Europe and the Future of Economic Governance*

PASCAL LAMY
European Trade Commissioner

Introduction

The Journal of Common Market Studies, it seems to me, has always rather revelled, in a very British way, in having an out-of-date title. As they used to say, a well-dressed man is always at least ten years behind the latest fashion. Of course, JCMS does not need to worry about that – everyone knows who you are. But you are lucky that you are not called the ‘Journal of Coal and Steel Community Studies’, frankly speaking; or the ‘Journal of European Defence Community Studies’, although that wheel may yet come full circle. And at least you have resisted the blandishments of image-makers who might have reduced you to the poverty of ‘European Union Institutional Reflections Monthly’. In any event, I am pleased to have the opportunity to share some reflections on the future of economic governance, based on my own experience as EU Trade Commissioner and considering Europe as a possible model for emulation elsewhere, in the pages of JCMS.

Some of my past writings on economic governance have provoked controversy, particularly in my own country (Lamy, 2002b; Lamy and Pisani-Ferry, 2002), but also in the English-speaking world (Lamy, 2002a). Yet, it seems uncontroversial to view economic governance as being fundamentally about

* This article is an extensively revised version of the JCMS Annual Lecture, delivered under the title of ‘The EU, Cancun and the Future of the Doha Development Agenda’ at the UK Department of Trade and Industry in London on 28 October 2003. The author is grateful to John Peterson, Iain Begg, Dennis MacShane, Jim Rollo, and Ian Shaw and his team at the DTI for their assistance in making the event such a success. The views expressed here are personal, and should not be taken as expressions of European Commission policy.
how to harness globalization. And I believe that it is hard to deny that Eu-
rope’s experience of freeing and then seeking to harness powerful market
forces in its own backyard – in the process developing innovative governance
arrangements – means that it has much to bring to debates about global eco-
nomic governance.

I would like to begin by addressing questions about economic governance
that arose in the wake of the ministerial meeting of the World Trade Organiza-
tion (WTO) in September 2003. At the time I accepted the kind offer to con-
tribute an annual *JCMS* lecture, we were all keen to see Cancún succeed. But
it did not. We subsequently (and officially) entered the ‘post-Cancún’ period,
during which all of us reflected urgently on where matters stood on the Doha
Development Agenda, and where they would move to next. As I hope you
will see, the connection between Cancún and broader questions of economic
governance is by no means negligible: the WTO is one of the relatively few
islands of governance in a sea of globalization. It is therefore important to
consider what lessons for global governance are to be drawn from this failure
of the operation of the WTO machine, before going on to think about the
challenges for economic governance more generally. Cancún, like Seattle, is
often taken as a symbol of a broader phenomenon. But there may also be
concrete lessons to be drawn – including, where next?

I. Who Killed Cancún?

Although the statute of limitations for an analysis of what happened in Cancún
has long expired, it remains an interesting thought exercise to consider com-
peting explanations for why Cancún failed, and what are the implications for
economic governance. Explanations about what happened in Cancún fall into
two broad groups.

The first group suggests that Cancún was an accident. It is as if two cars,
or three cars, or indeed 148 cars, collided on the way to a wedding. Casualty
levels remained unclear for quite a long time afterwards. The road was tem-
porarily blocked, but the police arrived before too long with heavy lifting
equipment. After the road was cleared, it was assumed that everyone could
still remember the way to the wedding, and was still in the mood. Those who
made this assumption concluded that *maybe* the wedding could go ahead,
with some delay, with plenty still available to eat and drink.

Of course, there are plenty of good historical antecedents for this theory
that accidents can have a major impact on history. Consider the *accident of
Cleopatra’s* nose being just a bit too elegant, driving Julius Caesar to madness
and war. Or the *accident of* the beauty of Helen of Troy, such that it alone
could launch a ten-year war. Had it not been for her beauty, Odysseus could
have stayed at home with his dog, and indeed his wife, thus ruining the basic plot of not one but two rather good books.

