XXXIII TECMUN

International Monetary Fund

"Pero en vez de llorar actuamos: con piedras de las ruinas hay que forjar otra ciudad, otro país, otra vida"

—José Emilio Pacheco para el número 489 de la revista Proceso. 1986.

He caminado poco a poco por las calles heridas
no solamente hoy:
todos los días.
Veo las llagas palpitar,
cuando se desangran,
yo también lo siento.
Veo las caras de dolor,
cuando lloran,
yo también lo siento.
Pero ya no tengo miedo
—o eso intento transmitir—
ya no tengo miedo
de existir.
Y cuando te veo,
cuando los veo,
me veo.
Porque yo no soy solo yo:
yo también
soy ustedes.
También soy
el herido,
el desaparecido,
la asesinada,
el que no come,
la golpeada,
el humillado:
el mexicano.
No es una visión pesimista,
después de algunos años
aprendí que también
soy otros.

Soy:
el que se queja,
la que protesta,
el que se informa,
la que marcha por otros,
el que marcha por sí mismo,
la que lucha por sus derechos,
el que quiere cambiar su entorno:
el mexicano. La mexicana.
Yo ya no tengo miedo
de estar aquí.
Yo ya no tengo miedo
de mi país.
Y como yo no solo soy yo
junto conmigo,
otros
ya no tienen miedo,
ya quieren luchar,
ya no se van a dejar,
y juntos
vamos a construir
o t r a c i u d a d,
o t r o p a í s,
o t r a v i d a.

Daniela Rivera Guerrero
Subsecretaria de las Agencias Especializadas y Organismos Regionales
XXXIII TECMUN

Dearest delegate,

The world in which we live in has changed. Day by day, more leaders arouse and aspire to change things around them. It is only logical to find ourselves thinking about ways to transcend in a world full of people who want to do the same. What is going to make you different? As young people, this is a very complex question to give a straight answer to. We are still trying to define ourselves, creating our own path, but we do wish to create an impact. Look around you. Be conscious of your context, let it fill you up. Once you have done that, try to be sensitive and therefore empathetic with other contexts or environments different to yours. Now that you have observed, I urge you to reflect. Unfortunately, life and the situations we are surrounded by are not determined by an established parameter of justness or fairness. We were born in a particular family, with a particular social and economic level, with different disadvantages, but most importantly, with a handful of opportunities. Ultimately, if you are sitting here today, in this debate room, you belong to the lucky ones. You belong to the few who have been gifted with a voice. I refuse to accept there are people who were given the chance to use that voice and then decide to remain deedless, alienated. Fortunately, you are part of the few who can realize that your voice is able to take the tone you want it to take if you adapt it to your purpose, to your goal. The way I see it, we should first aspire to fulfill personal achievements, grow, nourish our minds and spirits. This is a never ending process indeed. Nevertheless, there comes a time in which we have to face the fact that our voice would be wasted if we did not aspire to make a change, a change that is able to touch or modify another's reality. You have been given a voice, how you are going to use it, is what will make the difference. Let your voice speak up for the thousands of others that cannot be heard. Assume your role, as well as your privileges, and then understand that the vast majority of people were born under circumstances that completely differ to yours. Let that fact be your inspiration and the reason you decide to make yourself heard. Be the person who makes a difference for others. But most importantly, know that nothing will ever be more valuable than holding on to an ideal and letting that ideal be the motor for your daily actions. Always hold on to your definition of success, but let other ideas challenge your mind as well. Raise your voice but lower it when it is wise to do so. Listen to others, let their experiences complement your point of view. Be faithful to who you are, but let other people help you grow while you do the same for them. Today, be the so needed bridge of communication, and let that responsibility help you pave your way to transcendence.

Camila de la Parra Mendoza
President of the International Monetary Fund
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Outline of the International Monetary Fund

"The IMF is an organization made up by 189 countries working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world." (International Monetary Fund, 2004). This organization was created in 1945 through the Bretton Woods Accords. Its main purpose is to have a constant tracking of economic and financial policies, advising member countries in this matter. Likewise, under certain criteria, it grants loans to its members whenever they are presenting difficulties with their balance of payments. Finally, it facilitates technical assistance and training to the governments and central banks of its member countries in the area of specialty of each institution.

Topic A

Measures to reduce the global economic impact of corruption in developing countries focusing in Latin America and the Caribbean

By: Camila de la Parra Mendoza

Introduction

"The International Monetary Fund (IMF) is an organization of 189 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world" (International Monetary Fund, 2004).

