MEF SCHOOLS MODEL UNITED NATIONS 2026

“Achieving SDGs (Sustainable Development Goals) in line with the 2030 United Nations agenda."

Committee: Economic and Financial Committee (ECOFIN)
Agenda Item: Finding solutions to international disputes surging from lack of financial stability deriving from trade imbalance and change of economic system.
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Position: President Chair

Introduction

Financial stability can be defined as the condition in which a financial system that consists of infrastructure, markets and sources operates smoothly, manages risks efficiently and is resilient to shocks. In today's world the term financial stability defines disputes, the condition of a state and economics. All three aspects which dictate the power and strength of a state. While financial stability reinforces avoidance of disputes, financial instability does the polar opposite. Financial instability resulting from changes in economic systems and trade imbalance often lead to disputes on the international level. As the global markets become more liberal and the interconnectedness of the globe increases, financial instability also has seen an increase in the last years. Thus, also affecting international disputes. Countries such as the United States and China have seen recent changes in their economic policies, both orthodox and unorthodox. These changes have led to the persistent trade war between the two powerful states. The sentence: "International trade continues to be a central component of the global economy" is now the running slogan of the current day world. World Bank data show that: Trade — the combined value of exports and imports of goods and services — frequently represents a significant percentage of national output across countries. This high degree of economic interdependence means that imbalances in trade and financial flows can not only undermine financial stability but also fuel geopolitical tensions when states react to deficits or surpluses in economically and politically charged ways." (World Bank Open Data)

Figure 1. Showing U.S. Dollar Bills being made in a factory.

Other data show that the trade deficit between countries has now increased over one trillion dollars, over one percent of the world's GDP (Gross Domestic Product). All of these examples and data show that disputes are becoming larger and larger due to their correlation with finance and its stability within a state. In this report, we will be analyzing examples of financial instability resulting from changes in economic systems and trade imbalance, and how they have affected international disputes in the modern day world which is reliant on economics, trade and finance: The powerhouses of the world.

Definition of Significant Terms

Trade Imbalance

A persistent difference between a country's exports and imports.

Financial Instability

Vulnerability to crises due to debt, capital volatility, or currency risk.

Foreign Exchange Reserves

Assets held by central banks to stabilize currency and finance trade.

Market Economy

Allocation driven by supply and demand.

Economic Liberalization

Reduction of state control, tariffs, and regulation.

Industrial Policy

Government strategy to promote specific industries.

Structural Transformation

Shift between sectors or systems

Sanctions

Economic restrictions imposed for political purposes.

Trade Wars

Escalating cycles of tariffs and counter-tariffs.

Systemic Risk

Threat to the stability of the global financial system.

Debt Dependency

Reliance on external borrowing to sustain growth.

Austerity

Fiscal tightening. Often imposed during financial crises.

Deficit State

Dependent on foreign capital inflows.

Detailed Background of the Issue

Historical Background:

The question of international conflicts caused by financial instability in connection to trade imbalances is a very old one, originating from the post-World War II global economic order. The Great Depression and the subsequent war had such a devastating effect on the world economy that the politicians of the time decided to build a secure international system that would keep the world free of devaluations, riot of protectionism, and payments crises.

The United States and its allies set up the International Monetary Fund and the World Bank as part of the Breton Woods Agreement to push for stability in currencies and economic recovery, while on the other hand, trade liberalization was being pursued through the signing of treaties like the General Agreement on Tariffs and Trade. The success of these arrangements was that they had expanded global trade, and development was no longer unevenly divided between the rich and poor countries.

For these reasons, among others, over time the fixed exchange rates turned into more flexible systems, financial markets became more liberalized, capital flows increased and the world economies became more interdependent and vulnerable to external shocks.

Current Context and Relevance:

In today's world trade imbalances and financial instability have, to a great extent, become matters of politics that are causing international disputes and competition among the major powers. Countries with surplus often get a strong economic and political hold over the situation, whereas the countries with deficits have to deal with increasingly worn out external debts, pressure on their currencies, and dependence on foreign financial help.

Any measures taken to reduce the trade imbalance—through austerity measures, currency adjustments or trade restrictions—make the situation so uncomfortable for the people and the governments they cause, that unrest and diplomatic tension are often the outcome. The 2008 global financial crisis and subsequent events like supply chain disruption and geopolitical sanctions have caused nations to rethink the extent to which their economies are interdependent.