In Cancún terms, this sort of ‘explanation of the fates’ suggests that we were more or less on track, we might have made it, and we were just a long night’s negotiation away from success. My teasing references to car crashes and Greek myths aside, this group of explanations is not wholly irrelevant. The preparation of the Cancún meeting in Geneva, under the careful helmsmanship of Perez del Castillo, had not been bad (although Geneva, seemingly like everyone else, collectively missed cotton); the EU and the US had done what everyone had asked them to do, and had come up with a framework deal on agriculture, and so on. But the difficulty is that most theories of this kind tend to put too much weight on the role of individuals in the system. They usually go on either to blame the chairman, unfairly in my view; and/or to suggest that one or other player made a tactical misjudgement at a key point. One of the keys to successful governance – economic or otherwise, national or multilateral (or indeed local) – is to ensure that success is not dependent on the heroic efforts of individuals, or precluded when individuals miscalculate.

The second set of explanations for Cancún deny that it was an accident, except in the sense of an ‘accident waiting to happen’. They play down the role of individuals, and the sense that everything was going fine in Cancún until nearly the very end. They tend to suggest that there are serious underlying problems that we have to resolve before we can move on. For example, just consider the systemic issues thrown up by the relatively recent emergence of new caucuses inside the WTO, including groups in which developing countries are setting the agenda.

Take the Group of 20 (G20) WTO member states, for example. It is a mistake to see the G20, led as it was by Brazil, India and China, as simply an agricultural phenomenon that emerged in response to the perceived iniquities of the EU–US text on which some of us spent so many days and nights in August. If the mother of the G20 is agriculture, the father is clearly geopolitics. And in many respects, we have to respect, even welcome, the emergence of the G20, insofar as it is self-consciously positioning itself as a counter-weight to the Group of 8 (G8) industrialized states in terms of global economic governance. But the paradox is that, if united only by politics and agriculture, or parts of the agriculture dossier, the G20 will struggle to thrive as a unifying force in trade when the agendas of its individual members differ so markedly.

All the attention focused on the G20 post-Cancún tended to obscure the importance of the G90, the group of African, Caribbean and Pacific countries together with other least-developed nations. Their concerns and demands were certainly less visible for a long time, certainly less audible until the final ses-
sion in Cancún, when delegate after delegate stood up to denounce the text produced by Chairman Derbez whether on cotton, the Singapore issues\(^1\) or its general lack of fairness to the developing world. To put it very bluntly, this large, rather inchoate group of WTO members simply did not have a large enough stake in these negotiations to want them to succeed. They were particularly worried about the impact of the certain erosion of their trade preferences, notably on the EU market, and of continued liberalization at a multilateral level. Moreover, they were satisfied, before the conference, to have under their belts, so to speak, the agreement on Trade-Related Intellectual Property and Services (TRIPS) and medicines, which had ‘repaired’ a major problem for them.

So we must confront a systemic question: was Cancún really about a north–south confrontation, long coming, barely visible beforehand, a tidal wave of trade resentment blown on the winds of political schism following the Iraq crisis of 2003? In some respects, yes, and particularly if we focus on the detail of the trade issues. Clearly, the G20 was opposed to ‘the north’ on agriculture. Clearly the Africans were viscerally opposed on cotton. And undoubtedly there was a common, if not universal, theme of opposition in the G90 to the Singapore issues, which were obviously close to Europe’s heart.

But in other important respects, no. A simple north–south explanation misses the point that 40 per cent of world trade is south–south, a percentage, which frankly should be higher. North–south explanations also do not square with, for example, how the EU, India, Morocco and Thailand fought together against new world countries on the issue of geographical indications.\(^2\) On the Convention on BioDiversity, the line-up was China and India, backed by the EU. And even on an ‘old’ trade issue like anti-dumping, where developed countries traditionally held the line against cheap imports from developing countries, more than half of the total of all anti-dumping cases are now initiated by developing countries, and our own position in these negotiations, frankly, was rather closer to the position of south-east Asia than the US.

Even on agriculture, where the UK press loves to gorge on stories that ‘prove’ how the EU’s Common Agricultural Policy (CAP) is irrevocably opposed to the interests of developing countries, you need to consider, step by step, the moves we made towards developing countries following the CAP reform agreed in June 2003. To name just two examples, we accepted, for the first time, the elimination of export subsidies on products of interest to devel-

---

\(^1\) The Singapore issues are rules on investment, competition, trade facilitation and transparency in government procurement. They are called the Singapore issues because it was at the 1996 Singapore Ministerial Conference that individual working groups were set up to study them.

