INOMUN 2018:

RESEARCH REPORT

COMMITTEE : **U**nited **N**ations **E**conomic **C**ommission

SUBJECT : Promoting inclusive growth, economic integration and cooperation between LEDCs and MEDCs

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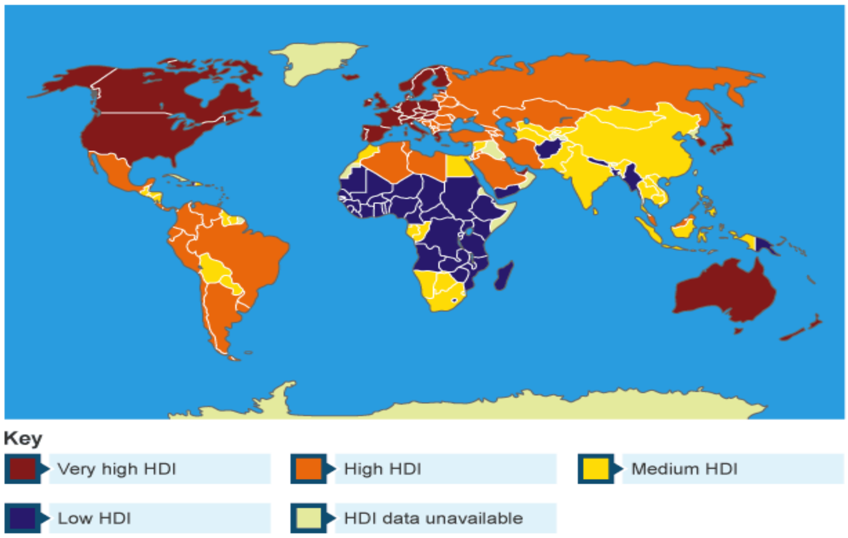
• Introduction:

The United Nations' Economic Commission was set up by the Economic and Social Council and is divided in 5 regional commissions among them : one for Europe (1947), one for Asia and the Pacific (1947), one for Africa (1958), one for Latin America and the Caribbean (1948), and one for the Western Asia (1973). Their main goals are to facilitate a better economic integration and cooperation throughout the world and to promote sustainable development and economic prosperity.

After the Second World War, the world realised the need for greater economic cooperation. Thus, since the 1950s, economic integration in all its forms has grown around the world mostly through the creation of multiple organisations in order to prevent any problems of the same kind to happen. However, this doesn't imply that the world's economy has become unflawed. On the contrary, it is still very unequal.

In economy and geography, the countries of the world are divided into two very distinct groups : the MEDCs acronym for the Most Economically Developed Countries, also simply called developed countries, and the LEDCs, short for Less Economically Developed Countries or also known as developing countries. They

may also be distinguished as the Northern countries for the richest and Southern for the poorer.
Their classification depends on their HDI which is calculated by the UN with different factors such as measure of health, education and income.



Some countries are stuck in the middle and are not developed enough to be part of the MEDCs but cannot be considered as LEDCs, these countries are called Newly Industrialised Countries due to the recent change in their economy which is now based on industries and not on agriculture anymore. They can be characterised by their higher per capita income, by their political and economic reforms and by their advanced stage of industrialisation and economic growth. Thus, they receive more participation and investments from MEDCs.

To increase economic integration and interdependence of all economies across the world, the process of economic globalisation is used, a process which comes with risks and uncertainties. Indeed, the UN report on this specific subject written by Gao Shangquan states that “the progress of globalisation not only should bring huge benefits for the world economy, but also should make these benefits available to every country and to different departments and interest groups. [...] If for a long run developing countries can not benefit from the globalisation process, the economic interests of developed countries will surely be affected.” Globalisation thus should benefit everyone but is precarious.

As the different acronyms show, the world's economy presents wide gaps maintained by many factors. Therefore, we must study the tied links economy shares with multiple aspects of globalisation, among them migration and find solutions to promote economic integration and cooperation throughout the world in order to avoid the worst possible outcome and reach the perfect balance inclusive growth is.

