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About the Author

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Abstract

All long-term scenarios confirm that over the next fifteen to twenty years, Europe's relative economic weight will shrink as that of new emerging economies – Brazil, Russia, India, and China (the so-called BRICS) – rises. On the one hand, this is a positive development insofar as it adds new engines to world growth, but on the other hand, imbalances are now appearing in energy markets, environmental sustainability, and financial stability. One of the major consequences of globalization is the growing interconnection among markets and, consequently, the growing interdependence of the four main international economic policies: in trade, in competition, in the supervision and regulation of international financial markets, and in monetary relations. With the exception of Europe, leading players of the global system are sovereign states, including the BRICS, for which the policy coordination issue arises only in terms of national interest and national institutions. However, the EU's external economic policy still bears a problem of dysfunctional governance. If this issue is not addressed properly, an unavoidable consequence is a loss of European influence over the management of international economic relations.

Introduction: What's Missing in Global Governance

All long-term scenarios confirm that over the next fifteen to twenty years, Europe's relative economic weight will shrink as that of new emerging economies – Brazil, Russia, India, and China (the so-called BRICS) – rises. On the one hand, this is a positive development insofar as it adds new engines to world growth, but on the other hand, imbalances are now appearing in energy markets, environmental sustainability, and financial stability. The new economies' growth is in fact occurring against a backdrop of global macroeconomic imbalances that have become more serious in recent years and the resolution of which is to date unclear (as the subprime crisis unfolds). This is also eliciting new fears in advanced industrial economies, which feel threatened by the newcomers' growth potential, and these fears may yet yield protectionist responses in both trade and investment. As we write, uncertainty continues to prevail as to whether the Doha Round will end in failure, or whether a show of leadership will help reach a last-minute agreement. Should this not occur, trade relations in the years to come will witness further increases in the already high numbers of regional and bilateral agreements, thereby posing further global governance problems.

Faced with such events, one may take an "optimistic" view, and hold that sooner or later both financial imbalances and imbalances generated by changes in trade specialization will be ironed out by markets, which will provide funding for the imbalances and, through changes in relative prices and exchange rates, redirect resources according to comparative advantages, despite a weakened multilateral framework.

That being said, even if we wish to take an optimistic view, there is no denying that globally we are faced with deficiencies in governance. These deficiencies are only partly offset by proliferating regional and bilateral responses in both trade and monetary and financial relations, as international institutions appear to suffer, to some extent, from a loss of legitimacy.

The turmoil experienced by financial markets in the summer of 2007, which originated in mortgage markets, has once again raised issues of how much regulation financial markets require and how to establish a consistent regulatory framework in times of growing financial integration. Finally, the proliferation of sovereign wealth funds (SWFs) in a number of leading BRICS (China and Russia mainly) has reignited discussions on investment protectionism and the defense of national interests.

The issue of Europe's role in global governance develops in this context, which we shall now briefly analyze from the point of view of macroeconomics, financial flows, and trade.

Macroeconomics, Financial Flows, and Trade

Macroeconomic Imbalances

The international payments system has been in a state of imbalance for several years now. The main features of this situation are well known. The United States runs a major current account deficit, currently at over 6 percent of GDP.[1] Asian countries, and in particular China, are registering surpluses as have, more recently, oil-producing countries. Europe, and more specifically the euro zone, is basically in equilibrium, although against a backdrop of slow growth. This breakdown in surpluses and deficits is mirrored by the capital flows that finance the imbalances and that are made up of massive net flows of funds to the United States from the rest of the world. These flows have long sustained the dollar and contained US interest rate rises, although the dollar did begin to show clear signs of weakness during the second half of 2007.

One of the root causes of these payments imbalances is the decline in both public and private savings in the US, where households' savings turned negative in 2005, in part as a result of increases in wealth, generated *inter alia* by the real estate bubble, leading to households spending levels exceeding current income. Conversely, savings rates are very high in Asia, and in particular in China, where uncertainty continues to weigh down on households in the absence of sustainable pension schemes. In these countries, savings rates have remained above the albeit already high investment rates. This is what has generated current account deficits and surpluses, the removal of which thus requires policies impacting the public and private determinants of savings, worldwide.

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[1] IMF, *World Economic Outlook*, September 2007, Washington, D.C.