\(^2\) Geographical indications are used to determine the national/territorial provenance of goods for trade purposes.
oping countries, and we agreed that so-called blue box subsidies, even though less trade-distorting than some, should be capped.

So if there was no systemic north–south confrontation in Cancún, at least not on all the issues in Cancún, then what was going on? In my view, a mélange of different things. The key traditional supporters were not always at their best. For example, while United States (US) negotiators were generally positive, public opinion and the US Congress remained uncertain supporters of a round and of the multilateral system in particular. Cotton proved to be a difficult issue for the US. More generally, a generalized fatigue with the constant pressures and challenges of globalization in general, and trade liberalization specifically, affected all of us, and not only the Americans.

Then there was China. Through no fault of its own, China’s capacity to produce, and its seemingly bottomless comparative advantage, scares the living daylights out of not just the US Congress, but also a number of developing countries. One such developing country, having for years argued fiercely against the EU’s expressed interest in some WTO role for core labour standards, actually came to us and said that we might now need to start thinking about action against China because, the country alleged, some Chinese textiles were being produced in sweatshops. In other words, if you are already worried about China’s ability to scoop the pool, the last thing you want is trade liberalization.

Finally – and perhaps we in the EU must recognize this as well – there was a general difficulty in using rules to address what are rather wide differences in collective preferences. This, of course, begs two questions: on the one hand, in terms of substance, do the difficulties here highlight a deeper issue in the place of rules in constructing a governance architecture? And, on the other hand, in institutional terms, does this situation suggest that the WTO as a governance institution is not adequately equipped to bridge gaps in positions?

We could then add other, myriad, systemic problems linked to the institutional problems of the WTO itself. To put it mildly, the WTO is not a paradigmatic mix of efficiency and legitimacy. To put it somewhat more robustly, as I have done in the past, its rules and procedures are ‘medieval’. Still, as I will argue below, the World Trade Organization has been a major success story in global economic governance. That does not mean that we should pretend that it is a perfect model for the kind of global governance that we would all like to see.

3 In WTO terminology, subsidies in general are identified by ‘boxes’ which are given the colours of traffic lights: green (permitted), amber (slow down – i.e. be reduced), red (forbidden). In agriculture, things are, as usual, more complicated: there is no red box, although domestic support exceeding the reduction commitment levels in the amber box is prohibited; and there is a blue box for subsidies that are tied to programmes that limit production. There are also exemptions for developing countries.
II. The Lessons of Cancún

What can we learn from Cancún about how to organize economic governance in the WTO and more generally? I have offered you this lengthy detour of analysis through two competing models of explanation for the failure of Cancún by way of demonstrating that adherence to either one takes you in very different directions.

The ‘car crash’ theory suggested that Cancún was little more than a ‘little local difficulty’ to quote from an episode – alas, I have forgotten which – from the UK’s imperial past. It suggested that we simply had to get up, brush ourselves down, remount the horse and press ahead regardless with the negotiations, perhaps with a decent down-payment of early concessions up-front to stress our bonne volonté, and our determination to bring the Doha round, come what may, to an early conclusion.

The second theory suggested that hard thinking was needed before we jumped back on the horse, lest we fall off again, or ride off in the wrong direction. My own judgement was that some serious thinking was needed post-Cancún, and that all sides would benefit from some reflection.

For example, at Cancún itself, what had been the long-awaited compromise text produced by the chairman of the ministerial meeting, Luis Ernesto Derbez, the so-called draft of 13 September (2003), was denounced and rejected by delegation after delegation. Yet in the months that followed the conference, some delegations declared they were ready to relaunch on the basis of that very text, claiming even in certain cases that this small step proved how flexible they really were. But the wider and crucial point to be noted here is actually about effective economic governance: it cannot work unless, for the sake of the general and collective interest, governments can work on the basis of mutual trust.4

III. The WTO and a New International Politics

The Doha round has often seemed as if it was all about defending narrow national economic interests, and occasionally the overlapping interests of sub-groups of states. But, at its essence, it is about harnessing globalization, and contributing to a working model of global economic governance: in other words, a model which prescribes how global rules are put together, decided upon and implemented in order to benefit from more open trade. We all know that globalization is proceeding much more quickly than our ability to man-

4 This injunction is one of several memorable analytical conclusions to emerge from a large EU-funded multinational research project (‘GOVECOR’) into ‘EU Governance by Self-co-ordination’ based at the University of Cologne. Available at «http://www.govecor.org/home/welcome.asp» (see also Meyer, 2003).
age it. And we have to admit, along with Claude Smadja (2001), the managing director of the Davos Economic Forum, that ‘the growing wealth, health, knowledge and digital divides are in danger of fragmenting our planet – maybe beyond repair’. So a primary goal of economic governance has to be corrective action to tackle imbalances and divisions. Two questions arise. What is the proper place of the WTO in this quest? And what can we learn from the European experience in constructing a model of global economic governance?

