

Europe is failing to shape the global governance debate



The EU's enthusiasm for reshaping global governance has dwindled, and now looks more like indifference. **Pedro Solbes** and **Richard Youngs** warn that the EU not only risks the debate being shaped elsewhere but

may even find itself left out of the discussion altogether

The reform of global economic governance is still firmly on policymakers' radar screens, but there is little evidence that since London's G20 Summit in April last year the EU has developed a forward-looking or coherent approach to the new forms of global governance that G20 leaders had committed to.

Several strands of the current European debate are ostensibly joined together by a shared commitment to multi-lateralism. In devising rescue plans for the EU's financial sector, its drawing up of the new '2020 strategy'

and the fashioning of a new EU diplomatic identity, the principle of enhanced multi-lateralism has taken centre stage. And yet the way in which the EU is currently positioning

itself on global governance belies its self-declared status as the world's 'good multi-lateralist'.

The G20 pledged that multi-lateral co-operation and interdependence would guide the world out of crisis. Most European policies, however, do not sit well with the spirit of such commitments.

The EU may not have imposed sweeping quotas and tariffs, but powerful 'behind the

Since the G20's promise last year to move towards concluding the Doha Round, the EU has done nothing in practical terms to achieve this goal

border' protectionism has emerged in the form of subsidies, bailouts, 'buy national' injunctions and new restrictions on foreign direct investment (FDI). Global Trade Alert, an independent monitor, has identified more than 300 new protectionist measures introduced by G20 members.

Since the G20's promise last year to move towards concluding the Doha Round, the EU has done nothing in practical terms to achieve this goal. It has declined to introduce measures aimed at improving OECD rules to free up investment flows, and the new Commission led by José Manuel Barroso comprises fewer pro-market members than during his first term. Most in the Commission now seem to advocate more laxity in state-aid rules to fund investment in R&D, so even if we have not witnessed an open dismantling of the Single Market, it is certainly not moving forward anymore.

The G20 forum is in many senses an advance, but it is not a panacea. European governments have used the G20 in a highly instrumental fashion, with the largest share of the bail-out funds agreed under the G20 rubric having gone to middle-income states in or around Europe. Not only is Europe over-represented in the G20, it also seems to have used the forum as an expedient means of tapping into emergency funds pertinent to the EU's own interests, rather than as a step towards broader and more balanced multi-lateral co-operation.

The comparatively large number of European countries in the G20 serves little purpose in the absence of systematic co-ordination of member state and Commission positions within it. The EU has had little to say, for

COMMENTARY

By Ngaire Woods

And that's because the EU's "big beasts" don't want a single voice

Pedro Solbes and Richard Youngs are clearly disappointed that the EU is not shaping a global economic governance and a more effective multi-lateralism. They argue that the EU should have eschewed trade protectionism and taken practical steps to re-start the Doha Round, and should have pushed harder for governance reforms in both the G20 and IMF. The EU should also have sought a new international monetary agreement to ensure Chinese revaluation, whereas "EU influence over Chinese revaluation has been zero". Europe, it would seem, has neither forged a vision of global order, nor engaged in implementing it. The perplexing case of Europe's economic power but lack of influence has a precedent; perhaps Europe is the new Japan? Back in the 1980s Japan became the world's largest provider of foreign aid, an economic superpower with rapidly growing foreign direct investment, commercial bank loans, and global economic goals (often secured using aid). Japan's military spending rose to super-power levels by the end of the 1980s even though its capacity to use military force was constitutionally constrained. But curiously, Japan's global influence never materialised.

Japan did not change international institutions or debates, although it made a couple of forays in the IMF and World Bank. In fact Japan's foreign policy focused on

**Find related articles on
www.europesworld.org**

- *Global governance is a challenge for democracy (but an opportunity) by Pascal Lamy*
- *Global governance could take a leaf from the EU's book by Iain Begg*
- *Why U.S.-EU economic co-operation holds the key to global governance by Robert Hutchings*
- *Let's use this crisis to re-think global governance by Anna Diamantopoulou*
- *A global formula for tackling the global crisis by Pier Carlo Padoan*
- *Why global rules to prevent another crisis are so elusive by Lorenzo Bini Smaghi*

instance, on what kind of governance rules and standards should guide debates over the much-needed rebalancing between surplus

and deficit states. Instead, each member state has grabbed whatever measure of flexibility assists its own immediate economic recovery. Growth will no longer be generated from the West on the back of emerging economy surpluses, but will need to come from within the emerging world itself, which should be nudged away from purely export-oriented economic policies. But EU influence over Chinese revaluation has been zero. This must change, as in the midst of crisis the EU can no longer live so easily with a strong euro.

