



ECONOMIC AND SOCIAL COUNCIL

BACKGROUND

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ECOSOC



Introduction:

“The global impact of Chinese currency v.s United States dollar”

Welcome, delegates, the Chair is grateful to all for attending the Economic and Social Council in the 15th edition of the Model United Nations Instituto Oriente 2024, each member of this Chair are proud and pleased that you have chosen to be part of this committee and we, as Chair, trust that everyone will do their best to know how to better cope with the model; being part of this model represents a challenge that entails responsibility and courage, so it will be hard but the results will leave you satisfied.

We, as a Chair, are going to work hand in hand with you to lead and guide you to success in this incredible event and at the same time we, as Chair, want to tell you how much this Chair congratulated you for daring to leave your comfort zone dealing with important issues at a global level.

This topic “The global impact of Chinese currency v.s United States dollar” is about the economic relations between People’s Republic of China and the United States of America, which investigates all aspects of the international financial crisis and can change them; it reviews the main elements of trade and financial cooperation and conflict; shows how the financial crisis will increase People’s Republic of China relative capacity. This will force the United States of America to reduce its pressure on People’s Republic of China, with the purpose to change its rate and trade policies. However, domestic restrictions will prevent People’s Republic of China from taking a leading position in the international system, so the United States of America will continue to exercise their role as a global capacity.

It is in everyone’s interest to know that for decades to come, the relationship between the United States of America and People’s Republic

of China will be one of the variables that will determine the stability or instability of the international system and that this change will affect all the economies of the different countries already and in turn this modification promises to lower prices.

We, as Chair, choose the present topic because after an arduous search, reaching the conclusion that this specific conflict, is about to be faced, and we consider that for all those interested in the economy of the future this will be a very debatable topic and one that can be greatly benefited.

If the People's Republic of China maintains the role shown since 2010, based on the devaluation of the currency in relation to the US dollar, it is expected that the economies of the countries directly or indirectly related will grow. This generates a progressive development in the countries.

The objective of this document is to give the delegates a clear idea of the topic in general with some visual aids, as well as brief, clear and concise information in order to have a dynamic and fluent debate.

Committee's History:

The Economic and Social Council (ECOSOC) committee was established in 1945, when an UN character appointed it as one of the six main bodies of the United Nations, consisting of 54 members. That is the reason why it is part of the United Nations system, under the authority of the General Assembly and in charge of coordinating the three supports of sustainable development; economic, social and environmental, and also of the UN family of organisations to discuss international economic and social issues; that focuses on promoting social progress and achieving international security and social progress, and also formulate policy recommendations; consulting with academics, representatives of the business sector and more than 3.200 Non-Governmental Organisations (NGOs) registered; maintaining a vital bond between the United Nations and civil society, encouraging greater action by sharing its own knowledge and experience on specific issues.

It is evident that diverse committees and subsidiary councils collaborate with ECOSOC; this takes place to avoid duplicity of actions that could lead to a waste of budget from the World Bank. There are committees, organisations, and councils that collaborate with it; these members are divided into main branches which are the nine organic commissions, the five regional commissions (one for each international organisation of each continent), the permanent expert organs, and the five permanent committees.

Also, there is a huge variety of Non-Governmental Organisations with different focuses in consultative status with ECOSOC, because they also work with the Council's subsidiary bodies. Nevertheless, all of them possess the same ideology and purposes of ECOSOC; these Non-Governmental Organisations have been fundamental in the elaboration of successful resolutions of the committee.

In 2023, the following issues will be on the agenda: inflation, food, security, the energy crisis, access to decent work for marginalised youth,

global geopolitical competition, the breakdown of international security and governance systems, and the permanent forum for indigenous issues.

And finally, the purpose of this committee is to concretize the extensions of sustainable development (economic, social and environmental). This body constitutes a fundamental organisation to feed the debate and the avant-garde thinking.

Long Term:

The partial or total replacement of a country's currency by another currency began and became known in Latin America in the 1970, when inflation increased and hyperinflation left the traditional role of national currencies weak. The people of those countries began to use foreign currency, mostly the dollar, which gave great strength to that economy.

Over the years, this phenomenon spread far beyond Latin America, so much so that by the early 1990s, the banking systems of Turkey and several economies in Africa, Asia and Eastern Europe were accumulating large amounts of dollar-denominated assets and liabilities, making it a regular occurrence.