Corruption is a tendency that has become very frequent, especially in developing economies, such as the ones in Latin America and the Caribbean. It is mostly noticed in governmental and social workers, officials and highly ranked people. By these actions, matters like evading laws, abstracting money from economic reserves and dissuading funds become possible, all disrupting the social, political and economic balance of a nation. “IMF is to protect the global economic stability and promote strong, sustainable, balanced, and inclusive economic growth. And this becomes difficult, if not impossible, to achieve in the presence of entrenched and institutionalised corruption” (Lagarde, 2017). Corruption is a problem that affects people’s lives on a daily basis in Latin American and Caribbean countries. Latin America’s fight against corruption is becoming a priority. This region has become front runner in adopting the Inter-American Convention against Corruption by the Organization of the American States. Some of this countries have upgraded or are in the process of improving their legal or judicial frameworks, for example, Republic of Argentina, Federative Republic of Brazil, Republic of Chile, Republic of Ecuador, Republic of Guatemala, Unite Mexican States, Republic of Paraguay and Republic of Peru. In spite of this, there is still much work to do. Corruption not only has an economic impact in a domestic level, but also affects the way in which transactions are made internationally and the perception of a determined country or region in global trade and investment. The IMF has become very aware of this situation since corruption restricts governmental transparency, causing a devastating and very costly economic impact. All this is provoked by small daily actions in policies regarding tax reforms and fund spending.

State corruption makes the taxing system unequal by removing taxes from powerful groups in a society, therefore creating social repression, where the impoverished are seen in a clear disadvantage, making the whole system unefficient and creating long term problems like debt paying. The most concerning issues regarding corruption include fund spending, where government sections undermine the necessity of investing in health or education, which create long run benefits, and instead deviate said investment's funds to benefit just a few. Corruption makes investing harder and more expensive, as well as uncertain, harming trust and therefore reducing or even stopping foreign investment. This is especially harmful for Latin America because much of its trade is fundamental and attractive to bigger economies by their raw materials and cheap workforce. The economy of these countries basically depends on these activities and production, so if foreign trust is compromised, it is highly inconvenient.

What is corruption?

Some experts at the University of Pennsylvania, like professor Philip Nichols, make great emphasis in the fact that people cannot understand the world today if they do not understand corruption. "Corruption is the abuse of entrusted power for private gain. It can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs" (Transparency International, 2017). The International Monetary Fund defines corruption as "the abuse of public office for private gain" (Lagarde, 2017).

Today, the IMF is working rigorously to warn about the risks of corruption and to make it clear that the most corrupt states are very incapable of guaranteeing inclusive growth and avoid high poverty indexes. "For most economists, the root causes of corruption lie in the delegation of power. Corruption therefore occurs at those points where the political, bureaucratic and economic interests coincide" (Cartier-Bresson, 2000). The problem starts domestically: governments and public workers who, instead of investing destined quantities of money for a greater social good and for the benefit of several or marginalized communities, decide to take property of large sums of money, compromising their own countries' growth and development. It is also common for governments to invest in more flamboyant and evident projects rather than little changes that in the long term could be of greater benefit. Money diverted from education, health, culture, social programs, among others, further bolsters inequality, poverty and dangerously limited opportunities for people, especially the most marginalized stratums.

Emerging economies are particularly prone to having higher levels of corruption than developed countries because of their fragile governments and the set of priorities they handle.

"Corrupted economies are just not able to function properly because corruption prevents the natural laws of the economy from functioning freely. As a result, corruption in a nation's political and economic operations causes its entire society to suffer" (Mirzayev, 2017). The average income in countries with a high level of corruption is about a third of that of countries with a low level of corruption (World Bank, 2017). With these numbers, it is possible to note not only the economic impact of corruption, but the social impact of the same in emerging economies.

As Transparency International notes, there is no hard and fast way "to assess absolute levels of corruption in countries or territories on the basis of hard empirical data" (Transparency International, 2017). This is basically because, by its very nature, corruption is usually hidden from the public. (Martin, 2016)

A paper published in 2004 by Mr. Daniel Kaufmann -Global Governance Director of the World Bank Institute-, showed the importance of fighting against corruption for an economic benefit. The argument was put into brief words as follows:

1. Empirical studies show that countries with better redistribution of wealth enjoy longer periods of economic development.
2. Redistribution of wealth is justified by the idea that if utility is the building block of economic policy then redistribution of wealth is a favorable on the ground that it brings upon well being to the greatest possible number of people (since the impoverished benefit is much greater than the wealthy's loss out of the redistributional process).
3. Redistribution (based on the idea of Marginal Utility) should only limited by the idea of Efficiency Cost (when it robs production from individual incentive)
4. Countries suffering from corruption cannot implement sound redistributional policies and thus are not expected to take benefit from sustainable economic development despite embarking upon economic growth from the time to time for some reason or the other (Moustafa, 2017).

What is transparency?

Corruption is a concept that is closely related to transparency. "Transparency means shedding light on shady deals, weak enforcement of rules and other illicit practices that undermine good governments, ethical businesses and society at large" (Transparency International, 2017). It is common for governments with high indexes of corruption to also have a lack or very low level of transparency, which just drives to a lack of confidence from the population, aspect that is also related to illegitimacy. Under these circumstances, people find trouble when it comes to trusting economic systems of their own countries, which highly obstructs equal and healthy growth. The International Monetary Fund considers these problems as a key aspect that hinders the efforts that work for an economic balance around the world.