There also appears to be little deep reflection over what should be the desirable long-term global role of the IMF. This body still lacks legitimacy, yet is being mandated with powerful new surveillance functions by the G20. Under these new rules, will the EU

EUROPE'S WORLD BACKGROUND BRIEFING

Europe failed to rescue Doha, the first step towards global governance

In the uncertain months after 9/11, a global economic downturn prompted leaders in the West to give trade multi-lateralism another go. Although in 1999 talks in Seattle had failed disastrously, Western leaders promised that the Doha round of trade talks would be different, development issues would take top priority and poorer countries would have greater bargaining power to advance their interests. At Doha in 2001, over 140 trade ministers agreed that tariffs and subsidies should be scrapped to give poorer countries a fairer chance in global markets. All the ministers needed to do was work out the details.

But the goodwill shown at that first Doha conference petered out in a matter of months. In the developed world, powerful agricultural lobbies drowned out whatever public support existed for Doha, pushing politicians to maintain tariffs and subsidies and in

some cases increase them. In 2002, a bill before the U.S. congress sought to give \$83bn more to America's farmers than before. In Europe, producer support for European farmers fell in 2004 by only 1%. These moves angered poorer countries, who felt they were being locked out of lucrative markets. Poorer countries also flatly rejected rich country demands in areas like competition policy and government procurement. The result was stalemate as poorer countries concluded that no deal was better than the deals on offer. After a depressing series of failures, the Doha round broke down conclusively in Geneva in 2008.

At a stocktaking exercise last April, Pascal Lamy, Director General of the World Trade Organisation put on a brave face. He accepted there would be no 'miracle solution', but exhorted members to make the concessions needed to get the deal over the finish line. □

member states subject themselves to the same degree of oversight that the IMF has long visited upon developing countries? And how will such a general surveillance role for the IMF relate to the functions of the putative European Monetary Fund? All this remains to be seen.

European support for the upgrading of the G20 has earned the EU the opprobrium of some of its long-standing partners that have been excluded from the forum. The G20 has done little to soften the impact of the crisis in developing countries and has, if anything, downgraded the focus on issues of good governance. Its rhetoric on the need for international co-operation and openness across a broad range of issues has not stopped European governments dramatically tightening up immigration rules in the wake of the financial crisis.

Taken together, all these measures cast serious doubt on the EU's claim to be leading the debate over a fundamental reshaping of global economic governance. European governments repeat the mantra of 'effective multi-lateralism' but seem to have no comprehensive strategy for turning this into coherent policy guidelines.

When Europeans think about reformed global governance they limit themselves to the issue of seat numbers and voting weights in international bodies. European governments are now only reluctantly accepting the need to scale back their over-representation in multi-lateral bodies. They accept that this over-representation undermines rather than enhances the EU's overall influence – to the extent that it pushes other powers into separate arrangements.

COMMENTARY

Ngairé Woods

consolidating its economic relations with neighbours, securing access to oil and raw materials globally, keeping foreign markets open for Japanese goods and investments, and staying within alliances which met Japan's security needs. After the East Asian financial crisis Japan stepped in with ideas (such as an Asian Monetary Fund) and assistance (about \$30bn in short-term loans and assistance) to its regional neighbours before retreating on both fronts to more modest engagements. Much of this could be said about Europe's policies.

Japan opted out of global governance. In 2003, Japan expert Edward Lincoln suggested we imagine "a Japan prepared to offer Iraq several tens of billions of dollars in foreign aid and inducements for Japanese firms to locate factories there. Had such a Japan demanded a say in decisionmaking prior to the recent war against Iraq, the U.S. government likely would have listened because the potential financial flows from Japan to a post-war Iraq are much larger than what the Germans or French might have offered." Lincoln's point is that Japan did not offer nor demand inclusion. Its government and people do not think it is their business to take up issues of human rights in other countries nor the convoluted politics of the Middle East.

The EU is different. Europeans think human rights the world over are their business. Human rights are upheld across the wider European region by the European Court of Human Rights. Within the EU, human rights are part of the standards set for accession. The EU also differs from Japan in its attitude to conflicts. With large immigrant populations in every major European country (unlike Japan), Europeans cannot afford

But while deliberation is taking place on the question of how much Europe should row back on its historical domination of multi-lateral bodies, there is little vision beyond this. For example, the financial crisis has not forced member states to converge their national systems of financial regulation, an omission which militates against a common European vision for re-modelled global financial co-operation.