Systemic Change and Emerging Tensions:

More recently, shifts in the global economic system have further complicated efforts to manage trade imbalance–related disputes. The rise of state-led economic models, increased use of industrial policy, and growing reliance on economic sanctions have blurred the line between economic management and geopolitical strategy. At the same time, global supply chains have become more fragmented, reducing trust in interdependence as a stabilizing force. These developments have intensified competition among major economies and weakened consensus around multilateral solutions. Consequently, financial instability and trade imbalances are increasingly embedded within broader struggles over economic governance, sovereignty, and power, making resolution more complex and heightening the risk of prolonged international disputes.

Timeline of Key Events

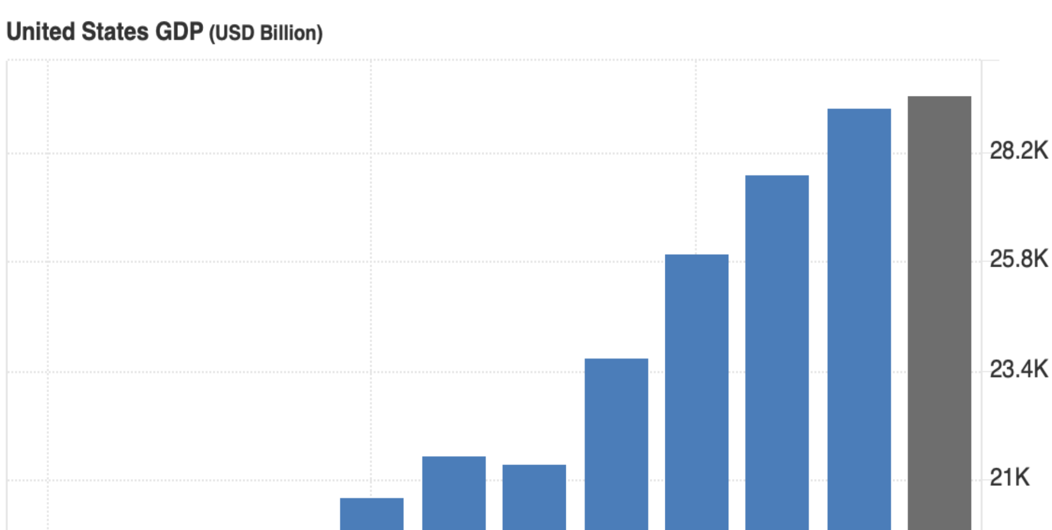
Date	Description of Event
1944	The Bretton Woods System is created along with the IMF and the World Bank. Making the fixed exchange rates through the currency of the U.S. Dollar.
1971	The Bretton Woods System collapses and trade imbalances become harder to control with the U.S. abandoning the gold standard.
1980s	The IMF starts to enact different structural adjustment programs due to the economic crises in Latin America due to debts and trade imbalances.
1995	The World Trade Organization (WTO) is created. This creation aimed to relieve trade imbalances and debts but later struggled with power imbalances and capitalism.
2001	China, one of the main powerhouses in economics, joins the WTO. Paving the way for deeper trade imbalances between the EU and U.S., with massive accumulation of trade surpluses due to the addition to the WTO.
2008	The Global Economic Crisis occurs. One of the biggest examples of financial waves of risk. Also led to the collapse of many financial markets and systems, paving the way for long-term issues for the globe.
2010-2015	The Eurozone Debt Crisis occurs. Financial and political conflicts between members of the EU due to the internal trade imbalances from a shared currency: the Euro.

2016	The United Kingdom leaves the EU due to the effects of economic globalization. Showing that interconnectedness of economies are not always in favor of states' sovereignties.
2018-2020	China and the U.S. start to have a trade war between each other. Trade imbalance becomes a large topic of discussion through the usage of tariffs and sanctions.
2020	Covid-19 Pandemic starts and results in many different financial markets crashing due to waves of risk and lack of trade between countries. Showcasing the dependency of countries to others for trade and financial stability.
2022	Russia invades Ukraine and leads to sanctions from the West to Russia. Trade and finance become a weapon for the globe.
2023-2025	Financial instability in deficit countries starts to show cracks. Demonstrating how they can affect the IMF.