Timeline of events:

1st of January 1929 :

World's Economic Crisis, Walt Street Crash and Great Depression.

24th of January 1949 :

Creation of the European Organization for Economic Cooperation after the Second World War with 19 countries.

24th of January 1944 :

Creation of the World Bank with the main goals to rebuild Europe and reduce the world's poverty rates. It is nowadays constituted of 189 countries.

1st of January 1945 :

Creation of the International Monetary Fund. Its purpose is to stimulate the good functioning of the world's economy and it provides researches, analysis and forecasts on international and individual markets.

1947 :

Creation of UNECE and UNECAP.

30th of October 1947 :

General Agreement on Tariffs and Trades. It established rules for the World Trade and was the only multilateral agreement for free movement of products for import and export.

1948 :
Creation of the UNECLA.

8th of August 1967 :
Creation of ASEAN. One of its objectives is to promote freer trades with the member countries and to achieve cooperation.

1973 :
Creation of UNESCWA + OPEC Oil Price Shock.

1982 :
The Latin American Debt Crisis.

1986(to 1990) :
The Japanese Asset Price B

18th of December 1986 :
Signature of the Rio Group, which, even with a political vocation, was also a mechanism of economy.

1987 :
Black Monday in the USA.

3rd of April 1989 :
Creation of the Asian-Pacific Economic Cooperation Mechanism to promote multilateral economic cooperation in trade.

26th of March 1991 :
Creation of Mercosur.

1st of November 1993 :
Creation of the European Union.

5th of January 1994 :

Creation of the North American Free Trade Agreement.

1st January 1995 :
Creation of the World Trade Agreement to deal with the rules of governing trades between countries.

1997 :
The Asian Crisis

2007-2008 :
The Financial Crisis

- ## Key terms:

Economic Integration and Cooperation:

a policy, financial and regulatory environment which will lead to economic growth by innovating in development and increase competitiveness, focusing on countries whose economies are in transition.

Inclusive Growth:

is an economic growth that creates equitable opportunities for every segments of the population, distributing fairly across society the dividends of increased prosperity, in monetary and non monetary terms

Gross Domestic Product:

expenditure on final goods and services minus imports
Gross = no deduction has been made
Domestic = production per inhabitants

Economic globalisation:

- one of the three main dimension of globalisation.
- globalisation of production, finance, markets, technology, organizational regimes, institutions, corporations, and labour

- free movement of goods, capitas and services.
- through an intensification of cross-border movements.

Trade Bloc :

a form of economic integration which is increasingly shaping the world trade. described as a group of countries within a geographical region that protects themselves from imports from non-members and where barriers to trade ar reduced or eliminated among the participating states.

Human Development Index :

though a simplification and an admittedly limited evaluation of human development it is a metric way set by the UN to assess the social and economic development levels of countries on the previous areas of examination. However it does not specifically reflect quality of life factors, such as empowerment movements or overall feelings of security

Gini Index :

Proposed by italian economist Gini, itis the most commonly used measure of inequality of income or wealth distribution within a population. An index of 0 is the perfect level of equality and 1 is the maximum inequality

Foreign Direct Investment :

economic investment of a country in another country -capital flows- in order to develop an activity and/or conquer a new market

Remittances :