All dollar-valued bank receipts and liabilities presented a serious risk to the other financial systems in the event of a sharp and sudden devaluation or depreciation of the exchange rate, which started to happen and serious declines began to occur, thanks to several financial crises of emerging markets, which caused the de-dollarization to being even further in the 2000s.

What is De-dollarization?

“De-dollarization is the process of reducing the US dollar's hegemony in global trade and financial operations by shifting to alternative exchange methods, including national currencies and domestic payment systems, as well as modifying currency reserves”

(Sputnik, 2023,p.1).

UNDERSTANDING

DE-DOLLARIZATION

The U.S. dollar has dominated global trade and capital flows for decades.

However, many nations are looking for alternatives to the greenback to reduce their dependence on the U.S.

DE-DOLLARIZATION

The process of substituting the U.S. dollar as the currency used for trading commodities and other goods and services.

TIMELINE OF DOLLAR DOMINANCE

1920s

The dollar begins to displace the pound sterling as an international reserve currency after the First World War. The United States is a significant recipient of wartime gold inflows.



1944

International trade is conducted using the U.S. dollar under the Bretton Woods Agreement.



1971

President Nixon ceases the direct convertibility of U.S. dollars to gold.



1960s

European and Japanese exports become more competitive with U.S. exports. There is a large supply of dollars around the world, making it difficult to back dollars with gold.



1981

After years of hyperinflation, the U.S. dollar loses two-thirds of its purchasing power.



2007-2008

Global financial crisis: investors seek U.S. dollars expecting the currency to retain its value.



2014

Following the annexation of Crimea, Russia prioritizes de-dollarization in response to Western sanctions.

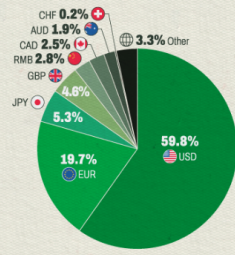


2023

- Brazil and Argentina discuss the creation of a common currency.
- The UAE and India explore the use of rupees to trade non-oil commodities.
- Russia and Iran are working together to launch a cryptocurrency backed by gold.

Despite these movements, few expect to see the end of the dollar's global sovereign status anytime soon. Currently, central banks still hold about 60% of their foreign exchange reserves in dollars.

WORLD FOREIGN EXCHANGE RESERVES



Source: Currency Composition of Official Foreign Exchange Reserve - IMF Data, Reuters, Vedmosti

2022

Central banks buy gold at the fastest pace since 1967 as countries diversify their reserves away from the dollar.

The war in Ukraine results in Western sanctions against Russia. As a result, Russia and China deepen cooperation between their financial systems, with ruble-yuan trade increasing 80x in eight months.

VOLUME OF CHINESE-RUSSIAN TRADE IN YUAN



Source: Atlantic Council

Although 59% of the currencies in the world's largest banks are in US dollars, which represents the lowest percentage of dollars banks have had in the last 25 years. What is happening at the International Monetary Fund shows a sharp decline in dollar holdings since 1999.

Short term:

What is mentioned below has caused the changes in currencies in recent years...

In 2018, the United States of America imposed tariffs on products of the People's Republic of China, affecting annual imports worth 200 billion dollars, although on May 10 of that same year, there was a 25% increase on the same amount of annual imports, which is why trade tensions between the United States of America and People's Republic of China have increased.

In the same year during the Trump administration, where People's Republic of China was accused of using its currency to stimulate its exports, launched a series of tariffs against Chinese imports and the country took countermeasures with its own tariffs on the United States of America imports, and this happened the two largest economies in the world increased trade tensions during the summer of 2019.

After the sharp drop in imports from People's Republic of China, for a value of almost 850 million dollars, it is compensated by an increase of the same amount of economic resources as those from United Mexican States, which left the country almost unchanged, and is because also countries such as Japan, the Republic of Korea and Dominion of Canada, that are related with the slight increases in US imports with respect to the levels of September-November 2017.

In February 2020, People's Republic of China's exports began to decline, following a 12,4% drop and 12.5% preventions in world demand, which was the cause of the final collapse in July 2023, of 14.5%. In contrast, annual United States of America exports deviated by 23.1% compared to last year, being directed to the main partner, that is People's Republic of China, which in April this year, were explained by an increase in aircraft parts (\$155M or 47.6%), Maize (\$117M or 45.3%), and Copper Scrap (\$95.7M or 122%).