> Greater transparency is fundamentally important to curb corruption. It increases the chances of detection for a given level of law enforcement. Traditional measures to increase transparency and accountability have been covered extensively in previous IMF work and include, among others, freedom of information laws, income and asset declarations, random audits, strengthening public management and fiscal transparency, especially in resource rich economies, and improving governance of state-owned enterprises. (IMF, 2017)

Corruption in Latin America and the Caribbean

"The people of Latin America and the Caribbean are being let down by their governments and the private sector. Bribert represents a significant barrier to accessing key public services, particularly for the most vulnerable society" (Ugaz, 2017).

Countries in Latin America and the Caribbean generally are emerging economies with unstable governments that feature low levels of approval from their population. "From a scheme to shelter assets leaked by documents in Panama, to the Petrobras and Odebrecht scandals that have spread beyond Brazil to eight former Mexican state governors facing charges or being convicted, the region has seen its share of economic and political fallout from corruption" (Lipton, Werner, and Goncalves, 2017).

The top countries considered as the most corrupt in Latin America are the Bolivarian Republic of Venezuela, Republic of Haiti, Republic of Nicaragua, Republic of Guatemala, Republic of Paraguay, United Mexican States, Republic of Honduras, Republic of Ecuador, Dominican Republic and the Plurinational State of Bolivia. In the latest Global Corruption Barometer, People and Corruption: Latin America and the Caribbean, there was more than 22,000 with nationalities from 20 countries. In this study, 53% of the surveyed people said that their government fails to address corruption. One third of the people who had used a public service in the last 12 months said they had to pay a bribe, which in a bigger, more realistic scale, means that more than 90 million people paid bribes when using public services (Transparency International, 2017), which theoretically need to be accessible to the general population and be as efficient as possible.

In a study carried by the Organisation for Economic Co-operation and Development (OECD) made to evaluate the most corrupt countries in the world, there were two from Latin America that made it to the top 15 of the list. Number 1, and by far the most corrupt, is Mexico "this is perhaps unsurprising given that Mexico is at the heart of the trade to bring drugs from Latin America into the US. Notorious drug lord Joaquin 'El Chapo' Guzman has managed to escape prison twice, helped by giving huge bribes to prison officials" (Business Insider UK, 2016). Chile is number 15 on the list.

Some of the costs of corruption in Latin America include:

- Lower provision of public goods (which hurts the impoverished disproportionately).
- Misallocation of talent and capital through distorted incentives.
- Higher levels of distrust in society and lower legitimacy of government.
- Higher economic uncertainty.
- Lower private and foreign investment. (Lipton, Werner, Goncalves, 2017)

The global economic repercussions of corruption in Latin America and the Caribbean

Latin America and the Caribbean represent an attractive area when it comes to foreign investment because of the cheap workforce and the production of raw materials that are useful to more developed countries.

According to the IMF, the annual cost of bribery is estimated between 1.5 to 2 trillion dollars, which represents 2% of the global Gross Domestic Product. Although these are the most apparent consequences, there are many other effects in the long term that profoundly affect the world's economy. "Corruption also hinders the development of fair market structures and distorts competition, which in turn deters investment" (Transparency International, 2017).

An example of corruption in Latin America being a catalyst for disruption around the world is the Odebrecht case. Odebrecht is a Brazilian builder that operates in 29 countries around the world, whose main founder, Marcelo Odebrecht received 19 years of jail in his country on June 19, 2015. He was charged for being responsible of active corruption, money laundering, and criminal association in several countries, which include the United States of America, Republic of Angola, United Kingdom of Great Britain and Northern Ireland, Republic of Guatemala, Republic of Argentina, Republic of Colombia, Republic of Ecuador, Republic of Mozambique, United Mexican States, Antigua and Barbuda Dominican Republic, Bolivarian Republic of Venezuela, Republic of Panama, and the Republic of Peru. The report of the United States of America Department of Justice establishes that

> During or in between 2001 and 2016, Odebrecht, alongside its accomplices, consciously and deliberately conspired and agreed to corruptly provide hundreds of millions of dollars in payments and other objects of value to and for the benefit of foreign officials, foreign political parties and foreign political candidates to ensure an undue advantage, and influence those foreign officials, foreign political parties and foreign political candidates in order to obtain and retain businesses in various countries around the world (Matute Urdaneta, 2016).

Nonetheless, on December 19, 2017, Marcelo Odebrecht, who confessed on the biggest corruption scandal in in the history of Latin America, abandoned prison to finish the rest of his sentence in domiciliary arrest.

The effects of this scandal in the countries involved can be widely listed. “A close reading of the documents (the ones released by the United States of America Department of Justice) allows an assessment of governments that are at risk of instability as well as mayor project that may now be in doubt as a consequence to the revelations” (Allan and Associates, 2017). Some of the repercussions are:

- The risk for impeachment of Pedro Pablo Kuczynski, president of the Republic of Peru, after a request for impeachment after the Fujimorist party Popular Force divulged a list of illegal payments from Odebrecht builder to a company of his own.
- In Ecuador, Jorge Glas, the country’s vice president was sentenced to six years of prison for the same reason.
- In Colombia, the accusations have hit the president, Juan Manuel Santos.
- In Venezuela, the economic and political instability could be aggravated because of bribes from Odebrecht given to the company Petróleos de Venezuela and other illegal acts carried out.
- In Mozambique, the public debt increased because of mislocated and deviated funds.

