The Paradox of EMU's External Representation:

The Case of the G20 and the IMF

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Abstract

This paper revisits claims about the euro area's fragmented system of external relations in multilateral settings in the light of the global financial crisis. Focusing on the involvement of the EU and euro area in the G20 and the IMF Executive Board, it offers a case study of European influence during the most turbulent period for the international economic system since the Great Depression. Its central finding is that the euro area has been an influential international actor in these fora in spite, and in some cases because, of its fragmented system of external representation.

Introduction

And one man in his time plays many parts.

William Shakespeare

The delegation of plenipotentiary powers to supranational institutions is a hallmark of the Community method. Nowhere is this more evident than in relation to European Union (EU) external trade policy, where the Commission has the authority to initiate and conduct negotiations with third countries and international organizations (Article 207 Treaty on the Functioning of the European Union [TFEU]). No such provision exists in relation to the external aspects of EU macroeconomic policy. The Treaty, it is true, allows the Council of

Ministers to establish a unified representation in ‘international financial institutions and conferences’ (Article 138 TFEU), but the Commission’s attempts to make use of this provision have thus far been rebuffed. Instead, member states have adopted ad hoc and informal measures to coordinate EU involvement in the International Monetary Fund (IMF), the World Bank, the Organization for Economic Cooperation and Development (OECD), the Group of 7 (G7), the Group of 8 (G8), and the Group of 20 (G20) (see Chang 2009 and van den Noord *et al*. 2008 for an overview of these measures).

The EU’s fragmented presence in multilateral settings has been roundly booed by students of International Political Economy. For McNamara and Meunier (2002: 850), the ‘cacophony’ of European voices in multilateral settings means that ‘the pre-eminence of the United States in international monetary matters, as in other realms, is likely to remain unchallenged’. This point is echoed by Cohen (2008), who criticizes the Treaty for failing to spell out who is in charge of Economic and Monetary Union’s (EMU) external representation. Current arrangements for coordination, he insists, are ‘bound to lack impact’ in the absence of a ‘strategic commitment to achieve and defend common positions…backed by genuine political commitment’ (Cohen 2008: 51).

Calls for a centralized system of external representation are commonplace. McNamara and Meunier (2002: 860) suggest that giving the Eurogroup primary responsibility for ‘coordination and communication between the national economic policy realm and the international political and financial community’ would help ‘to transform the EU into a truly global actor’. Aherne and Eichengreen (2007: 142), sound a similar note, arguing that ‘consolidating Europe’s representation would…enhance the continent’s influence’ and, to this end, the authors advocate the creation of single seats for euro area members and all other

EU member states on the IMF Executive Board and in the G7 and G20. Bini Smaghi (2009: 77) adds to this chorus by arguing that a single EU constituency 'would enable EU member states to have a strong impact on IMF policies, potentially as strong as that of the United States'.

Plausible though these arguments might be, evidence that the euro area's coordinated approach to external representation has led to a lack of international influence is scant. McNamara and Meunier (2002: 851) recall that EU member states failed to reach a consensus on IMF lending to Russia and Turkey, but they do not say what, if anything, a single EU representative at the Fund could have done to overcome such differences. Bini Smaghi (2009) offers a more striking example of how the EU's influence has been undermined by its fragmented presence in the Fund. All EU member states, he observes, supported plans for an IMF crisis resolution mechanism when the issue was raised in April 2003, but the Executive Director from Spain was forced to vote against this proposal because its voice was drowned out by some of the Latin American countries in its constituency.

One reason why more is not known about the euro area's role in multilateral settings is that international economic policy coordination is a scarce commodity, especially during periods of apparent economic calm. McNamara and Muenier (2002: 859) tacitly acknowledge this point when they argue that a failure by euro area members to reach consensus on international issues would be more costly during a financial crisis, since it is under such circumstances that 'delays can be damaging'. This chimes with Cohen (2008: 40) who argues that 'European states seem remarkably unprepared to cope with any wider instability that might erupt in international finance'. The global financial crisis that began in 2007 thus provides an unprecedented opportunity to gauge the euro area's ability to speak with one

voice during a period in which the international community had more than usual to say.

This paper reviews the role played by the EU at the height of the financial crisis in two key multilateral fora: the G20 and the IMF. In the case of the former, it finds that EU member states were at the forefront of efforts to forge an international consensus on policy responses to the crisis and that they secured key concessions at the landmark G20 leaders' summits in 2008 and 2009. In the case of the latter, it finds that EU member states exercised considerable collective influence within the IMF when it came to the provision of financial support for Hungary, Latvia, and Romania. The EU was more circumspect about seeking financial assistance for Greece and other euro area countries, but such delays were rooted in deep-seated differences between EU member states rather than a lack of coordination between European representatives at the Fund. Viewed in the round, the fact that EU member states were forced to seek financial assistance from the IMF is a blow to Europe's international standing, but the manner in which such funding was secured provides evidence of the EU's influence within the Fund.

These findings point to a paradox in the external representation of EMU: when member states agree on international economic priorities, there is little point in establishing a more unified system of external representation, but when member states fundamentally disagree about what to do on the world stage, there is little hope that a more unified system of external representation could fare any better. As regards the first of these points, the EU, it should be recalled, had a seat at the G20 leaders' summits in Washington, DC, London, and Pittsburgh but it played a supporting role to the collective efforts of France, Germany, and the United Kingdom. With respect to the second, there is little that a single EU chair at the IMF could have done to bring forward the financial support for Greece since this decision ultimately

required a financial commitment by member states. None of this suggests that EMU's system of external representation should be immune from reform, but it challenges claims that the EU cannot speak with one voice on the international stage because of its coordinated approach to economic diplomacy.

