



ECOFIN

Delegate's
Study Guide

Study Guide ECOFIN

Chairpersons: Maria Ferastrau and Alexia Gheorghe

Table of contents

Welcoming letter	3
Introduction to the Committee	4
Topic A: The Impact of Automation on Developing Economies	5
Overview of the topic	5
Key Terms	6
Historical Background	7
Legal Framework	8
Current Situation	8
Position of Major Actors	9
Points to be Addressed	12
Further Research	13
Topic B: Evaluating the Merits of Foreign Direct Investment	14
Overview of the topic	14
Key Terms	14
Historical Background	15
Legal Framework	16
Current Situation	17
Positions of Major Actors	18
Points to be Addressed	21
Further Research	22

Welcoming letter

Dear delegates,

It is our utmost pleasure to welcome you to the Second Committee of the General Assembly: **the Economic and Financial Committee (ECOFIN)** of LazarMUN 2019, in which we are going to tackle the following two topics: **The Impact of Automation on Developing Economies** and **Evaluating the Merits of Foreign Direct Investment!**

We are more than delighted to hold this position during the conference and to be able, as chairpersons, to guide you through this journey, that we are sure will be an unforgettable experience, from which you will have a lot to learn, both academically and personally.

On a more serious note, you will have to **respect the deadlines** when submitting your work, including the ones prior to the conference, as it makes it easier for us to write detailed feedback, which will help you learn more and more. We believe good communication is the key to a well functioning committee, so should you fail to respect the deadlines, please **inform us about the delay**. This study guide, that we provided you with as to be the basis of your research, is meant to help you understand some of the main points of the topics and at the same time become familiar with the committee's purpose. Please bear in mind the fact that further research is strongly advised prior to the conference. What is more, we recommend that you take a look at the rules of procedure as to get more accustomed to how the debates run in a MUN.

Should you need any help or have any questions (regarding the procedure, the topics or of any other kind), do not hesitate to contact either one of us.

All in all, we wish you all the luck in preparing for the conference; we expect you to come up with solutions you've never thought about, to challenge yourself and to have the most fun during these four days!

Best of luck,

Maria Ferastrau & Alexia Gheorghe

Introduction to the Committee

The Economic and Financial Committee (Second Committee of the



General Assembly) is one of the six committees of the United Nations General Assembly and deals with global finance and economic matters; some of the many issues the committee handles are the eradication of poverty, the

development of agriculture, economic growth, foreign trade, etc.

What one must bear in mind in relation with the General Assembly is its specific mandate. Although it does have the power to address international issues of many kinds, documents that it produces, as a whole and through its Main Committees, cannot infringe upon the national sovereignty of any Member-State and ultimately remain non-legally binding. This strengthens the need for consensus-building inside of the General Assembly, where bridging the gap between diverging state interests is what truly determines success in tackling global problems.

Topic A: The Impact of Automation on Developing Economies

Overview of the topic

The digital era is reshaping labor markets. Until now, this has been the story for developed countries. Developing countries are lagging behind in terms of the adoption of labor-replacing technologies.

Stunning technological advances in robotics and artificial intelligence are being reported virtually on a daily basis: from the versatile mobile robots in agriculture and manufacturing jeans to autonomous vehicles and 3D-printed buildings. One of the main effects of automation, especially in the developing nations, is the loss of many jobs, the table below showing the cases in which people are most likely to lose their jobs:

Table 1: Skill levels, education, occupations, and automation

Skill level	Skill definition	Education	Occupation – divisions	Automation possibility
I (unskilled)	Routine physical and/or manual tasks	Primary (up to 10 years of formal/informal skills)	Elementary occupations; Armed Forces Occupations	Very high
II (low skilled)	Operating machinery, electrical equipment, driving vehicles, repairing, storage info	Secondary (11–13 years)	Clerical Support Workers; Services and Sales Workers; Skilled Agriculture, Forestry & Fishery Workers; Crafts & Related Trades Workers; and Plant and Machine Operators & Assemblers. Armed Forces Occupations	Very high
III (skilled)	Complex technical and practical tasks which need knowledge in specialized fields	First Univ. (14–15 years)	Technicians and Associate Professionals; Managers	High & moderate
IV (high skilled)	Tasks require complex skills, knowledge in a specialized field	Postgraduate (more than 15 years)	Professionals; Managers; Armed Forces Occupations	Low