- In Mexico, the state-owned Pemex had several contracts with Odebrecht, and the fiability of this big hydrocarbons company decreases as the suspicion of corruption within it arises (Allan & Associates, 2017).

In brief, not only does the Odebrecht scandal harm and puts at stake Brazil's welfare, but internationally, most of the political and economic instability presented in the listed countries assure a lack of legitimacy and confidence in governments around the world, deeply affecting economic growth and foreign investment mainly in geographical areas that highly depend on these factors to sustain their economies.

Another sounded case of corruption in a Latin American country that has shown to have had repercussions internationally, is Joaquín 'El Chapo' Guzmán Loera affair in the United Mexican States. "Born and raised in rural poverty, the 58-year-old (now 60) rose to become the head of the Sinaloa Cartel, a $3 billion drug trafficking empire that now controls 25 percent of all marijuana, cocaine, and heroin imported into the United States" (Schiavenza, 2016). *El Chapo* was initially captured in Guatemala in 1993, but he escaped prison 8 years later and became the second most wanted man in the world by the International Police Organization and the Federal Bureau of Investigation. He was then recaptured in 2014, and in 2015 he fled a maximum security prison, only to be recaptured again in 2016. Guzmán Loera was then extradited to the United States of America to ensure more control over the situation. The affair compromises the relation between the United States of America and the United Mexican States and becomes one of the reasons for distrust from the American government. This damages the economic dependence among them, highly obstructing and affecting the southern State's growth and the commercial agreements with the United States of America as the United Mexican States is seen as a country with an unbreakable corrupt system, a conception and vision that then spreads to other countries.

These are just some examples of many situations among Latin American and Caribbean countries that are experiencing corruption and that should be addressed with a global perspective. The IMF prioritizes the discussion on corruption nowadays more than ever.

> Tackling corruption is vital for sustaining economic stability, promoting inclusive growth, and maintaining security in society and certainty in the market. The IMF plays a key role in shaping more effective and innovative policies to fight corruption, but there is more work to be done. Despite greater efforts to improve the quality of

> institutions and governance frameworks, corruption remains a challenge for many countries (World Bank Group and IMF, 2017).

The IMF also conducted a study that evidences the reality that corruption is one of the main concerns for the millenial community and young people all around the world.

> Young people also understand another truth; corruption is not limited to one kind of country or economy — it can impact every nation. From embezzlement, to nepotism, to terrorist financing, corruption can take on different forms depending on the environment where it incubates (Lagarde, 2017).

The International Monetary Fund has a great influence in the fight against corruption and works to create the most convenient solutions and recommendations to enhance transparency, seeking for the wellbeing of geographical and economic areas that are deeply affected by this situation. In the last years, the organization has put some focus in addressing the problem specifically in Latin America, writing blogs and releasing documents that widely explain the severity of the problem and proposing a series of solutions to confront it accordingly and therefore enhance the international monetary system balance and preventing it from being irreversibly affected by this affair.

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B

Bribery: Dishonest act, by persuading someone with any kind of benefit given to a person in power, to cause the person to take an action, in one's favor.
Bureaucratic: Relating to a rigid system of controlling or managing a country, company, or an organization in which most of the important decisions are taken by state officials rather than by elected representatives, usually not in a very efficient manner.

C

Corruption: Illegal, dishonest or fraudulent behavior especially by people with authority.

D

Devaluation: The decrease in the nominal value of a current currency against another foreign currency and may be due to different causes, such as the lack of demand for the local currency, or the increase in demand for foreign currency
Dissuading: To persuade someone not to take a course of action.

E

Emerging economies: An emerging market that it's showing progression towards and economic advanced economy. According to their economic activities and their results. They are also known as developing economies, but the UN has agreed to call them this way to avoid showing discrimination of any matter.

F

Flamboyant investments: Investments characterized by its intendence of calling attention and exuberance, it represents that these kind of investments focus more on the image rather than on the utility.
Foreign investment: Is the process in which foreign capital enters another countries products or activities, to gain a long term benefit for those foreign investors.

G

Governmental transparency: The obligation of a government to share information of their activities, accounts and efforts towards progress, to their citizens. It is the way of showing tax gains are being well spent in a society.

I

Impeachment: Process in which charges are formally pressed against a high government official, or the government itself.

Inclusive growth: Concept that expresses that equitable advanced economic opportunities inside a denominated system and society, both relating microeconomic and macroeconomics.

J

Judicial framework: Set of dispositions, laws, regulations and agreements to which a dependency or entity must adhere in the exercise of the functions entrusted to it.

M

Marginal utility: The additional benefit a consumer gains from consuming a product or service more than once.

P

Prone: Likely or liable to suffer, crumble or experience an unpleasant change or instability.

R

Redistribution: An economic policy that suggests reducing inequalities by the distribution of wealths, typically to achieve greater social equality.