The value of the US dollar appreciated significantly against most other currencies in 2022, when the Federal Reserve raised interest rates. This had negative repercussions for people in almost all countries that borrow in dollars, pay for imports in dollars, or buy wheat, oil and various commodities valued in dollars, as these transactions increased their cost.

The People's Republic of China, on the other hand, has become perhaps the world's largest lender, with state-controlled government companies lending to dozens of developing countries, and is developing a digital Yuan, making it one of the world's leading central bank digital currencies.

The position of the United Nations:

Regarding this issue that we, as Chair are talking about, the ideas, position and conclusions of the United Nations have not been deepened, clarified one hundred percent, but it is well known that governments have adopted their own positions.

Further countries seek to change the US dollar, which they have as their main currency since the Yuan becomes more popular in all financial operations, although this still does not manage to make the US dollar lose its status in the market.

At the same time it is confirmed that one of the reasons why some countries start to opt for the use of the Yuan instead of the US dollar is because its main exporter is People's Republic of China and the payment with the US dollar is no longer consistent, since paying with a different currency from the exporting country makes it more expensive, but if paid with the original currency of the country, the International reserves of the buyer country would be preserved.

That is the reason why the BRICS alliance (Federative Republic of Brazil, The Russian Federation, Republic of India, The People's Republic of China and South Africa) have been fighting together for de-dollarization. Although India discourages the use of the Yuan due to its complicated relationship with People's Republic China.

Before, the BRICS members had considered the idea of creating their own currency to stop depending on the US dollar, but after analysing it, they realised that it was not really coherent, this is how they are using the Chinese Yuan; all this was mentioned and explained by macroeconomist Lyn Alden.

It is worth mentioning that in 2015, the Chinese authorities signed an investment and currency exchange agreement with the Republic of Chile and Republic of Argentina, where they announced the opening of the first Yuan clearing bank in Latin America.

According to all Latin American countries, the Yuan is promoted as an alternative to the US dollar, demonstrating that one month ago, the government of Republic of Argentina announced that its purchases from People's Republic of China will begin to be paid in Yuan instead of US dollars, to protect and strengthen its weakened international reserves. The Brazilian government also announced an agreement to trade with the People's Republic of China in the currencies of both countries and avoid resorting to the US dollar, replacing the Euro as the second most important foreign reserve currency. According to data from the Industrial and Commercial Bank of People's Republic of China, in April 2023, the clearing mechanism in the Federative Republic of Brazil processed its first cross-border settlement operation in the Asian currency.

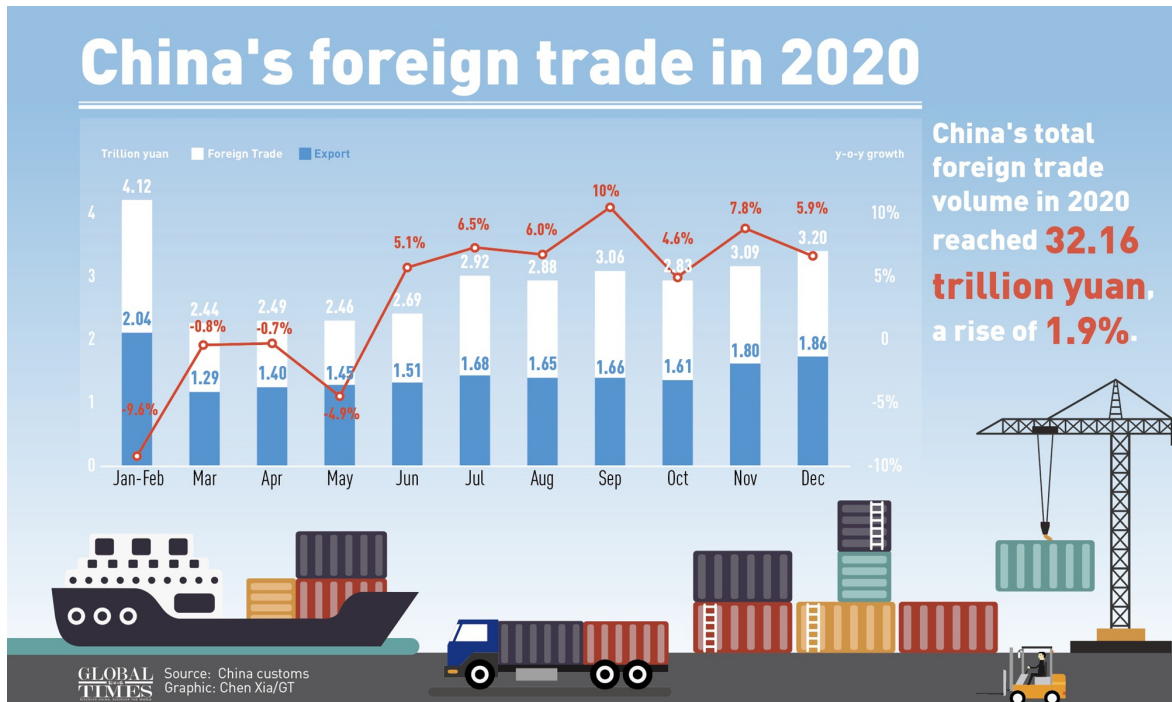
During the last decade, Beijing has also been aiming to increase the Yuan's presence in Latin America, as well as to become a trading partner and a source of financing for some countries, in order to facilitate international transactions between the local currency and the Yuan, without having to turn it into US dollars.

