Addressing the impact of globalization in the context of economic interdependence

The Economic and Financial Affairs Council (Second Committee)

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1. INTRODUCTION

Globalization has transformed the world into a web of economic, cultural, and political relations. The rapid advancement of technology and trade liberalization enabled goods, services, and information to circulate freely across national borders. While this has led to unprecedented economic growth and lifted millions out of poverty, it has also created complex challenges.

One of the most significant issues that emerged is the increase in economic interdependence. In today's world, economic events in one country can quickly trigger
responses all over the globe. The 2008 financial crisis and the 2020 pandemic have highlighted how supply chain disruptions and trade imbalances can quickly affect economies worldwide. Now nations face the challenge of balancing sustainable development and economic growth. This involves addressing trade imbalances and economic inequalities and preparing for unforeseen disruptions.

2. DEFINITION OF KEY TERMS

Globalization

It refers to the process by which links develop between nations through trade, investment, migration, and cultural exchange. It is mainly driven by technological advancements, the expansion of multinational corporations, and international agreements that address the removal of commerce and communication barriers. It fosters the free flow of goods, services, capital, and information across national borders. However, some challenges arise, such as cultural homogenization and labor exploitation.

Economic interdependence

It occurs when countries rely on one another for goods, services capital, and technology and it is influenced by each nation's participation in global markets and production networks. This reliance brings specific challenges with it, as disruptions in one country can cause a domino effect on an international level. While it promotes cooperation and trade liberalization, economic interdependence creates vulnerabilities that are highlighted especially in times of crisis, such as the COVID-19 pandemic and geopolitical conflicts.

Supply chains

A supply chain is the total of the processes and entities involved in the production, transportation, and distribution of goods and services, starting from raw material extraction to final delivery to consumers. Effective supply chain management means timely delivery, cost efficiency, and customer satisfaction. The process of globalization has made chains grow more complex and vulnerable to disruptions.

Economic inequality

It refers to the uneven distribution of income, goods, and resources among individuals, social groups, and nations. It creates disparities in access to education, healthcare and employment opportunities. While globalization contributed to reducing poverty, it has also worsened inequality by favoring technological hubs and highly skilled workers. Economic inequality can lead to social unrest and political polarization that have negative impacts on nations.

3. BACKGROUND INFORMATION

a. Trade imbalances

The balance of trade is the difference between the value of the goods a country, geographic, or economic area exports and the value of the goods it imports. Imbalances in trade are one of the primary consequences of globalization and are influenced by multiple factors.

1. *Labor costs* are very important when a company chooses where to locate its manufacturing facilities. Developing countries often have less strict labor laws and lower wages and production costs, making them ideal for businesses looking to cut expenses and maximize profits. In the last decades, many Western companies have relocated their production facilities to countries like China, Vietnam, and Bangladesh. This shift has led to job losses in traditional manufacturing hubs such as the United States and European powers.

2. *Trade policies* affect the flow of goods and services between countries, significantly influencing trade imbalances. The primary policy tools that can impede trade dynamics are protectionist measures and subsidies. Protectionist measures are government policies that aim to restrict international trade to help domestic industries, usually through taxes and tariffs. Subsidies refer to government financial support to domestic industries, allowing them to produce goods at lower costs and compete in international markets. For example, the European Union and the United States provide substantial subsidies to their agricultural sectors, leading to trade distortions with developing countries.

3. *Currency manipulation* occurs when a country deliberately intervenes in foreign exchange to devalue its currency to make exports cheaper and more competitive in international markets. China has been accused of keeping the value of the yuan artificially low to support its export-driven economy.

b. Supply chains vulnerabilities

Global supply chains have become increasingly sophisticated and interconnected, enabling companies to optimize production and reduce costs by sourcing materials and labor from different regions. While this system has facilitated economic growth worldwide, it has also made economies more vulnerable to disruptions. The fragilities of these networks have been exposed by the COVID-19 pandemic, when sudden shutdowns in production, transport blockages, and soaring demand for essential goods led to shortages.

Geopolitical tensions and trade conflicts can severely impact supply chains. Tariffs and trade restrictions lead to delays, increased costs, and reduced availability of goods.

c. Economic inequality

One of the downsides of globalization is the fact that it has widened the economic gap between rich and poor, both within and between nations. While some regions have benefited from increased trade, foreign investments, and technological advancements, others have struggled to compete and have been left behind. Automatization, artificial intelligence, and other technologies have displaced low-skill workers and increased the demand for trained professionals leaving individuals who have no access to reskilling opportunities, facing unemployment and low incomes. Additionally, the removal of trade barriers has left developing nations struggling in competition with industrialized nations, for example, the African textile industries have not been able to compete with cheaper imports from Asia, leading to bankruptcy and job losses. The inequality is exacerbated by favorable tax regimes. Tax avoidance by multinational corporations has deprived developing nations of critical revenue for public services.