-

Key terms

Automation=creation of technology and its application in order to control and monitor the production and delivery of various goods and services, without needing human intervention;

- Automation is being used in a number of areas such as manufacturing, transport, utilities, defense, facilities, operations and lately, information technology.

Reshoring=process of returning the production and manufacturing of goods back to the company's original country

- Benefits of reshoring: Reshoring creates manufacturing jobs, which strengthens the workforce, reduces unemployment and helps balance trade deficits.

Automation risk=technical feasibility of automating part or all of the tasks within a job, using currently available technology

- “Jobs which are at a high risk of automation”, meaning that, in the future, human beings will no longer be needed to perform the specific task of the job.

Unionisation=be part of a trade union

Trade union= an association of workers in a particular trade, industry, or company created for the purpose of securing improvements in pay, benefits, working conditions, or social and political status through collective bargaining

Collective bargaining=ongoing process of negotiation between representatives of workers and employers to establish the conditions of employment

Historical background

The current environment is in a continuous change, affecting the way people live, work and interact, environment changed by the range of new technologies that are fusing the physical, digital and biological worlds. How is this called? The Fourth Industrial Revolution. Until the present moment, the worldwide economy was shaped by three previous industrial revolutions.

It all began from the 1750s to the 1870s, from the First Industrial Revolution, which initially started in England and then continued its expansion throughout the whole world. It was the period of time when agricultural societies became more industrialized and urban, goods that had once been painstakingly crafted by hand started to be produced in mass quantities by machines in factories, thanks to the introduction of new machines and techniques in textiles, iron making, etc, but also the invention of the transcontinental railroad, the cotton gin, electricity and others permanently changed the society and contributed to a strong economic growth. The visible improvements were firstly seen in the working sector, as there has been a sharp rise regarding the employment opportunities, which later led to the growth of the working force, which therefore facilitated the economic growth of the country. As each event, the first industrial revolution had its advantages and disadvantages. One of the advantages was the fact that it enhanced the quality of life of people, but, on the other hand, cities became more and more crowded.

The Second Industrial Revolution is also known as the Technological Revolution; the difference between the first and the second one was the fact that, while the first one centered on textile manufacturing and the innovation of the steam engine, the Second one focused instead on steel production, the automobile and advances in electricity.

Following, the Third Industrial Revolution refers to the digitalization era, starting in 1950, had similar effects on the economy of a country as the Fourth Industrial Revolution has.

Legal Framework

As automation has just become a recent issue in the international labour market, few documents have been discussed. For example, Governments in 2014 adopted the Vienna Programme of Action for LLDCs which discusses the importance of promoting harmonization and the standardization of rules regarding the full and effective implementation of international conventions on transport and transit. This TIR Convention is essential when tackling the issue of trade between countries and, as an example, the United States and Mexico or India and the Russian Federation. Therefore, a regulation of the automated trading systems is more than necessary to transparently keep track of the amount of technology which is exported/imported and also which technology is being exported/imported.

As for United Nations adopted resolutions, Resolution [ARES/71/239](#) which acknowledges the importance of promoting collaboration between landlocked developing countries and transit countries on the basis of common interest.