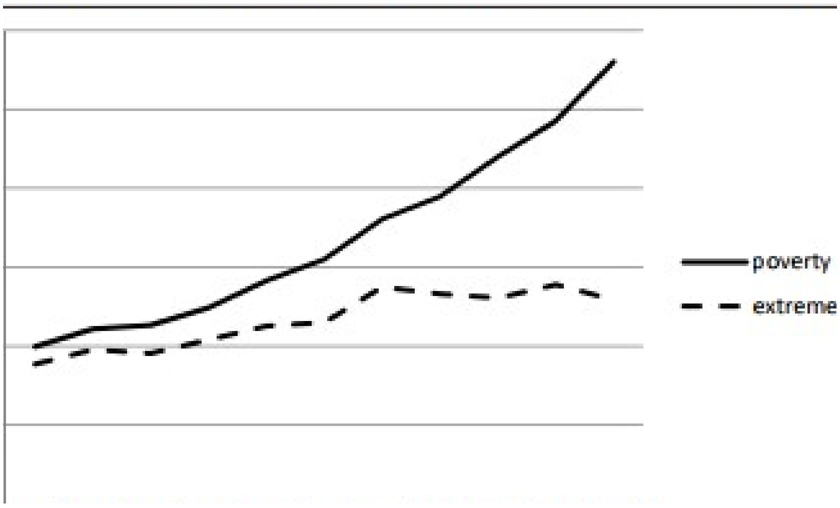
is defined as the sending of money to someone at distance. Here, it is more specifically when a worker who has emigrated sends money to his or her home country.

- ## Background information:

The origins of unequal development and its issues

The world has a certain tendency to focus its investments and growth in specific regions which are determined by their locations, resource and labour force potential, availability of capital, and so on. This can lead to uneven economic development which is defined as a special development in nowadays globalised economy with deep divergences between the countries on the economic and social scale accompanied by the uneven distribution the globalisation benefits and which increases the gap in income levels. The different levels of development are determined by the levels of functioning of institutional mechanisms, also defined as small-scale rules and institutional arrangements within institutions and aiming to advance the promotion of democratic values and efficiency in decision-making, and economic exploitation. It can depend on different factors such as political, historical, environmental or economic ones. Indeed, some countries have more powers than others, or can be in debt, thus slowing down their economic growth. It can also be because of an unstable government, trade liberalisation or corruption or due to the different resources. If a country has a good nature, enough resources, water and food, and has a sea near by for trade, it will help increase their economic growth thus reducing the gap. However, if a country has a bad weather, mountains, droughts, floods and no access to clean water, it might prevent their growth and therefore might participated in widening the gap.

One of the main reasons for this special development is also the colonial heritage. Indeed, some would say that the first wave of globalisation seem to be coinciding with the second wave of colonisation during the twentieth century, more specifically during the from 1870 to 1913, when the growth rate was at 75%, thus contributing to the Western countries' powers, as they owned 65% of the Earth's surface by themselves. This allowed them to develop in financial, banking, institutional and agricultural areas, putting them at the top of the economy and leaving what we would later call the developing countries behind, due to their lack of progression. After a huge decrease with the different wars, we can observe a new stage of economic development during the second half of the twentieth century, where there is a post-industrial society and a new sort of economy, in which the human capital and the high-tech goods occupy a highly important post. One sixth of the world is now under the communist regime, which is characterised by its economic stagnation and its low level of development. Still, despite this fact, this part of the world is not the poorest ; the former European colonies are, and representing more than half of the world surface, they participated in the increase of the poverty rate.



Here, poverty is living on less than $2 per day and extreme poverty on less than $1 per day.

However, nowadays, the developing countries' chance to reach the social welfare of the developed countries is decreasing, even though the level of raw resources to exploit to develop is high. In fact, current inequalities are so important that the UN Development Program has forecasted that 4% of the income of some of the wealthiest people would be sufficient to provide education, clothes, food, clean water, health care, and so on, to the inhabitants of LEDCs. Furthermore, in today's society, the wealth of 225 of the richest people of our planet equals to the revenues of 47% of our global population. Even if South and East Asia have both managed to reduce their poverty, most of Africa and South and Central America have witnessed an increase in theirs, if any change at all occurred. In 2011, the Population Reference Bureau affirmed the 46% of the population was living on less than $2 a day, thus pointing out some very important disparities in the world economy. Those very low incomes encourage the inhabitants of developing countries to emigrate towards the most developed countries in order to lead a better life by finding a better paid job and thus improve their living conditions.