Major Countries and Organizations Involved

United States of America:

The United States of America (USA) is one of the main stakeholders on the topic of financial instability leading to global conflicts. The reason for this is that the USA has always been a powerhouse both in terms of financially and politically. Having the highest GDP in the world at 30.50$ Trillion. (IMF WEO Apr 2026) As the Dollar holds a high value, they have always been considered a



powerhouse and made agreements on making the currency used in all global exports and trades. In 1944, they did exactly this. They made the Dollar mandatory as the currency in trades. This addition made the USA gain more and more, while the others were not benefiting at all. Paving the way for one of the biggest problems in today's world: imbalance. Trade imbalance has always been seen as a sign of structural unfairness in the global economic system, and that it reflects problems such as: Distorted markets caused by state subsidies and industrial policy, unequal market access for U.S. firms, currency and financial system asymmetries and labor and environmental standard gaps. Along with this, they believe that financial instability and trade dependency are a threat to national security. This is one of the reasons as to why the USA supports targeted tariffs, sanctions, and controlled exports. The USA supports the IMF and the World Bank through their crisis management systems and precautions.

Figure 2. A graph of the US's Gross Domestic Product (GDP).

China:

China, the other main powerhouse in the world in finance and economics, is also one of the largest contributors to financial instability and how it affected global problems and conflicts. China does not believe that trade imbalances are harmful to a state or the economy. Instead, they see them as a global advantage through correct plays in the global market. China argues that Western-led economic institutions were designed around advanced capitalist economies and do not adequately account for late-developing or state-led systems. China, like the USA, is one of the largest exporters of the globe. They are persistent with being a current account surplus country. China's approach emphasizes long-term structural positioning rather than short-term adjustment: They defend industrial subsidies as development tools, resist external pressure for rapid rebalancing, promote alternative institutions (e.g., AIIB, BRICS New Development Bank) and advocate for a multipolar economic order. Rather than eliminating trade imbalances, China focuses on managing their political consequences.

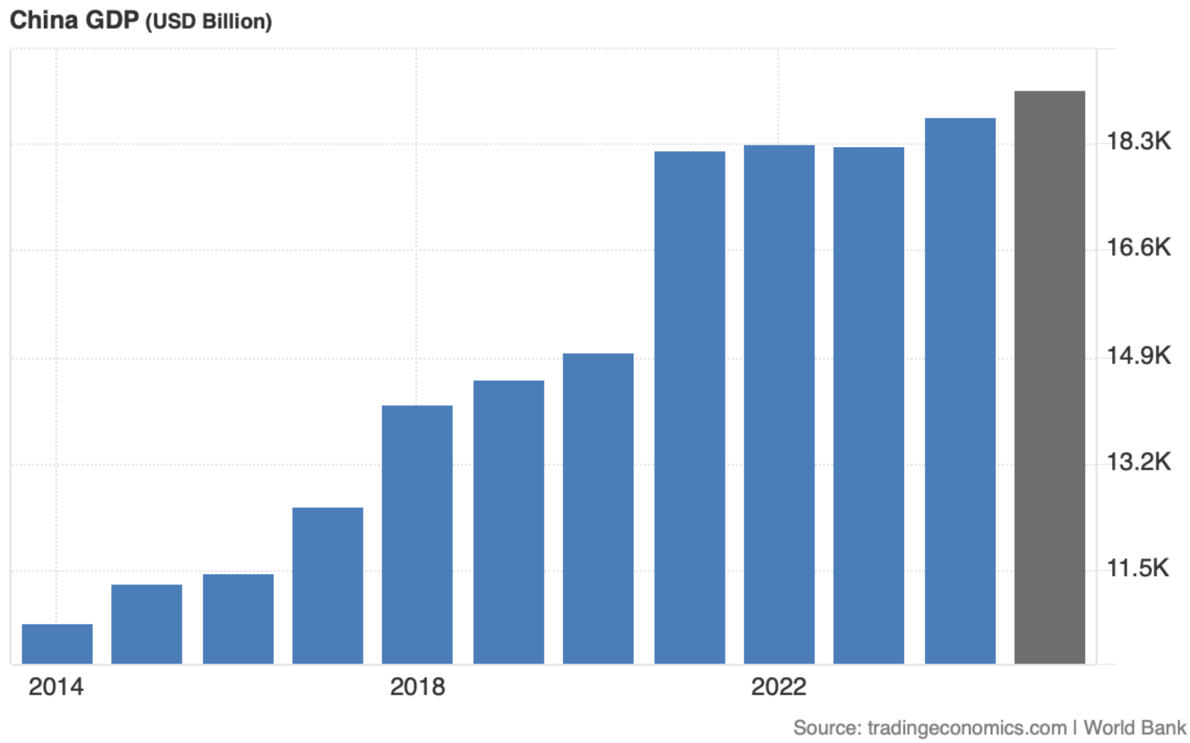


Figure 3. A graph of the GDP of China.