The remainder of this paper is divided into four sections. The first explores the EU's involvement in the G20 during the global financial crisis. The second section takes stock of the EU's relations with the IMF as concerns over a fiscal crisis in Europe mounted. The third section revisits debates about the need for a single euro area chair in multilateral settings in the light of these findings. The final section draws some general conclusions about what the preceding analysis means for the EU's ambitions to be a global actor.

The EU in the G20

One of the most striking facets of the financial crisis from a global governance perspective is the extent to which the G20 has eclipsed meetings of finance ministers and central bank governors in the G7 and summits of heads of state or government in the G8. The members of the G7 launched the G20 in December 1999 to encourage a regular exchange of views between finance ministers and central bankers from 'systematically significant economies' in the aftermath of the Asian financial crisis (G7 1999).[1] It was not until the international banking system went into freefall in October 2008 that the heads of state or government of these countries saw fit to meet. The first G20 leaders' summit, which was held in Washington, DC in November 2008, was followed by high-profile meetings in London in April 2009 and Pittsburg in September 2009. At the Pittsburg summit, it was agreed that the

[1] The founding countries of the G20 are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Republic of Korea, Turkey, the United Kingdom, and the United States. The EU occupies the 20th seat.

G20 leaders would meet at least once a year, thus confirming the new forum's central role in the global governance architecture.

For Kirton (2000), the emergence of the G20 reflects two structural shifts in the international political economy. From a neo-realist perspective, he suggests, the economic rise of developing countries such as India and China shifted the balance of political power away from developed countries and, by implication, the G7 and G8. From a Westphalian perspective, as Kirton calls it, the intensification of globalization required a forum that includes representatives from all regions of the world. If these trends made the G20's rise likely in the long-term, then the timing of the first leaders' summit owed something to the international influence of EU member states.

Nicolas Sarkozy, in particular, used his country's presidency of the EU in the second half of 2008 to make the case for a summit of world leaders in response to the financial crisis. In a speech to the UN General Assembly on behalf of the EU in September 2008, Sarkozy argued that the G8 should be enlarged to include emerging economic powers such as Brazil, China, India, Mexico, and South Africa in response to the crisis (Sarkozy 2008), a message that he took to the Asia European Meeting in Beijing and the Francophone Summit in Quebec. The French President returned to the United States in October 2008 armed with a mandate from the European Council and accompanied by Commission President José Manuel Barroso for a meeting with President George W. Bush at Camp David. This mission was significant as it paved the way for the summit of G20 leaders in Washington, DC in November 2008, which in turn laid the groundwork for more substantial summits in London in April 2009 and Pittsburgh in September 2009 (Kirton and Guerbert 2010).

As with the domestic aspects of euro area policy coordination, the growing influence of EU heads of state or government on international economic issues occurred at the expense of finance ministers in general and the Eurogroup in particular. Jean-Claude Juncker was conspicuous by his absence from the EU's diplomatic mission to the United States in October 2008 and from the G20 leaders' summits that stemmed from this meeting. The official reason for Juncker's nonattendance at the G20 was that the EU is usually represented by the President of the Economic and Financial Affairs Council (Ecofin) in the case of ministerial meetings and the President of the European Council in the case of leaders' summits. However, such protocol did not prevent Sarkozy from allowing Spanish Prime Minister José Luis Rodríguez Zapatero and Dutch Prime Minister Peter Balkenende to stow away in the EU delegation to the Washington summit in November 2008.

Why the EU has its own seat on the G20 while the euro area does not is a matter of debate. At the Vienna European Council in December 1998, EU leaders agreed that the Eurogroup President could attend meetings of the G7 finance ministers (Council of the European Union 1998). This announcement came after several months of talks with those EU member states not intent on joining the euro area and was followed by several months of negotiations to win the support of Japan, Canada, and the United States. That euro area members had exhausted their political capital in securing a seat for the Eurogroup President at the G7 is one explanation for why the EU did not push for a euro area presence in the first meeting of the G20 in December 1999. Indeed, the fact that the EU was offered full membership at the G20 seems to have been due to efforts by non-European G7 deputies to exclude smaller EU member states from the new grouping rather than diplomatic efforts by the Europeans (G20 2008*a*: 21).

That the Eurogroup President is on the cast list for the G7 but not the G20 encapsulates the EU's protean presence in multilateral fora, but it should not be mistaken for a lack of collective action among member states. In fact, EU member states maintained a remarkably united front in the G20 at the height of the financial crisis. One such display of unity was the decision by EU leaders to make public an agreement on 'principles and approaches' in advance of the G20 leaders' summit in Washington in November 2008 (Council of the European Union 2008). This document, though it papered over differences between the United Kingdom on one side and France and Germany on the other concerning the need for a coordinated fiscal stimulus, identified a range of issues on which EU member states sought progress.