The Economic Effects of Migration

Migration affects economy in three different and main sectors.

- The first is the labour market. It is defined as a place where the supply and demand of labour interact with each other and where employers search to hire the best whereas the workers search for the best work opportunity. Migrants are valuable on this market due to the fact that they are willing and able to take on important assignment both in fast-growing and declining sectors. Indeed, for the rapidly growing activities, among them health care and S.T.E.M., they have represented 22% and 14% of the entries in America and Europe. In parallel, in declining sectors, they have represented 28% and 22%. Moreover, the arrival of young migrants is quite interesting for the demand of labour. Indeed, they often are better educated than older people and migrants coming nearer retirement and thus offer a better fulfillment to the demand's requests. Their importance and weight in economy is undeniable. In fact, over the past ten years, the migrants accounted for 47% and 70% of the increase in workforce, respectively in the United States of America et in Europe, but not only. In the highly qualified and educated labour force, migrants represent 31% of the increase in Canada, 21% in the United States and 14% in Europe. Furthermore, they also highly contributed to the labour market flexibility especially in Europe, defined as the speed with which the market adapts to the fluctuation and changes in society, economy or production.

- The second is the public purse, defined as the money controlled or given by the government. This sector seem to prove that immigration is not a burden for anyone and is even a benefit for some countries. Indeed, migration over the past 50 years has made almost not difference to the welcoming countries' GDP. Indeed, if there has been an impact, then it doesn't exceed 0.5%, either negatively or positively. Moreover, they seem to be a benefit to the public funds, especially the labour migrants who have greater impact than the natives, because they contribute more to taxes and social contributions than what they receive in return. The main determinant of this contribution is employment. Indeed, the rise of migrants' employment rate involves substantial fiscal gains, notably in Europe. "Efforts to integrate immigrants should be seen as an investment rather than a cost" rightly stated the OECD in one of their report on the subject.

- The last sector is economic growth. Here, the impact can be both direct and indirect. Firstly, migration has an obvious demographic impact by contributing to the growth of the population size but also by changing the age pyramid in the receiving country. For instance recent forecasts have shown that Germany would lose more than ten millions inhabitants by 2050 because of declining immigration and a low average birth rate, especially in Eastern cities, which induced a change in migration policy. Migrants thus contribute to reduce the dependency ratio by entering the economically active working group. Secondly, they increase the stock of the human capital in the welcoming countries, by arriving with skills and abilities.

For example, in the United States, migrants have been proven to help boost technological progress, research and innovation. Indeed, the number of highly educated migrants in hosting countries, especially in the member countries of the Organisation for Economic Co-operation and Development, has increase of up to 70% during the past 10 years, among them, 17% which arrived in the past 5 years. However, a study conducted by the OECD about the impact of migration from 1196 to 2006 revealed that it was was fairly small however still positive. In fact , an increase of 50% in immigration would result to less of a 0.10 percentage point increase.

Furthermore, when migrating, some people might be compelled to leave family behind. In order to sustain them, they can send remittances. Not only can these benefit the recipients but also the different countries, the sender and the collector. Indeed, by contributing to the foreign exchange earnings of the sending country, it can lead to upgrade its creditworthiness, expand its access to the different international capital markets and thus stimulate economic growth, giving them a better access to the different international capital markets. In parallel, in LEDCs, the impact of remittances on the GDP, although difficult to measure, has been established by the World Bank : if there is a one percent increase in a developing country’s GDP, the decline in their poverty is of 0.4.

However, the economic impact of migration isn’t all positive for the emergent nations. Indeed, in parallel to the benefit of remittances they enjoy, they can be the victims of “brain drain”, which is defined as the loss of train and educated individuals to emigration. This phenomenon leads to economic loss because those people don’t work for the country and thus don’t work for the development of the country. In fact, in Africa, a continent where we can find most of the lowest GDPs, the International Organisation for Migration had estimated their loss for brain drain to almost $9 billion since 1997.

