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The European Union in the G8

Promoting Consensus and Concerted Actions for Global Public Goods

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The European Union as a Model for Global Governance

Vladimir Zuev

The 2008 global financial crisis has made it imperative to rethink the existing model of global economic governance. The crisis revealed one striking inadequacy among others: insufficient global financial regulation.

Yet experts do not share a common view on the functioning of the system of global governance. Some say that it was not ready to respond to the crisis and withstand the pressure of critical events. Others defend the system, admitting that it required only slight changes to cope. The truth, as so often, lies probably somewhere in between.

However, it is clear that the functioning of the global financial institutions must be modified. The institutions themselves should be made more efficient and their capacity to manage different aspects of the global economy should be substantially enhanced.

The EU as a Role Model for Global Governance

Critics of the European Union have examples of unsuccessful European projects in mind, and there are many to choose from. But it is also true that the EU's accomplishments are unique. Never before has there been such an advanced level of economic integration. The EU has several features that no other group of countries in the world possesses.

According to the World Trade Organization (WTO) (2011), by 2010 the number of preferential trade agreements in force was close to 300. In reality there are even more of them, as some states do not notify the WTO of their agreements. Nonetheless, not one compares with the EU in terms of scale of economic cooperation and depth of integration.

The EU has a history of more than 50 years of success. Membership has increased from the initial six to 27 members. More countries are waiting to be accepted as members. Would an unsuccessful venture enjoy such popularity? The mere fact that ever more countries want to join the European integration process is a testimony of the value of this unique union.

The EU model can be useful to various types of regional and international organizations in addition to countries. One spectacular case of a hard-won consensus is the European Monetary Union, created by countries with different interests and traditions, including national currencies. This compromise changed the members' role in the world's monetary and financial system, as well as the geometry of the global financial system itself. The European Monetary Union put an end to the domination of the US dollar in the international monetary system, making way for a new era of a bi-monetary system.

On the eve of the G20 summit in London in April 2009, Russia, China, and Kazakhstan proposed a new supranational currency for international settlements. The role of currencies has remained a topic of discussion among the leaders at subsequent G20 summits. Here, the EU experience could be particularly helpful in improving the international currency system in one way or another.

However, a supranational currency is unlikely to top the current list of the common global challenges to be addressed. The key actors in the international community still have far to go along a long road before that issue will dominate the global agenda.

It is nonetheless helpful to concentrate on aspects of the EU experience that could apply more realistically and rationally to the different economic and political interactions among global governance institutions.

The Structure of the Institutional System of Global Governance

Several innovative features of the EU institutional system can be singled out as relevant for the international system of global governance, beginning with the establishment of the European Council.

While the institutions of the European Union were navigating the troubled seas of setting the terms and conditions of integration and cooperation, regular informal meetings of members' heads of state and government helped to address the most controversial issues and map out the way forward. Although those meetings were not formally part of the institutional system, they contributed much to the evolution of a legal order within the European community. Only since the 1986 *Single European Act* and then the 1991 Maastricht Treaty came into effect has the European Council been the highest official institution within the EU. Until then, those informal meetings had been functioning in parallel with official institutions and steering the European Union. The emergence of the European Council within the EU structure is thus an example of the EU institutional system adapting effectively to the emerging needs of integration.

In a way, the system of global economic governance follows a similar pattern. The G8 was created in parallel to the United Nations system as an informal institution to respond to critical international problems and coordinate the policies of the world's leading countries. Existing UN institutions were not sufficiently effective, similar to the way that European institutions were far from efficient. An informal body in the form of the G8 filled the void.

Similarly, the G20 meetings of finance ministers and central bank governors of the most systemically significant economies from all continents filled in the gap in the functioning of the established global financial institutions since 1999. Moreover, the recent voice and vote reform of the International Monetary Fund (IMF) is the beginning of a long process of making this global institution more legitimate, with the ultimate goal of being able to resolve the most acute financial problems of the modern world economy.