The G20 leaders' summit in Washington, DC fell well short of promises by Brown and Sarkozy to build a 'new Bretton woods' (Hall and Eaglesham 2008), but it showed no shortage of EU influence. The summit's timid language on regulatory reform may have been a blow to the EU, which had called for 'no market, no territory and no financial institution' to escape regulation or oversight (Council of the European Union 2008), but the Europeans won concessions in other areas. For example, EU member states sought and secured: (i) an immediate review of the resources made available to the IMF and the role of the Financial Services Forum; (ii) stronger oversight of credit rating agencies; and (iii) a commitment to review and align global accounting standards (G20 2008*b*). EU member states also achieved their demand for a follow-up summit of G20 leaders within 100 days, thus helping to maintain the momentum for international cooperation in the face of continued financial uncertainty.

The run-up to the G20 in London in April 2009, once again, witnessed intense behind the scenes cooperation between EU member states. The four EU members of the G20, France, Germany, Italy, and the United Kingdom, took the lead on these discussions, but the adoption of 'agreed language with a view to the G20 summit in London' by the European Council (Council of the European Union 2009*a*) ensured a degree of buy-in from all heads of state or government (Nasra *et al*. 2009: 6). This document was ambiguous in places – its simultaneous support for a continued fiscal stimulus and a planned withdrawal of macroeconomic stimuli is a case in point – but its pledge of €75 billion to enhance the IMF's lending capacity showed that Europeans were serious about giving the Fund a greater role in crisis management.

The London summit was far from being an unqualified success – its silence on global macroeconomic imbalances was among its most serious shortcomings – but the final communiqué respected a number of the EU's red lines (G20 2009*a*). The G20's avoidance of additional fiscal stimulus measures, though it was not necessarily in the interests of the global economy or to the satisfaction of UK Prime Minister Gordon Brown, was a boon for the euro area's fiscal hawks. The trebling of the IMF's financial resources and the establishment of a Financial Stability Board were also consistent with the EU's calls for a reform of the international financial architecture, while the decision to enhance the oversight of systemically-important hedge funds and credit rating agencies harkened back to European demands at the Washington, DC summit (Council of the European Union 2008).

The G20's decision to take immediate action and, if necessary, impose sanctions against, tax havens was the issue on which the influence of EU member states was most discernable. The fact that Angela Merkel and Nicolas Sarkozy insisted on this point in their pre-summit press

conference was interpreted at the time as a split in the EU camp (Hall 2009), but Gordon Brown had made similar remarks in the run up to the London meeting (Houlder 2009). The more serious divide at the summit was between EU member states and China, with the latter expressing concerns that the OECD, a body of which it is not a member, would be asked to draw up a list of tax havens. In the end, US President Barack Obama brokered a compromise between Sarkozy and Chinese President Hu Jintao that ensured the G20 would take note of, but not be bound by OECD blacklists (Luce 2009).

Not all EU member states, it is true, celebrated the G20's decision to clamp down on tax havens. This issue, it should be recalled, had not been included in the 'agreed language' adopted by the European Council in advance of the London summit and it prompted critical remarks from those member states that were eventually cited by the OECD for not being fully compliant with tax cooperation rules (Nasra *et al*. 2009: 6). The member states in question, Austria, Belgium, and Luxembourg, wasted little time, however, in accepting the EU's position and taking the necessary steps to remove themselves from the OECD's 'grey list'.

After the publicity surrounding the London summit, the follow-up meeting of G20 leaders in Pittsburg was a more prosaic affair, but it saw no shortage of coordination between EU member states. A further sign of the apparent convergence in views between France, Germany, and the United Kingdom on the future of financial capitalism (see Moschella 2010) came in the form of a joint letter from Merkel, Sarkozy, and Brown to Swedish Prime Minister Frederik Reinfeldt, the President in office of the European Council, calling on the EU to send a strong message to the G20 over the need for further reforms to international financial regulation. (Brown, Merkel, and Sarkozy 2009). The ideas set out in this letter formed the basis for 'agreed language' for the G20 summit in Pittsburgh adopted by the EU

heads of state or government at an informal meeting in Brussels on 17 September 2009 (Council of the European Union 2009*b*). This document repeated the EU's by now familiar cry for credible exit strategies from macroeconomic stimulus packages and included a fresh proposal for binding rules on bankers' bonuses.

EU leaders sounded some discordant notes in the run up to the Pittsburgh summit in September 2009 – an eleventh-hour call for a financial transactions tax by German Finance Minister Peer Steinbrück apparently took other EU member states by surprise (Benoit 2009) – but they stood firm on regulatory issues and achieved a result on bankers' bonuses. The G20's language on compensation policies may have lacked the legal bite that the EU was looking for, but it endorsed the implementation standards agreed by the Financial Stability Board and sent a clear signal to banks about encouraging excessive risk taking (G20 2009*b*). More significant still was the agreement at Pittsburgh that the G20 should become the 'premier forum for…economic policy coordination' and that leaders' summits should be held on an annual basis from 2010. This decision, it would seem, makes permanent the power shift from the G7 and G8 to the G20, a shift that owes much to the diplomatic efforts of the EU.

The EU and the IMF

If the financial crisis altered the G20's place in the global architecture, then it was also a game changer for the role of the IMF. Prior to the crisis, as Pisani-Ferry (2008*a*: 1) acknowledges, 'it was widely held…that the IMF had lost its relevance in a world of increasingly free capital mobility where the financing needs of more and more developing countries were covered by capital markets'. Beattie (2009) put this point more succinctly when he compared the Fund during the early years of the new century to 'a bored coastguard

staring across a calm sea'. Once the financial storm struck, however, the IMF wasted little time in reasserting itself. The Fund's first-hand knowledge of crisis management and the political astuteness of its Managing Director, Dominique Strauss Kahn, were among the factors that helped to reinvigorate the IMF. The G20's aforementioned decision to treble the IMF's financial resources also put it in a much stronger position to provide financial support to stricken economies.

