



## Chapter VI

# Global Economic Governance and the EU's External Action

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The central challenge of global economic governance is to ensure sustainable development, comprising its economic, social and environmental dimensions. It is not easy to make progress in this direction when climate change is becoming more serious, the pressure on resources is increasing, major global economic imbalances are appearing and an unprecedented financial crisis is becoming ever more serious, including now a sovereign debt crisis.

The management of these various global changes requires a modernized global agenda and significant changes to global economic governance. These need to take into account the emergence of new influential actors which include not just individual nation states, but also groups of states and representatives of civil society (Zakaria, 2008, Gnesotto, 2006, Vasconcelos, 2011).

At the same time, the European Union is undergoing major transformations in its external action through the reorganization of its leadership structures and through the creation of a European External Action Service with representations all over the world. To what extent is this process enabling Europe to become a more influential global actor?

The soft power which stems from the strengths of the European development model is clearly being undermined by the current eurozone crisis, but the potential is still there: the EU remains the world's largest trading bloc and the

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principal aid donor, and still constitutes a major source of global influence. Moreover, it has retained those factors which will enable it to make the transition to a more sustainable growth model: greener, smarter and inclusive. However this strategic ambition needs to be translated into more effective external action at the multilateral, regional and bilateral level.

## The Governance of the EU's external action

### *A new institutional framework*

One of the main effects of the Lisbon Treaty was the re-organization of the EU's external action:

- ◆ The EU was given legal personality with the removal of the so-called three pillars, and with the full integration of its external action into the Union institutional structures;
- ◆ The leading bodies were redefined by fully recognizing the orientation role of the European Council with a permanent President, as well as through the creation of the post of High Representative who is also vice-President of the European Commission and who chairs the Foreign Affairs Council of Ministers;
- ◆ These leading bodies are supported by a European External Action Service, building on the existing services of the European Commission, the Council and national diplomatic services;
- ◆ Last but not least, a broad concept of external action is enshrined in the Treaty, encompassing CFSP, trade, cooperation, humanitarian aid as well as the external projection of internal policies such as energy, finance, research, education or social policies.

*Article 22 of the Lisbon Treaty:*

*1. On the basis of the principles and objectives set out in Article 21, the European Council shall identify the strategic interests and objectives of the Union.*

*Decisions of the European Council on the strategic interests and objectives of the Union shall relate to the common foreign and security policy and to other areas of the external action of the Union. Such decisions may concern the relations of the Union with a specific country or region or may be thematic in approach. They shall define*

*their duration, and the means to be made available by the Union and the Member States.*

*The European Council shall act unanimously on a recommendation from the Council, adopted by the latter under the arrangements laid down for each area. Decisions of the European Council shall be implemented in accordance with the procedures provided for in the Treaties.*

*2. The High Representative of the Union for Foreign Affairs and Security Policy, for the area of common foreign and security policy, and the Commission, for other areas of external action, may submit joint proposals to the Council.*

After a complex transition process, the new institutional arrangements are now largely in place. The EEAS was created by absorbing the whole of DG Relex, part of DG Development, part of the Council Secretariat as well as the 136 European Commission delegations all over the world. The recruitment for most of the top posts in this newly created structure has also been opened to national diplomats and is almost complete. Nevertheless, many hurdles remain to be overcome in order to improve both the coherence between different external policies and the consistency between the European and national levels when dealing with multilateral, regional or bilateral structures (Chase, 2011). This is still proving to be a challenge of internal coordination between the European Commission and the Council. In addition, the European Parliament is acquiring a new role in the area of external action, in particular through the right to hold hearings on EEAS ambassadors appointment (Drieskens, 2010).

A specific difficulty was identified in September 2010, when the EU was unable to obtain enhanced observer status in the UN General Assembly, something which has now been overcome, thereby paving the way for more effective external representation of the EU. In the meantime, the famous problem of the phone number to be used by world leaders when calling the EU has still to be clarified, even though there is agreement on the division of tasks between the senior posts of the European Council President, the European Commission President and the High Representative.

While putting in place this new institutional framework, the EU was able to undertake a first strategic assessment of its external action – something which was also urgently needed bearing in mind the major changes in the international landscape. In recognition of the changing world and the emergence of

new global players, the European Council, at its meeting on 16<sup>th</sup> September 2010, underscored its ambition to make the EU an effective global actor and its commitment to effective multilateralism, universal values and an open world economy. It stressed the need for better integration of all the relevant instruments and policies, external and internal and for coordination of the actions of the EU and its Member States within multilateral, unilateral and bilateral fora.