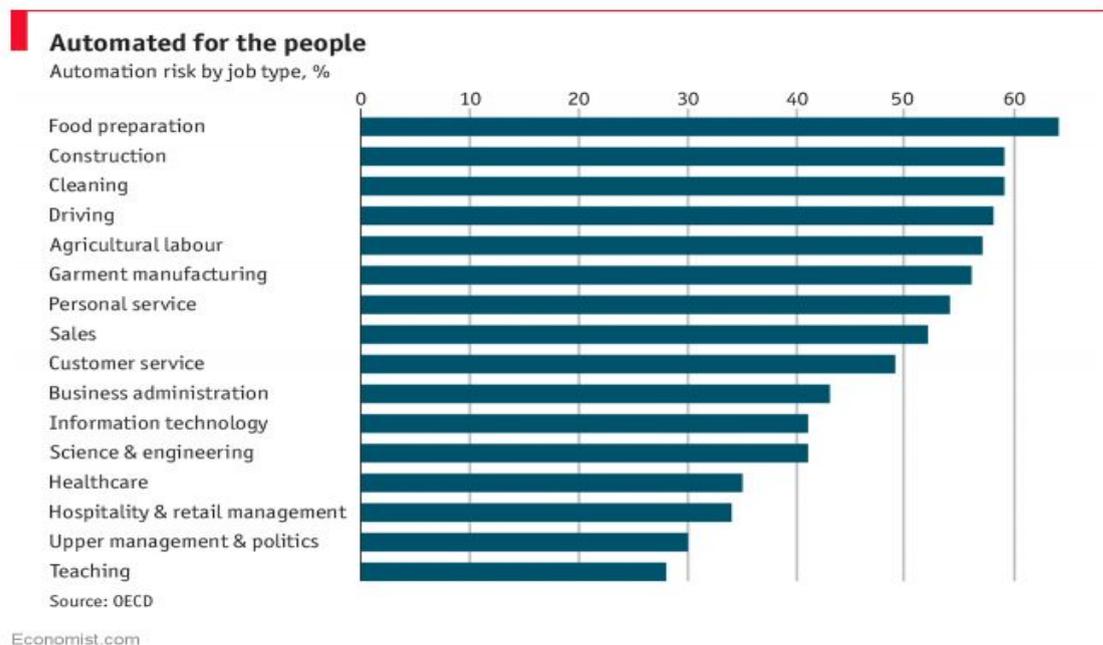
On the 10th of April, the [Declaration of Cooperation on Artificial Intelligence](#) was signed, which acknowledges socio-economic issues such as the transformation of the labour markets, having signed 24 Member States, agreeing to cooperate on boosting Europe's technology and industrial capacity in AI and its uptake, including better access to public sector data.

Current situation

[The Fourth Industrial Revolution](#) is a new chapter in human development, enabled by extraordinary technology advances commensurate with those of the first, second and third industrial revolutions. These advances are merging the physical, digital and biological worlds in ways that create both huge promise and potential peril. The speed and the depth of this revolution are forcing us to rethink how countries develop, how organizations create value and even what it means to be human. Human jobs all around the world

are being replaced by machines and computers at a rate faster than new jobs can be created.

In the case of Artificial Intelligence (AI), due to the fact that it is still a new technology, it is an emotive question to ask what effect it will have on the workforce. It is a highly controversial issue and both positive and negative effects of AI on employment exist. It is widely believed that AI will cause unemployment but, at the same time, it will also create new jobs. The fact of whether AI will provide us with high-skilled training and education or inequality in the job market is also still a heatedly debated issue.



Position of Major Actors

United States of America

Even though, the US is not a developing country, it is still a country which faces the issue of automation, as 25% of jobs have a high risk of being 'automated', which means that 70% or more of the humans' tasks can be operated by machines. However, the US's automation has effects on other countries' labour markets, such as the **United Mexican States**, the US being

the main technology exporter of Mexico. Exposure to US automation reduced exports of consumption goods from Mexico. In contrast, higher exposure to US automation was accompanied by an increase in imports of raw materials and intermediate goods, which is consistent with US automation contributing to increase the economic efficiency of Mexico's 26 firms by allowing them to access cheaper inputs. This automation-induced trade shock also had a small effect on Mexico's workers. In particular, areas where a higher fraction of jobs were susceptible to being automated were more likely to experience a decline in manufacturing employment in response to US automation. However, when examining the impacts on total wage employment in all sectors (manufacturing and non-manufacturing), the impacts of US automation vanish. The analysis suggests that this is driven by the fact that the automation-induced trade shock was rather small in magnitude.