In the case of Saudi Arabia, Chinese oil has been authorised in Chinese currency. Many companies have managed to trade directly in Yuan because they find lower interest rates than if they did so in US dollars.

In Bolivia, international reserves and the scarcity of US dollars decreased.

Based on Russian's Federation international condemnations for invading Ukraine, they opened up an opportunity for the Chinese currency to advance, as the Yuan replaced the US dollar as the most traded currency in Russian's Federation this year, after accounting for 23% of import payments in 2022.

The People's Republic of China also reached agreements with other trading partners, from Islamic Republic of Pakistan, to companies in the Republic of France, to facilitate exchanges in Yuan, developed its own digital currency and global interbank messaging network.



Controversy points:

Why is the topic controversial?

The issue is too controversial as there is a storm unleashed between major faculties, which continues to affect the world economy; it is normal for each country to take different measures to defend its currency and economy from the rival country.

Further the ability struggle goes further, they are nicknamed “currency manipulation” and are threatened that such accusations may cause much chaos in the financial markets. This of course takes trade tension to another level.

Something important that is worth saving is that if the yuan were to fall against the US dollar, this would be causing a shot of it; This would cause investors to move their capital into other hard currencies, as investors flee unstable or dangerous markets, thus getting investors to dollarize their capital.



What positions are there on the topic? In favour or against?

As we, as a Chair, have been previously mentioning, each country has its own position on this issue, for and against, since each of the main countries on this topic has its trade allies and it is actually a fairly extensive and deep issue since The US dollar has dominated the market in recent years, but lately it has had its declines, it is not really known if the change would be for the best or not, but to be completely frank this process will last for a long time.

For example in the case of the United States of America its main traders are the United Mexican States and Dominion of Canada, that is to say that they are also in America, making this more difficult to make the currency exchange since it is not something convenient for the investors or buyers.

Why is there a debate?

It is a global issue that is affecting the present and will continue to affect the future both commercially and economically, because there are two world potentialities having good things and bad things in every country, the decisions and actions that are taken affect in more than one place.

This becomes debatable because this trade conflict continues to escalate and could cause too many companies around the world to postpone investments, these are complex years which is not good for absolutely anyone; This once again makes it dear that if a country is exposed to international trade it puts its currency at risk.

It becomes an important issue when the measures they use become a double-edged sword. They seek low currencies to reduce the trade deficit, but they can no longer devalue their currencies, because of course, products compete better abroad but it can also destabilise the entire country or worse, lead to an economic recession.

Objectives:

On behalf of the various governments on the global impact of Chinese currency v.s United States dollar, will continue to see the evolution of the problem with the passage of time, will do what is most convenient to them to get a better economy in each of these, thus choosing the currency most convenient.