Among EU member states, only France, Germany, and the United Kingdom have the right to appoint their own Executive Directors to the IMF Executive Board, which runs the Fund on behalf of the Board of Governors. The remaining EU member states belong to so-called 'mixed constituencies', which elect Executive Directors to speak on their behalf. Constituencies generally include a mix of developed and developing economies (Van Houtven 2002: 20), with the result that smaller EU member states find themselves in groupings that include at least some countries from outside the Union. Ireland, Poland, and Spain are extreme cases in this respect since they vote as part of blocs that include no other EU member state. Whereas Spain takes turns with Mexico and Venezuela to serve as Executive Director, Poland and Ireland belong to constituencies that are permanently chaired by countries that hold a majority of votes; Switzerland in the case of the former and Canada in the case of the latter.

At the Vienna European Council in December 1998, EU leaders granted the European Central Bank (ECB) observer status at the IMF and decided that the Executive Director of the member state holding the presidency of the Eurogroup would speak up on matters specifically related to EMU (Council of the European Union 1998). To this end, it was (eventually) agreed to appoint a Commission official to the office of the Executive Director

in question and to strengthen practical coordination between EU members on IMF business in Brussels and Washington, DC. The Economic and Financial Committee's Sub-Committee on the International Monetary Fund (SCIMF) is responsible for coordinating EU policy on IMF business from Brussels. A body known simply as 'EURIMF' facilitates an informal exchange of views in Washington, DC between IMF Executive Directors and Alternates from EU member states, the ECB's observer to the Fund and an official from the EU Delegation to the United States.

The EU's approach to the Fund may be Byzantine – the SCIMF alone includes over 60 officials and operates on the basis of consensus – but member states still showed themselves capable of coordination during EMU's first decade. The SCIMF produced 'common understandings' between member states on issues ranging from debt relief to IMF quota and voice and took charge of preparing the Ecofin President's speech at meetings of the IMF's International Monetary and Financial Committee (EURODAD 2006). The EURIMF took a big step forward in 2007 by appointing the Executive Director from Germany, Klaus Stein, as its first 'permanent' President. The EURIMF President's primary function is to present the views of the EU and the euro area to the IMF Executive Board in the form of written statements (Aubrechtová, Coussens and Pineau 2010). These statements cover issues such as Article IV reports on the euro area and EU member states and issues of specific relevance to EMU, such as exchange rates and macroeconomic imbalances.[2]

That member states of the EU, not to mention the euro area, would find themselves in IMF programmes seemed like a remote possibility before the financial crisis. EU countries have traditionally been among the IMF's most creditworthy constituents, with none turning to the

[2] Article IV reports are prepared the light of IMF missions to members and form the basis for Executive Board discussions of economic policies and developments in the economy in question.

Fund for financial help since the late 1970s. Indeed, such was the belief in the EU's overriding economic stability that Mahieu, Ooms, and Rottier (2005) warned that switching to a single euro area chair could trigger tensions within the IMF Executive Board by creating a powerful creditor constituency. Viewed in the light of this claim, the fact that Hungary, Latvia, Romania and, most worrying of all from the point of view of EMU, Greece and Ireland were forced to seek financial assistance from the IMF dealt a serious blow to the EU's international standing. Whether this loss of face was accompanied by a loss of international influence is a more complex matter, however.

When it came to member states whose currency is not the euro, the EU acted decisively and in a way that was revealing of its influence in the international arena. In October 2008, the EU joined forces with the IMF and World Bank to provide a €25.1 billion rescue package to Hungary, which was among the European countries worst hit by the crisis as a result of its burgeoning budget and current account deficits. The €6.5 billion that the EU contributed to this scheme was more than just a show of solidarity to a stricken member state. It was an unexpected display of financial force by the EU; this was, after all, the first time that Ecofin activated Article 143 TFEU, which provides for mutual assistance to euro outsiders facing balance of payments difficulties.

The EU's support for Hungary allowed it to draw on the financial resources of the IMF while retaining a say over the conditions attached to the overall package and the assessments of its implementation. A statement released by the Ecofin Presidency on 14 October 2008 made it clear that EU officials were 'in close consultations with the Hungarian authorities and the Fund to ensure that any conditionality attached to possible IMF financing [was] consistent and mutually reinforcing with EU policy advice under the Treaty framework' (Ecofin

Presidency and the Commission 2008). The Commission was a big winner on the EU side. Although Ecofin retains final say on whether to grant balance of payments assistance under Article 143 TFEU, it falls to the Commission to initiate such action and to raise the necessary funds. The Commission's influence in the Hungarian case was evident from the fact that Commissioner for Monetary Affairs Joaquín Almunia signed the Memorandum of Understanding with Hungary on behalf of the Community and from the fact that officials from DG Economic and Financial Affairs joined their counterparts from the IMF in missions to Hungary to review progress made (Commission 2008).