The impact of migration on trade

Migration has an undeniable impact on trade, despite being hard to quantify and sometimes controversial. Migration stimulates world economy and trade but also stresses the inequalities between global North and global South and can limit the ability of Southern economies to compete and collaborate with MEDCs in the Global North.

Considering that migration can result in the increase and diversification of a country's population it seems logical that the demand for imports within a country increases and changes alongside an intensification of migration flows. Exports may increase as well as the presence of immigrants in export industries represents a considerable and also potentially cheaper workforce. This input participates to lower unit production costs which boosts trade on a world scale. Since the 1990s, economists have seen migration has having a statistically positive impact on trade, David M. Gould for instance illustrated the positive impact of migration on Trade in *The Review of Economics and Statistics*, published in 1994. Indeed immigrant ties include knowledge of home-country markets, language, preferences and business contacts. This knowledge has the potential to decrease trading transaction costs and increase efficiency. Thus immigrant links have historically been important in increasing trade flows with immigrants' home countries.

Since 1995 personal remittances received in percentage of countries' GDP has kept increasing considerably. The World Bank Group shows an increase from 0.31% in 1995 to 0.75% in 2015. Remittances sent by immigrants working in foreign countries now represent an undeniable part of the global economy. Migration has another considerable impact on the world economy through remittances.

Highly skilled migration is also very profitable for some countries, especially MEDCs located in the global North. This particular type of migration results in a form of brain drain which increases the level of production and skill in a country, thus affecting its trade. The proportion of highly educated immigrants in OECD countries is rising sharply, for instance, the number of tertiary educated immigrants in OECD countries showed an unprecedented increase of 70% in the past decade, reaching 27.3 million in 2010. This recent phenomenon further increases today as about 4.7 million of them arrived in the past five years. However brain drain represents a great loss of potential and a loss of human and financial wealth for LEDCs from the global South. This contrast affects the ability of LEDCs to compete worldwide and develop economic strategies in cooperation with MEDCs.

Fair trade and its limits

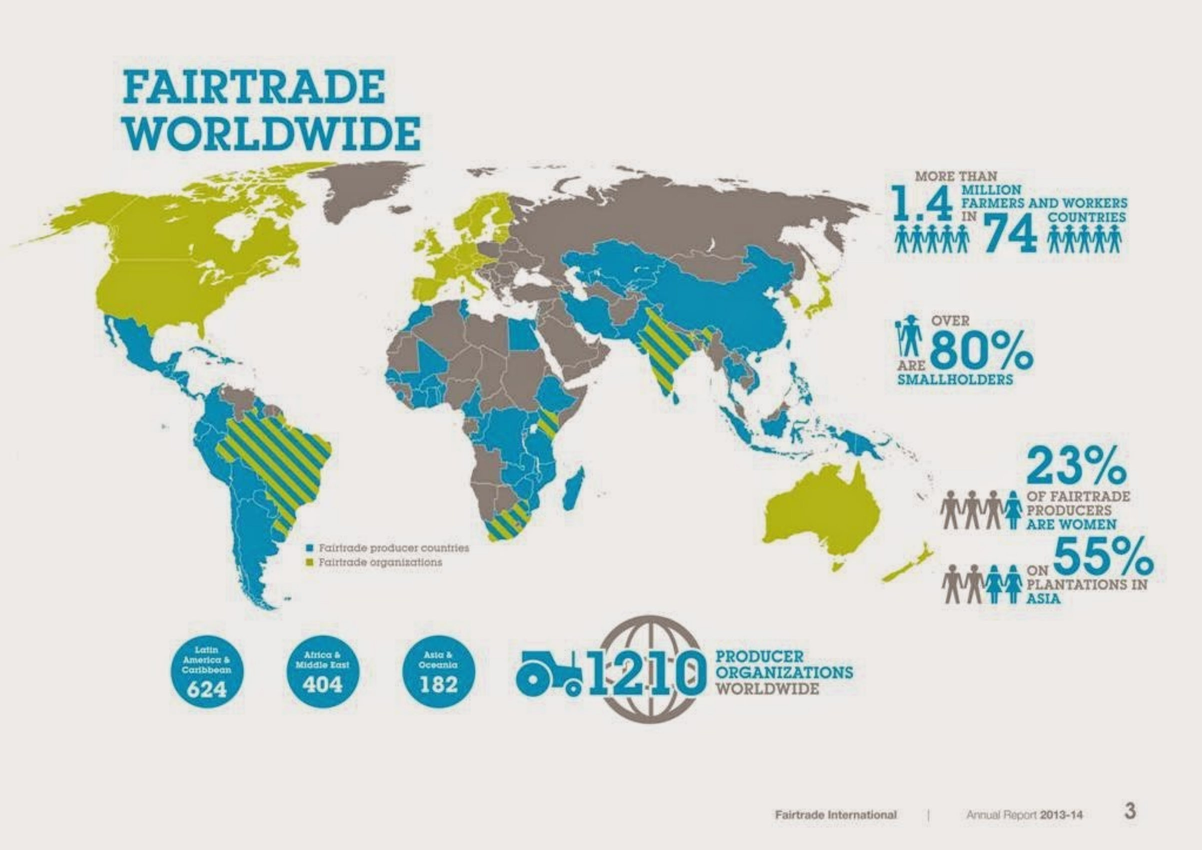
The Fair Trade label first appeared in the UK in 1994 and covered only three products of only a brand each : *Green & Black's Maya Gold* chocolate, *Cafedirect* medium roast coffee, and *Clipper* tea. With time the demand for goods identified as