The European Council has also assigned to the EEAS, under the authority of the High Representative, the task of providing support to the European Council, the Council and the European Commission as far as strategic overview and coordination is concerned. The same meeting of the European Council also implemented this methodology of coordination by setting out strategic orientations for forthcoming events such as the Seoul G-20 Summit and the Cancun Conference on Climate Change as well as bilateral Summits with the US, Africa and the Eastern Partnership. Nevertheless, putting this coordination into practice will require facing up to deeply entrenched national sensitivities.

Building on this new institutional framework for the development of the EU's external action, it is now possible to launch a more in-depth discussion on the EU's external strategy. As far as global economic governance is concerned, the time is ripe to attempt to define an overall strategic direction for the EU's external action. The classic debate sets those who want to focus European strategy on its economic interests against those who would prefer to put the focus on supporting development globally. We would like to suggest an alternative approach which overcomes this difference (Rodrigues, 2009), and which combines a vision of more balanced global economic governance with a strong sense of European interest.

### *Promoting strategic convergence*

The European Union has an ambitious agenda for a new growth model, and for sustainable development bringing together economic, social and environmental dimensions. But it cannot achieve this in isolation. This became clear with the Lisbon Strategy between 2000-2010 and will be the same with its successor, the Europe 2020 Strategy. The implementation of this internal agenda needs to be supported by an international process which can put in place a strategy designed to achieve much broader convergence. This would open up the possibility of a win-win situation, avoid the risk of a race to the

bottom and strengthen cooperation in the face of a wide range of shared global challenges.

What can be the specific role of the European Union in this international process of strategic convergence? The European Union can play a very important role in creating reference points for a new growth agenda in several ways:

- ◆ by providing a positive example in the implementation of a new growth agenda in its own Member States;
- ◆ by ensuring a link between this new growth agenda and its enlargement and neighbourhood policies;
- ◆ by connecting this new growth agenda with the various parts of its external action: cooperation policy, trade policy, CFSP as well as the external projection of its internal policies with regard to individual countries, regions and multilateral organisations.

A broader approach to the Union's external action therefore needs to be developed. This should bring together existing external policies such as CFSP, trade and cooperation with the external aspects of internal policies. This means that the broader external action of the EU has also to integrate the external dimension of policies such as research, environment, education and employment.

All these external policies need to play a stronger role in developing the external dimension of the Europe 2020 Strategy so that its main strategic priorities are projected to the outside world, in particular:

1. Trade policy, through opening new markets and improving standards;
2. Cooperation policy, through capacity building to improve standards and by improving policy coherence regarding the Millennium Development Goals;
3. Research, education and culture policies to improve international cooperation;
4. Social policies, to support decent work strategies;
5. Energy and environmental policies, by encouraging trade in carbon emissions and renewable energies;
6. Macroeconomic policies, to ensure international financial stability.

In conclusion, when identifying the key objectives of the EU's external action it is important to include, along with peace, democracy and human rights, the promotion of sustainable development:

- ◆ by improving the delivery of the multilateral institutions;

- ♦ by using bilateral strategic partnerships and relationships to encourage this strategic convergence for sustainable development;
- ♦ and by defining a new agenda for global economic governance.

### *In the multilateral framework: the need for a more consistent and coherent external action of the EU*

The promotion of an agenda for sustainable development depends particularly on greater policy coherence in the multilateral institutions, and the European Union has a special responsibility in this area. The debate on a new development agenda is also a debate about basic rules for globalisation. These rules are emerging in different policy fields such as finance, environment, intellectual property and labour (Stiglitz, 2006). Nevertheless, they still lack clarification, enforcement and coordination (Sapir, 2007). By way of example, the following possibilities could help with the coordination of labour rules with WTO rules: a) to define how the WTO could take into account the role of the ILO; b) to create a Committee on Trade and Decent Work within the WTO; c) to define specific indicators which could be introduced into the negotiation process; d) to go further by deciding that the ratification of ILO core labour standards should be a pre-requisite for membership of WTO.