Let us start with some basic principles. We have to set objectives, in terms of both substance and process. On substance, we must construct a system that will permit fair and sustainable development at the global level. On process, this system must be built on interconnections between governments, markets and civil society, and count on a central body that can act as its guarantor. As we define and then refine our objectives, two organic principles must always be respected and embedded in any new or revised economic governance arrangements. The first is transparency. Control of, and access to, information is one of the keys to successful governance. Although transparency is a universal value, it has never been more immediate, in all senses of the word, than in the modern information age. The second principle is subsidiarity. We need to tackle subjects at the right level – which means as close to the (wo)man on the street as possible.

On both of these counts, it is hard to deny that Europe has an advantage in global discussions about how to design a working model of economic governance. The pursuit of more transparent economic governance in Europe has been a hard slog. All multilateral institutions face intrinsic problems of transparency. But there is no doubt that European economic governance is more transparent now than it has ever been, and few would argue that it is has ever been easier for ordinary firms, activists and citizens to know and understand what the EU is doing. Meanwhile, all but the most extreme Eurosceptics would accept that European governance is a mixture of local, regional, intergovernmental, and supranational practice – even if the debate about subsidiarity has not yet produced agreement on which issues should be addressed at which levels.

Turning from underlying principles to the actual functions of economic governance, three stand out: underlying values, efficiency and legitimacy. Underlying values are, put simply, the set of values shared by a governed group. But values are, in large measure, responsible for our self-defined ‘iden-

5 Here I draw on reflections originally presented in 2001 at the London School of Economic in an address entitled ‘Harnessing Globalization: Do we Need Cosmopolitics?’. Available at: «http://europa.eu.int/comm/commissioners/lamy/speeches_articles/spla45_en.htm». © Blackwell Publishing Ltd 2004
It follows that values tend to be vulnerable to attack by the forces of globalization, and worryingly easy to distort into violent forms of exclusion. Economic governance can never be value-free.

As for the other two functions, it is striking to me how the debate has focused so far almost exclusively on efficiency, to the detriment of legitimacy. This has tended to leave the field entirely open to what the press insist on calling the ‘anti-globalization’ protestors who have been so prominent in Seattle, Davos, Prague, Genoa and elsewhere. Their basic argument is that the current system of global economic governance lacks both accountability and, therefore, legitimacy. It follows that we have to fix this problem before trying to rebuild international organizations.

I have argued in the past that this analysis is not incorrect, but that it is probably premature. Until we have a more operational system, until the WTO becomes a more effective instrument of global governance, questions of legitimacy will, by definition, tend to take a back seat, with a weak WTO on the sidelines. Legitimacy, and the absence – or at least the perceived absence – of legitimacy in different political systems, and different levels of political systems, is a key concept. It is a fundamental question facing both the WTO and indeed international organizations, including the EU, as well as national governments. International crises, especially those in the early part of this decade, often demonstrated clearly that problems related to legitimacy, credibility and transparency are not limited just to international bodies, but also to national administrations. Legitimacy is therefore a widespread concern and it is important to recognize that the problems are felt across the entire governance spectrum.

At the heart of the analysis is my central view that international organizations must aspire to a different, and in some ways higher, standard of legitimacy than national or local bodies. One cannot simply extrapolate from national models in assessing ‘how much legitimizing’ is needed for a variety of reasons. In the first place, the sense of powerlessness and disenchantment that I noted earlier derives from the fact that the citizen often feels very remote from action taken, justifiably, on the grounds of efficiency. This is not only because the citizen is some distance from the action, in both a physical and a psychological sense, but also because control is exercised from the remote location.