The EU also moved quickly during the financial crisis to join international efforts to support Latvia and Romania. In the case of Latvia, the EU contributed €3.1 billion in balance of payments support compared with €1.7 billion from the IMF.[3] In the case of Romania, the EU stumped up €5 billion, compared with €13 billion from the IMF.[4] The EU's influence was most evident on the conditions attached to the first of these packages, which included support for the lat's peg to the euro. With memories of Argentina's ill-fated link with the dollar looming large among Fund staff, it is debatable whether the IMF would have chosen this course of action if left to its own devices (Economist 2009). EU officials undoubtedly had more to lose in this situation since a devaluation of the lat would have jeopardized Latvia's plans to join the euro area and could have triggered a crisis of confidence in the Exchange Rate Mechanism (ERM II).

To underline the EU's determination to speak with one voice concerning Latvia, EURIMF took the unusual step of submitting a 'common gray' to the IMF Executive Board. This was

[3] The Latvian package also included contributions of €1.8 billion from a consortium of Nordic countries, €400 million from the World Bank, €200 from the Czech Republic, and €100 million each from Estonia, Poland, and the European Bank for Reconstruction and Development.

[4] The package included an additional €1 billion in support from the World Bank, the European Bank for Reconstruction and Development, and other lenders.

procedurally important, as a 'common gray' is a more binding instrument of coordination than a 'presidency gray'. In the case of the latter, each EU Executive Director issues a 'national gray' that merely 'associates' itself with the written statement by the EURIMF President. In the case of the former, the 'common gray' is the sole statement issued by EU member states to the IMF Executive Board. The significance of this distinction was not lost on IMF watchers, who warned that the Fund was in danger of being captured by EU interests (Beattie 2010).

When it came to the fiscal effects of the financial crisis in euro area members, the EU was altogether more hesitant about what role the IMF should play. Initially, the EU sought to go it alone, with Peer Steinbrück's statement in February 2009 that 'other states would have to rescue those running into difficulty' interpreted as an implicit guarantee that the EU would act to prevent any euro area member state from defaulting on its sovereign debt (Benoit and Barber 2009). Steinbrück's remark helped to calm financial market fears about Ireland's perilous public finances in the short-term but concerns over a fiscal crisis in the euro area resurfaced in October 2009 after the true state of Greece's public finances came to light. Initially, EU finance ministers sought to reassure markets by giving notice to Greece to implement budgetary cuts under Article 104(9) TFEU. By the beginning of February 2010, however, it was clear that such measures would not be sufficient to return Greek debt to a sustainable path and that financial assistance in some shape or form was inevitable.

Whereas the EU moved within a matter of days to provide balance of payments support for Hungary, Latvia, and Romania, it took three long months of haggling between member states before the terms of a rescue package for Greece were finally hammered out. A statement issued by EU heads of state or government on 11 February 2010 promised to draw on the

‘expertise’ of the IMF (Heads of state or government of the European Union 2010), but widening interest rate differentials between Greek and German government bonds suggested that markets remained unconvinced about the EU’s ability to do without the Fund’s financial resources. By the middle of March 2010, several euro area members including Finland, The Netherlands, and Italy were warming to the idea of IMF involvement in a rescue package (Barber 2010). Angela Merkel came to the same view on the eve of the European Council meeting in Brussels on 25-26 March 2010 (Wiesmann and Peel 2010) and convinced other euro area heads of state or government to sign up to ‘a package involving substantial International Monetary Fund financing and a majority of European financing’ (Council of the European Union 2010*a*).

Financial markets at first welcomed this deal, but fears over Greece’s fate soon resurfaced. Ambiguity in the fine print of the European Council’s agreement was partly to blame here. For one thing, EU leaders’ insistence that EU financial support should be ‘ultima ratio’ raised concerns that support for Greece would arrive too late. Furthermore, the fact that the disbursement of bilateral loans would be decided by unanimity meant that EU leaders had agreed to give financial support to Greece in principle but not yet in practice. Worst of all, the European Council’s insistence that these loans be offered at ‘non-concessional’ interest rates put Greece in the paradoxical position of being offered money at market rates only after market rates became unbearable (Münchau 2010). It also raised questions about why Greece should borrow from the EU at punitive rates rather than turning in the first instance to an IMF stand-by facility charged at a preferential interest rate. Euro area finance ministers brokered a deal on this last point in mid-April 2010, whereby IMF and EU funding would be disbursed simultaneously with the latter bearing an interest rate that was below the market rate but above the rate being offered by the Fund.

Although this decision arguably penalized Greece for being a member of the euro area, Greek Prime Minister George Papandreou had little choice but to issue a request on 15 April 2010 for talks with the Commission, the ECB, and the IMF concerning the modalities of financial assistance. These talks concluded a little over two weeks later with a technical agreement over a joint euro area/IMF financial package worth €110 billion over three years. The conditions attached to this loan were multifarious and included public sector wage cuts, pension reforms, and other fiscal consolidation measures designed to reduce government borrowing below 3 per cent of GDP by 2014 (Commission 2010*b*).

The manner in which this deal was reached shone a spotlight on the balance of power between the EU and the IMF as the euro area's fiscal crisis intensified. To all appearances, the relationship was one of equals, with the Commission, the ECB, and the IMF conducting a joint mission to Athens and the Commissioner for Economic and Monetary Affairs Olli Rehn and the IMF Managing Director Dominique Strauss Kahn issuing a joint statement on the conclusions of the talks. The EU's prevarication over the Greek fiscal crisis nonetheless weakened the former's bargaining position in relation to the Fund and left the Commission and the ECB with little alternative but to implement some fairly significant policy changes in the days after the rescue package for Greece was unveiled. On 4 May 2010, the Commission revised the Article 126(9) recommendation issued against Greece earlier in the year to accommodate the timetable and budgetary adjustment path agreed under the EU-IMF financial rescue package. On 6 May 2010, the ECB announced that it would henceforth accept Greek bonds as collateral in credit operations irrespective of the country's sovereign credit rating, a move that the Bank had hitherto resisted.

