



Global Economic Governance, Europe and national sovereignty

Carlo Monticelli

Council of Europe Development Bank

Outline



Setting the stage



What is national sovereignty in a globalized world?



What next?

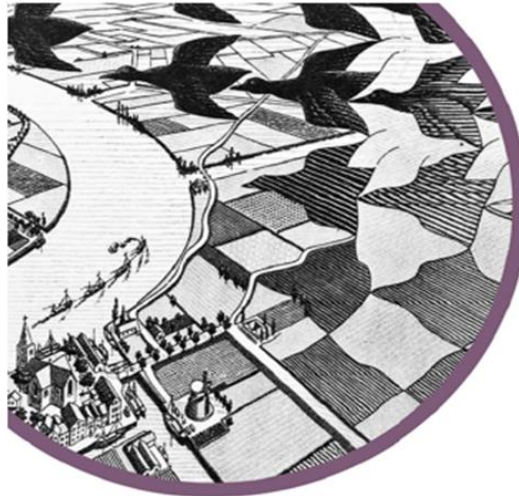


A word on Switzerland



Conclusions

Reforming global economic governance



ROUTLEDGE

reforming global economic governance

An Unsettled Order

CARLO MONTICELLI

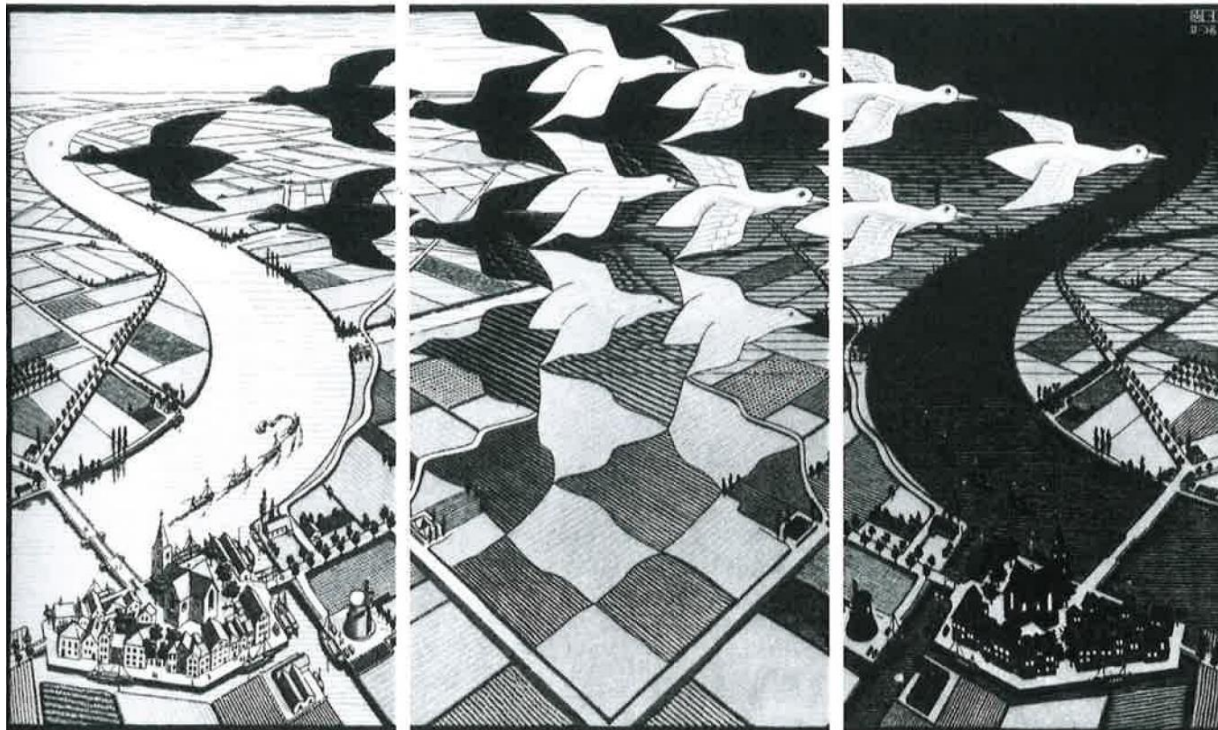
ECONOMICS
IN THE
REAL WORLD

 **CEB**
COUNCIL OF EUROPE DEVELOPMENT BANK
BANQUE DE DEVELOPPEMENT DU CONSEIL DE L'EUROPE

“The world as we know has come to an end”