Remote control is fine if it permits the choice of global television channels from the comfort of a deep armchair. But remote control is less appealing if the remote source of power controls one’s life and livelihood. Thus power exercised at the supranational level creates its own, significant, demands for checks and balances, for legitimacy. The problem is that conventional legitimizing systems do not work the same at different levels of governance. This
is partly because the sense of legitimacy is watered down by distance, but also because the mechanisms often do not work very well because interests are different and more diverse.

In short, international governance runs into problems of aggregation of interests. The legitimacy of international organizations cannot be addressed satisfactorily by simple reference to their constituent parts, the nation-states. While nation-states make up a vital part of the authorizing environment in the international system, reliance on this notion of derived legitimacy has led them to under-invest dramatically in the legitimacy of the international system.6

By definition, nation-states, quite correctly, enter the international arena to defend their own interests. Yet, in an intergovernmental system such as the WTO, it is unclear how this serves the purpose of either efficiency or legitimacy. As a result of being ‘member-driven’, for example, the WTO clings to the importance of consensus to decide. But if all members but one decide that change is needed, the ‘legitimacy’ of that decision is questionable.

Here, I must offer a confession: I am not very keen on the term ‘governance’. It conjures up notions of control and the term ‘governess’, with all its connotations of starchy Victorian family values. But conventional politics does not capture the essence of what we need to construct in developing a working model of economic governance. So perhaps we need a new term: something like \textit{cosmopolitics}.

The word-stem ‘cosmopolitan’ has an honourable heritage: Immanuel Kant (1992 [1795]) lies behind the notion, inspiring others such as Norberto Bobbio (1990). Indeed, Kant’s original Utopian idea of federal association between free republics relies on the notion of global public opinion, something that was truly Utopian in Kant’s time, but is now fast becoming an internet-driven reality. The notion that I wish to convey is not that of urban sophistication, as in the modern (mis)use of the term (Hitler, for example, hijacked the notion with his onslaught on ‘cosmopolitan minorities’). It is of a wider base to world politics, itself the product of the weakening of ‘identity’ that in turn has resulted from globalization. In part, the notion of cosmopolitics describes a new world that is coming into being, but it also connotes a way of legitimizing economic governance by involving citizens in the organization of governance and mediation between different interests. In short, it points us towards nothing less than a new international politics.

In this context, I have come round to the view that non-governmental organizations (NGOs) and civil society can contribute to legitimization by pro-

---

6 These ideas on legitimacy in global governance are developed further in my forthcoming essay ‘Thoughts about Governance from Europe: Making Sure we don’t Forget the Cosmopolitics’ due to be published in a Festschrift honouring Sylvia Ostry (see Alexandroff and Bhalla, 2004).
viding for different channels of activity – including mobilization, advocacy, or indeed simply legal/technical support – and thereby fulfil a demand for new social intermediaries that are not provided elsewhere. We might not always like what they have to say, but they have a legitimizing function, and they are pressing for increased legitimacy in the system. They can make a crucial contribution to global governance.

How might the WTO fit into this picture? No one, not least those who are inside the WTO, argues that it is perfect, or that its organization, staffing levels and funding do not need addressing. To give just one tangible example of how weak the WTO is, its Director General lacks the power of proposal, which is truly bizarre. But opinions thereafter differ sharply in two areas. First, what areas should we address? Should we focus simply on the organization of ministerial conferences, given the disastrous outcomes in Seattle and Cancún? Or do we need to go further, and revisit the decision-making principle of consensus, recognizing the difficulty of achieving it in a WTO of 148 diverse countries?

Second, depending on the answer we have given to the first part of this question, how do we manage the impact of WTO reform processes on the future of our negotiations? We have to balance, here, the need to use the negative momentum of Cancún to start a long overdue process of institutional improvement for the WTO with the need to avoid getting the organization bogged down again in debates on the virtues of (some form of majority) voting v. consensus.

Let us be clear, as I said in the introduction, that the WTO is one of the relatively few islands of governance in a sea of globalization: its binding dispute resolution system, for instance, is clear evidence for the point. But it has blinded the public into believing that the WTO is a supremely efficient and a supremely illegitimate body. It is neither. With a tiny staff of roughly one-quarter the size of the Organization for Economic Cooperation and Development (OECD) in Paris, and a consensus-based, member-driven ethos, one might genuinely pose the question of whether the WTO sets out to legitimize what it cannot deliver. But if so, we can and must try to reform the WTO so it can deliver what its 148 members have signed up to see it deliver.