This is not to suggest that the IMF did not have to make some concessions to the EU over Greece. Some Fund staff reportedly wanted to discuss the possibility of debt restructuring, but this idea was resisted at this stage by EU policy-makers (Sakoui and Hope 2010). Despite noises off from some IMF Executive Directors that the Fund had been too lenient towards Greece (Brown, Oliver, and Johnston 2010), the Executive Board approved the financial rescue package on 9 May 2010. The EURIMF helped to expedite this decision by adopting a 'common gray', which expressed the support of all euro area Executive Directors for this package. The signature of the UK Executive Director was noticeably absent from this statement, but this reflected a reluctance to give formal support to a decision of this magnitude while discussions over the formation of a coalition government were taking place in London; the fact that the UK Executive Director made an oral statement to the Executive Board in favour of financial assistance for Greece reinforced this point.

Differences within EU member states still remained, however, with Angela Merkel facing a closely run vote in the Bundestag and a preliminary ruling by the Constitutional Court in Karlsruhe before the government could authorize the disbursement of its contributions to the Greek rescue package. This paved the way for a euro area summit on 8 May 2010 at which the heads of state or government of the member states sharing the euro area authorized the provision of €80 billion in bilateral loans to Greece in line with the EU-IMF rescue package (Council of the European Union 2010*a*). Greece received the first tranch of these loans on 18 May 2010, some four months after euro area leaders had promised 'to take determined and coordinated action…to safeguard financial stability in the euro area as a whole' (Heads of state or government of the European Union 2010) and some four weeks after the rating agency, Standard and Poor's downgraded Greek debt to junk bond status.

A further twist in this tale occurred on 10 May 2010, with the announcement of a joint EU-IMF initiative to provide €720 billion in loans and credit guarantees for euro area member states facing the same fate as Greece (Council of the European Union 2010*b*).

This agreement puts the ad-hoc cooperation between the EU and IMF forged at the height of the Greek fiscal crisis on a more permanent footing, with the Fund agreeing to contribute up to €220 billion in financial support and the EU covering the remaining €500 billion through two new financial instruments. The first, the European financial stabilization mechanism (ESFM), put aside €60 billion in support under a seldom-seen provision of the Treaty that allows the Council of Ministers, acting on a proposal from the Commission, to grant financial assistance to a member state facing 'exceptional occurrences beyond its control' (Article 122 TFEU). The second, the European financial stability facility (ESFS), promised up to €440 in additional loans through a special purpose vehicle (SPV) to which all euro area members (bar Greece) agreed to contribute on a pro rata basis corresponding to their shares in the capital of the ECB. Ireland was the first member state to make use of these arrangements, concluding an €85 billion financial support package with the EU and IMF in November 2010, which included €22.5 billion in contributions from the ESFM and €17.7 billion from the EFSF, with the remainder coming from the Fund, bilateral loans from Denmark, Sweden and the United Kingdom and contributions from the Irish government's own fiscal reserves (Eurogroup and Ecofin Ministers 2010).

The Paradox of External Representation

Though the final curtain has yet to fall on the financial crisis, the events recounted in the two preceding sections reveal a great deal about the EU's character as an international actor. In the first act of the crisis, which was dominated by international summitry, the EU showed a surprising degree of influence, with Nicolas Sarkozy and, to a lesser extent, José Manuel

Barroso instrumental in convincing George W. Bush to convene a G20 leaders' summit in Washington, DC in November 2008. The EU, it was noted, maintained a surprisingly coherent stance at this summit and at follow-up meetings in London and Pittsburgh through the adoption of agreed language in the European Council. Though the EU was forced to give ground on some of its desiderata, it secured a number of concessions at these summits, including commitments to clamp down on tax havens and revise the rules on bankers' bonuses. Whether the G20's efforts went far enough or even in the right direction is a matter of debate, but the EU's influence in this forum was nonetheless plain to see.

The second act of the financial crisis was dominated by concerns over sovereign debt in Europe and political debate over what role the IMF should play in financial rescue efforts. That EU member states were forced to seek assistance from the Fund, an unthinkable thought before the financial crisis, dealt a serious blow to EMU's international standing. Yet amid this turmoil the EU's international influence was manifest in its efforts to secure the IMF's financial resources while giving the Union a say over the surveillance of member states' economic policies. The EU's support for Latvia was the most striking example in this regard since it helped to avoid a devaluation of the lat against the euro that would have undermined the credibility of ERM II. Procrastination over the fiscal crisis in the euro area, it was suggested, may have weakened the EU's hand in relation to the IMF, but EU policy-makers still secured a central role in formulating, and monitoring compliance with, the conditions attached to the financial rescue package for Greece and in the wider deal reached on the creation of the European financial stabilization mechanism and European financial stability facility.