Radical transformation (with continuity) in global economic governance



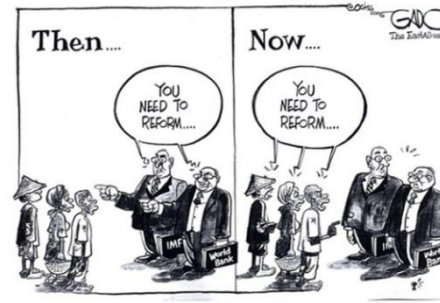
Pervasive reform



✓ G7 →

G20

✓ IMF →



✓ MDBs

- More power of “EMCs” in the old MDBs
- Creation of two new ones

✓ FSF →

FSB and SSBs **with** the new powers as members

The two key root causes

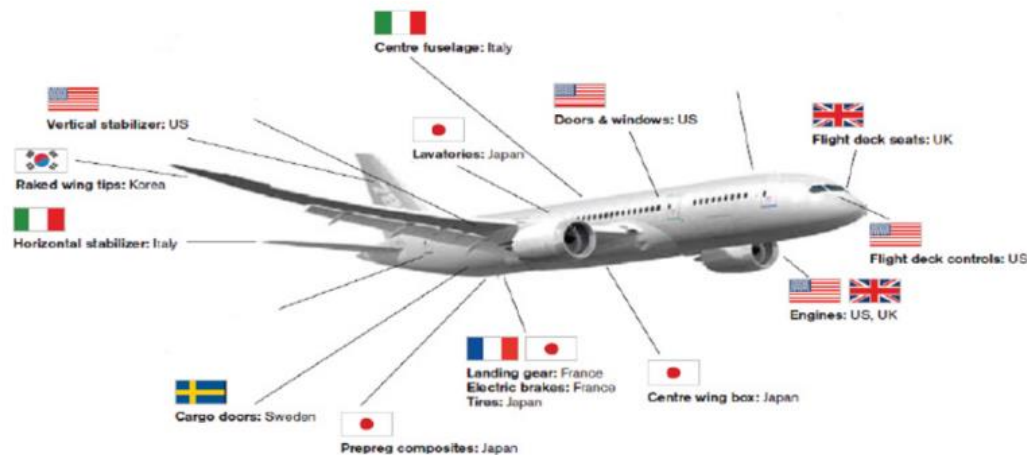
a) Globalization



Globalization

- ✓ Unprecedented growth in trade and income (1.5bn people lifted out of absolute poverty)
- ✓ Ever-growing interdependence and interconnectedness
 - Financial and digital flows
 - Global value chains

Sourcing of key parts of a Boeing 787 Dreamliner
An example of global value chain production