India

The International Labour Organization published a report regarding automation and employability and one significant point made was the fact that 66% of Indian businesses are looking for quite a different set of skills among new recruits than they did three years ago. However, India is facing an unemployment crisis. The discussion on automation and its impact on Indian workforce was muted, until the absence of programmers by IT service companies in India was observed. Once termed as the most wanted job and industry as a tool of national development, the industry is facing job loss to the tune of half a million. The impact is likely to be worse as indirect employment is 10 million for the 3.7 million programming-related jobs in the industry. An addition of three lower educational levels (not literate, primary, and secondary) results in 87% of the total workforce. If the educational level is a close indicator of occupational levels, the extent of automation in India is of greater magnitude.

People's Republic of China

The People's Republic of China has seen a sharp rise in terms of the development of technology within their country. The main drivers of the latest growth in China are the electrical and electronics industry. Sales increased by 75 percent to almost 30,000 units (2016). About one third of the robots were produced by Chinese robot suppliers, who more than doubled sales by almost 120 percent. All international robot suppliers also increased sales considerably to the electrical and electronics industry (+59 percent). This remarkable demand will further grow in the future, action which has and will have serious consequences on the labour market: almost 100 million people are on the edge of losing their jobs, as they are being replaced by robots. However, China is planning to remake its whole manufacturing industry, but with no serious plan in mind regarding the displacement and retraining of the workers. Another aspect is the fact that China's working force and people are aging rapidly, a fact which will no longer allow them to work in any factories; moreover, the will of the young generation of working in factories continues to decrease.

State of Japan

With 300-plus robots per 10,000 employees, Japan has one of the highest take-ups of robots in the world.

Japan's progress in automation, use of robots, and integration of artificial intelligence with daily living is likely to move at a faster pace than in many other advanced economies. Japan's domestic labor force (ages 15–64) is projected to decline even faster than the overall population, dropping by some 24 million between now and 2050. With immigration unlikely to rise enough to compensate for this dramatic decline anytime soon, Japan faces dim prospects for productivity and income growth. Japan claims to embrace automation more and more to compensate for their scarcity of labour and also

to stay competitive in the international market. In a recent survey, it has been found that more than eight-in-ten Japanese workers (83%) fear that such automation will lead to a worsening of inequality between the rich and poor, and more than seven-in-ten workers (74%) think ordinary people will have a hard time finding jobs.

Points to be addressed

- Should the upgradation of technology be encouraged to enhance productivity or should the interests of the workforce be protected?
- Should companies focus more on strengthening the basic infrastructure or on allocating resources for new technologies?
- Should developing countries focus on new technologies or reskill the people replaced ?
- How should the companies deal with the declining quality of services?
- Should regulations be considered when deciding which jobs will still be partly performed by human intervention?
- Is it justified for developing nations to have different legislation on things such as worker safety than developed nations? Can such norms be universalised?
- Does automation have its disadvantages in developing nations? If so, how can the government act in order to prevent the negative effects in developing countries?

- Would automation lead a next global recession if more and more people are losing their jobs due to the development and high use of technology?
- How would trading with developing economies bring economic growth to both countries? Is it important for a fast economic growth?

Further Research

- 1) <https://www.unece.org/info/media/news/transport/2019/digitalized-tir-convention-can-help-landlocked-developing-countries-boost-trade/doc.html>
- 2) [What automation means for the human workforce](#)
- 3) [Automation in Japan](#)
- 4) [Automation in China](#)
- 5) [The relationship between automation and foreign direct investment](#)
- 6) [The effects of automation on employment](#)
- 7) [Advantages and disadvantages of automation](#)

Topic B: Evaluating the Merits of Foreign Direct Investment

Overview of the topic

Foreign direct investment (FDI) refers to investment made by an individual or a firm, usually a multinational corporation (MNCs), into business interests located in another country. It can occur by a merger with a local company, acquiring an already existing one or Green-Field Investment. Every investment that reaches more than 10% is no longer considered portfolio investment, but FDI. Another aspect of FDI that differs from the portfolio investments' characteristics is that a foreign investor has control over the assets invested in.