The implementation of an agenda for sustainable development therefore challenges the *coherence* and the *consistency* of the external action of the European Union. The *coherence* between policies which go to make up the EU's external action within multilateral institutions needs to be improved. Greater *consistency* requires much stronger coordination between the EU and its Member States in multilateral fora (Bretherton, 2006).

### *In the strategic partnerships: the need for a new kind of strategic dialogue*

Strategic partnerships and bilateral relationships should be used more actively to promote this strategic convergence for sustainable development. The strategic dialogue with partner countries can be used with this purpose. This is based on the assumption that the management of the strategic dialogue will be more effective if the traditional sequence of many international dialogues is reversed and the discussion is organised in accordance with the following steps:

- ◆ First, a general discussion on the shared challenges we face together as global partners;
- ◆ Secondly, a general discussion on development strategies and the implications for internal policies in order to meet these challenges;
- ◆ Thirdly, a discussion on new ways of cooperating on capacity building in order to encourage better standards;
- ◆ Finally, a discussion on the implications for international relationships, reciprocal market opening, global standards and global governance.

This process of strategic dialogue should be developed at:

- ◆ high level, involving senior representatives of the Council and the Commission, who should meet on a regular basis, set the agenda and discuss selected topics;
- ◆ multi-stakeholders level, involving key stakeholders of civil society, meeting in different arrangements (workshops, conferences, fora). This has already been tried with very interesting results in cases such as the US, China, Russia, Brazil, India and others (Rodrigues, 2008, Vasconcelos, 2008).

Some key assumptions should underpin this dialogue:

- ◆ Europe as a civilian power (Telò, 2006), should use its external policies to project its internal policies;
- ◆ in its exchanges with partner countries, access to knowledge and institutional learning should play an increasing role;
- ◆ a typical example of a win-win situation can be created by combining reciprocal market opening and access to knowledge on conditions that standards in the environmental, social, intellectual property rights and political fields will be raised;
- ◆ the dilemma between globalisation and protectionism should be overcome by effective multilateralism combined with a strategic regionalism.

### *Implications for the EU agendas of external action*

Some conclusions can be drawn from this framework to identify critical points in the specific agendas in the area of external action which are being developed by the European Union:

- ◆ more generally, in the agenda with strategic partners, the strategic cooperation for sustainable development needs to be deepened to include climate change, environment, energy, social inclusion and should create more of a win-win situation in the area of trade;
- ◆ the same can be done in the agenda with regional entities, including a deepening of the dialogue on regional integration;
- ◆ in the transatlantic agenda, progress needs to be made in regulatory convergence in TRIPs, financial markets and energy;
- ◆ in the regional agenda (enlargement and neighbourhood), there is a need to encourage convergence and catching-up;
- ◆ the development agenda should include aid for trade, deepening the strategic dialogue for sustainable development and improving policy coherence in development strategies.

Despite all this, the most difficult yet most important challenge for the EU is how to influence the current global economic agenda in order to create strategic convergence globally.

## Developing the Global Economic Governance

The global economic agenda is undergoing a process of significant change in a wide range of areas from finance, trade, environment and energy, to development, labour, employment and migrations. The challenge is to define global rules in order to manage international interdependency and the global public good, to correct imbalances and to promote an agenda for sustainable development in all countries.

### *Defining a global economic agenda*

Work on some of the building blocks of this new global economic agenda has been underway in particular since 2000: the Millennium development goals, adopted by the General Assembly of the United Nations, in 2000 (UN, 2000); the Monterrey consensus, which defined, in early 2002, a commitment to improve the financial instruments for development; the new round of negotiations in international trade, launched in Doha in 2001, with the commitment to focus more on developing countries (WTO, 2001); the progressive recognition of the decent work agenda at all levels of the UN system (ILO, 2001); the



current negotiations to prepare the post-Kyoto agreement on climate change, energy and environment, according to the road map defined in Bali, 2007 and Cancun, 2010, following the failure of Copenhagen, 2009.

More recently, the financial and economic crisis which began in 2008 led to the emergence of new structures for coordination, in particular the G-20 at leaders level, and to an urgent update of the global agenda, focusing in particular on: coordinating the response to the recession, improving the regulation of the international financial system, encouraging the transition to a low-carbon economy, promoting fair trade, strengthening development policies and implementing the decent work agenda.