More often than not, economic disparities lead to political instability, protests, and civil unrest as people demand better living conditions and equal opportunities.

4. KEY ORGANISATIONS AND COUNTRIES

In the complex landscape of global trade, organizations and agreements play pivotal roles in facilitating commerce and ensuring economic stability.

The World Trade Organisation (WTO) was established in 1995 as the primary body governing global trade routes. It operates on fundamental principles such as non-discrimination, transparency, and the promotion of fair competition. It provides a structured process for resolving conflicts and reduces the chances of disputes escalating into political or military tensions. Its main objectives are to ensure smooth and predictable trade flows, provide a platform for negotiations, and resolve disputes between member nations.

The International Monetary Fund (IMF), established in 1944 in the aftermath of the Great Depression, is an international organization that aims to promote global economic growth and stability, encourage international trade, and reduce poverty. It provides financial assistance as well as recommendations for economic reforms that aim to help member countries face economic challenges. For example, in February 2025, it urged Morocco's central bank to adopt an inflation-targeting framework and the government to further expand the tax base to continue its financial reforms and cut the country's debt.

The European Union (EU), established in 1933 through the Treaty of Maastricht, is a political and economic alliance of 27 countries. Through a standardized system of laws, it has managed to develop an internal market. The EU ensures the free movement of people, goods, services, and capital, enacts legislation, and maintains common policies of trade. Within the union, tariffs are eliminated and regulatory barriers are reduced, measures that have led to increased cooperation, making it one of the world's largest trading blocks.

The United States-Mexico-Canada Agreement (USMCA) entered into force in 2020 for 16 years, replacing the North American Free Trade Agreement (NAFTA). It aims to eliminate all tariff and non-tariff barriers to trade and investment between the US, Canada, and Mexico, promote a space for fair competition, and provide adequate protection for intellectual rights.

China, the world's second-largest economy and largest exporter, plays a pivotal role in shaping global trade. It is often referred to as the “world’s factory” due to its vast manufacturing capabilities and competitive labor costs. In 2013 it launched the Belt and the Road Initiative, aiming to enhance trade in Asia by investing in major infrastructure projects. While the initiative promises better ports, highways, and railways, it has also raised concerns about debt sustainability and environmental impacts.

The United States of America is one of the most influential economic powers in the world. It is a significant importer and exporter of goods and services and maintains strong trade relations on all continents. The US trade policies, more specifically taxes and sanctions on certain countries, have ripple effects across the global economy.

Germany, Europe’s largest economy and a leading global exporter, has its strength in the highly competitive manufacturing sector, particularly in the automotive, machinery, and chemical industries. It plays a crucial role in shaping the European Union’s trade policies and strategies and its industries are deeply integrated into global supply chains.

Japan’s advanced technology and manufacturing capabilities make it very important for the global economy. The country is renowned for its contributions to global supply chains, especially in the automotive and electronics industries. It has also established many trade agreements, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and bilateral agreements with the EU.

5. TIMELINE OF EVENTS

Year	Event
1994	Establishment of WTO
2001	China joins WTO
2007-2008	Global financial crisis
2013	Launch of China's Belt and Road Initiative (BRI)
2018-2019	de War
2020	COVID-19 pandemic
2021-2023	Global Supply Chain Crisis
2022	Russia-Ukraine Conflict
2023	Record Global Economic Inequality

6. RELEVANT UN TREATIES AND EVENTS

1. General Assembly Resolution 56/165 (2001) (A/RES/56/165)
2. General Assembly Resolution 59/184 (2004) (A/RES/59/184)
3. General Assembly Resolution 62/199 (2007) (A/RES/62/199)
4. General Assembly Resolution 67/165 (2012) (A/RES/67/165)

7. PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

1. **Establishment of WTO (1995)**[1]

   The WTO was created to regulate international trade and provide a framework for negotiating trade agreements.

2. **Formation of G20 (1999)**[2]

   An international forum for governments and central banks from 19 countries was established to discuss the promotion of international financial stability.

8. POSSIBLE SOLUTIONS

a. Strengthening international trade frameworks

The development and implementation of comprehensive strategies aiming to avoid widespread economic crisis.

b. Building resilient supply chains

Encouraging companies to diversify suppliers across multiple regions to reduce over-reliance on a single source. Promoting regional manufacturing to reduce dependency on long-distance global trade routes.

c. Addressing economic inequality

Implement taxation systems that ensure wealth redistribution.

Invest in education and vocational training to prepare workers for the market demand.

d. Encouraging digital and financial inclusion

Support developing nations in building digital infrastructure to enable participation in the global digital economy.

Promoting access to banking services and digital payment systems. Establish international norms to protect data privacy and prevent digital monopolies

e. Promoting responsible corporate practices

Enforce regulations to hold multinational corporations accountable for Tax evasion and other actions that might harm economies.

9. SOURCES

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