HANDBOOK

INTERNATIONAL MONETARY FUND
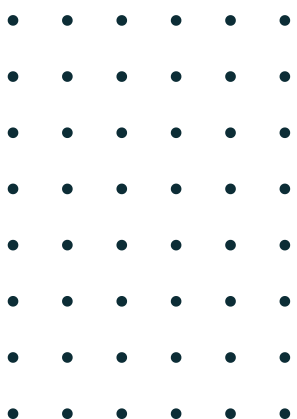
WELCOME!

PROFIT 24

SNFT 2024

CONTENTS

"The opposite for courage is not cowardice, it is conformity. Even a dead fish can go with the flow"
- Jim Hightower

Hey, future governors. It is our pleasure to have you here. First, we want to greet you and welcome you to the International Monetary Fund Committee in this edition of the Business Simulator PROFIT, at the Universidad Autónoma del Estado de México.

You will be able to use your analysis and interpretations to draw conclusions and reach judgments about markets, policies, global productivity, and even more. But also to learn how to investigate and debate, so you can be open without judgments to the knowledge being held around the world.

The IMF Committee is pleased with your choice, we will be right beside you, always giving you support, resolving your inquiries, and nurturing your curiosity. As we know, you will be well-prepared and quite passionate about the two topics we have for you, so you can demonstrate your great potential and at the same time, have a great time discussing and resolving doubts and concerns.

This edition will be a challenge for some, an opportunity, a chance to discover something about themselves, or simply a good experience. In either case, we are confident you will have such a nice experience, even better, you can exercise your language abilities while you learn and gain confidence in yourself. Remember the world is for the courageous, and it is okay to be afraid, but fear shall stop you from growing, do it with fear.

We are appreciative of the interest you show in us, we have great plans for you. We hope you will be very eager and committed to the adventure with the International Monetary Fund.

¡Welcome!

Yours Sincerely,

Emanuel David Martínez Pérez
Second Deputy Managing Director

Carolina Labra Espejel
Managing Director

Luis Alberto Mercado Robles
First Deputy Managing Director

THE INTERNATIONAL MONETARY FUND

The International Monetary Fund (IMF) is a United Nations (UN) specialized agency, founded at the Bretton Woods Conference in 1944 to secure international monetary cooperation, stabilize currency exchange rates, and expand international liquidity (access to hard currencies). The IMF works to achieve sustainable growth and prosperity for all its 190 member countries. It does so by supporting economic policies that promote financial stability and monetary cooperation, which are essential to increase productivity, job creation, and economic well-being.

The first half of the 20th century was marked by two world wars that caused enormous physical and economic destruction in Europe and a Great Depression that wrought economic devastation in both Europe and the United States. Multilateral discussions led to the UN Monetary and Financial Conference in Bretton Woods, New Hampshire, U.S., in July 1944. Delegates representing 44 countries drafted the Articles of Agreement for a proposed International Monetary Fund that would supervise the new international monetary system. After ratification by 29 countries, the Articles of Agreement entered into force on December 27, 1945. The fund's board of governors convened the following year in Savannah, Georgia, U.S., to adopt bylaws and to elect the IMF's first executive directors. The IMF's financial operations began the following year.

The IMF has three critical missions: furthering international monetary cooperation, encouraging the expansion of trade and economic growth, and discouraging policies that would harm prosperity. To fulfill these missions, IMF member countries work collaboratively with each other and with other international bodies.

THE INTERNATIONAL MONETARY FUND

The IMF is headed by a board of governors, each of whom represents one of the organization's approximately 180 member states. The governors, who are usually their countries' finance ministers or central bank directors, attend annual meetings on IMF issues. The fund's day-to-day operations are administered by an executive board, which consists of 24 executive directors who meet at least three times a week. Eight directors represent individual countries (China, France, Germany, Japan, Russia, Saudi Arabia, the United Kingdom, and the United States), and the other 16 represent the fund's remaining members, grouped by world regions.