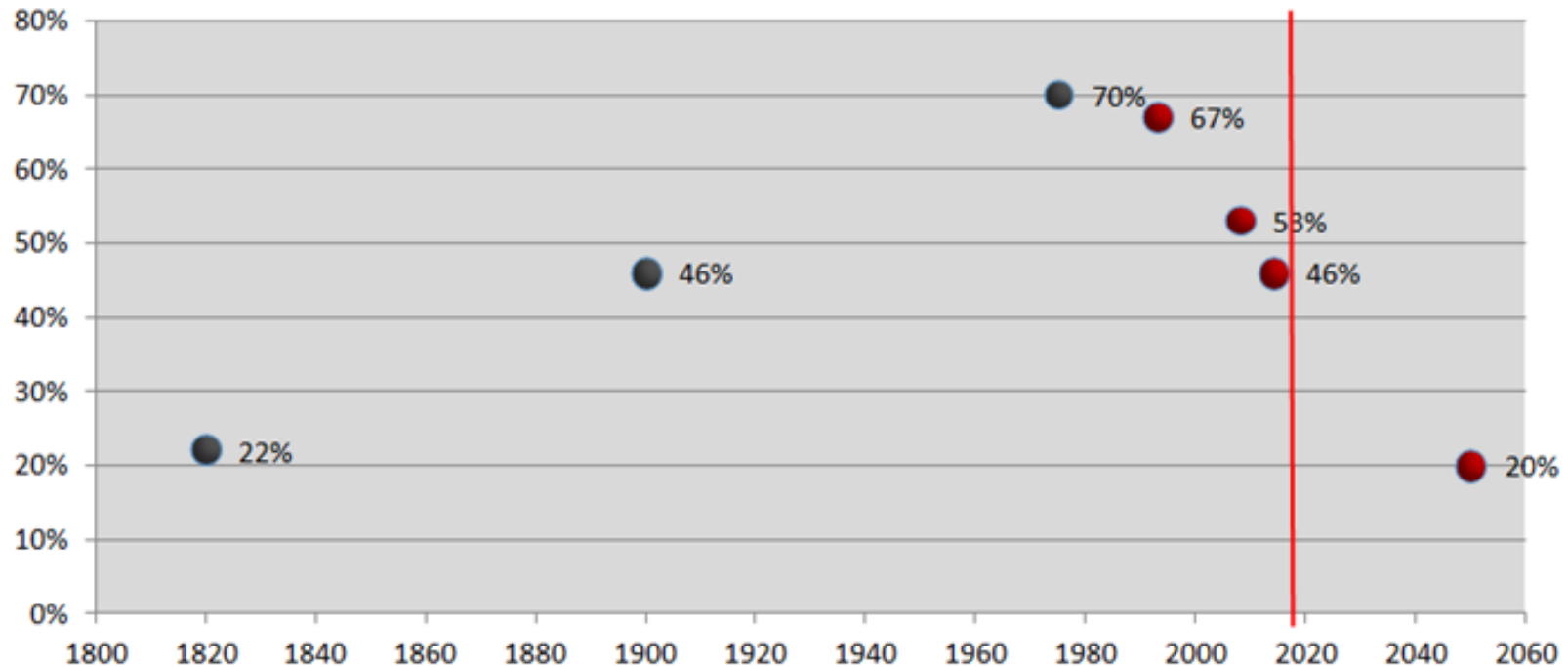


Two fundamental reasons

b) The “shocking share shift”



G7 share of global GDP



The cooperation paradox



The process that was making effective international cooperation more difficult (as G7-based governance faltered) was *increasing* the need for it

- ✓ The need for strengthening international cooperation stems from the stronger interdependence of national economic and financial systems
- ✓ The more intense transmission of economic and financial shocks across countries, the stronger is the shared interest in preserving an orderly system supporting global growth

The globalization paradox



“We cannot have (hyper)globalization, democracy, national self-determination all at once” (Rodrik)

- ✓ The latest wave of globalization took place very rapidly and was poorly, if at all, managed, because the G7 was reluctant to adapt global economic governance to the new situation
- ✓ Advanced, emerging and low-income countries all failed to cushion the impact of globalization on weak (and not-so-weak) parts of the population
- ✓ History has shown that when insufficient care is taken of the “losers” from globalization, the discontent leads to political protests and, ultimately, a reversal of globalization (even if black blocks use smartphones)
- ✓ What is self-determination in a globalized world?



What are the implications of these developments for national sovereignty?

The key features of national sovereignty



Three defining features

- A. Cultural and political **self-determination and identity** (but tension between history and optimal area to provide “public goods”)
- B. Ability to **offset** political and economic implications of global development
- C. Capacity to **influence** global developments (size matters, but it’s not all)

Can we stop the wind with our hands?



Three key implications

- A. Preservation of one's national identity, but awareness that the notion of **multiple identities** applies to nationality too
- B. Very **limited power** in the long term to be insulated from an economic and financial point of view (extreme example of Korea)
- C. Only large countries influence global developments. If small, **join forces with the like-minded**: better to have delegated influence than none at all

Slow adaptation to these implications.