Foreign direct investment brings huge benefits and economic growth to both parties and, as a result, its rates are continuously growing. If anything, an increase in foreign investment is a consequence of the globalization of markets and the internationalization of industries.

Key Terms

[Green-Field Investment](#) is a form of FDI in which a parent company, usually a multinational corporation, creates a subsidiary in a different country, building its operations from the ground up. In addition to the construction of new production facilities, these projects can also include the building of new distributor hubs, offices and living quarters.

[A portfolio](#) is a grouping of financial assets such as stocks, bonds, commodities, currencies and cash equivalents, as well as their fund counterparts, including mutual, exchange-traded and closed funds. A portfolio can also consist of non-publicly tradable securities, like real estate, art, and private investments. Money market accounts make full use of this concept to function properly. [A portfolio investment](#) is an investment in the form of a portfolio (group of assets), including transactions in equity, securities, such as

common stock and debt securities, such as banknotes, bonds, with the only purpose of financial gain.

[A developed market](#) is a country that is most developed in regards to economic matters and capital markets.

[An emerging market](#) is a developing type of market, but, as a country, has some of the developed market's characteristics. In most of the cases, countries that present an emerging market used to be a developed one or will do so in the future. Some of the largest such markets are India, China, Russia and Brazil.

[A frontier market](#) is a type of developing country which is more developed economically than the least developing countries. The term refers to small or little accessible markets, but that still count between the ones worth investing of the developing countries.

Historical background

The first signs of foreign direct investment could be observed many centuries ago. Versions of what FDI is nowadays can be found in Ancient Rome, when the Roman Empire confiscated property from non-Romans in the course of conquest. They developed the practice using private Roman property in the furtherance of public projects.

These practices were later adopted by the Civil Codes in the ensuing centuries, the common law and the civil law adopting similar practices as well. In the early eighteenth century, or in the so-called Victorian era, Western European countries, of which the United Kingdom the most, invested in foreign developing countries of that time, which included some rapidly industrialized ones, such as the United States of America. Being by far the largest shareholder in the global stock of foreign investments during 1870-1914, the United Kingdom was considered an "informal empire", having had a huge influence among the developing world in that period.

Thus, the American railroads and canals were mostly financed by European powers, while operations in the area that is today known as the Third World -developing countries of Asia, Africa and Latin America- included raw materials and agricultural output extracted, processed and then exported to the European Market.

Legal framework

Foreign direct investment is mostly beneficial to both the home and host country, meaning that it does not affect the worldwide economy in such a big percentage as trading does for example, but a legal framework is necessary to represent law and order.