Russia:

Russia sees trade imbalances and financial instability mainly as signs of power disparity and international economic coercion. The Russians believe that world trade and finance rules are not unbiased market instruments but rather politically manipulated structures where the West has the upper hand and they are the ones who decide through sanctions, asset freezes, and exclusion from payment systems what the price will be and who will be affected. Being one of the top players in the energy and raw materials market, Russia has an extremely important place in international trade especially in times when the prices of commodities are high, as these situations create trade surpluses but also make the economy vulnerable to external demand shocks. Therefore, Russia chooses to be economically sovereign and resilient over being the least cost provider in the market, so it imports less, uses less dollars and deals more with non-Western partners. Thus Russia is a major player in the conflicts over trade imbalance-driven disputes as its case reveals how financial instability and trade dependence can be turned into politics and used as a weapon, and thus, contribute to the split of global economic governance.

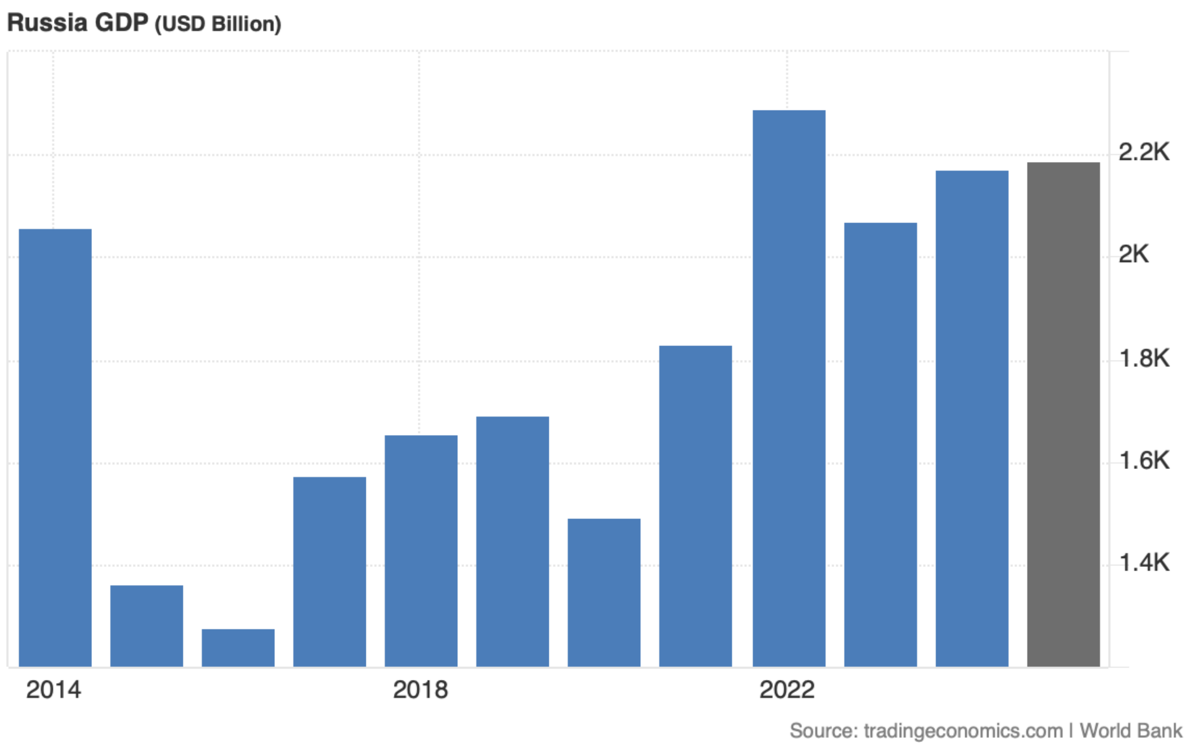


Figure 4. A graph of the GDP of Russia.