Without further ado, having said this, the Chair asked all delegates to come up with possible solutions for:

- How would the export of the global impact of dollar fall
- To deepen in the best way the position that the country that wins this trade conflict must take, in order to take this decision towards the best possible direction.
- Study the consequences of replacing the US dollar by the Yuan as the main currency.
- Find out what position the "external" countries take but are equally affected by this trade conflict
- Find which currency is the most supported and why is such convenience
- Show the advantages and disadvantages of using both currencies to different countries
- Trying to make citizens aware of this type of conflict, which is not the same as armed conflict but which affects us almost as much as one.

Conclusion:

The Economic and Social Council Committee is about to reach a conclusion about the topic that has been discussed above. Based on the People's Republic of China's Central Bank announcement, it will allow the Yuan to take steps to achieve a wider margin compared to the US dollar in daily transactions. This change could allow a faster rise in value for the Chinese currency, which is what causes conflict and difficulties for the United States of America country. However, any increase may still not be enough to satisfy many critics and the People's Republic of China has warned that future increases will be limited.

On the other hand, the United States of America and other governments clarified that an undervalued Yuan gives capacity and an unfair price advantage to Chinese exporters, hurting other governments allies as they strive to lower unemployment.

In March, Chinese Premier, Wen Jiabao said there was a chance that the People's Republic of China's currency would reach "a break-even point" because it had already risen 30% in value in real terms since 2005, so any increase in value would be limited. However, that increase was not enough to satisfy US critics.

The People's Republic of China's commitment must be even more precise in the sense of rebalancing its economy through domestic consumption and allowing market forces to play a greater role in determining the level of the exchange rate. This country's major objective is to rebalance its economy through domestic consumption and allow market forces to play a greater role in determining the level of the exchange rate. While the United States of America admitted that it would like to see more measures and actions on it.

The Model of The United Nations Instituto Oriente is one of the most memorable and incredible experiences that our schools offer, is a model where you take away many unforgettable experiences and learnings.

That is why, delegates, we, as Chair, hope that you will give your best with great participation and dedication from the beginning to the end, and that you will comply with the protocol; be responsible; but above all, that you will also have a lot of fun and take away good things and unforgettable moments from this edition.

We, as a Chair, hope that after reading this document, you will be able to understand the importance of the issue and will be interested in reaching a solution for the good of both countries. Delegates, we, as your Chair, thank you very much for choosing this committee and for having the initiative and interest to be part of this great change.

Countries:

United States of America:

United States of America, a country in which its currency gradually became globalised to become the most widely used currency internationally, purchases, sales, loans, wages in US dollars, in various parts of the world, but today it has not been as stable as usual.

People's Republic of China:

People's Republic of China, being a world potency, wants to prioritize its currency, finds it convenient for its neighbouring countries; has been doing deals with different countries already in Yuan currency; has been carrying out different actions to increase the use and popularity of its currency by reducing interest on buying and selling in Yuan.

Russian Federation:

Before the invasion of Ukraine, transactions of the yuan were imperceptible but now Russia has become closer to its relationship with the People's Republic of China and now in the national bank 60% of the currencies are in yuan.

Republic of India:

The economic growth of the People's Republic of China and Republic of India is one of the key developments in the evolution of the world economy. The main reasons are that this growth is set to change very substantially the general world economy, as it addresses, firstly, the contours of this growth recorder by People's Republic of China and Republic of India over the last decades (in aspects such as GDP growth, foreign trade, energy and raw material consumption, foreign exchange reserves and tourism). In addition, in the medium term for these two countries, the advantages and disadvantages for sustained economic growth are highlighted.

Countries in G5:

1. United States of America

2. Russian Federation
3. French Republic
4. United Kingdom of Great Britain and Northern Ireland
5. People's Republic of China

List of countries involved:

1. United States of America
2. The People's Republic of China
3. Russian Federation
4. French Republic
5. United Kingdom of Great Britain and Northern Ireland
6. Wales
7. Republic of Turkey
8. Lebanon
9. Dominion of Canada
10. The Kingdom of Belgium
11. Republic of South Africa
12. New Zealand
13. The Islamic Republic of Pakistan.
14. Republic of Ecuador
15. Republic of El Salvador
16. United Mexican States
17. Republic of Chile
18. Federal Republic of Brazil
19. The Kingdom of the Netherland
20. The Portuguese Republic
21. Spain
22. State of Israel
23. The Kingdom of Morocco
24. Republic of India
25. The Republic of Colombia
26. The Federal Republic of Nigeria
27. Republic of Argentina
28. Bolivia

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