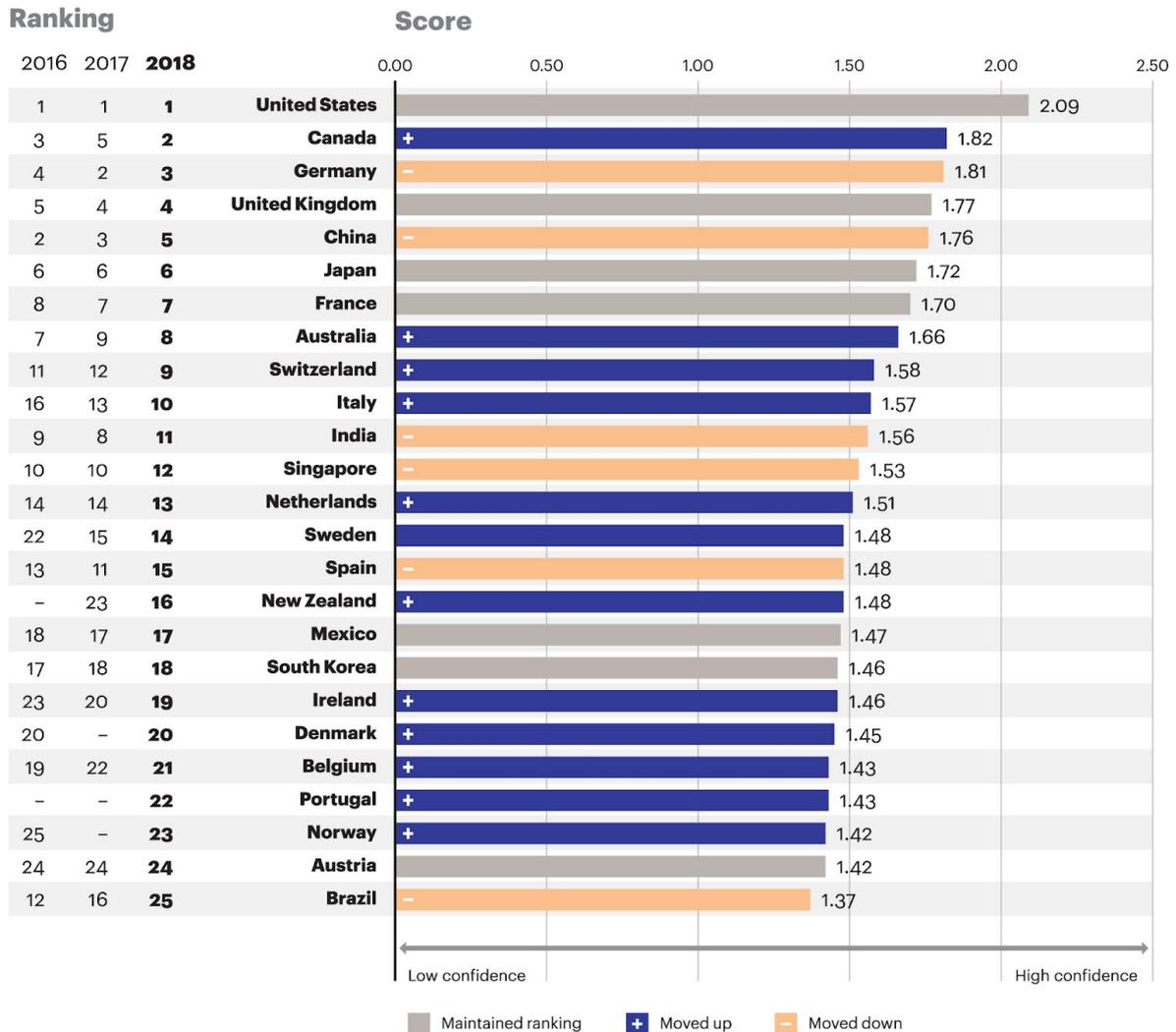
On the one hand, the existence of such legal regulations reassures foreign investors and enables them to fit their corporate objectives within the environment of the host country. Furthermore, it is of utmost importance that there has been established a legal framework in order to keep track of the FDI inflows. One such example is the proposal adopted by the European Commission on 13th September 2017 that established a framework for screening FDI inflows into the EU on grounds of security and public order. The proposal aimed to strike a balance between maintaining the EU's general openness to FDI inflows, from which its economy has to benefit, and ensuring that the EU's essential interests are not undermined.

On the other hand, it can only be once again affirmed that the UN does not have the capacity to intervene within the specific countries' legislation and therefore it has not been yet published an international legal framework regarding some more specific aspects of FDI. What is important to keep in mind is the fact that each and every country has established its own legislative regulations regarding the amount of FDI that is allowed within its borders and in which economic sectors it shall be accepted.