Each member contributes a sum of money called a quota subscription. Quotas are reviewed every five years and are based on each country's wealth and economic performance, the richer the country, the larger its quota. The IMF issues an international reserve asset known as Special Drawing Rights, or SDRs, that can supplement the official reserves of member countries. The SDR is not a currency. It is a potential claim on the freely usable currencies of IMF members. As such, SDRs can provide a country with liquidity. A basket of currencies defines the SDR: the US dollar, Euro, Chinese Yuan, Japanese Yen, and the British Pound.

References.
- *International Monetary Fund | Global Economic Stability & Development. (2024, 25 abril). Encyclopedia Britannica.* https://www.britannica.com/topic/International-Monetary-Fund/Criticism-and-debate
- *Special drawing rights.* (2024, 29 abril). IMF. https://www.imf.org/en/Topics/special-drawing-right
- *What is the IMF?* (2024, 25 abril). IMF. https://www.imf.org/en/About/Factsheets/IMF-at-a-Glance

TOPIC A. THE POTENTIAL IMPACT OF ARTIFICIAL INTELLIGENCE ON GLOBAL PRODUCTIVITY AND LABOR MARKETS

Artificial intelligence (AI) stands at the forefront of a transformative wave, often equated with a new industrial revolution, with the potential to reshape the global economy. While its profound and far-reaching economic and social consequences are not yet fully understood, AI's impact on the global economy exhibits a clear dichotomy. On one hand, AI holds the promise of enhancing productivity. On the other, it poses a formidable challenge, with the potential to replace humans in certain jobs and fundamentally alter the nature of others.

Building on AI's potential diverse impacts, IMF staff have advanced a nuanced framework to assess AI's influence on productivity and the labor market. This approach delivers new insights into the likelihood of jobs either benefiting from AI or being at risk.

There is significant disparity in AI exposure between country groups—approximately 60 percent of jobs in advanced economies are susceptible to changes as a result of AI, compared with 40 percent in emerging market economies and 26 percent in low-income countries. In advanced economies, AI is expected to enhance productivity in half of these exposed jobs, signaling a positive impact. For the other half, AI integration could automate tasks, potentially reducing labor demand and wages and even leading to job obsolescence. In contrast, emerging market and developing economies are less likely to experience immediate disruption but may also see fewer benefits from AI. Many lack the necessary infrastructure and skilled workforce to effectively leverage AI technology, raising concerns that, over time, AI could exacerbate inequality across countries.

A model-based analysis gauges AI's potential impact on productivity. In this model, AI affects productivity through three critical channels: labor displacement, AI complementarity with skills, and productivity gains. First, AI adoption may shift tasks from humans to AI-driven systems, enhancing the efficiency of task completion. Second, AI integration could benefit tasks that are highly complementary with AI. Third, AI adoption may lead to broad-based productivity gains, boosting investment and increasing overall labor demand. The model is calibrated to the United Kingdom, a country highly exposed to AI adoption and for which data on households' asset holdings are available.

The impact of AI on productivity is analyzed through two scenarios. In the first (high complementarity), AI significantly enhances roles with strong complementarity. The second scenario (high complementarity and high productivity) expands this complementarity by having AI also boost overall productivity, enhancing the high-complementarity role.

In the first scenario, AI use leads output to increase by almost 10 percent as the UK economy adjusts to the new steady state through a combination of capital deepening and a small increase in total factor productivity In the second scenario, when the productivity impact is also considered, output expands by 16 percent and total factor productivity increases by almost 4 percent. These gains take place primarily in the first decade of transition. Incomes for all workers increase, ranging from 2 percent for low-income workers to almost 14 percent for high-income workers, leading to higher income inequality.

Productivity gains from AI are expected to range from 0.9 to 1.5 percent a year, thanks to the United Kingdom's robust digital infrastructure, skilled labor force, innovation ecosystem, and regulatory framework. Conversely, many emerging markets and developing economies lag in AI preparedness, with potential gains less than half those estimated for the United Kingdom. This disparity stems largely from a smaller proportion of workers in high-exposure and high-complementarity occupations. While in advanced economies these roles are occupied by 27 percent of workers, this drops to 16 percent in emerging markets and 8 percent in low-income countries. This variance in the initial distribution of workers across occupations reveals their reduced potential for AI benefits.