S

Sustainability: The ability of being sustained and supported by itself, meaning that an economy has reached a balance and growth to run for itself.

T

Taxing system: Set of rules and agencies that govern the collection of taxes within a country. Taxes are the main income of any government, and to ensure that the flow of capital is maintained, laws are created to dictate who and how to pay taxes.

Transactions: The act of conducting a business agreement or exchange, for the benefit of both.

Transparency: State in which the government makes all relevant information fully and freely available to the public.

Guiding Questions

1. What are the global financial repercussions of corrupt economies?
2. Is changing the political system of a country a solution for corruption affection on an economy?
3. What is the relation between transparency and corruption?
4. How does bribery affect the economy in my country as well as others?
5. What can the International Monetary Fund do to stop the global economic impact caused by corruption?

Topic B

Measures to reduce financial instability in the European Union and its global repercussions due to recent economic crises in countries such as the Kingdom of Spain, United Kingdom and the Hellenic Republic

By: Camila de la Parra Mendoza and Santiago Castro Pérez

Introduction

Taking the United States 2008 mortgage crisis as a basis, as well as its global economic impact, it is safe to establish that nowadays, there is still havoc after this happening. There is a high index of instability in financial institutions, an overwhelming fluctuation in stock markets, preoccupying unemployment rates around the world, among other phenomena. The crisis was an adversity for several economies, that is undeniable. Nonetheless, the impact was different for every country depending their economic stability and the proportion of its economy's weight. For instance, throughout the last decade, the Hellenic Republic presented economic problems linked to the administration of their monetary resources, governmental expenses, monetary policies and a deficit on its balance of trade. The impact of the crisis and the domestic economic adversities in the Hellenic Republic were key aspects for it to encounter an economic recession. Taking into account the public debt that reached 350,000 million euros, the International Monetary Fund and the European Union approved a loan of 110,000 million euros, suggesting a series of austerity measures to reach a balance in its economy. Nevertheless, the Hellenic Republic continues to present an unmeasured governmental expenditure. On one side, the fact of continuing with the financial rescue of this country has been very questioned and doubted because it is claimed that the operation is not productive and there is no sign of, let it be a possible payment from it, or a future economic growth for it to overcome this crisis. The European nations and the council of the European Union evaluated if the Greek conditions were ideal for it to continue in the system because there were great investments from Germany and France to save the Greek economy and the probable risk of a contagion that may be seen in other nations' economies, such as the Spanish, given the nature of the problem. But it is contemplated for the situation to be even worse if this country is expelled, because said investments would be totally lost. On the other hand, the possibility of the Hellenic Republic declaring itself as an economically failed country would drag other European Union countries into instability, as well as into an economic deacceleration. Even if the United Kingdom has not been the first country to consider the economic damage generated by the inequalities that imply other countries' irregularities, this country has decided to exit the European Union, effective on the set date of March 29, 2019. Said happening generates tension and uncertainty in other member countries as for the possibility of them following the same steps, because with the cases of economic crises or recessions in different EU countries the instability in the financial system of member countries sees itself threatened to decay. Another issue to be regarded is that, on the last decade, the Kingdom of Spain has presented several issues with the state of Catalonia derived from the actual management and distribution of the money given to all the states that conform this kingdom. During the last years, Catalonia has declared that the way the money is distributed to all the states of Spain is unfair because the contribution of each province is considerably low in comparison to the contribution of Catalonia in the GDP of this country. Catalonia is one of the strongest provinces of all because it contributes approximately with the 20% of the total GDP of Spain its independence could generate several economic consequences for the whole country because it is the region that cooperates the most for the development of Spain (BBC, 2017). In 2017, there has been several revolts in the country because of the lack of autonomy granted to the Catalonian government in decisions that refer to the fiscal policy. This has caused a weakening in the investment of the country causing the departure of the 18% of the companies present in Catalonia and several fluctuations of the euro in the forex market (BBC, 2017). There has been several organizations and institutions, including the International Monetary Fund and the European Union, that have made a call to preserve peace in the region and a to improve communication between this states in order to have prosperity for Spain and for the whole european community. According to the Christine Lagarde, the catalan conflict is generation a lot of uncertainty in the financial system, the economic growth and the stability of the country in terms of investment that can cause economic trouble in the trading activity of Spain and Europe.

The principal focus of this situation is directed to the possible economic instability and the prevention of a financial contagion in the multipolar system of the European Union. Given that the Hellenic Republic counts with exorbitant debts with other countries in the world, the European Union council considered the possibility of the expulsion of the Hellenic Republic from this system because it represented a threat for the rest of the member countries. Likewise, it is important to consider the other repercussions this may cause. Additionally, the exit of the United Kingdom from the European Union is a key fact for the instability of this economic region; this should be addressed as to the repercussions on the euro caused by uncertainty as one of the strongest and most influential members is to leave the UE very soon. Finally, the topic focuses on the impact of the independence of state of Catalonia over Spain and the European Union as well the repercussions over the GDP of this country and how that affects in an international level. One of the main concerns is the fluctuation of the euro caused by the uncertainty of the investors on private investment in these countries and the economic instability that this problem generates in the trading market of Europe. In addition to this, it's necessary to evaluate the actual damage in the continental economy and generate some preventive measures to avoid any kind of future situations as a financial contagion in this economic integration may be.