Rather renewed strength of the old, reassuring paradigms and ideologies



Explosion of nationalism and sovereignty



- ✓ Conflation of disgruntlement with globalization and discontent with the European process
- ✓ Two factors underpinning the discontent about Europe:
 - Incomplete institutional process (ambiguity between intergovernmental and community methods)
 - Governments blaming Europe for the necessary adjustment and virtuous policies (Bolkenstein directive, Stability Pact, etc.)
- ✓ Important differences between nationalism (exit such as Brexit) and sovereignty (more voice) in European national policies
- ✓ Public opinion is attracted to the symbolism of sovereignty (sometimes even when it has little policy relevance – e.g. Danish monetary policy)



What next?



***More Europe or less Europe
(in Europe and in the world)?***



Our next of kin are the other European countries. But what is Europe?



- ✓ Geography / Council of Europe / European Union / Euro-area
- ✓ Historical tradition of conflict and exacerbation of cultural and political differences
- ✓ EU and euro area are unprecedented experiments of [partial devolution] of power to turn the page on this tradition



- ✓ Experiment still in progress and many dispute its success. Yet, what would have the counterfactual be? And the only game in the continent to play a global role in the new brave world

Europe's long tradition of punching below its weight in the global arena



- ✓ **Europe's weakness as international power has its roots in the aftermath of the WWII: Bretton Woods system** as the economic embodiment of the *pax Americana*. **Kissinger**: "Who do I call when I want to call Europe?"
- ✓ A long tradition of **fragmented representation** (IFIs, G10, G7, G20). **Treaty of Lisbon** (2007) introduces major institutional innovations, but still lukewarm support for a single European position
- ✓ In the reform of global governance **Europe played** a much smaller role than its size, political influence and tradition would have warranted because of
 - contrasting views on the European (sovereign) crisis
 - unwillingness to relinquish sovereignty in external representation

Three misconceptions underpinning Europe's weak external representation



A single European external position and the best national interest are (perceived) **not** to be the same

An attitude rooted in three entrenched convictions

National influence
on world affairs

Economic and
cultural
differences

Contrasting
economic
interests

What next?



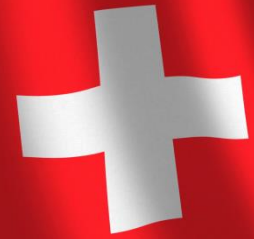
- ✓ It is tempting but **wrong** to put the question in terms of **more or less sovereignty**: interconnectedness and interdependence are exogenous and irreversible (even for North Korea...)
- ✓ International cooperation *à la carte* is possible (e.g. Schengen area), but not always feasible: lack of cohesion so that it is inadequate for a prominent role in world affairs
- ✓ What should Europe do? An exemplificative list
 - Debunk the misconceptions
 - Get a higher external profile, starting with the IFIs
 - Prepare the ground for a more important international role for the euro
 - Engage in the cultural fight to explain that national and European identities are not in conflict in a globalized world with a changing governance
 - Be aware that a stronger Europe would benefit the world too