For the global economy, the estimates suggest that AI could boost productivity gains by 0.1 percent to 0.8 percent annually over a decade. However, uneven distribution of these gains across regions underscores the need for international cooperation to improve AI readiness and integration in less-prepared nations. Initiatives along these lines can help reduce global inequalities, ensuring that AI benefits reach a wider array of nations.

Another considerable aspect is that AI is being integrated into businesses around the world at remarkable speed, underscoring the need for policymakers to act. To help countries craft the right policies, the IMF has developed an AI Preparedness Index that measures readiness in areas such as digital infrastructure, human-capital and labor-market policies, innovation and economic integration, and regulation and ethics.

The human-capital and labor-market policies component, for example, evaluates elements such as years of schooling and job-market mobility, as well as the proportion of the population covered by social safety nets. The regulation and ethics component assesses the adaptability to digital business models of a country's legal framework and the presence of strong governance for effective enforcement.

Using the index, IMF staff assessed the readiness of 125 countries. The findings reveal that wealthier economies, including advanced and some emerging market economies, tend to be better equipped for AI adoption than low-income countries, though there is considerable variation across countries. Singapore, the United States and Denmark posted the highest scores on the index, based on their strong results in all four categories tracked.

Guided by the insights from the AI Preparedness Index, advanced economies should prioritize AI innovation and integration while developing robust regulatory frameworks. This approach will cultivate a safe and responsible AI environment, helping maintain public trust. For emerging markets and developing economies, the priority should be laying a strong foundation through investments in digital infrastructure and a digitally competent workforce.

The AI era is upon us, and it is still within our power to ensure it brings prosperity for all.

Guide questions for topic A:

- In what ways can AI lead to the creation of new job opportunities or the enhancement of existing roles?
- How might AI contribute to job displacement or the automation of certain tasks?
- What are the key considerations for individuals, businesses, and policymakers as they prepare for the continued integration of AI into the global economy?
- What role should governments play in regulating the use of AI to ensure it benefits productivity while mitigating negative impacts on labor markets?
- What strategies can be implemented to promote the equitable distribution of AI benefits?

References for topic A:

- International Monetary Fund. 2024. World Economic Outlook—Steady but Slow: Resilience amid Divergence. Washington, DC. April. (pp. 82-83) https://bookstore.imf.org/books/world-economic-outlook-april-2024
- AI will transform the global economy. let's make sure it benefits humanity. (2024, January 14). IMF. https://www.imf.org/en/Blogs/Articles/2024/01/14/ai-will-transform-the-global-economy-lets-make-sure-it-benefits-humanity#:~:text=Roughly%20half%20the%20exposed%20jobs,of%20these%20jobs%20may%20disappear.
- Saam, M. (2024). The impact of artificial intelligence on productivity and employment – how can we assess it and what can we observe? Intereconomics. https://www.intereconomics.eu/contents/year/2024/number/1/article/the-impact-of-artificial-intelligence-on-productivity-and-employment-how-can-we-assess-it-and-what-can-we-observe.html

TOPIC B: INDUSTRIAL POLICY AND THE GROWTH STRATEGY DILEMMA: BALANCING STATE INTERVENTION AND MARKET FORCES

Industrial Policies have been an important part in the development of the countries across the globe and in history, and they have used these policies to make domestic producers more competitive or to promote growth in selected industries. Sometimes governments intervene because the private sector may not be willing to assume as much risk as governments when it comes to providing public goods. While some developing countries continued to use it, industrial policy fell out of favor across most of the world for years. We can name several examples, Japan used to practice the administrative guidance, coupled with loans, grants, etc; In 1986 China launched its 863 program to modernize technology, South Korea, Singapore, and Taiwan all used programs to stimulate modernization and development, another famous example is the Apollo space program and the work of the Defense Advanced Research Projects Agency (DARPA).