Fair Trade products, has been increasing alongside major improvements to the working conditions of both farmers and suppliers.

Global sales of Fairtrade products has soared in the past decade especially for fair coffee, sugar and bananas which sales has increased by 15% in 2013, reaching 5.5 billion euros. This was followed by a growth of 14% (up to £1.8 billion) in the UK, which is the largest international market. The number of Fairtrade producer countries has increased as well and reached 74, exporting more than 30,000 Fair Trade products in 125 countries across the world. Fair Trade products are becoming more and more important in the global market, in 2013 sales grew for coffee (8%), sugar (22%), bananas (12%) and flowers (16%).

Fair Trade is based on the two principles of transparency of certification and sustainable development of farmers. Thus the standards for world certification are set by the Fairtrade Labeling Organization (FLO) that monitors and certifies the manufacturing, pricing and trading standards. World issues such as slavery, poverty and social upheaval relate directly to the products we buy. For instance cocoa production, has been linked with child slavery especially in the largest cocoa producing region of Western Africa. Lowering world prices in other products such as coffee and sugar has also resulted in human rights abuses and an increased level of poverty in some populations. Fair Trade appears as a mean to promote a more fair and sustainable form of development, thus economic growth and social improvement in such areas.

However, the Fair Trade movement is facing some threats, one of the most important being the "quasi-fair trade labeling", the numerous labeling that can be confusing to the consumer. These numerous labels, created in Europe and North America, that do not publicly release their trading guidelines do not constitute Fair Trade. Such labels provide no form of transparency, there is then no guarantee of what business practices the consumer would be supporting when buying the product. Large multinational companies also market and repackage their products to make them appear more socially or environmentally responsible, these marketing strategies confuse the buying public. Thus the traceability of certified product in a vast world market is very limited and cannot be completely guaranteed. Some Fair Trade companies have been accused of abusing consumers' confidence, some falsify or try to use without any certificate such labels, for instance in Germany a company was found a few years ago trying to sell non-certified bananas as certified produce.