The United States 2008 Crisis

"The world economy is an interlined network conjoining not only different states with each other; but also, their fate altogether" (Maddah, 2015).

In 2008, the United States of America had its worst financial crisis since the Great Depression of the 1930s and it created a wide and severe contagion around the world. By the end of the year, some European countries were induced into recessions, being Germany the most severe. The world faced a preoccupying future as some of the most important economies were not working as they should, nor prospering. Some other States in Europe were also sunken into the crisis, including the Hellenic Republic, Hungary, Republic of Latvia and Iceland, all of which encountered themselves bankrupt. In the sight of this, Europe had to take some measures to ensure that the impact of the crisis was as smooth as possible. Some of the policies applied included central banks coordinating interest-rate reductions.

For instance, an impact that can be observed in Europe originated by this crisis is the example of the Hellenic Republic. When Wall Street collapsed, it hit the European banks, who lent big quantities to different States, thus buying debts from several governments, the Hellenic Republic's included.

> By 2010 Greece could no longer pay its bills. Over the prior decade Greece had built up massive debt, a result of too many people buying too many things, too few Greeks paying too few taxes, and too many promises made by too many corrupt politicians, all wrapped in questionable accounting (Arnade, 2015).

From these events, in 2010, 2012 and 2015 the Hellenic Republic had to go through bailouts, which did not relief the country from the debt and instead, they had to continue paying their old loans, thanks to what the banks were not so affected. Since that moment, the Hellenic

Republic has had to cope with an economic crisis that has left innumerable costs, with human being the most serious.

The event of the United States of America 2008 Crisis created space for uncertainty in one of the most economically influential countries in the world. It affected not only its closest relations but also had negative effects in Europe's least influential countries, but that are now responsible for the eurozone debt crisis.

United Kingdom of Great Britain and Northern Ireland and the Brexit

On June 23, 2016, the United Kingdom of Great Britain and Northern Ireland voted to leave the European Union and scheduled its departure for March 29th, 2019. This event is named *Brexit.*

> David Cameron, his Chancellor George Osborne and many other senior figures who wanted to stay in the EU predicted an immediate economic crisis if the UK voted to leave and it is true that the pound slumped the day after the referendum - and remains around 10% lower against the dollar and 15% down against the euro (Hunt & Wheeler, 2017).

Even if those predictions stated an unstable future for the country, things were not as estimated and the United Kingdom's economy continued to grow at the same rate it had been growing in 2017.

Brexit means several things for the world, but domestically, it essentially means for its growth to slow down and it could be very perjudicial for the United Kingdom's financial center, The City.

In a more international perspective, the consequences for the European Union would be various. For instance, Christine Lagarde, the International Monetary Fund's Director stated "The years are over when Europe cannot follow a course because the British will object. Now the British are going, Europe can find a new *elan*" (Amadeo, 2017). This makes reference to the fact that, when the European Union voted, as a whole, for or against policies, the United Kingdom was very frequently against what many other members voted in favor for.

Experts say Brexit was a vote against globalization as it took the United Kingdom off the focus of one of the most important economic zones in the world. It restricted itself the easy access it had to the same, but at the same time it brought certain stability for the British people in some access, like the restriction of migration to the territory.

Situation in the Hellenic Republic

"In 2009, Greece announced its budget deficit would be 12.9 percent of Gross Domestic Product" (Amadeo, 2017). The Greek crisis refers to the amount of sovereign debt this government owes to foreign creditors and that compromises this country because of it inability to pay these entities back. Some European Union countries that have been part of the situation have tried to find a solution to the problem since 2008, but it has been a struggle for them since. During that lapse of almost ten years, the Hellenic Republic's economy has shrunk 25 percent. Whereas the European Union strives to make the Greek government restructure itself and its country's economy, the Hellenic Republic continues to ask the European Union to decrease some of the debt so that it can finally get into the process of completing full payment. In 2010, the Greek government announced a plan to decrease its deficit to 3% of Gross Domestic Product in a period of two years in hope that this would assure lenders and let them know that the Hellenic Republic was finally handling the situation making it prosperous. Nevertheless, four months later it was announced that it was not going to be accomplished (The Balance, 2017)

The International Monetary Fund and the European Union decided to provide 240 billion euros in exchange of so-called austerity measures, which meant that the Greek government had to decrease its expenses or increase tax revenues. Later on, the EU funded a bailout to avoid the Hellenic Republic from leaving the UE.

> Germany, other EU leaders and bond rating agencies wanted to make sure Greece wouldn't use the new debt to pay off the old. Germany, Poland, Czech Republic, Portugal, Ireland and Spain had already used austerity measures to strengthen their own economies. Since they were paying for the bailouts, they wanted Greece to follow their examples. Some EU countries like Slovakia and Lithuania refused to ask their taxpayers to dig into their pockets to let Greece off the hook. These countries had just endured their own austerity measures to avoid bankruptcy with no help from the EU (Thomas, 2010).

