Houston Area Model United Nations
Standard Committee

ECOFIN

Chair | Jay Natarajan

Topic A: Cryptocurrency Regulation

Houston Area Model United Nations 50

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Note to Delegates

Dear Delegates,

Hello! My name is Jay Natarajan and I'm a sophomore at Rice University studying Cognitive Science. I'm very excited to be your chair for the Economic and Financial Committee (ECOFIN) this HAMUN! I became involved with Model U.N. as a sophomore in high school. As for my experience with HAMUN, I attended the conference for 3 years as a delegate, and had the chance to staff HAMUN last year as well. MUN is a great opportunity to gain a deeper understanding about the world around us and engage in critical discussions over a variety of key topics. I'm glad I get to share that experience with you all!

This year, ECOFIN will target important questions posed by increased involvement with technology in a constantly growing economy: cryptocurrency regulation and balancing artificial intelligence innovation with human employment. Understanding how to approach new forms of currency in the market and addressing potential job insecurity due to artificial intelligence are paramount to run a functional global economy in today's era.

To all the delegates - whether it is your first conference or your fiftieth - look to freely share, engage, and collaborate. My suggestion to you is to voice your opinions, but also remain open to hearing those of others. Wishing you the best of luck in committee, and I hope that your HAMUN experience is both insightful and memorable.

Cheers,

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Background Information

Introduction to ECOFIN

The Economic and Financial Committee (ECOFIN), also known as the Second Committee of the United Nations General Assembly, was formed in 1945 to deal with questions arising from economic growth and development. Established as one of the six main committees of the General Assembly, ECOFIN addresses a broad range of topics, including sustainable development, international trade, economic growth, poverty eradication, and financing for development. The committee plays a vital role in formulating policies and recommendations to promote global economic stability and equitable development. ECOFIN's goal is to foster international economic cooperation and address economic disparities between nations, ensuring that all countries can benefit from economic progress and sustainable development.

Executive Summary

As cryptocurrency becomes more standardized in the economies of the world, it poses unique risks that must be resolved in order to continue its sustainable growth.

Since the launch of Bitcoin in 2009, thousands more cryptocurrencies have entered the market, creating a landscape of digital currencies that has experienced rapid expansion. Although cryptocurrencies are praised for being decentralized, having the ability to yield large returns, and offering the possibility of financial inclusion, there are considerable concerns associated with their extraordinary volatility and connection to illicit activities.

The topic of how to govern these assets effectively remains crucial as they grow more and more integrated with international markets.

Different nations have taken different approaches to regulating cryptocurrencies, which reflects differences in financial systems, security concerns, and economic interests. Certain regulatory frameworks aimed at the cryptocurrency market prioritize safeguarding consumers, reducing financial crimes, and maintaining market stability. However, proponents of cryptocurrencies frequently oppose these initiatives, citing concerns that an excessive level of regulation could impact innovation and contradict the founding goal of being decentralized.

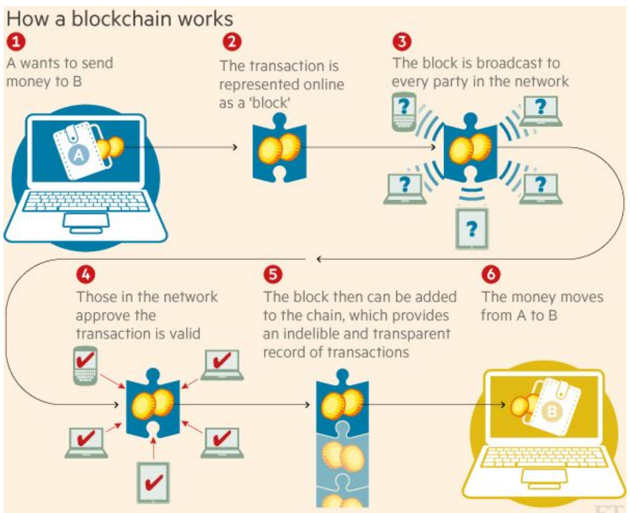
ECOFIN needs to figure out a path to take over the complex cryptocurrency landscape. Specifically, a balance must be struck between the decentralized appeal of the currency, market stability, and economic innovation.

Topic Concept

Cryptocurrencies have become a significant force in global markets, reshaping traditional financial systems and introducing new economic opportunities and risks. What began with Bitcoin's introduction in 2009 as a decentralized, peer-to-peer alternative to government-backed currencies has evolved into a serious market [1]. Today, thousands of cryptocurrencies are traded, with a collective market capitalization surpassing $2.5 trillion [2]. This explosive growth has been accompanied by intense debate over the need for regulation, with stakeholders from governments, financial institutions, and technology sectors vying to shape the future of this emerging asset class. This is especially relevant given the fact that the number of crypto users is projected to reach 107.30 million by 2025 [2].

Cryptocurrencies have flourished due to several key features, such as decentralization, anonymity, and accessibility. This unique set of features has appealed to a wide array of individuals for a number of reasons, with a key appeal to those wishing to circumvent any government intervention.

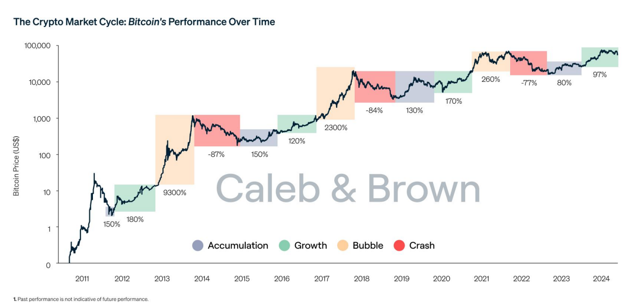
Unlike traditional currencies controlled by central banks worldwide, cryptocurrencies operate on blockchain technology, a decentralized ledger that records across a network of computers, forming a database with public transactions [3]. This system eliminates intermediaries like banks, potentially reducing transaction costs and enabling greater financial inclusion. However, it also creates challenges for regulatory oversight, given the lack of centralized authority.