European Union (EU):

The European Union considers trade imbalances and financial instability as mainly economic cohesion and rules-based international governance challenges instead of as a zero-sum power struggle. Besides, the European Union as a major surplus region—largely due to export-driven economies such as Germany—stresses fiscal discipline, market openness, and regulatory alignment as the dominant way to keep stability. The euro area's experience during the sovereign debt crisis, however, revealed that there were internal tensions caused by the disparity between the rich and poor member states living in a monetary system without a centralized fiscal authority that could solve the problems. The EU, on the other hand, is increasingly portraying the trade imbalances as unfair competition issues, especially with regard to state subsidies and industrial overcapacity, while still being committed to resolving disputes through multilateral means. The EU is consequently a major player as it not only reaps the benefits of global trade liberalization but also faces the pressure to protect its industries and promote its economic model, thus making it the point of contention over the discussion on the reform of global trade and financial governance.

International Monetary Fund (IMF):

The International Monetary Fund (IMF) approaches trade imbalances and financial instability as macroeconomic coordination problems that require policy adjustment, surveillance, and conditional financial support. From the IMF's perspective, persistent deficits and surpluses reflect structural distortions—such as fiscal misalignment, exchange rate rigidities, or capital flow volatility—that, if left unaddressed, can escalate into balance-of-payments crises and international disputes. As the primary global lender of last resort, the IMF plays a central role in stabilizing deficit states through financial assistance programs tied to policy conditionality, including fiscal consolidation, monetary reform, and structural adjustment. However, the IMF's influence is contested, as its prescriptions are often criticized for prioritizing creditor confidence and financial stability over social welfare and domestic political constraints. The IMF is therefore a key stakeholder because it mediates between deficit and surplus states, shaping how financial instability linked to trade imbalances is managed, negotiated, and institutionalized within the global economic system.

World Bank:

The World Bank approaches trade imbalances and financial instability primarily as development challenges rooted in structural inequality, limited institutional capacity, and uneven integration into the global economy. Unlike the IMF's focus on short-term macroeconomic stabilization, the World Bank emphasizes long-term solutions such as poverty reduction, infrastructure investment, institutional reform, and human capital development to help deficit states build resilient and diversified economies. From the World Bank's perspective, persistent trade deficits often stem from weak productive capacity, reliance on low-value exports, and vulnerability to external shocks rather than from policy mismanagement alone. As a major provider of development finance and technical assistance, the World Bank is a key stakeholder because it shapes how developing and deficit countries adjust to global trade pressures, aiming to reduce the likelihood that financial instability escalates into international economic disputes or long-term dependency.

Previous Attempts to Solve the Issue

Bretton Woods Agreement (1944):

The Bretton Woods Agreement was intended to establish a stable international economic order post-World War II by tackling the issues of competitive devaluation, trade wars, and financial instability that had upset the world economy and led to the Great Depression. The agreement featured a fixed but adjustable exchange rate system firmly based upon the U.S. dollar, which was gold convertible, and also established the International Monetary Fund (IMF) and the World Bank as authorities overseeing monetary stability and postwar reconstruction.

General Agreement on Tariffs and Trade (GATT) (1947):

GATT was created with the intention of eliminating trade barriers and fostering economic interdependence as a means of conflict prevention and growth encouragement. Negotiation rounds in succession led to a decrease in tariffs, the principle of most-favored-nation created non-discrimination, and trade dispute settlement function granted its existence. GATT was successful in growing global trade and connecting the industrialized countries but did not help in solving the underlying trade imbalances and development disparities, as its rules were mainly in favor of advanced economies. The pact had become the standard of institutionalization in the modern world, however, it was criticized more and more for its limited enforcement mechanisms and for not allowing the participation of important sectors like agriculture and services.

European Monetary System (EMS) (1979):

The European Monetary System was established as a means to reduce exchange rate fluctuations among European countries and to create monetary stability which would later be a step towards economic integration. The EMS aimed at limiting currency devaluations through the linking of currencies via the Exchange Rate Mechanism (ERM) and controlling inflation by the same method. In reality, the EMS brought about monetary discipline but at the same time made the structural differences between the strong and weak economies more evident, especially during the speculative attacks in the early 1990s. The EMS revealed that fixed exchange rates without fiscal and political integration might actually lead to financial strains which would be a major factor in the later creation of the euro.