Even after many measures like the bailout and several fund loans, and with little to no response from the Hellenic Republic, the whole problem led to a great amount of uncertainty on the European Union financial system itself and its sustainability in the future. It also created the fear of a possible global crisis triggered from the struggle of a profoundly economically affected country that does not really represent a strong individual of the eurozone as a whole.

> If Greece does not repay its creditors, a dangerous precedent will have been set. This may make investors increasingly nervous about the likelihood of other highly-indebted nations, such as Italy, or those with weak economies, such as Spain, repaying their debts or even staying inside the euro (BBC, 2012).

Fortunately, in the last few years, the Hellenic Republic has been able to pay some part of its debt because of a set of financial legislations and measures that have allowed the country to continue and catch up with its payment process, but a lot of work is still needed for the situation to stabilize.

> Germany in particular is annoyed at the lack of progress over Greece's new privatisation fund – a key part of last year's deal to keep Greece in the Euro – where the supervisory board, let alone the management team, has not yet been appointed (Clements, 2016).

With strong members of the European Union like the Federal Republic of Germany, French Republic, the United Kingdom of Great Britain and Northern Ireland, and even countries outside the European territory like the United States of America worrying and pressuring on the Greek situation, what is truly at stake now, is the necessity for the Hellenic Republic to regain foreign confidence: firstly, of the economic bloch it belongs to, secondly, from other or prospect investors, and finally, from the world in general.

Situation in the Kingdom of Spain

Nowadays, the situation in the Kingdom of Spain is one of the most concerning in the world and for the European Union, since it is the 4th country affected in the Eurozone, after Portugal, Ireland, and Greece. But it is the Kingdom of Spain's history what shows the real problem lying beneath the Eurozone debt crisis, and in the case of Spain is not the incapacity of its government, if not a financial bubble, originated in housing industry, quite similar to what happened in the United States in 2008 (Knight, 2012).

Since the Kingdom of Spain adopted the euro in 1999, interest rates hit historic lows in bank accounts, and credit borrowings. As they continued this way, many people, ordinary and real estate developers, borrowed a lot of money and started what was going to become a property bubble in a few years. Cheap loans fuelled developers to start building homes, and buyers to start buying more and bigger, the housing industry in the Kingdom of Spain went booming, and house prices tripled from 1999 to 2008, this means there was an increase of 44% from 2004 to 2008 in real estate prices. This all together, represented an annual on average growing rate of 3.7% in the Kingdom of Spain's economy, from 1999 to 2007 (BBC, 2012).

As property house prices started rising, there was a point in which the market value was much higher than the actual intrinsic value of the house, after a few years, the problem reached its climax, thus bringing great instability to the Spanish property and bank industry. The interest rates had to increase because of the situation, to ensure money from banks was not lost, and people could not afford anymore to pay for the higher interest rates from the loans they had asked at all-time low rates, people started to have debts problems to repay their loans, and the banks acquired debts as well because of bad mortgage deals, in which people simply couldn't pay anymore. The construction industry has collapsed, causing thousands to lose their jobs.

Nevertheless, the Kingdom of Spain's government had one of the lowest debts, it had to start asking for loans from the international community, to save the industry, pay the banks and save the economy from the collapse. Is important to mention that most spanish banks, while they were in the middle of the housing boom, in order to be able to lend more loans, borrowed money from international markets, mostly french and german, instead of using their own deposits (Knight, 2012). In order to save their banks from bankruptcy, the spanish government had to lend them a lot of capital to save them, and in order to get more money, they had to close infrastructure projects throughout the country, increase taxes and borrow money from the European Union. As jobs started to close, the Kingdom of Spain reached an unemployment rate of up to 26% the highest one in Europe, therefore causing trouble in tax system, making more people unable of paying the government and demanding social benefits (Goodman, 2017). Unfortunately, problems do not end up here, since the housing bubble came with another one: Labour industry. As prices for houses and buildings rose, the price for workers in the construction industry did as well, giving them higher wages and making them much more expensive, these caused spanish exports to be one of the most expensive on the UE, and making its workers uncompetitive, unfortunately for the Kingdom of Spain, they cannot devalue their currency to make their workers cheaper and more competitive, since they share it with almost all of Europe, this cause the spanish government to continue borrowing, trying to save its workers and industry, but since it collapsed as a whole, they don't earn capital anymore and their debt just keeps up increasing without any chance of paying it back (Knight, 2012).

After a few years, in 2017 the Kingdom of Spain is reporting economic growth again, and levels similar to pre-crisis times. Jobs are coming back and now the economy does not longer rely on construction industry, since the car industry is growing impressively so are exportations. Unemployment levels keep high but the Kingdom of Spain as a whole is stabilizing. Although this means good news, a new crisis is unfolding in the Iberian peninsula: Catalonia's search for independence (Goodman, 2017). The situation in Catalonia originated from the fact that this territory has always been a nation within the Kingdom of Spain, and thus over the years has created its own identity and necessities inside the rules of a bigger State. This led to an independence referendum carried out in October 2017. Even before the Catalan crisis, the International Monetary Fund detected instability in the Kingdom of Spain and therefore suggested to liberalize economy. This crisis has now created even more instability for the country, compromising trust in a government that cannot stabilize this situation domestically and that has led to economic distrust in foreign investment and adding up to the countries that represent a threat to balance in the European Union.