The main question that arises in this context is whether global imbalances are sustainable and if so, for how long. And whether tackling them requires international policy coordination. There are two possible responses to this. There is the pessimistic view, according to which, absent significant and coordinated adjustments, a crisis in financial markets and exchange rates may well materialize, with significant dollar depreciation and a slowdown in growth in at least the two major developed areas. The financial crises that has erupted in the summer of 2007 lends some support to this view. The optimistic view conversely feels that more coordination is useless and the risk of there being a crisis, remote. All one should do is wait for markets to do their bit, even if this involves a downward (and hopefully gradual) slide in dollar rates.

Ever since the issue of global imbalances became central to the debate, the International Monetary Fund has supported a joint adjustment strategy advocating, in line with G7 positions, a decline in public deficit levels and an increase in private savings in the US, more flexible exchange rates in Asia (and especially in China), structural reform in Europe and Japan to increase growth potential, and an increase in spending and absorption capacity in oil producing countries. The IMF for its part is to implement more effective bilateral and multilateral supervision of individual country performance, especially where performance has systemic implications.

In this framework, Europe and the euro zone's position is distinctively peculiar. On the one hand, the euro zone is not contributing to global payments imbalances (as its current account is substantially balanced) and on the other, it runs the risk of bearing the consequences of uncontrolled adjustments that would lead to a large revaluation of the euro as compared to both the dollar and the yuan, should the latter continue to closely shadow the US dollar. This scenario has indeed begun to materialize in the second half of 2007. And then again there is the risk that following the turmoil in financial markets that began in the summer of 2007, the US economy may enter a period of drawn-out slowdown, if not a full-fledged recession which, in addition to the appreciation of the euro, would further stifle European export growth.

The issue we must therefore address is whether the euro zone has the tools to avoid bearing the consequences of such developments passively and whether an adjustment strategy could not be agreed with the other key players, based on the establishment of a more orderly exchange-rate regime.[2]

Financial Imbalances

A different interpretation of global payments imbalances is, however, possible, one that highlights their "equilibrium configuration".[3] According to this interpretation, payments imbalances, and in particular the positive savings-investment gap in China and in Asia more generally, which is at the root of the area's trade surpluses with advanced industrial economies, reflects the relatively incomplete development of the region's financial markets, which cannot fully absorb and intermediate the excess savings. These excess savings thus head towards the financial markets of more advanced countries, and more particularly towards the US. From this point of view, such a configuration is likely to persist as long as the development gap between financial markets in advanced industrial economies and emerging economies has not closed. This interpretation can then be supplemented by further analysis to explain why a country such as China is accumulating reserves well in excess of its import hedging requirements and why these reserves are invested in US treasuries, despite sustained dollar depreciation.[4] This can be explained firstly by the fact that surplus countries' reserve accumulation is tantamount to insurance against possible currency or financial crises in a context where the countries concerned do not want to avail themselves of the support (and conditionality) of multilateral financial institutions. A second explanation is that reserve accumulation and subsequent investment in US treasuries can be viewed as "collateral" provided by China to the rest of the world in order to keep attracting foreign investment, and especially the FDI it needs to feed its development, in particular through transfers of technology. One must, however, underscore that this strategy could well change, including in response to sustained dollar depreciation. China's setting up of SWFs (paralleled by other emerging economies) actually signals that Chinese authorities

[2] We do not consider the often invoked option of active European Central Bank (ECB) intervention in the forex markets with a view to offseting dollar depreciation. Beyond the desirability of controlling volatility in these markets, such a policy would not impact the root causes of euro appreciation.

[3] L. Bini Smaghi, Member of the Executive Board of the European Central Bank, 'Global capital and national monetary policies', London, European Economic and Financial Center, 18 January 2007, www.ecb.int/press/key/date/2007/html/sp070118.en.html (13 February 2008).

[4] M. Dooley, P. Garber & D. Folkerts-Landau, 'The two crises of international economics', *NBER Working Paper*, no. 13197, June 2007.

wish to diversify the investment of their huge reserves not only in terms of instruments (holdings in equities in addition to public sector bonds) but also in terms of destination (in currencies other than the dollar).