IV. Economic Governance and Europe’s Contribution

If it is nothing else, the WTO is the only forum that we have that allows us to trade off market access against appropriate new rules – a fundamental choice that is nearly always faced in economic governance. But the WTO clearly cannot tackle all of the problems of globalization by itself. Its rule-making capacity is weak, and sometimes constrained by sharp north–south differ-
ences on the scope for bringing new trade issues within the ambit of the organization. Most importantly, too many issues relating to the setting of international norms lie elsewhere in the United Nations system, in multilateral environmental agreements or organizations, such as the World Health Organization or the International Labour Organization.

In the short term, therefore, we have little choice but to look for governance in dark corners of different institutions, drawing on cosmopolitical constituencies for support, patching together policies to respond to new needs. Included in this may be new-style self-regulation and co-regulation, as exemplified by the OECD multinational company guidelines agreed in 2000. It may extend to institutionalized peer review of various kinds that might allow states – along with international institutions and transnational civil society – to measure progress towards sustainable development, the narrowing of global imbalances, or more transparency in economic policy-making. It is difficult to see how progress can be made in any of these areas in the absence of stronger multilateral institutions and action.

Here is where Europe has a special contribution to make. In the early years of European integration, the main raison d'être of the European Union (EU) was peace: first of all internally, by reconciling France and Germany, but also by giving Europe the means to have influence in the world. Recalling a recent contribution to *JCMS*, European integration has always been about projecting a model of multilateral reconciliation, which recalls Kant’s Utopian, federal (if I may use that term) association of free republics, on to the rest of the world (Nicolaïdis and Howse, 2002). Of course, the EU was not built on the basis of modern cosmopolitics. But the current debate about designing an effective, enlarged European Union – played out in the Convention on the Future of Europe and now negotiations on a new Constitutional Treaty – is focused squarely on the need to balance values, efficiency, and legitimacy.

The EU is also an encouraging case that may be cited in debates about whether regionalism is a building block or a stumbling block for improved global economic governance. The EU has long experience, far more than most regional entities, of seeking an appropriate balance between trade liberalization and market integration, on the one hand, and policy integration and solidarity, on the other. The Union’s combination of open markets and common rules allows it to go further than any other regional entity towards regulatory co-operation of the kind that is often demanded globally. It has also developed the sort of flanking policies that might, one day, be constructed at the global level to allow all participants to reap the benefits of integration. The EU, along with other regional entities, has genuine potential to help upgrade multilateralism by functioning as a caucus at the global level that can facilitate decision-making in multilateral institutions.
The way that decisions are made is a crucial element of economic governance. Here the EU has experience that can be ‘exported’ for the greater good. We have learned the sometimes hard lesson that regionalism has to build on solid multilateral foundations. Take my own area of external trade policy: the EU has been true to the principle that regional free trade agreements develop their full potential only where they build on commitments to international principles such as the most-favoured nation clause and national treatment which WTO membership entails. Perhaps a sign of our success are academic treatments that ask: ‘What happened to Fortress Europe?’ (Hanson, 1998). That is, why did the vision (perhaps it was a nightmare), which was widely shared in Washington in the mid-1980s, of a single European market featuring new, higher barriers to American (and other) non-European competitors turn out to be a false vision?

Part of the answer lies in the way the EU makes trade policy decisions: on the basis of Article 133 under which the Commission negotiates after securing a mandate agreed by the Council of Ministers, if necessary by a qualified majority vote. Of course, the goal is always consensus, and no major EU trade policy decision has ever been taken in the absence of it. Let us not pretend that these arrangements have always worked as smoothly as they do now. For example, during my previous time in Brussels, it was evident that my predecessors as Trade Commissioner spent about two-thirds of their time negotiating with EU member governments, leaving only one-third for negotiating with the non-European world (see, e.g., the stories recounted in Paemen and Bensch, 1995). I am convinced that increased European unity on trade policy (through no exceptional efforts on my part, by the way) meant that these percentages were reversed under my tenure. The lesson for global governance is that new, non-unanimous rules for making decisions cannot produce solidarity overnight. However, confidence in them and trust in one’s negotiating partners builds over time as such rules are repeatedly used. Trust is the cement that binds an institution into a social contract which, implicitly, constitutes the foundation of the structure. Only through trust that is both shared and built on at each subsequent stage, can progress be made. Yet the important lesson here is that, to build trust, a body is needed that can act as a guarantor of the project and its momentum. Logically, that body should also have the prerogative of generating a consensus proposal that facilitates the emergence of the general interest.