What difference, if any, would a unified system of external representation have made to the EU's involvement in the G20 at the height of the financial crisis? The EU, it should be recalled, is already a full member of this body, meaning that the EU presidency had a seat at the G20 leaders' summits in Washington, DC, London, and Pittsburgh. There is little evidence, however, to suggest that the EU delegation played a decisive role at these meetings. Such was the importance of the EU's G20 seat to Nicolas Sarkozy that he offered it to Spanish Prime Minister José Luis Rodríguez Zapatero and Dutch Prime Minister Peter Balkenende, neither of whom played a prominent, public role in Washington, DC. The head of the EU's delegation to the London summit, Mirek Topolánek, did hit the headlines in March 2009 by warning that certain aspects of the US fiscal stimulus package could lead to 'the road to hell', but this comment ensured that the Czech Prime Minister had a largely non-speaking role at the summit itself (Topolánek 2009). Swedish Prime Minister Fredrik Reinfeldt, who led the EU's delegation at Pittsburgh, at most played a behind the scenes role, while the same could be said of Commission President José Manuel Barroso, who attended all three summits.

De facto responsibility for representing the EU at the landmark G20 summits in 2008 and 2009 fell to the leaders of the three largest EU economies: France, Germany, and the United Kingdom. Gordon Brown, Angela Merkel, and Nicolas Sarkozy, as noted above, maintained a fairly coherent line at these meetings, with the French President and German Chancellor, in particular, closely calibrating their diplomatic efforts. Tensions between national leaders did arise from time to time (e.g. over the focus on global imbalances at Pittsburgh,) but there is little reason to believe that a sole EU representative would have secured a better deal for Europe, particularly as he or she would have been unable to make the kinds of policy commitments on macroeconomic and regulatory issues that Brown, Merkel, and Sarkozy

could. Juncker's inclusion in the EU delegation to G20 leaders' summits is, for the same reason, unlikely to have made much difference, although his omission made little sense given the presence of finance ministers in other national delegations.

A recurring reason against giving the Eurogroup President a seat at G20 leaders' summits is that the EU's delegation to such meetings is already over crowded. If this argument holds, then the representative of euro area finance ministers surely has a more legitimate claim to join the delegation than the Prime Ministers of Spain and The Netherlands. The fact that President Herman Van Rompuy led the EU's delegation to the G20 leaders' summit in Toronto in June 2010 suggests, however, that the European Council will continue to overshadow the Eurogroup in this setting for some time to come. An interim step would be to give the Eurogroup President a place in the EU's delegation to meetings of the G20 finance ministers and central bank governors. In so doing, it would also make sense to invite the Commissioner for Economic and Monetary Affairs to fully participate in this particular forum.

As with the heads of state or government's hands-on involvement in euro area governance, the question arises as to whether the willingness of large EU member states to put up a united front at the G20 will outlast the financial crisis. Gordon Brown's defeat in the UK general election of June 2010 certainly robbed the European Council of one its more enthusiastic proponents of global governance, but early signs suggest that his successor, David Cameron, is prepared to work in his own way with his European colleagues on shared international priorities. The informal bilateral talks between Cameron and Merkel in advance of the G20 leaders' summit in Seoul in November 2010 were an encouraging step in this regard.

Turning to the IMF, it is far from evident that a more unified system of external representation would have made much difference at the height of the financial crisis. The EURIMF and SCIMF might involve an inordinate number of officials in the preparation of common positions on IMF business, but this did not prevent EU member states from acting swiftly and decisively to provide support to Hungary, Latvia, and Romania. The EU could certainly have played its hand differently in relation to the Greek fiscal crisis, but financial support would probably not have come any sooner if there had been a single EU or euro area seat on the IMF board. Within the Fund, there is not much more that a single European representative could realistically have done to expedite agreement in the Executive Board over Greece that the EURIMF did not do. Within the EU, there is little that the occupant of a single chair could have done to overcome deep-seated differences between member states that went right to the highest levels of government and which were resolved only after eleventh hour talks in the European Council. This speaks to Frieden's (2004) point, echoed by Cohen (2008: 52), that heterogeneous preferences between national governments on international issues will make it more difficult for the EU to speak with one voice whether it has a single chair on the IMF Executive Board or not.

This is not to suggest that the process of coordination between EU member states at the Fund could not be strengthened. There are, in particular, reasons to doubt whether the SCIMF gives the EURIMF a sufficient steer on IMF business. Firstly, the SCIMF meets on a monthly basis, whereas the EURIMF meets as many as three times per week when there are urgent matters to discuss. Secondly, the SCIMF devotes most of its attention to horizontal policy issues such as the development of common views on exchange rate policy and the international economic situation, whereas the EURIMF spends most of its time trying to reach a common view on country-specific issues in the context of IMF Article IV

consultations. Thirdly, the SCIMF is hindered by its composition, which includes too many officials, some of whom are too junior to speak with authority on sensitive policy issues. In overcoming these and other shortcomings, the SCIMF might learn a thing or two from the EU Trade Committee (previously known as the Article 133 committee), which closely monitors the Commission's involvement in international trade talks through weekly meetings at the level of deputies and monthly meetings at the level of full members (see Pollack 2003: 278–9).