But this too raises a European "strategic response" issue. Are new Asian investments in Europe to be viewed as an opportunity or as a threat? German and French official responses[5] to the potential acquisition by Chinese SWFs of shares in national corporations appear to favor the latter interpretation, with Chinese SWF investment perceived as a potential threat to economic security.

Protectionist investment policies do not blend nicely with requirements for orderly governance of globalization. In addition, more effective strategies would need to be identified at the European, rather than the domestic level. European countries should define joint criteria for investment regulation, share with new countries codes of conduct and best practices. As to the criteria underpinning such strategies, they should be grounded in improved, and reciprocal, market access.

Trade Agreements

As we write, we still do not know what will happen to the Doha Development Round and whether multilateral trade negotiations will achieve success. But whatever the outcome, it is generally acknowledged that over the next few years, trade relations will be dominated by a proliferation of bilateral and regional agreements known as preferential trade agreements (PTAs). To date, over 200 of these have been signed, of which many share a common feature – a focus on those areas that have remained outside the mandate of multilateral negotiations, that is, services, intellectual property rights, investment, and competition policy. In a context where both growth and competitiveness are increasingly based on innovation and the dissemination of knowledge, as well as the development of global value chains through relocation and outsourcing, these areas define the terms of global competition. In other words, whatever the fate of the Doha Round, both Europe and other countries will have to define policies to support growth on the basis of preferential agreements while leaving open, and possibly strengthening, prospects for a multilateral agreement.

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5 J. Willman, 'Big Spenders: How sovereign funds are stirring up protectionism', *The Financial Times*, 30 July 2007.

Europe's Responses

In each of the three areas discussed, Europe must define a response based on a strategic vision and supported by appropriate institutional arrangements. To date, Europe's response has at best been partial, at the worst non-existent. Let us have a quick look at the three areas, starting with the one where the European response appears to be the least unsatisfactory – trade.

The "Global Europe" Initiative

In recent years, the European Union has been, at least in part, an agenda-setter in international trade; if and when it chooses to do so, its impact as a single entity is by far greater than that of the sum of its parts.[6] Europe's single voice on trade has prevailed also in the presence of different national preferences, linked to different national specialization (on agriculture, textiles, advanced services, etc.) and different approaches to the organization of national welfare systems. In multilateral negotiations Europe is a member of the G4 along with the United States, India and Brazil, that is, a member of the group that during the critical phases of the Doha Development Round attempted to hammer out an agreement.

Global trade architecture today bears a significant European mark, as does the architecture of regional agreements, and Europe's commitment to a gradual opening of markets remains intact (regardless of the Common Agricultural Policy). One cannot, however, rule out, should global imbalances not be settled adequately, that Europe will also display a propensity to protectionism, especially in conjunction with a lasting euro appreciation and as an ill-advised response to the request for security currently expressed by European citizens fearful of globalization.

Europe has defined its own strategy for a trading system, where PTAs prevail. In December 2006, the European Commission launched its Global Europe[7] document that defines guidelines for the Union's trade policy in a framework of proliferating

[6] P. Lamy, 'Trade Policy in the Prodi Commission: An Assessment', November 2004, trade-info.cec.eu.int/doclib/docs/2004/november/tradoc_120087.pdf (13 February 2008).

[7] European Commission, Communication from the Commission to the Council, the European Parliament, the European Social and Economic Committee and the Committee of the Regions, *Global Europe: Competing in the World. A Contribution to the EU's Growth and Jobs Strategy*, COM(2006) 567 final, Brussels, 4.10.2006, pp. 1-18.

regional and preferential agreements, where topics not taken up by the Doha Round are going to become increasingly significant. The document clearly defines the European philosophy in this context:

> Our core argument is that rejection of protectionism at home must be accompanied by activism in creating open markets and fair conditions for trade abroad. (...) There are two core elements in pursuing this agenda: stronger engagement with major emerging economies and regions; and a sharper focus on barriers to trade behind the border.[8]

The message is clear and the line adopted echoes the "strategic trade policy" principle that emerged in the 1980s, when non-tariff barriers and market access policies became increasingly relevant.[9]

What remains to be seen is how this strategy will be implemented and whether it will indeed lead to more openness and integration. Many future scenarios are possible. Where this strategy is used to consolidate transatlantic integration, especially in the field of market access regulation, and where a shared vision of competition policy helps define technical standards, a "critical mass" of harmonization would be reached as to become a standard-setter for all international trade relations. Moreover, this strategy could be used more closely to involve new players in global governance.