In the wake of the crisis, the EU has instead decided to prioritise key bi-lateral relations. It has launched strategic partnerships with Brazil, Canada, China, India, Japan, Mexico, Russia, South Africa, the U.S., the African Union and NATO. Most of these partnerships have little geopolitical content and their sheer number debases their importance in the eyes of partners. A raft of new bi-lateral trade agreements is also being negotiated. But the EU has merely used this plethora of new partnerships as short-term expedient substitutes for the pursuit of deeper multi-lateralism. The same is true of its much-vaunted region-to-region diplomacy, which reveals the extent to which the EU is drawn to ad-hoc 'mini-lateralism.'

The rush to bi-lateral agreements is perhaps understandable in the quest for rapid results and a greater sense of control over international trends. But the costs are high, insofar as the approach undercuts the very multi-lateralism that in general serves the EU well. How can the EU expect to see effective multi-lateral principles employed by other powers, when it ignores the same tenets?

The rest of the world increasingly sees the EU's multi-lateralism as a means of legitimising European involvement in the affairs of weaker states and excluding the involvement of rising powers in European affairs. European powers have been just as mercurial in their alliance-building as any supposedly less principled powers.

As the dust settles from the shock waves of the financial crisis, Europe is clearly in a more defensive frame of mind as trends point towards the U.S.-China axis as the key shaper of the global economy. The Obama Administration has, ironically, in some ways proved a more difficult partner for Europe than the Bush team. The current U.S. Administration has begun to map out its vision of global governance, within which emerging powers have attained heightened importance and the EU a diminished status. European governments have been left to play catch-up. Far from shaping the contours of a new balanced structure of global governance, the EU has been reduced to taking a series of rear-guard positions aimed at tempering its own loss of stature.

Far from shaping the contours of a new balanced structure of global governance, the EU has been reduced to taking a series of rear-guard positions aimed at tempering its own loss of stature

Societal values are accorded little room in the incipient scramble to fashion new alliances. The EU's recent effort to engage with the Shanghai Co-operation Organisation might be necessary in some form, but without any focus on human rights-related issues, how can we say that such engagement contributes to a progressive form of multi-lateral governance? The fact that the newly

empowered High Representative has a foot in the college of Commissioners does not automatically create coherence between politics and economics.

Most traumatic of all, European leaders were excluded from the final haggling between the U.S., China, Brazil and India at the Copenhagen climate change summit. But this is a myopic reason to fret about the changing world order. More important than the forums at which Europe is or not represented is the vision it articulates of the future. Rather than complaining when it is shut out of discussions, the EU would do well to invest more effort in mapping a clearer and more enlightened long-term design for global governance.

The EU appears to have decided that the world will be one of great power rivalry, and that this requires a power politics approach to global governance. In fact, many different dynamics co-exist and are still in flux; the EU still has the chance to shape the emerging post-Western world order, rather than accepting its parameters with passive resignation. It risks being too servile in its courting of new alliances, fixated as it is on short-term gain. It is bereft of any clear idea of how such alliances fit with the kinds of values it believes should guide revised global governance. The G20 must move quickly to redress these shortcomings. □

Pedro Solbes is President and Richard Youngs is Director General of the Madrid-based think tank Fundación para las Relaciones Internacionales y el Diálogo Exterior (FRIDE). consejo@fride.org; ryoungs@fride.org

COMMENTARY

Ngairé Woods

to ignore conflicts in the Middle East and elsewhere. They know that instability and conflict in other parts of the world will reverberate loudly at home. This explains why some aspire to greater global EU influence. But does this mean that Europe needs to act like a super-power? The Cold War super-powers failed dismally to promote human rights and resolve conflicts. So did the global strategies of European countries as great powers in the colonial period. By contrast, the European Union was created to avert conflict among its members, and has succeeded. It has also been a powerful incentive for countries to democratise – think Spain, Portugal and Greece, and the new accession countries. The EU's success has been its doing, but its aspirations to super-powerdom may be its undoing. The EU is most effective when its members need and wish to act collectively. But on global strategy they do not. The largest of the EU member states have their own leadership aspirations, and the fact they will not cede their seats in the Security Council, the G20, the IMF or the World Bank reflects their belief that they neither need nor want a collective EU voice on the issues addressed by these bodies. European countries accepted one EU voice in the WTO, but not because they collectively intended to dismantle their own protectionism and press for global development through trade policies – pace Solbes and Youngs. The EU voice in the WTO reflects the simple logic that the larger the market you represent, the more power you have in trade negotiations. The EU's case for global influence will only be persuasive when it is linked more closely to the core goals of its members. □

Ngairé Woods is Director of the Global Economic Governance Programme at University College, Oxford. ngaire.woods@univ.ox.ac.uk