A more effective Europe is good for the world too

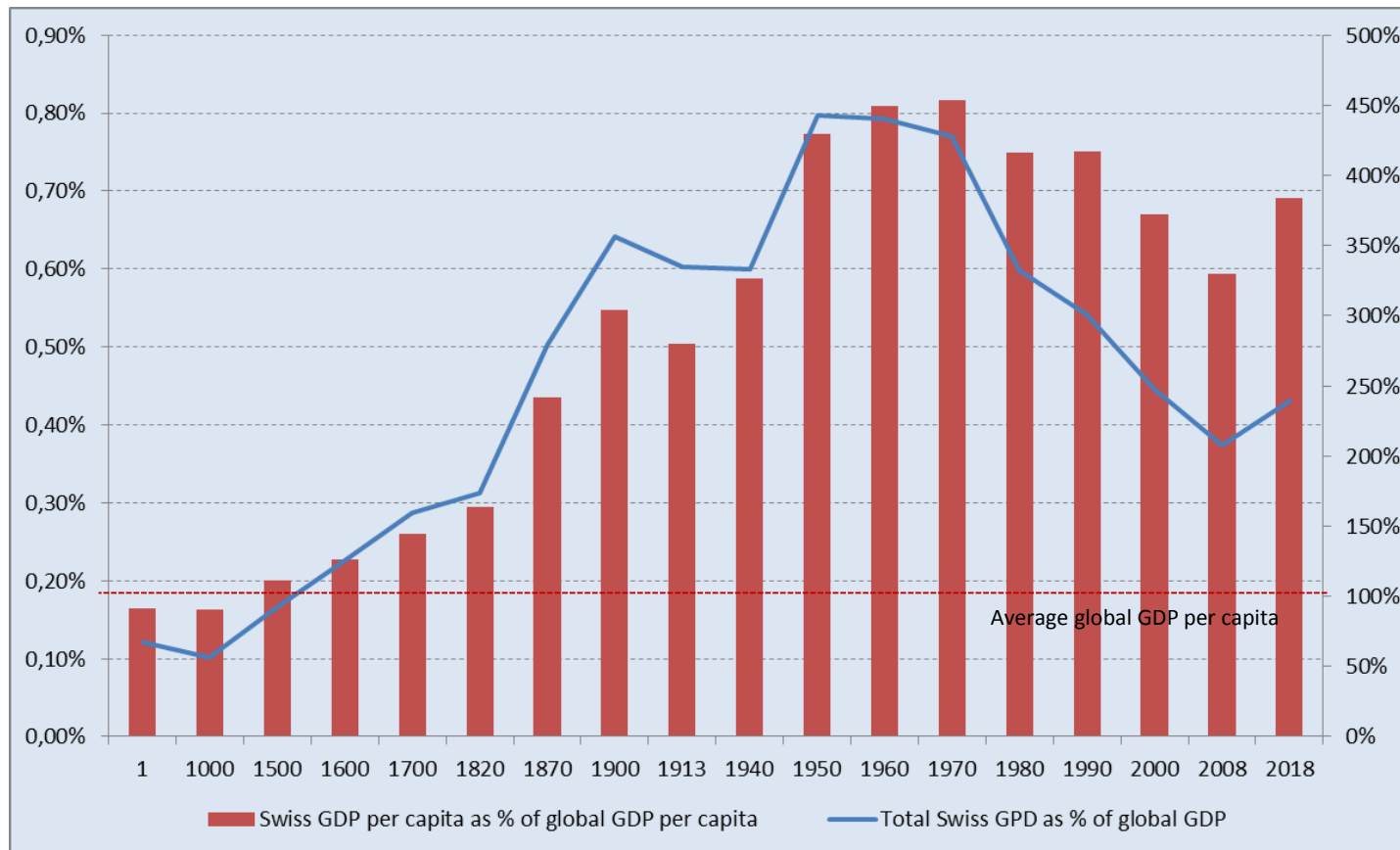


- ✓ A more united and stronger Europe would not only benefit the defence of its interests, but it would also improve the quality of global governance
 1. **Diffusing features of the EU socio-economic model** (welfare, democratic participation, equitable economic integration) could be useful to tame globalization
 2. **Improve world stability and financial resilience** (multipolar systems more stable than bipolar configurations)
 3. **Foster the emergence of a more balanced international financial architecture**