The global nature of the financial and economic crisis has led to swift and coordinated international action. Restarting banking activity, regulating the financial system, ensuring coordinated fiscal stimulus, supporting developing countries, promoting the necessary structural adjustments and reforming global governance were highlighted as particular concerns. Specific priorities were defined, particularly in the G-20 Summit held in London, on 2 April 2009:

- a. Tackling the recession by strengthening the recovery plans and their international coordination, making the best of their spill-over effects and ensuring their consistency with the long term goals of sustainable development.
- b. Restoring bank lending to business and people according to a common framework ensuring conditionality for public support.
- c. Enhancing the core competences of the IMF and FSF (Financial Stability Forum) in order to raise the effectiveness of crisis prevention measures and early warning.
- d. The IMF has traditionally been a liquidity-providing institution. It was necessary to increase its resources very substantially in order to strengthen its capacity to rescue default developing countries and emerging economies and provide them with short and long term credit. Conditionality should be revised in order to promote the economic recovery, support their trade and counter-cyclical policies. Additional funding could also be provided by increasing the issuance of Special Drawing Rights (SDRs).
- e. The governance of the International Financial Institutions should be reformed in order to increase their legitimacy and effectiveness. Their heads should be appointed in future through open, merit-based selection

processes. IMF quotas should be further revised in order to give more voice to developing and emerging countries.

- f. Development aid should be stepped up to meet the target of 0.7% GDP and transnational schemes for cooperation with developing countries should be urgently implemented by reducing the co-financing of recipient countries. All multilateral development banks should be assured of the capital they need. New international financing instruments should be developed to pursue the Millennium Development Goals. Credit lines to support trade should be expanded.
- g. Protectionist reactions should be prevented by a new momentum to conclude the WTO Doha Round. EU efforts to conclude free trade agreements should also be pursued. The G-20 Summit should increase the support available for trade credit and reasserted its commitment to achieve an ambitious and balanced conclusion of the Doha Development Round.
- h. The need to push forward with ambitious plans towards a safe and sustainable low-carbon economy should also reinforce efforts for a progressive climate agreement.
- i. The G-20 has also agreed on a regular monitoring and assessment of the recovery plans and their international coordination, in connection with the UN and Bretton Woods institutions. Recovery efforts should be based on medium to long term adjustments towards more sustainable consumption and production patterns, sounder financial schemes and a more balanced structure of global demand. This process should be framed by:
  - an adopted Charter of core values for sustainable economic activity comprising: macro-economic policies for long term objectives, rejection of protectionism, regulation of the markets for sustainable development, financial markets serving the needs of households, businesses and productive investment, sustainable consumption and production, internationally development goals, need of a new economic and financial architecture;
  - an adopted Framework for strong, sustainable and balanced growth, launching a process of mutual assessment of policy frameworks and their implications for the pattern and sustainability of global growth, while trying to identify potential risks to financial stability. The G-20 members have agreed on shared policy objecti-

ves for fiscal, monetary, trade and structural policies to collectively ensure more sustainable and balanced trajectories of growth.

### *Towards a “grand bargain”?*

The implementation of this agenda has made some progress over the last three years, but has also encountered a number of difficulties. The divergences between the G-20 members (in fact 34) are now more apparent, particularly regarding the way they deal with macroeconomic imbalances and more recently, with the public debt crisis. More fundamentally, it is not clear to what extent this new global agenda can bring about a win-win situation. In fact, this global agenda, to be convincing, needs to be defined in terms of gains which can be secured and contributions which can be offered by three different kinds of partners: developed countries, developing countries and emerging countries:

- ◆ From developing countries, growing integration in the global economy, accompanied by programmes aimed at building their national capacity in economic, technological and educational terms, ecological control, fight against poverty and enhancement of working conditions – which often have as a prerequisite a democratic governance and the respect for human rights;
- ◆ From the emerging countries, greater integration in the global economy coupled with the adoption of better standards in the environmental, social and intellectual property areas, to be supported by a stronger mobilization of national and international financial and technological means.
- ◆ From developed countries, the opening of their markets to developing countries' exports, the subsequent redeployment to other areas of activity, the strengthening of cooperation with, and financial aid to, developing countries, and a change to sustainable consumption and production patterns.

Where can so many trade-offs and compromises be negotiated (Rischard, 2002, Sachs, 2008, Samans, 2008 and Stern, 2007)? Will the G-20 remain a consultation forum or can it become a driving force for economic governance? If the latter, serious issues of legitimacy and effectiveness need to be addressed in connection with the reform of the UN system.