Another useful EU experience lies in its unique combination of supranational institutions and intergovernmental structures. There is a delicate balance between the intergovernmental structures representing national interests of the member states (the European Council and the Council of Ministers) and the supranational institutions working for a common interest (the European Parliament, the European Commission, and the European Court of Justice). This balance, however, is not constant. But within a non-linear trend there is a clear tendency to increase the powers and competences of the supranational institutions within the EU. The roles of the European Parliament, the European Commission, and the European Court of Justice are gradually increasing, which in turn means that the potential for integration is increasing, as is the ability to find common solutions to the difficult problems of interdependent economies of the EU members.

Decision Making as Accommodation

Effective decision making is at the heart of any structure. An organization cannot function without a system for working out and agreeing on decisions, nor can it progress. Many international structures, facing challenges, search for the new ways to make their work more efficient. They must also consider the other aspect of success, namely implementing those decisions.

The EU engages in decision making in a unique way. No other international institution can boast of a similar system, which is one of the greatest achievements of European integration. While there are arguments for and against its application to the global governance system, until now there is no better mechanism to manage the priorities of different countries collectively within international institutions in an increasingly interdependent global environment. The EU's decision-making process has much potential for compromise, with clauses and safeguards that allow for countries to operate at different speeds.

One factor of its success is the mechanism for accommodating the interests of both big and small countries, which differ in national priorities, traditions, and cultures. The EU's decision-making system serves big and small business, suits different social groups, and allows for varying political and economic factors (both domestic and external). Agrarian and industrial countries alike find their interests reflected in developing common structures, and economies of scale and degrees of development are organically unified within the system. Countries that within recent history were in a state of war – or even more recently in a state of Cold

War – now work out common decisions in a common structure of vital importance common to all of them. Moreover, the proportion of those who are dissatisfied with the EU is smaller than the proportion of those who favour it.

But can these achievements be reproduced at a global scale? To learn the secret is, as usual, both simple and difficult.

In simple terms, the EU's decision-making process can be summarized as a system of four times three, where:

- 1×3 = there are three major institutions for making decisions: the European Parliament, the Council of Ministers, and the European Commission;
- 2×3 = there are three major procedures to reach a decision: consultation, consent, and co-decision;
- 3×3 = there are three stages in the process: proposal, discussion, and acceptance;
- 4×3 = there are three major voting outcomes: unanimity, simple majority, or qualified majority.

Critics argue that this process is too complex. Yet it could not be more simple and logical, given the objectives of integration and the complexity of the problems, and the ambition required of the solutions.

The process differs depending on the area and subject of cooperation. Interaction among the EU decision-making bodies varies and the mode of interaction is not always the same. The more intensive cooperation in a particular area, the more operational the system should be. Thus with more supranational mechanisms, it is harder for the members to hamper the compromise for the prescribed procedure.

Decisions can be more or less binding according to the circumstance. There are five categories of decisions – from complex regulations and directives to simple recommendations – that assure necessary flexibility for member states while securing the required legal order within the EU.

Effective decision-making processes in many intergovernmental organizations is often associated with the right to veto. In the EU, however, a system of 'majority and qualified majority' voting is used more extensively. Otherwise, decisions would be very difficult to make and take a very long time agree upon.

The distribution of votes among the countries must also be arranged properly. On the one hand, small countries possess a smaller share of votes, although not as small as their size might suggest. In this way they are 'overrepresented' in the formulation of common policies, and their influence is much stronger than it would have been, had they not joined the EU. On the other hand, large countries have larger proportion of votes and thus a 'bigger say'. In most intergovernmental organizations, the common practice is to find ways to accommodate small countries and avoid the dominance of big ones. But true success is possible if and when the interests of the big participants are also fairly represented. Would it be just if a small state could decide on common industrial policies on equal terms with a big industrial economy? Or, if recipients of IMF assistance could determine the lending policy for the countries that fund the IMF? Influential countries are not likely to be satisfied with such an equation, and smaller European states have been wise enough to accept the realities.

Another positive feature of EU governance lies in the competences of its common institutions. While EU members determine both the degree and range of competences for those institutions, the institutions themselves accrue some power. However, they can exercise their authority relatively independently without asking for permission from the members. This autonomy is an important prerequisite for the success of the EU's common policies.