Europe and the US as "Global Regulators"?

As noted by Becht and da Silva, the EU-27 boasts the largest banking sector, the largest insurance industry, and the largest payments system in the world.[10] It also has the largest private market for fixed-rate securities, and its derivatives and equity markets are comparable to those of the United States. Despite this, Europe's influence as a major player in financial system regulation remains limited. As in the field of monetary relations, Europe's voice appears to be weak and fragmented, and unexploited externalities would require a single regulatory policy.

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8 *Ibid.*, p. 6.

9 See discussion in P. Guerrieri & P.C. Padoan, *Libero scambio, protezionismo e concorrenza internazionale,* Bologna, Il Mulino, 1988.

10 M. Becht & L. da Silva, 'External financial markets policy: Europe as a global regulator?', in A. Sapir (eds.), *Fragmented Power: Europe and the Global Economy*, Bruegel Books, 2007, www.bruegel.org/4650 (13 February 2008).

Technical difficulties involved in defining joint regulatory standards should not be underestimated, especially in light of the fact that regulation is *per se* a complex endeavor that concerns a variety of different fields ranging from investor protection to technical standards, market supervision, and combating financial crime. But, as pointed out above, Europe would have the "critical mass" not only to identify common standards but also to gain their acceptance as global standards, all the more so if these standards were shared with the United States.[11] The US and Europe together account for 40 percent of the world's GDP but they generate 80 percent of all regulation.[12] Their convergence on the definition of standards would decisively impact world market regulation. Considering the role increasingly played by new emerging economies' investment, financial and otherwise, defining a global regulatory framework would be key to supporting a multilateral framework and resisting the temptation of protectionism. At the same time, a regulatory framework developed at the behest of the world's leading economic areas would be the most effective antidote to the (possible) political and "non-market" use of resources controlled by SWFs.

Towards a European Financial Market?

But what is really standing in the way of efficient cooperation between the US and Europe in this area is mainly the inability of European countries to overcome national visions, to define European interests and policies and to identify common rules for the European market. Faced with this problem, Europe's response has been harmonization where possible and mutual recognition otherwise. But even mutual recognition, tantamount to a multiplicity of bilateral agreements, is not a workable solution if it is not supported by efficient implementation and enforcement putting all participating countries on an equal footing. Despite a push to complete a European financial market under the Financial Sector Action Plan, gaps and redundancies still remain in the governance of Europe's financial stability, with over 80 agencies involved in financial market supervision and regulation. This is an obvious case of inefficiency that increases compliance costs for intermediaries.

[11] One limited but instructive example concerns accounting standards. European standards in this field are in the process of becoming global. See N. Veron, *The Global Accounting Experiment*, Bruegel Blueprints, no. 2, 2007, www.bruegel.org/1990 (13 February 2008).

[12] M. Becht & L. da Silva, *op. cit.*

Despite all these limitations, financial market integration is moving on. Through a market-led process, a “European bias” has slowly emerged in EU financial markets following the introduction of the euro and the subsequent removal of exchange-rate risks, not to mention regulatory harmonization and product market integration. Intra-EU cross-border capital flows have increased significantly. London is increasingly becoming the inter-bank market hub and this has, *inter alia*, elicited ever more UK investor interest for the euro. Finally, euro-zone intermediaries are in the process of funding investment in the new member states.

The general context is also likely to push towards greater integration and increased uniformity in regulatory systems. New players emerging not only in trade but increasingly in financing and investment may actually speed up the identification of a shared European interest in participating, alongside the United States, in the definition of a regulatory framework tailored to the demands of globalization and in which possible attempts to use the huge financial resources for political or security-related ends are neutralized.

Finally, financial turmoil in real estate markets once again focused attention on the issue of how much financial regulation is actually desirable, and showed that there is at the very least a need for more exchange of information among countries and international institutions, and for more market transparency. All the necessary lessons will have to be drawn from this episode, while avoiding the pitfall of excessive regulation.[13] From this point of view as well, a European position geared to a global perspective would provide more of a guarantee of balance and long-term vision than a sum of national positions fed by protectionist concerns.