Current situation

Figure 1

2018 A.T. Kearney FDI Confidence Index®



Note: Values are calculated on a 0 to 3 scale, with 3 being the highest level of confidence in a market as a future destination for FDI.

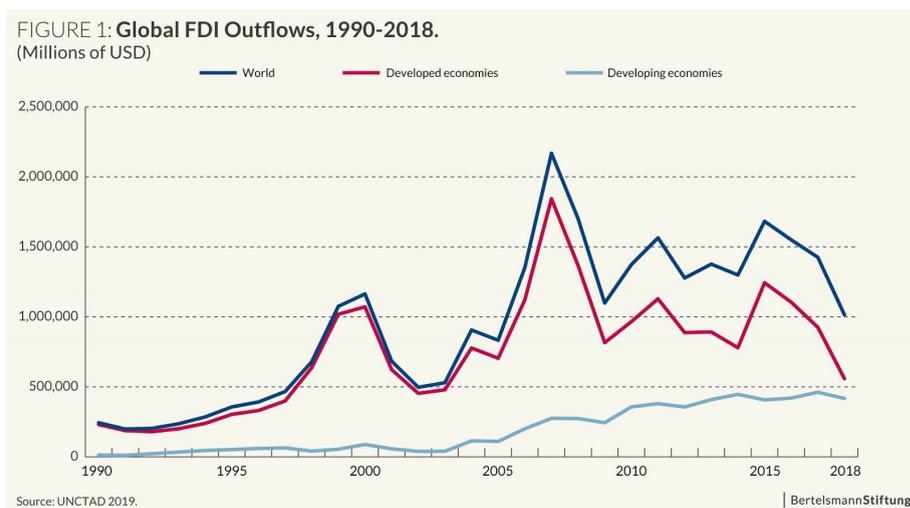
Sources: A.T. Kearney Foreign Direct Investment Confidence Index (2016, 2017, 2018)

According to the World Bank, there are trillions of dollars invested through FDI every year and these numbers continue to grow due to the benefits the multinational corporations or the other investors have, such as the natural resources in the area, huge markets (of the respective product, service or caused by the huge population), low cost of labour, fewer regulations and tariff jumping.

The 2019's FDI Confidence Index shows that developed markets now occupy its first five positions, while the rest of the top ten countries remain the Asia Pacific ones- including Japan, China, Australia and Singapore. The evolution of developed markets in this top is related to the factors that an investor takes into consideration when choosing the receiving country. Among the above mentioned reasons, the most important ones are related to governance and regulations of the respective countries, but also technological and innovation capabilities, all of which favour the well developed countries.

Economic performance and productivity growth is one of the most important factors taken into consideration by investors. It is, therefore, obvious, that large cities are a popular investment destination,

Position of major actors



The United States of America

For the seventh year in a row, the United States of America remains the country which received the most foreign direct investment for many reasons. First of all, it presents a huge market in all fields and it can as well offer an amazing economic performance for the investors, as all developed countries do. Moreover, it presents policy volatility, as it is in the country's interests to

attract multinational corporations' investments, being the only way to meet the needs of a fast growing economy.

The US' policy towards FDI can be described as an open investment policy, welcoming all FDI forms that are flowing according to market forces. The main reason behind the implementation of this strategy to attract FDI in the US is the fact that FDI has been an important element for the economic success and growth of the country since the nineteenth century, when the American industry bloomed and its economy expanded. Furthermore, FDI never involved the loss of the economic or political independence of the USA.

On the other hand, ever since the Second World War, American businesses have been making billion dollar investments abroad, which also had enormous beneficial effects on the country's economy.

United Kingdom of Great Britain and Northern Ireland

The UK is the country that invests most abroad, according to the ratings made by the World Bank, which results in a well developed economy of its own due to the benefits a home country has from FDI. The UK is, on the other hand, one of the top recipients of FDI according to the global Index. In terms of received Foreign Direct Investment, there is no specific law governing or restricting it in the UK, foreign-controlled companies being treated in law exactly as UK-owned businesses, which is another reason for which the country is chosen by foreign investors. However, there are a number of ways by which the government can intervene in transactions of all kinds, but in most of the cases its interventions include foreign direct investors, specifically in cases in which issues of national security for example are raised.

