, slowing GDP growth by 0.7 percentage points according to the Bank of Finland.

Relevant UN Resolutions and Treaties

- World Social Report 2020: Inequality in a Rapidly Changing World, issued by United Nations Department of Economic and Social Affairs
- Economic Diversification: Explaining the pattern of diversification in the global economy and its implications for fostering diversification in poorer countries, issued by United Nations Department of Economic and Social Affairs
- Economic and Social Commission for Western Asia strategy and plan of action on the 2030 Agenda for Sustainable Development, 13 June 2016, (E/RES/2016/10)
- Addressing inequalities and challenges to social inclusion through fiscal, wage and social protection politics, 14 June 2019, (E/RES/2019/6)

Possible Solutions

Include previously alienated groups into future economic developments. The aim is to provide equal opportunities to everyone in a community. Demographic groups such as females, racial minorities, the disabled, or the financially underprivileged have traditionally been denied opportunities to participate in the economy to full potential, resulting in inequality. Consider how these biases play a part in economic inequality as well as what methods can be taken to address the issue.

Introducing new industries and market opportunities into developing regions through extensive collaboration. When diversifying their economy, developing may require assistance familiarizing themselves with new markets or industries. These problems can be better addressed by receiving help from more experienced states or organizations. The UN, WTO, IMF, World Bank and other international organizations offer funds for economic development, workshops for developing industries, resources, personnels, and much more. Countries can also develop pacts and agreements with other countries, encouraging economic interactions. However, states must be considerate about the terms of negotiation and maintenance for these relationships.

Reviewing and reforming country policies that restrict free trade without disregard for national sovereignty. Trade liberalization is a controversial concept. On one hand, it encourages economic growth by either lowering tariffs, eliminating quotas, or regulations that unfairly benefit certain groups. On the other, while stimulating competition, trade liberalization may stunt local industries or economies when competing against stronger markets. One example of trade liberalization would be the North American Free Trade Agreement (NAFTA), which lifted tariffs for goods traded between Canada, United States, and Mexico. The key to effective trade liberalization is to establish a balance of interests between the greater economy and individual businesses.

Establishing a robust education system. As mentioned above in the report, quality education is fundamental to sustaining a developed economy. Education is a tremendous project and should be carefully thought out from all perspectives. Consider how to acquire and secure educational resources such as facilities, teachers, supplies, whether through collaboration with international organizations or private contractors. Reasonable educational reforms and programs done by the government will also be essential. Evaluate which types of national education programs will be suitable for your nation - for example, whether to implement national assessment programs.

Checking corporations' liabilities and preventing monopolies. Corporations that hold monopolies prevent competition and discourage economic growth. Sometimes corporations with enough clout may even extend influence over politics, human rights, and other sensitive topics. The problem with these corporations is that their powers are left unchecked. Governments can prevent monopolies through suitable regulations such as introducing price caps, merger policies, or even forcefully breaking up existing monopolies. For instance, the UK's Competition and Markets Authority (CMA) blocked the merging of Siansbury and Asda, two major supermarket chains, with concerns about the price and range of products available. Countries may also consider regularly conducting investigations regarding abuse of monopoly power, such as collusion, predatory pricing, or selective distribution.

Consider developing countries' capacities to facilitate diverse economies. Developing countries are often preoccupied with other social-political issues to fully concentrate their efforts on reducing economic inequalities. Countries will need to evaluate their state of stability before choosing suitable economic strategies.

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