The Governance of Monetary Affairs

Macroeconomic relations are a case apart from trade relations but similar to that of financial regulation, with the European presence largely devolved to individual states. There are four EU member states in the G7, but it would be hard to contend that the G7’s agenda is set by the Europeans. It is equally clear that the nature of macroeconomic issues, and first and foremost global imbalances, is such as to require an overhaul of the governance structures. In the context of its Medium-Term

13 W. Buiter , ‘Lessons from the 2007 Financial Crisis’, *CEPR Policy Brief*, no. 18, 2007.

Strategy review, and in order to address the issue, the IMF has introduced something new into its multilateral surveillance system that seems to point, on paper at least, to a significant change in approach. An informal consultative group has been set up, made up of the United States, Japan, the euro zone, Saudi Arabia and China, that is, all the major players in global imbalances, including those who are not members of the G7 (but not all G7 members belong to this group). The group furthermore includes players such as China who have on many an occasion signaled – first in deeds, then in words – their distrust for the IMF as an institution capable of providing crisis insurance and efficient international system governance. Assessing the group's impact is still premature but the message conveyed is interesting. Effective multilateral surveillance must involve all relevant players and these are no longer necessarily the G7 member countries.

Ever since the issue of global imbalances came to the fore, the International Monetary Fund has, as mentioned, supported an agreed adjustment strategy which, in line with official G7 statements, provides for a cut in public deficits and an increase in private savings in the US, more exchange-rate flexibility in Asia (and especially in China), structural reform in Europe and Japan to increase growth potential and more spending and absorption capacity in oil-producing countries. The IMF in this context is to implement more efficient surveillance, both multilateral and bilateral, in individual countries[14], with particular focus on those where performance has systemic implications.

In adopting this stance, the IMF risks running a credibility risk. Failing any significant adjustment in the major countries, the Fund's limited influence in particular on industrial economies will be clear. At the same time, should market forces help the imbalances subside without significantly jeopardizing stability, the Fund's credibility would be damaged, in terms of its ability to analyze and diagnose. In either case, the IMF's credibility as a leading player capable of guiding and supervising the global system would be undermined.

Despite the fact that the line upheld by the IMF and the G7 provides that today's leading players should take steps within a coordinated and common framework, in

[14] This is the thrust of a recent revision in the IMF's terms of reference for surveillance, under which the Fund is now explicitly entrusted with monitoring exchange-rate regimes.

practice, managing payments imbalances continues to be addressed within US-China bilateral relations, Europe (or rather the euro zone) adopts an attitude of (benign?) neglect, as the consequences of both dollar weakness and Chinese exchange-rate policy are offloaded onto it. The answer should not be asking the ECB to intervene to avoid euro appreciation[15] but addressing the issue of payments imbalances in a multilateral context that would follow not only the steps suggested by the IMF but also a rethinking of the relationships between major currencies. This requires both flexibility and orderly burden sharing in adjustment. One could consider measures that would, for instance, link the Chinese yuan to a basket of currencies, or identify “target zones”, or allow for the Chinese exchange rate to be fully flexible. But the crux of the matter is that the euro zone should define its position much more clearly and uphold it both in multilateral and bilateral fora (with respect to the US, for example). Europe’s limited voice in this respect runs the danger of being interpreted as a lack of interest, or worse still, as a show of passiveness in the face of events. All of this also suggests that Europe, or at least the euro zone, should opt as soon as possible for single representation in international financial institutions and in informal groupings (such as the G7).

A Single Representation for the Euro?

The Time Is Right...

Both the IMF and the World Bank are governed by Boards of 24 members with different share holdings that represent 185 countries. The United States has the single largest share, with a little over 17 percent of the total. But together member states of the European Union have a larger share than the US. France, Germany and the United Kingdom represent, at the Board, a single constituency each. The other EU member states are distributed over six constituencies, and in several cases also hold the Executive Director positions. The Fund and Bank Boards almost always operate on a consensus basis. This means that what happens upstream, most often in the framework of informal groupings such as the G7 for the advanced economies and the G11 for emerging economies (including China), is of essential importance in establishing consensus. Although they do not have an absolute majority at Board

[15] As shown by a vast body of empirical evidence, this would be an impossible task if interventions were to go “against” the fundamentals that determine medium-term exchange-rate developments.

level, historically G7 countries have had a predominant position in the decision-making process. In recent years, European countries have also developed a coordination method, in Brussels and in Washington, on the basis of which some of their Board decisions are taken jointly. Interaction between the G7 and the European coordination group is complex, sometimes fraught, and at times European members of the G7 have upheld positions different from those of other EU governments.

