Massachusetts Institute of Technology
Model United Nations Conference XI
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Boston, Massachusetts
Dear Delegates,

Welcome to the 2018 MIT Model United Nations Conference (MITMUNC)! We are pleased to introduce you to our committee, the International Monetary Fund (IMF). We, Isabella Adu and Zachary Alfaro, will be your chairs for the course of this conference.

Isabela is a freshman at MIT from Ghana who plans on majoring in Mechanical Engineering and Mathematics. She is particularly interested in philanthropy, and has thus joined Engineers without Borders and volunteered at with the MIT Undergraduate Giving Campaign. She is also fascinated by Economics, which influenced her decision to chair the IMF. She has been involved in both MUN and Model African Union for almost 4 years and has participated in conferences both in Ghana and internationally.

Zachary Alfaro is a sophomore at MIT from Texas who is currently majoring in Mechanical Engineering. His freshman year, he was part of the men’s varsity crew team, representing MIT at many regattas. On campus, he is very involved with his living community, Maseeh 2. In his free time, he enjoys soccer, fantasy basketball, and spending time with others. College is a time for exploration. This is his first time chairing, as he did not in high school, but he’s very excited to get involved with MITMUNC.

The topics that we plan to discuss in this committee include:

I. Bailout of Pakistan
II. Economic Crisis in Venezuela

This is meant to be an introduction to the topics and should not replace individual research. We hope that you take the time to research your topics and your delegation’s affiliation with the given issues. In preparation for the conference, each delegate will submit a single page position paper on each topic to mitmunc-imf@mit.edu.

We encourage you to take the time to read up on parliamentary procedures - however in the interest of time and fruitful debate, we will go over a few changes to our committee at the start of the conference.

If you have any questions, feel free to reach out to us at mitmunc-imf@mit.edu. We wish you all the best in your preparations and look forward to seeing you at the conference!

Sincerely,

Isabel Adu and Zachary Alfaro
Chairs, IMF
**Topic 1: Bailout of Pakistan**

The Pakistani Bailout concerns whether the International Monetary Fund should approve Pakistan’s 13th bailout since the 1980s in the mist of Pakistan’s rather grave economic crisis, characterized by a high current account deficit, depreciation of the rupee and inflation.

**Background**

Pakistan’s current economic crisis is due to a myriad of reasons.

Firstly, Pakistan and China formalized plans for the China-Pakistan Economic Corridor (CPEC) in April 2015, when they signed fifty-one agreements and memoranda of understanding on Chinese investments, totaling $46 billion to be fulfilled over ten to fifteen years. CPEC developments are part of a grander Chinese agenda of regional economic connectivity: the One Belt, One Road (OBOR) initiative outlined in March 2015 by China’s National Development and Reform Committee (NDRC). The CPEC is intended to promote connectivity across Pakistan with a network of highways, railways, and pipelines accompanied by energy, industrial, and other infrastructure development projects to address critical energy shortages needed to boost Pakistan’s economic growth.

Since the start of 2016, imports of construction materials related to CPEC infrastructure led to the current-account deficit to soar, while its weakening currency along with economic growth pushed inflation higher. In June, core inflation stood at 7.1%, a four-year high. The current account deficit was also exacerbated by the fact that Pakistan imports 80% of its petroleum products.

Secondly, former prime minister, Nawaz Sharif was in July 2017 removed by the supreme court from office, barred from ever again contesting in politics, and ordered a National...
Accountability Bureau (NAB) trial after money laundering allegations in a Panama Papers leak was published by the Guardian and others in 2016 (Former Pakistani PM). Many analysts and market followers say that the political instability that ensued in Pakistan following the disqualification of Nawaz Sharif from the race for prime minister led to the fall in stock, as Pakistan stock exchange plummeted from being Asia’s best performing market to the world’s worst.