Back in the day there were several critiques among these policies, they questioned whether such interventions were the most efficient way to allocate public resources. Now industrial policy appears to be back everywhere, the pandemic of COVID-19 has had an enormous impact across the world causing several people to go unemployed, several business going to bankrupt, and the market being disrupted and having several changes in order to be maintained, therefore it has also heightened geopolitical tension, and the climate crises raised concerns about the resilience of supply chains, economic and national security.

The new wave of industrial policies has created trade tensions in key sectors such as semiconductors, renewable energy, and AI, to name a few, this also implies that governments are prepared to back certain firms over others in their own country to gain more in the geopolitical rivalry.

The IMF has increased its focus on collecting data and providing analysis of industrial policies to increase awareness and inform policy discussions. It also focuses on assessing industrial policy measures that can significantly affect a country's domestic or external stability or have the potential to generate significant cross-border spillovers. Finally, the IMF is collaborating with the WTO to promote a multilateral dialogue on trade and industrial policy. A technical meeting on policies for resilience took place in February with contributions from several countries and other international organizations.

As of 4 January 2024, the NIPO database contains information on more than 2,500 novel industrial policies undertaken by 75 jurisdictions. Notably, 71% of these policies explicitly tilt the commercial playing field in favor of national or local firms. That is, these measures distort trade and investment flows and will be viewed by some critics as protectionist. Industrial policy initiatives have primarily centered around major economies, with China, the European Union, and the United States collectively accounting for 48% of these measures. Handing out subsidies to companies is the predominant form of industrial policy. Still, regional disparities are observable in the choice of industrial policy instruments.

Examining the stated goals behind industrial policy interventions, is evident that governments cite promoting competitiveness as the primary objective for more than a third of the measures. Motives related to climate change mitigation are linked to 28% of industrial policy interventions in 2023, while those centered on enhancing supply chain resilience are associated with 15% of measures.

Some of the favored sectors over time because of these interventions have been the medical sector which was one of the main focus for industrial policies but has been surpassed easily by the so called dual use products. The return of aggressive industrial policy lays to rest any notion that there is a level commercial playing field in many sectors of national economies. Competition is less and less on the merits; how firms gain an advantage over rivals has a growing state component.

GUIDE QUESTIONS FOR TOPIC B:
- Is State Intervention Necessary for Economic Growth?
- How Should Industrial Policies Be Designed to Avoid Protectionism?
- What Metrics Should Be Used to Evaluate the Effectiveness of Industrial Policies?
- Can Industrial Policies Address Climate Change and Resilience?
- Collaboration Between the IMF and WTO Effective in Shaping Industrial Policies?

REFERENCES.

- Industrial Policy is Back But the Bar to Get it Right Is High. (2024, 12 abril). IMF. https://www.imf.org/en/Blogs/Articles/2024/04/12/industrial-policy-is-back-but-the-b ar-to-get-it-right-is-high
- Baron, C., & Baron, C. (2024, 11 abril). Why the return of the industrial policy matters for business - I by IMD. I By IMD. https://www.imd.org/ibyimd/strategy/why-the-return-of-the-industrial-policy-mattersfor-business/
- Shih, W. C. (2023, 21 agosto). The New Era of Industrial Policy Is Here. Harvard Business Review. https://hbr.org/2023/09/the-new-era-of-industrial-policy-is-here

MEMBERS OF THE IMF BOARD

- **Managing Director - Carolina Labra Espejel**

Sixth Semester Student of International Business, bilingual in the Economy Faculty, at the Universidad Autónoma del Estado de México. I have been in a couple of simulators of the United Nations. Last year I participated in the second edition of Profit 2023 as a delegate in the G20 committee. I have a certification in "Foreign trade" and a diploma in "Import principles". I am so excited for the Profit 2024 experience. I know it will be a wonderful activity where you can learn and make new friends, also, to improve my abilities while having a great time.