In other words, both formally and substantively, conditions seem ripe for the EU, or at the very least the euro zone, to move to single representation in international financial institutions and informal groupings (including the G7). This would have the added advantage of increasing Europe's clout in international affairs and improving global governance by increasing the involvement and accountability of new emerging economies. Single EU (or euro zone) representation, if set on the same level as for the US (a little over 17 percent at the IMF) would carry more clout than the current sum of EU representatives (close to 30 percent).[16] We are currently faced with a paradox: computing Europe's weight as a "swing voter", one can but conclude[17] that if Europe were to speak with a single voice, it would carry the vote in practically all cases (and the United States' hopes of downsizing Europe by pushing for single representation might therefore be dashed). But, and therein lies the paradox, Europe has to date proved largely incapable of using its economic and political clout in global governance.

So why does Europe not take the decisive step towards single representation? Two possible explanations can be identified, that are partly complementary: different preferences and dysfunctional governance. Differences in national macroeconomic policy preferences would thus stand in the way of European countries' arriving at joint positions in international for a; just as different trade policy preferences should logically weaken EU positions, for example in WTO negotiations. This assumption is not very convincing if we think back to the euro, which by definition implies a single

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16 Adding the current shares held by individual EU member states yields a figure of about 30 percent, but if euro-zone countries were to go for single representation, the summation of their shares would have to be corrected for intra-zone trade, which is currently taken into account. Moreover, as shares do not only reflect formulae but political considerations as well, it is reasonable to assume that a single euro representation would be likely to weigh in on a par with the United States. See L. Bini Smaghi, 'IMF Governance and the Political Economy of a Consolidated European Seat', in E. Truman (ed.), *Reforming the IMF in the XXIst Century*, Washington, D.C., Institute for International Economics, 2006.

17 *Ibid.*

monetary policy, regardless of the fact that a single monetary policy may at times yield differing outcomes in different euro-zone member states. One could argue that having a single IMF representation would imply speaking with a single voice also regarding fiscal issues, a field that has remained the purview of individual states. But this is not a very convincing argument either. On the one hand, the Stability and Growth Pact, irrespective of its limitations, imposes fiscal policy convergence and shared criteria that apply to all countries. On the other hand, through its supervision of the euro area, the Fund is already passing judgment on the single currency area's fiscal policy both in terms of internal consistency and operation, and in terms of global macroeconomic impact.

This leads us to review the dysfunctional governance (or decision-making inefficiency) assumption.[18] Regarding macroeconomic relations, this describes EU countries' difficulties in identifying an internal decision-making mechanism that would yield joint positions that could then be upheld, and prevail, in international fora. Put differently, there is no point in setting up single representation at the IMF if the Executive Director for Europe is not given clear and timely guidance by his or her authorities (knowing that Executive Directors for individual European countries do receive such guidance from their respective capitals).

Up till now there has been no such "handing over" of sovereignty, and many European governments remain strongly opposed to concrete steps that might lead to single representation. The reason is simple: moving to a single representation would involve redistributing power within the European countries' group. In particular, the larger countries would need to relinquish, at least on paper, part of the clout they currently wield, in their capacity as G7 members for example, whereas smaller countries who are not G7 members are even more fearful of losing clout to larger countries.