Fair Trade is an important step in promoting economic integration and cooperation between LEDCs and MEDCs as both are involved in the process and it strengthens the position of LEDCs and especially poorer exploitations in globalisation thus often providing better quality products. In spite of its recent and fast development, Fair Trade still needs today some improvement in order to counterbalance its limitations and promote economic growth in all LEDCs.

The future of the North and South division

With the increase of interconnections between countries as well as the multiplication and diversification of global flows, the contrast between global South and Global North has changed in the past decades. In order to be competitive and to aim for a global market, countries have congregated in trade blocs. The organisation in the global South, composed mainly of developing and less developed economies, tends to reproduce the model of Northern organisations such as EU. Trade blocs from global North and South are in permanent competition and show different levels of integration on both local and worldwide scale.

Japan, USA and Europe, composing the Triad, are still today the most attractive hubs and the delay of global South economies is hard to overcome. As global FDI stocks have been multiplied by 60 between 1960 and 2002 and as FTNs are the principal actors of foreign investment countries with a higher FDI will benefit from a more important economic and social development. Hence the higher FDI receptors are still today Europe and North America, showing that despite the tremendous emergence of developing economies competing with the main world powers, the Triad hub is still very attractive and concentrates the major part of wealth production with the greatest amount of highly skilled activities such as engineering, conception and design. This shows that the North-South divide is still relevant as an important fracture still exists between northern countries and trade blocs and southern ones.

However the empowerment of some NICs questions the existence of the divide and economic cooperation and integration between the two sides is made possible today. The BRICS is an economic association created in the early 20th century composed of five major emerging economies : Brazil, Russia, India, China and South Africa. Every of these five powers appears as an economic, cultural and often political leader in his region and has a significant influence in regional affairs. This association is the perfect example of economic cooperation in the global South to concurrence the supremacy of Global North economies and shows the rupture between the two. Since 2009, the BRICS nations have met annually at formal summits with the ambition to concurrence the world leading economies therefore having a greater impact on a world scale. They promote common development strategies which shows a form of economic integration. In this case the alliance is a factor of economic growth for the member countries, for example between 2000 and 2015 Russia’s GDP has been multiplied by 5.1, India’s by 4.4 and the Chinese one by 9.1. The developing countries are catching up with the major powers of the Triad, reducing the economic gap between them. For instance Brazil has now the 6th most important GDP in the world, it is the first FDI receptor in South America and is on a path to provide high technology products to the world with its 8 FTNs (such as EMBRAER) which is a sign of economic development.

Not only the BRICS are developing but also other countries notably in Asia as Asian tigers are growing stronger and stronger economically, socially and politically, Cambodia for example has had an HDI increase of 0.085 points between 2000 and 2011 very close to China which was 0.1. In Africa some other countries are developing as well, with $485 billion Nigeria has now a higher GDP and its development is increasing even faster thanks to important oil exports. A majority of LEDCs have caught up their gap and joined economic cooperation and integration in trade blocs. Therefore the divide is challenged by the decreasing strength of many northern countries. For instance the 2007 subprimes crisis weakened developed countries' economies which used to be the strongest ones. The crisis had a terrible and long term impact on northern economies, for example in 2013 Greek youth unemployment was over 60%.

The weight of UNEC regarding this issue

While facing unequal development, migration and its effects on economy, with the brain drain phenomenon and remittances, the different UNECs need to take actions and find solutions. Indeed, LEDCs must find a way to develop in order to perfectly reach the equilibrium of inclusive growth. However, they are losing chances for development with migration, notably due to brain drain. They are losing their most valuable and brilliant minds that could help them develop their economy and make a step forward development. Whereas, in parallel, they receive the advantages and weight of remittances in their GDP. Here, UNEC must decide of the future of the world's economy by deciding whether or not the MEDCs should take advantage of migration and brain drain, thus denying or not to developing countries the chance to use them for their own ends. The delegates will strive to find solutions in order to equilibrate and develop various economies throughout the world by using migration flows and its effects on a global scale.