- **First Deputy Managing Director - Luis Alberto Mercado Robles**

Sixth semester student of International Business, bilingual in the Economy Faculty. Currently working as part-time teacher in language school Das Cle S.C. Having participated as a delegate in both the United Nations model TOLMUN and also in the Banxico committee during Profit 2023. I'm quite thrilled for our participation in this year Profit and I'm even more delighted that we will have people who are enthusiastic to learn about problems concerning our society and develop ideas that can solve this deal. I'm certain that this is going to be an incredible event for everyone conforming Profit and even more the IMF committee, best wishes for all.

- **Second Deputy Managing Director - Emanuel David Martínez Pérez**

Sixth semester student at the International Business, Bilingual bachelor, in the Economy Faculty. I'm currently the investigation director at the MDL UAEMEX FE of IMEF Universitario, such as the regional commissioner in which I organize different kinds of workshops, debates, etc. And I'll be organizing a MUN with different universities such as UNAM, TEC de Monterrey, IPN. I have experience as a delegate in PROFIT 2023 where I was recognized for my participation in the Banxico committee. I'm personally very excited to participate in this experience, because it would be the first time not being a delegate, I think this is a great opportunity to learn new things and develop new abilities as well, I'm eager to meet you all, and being part of the best committee that PROFIT 2024 can see!

MEMBERS

#	Country	Role	#	Country	Role
1	United States	Executive Governor	16	Greece	Executive Governor
2	Japan	Executive Governor	17	Turkey	Executive Governor
3	Russia	Executive Governor	18	Ukraine	Executive Governor
4	Saudi Arabia	Executive Governor	19	Spain	Executive Governor
5	China	Executive Governor	20	Pakistan	Executive Governor
6	Germany	Executive Governor	21	Indonesia	Executive Governor
7	France	Executive Governor	22	Egypt	Executive Governor
8	United Kingdom	Executive Governor	23	South Africa	Executive Governor
9	Italy	Executive Governor	24	Switzerland	Executive Governor
10	Canada	Executive Governor	25	Venezuela	Governor
11	India	Executive Governor	26	Bolivia	Governor
12	Argentina	Executive Governor	27	Singapore	Governor
13	Brazil	Executive Governor	28	Nigeria	Governor
14	Mexico	Executive Governor	29	Israel	Governor
15	South Korea	Executive Governor	30	Ecuador	Governor

GLOSARY

Administrative guidance: non-binding advice given by an administrative agency to the public regarding how best to comply with a particular law or regulation.

Advanced economies: economies having a high level of per capita income, a varied export base, and a financial sector that's integrated into the global financial system.

Artificial intelligence: the theory and development of computer systems able to perform tasks normally requiring human intelligence, abbreviated AI.

Cross-border spillover: transmission of effects or risks from one country to another due to various interconnected factors.

Currency exchange rates: A rate at which one currency will be exchanged for another currency.

Economic policy: the set of controls used by the government to regulate economic activity.

Emerging market economies: an economy that is transitioning into a developed market economy. It has rapid GDP growth, growing per capita income, increasing debt and equity markets liquidity, and an established financial system infrastructure.

Factor productivity: measures how much output can be produced from a certain amount of inputs.

Geopolitics: a study of the influence of such factors as geography, economics, and demography on the politics and especially the foreign policy of a state.

Global economy: the sum of activities that take place both within a country and between different countries.

Hard currency: Money that is issued by a nation that is seen as politically and economically stable.

Industrial policy: the strategic effort by the state to encourage economic transformation, i.e. the shift from lower to higher productivity activities, between or within sectors.

Labor demand: the amount of labor that employers seek to hire during a given time period at a particular wage rate.

Labor displacement: involuntary job loss due to firm closure or downsizing) affects many workers over the course of their working lives.

Labor market: refers to the supply of and demand for labor, for which employees provide the supply and employers provide the demand.

Liquidity: The ability or ease with which assets can be converted into cash.

NIPO: New Industrial Policy Observatory database. Productivity gains: benefits when labor productivity increases.

Productivity: the rate at which a company or country makes goods, usually judged in connection with the number of people and the number of materials necessary to produce the goods.

Special Drawing Rights (SDR): International type of monetary reserve currency created by the IMF in 1969