The financial crisis has also revealed the rather anomalous position of the Commission in relation to the Fund. Although it found itself working closely with Fund staff on rescue packages, the Commission was all but invisible to the IMF Executive Board. The decision taken by EU leaders at the Vienna European Council in December 1998 to appoint a representative of the Commission to the office of the Executive Director has only been partially implemented to date. An official from the Directorate General for Economic and Financial Affairs was appointed to this post but she serves as an adviser to the EURIMF President and does not represent the Commission as such on the EURIMF. This particular role falls instead to a Commission official based at the EU delegation in Washington, DC. Whether the Commission would wield more influence within the Fund by being given the same kind of observer status on the IMF Executive Board as the ECB enjoys is unclear. On one hand, observer status would allow the Commission to address the IMF Executive Board and give it greater access to internal Fund briefings and documentation. On the other hand, ECB observers at the Fund are shut out of decision-making and can be viewed with a degree of distrust by Executive Directors. A more radical alternative would be to allow the Commission to serve as an Alternate Executive Director in the constituency chaired by the EURIMF Presidency. For historical reasons this seat is reserved for the Bundesbank, which

seems somewhat anachronistic given the central bank's diminished policy-making role since the launch of the euro.

A final lesson from the financial crisis for the external representation of the euro area is that there seems to be a serious gap in multilateral settings between EU economic diplomacy and wider foreign policy imperatives. The EU's reluctance to provide financial assistance to Ukraine in October 2008 in spite of the two sides' commitment to 'privileged political links, and deeper economic integration' at the EU-Ukraine summit a little over a year earlier is the most striking example in this regard (Council of the European Union 2007). This left Ukraine with little option but to turn to the IMF, which later pulled the plug on its $16.5 billion payments facility after a perceived lack of budgetary consolidation. Ecofin's offer of €500 million in macro-financial assistance to Ukraine in October 2009 was too little too late, coming as it did just five months before Viktor Yanukovych narrowly defeated Prime Minister Yulia Tymoshenko in the country's presidential elections. Though Yanukovych has spoken of the need for closer ties with the EU, his decision to renew the Russian Navy's lease on the port of Sevastopol and his openness to a merger of Ukraine's oil and gas company, Naftogaz, with its Russian counterpart, Gazprom, and are just two indications that Ukraine has an eastern partnership of its own in mind.

Conclusion

'In spite of my great admiration for individual splendid talents, I do not accept the star system. Collective creative effort…requires ensemble acting and whoever mars that ensemble is committing a crime not only against his comrades but also against the very art of which he is the servant', thus wrote Constantin Stanislavski, the father of modern acting. Stanislavski's system might shed some light on debates about the EU's presence as an international actor, which have tended to focus on the search for a single star to speak for Europe rather than first

seeking evidence of what the ensemble of EU institutions and member states can and cannot achieve on the world stage.

One reason why the literature on EU external representation has tended to focus on either describing existing institutional arrangements or designing new ones is that the opportunities for international policy coordination are rare during periods of economic normalcy. The global financial crisis thus provided an unprecedented opportunity to observe how the EU responded to the biggest challenge to face the global economy since the Great Depression. The analysis presented in this paper suggests that EU member states showed a surprising capacity for collective action during the crisis, thus challenging claims by McNamara and Meunier (2002) among others that EMU is bound to lack influence on the international stage because of its fragmented system of external representation.

In the case of the G20, the EU can rightly claim to have shown leadership at the landmark summits of heads of state or government in 2009 and 2010. The idea of a leaders' summit was not new, but Nicolas Sarkozy and José Manuel Barroso can claim some credit for driving an international response to the crisis that went beyond the limits of the G8. Even more impressive was EU member states' coordinated approach to these summits based on agreed language adopted by the heads of state or government. The EU delegation to these summits seems to have played a limited role in its own right and the Eurogroup was excluded altogether, but the fact remains that the leaders of the three largest EU economies, France, Germany, and the United Kingdom, forged a united front at these meetings that few would have thought possible before the crisis.

Calling in the Fund can only have hurt the EU's international standing, but what came next demonstrated Europe's influence within the Fund. Although much has been made of the EU's excessively bureaucratic efforts to coordinate positions at the IMF through the SCIMF and the EURIMF, these committees did not stop the EU from acting swiftly and decisively in response to unfolding fiscal developments in Hungary, Latvia, and Romania. Though the EU acted much less decisively when the fiscal crisis first struck the euro area, this owed more to political differences between member states than the absence of a single EU or euro area seat on the IMF Executive Board. In any case, member states eventually agreed to a joint EU-IMF financial rescue package for Greece and committed to make similar arrangements available to other member states. It remains to be seen precisely how much say EU officials will have over the implementation of the programmes attached to these loans, but the signs thus far suggests that it could be considerable.

What are the wider implications of these findings for the study of the EU as a global actor? On the one hand, the financial crisis thus shows that the EU can, however imperfectly, work towards an international order based on effective multilateralism, which is one of the core objectives of the European Security Strategy adopted by the European Council in 2003. On the other hand, the financial crisis showed the limits of what supranational actors can realistically achieve without the right diplomatic levers. The limited international role played by the Commission and the Eurogroup President at the height of the financial turmoil, in particular, does not bode well for what the High Representative of the Union for Foreign Affairs and Security Policy and the new full-time President of the European Council could achieve in a comparable political crisis.

Put less pessimistically, the common purpose shown by France, Germany, and the United Kingdom during the financial crisis serves as a reminder that member states play many parts and that they are sometimes the most credible ambassadors for the EU. The UK and France's failure to agree on a (second) United Nations Security Council Resolution on the use of military force against Iraq in March 2003 serves as a stark reminder that such agreement is not always obtainable (Peterson 2004). The concerted efforts by the foreign ministers of France, Germany, and the United Kingdom to address international concerns over Iran's nuclear programme shows that it is sometimes possible (Denza 2003).

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