Plaza Accord (1985):

The Plaza Accord was an agreement among major advanced economies to coordinate currency intervention in order to depreciate the U.S. dollar, which had become overvalued and contributed to large U.S. trade deficits and global imbalances. Through coordinated market actions, the agreement successfully reduced the dollar's value and temporarily eased trade tensions. However, the adjustment also contributed to asset bubbles in Japan and other economies, illustrating how short-term solutions to trade imbalances can generate long-term financial instability. The Plaza Accord remains a key example of deliberate international coordination to manage systemic imbalances.

Maastricht Treaty (1992):

The Maastricht Treaty aimed to formalize European economic and monetary union by introducing convergence criteria for inflation, deficits, debt, and interest rates, ultimately leading to the creation of the euro. The treaty sought to promote stability and prevent excessive imbalances within a shared currency system. While it succeeded in launching the euro and deepening integration, it failed to establish a centralized fiscal authority or effective adjustment mechanisms for deficit states. As a result, internal trade and financial imbalances accumulated, contributing directly to the Eurozone sovereign debt crisis and revealing the limits of rules-based monetary integration.

World Trade Organization (WTO) Agreements (1995):

The WTO agreements replaced GATT with a stronger institutional framework designed to regulate global trade through binding rules and enforceable dispute settlement. They expanded trade governance to include services, intellectual property, and agriculture, aiming to create a more comprehensive and predictable trading system. While the WTO significantly reduced trade uncertainty and resolved numerous disputes, it struggled to adapt to new challenges such as state capitalism, industrial subsidies, and persistent global imbalances. The stagnation of negotiations and rise of unilateral trade measures have weakened its ability to manage trade-related disputes linked to financial instability.

IMF Structural Adjustment Programs (1980s–2000s):

IMF Structural Adjustment Programs were intended to restore macroeconomic stability in deficit states experiencing balance-of-payments crises by promoting fiscal discipline, market liberalization, and structural reform. These programs provided financial assistance conditional on policy changes such as austerity measures, privatization, and trade liberalization. While they often succeeded in stabilizing currencies and restoring external balance, they frequently imposed significant social costs and weakened domestic political legitimacy. As a result, structural adjustment became emblematic of the tension between financial stability and development, shaping debates over how deficit states should adjust to global economic pressures.

G20 Global Coordination (Post-2008):

The G20 emerged as a central forum for global economic coordination following the 2008 financial crisis, aiming to prevent systemic collapse through coordinated fiscal stimulus, monetary easing, and financial regulation. Unlike earlier institutions, the G20 includes major emerging economies, reflecting shifts in global economic power. It played a crucial role in stabilizing financial markets and addressing short-term crisis management, but its effectiveness in resolving long-term trade imbalances has been limited by divergent national interests. The G20 illustrates both the necessity and the difficulty of multilateral coordination in an increasingly fragmented global economy.

Alternative Solutions

A more symmetrical adjustment mechanism is one of the alternative options for trade balance-related financial instability which divides the responsibility between the countries with trade surplus and those with trade deficit. Instead of forcing the deficit countries to carry the whole weight of correction mostly through austerity and contractionary policies, they could be encouraged to stimulate domestic demand, increase imports or even let greater currency flexibility. In addition to accelerated macroeconomic coordination by the G20 and similar forums, the aforementioned steps could be taken through the setting of current account balance targets that are non-binding and fiscal and monetary policies' transparency facilitation. The step of adjustment would not lead to trade disputes or political conflicts and at the same time, the benefits of an open global trading system would be kept, due to the tradeoff mentioned.

The second solution highlights the reform of global economic institutions and the creation of deficit states' capacity as a long-term strategy. This approach encompasses the modernized IMF and World Bank programs that prioritize not only macroeconomic stabilization but also long-term development, social stability, and debt sustainability. The utilization of development financing, technology transfer, and regional trade integration could be expanded in order to assist deficit countries in exporting diversely and thus being less susceptible to external challenges. In addition, the revival of multilateral trading rules will make it easier to deal with issues such as subsidies, state-led economic practices, and non-tariff barriers which will consequently reduce the feeling of unfair competition. In dealing with the disparities, the approach is to make these imbalances part of the interconnected global economy that can easily be managed rather than areas of conflict.

Useful Links

https://www.imf.org/en/publications/esr/issues/2025/07/22/external-sector-report-2025

https://www.imf.org/en/Publications/WP/Issues/2025/09/26/unbalanced-trade-2-570525

https://www.cfr.org/report/global-imbalances-tracker

https://www.wto.org/english/res_e/reser_e/ersd201223_e.htm
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