## *Reshaping global economic governance*

A new global agenda should be translated into multilateral rules, with a clear identification of the bodies in charge of defining and implementing them as well as of the mechanisms for dispute settlement (Held, 2008).

To create the necessary political momentum, the negotiation of the building blocks of this global agenda should be pursued on two different tracks, the informal track of the G-20 and the formal track of the UN system, WTO and Bretton Woods institutions.

On the one hand, the political commitment which is needed at the highest level has only been able to be provided so far by an informal group composed of the main players of the global economy, a G-N. But the full institutionalization and operationalization of new objectives should involve all the UN Member States and all the relevant agencies of the multilateral system. This can lead to the more fundamental challenge of renewing the multilateral system.

Renewed multilateralism can be inspired by the so-called principle of responsible sovereignty, which entails duties and obligations to other sovereign states and therefore a stronger capacity to address global challenges collectively. It is important to understand how multilateralism can enhance sovereignty by pooling sovereignty. A new multilateralism should be based on shared leadership as well as on developing multilevel governance, improving the synergies between action taken at international, regional, national and local levels. In this framework, regional integration can play a very relevant role by providing possibilities for the implementation of multilateral rules (Telò, 2009).

Renewed multilateralism also requires the strengthening of the legitimacy and effectiveness of a number of central bodies and agencies within the multilateral system. This also calls for the central institutional problem: re-weighting votes according to the actual relative power and resources of the involved countries and avoiding specific veto powers, to be addressed. This is particularly evident in the case of the IMF and the World Bank, where reforms such as greater voting power for the emerging economies and a euro-zone seat are becoming central issues of legitimacy and effectiveness. For many analysts recent reforms are still considered insufficient.

More political impetus to reform the multilateral system could be driven by a triangle composed of the United Nations bodies, the international agencies (including WTO and BWs) and the G-20 (Lamy, 2008). Hence:

- ◆ the relationship between UN bodies and these international agencies should be strengthened by the CEB, UN Chief Executives Board;
- ◆ the relationship between the G-20 and the international agencies should be strengthened by ensuring that they are more involved in the G-20 process;
- ◆ and, finally, the relationship between the UN bodies and the G-20 should be strengthened by the concerted effort of G-20 members in the UN bodies.

In the longer term, the G-20 can improve its composition through appropriate representation of its different constituencies. In this way it could evolve to become a UN Global Economic Council able to ensure, at the highest political level, policy coordination, follow-up to key commitments and the responses to new challenges. At a more operational level, the existing ECOSOC should improve its role of coordination of the various policies and UN agencies; this will depend notably on proper accountability mechanisms and of follow-up on their implementation as well as a strengthening of its Development Cooperation Forum and its Humanitarian Aid Forum.

A strengthened UN framework enhancing coordination and complementarity should be at the centre of efforts to bridge these gaps. There are two possible options which could be considered on how to use G-20 as a way to achieve leverage (Soret, 2010):

- a. Either strengthening of the interaction between the UN system and the G-20, through a more formalized engagement, involving full UN participation throughout the Sherpa preparatory process and a permanent UN seat in the proceedings, with the right to speak on the issues on the agenda.
- b. Or integrating the G-20 membership into a revamped UN. One could reform ECOSOC and halve its membership. Members could either be constituency-based and rotate on a basis which would ensure that all continents as well as all major economies would always be represented, or there could be a combination of designated seats plus constituency-based seats – a formula that could bring together G-20 members and additional constituency-based seats (rotating or representing macro-regions). This latter variation on its membership would better reflect current power structures.

The present gap between global problems and global governance is obvious and it is clear that major reforms of global governance are needed. Europe can play a key role in shaping these major reforms, but its real influence depends, first of all, on its capacity to reorganize its own internal economic governance and to address the euro-zone crisis. Otherwise, it will simply lack the credibility to be taken seriously.

From this perspective, the G-20 Summit of Cannes, at which the EU decided to appeal to partner countries to provide more resources to strengthen its rescue fund, the EFSF, was a setback. Why would Europe, such a rich continent, depend on external resources to tackle the euro-zone crisis instead of concentrating on putting in place adequate internal structures? This was the question which was addressed, albeit diplomatically, to European leaders by their G-20 colleagues.

Europe does not have much time to reverse this trend towards its decline in international terms.

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