To ensure that EU members feel secure, according to legislation a member can opt out of a common policy if its major national interests are at risk. This encourages a state that might hesitate about the future consequences of cooperation in a particular field to proceed in a more decisive manner.

The principle of subsidiarity, integrated into the EU legal's system, means that decisions should be taken at an appropriate level. Common institutions come into play only if national or regional structures are incapable or less efficient in dealing with the issue. This is a useful lesson for many international structures, which tend to grab as much power as possible without consideration for efficiency.

Even with the EU's variable speeds and cautious approach to decision making and legislative implementation, members sometimes remain reluctant to engage in new areas of cooperation for fear of unpredictable economic and social consequences for their respective economies and societies. While such hesitation is understandable, especially given the unprecedented level of regional integration, the EU has a safeguard system of 'variable geometry' to accommodate those fears.

One such example is the European monetary system with a single currency of the euro at its heart, as Britain and other EU members have not chosen to join the monetary union. Another example is the Schengen agreement for visa-free travel within the EU borders, which only some member have signed. The list of such examples drawn from the EU experience is long. However, with time, cooperation among all the members will gather momentum and lure in new members that will realize the advantages of cooperation while, at the same time, assuming the responsibilities that come with it.

Some analysts tend to speak about the core and periphery of the European integration, sometimes in a negative sense. It would be more appropriate to view variable geometry of cooperation positively. As many areas of integration are sensitive, the EU's ability to allow for a degree of liberty in choosing to enter into binding common policies is a valuable feature of this modern model of global economic governance. Even a partial application of such features could improve the efficiency of global governance.

The Challenge of Economic Governance

The world needs global governance institutions. The task of global economic governance is already high on the global agenda. It is becoming all the more urgent with increased pressure to find quick solutions to the most acute global problems. One major obstacle to upgrading their effectiveness is a lack of efficiency in decision making and in implementing the resulting decisions.

There are several ways to enhance the efficiency of global economic governance. To upgrade the level of governance, institutions with variable geometry should operate in parallel to existing ones. This process already occurs at the regional level, where new intergovernmental organizations are created in addition to existing ones with a different range of competences. Thus alongside the Commonwealth of Independent States, the Eurasian Economic Community and the customs union have been created with a different composition to give a new impetus to regional cooperation within the post-Soviet space. Time will tell which of these organizations will be more resistant to global changes and to what extent they can cope with those changes.

In the history of European integration there was a similar process. The European Free Trade Association (EFTA) was created as an alternative to the quickly developing cooperation within the European community. Soft and binding options were offered to European countries at that time, with the more binding commitments eventually demonstrating greater efficiency and success. As a result, most of the countries on the continent chose in favour of the European communities – European Union – over the EFTA.

Another example related to the development of global governance institutions is the establishment of the G20 forum of finance ministers and central bank governors in parallel to the existing and influential IMF. There was some duplication in their missions. But the G20 format was different, with a less formal and less structured dialogue that made up for the inefficiency of IMF activities. The IMF's 187 members cannot react to rapid changes on international financial markets as quickly as needed, while the G20, being more compact in composition and less formal in procedure, has more flexibility.

The G20 is a product of the G7/G8 system, itself a parallel structure to the UN bodies. G8 priorities sometimes duplicate those of the UN Security Council or General Assembly. Again the G8 provides another tool for dealing with the same challenges, as it too is more compact and less formal and has proven to be effective at forging solutions to the hardest issues on the global agenda.

In general, an expansion of the role of different informal structures is another way of enhancing the efficiency of the global governance system. Different kinds of forums become important channels of information about existing challenges. As a result, the discussions that take place in those forums lead to decisions that increase of the level of global governance. Another example is the World Economic Forum, which has become an opportunity not only to debate the issues on the global economic agenda, but also to seek solutions and initiate decisions relating to sustainable economic development.