Current situation

The prime minister Imran Khan inherited the aforementioned economic problems from the previous administration, and in October, 2018 announced that the country will begin talks to procure an IMF loan as a measure of last resort to solve the economy crisis. This was after Pakistani officials met with International Monetary Fund (IMF) representatives in Bali to formally request Pakistan’s 13th bailout since the late 1980s. This fact begs the question of the effectiveness of the bailouts in Pakistan, and whether a bailout is really the optimum solution to Pakistan’s problems. What should the conditions of the bailout be as to ensure true economic sovereignty and stability in Pakistan?

Pakistan’s economic crisis is currently characterized by a balance-of-payments crisis - with a nearly $18 billion deficit, according to the latest fiscal year figures by the State Bank of Pakistan.

Additionally, the country’s central bank foreign currency reserves have dwindled from $13.9 billion in September 2017 to $8.4 billion at the end of September, 2018. The September 2018 foreign currency reserve is insufficient to cover import payments until the end of the year.
2018, though it is recommended that a country have a foreign currency reserve that can cover up to 6 months of imports (Pakistan formally seeks ‘financial assistance’ from IMF).

Oil prices, which have pushed higher since the start of 2018, are also weighing on Pakistan’s trade and current account deficits.

The Pakistan Bureau of Statistics (PBS), which is Pakistani government's official agency to record and release economic numbers, said that Pakistan's annual inflation rate expanded to 5.83 per cent in the month of July, 2018 as against 5.21 percent a month ago and 2.9 per cent in July 2017. This is the highest inflation rate in Pakistan since September 2014, and is above the 4% rate of inflation recommended for developing countries (Pakistan’s inflation rate hits 4-year high).

The PBS said that escalating prices of petroleum products partnered with four rounds of the devaluation of Pakistani rupee were the main reasons behind the multi-year highest inflation rate in the country.

The United States is also creating obstacles against Pakistan getting any relief from the IMF this time. Pakistan may thus face tough terms and conditions from the IMF, as the US is one of the biggest beneficiaries of the IMF. Although the proportion of foreign liabilities due to the China-Pakistan Economic Corridor (CPEC) is no more than 10% of the country’s overall foreign debt, the US is critical of China’s Belt and Road Initiative (BRI), and thus may not favor Pakistan receiving another IMF bailout as it is believed that this potential Pakistani bailout will be used to service Chinese loans (Pakistan’s options for economic crisis).

India also opposes a potential bailout by the IMF because they deem with will lead to terrorist funding by the Pakistani government. India also feels as though Chinese economic integration
with its surrounding countries, including Pakistan, is meant to encircle India and alienate them.

Pakistan receives support from Saudi Arabia and China, but the finance minister purports that an IMF bailout will instill discipline upon the running of the economy (Pakistan’s economic crisis).

**Proposed solutions**

1) IMF approves a Pakistani bailout with conditions to be determined by committee

2) IMF does not approve a Pakistani bailout, and Pakistan would have to fend on its own

Pakistan may choose to let the currency float as the four devaluations of the currency have been cited to have augmented the crisis. Economists have however noted that given the large current-account deficit, the rupee would almost certainly fall sharply. A big depreciation would make imports more expensive, rippling negatively on inflation.

The second option available to Pakistan would be tightening monetary policy aggressively, adding to the 175-basis point tightening that already happened in 2018, to attract capital inflows. On the downside, this would further weigh on growth.

3) IMF assists Pakistan in an alternative way that is not a bailout, this alternative I leave to be determined by committee.

**Works cited**


8) IANS. “Pakistan's Inflation Rate Hits 4-Year High.” Khaleej Times, 2 August 2018.

Topic 2: The Economic Crisis in Venezuela

Background:

Venezuela, officially the Bolivarian Republic of Venezuela, is a country along the northern coast of South America. The country has a population, as of 2018 estimates, of 32.38 million people. The capital and largest urban area is Caracas. The official language of Venezuela is Spanish, as a result of colonization by Spain in 1522. Venezuela became securely independent from Spain in 1821 but still remained a department of the federal republic of Gran Colombia. Full independence as a country was gained in 1830. Afterwards, Venezuela had many political problems with most power belonging to regional leaders known as caudillos. Starting in 1958, democratic governments in Venezuela have existed with several major crises happening during those democratic governments. There was the Caracazo riots of 1989, two attempted coups in 1992, and the impeachment of Carlos Andres Perez in 1993. Venezuelan government had a major change in 1999 following the election of Hugo Chavez with the writing of a new Venezuelan Constitution.¹ Venezuela is a federal republic, like the US, but in recent years has become more of a dictatorship as current President Nicolas Maduro has been taking over the legislative and judicial branches of Venezuelan government. Oil has been Venezuela’s largest export since its discovery in the early 20th century. The 1980s oil crisis sent the Venezuelan economy into a crisis. In the 2000s, when oil prices began to recover, Venezuela felt a boost to their economy with the aid of socialist policies that eventually were insufficient and led to a destabilization of the economy with hyperinflation as a result.

Factors to Consider:

1. *The Government Continuing to Print Money*

Hyperinflation can start when a government decides to print more money to pay for its spending. This leads to the value of their currency to devalue, which in turn leads to prices rising. As prices rise, consumers realize what happens and demand more, which aggravates inflation and can be worse if consumers stockpile goods. When consumers stockpile goods, supplies become sparse and causes the economy to collapse.

2. *Over 90% of the Government’s Revenue Comes from Oil Exports*

Venezuela, a member of the Organization of the Petroleum Exporting Countries (OPEC), has the largest proven oil reserves in the world. Because of this, the country has not focused too much on other possible exports.

Potential Country Blocs and Positions:

United States of America (USA)

- The USA has had troubling political relations with Venezuela but that has historically had little effect on trade relations. The totality of Venezuela’s exports in 2016 was $26.6 billion US dollars with the USA being the top export destination at $10.3 billion US dollars. The USA also accounts for 34% of Venezuela’s imports. The USA has also taken hundreds of thousands of Venezuelan immigrants. However, recently, the Trump administration has been imposing sanctions on Venezuela.
China, India

- These countries are big receivers of Venezuela’s exports, collectively being 35% of Venezuela’s total exports and with China being a major source for Venezuela’s imports.
- China and Venezuela have very good political relations.
- India and Venezuela have no noticeable political strains.

South American Countries

- With all the problems in Venezuela that have partly resulted from hyperinflation, about 2.3 million people have left Venezuela, many to the surrounding South American countries with about 600,000 going to Colombia.

Middle Eastern Countries

- Six Middle Eastern countries (Iran, Iraq, Kuwait, Qatar, Saudi Arabia, and the UAE) are part of OPEC along with Venezuela with two-thirds of OPEC’s oil production and reserves coming from these Middle Eastern countries. That means Venezuela shares some common interests with these countries.

African Countries

- Seven African nations (Algeria, Angola, Equatorial Guinea, Gabon, Libya, Nigeria, and the Republic of the Congo) are in OPEC with Venezuela. However, these are only a few of the 54 internationally recognized territories and states. The rest of the African countries do not have many connections with Venezuela as Africa is the second least exported to continent for Venezuela with Oceania being after that.
EU Countries and Europe

- Europe in 2016 was 16% of Venezuela’s exports. Russia is also a big military ally of Venezuela. Most European countries have a good enough political relation with Venezuela.

Current Situation

In the last two decades, a variety of political and economic factors have caused an incredible decline in Venezuela’s economy and therefore resulted in a catastrophic everyday situation. As mentioned previously, it is highly dependent on income from oil production. This makes the country extremely susceptible to fluctuations in global markets that affect oil prices. As you can see later in the timeline, political instability combined with a drop in revenue from oil proved a devastating blow to Venezuela. Faced with a penniless and upset populace, the government started printing more and more money, leading to hyperinflation, and from there the crisis has worsened up until the present day, where we are seeing a country incapable to stopping it’s fatal economic crisis.