In the European Union, it seems to me that only the Commission can take forward the European project by addressing the general interest, rather than multiple national interests. Moreover, the Union needs to speak at a global level not just with a single voice, but also with a single mouth. I believe that the Commission ought to have competence, as in trade policy, to negotiate on
all matters pertaining to the management of globalization, including the environment, transport, energy and negotiations within commodity organizations, the OECD and Food and Agricultural Organization, etc. In my view, it would be desirable for the Commission to operate under the full control as well as scrutiny of both the European Parliament and Member States. But – especially in an EU of 25 or more – qualified majority voting in the Council should apply to all questions of economic governance.

For the WTO to arrive at consensus, with the individual views of its members as a starting point, it seems to me that it is crucial to have a degree of collective ‘trust’ in the Director General and his secretariat. They should be able to express the general interest in the WTO by generating proposals for that consensus.

Of course, decisions are not the same as results. Europe is often criticized for acting as if any EU agreement is a success simply because it has been agreed, while paying scant attention to the actual results. What is Europe’s actual score in promoting and reforming global economic governance? So far, our balance has been a mixed one. Our performance has been the strongest where Europe has been united, and this has been the case in trade policy since the early days of European integration. We also have a generally solid record in negotiations on so-called ‘new’ trade issues, such as services and telecommunications, where EU member governments have repeatedly co-operated effectively despite significant differences in their economic interests and without having previously committed themselves to co-operate (see Young, 2002).

The EU also offers a model to other regional institutions insofar as it has constructed a ‘coherent economic edifice’ (Sapir et al., 2003) based on three pillars: the single European market, the euro, and a central budget large enough to promote cohesion. If other regional entities become laboratories, as the EU has become, for experiments in regional economic governance, the net effect can only be to boost effective global economic governance. Of course, cynics might note that Europe’s own economic house is by no means in perfect order: the EU’s average growth rate has declined decade after decade. The sustainability of European accomplishments is clearly threatened by rapid developments in demography, technology and globalization. However, the economic reform agenda adopted at the Lisbon European Council in March 2000 does represent a solid, coherent European strategy, agreed at the highest level, covering growth, employment and social cohesion objectives, and based on clear and simple goals.

Moreover, Europe’s system of economic governance mirrors that which might be imaginable at a global level, with a wide array of decision-makers ranging from local to national to supranational actors, as well as closer in-
volvement of non-traditional players, such as NGOs. The EU has experimented with new modes of policy co-operation, not least the so-called open method of co-ordination (Hodson and Maher, 2001), but also with innovations now being explored at the global level, such as co-regulation and self-regulation. The results have certainly been varied, but it is hard to deny that Europe is at the forefront of developing the sort of instruments that will need to be considered globally in order to harness globalization.

Let us be clear that Europe’s contribution to some important arenas of global economic governance has been disappointing. On finance for development, Europe has – until very recently – been virtually absent from the international scene and has thus been unable to influence global debates, despite being the largest international donor of development assistance. The 2001 UN Conference in Monterrey was, however, an important step forward. It produced a decent result under strong EU leadership, not least because Member States accepted, for the first time, a co-ordination role for the Commission. The Union thus presented a single and unified stance to the outside world and put pressure on others to follow our commitments on increased overseas development assistance.

Unfortunately, there are no such encouraging signs in the area of financial governance. While there are plenty of new ideas around on reform of the international financial architecture, these have tended to fall flat at the international level because we have been unable to push them in a unified manner. In international financial institutions, Member States hold sway and rarely act as a single entity, partly due to the system of mixed constituencies, a situation that threatens to worsen with enlargement. It is profoundly disappointing that the arrival of the euro has so far not led to greater EU coherence or to Member States demanding a single European voice in international financial institutions (although this issue was recognized in the European Convention). Clearly, the EU needs unified representation for the euro area in the International Monetary Fund (IMF) and the G8, to be extended eventually to the World Bank.