The uncertain and unstable future of the European Union

The European Union has just reached the mark for its 60th anniversary, and is now in deep trouble. According to the Organization for Economic Cooperation and Development, the eurozone debt crisis in 2011 was the world's greatest threat in that year. Although it started in 2009 with the Greek sovereign debt, the situation only got worse by 2012. Other countries like the Kingdom of Spain, Portuguese Republic, Republic of Italy, Republic of Ireland, were also prospects to fall into the same situation, thus creating even more instability in the European Union. The two only countries that then represented and still represent a pillar for the economic block were the French Republic and the Federative Republic of Germany. “Twenty years ago, Germany's economy was stagnating. Today, as the eurozone crisis deepens, this giant is keeping Europe afloat” (Jeffries, 2013). The constant bailouts from the International Monetary Fund and the European Central Bank compromised the confidence and trust in all of the countries that received them, as well as in the euro itself, situation that represented a threat to the world economy as a whole.

> The European Central Bank held a lot of sovereign debt. Default would have jeopardized its future. It threatened the survival of the EU itself. Uncontrolled sovereign debt defaults could create a recession or even a global depression. This time, it's not the emerging markets but the developed markets that are in danger of default. Germany, France and the United States, the major backers of the IMF, are themselves highly indebted. There would be little political appetite to add to that debt to fund the massive bailouts needed (The Balance, 2017).

To help the countries rise from the crisis, in 2012, chancellor Angela Merkel of the Federative Republic of Germany created a plan that would.

1. Launch quick-start programs to help business startups.
2. Relax protections against wrongful dismissal.
3. Introduce "minijobs" with lower taxes.
4. Combine apprenticeships with vocational education targeted toward youth unemployment.
5. Create special funds and tax benefits to privatize state-owned businesses.
6. Establish special economic zones like those in China.
7. Invest in renewable energy.

This plan came from a treaty made in 2011 in which leaders of the European Union created a fiscal unity parallel to the monetary union that already exists. The treaty was directed to do three things: “It enforced the budget restrictions of the Maastricht Treaty, it reassured lenders that the EU would stand behind its members' sovereign debt, and it allowed the EU to act as a more integrated unit” (Amadeo, 2017).

One of the most important reasons for the European Union to be encountering so much instability, is the fact that several politics handled by its members are inefficient. Some of these root in the impopular handling of political power and thus economic repercussions domestically and that resound in the foreignity.

> An unfinished euro may not be sustainable in the long run. If another financial crisis were to hit, as at some point it surely will, the currency could crumple. Worse, both it and the broader EU remain vulnerable to a political accident at any time (The Economist, 2017).

Many possibilities could unfold from the crisis and could lead to a major financial conflict that could affect internationally originated from Europe’s instability and uncertainty. This problem lies in the main concerns for the International Monetary Fund.

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C

Central banks: A national bank that provides financial and banking services for its country's governments and financial systems.

Crisis: Period of shortage in the production, marketing and consumption of products and services.

D

Deficit: Situation in which the expenses are higher than the income, so that there is no benefit.

E

Economic failure: Is an economic collapse, where an economy is completely distressed or affected by months or years. A total collapse may be characterized by depression.

Economic integration: The model by means of which countries intend to benefit each other through the progressive elimination of barriers to trade.The most integrated or consolidated economy today, between independent nations, is the European Union.

Eurozone: Is a monetary union between 18 of the 28 members of the European Union, which has adopted the Euro as their official currency.

Expenditure: The action of spending founds, time or energy/ The total amount of money that a government or person spends

F

Fluctuation: A situation in which prices, levels or interest rates go up and down according to supply and demand

H

Havoc: Widespread destruction, devastation, great confusion and lack of order, specially causing damage and trouble.

I

Instability: Every situation characterized by the absence of large variations in the level of production, income and employment.

Interest rates: The amount of extra money that has to be paid after a borrowing, this ciffer comes as a proportion of the amount borrowed.

International debt: A debt between countries, where a nation owes certain amount of money to another nation or organization.

Investment: Placement of capital in an operation, project or business initiative in order to recover it in the event that it generates profits.

L

Loans: The lending of money from one person, organization or entity, to another.

M

Mortgage: The terms of an agreement that allows someone to make a loan from a bank or similar organization.

P

Property bubble: Is the trade and economic activity in a product whose market value exceeds the intrinsic one, meaning that the product costs much more than it's actually worth. These, based in inconsistent view of the future of the product. The housing bubble, usually comes after a land boom.

R

Revolts: When the civils take violent action, protest or rejections against a governor authority.

Guiding Questions

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1. How does Eurozone’s instability affect my country?
2. How did Brexit impact global economy and my country’s economy?
3. How can countries in an economic crisis find stability?