A word on Switzerland



Switzerland small, but rich



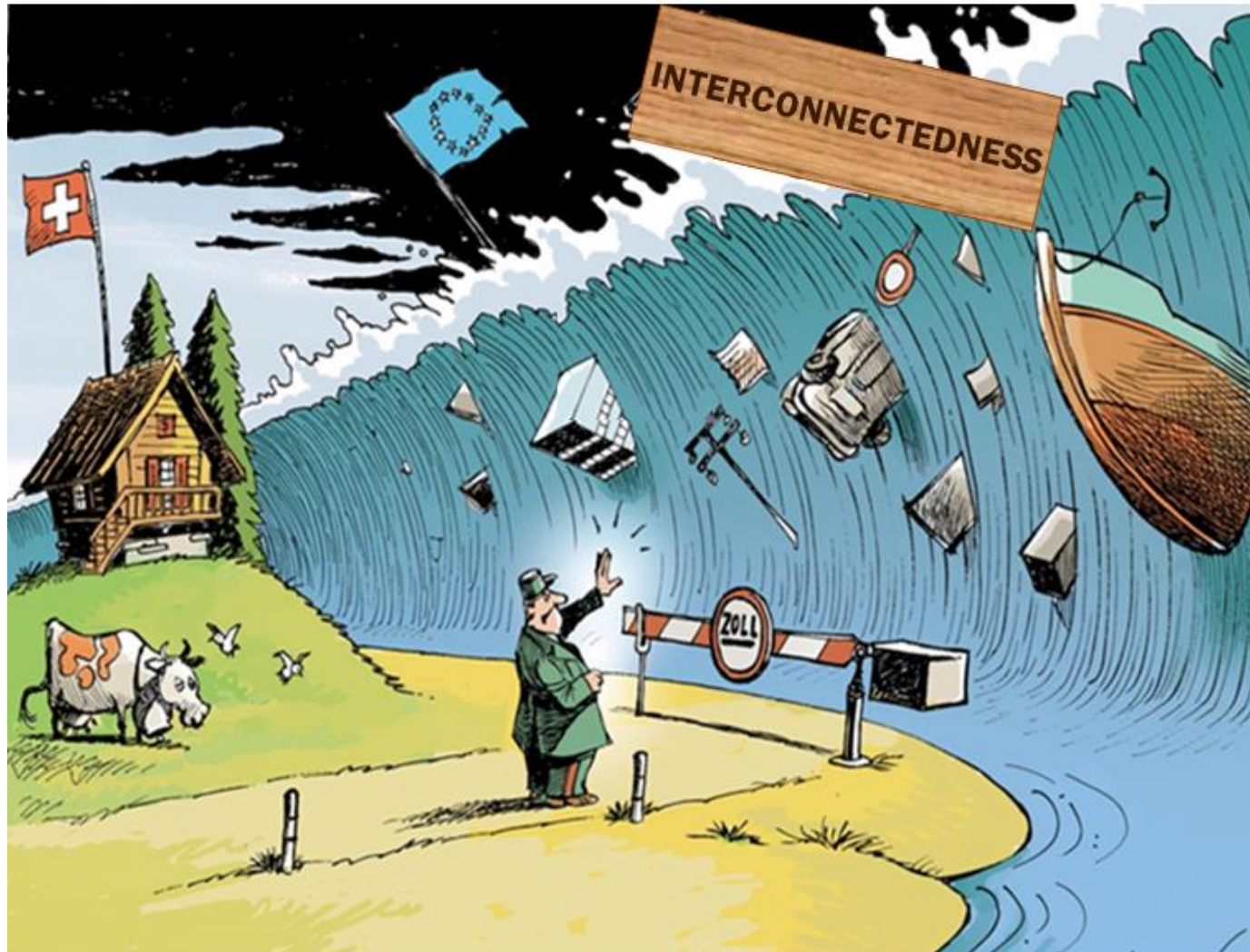
Source: Maddison for years 1 to 2008, World Bank for 2018

Self-sufficiency and cooperation à la carte



- ✓ Switzerland has followed a successful model combining *à la carte* openness, protectionism and neutrality in spite of its economic dependence on the EU
 - Switzerland in no conflict since its declaration of “perpetual neutrality” at the Congress of Vienna in 1815
 - Geneva is the capital of international bureaucracy (37 international organizations, 380 NGOs and 170 diplomatic missions)
 - It tops OECD countries for agricultural subsidies (60% of Swiss agriculture revenues) and the average 30% import tariff for agricultural products
- Switzerland (happily) accepts to play no significant role in global governance and to not be part of the EU

Is this still a viable model?



Conclusion



- ✓ Global governance is undergoing a deep transformation with a power shift toward emerging market countries. The global order remains unsettled
- ✓ Globalization – and increased interconnectedness – modifies the essence of national sovereignty, which has to be adapted: old-fashion nationalism is no longer a sustainable option (even if it can have short-term traction)
- ✓ A more cohesive European external representation could have an important influence on global economic and political affairs, which would be beneficial to both Europe and the world
- ✓ A stronger European role in the world arena (and the accompanying participation in a collective decision-making process) is **not** in contradiction with national identity and fundamental self-determination

***Solutions to global issues lie in the international community's own hands –
which, indeed, are our own hands,
as citizens of our own country, of Europe and of the world***