It is expected that the brexit will have a negative impact on the situation of FDI in the UK. While it has a strong rule of law, flexible labour markets and highly educated workforce and remains an attractive FDI location whether or not it is in the European Union, the EU membership may influence the

situation. This membership reduces trade and investment costs and, as a result, its absence might discourage investors from choosing the UK.

People's Republic of China

According to the Index, China has been rated as the first in the top of FDI recipient, but has been surpassed by the USA in the last few years. Its top position in the clasament dates back to 1979, when China initiated the reform and openness in its policy regarding FDI. After China entered the WTO in 2001, foreign business giants started to set up wholly foreign-owned enterprises, equity joint ventures and contractual joint ventures in the country. Since then, the country has been receiving trillions of dollars in the form of FDI and these rates continue to grow. This growth is favoured by liberalization plans, the rapid development of high-tech sector and the establishment of free trade zones. Moreover, China has the largest internal market in the world, a well-developed production sector with low labour costs compared to other equally developed economies and a favourable geographic location, being close to the emerging Asian markets. Thus, it remains an attractive FDI location, from which the country's economy has to benefit.

On the other hand, China's economy also grows due to the investments made abroad. In the last few years, however, China's rates of foreign direct investment in the US have dropped enormously due to the trade war between the two parties, which, therefore, brings a drop in its economy. This war trade between the two economically influential countries has also reduced the FDI rates globally.

Republic of India

India has always been an attractive FDI recipient and ever since 1991, when its policies became more open to receiving FDI, these rates continue to grow. FDI is a critical driver of economic growth in India, being also a major source of non-debt financial resource for the economic development of the

country. The reason why foreign companies, usually multinational corporations, invest in India is to take advantage of the lower wages and also some investment privileges such as, but not limited to tax exemptions. Apart from the economic growth, India has to benefit from receiving FDI because it achieves a specific know-how and because FDI also generated high rates of employment in the host country. The Indian government, therefore, has taken all the necessary measurements in order to favour capital flowing into the country through a certain regime and robust business environment. The Government's only initiatives as norms regarding reducing FDI in some sectors were taken in the recent years and tackle the fields of Atomic Energy Generation, Gambling or Betting businesses/Lotteries and tobacco industries, among others.

Points to be addressed

- Are there any disadvantages of foreign direct investment? If so, what are those and how can we minimize them while still having the same benefits of FDI for both the home and the host country?
- Should an international framework that would monitorize FDI inflows be established? If so, which aspects should it tackle?
- To what extent should a country open its policy towards receiving FDI in order for all the economic sectors to equally benefit from it?
- How does FDI from a specific country impact the economy of other countries?

- How does FDI that comes into a country affect its domestic investments?
- Could political situations in certain countries affect the foreign direct investors' situations? If so, in which ways?
- What are the risks of FDI for an investor and how can the international community act towards minimizing them without intervening in the specific country's policy?

Further research

- 1) <https://vittana.org/12-foreign-direct-investment-advantages-and-disadvantages>
- 2) <https://unctad.org/en/pages/PressRelease.aspx?OriginalVersionID=514>
- 3) <https://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics.aspx>
- 4) https://unctad.org/en/Pages/DIAE/World%20Investment%20Report/World_Investment_Report.aspx
- 5) FDI Confidence Index 2019: <https://www.atkearney.com/documents/3677458/3679958/Facing+a+growing+paradox.pdf/c1c5e325-6107-a1c0-5f62-ad33e9bb3d2c?t=15680615>
- 6) Effects of the trade war between China and USA on FDI: <https://www.cnbc.com/2018/07/05/ripple-effect-from-pending-us-china-trade-war-drop-in-fdi-worldwide.html>