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Working for a more effective global governance: an EC perspective

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Overview

The crisis provides an opportunity to move ahead with much needed reform of the international eco/fin architecture

- Why reform is needed, and how the EU is contributing
- The EU and the G20
- International financial institutions (here: IMF)
- EU-Asia: ‘responsible responses’ to the crisis

1. Why is reform needed? How is Europe contributing to renewing global governance?

Why is reform needed?

- **Weaknesses in macro-financial surveillance and policy coordination**: IMF and G groups failed to elicit the appropriate policy responses to the accumulating financial and macroeconomic risks (e.g. to correct global imbalances); Lack of implementation (traction) by states

- **Weaknesses in financial regulatory and supervisory framework**: Deficiencies at national; lack of appropriate international standards; insufficient cooperation among national supervisory authorities. Regulatory arbitrage in an increasingly globalised financial system.

Why is reform needed?

- **Deficiencies in crisis management**: Insufficient crisis reaction capacity (resources, facilities, conditionality) of IMF and MDBs and lack of appropriate arrangements for dealing with cross-border banking crises.

- **Deficiencies in global economic governance (IFIs + G groups)**: Insufficient adaptation to new world economic realities (emergence of new players) harmed the legitimacy and effectiveness of international institutions and fora.

How is EU helping to overcome the failures in the international financial architecture?

- **Weaknesses in macro-financial surveillance and policy coordination**: EU supports strengthened surveillance (IMF, FSB and G-groups). At EU level, creation of European Systemic Risk Council, which could contribute to a global 'early warning toolkit'.
- **Weaknesses in financial regulatory and supervisory framework**: EU is leading G-20 regulatory reform effort with measures in all key financial regulatory areas (capital adequacy, derivatives, compensation, rating agencies, creation of 3 European Supervisory Authorities).
- **Deficiencies in crisis management**: EU is main contributor to G-20-driven increase in IMF resources. On cross-border crisis management for systemic financial institutions, already in 2008 we adopted MoU and are developing mechanisms (e.g. on burden sharing).
- **Deficiencies in governance of IFIs**: representation issue (e.g. quota and non-quota reform of the IMF).

2. The EU and the G20

G-20: prime forum for international economic coordination: stakes for EU

- **G-20** to become the forum for global economic governance.
- **Key issues of membership and organisation of G20:** for Commission: 4EU MS + EC Pdt and EU Council chief in one delegation.

Implications of the Lisbon Treaty for EU representation in the G-20

- Article 17 puts Commission in charge of external representation on economic matters (on non-CFSP issues).
- Involvement of the permanent Presidency of the Council at global level.
- The Lisbon Treaty argues in favour of maintaining Commission's presence in the G-20 process at all levels.

Will the G-20 last? Main risks:

- **Post-crisis oblivion:** less willingness to reach consensus and take bold measures globally.
- **EMEs had a specific interest in developing the G-20 as alternative to G7/G8**, triggering an ambitious global governance reform agenda. But will this last (climate change discussion in St. Andrews provides a warning).
- **Unclear membership and operating rules and marginalisation of outsiders (notably LIC) could harm its credibility**.

G-20: what role and challenges for the EU?

- **EU has been important in emergence of G-20 as key global forum** (initial impulse)
- **Challenges for the EU**:
  i) for the Commission
  ii) keep agenda focused
  iii) new Framework for Growth / regional dimension

- **The Framework will focus on:** rebalancing global growth model, coordinating exit strategies and structural measures to raise potential growth.
- **A single EU/EA contribution alongside contributions by EU G-20 MS**, with section on monetary and exchange policies by ECB, and sections on common fiscal framework (SGP) and common structural policies framework (Lisbon Agenda/Europe 2020) by the Commission.

3. International financial institutions

IMF Governance: the issues

- Framework for IMF governance:
  - IMF remains a quota-based institution; distribution of quotas should reflect relative weights in the world economy.
  - Shift in quota share to dynamic emerging market and developing countries of 5% from over-represented to under-represented countries;
  - Protection of voting shares of low-income countries;
  - Ratification of 2008 quota and voice reform;
  - Completion of 14th quota review by January 2011;
  - IMF to examine other elements of IMF governance reform (voting modalities, strengthening of IMFC, staff diversity, selection process of IMF management).

Issues with IMF governance and representation

- EU share of world GDP, trade and financial flows (ex intra-EU trade) is below Europe's quota => need to adjust IMF governance to absolute and relative economic power of BRICs
- Quota shift of 5%+ small and spread across advanced and emerging countries (calculations using 2008 data available mid-2010)
- Quota reform not sufficient to reform efficiency and legitimacy of IMF. Need for internal governance reform, changes to the surveillance framework.
- Strong common EU positions and real changes to IMF governance are desirable.
- COM: Consolidation would show EU's willingness to be inclusive / emerging new international financial architecture; would give EU more leverage in policy debates within IMF and internationally.