While Chavez was originally thought to be the savior of Venezuela, it is clear that policies implemented by his administration put his country on the path to this disastrous conclusion. While he vowed to eradicate corruption, it prevailed, and this also contributed highly to the chaos and many high-profile scandals and coups that occurred. Student and civilian demonstrations ensued, and the political problems amplified, further adding to the existing instability. The homicide rate skyrocketed, violent crime increased, and the country became a unsafe and uncomfortable place to live. Even worse, the country had to start importing oil, even though it is home to more oil reserves than even Saudi Arabia – there’s just no system working on drilling for it and no way to create that infrastructure. Here is a timeline of events. I propose that you use this as a starting point and research these further, so that you can form your own picture of the downfall of this economy.
### Timeline (adapted from bbc.com)

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>January</td>
<td>President Chavez signs decree on land reform to eliminate Venezuela's large estates and benefit rural poor. Ranchers say move is attack on private property.</td>
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<td>2005</td>
<td>March</td>
<td>New media regulations provide stiff fines and prison terms for slandering public figures.</td>
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<td>2005</td>
<td>December</td>
<td>Parties loyal to President Chavez dominate parliament after opposition parties boycott election.</td>
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<tr>
<td>2006</td>
<td>July</td>
<td>President Chavez signs a $3bn (£1.6bn) arms deal with Russia, including an agreement to buy fighter jets and helicopters, marking a re-orientation away from US arms supplies.</td>
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<td>2006</td>
<td>December</td>
<td>Hugo Chavez wins a third term in presidential elections with 63% of the vote, the largest margin since the 1947 election.</td>
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<tr>
<td>2007</td>
<td>January</td>
<td>President Chavez announces key energy and telecommunications companies will be nationalised under 18-month enabling act approved by parliament</td>
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<tr>
<td>2007</td>
<td>Jun</td>
<td>Two leading US oil companies, Exxon Mobil and ConocoPhilips, refuse to hand over majority control of their operations in the Orinoco Belt to the Venezuelan government, which then expropriates them.</td>
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<td>2008</td>
<td>September</td>
<td>Venezuela and Russia sign oil and gas cooperation accord. Russian warplanes visit Venezuela, with Russian warships heading there for November joint exercises - first return of Russian navy to Americas since Cold War.</td>
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<td>2012</td>
<td>April</td>
<td>Government extends price controls on more basic goods in the battle against inflation. President Chavez threatens to expropriate companies that do not comply with the price controls.</td>
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<td>2012</td>
<td>July</td>
<td>Opposition TV channel Globovision pays a $2.1m fine to avoid having its assets seized. The media regulator imposed the fine in October over Globovision coverage of prison riot.</td>
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<td>2013</td>
<td>September</td>
<td>A massive power cut leaves 70% of Venezuela, including parts of Caracas, without electricity. President Maduro blames &quot;right-wing saboteurs&quot;.</td>
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<tr>
<td>2013</td>
<td>November</td>
<td>With inflation running at more than 50% a year, the National Assembly gives President Maduro emergency powers for a year, prompting protests by opposition supporters. Mr Maduro uses the powers to limit profit margins.</td>
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<tr>
<td>2014</td>
<td>November</td>
<td>Government announces cuts in public spending as oil prices reach a four-year low.</td>
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<tr>
<td>2016</td>
<td>September</td>
<td>Hundreds of thousands of people take part in a protest in Caracas calling for the removal of President Maduro, accusing him of responsibility for the economic crisis.</td>
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<tr>
<td>2018</td>
<td>August</td>
<td>Venezuela slashes five zeros from its old currency, renaming it the Sovereign Bolivar and tying it to a state-backed cryptocurrency in a bid to tackle rampant hyperinflation.</td>
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Proposed Solutions

While there are many valid solutions, here I will present just two, in order to let your creativity shine. Looking forward to seeing more in your position papers!

1. IMF advises Venezuela on how to proceed, but provides no money.

2. IMF advises Venezuela on how to proceed, but provides money. The money could be given no-strings attached, or it could be given for a particular purpose, in order to boost certain parts of the economy.

Questions to Consider

1. Should the government continue to print money at this rate? Should they consider removing money from the supply or other measures to combat inflation?

2. What is the IMF’s role in the situation? How far or not far should they extend help to Venezuela?

3. How would your country respond? Would they want to help Venezuela, or would they want to let it resolve the situation on its own?

Works Cited