Pressure for Change

Pressure for a single representation (or rather, a single voice) is nevertheless rising. This stems first of all from the very changes that have occurred globally. Shifts in

[18] See J. Pisani-Ferry, Director, Bruegel (Brussels European and Global Economic Laboratory), Brussels, 'The Accidental Player: The EU and the Global Economy', Indian Council for Research on International Economic Relations, Delhi, 25 November 2005, www.bruegel.org/1636 (13 February 2008).

economic power and the move to regional or bilateral governance models have reduced the clout of individual European countries, none of which can singly aspire to global player status. Pressure comes equally from the fact that single euro-zone representation in financial institutions would free up space to increase the shares assigned to new emerging economies, thereby allowing for their increased involvement and consequently for more balanced global governance, which would facilitate the reform of said institutions. This goal should be in the European Union's interest. Asian countries, including China, would carry more weight, but also more responsibility, as shareholders. Significant consequences would derive therefrom. Problems such as crisis insurance, mentioned above, might be addressed not unilaterally (or bilaterally) but in a multilateral context, where the countries concerned would feel better represented. And it would be easier to involve China in multilateral solutions, including solutions aiming to correct global imbalances, if responsibility for their management were more equitably shared.

Pressure, thirdly, stems from the euro's role. The single currency's weight as a key currency is on the rise, regardless of what monetary union member states may wish. The euro is increasingly being used as an invoicing currency for trade among and between third countries, as a denominator for financial transactions, and as a reserve currency held by third countries. Finally, the euro area is proving increasingly attractive as a location for foreign investment, all the more so with the setting up of SWFs by emerging economies. This raises the issue of defining a common policy regarding both macroeconomic relations and the supervision of financial markets.

Fourthly and finally, pressure is coming from the EU's enlargement. This concerns not only the adoption of the euro in new member states, but it also implies that "euro-ization" phenomena will proliferate more or less explicitly in countries wishing to join the Union or somehow coming under its economic influence. This strengthens the need for a "key currency" policy that has repercussions on relations with other currency zones.

Conclusions

One of the major consequences of globalization is the growing interconnection among markets and, consequently, the growing interdependence of the four main international economic policies: in trade, in competition, in the supervision and regulation of international financial markets, and in monetary relations. With the exception of Europe, leading players of the global system are sovereign states, including the BRICS, for which the policy-coordination issue arises only in terms of national interest and national institutions. In Europe, the first two policies have been entrusted to the European Commission, the third is still mainly dealt with nationally (despite various forms of coordination within the IMF or the Financial Stability Forum), and the fourth officially comes under the jurisdiction of the Eurogroup Finance Ministers. In other words, all in all the EU's external economic policy still bears the dysfunctional governance mark mentioned above. An unavoidable consequence is a loss of European influence over the management of international economic relations. Europe's influence is doomed to decline further in the future as the relative weight of individual European countries also declines, in addition to that of the EU as a whole. Speaking with a single voice in monetary and financial matters, in addition to trade policy issues, would not only provide Europe with more clout, but would also force the Europeans to devote more energy to figuring out where their interests lie in the global system, and what can be done to further them.

Despite the institutional and substantive differences in the areas concerned – monetary, financial and trade policies – Europe's difficulties in identifying a common and effective economic policy hark back to a common trait stemming from the very principle that is at the root of its recent history. Europe's economic policy was devised as a mechanism aimed at achieving a common goal, in terms of growth and welfare through increased internal integration. And this continues to prevail even when Europe's policy takes on an explicitly external dimension, as is the case with trade policy. This mechanism assigns a central role to national preferences and works best when such preferences can converge towards the definition of a European preference. But that is precisely the point. If in the post-war years a European preference could be defined bearing in mind internal goals such as peace among member states and economic welfare, with globalization developing apace Europe's interests must necessarily be defined with respect to the whole world. European governments should stop talking (or fighting) among themselves, their backs turned to the rest of the world, and when they do address the rest of the world, they would be well advised to also stop talking among themselves.

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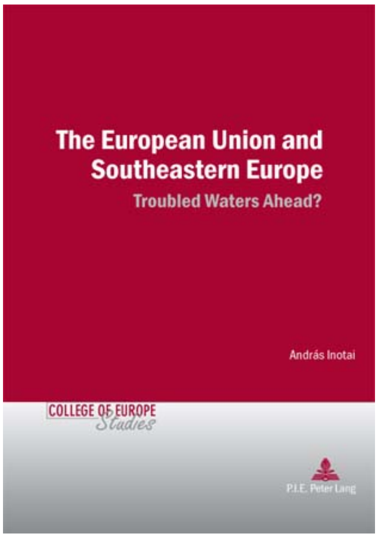

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