IMF quota and GDP shares of G-20 members

Country	Calculated Quota Shares	New Actual Quota Shares (updated variables)	2009 Share World GDP (market exchange rates)	2009 Share World GDP (PPP)	over/under-representation
USA	18.991	17.67	24.93	20.02	93.04
Japan	8.032	6.556	8.82	6.20	81.62
Germany	6.227	6.11	5.65	4.09	98.12
France	4.016	4.505	4.60	2.99	112.18
UK	4.429	4.505	3.84	3.11	101.72
China	6.39	3.996	8.31	12.05	62.54
Italy	3.336	3.307	3.65	2.56	99.13
Saudi Arabia	0.835	2.93	0.66	0.88	350.90
Canada	2.569	2.672	2.24	1.85	104.01
Russia	2.053	2.494	2.19	3.33	121.48
India	1.997	2.442	2.17	4.95	122.28
Australia	1.321	1.358	1.61	1.15	102.80
Mexico	1.97	1.521	1.51	2.20	77.21
Brazil	1.725	1.783	2.59	2.87	103.36
Korea	2.245	1.412	1.40	1.84	62.90
Argentina	0.583	0.888	0.57	0.83	152.32
Indonesia	0.901	0.872	0.90	1.34	96.78
South Africa	0.589	0.784	0.48	0.72	133.11
Turkey	0.987	0.611	1.04	1.34	61.90
EU	32.90	31.88	28.29	21.52	96.88

GDP data IMF WEO database October 2009

Internal Challenges and Tensions

- EU Members largely against consolidation; (But COM in favour and EP would be in favour)

- EU Members opposed to a stronger role for COM on IMF issues

What is the Commission doing to help the EU speak in a more cohesive way?

- **Commission works to help EU countries develop common positions in G-20 discussions** (ToR; common letters, coordination of EU comments, participation in meetings/WGs)
- **Commission also helps EU countries better coordinate on IMF/WB matters** both in Brussels and Washington, to increase efficiency.
- In **EMU@10 Communication/Report (2008)**, Commission argued forcefully in favour of consolidation of EU/EA representation in international fora, and in September 2009 Cmmr Almunia presented to Euro Group a proposal for creating a single EU seat at IMF.
- **Lisbon Treaty** reinforces legal backing for development of common positions/representation, notably for euro area.
- **EP tends to favour a more cohesive/unified external representation**

4. EU-Asia: can we jointly contribute to better transforming the international economic landscape? (i.e. To offer responsible responses to the crisis)

Main current issues on the international economic agenda

- Sizeable external imbalances: large current account surpluses (e.g. China) and deficits (e.g. US) - Rebalancing growth to reduce imbalances
- Working towards a more sustainable world growth: fiscal sustainability, environmental sustainability
- Accumulation of foreign currency reserves in some countries (East Asia) way beyond any conceivable precautionary amount
- Exchange rates divergences are creating trade tensions and play a role in the formation of imbalances
- Questions arise as to the US dollar's supremacy
- How to deal with exchange rate issues: multilaterally? bilaterally?

Can rebalancing of growth be achieved? How can the EU and Asia contribute to it?

- Global imbalances remain large despite cyclical correction. Root-causes have not been tackled yet and imbalances will persist going forward (cf. forecasts).

- US and China need to play a central role in rebalancing global growth
  - US: less consumption and more savings and exports
  - China: more consumption and less investment and exports

- The EU can contribute through structural reforms to boost growth at regional level (euro area's balance of payments largely in balance)

- Asia: there is a case for more domestic-demand led growth in Asia in general.

A new growth model for the global economy

The difficult structural reforms that are needed to rebalance growth:

- EU:
  - Improve access to finance for research and innovation
  - Facilitate entry of youth on the labour market
  - Improve the business environment, especially for SMEs
  - Enhance the efficiency of financial markets (FSAP)

- US:
  - reform of the taxation system and higher taxes
  - put social security and healthcare on a sustainable path
  - major changes in the business model of the financial sector
  - find an alternative to the debt-based social content

- Asia:
  - creation of wider social safety nets
  - allow Asian currencies to appreciate
  - reform the financial markets so that credit I allocated more efficiently
  - Deeper regional integration

How to deal with exchange rate issues bilaterally? in a multilateral context?

1. The issue:

- Large economies' exchange rates affect trading partners, global demand and stability => need to be discussed / addressed
- Is also a component of the rebalancing the global economy

2. How to deal with it?

- Maintain the current non-system and let the tensions escalate?
- Bilateral approach or multilateral approach? (options)

Could ASEM help? Or other forms of cooperation between the EU and Asia?

- EU and Asia must make their voices heard at international level. ASEM to exchange views, identify common interests.
- Constructive role in IMF (or FSB Board)
- Constitute regional groupings that count at the international level, when countries the size of continents.