In sum, there are two basic reasons to think that Europe is and will remain at the forefront of developing global economic governance. First, in the age of globalization, preserving our European social model – our specific combination of market economy, welfare state and democracy – requires action not only at the European level but also at the global level. The challenges of combining competition and co-operation, autonomy and solidarity are no longer confined to the national or even regional level. They present themselves on a global scale.

Second, faced with global challenges, Europe is far better placed to act than its individual Member States. Consider its comparative advantage in all
of the following areas: safeguarding a democratic society and rule of law at the level of the continent; building a large, competitive market that fosters the emergence of companies that can stand up to global competition; ensuring the capacity and flexibility to resist external shocks and influence economic and political developments in the rest of the world; promoting the security and defence of Europe and sustainable development in developing countries, including those in Europe’s own neighbourhood, in the interests of justice and peace.

Conclusion

My analysis of the future of economic governance has been broad, but I have tried to explain that Cancún was not just an accidental collision, but rather was indicative of deep-seated problems that plague even the most robust of institutions designed to provide global governance. We have a deficit of global rules. The globalization of markets has progressed far more rapidly than the evolution of the global institutions and mechanisms that are needed to shape market forces and produce outcomes that are compatible with the values held by our societies. Our system (if we may even call it that) of global economic governance is unbalanced in three critical respects:

- the Bretton Woods institutions and the WTO are, for all their deficiencies, much better developed than our systems for social or environmental governance, which have either weak or non-existent institutional frameworks;
- the existing institutions of global economic governance still function mostly as ‘clubs’, in which a small number of rich countries pull the strings. Developing countries are only beginning to exert an influence;
- most existing institutions function largely as single-issue institutions – there is no forum that is able to consider the broader picture and address the interlinkages that exist, for instance, between trade, environment, labour and development questions. Indeed, I am sometimes drawn to wonder if, in the much longer term, we will have to find another multilateral institution to address some of the interconnections. Daniel Esty has proposed a Global Environment Organization, for example (see Esty and Ivanova, 2002). But the key would be an institution that had the wherewithal to address the interlinkages. Otherwise, as with the endless debate over the ILO versus the WTO in the context of core labour standards, we will be stuck, steriley, where we are now.

I do not pretend that Europe offers a panacea in the face of these deep-seated problems. But it has managed to avoid allowing such acute and debilitating
imbalances to replicate themselves in its own internal development. The Union is the world’s leading advocate for a stronger voice in international institutions for developing countries, not least because the EU/ACP (African, Caribbean and Pacific states) process gives developing states an institutionalized voice in the Union’s own aid policies. The EU does not always address ‘bigger pictures’ adequately, or link different issues effectively, but it never gives up trying.

If the cosmopolitical world is a conceivable reality – and I think it is already with us – Europe becomes a key part of the machinery. The pressures of globalization and the challenge of governance force us to take a fresh look at the whole European project. At the simplest level and at the same time, Europe has to be ‘big’ to deliver, whether on trade or foreign policy; and yet ‘small’, to embrace subsidiarity fully, and ensure that politics is close, and feels close, to the citizens. Europe is, in my view, capable of achieving such a balance, and the intergovernmental conference has given us an opportunity to rethink how we might do so. More generally, cosmopolitics may simply be about thinking globally, and acting locally. How convenient that it all comes down to a 1970s’ bumper sticker.

Whenever we reflect on the European project, it is always profitable to return to Jean Monnet. The closing words of his memoirs on his extraordinary career were that Europe is ‘a key step towards the organization of tomorrow’s world’ (see Monnet, 1976, 1978). Such an outcome is conceivable, but only if we focus firmly on the need to enhance the legitimacy of economic governance.

My experience over the last four years suggests that, while the WTO sometimes seems like a blueprint for global economic governance, it has not delivered in practice. This is deeply ironic given the tendency of anti-globalization activists to attribute enormous powers to the WTO. Closing the gap between perception and reality in some sustainable way would be a small but important step towards harnessing globalization and achieving innovative, and legitimate, global economic governance.

Correspondence:
Pascal Lamy
Trade Commissioner
European Commission
rue de la Loi 200
B1049 Brussels, Belgium
References