A 'multi-speed integration' method could be especially appropriate in the work of global institutions when unanimity is extremely difficult to achieve among member states with divergent interests. In the case of the UN Framework Convention on Climate Change, which aimed to protect the environment by limiting greenhouse gas emissions, some of the major polluters such as the Canada, Russia, and the US, were slow to ratify the Kyoto Protocol. The Kyoto Protocol was adopted in Japan on 11 December 1997. The detailed rules for implementation were adopted in Marrakesh in 2001. According to the UN (2011), the protocol is subject to ratification, acceptance, approval, or accession by Parties to the United Nations Framework Convention on Climate Change. Parties to the UNFCCC that have not signed the Protocol may accede to it at any time. When the protocol entered into force on 16 February 2005, after it had been ratified by Russia, the necessary threshold of a minimum 55 percent of the total carbon dioxide emissions for 1990 was reached. There are now 193 parties (192 states and one regional economic integration organization) to the Kyoto Protocol, which account for 63.7 percent of total emissions.

An important requirement in the multi-speed approach is the accumulation of a critical mass for a policy to be implemented. The countries that should assume responsibility could initiate an arrangement that is then followed by the others.

There is reason to assume that in the years to come, under pressure to reach their global goals countries will have to delegate some national competences to international organizations in order to make global economic governance more operational. A state on its own cannot manage global issues that extend beyond its jurisdiction.

Such an evolution would be similar to the EU process. In particular, a limited number of national competences could be partially transferred to international economic organizations in clearly defined cases, with limitations on the scope of the application of these competences. That would be the only reasonable approach to manage the 21st century's interdependent global economy. Otherwise, more economic disasters are inevitable. As in the case of European integration, this trend will likely start to develop within the system of global economic structures, but not political or military structures.

The application of the EU model presents some practical challenges. One such issue is how to distribute votes in a qualified majority decision-making procedure within a given structure. For example, at the UN, if population is the criterion, then all decisions will be made by India and China; if economic potential is considered, then it will be the United States and Europe that make the decisions; if raw materials are taken into account, it will be some other configuration. A complex formula is required to combine them all.

It thus seems necessary to depart from the unanimity rule in certain cases. Not all countries, however, may be ready to do so, at least not to the extent that has been done within the EU. But some aspects of the EU experience could be incorporated gradually into the global economic governance system. Many regional groupings already actively apply the EU experience, sometimes using the same procedures for cooperation.

One significant concern of most nation-states is the possible loss of control over their national economies. International institutions are perceived as a threat to national sovereignty. Many politicians and analysts support this fear. As Vacláv Klaus (2007), former president of the Czech Republic, has said, one of the biggest challenges is the trend towards an increase in the supranational aspects of EU policies: 'I have many times pointed out that the move toward an ever-closer Europe, the so-called deepening of the EU, as well as rapid political integration and Europe's supranational tendencies … are damaging to democracy and freedom'.

It remains unclear how a supranational trend could endanger civil freedoms and democracy. The degree of democratic freedoms within the system would need to be analysed. The supranational mechanism itself does not increase or diminish democracy. It could be either more or less democratic compared to individual national systems. For instance, the Lisbon Treaty has introduced democratic elements to reduce the democratic deficit that exists in the EU.

The fear of lost sovereignty over the economy as a result of a supranational institutional system seems not well founded. A nation-state already loses some control over part of its economy as it becomes transnational. Global institutions partially restore some of that control, as a result of the process of globalization.

Global institutions could compensate for the loss of control over some offshore activities. For this reason, cooperation with offshore jurisdictions was on the G20 agenda at the 2009 London Summit, and followed up by international institutions. Individual states cannot manage the problem efficiently.

In this case, as in many others, it becomes clear that the state is, to a certain extent, compelled to pass some of its national competences up to a regional or international level. It is an objective necessity. Global issues cannot be treated efficiently by individual nation-states. Indeed, as Nicholas Bayne and Stephen Woolcock (2003) have written, governance systems require national governments to share part of their sovereignty. But the penetration of international capital into national economies questions those nation-states' sovereignty nonetheless.

The more the nation-states are prepared to share their competences with international institutions, the more efficient the global governance system will be. The more interdependent and fragile the sectors of economic activity are (such as environment protection, climate change, biodiversity, fishing quotas, or atomic energy security), the more the need for a transfer of competences. The EU countries have realized – earlier, perhaps, than the rest of the world – that more competences need to be transferred to common institutions in order to achieve progress in common policies. In this sense, the EU shows the way ahead for today's global governance institutions.

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