How Blockchain Technology Works [4]

In this wake of developments, governments have been faced with the key question: how do they deal with cryptocurrency to ensure their markets remain stable, their citizens are out of harm, and without defeating the purpose of the currency in the first place?

Some of the main regulatory concerns can be boiled down to market volatility and impact on monetary policy. Regarding market volatility, it is no secret that cryptocurrencies have been viewed by the market as extremely volatile. Crypto is a relatively new market, and as a result, is a lot more subject to changes than existing markets. Numerous factors contribute to this volatility, including supply and demand being greatly impacted as big investors buy/sell their currency, and investor sentiment changing rapidly as a result of news coverage of cryptocurrency [5].



Bitcoin's Performance Depicted in the Long Run [5]

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Moreover, impact on monetary policy plays an important consideration for governments worldwide. Transactions can be difficult to track, and the decentralized nature of digital currencies makes it hard for governments to impose taxes or enforce compliance. Additionally, central banks rely on controlling the money supply to regulate inflation and stimulate growth. The rise of decentralized currencies that operate outside of traditional banking systems could undermine these efforts, leaving the government powerless in controlling levels of inflation that will eventually change.

On the other side of things, there are also a number of benefits provided by cryptocurrencies to governments, including financial inclusion and the promotion of transparency and security. Cryptocurrencies offer a way to expand financial services to the unbanked and underbanked populations around the world.

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According to the World Bank, there are about 2 billion adults without access to formal banking systems [6]. Cryptocurrencies offer many of the features of a formal bank, including storing value and transferring money without the need for a traditional bank account. This could be especially beneficial in LDCs, where banking infrastructure may be limited.

Adding on to that, the underlying technology behind cryptocurrencies, blockchain, offers a transparent and secure method of recording transactions. Due to the public nature of the blockchain, there is a significant level of transparency provided. This level of transparency can help reduce fraud and corruption in financial systems, as all participants can verify transactions independently. This also ensures individuals can educate themselves on the cryptocurrency market adequately, as they have access to all of the transactions.

Of course, there is no easy answer as to how to deal with the regulation of cryptocurrency. The rise of cryptocurrencies presents both opportunities and challenges for global markets.

As these assets gain popularity, governments must grapple with how to regulate them in a way that balances innovation with market stability, consumer protection, and financial security. It is important to consider both the advantages and disadvantages of regulation, as it is an extremely nuanced and polarizing topic. By crafting policies that address both the risks and rewards of cryptocurrencies, ECOFIN has the potential to shape the future of global finance, maintaining the stability of the current market while also pushing innovation to new heights.

Topic History

ECOFIN has been directly responsible for dealing with the rise of cryptocurrency on the global scale and the issues that arise with it. While there has not been a large amount of past U.N. action on the issue, countries are definitely aware of the scale of cryptocurrency in the present and the future potential of it as well.

In ECOFIN, one of the aspects of cryptocurrency that was targeted was the idea of taxation. Through the DAC8 directive, the committee targeted the reporting of crypto assets [7]. The directive was set forth to support the existing taxation frameworks and build upon them through reporting obligations, ensuring cooperation of tax administrations. This allowed a step forth to be taken in the realm of tax fraud, ensuring that the ultra-wealthy do not simply flock to cryptocurrencies in order to avoid taxes. This ultimately set a global precedent, pushing other countries to follow suit to ensure that cryptocurrency is adequately regulated.

Beyond ECOFIN, UNCTAD has taken a broader approach to discourage cryptocurrencies in developing countries [8]. This body cites the instability of cryptocurrency, with potential to lead to huge social risks and costs, especially in LDCs. UNCTAD has encouraged governments to maintain the distribution of cash, as it prevents any sort of digital divide from happening between MDCs and LDCs. In the same brief, UNCTAD also explains fears of tax evasion through cryptocurrency, explaining how there are illicit financial flows where owners cannot be easily identified.

Case Study: China

China has taken a hardline stance on cryptocurrencies, instituting a blanket ban on all crypto transactions in 2021 and declaring that all activities related to virtual currencies are illegal [9]. The People's Bank of China cited concerns over financial stability, capital flight, and the potential use of cryptocurrencies in illegal activities as key reasons for the ban. At the same time, China has been developing its own Central Bank Digital Currency (CBDC), the digital yuan, as an alternative to decentralized cryptocurrencies, signaling the government's interest in harnessing digital financial technology under state control.

China is Working on the Digital Yuan Currency [10]

Case Study: El Salvador

In a historic move, El Salvador became the first country to adopt Bitcoin as legal tender in September 2021 [11]. The government argued that this would promote financial inclusion, attract foreign investment, and reduce reliance on the U.S. dollar. However, the decision has been met with skepticism from international financial institutions like the IMF, which warned of economic instability and the risks posed by the volatility of Bitcoin [12]. Despite these concerns, the experiment is ongoing, and its outcome will likely shape the future of cryptocurrency adoption by other developing nations.

El Salvadorian Shop Accepting Bitcoin [13]

Questions to Consider

- What stance does your nation take regarding cryptocurrency? Can this stance be applied globally?
- How can ECOFIN embrace new technologies without causing the international market to be overwhelmed?
- What are some barriers (political, economic, social) to implementation of cryptocurrency regulation in individual countries and worldwide?
- Is there an ideal middle ground regarding regulation? How can ECOFIN mediate between countries to find this agreement?
- How can regulation be enforced? Who would be responsible for it and how would they do so?

References

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