EUROPE AND THE FUTURE OF GLOBAL GOVERNANCE
Council of Councils Regional Conference
Istituto affari internazionali (IAI)
Council on Foreign Relations (CFR)
Rome, 9-10/IX/2013

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IAI
Istituto Affari Internazionali

COUNCIL on FOREIGN RELATIONS

Council of Councils Regional Conference

"Europe and the Future of Global Governance"

September 9–10, 2013
Italian Ministry of Foreign Affairs
Rome, Italy

COUNCIL OF COUNCILS
An Initiative of the Council on Foreign Relations

Organized by
Institute of International Affairs
&
Council on Foreign Relations

Sponsored by
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Council of Councils Mission Statement

The defining foreign policy challenges of the twenty-first century are global in nature. To help direct high-level international attention and effective policy responses to these threats and opportunities, the Council on Foreign Relations (CFR) has created a Council of Councils (CoC). The CoC is composed of twenty major policy institutes from some of the world's most influential countries. It is designed to facilitate candid, not-for-attribution dialogue and consensus building among influential opinion leaders from both established and emerging nations, with the ultimate purpose of injecting the conclusions of its deliberations into high-level foreign policy circles within members' countries.

Participants are welcome to disclose ideas from CoC meetings, and may attribute that information to the CoC, but may not reveal the identity or the affiliation of any speaker, participant, or institution attending the meeting. On-the-record sessions will be noted on the agenda. Use of personal recording devices and cameras is prohibited.

MONDAY, SEPTEMBER 9, 2013

8:45 – 9:15 a.m.	**REGISTRATION AND WELCOME COFFEE**
9:15 – 9:30 a.m.	**OPENING ADDRESSES**
	Michele Valensise, Secretary General, Italian Ministry of Foreign Affairs (Italy) ***Ferdinando Nelli Feroci***, President, Institute of International Affairs (Italy)
9:30 – 11:00 a.m.	Session One **THE EUROPEAN CRISIS: THE EUROZONE'S FUTURE AND THE EUROPEAN UNION'S ROLE IN GLOBAL GOVERNANCE**
	Guiding Questions: How is the EU economy performing? How critical is the Eurozone to the stability of the global economy? How can the EU maintain influence in a changing global economic order? How effectively can the EU still use its soft power on global political and security issues?
Speakers	***Lorenzo Bini Smaghi***, Senior Visiting Fellow, Institute of International Affairs (Italy) ***Steven Blockmans***, Senior Research Fellow and Head of the EU Foreign Policy Unit, Centre for European Policy Studies (Belgium) ***Susan Schadler***, Senior Fellow, Centre for International Governance Innovation (Canada) ***Ulrike Gueròt***, Senior Policy Fellow and Representative for Germany, European Council on Foreign Relations (Germany)
Moderator	***Ettore Greco***, Director, Institute of International Affairs (Italy)
11:00 – 11:15 a.m.	*Coffee Break*
11:15 a.m.–12:45 p.m.	Session Two **THE TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP, THE TRANS-PACIFIC PARTNERSHIP, AND THE FUTURE OF INTERNATIONAL TRADE**
	Guiding Questions: Does the growing trend of bilateral/plurilateral free trade agreements undermine the role of the WTO? Will this shift cause universal trade agreements to be ineffectual? Does the TPP offer a credible model for a future region-wide free trade agreement in Asia? Is the TTIP the first step toward global-level regulatory standards in trade and investment?
Speakers	***Gianpaolo Bruno***, Director, Strategic Planning, Economic Research, Overseas, Italian Trade Agency (Italy)

	Andrea Renda, Senior Research Fellow, Centre for European Policy Studies, Brussels, and Head, Global Outlook, Institute of International Affairs (Belgium/Italy) ***Lia Valls***, Senior Researcher, Getulio Vargas Foundation (Brazil)
Moderator	***Marta Dassù***, Deputy Minister, Italian Ministry of Foreign Affairs (Italy)
12:45 – 2:00 p.m.	*Lunch*
2:00 – 3:30 p.m.	Session Three **TRANSFORMATION IN THE ARAB WORLD: THE ROLE OF REGIONAL AND GLOBAL INSTITUTIONS** *Guiding Questions: Where are the main flashpoints, and how can regional and global institutions deliver effective responses? What are the prospects for promoting regional cooperation through the Arab League? How can regional or global institutions ensure that legal frameworks are put in place to uphold human rights in emerging Arab democracies? What role should regional and global institutions play in the crisis in Syria?*
Speakers	***Francesc Badia i Dalmases***, General Manager and Senior Fellow, Barcelona Centre for International Affairs (Spain) ***Nathalie Tocci***, Deputy Director, Institute of International Affairs (Italy) ***Hassan Abouyoub,*** Ambassador of Morocco to Italy (Morocco)
Moderator	***Charles Powell***, Director, EU Crisis, Mediterranean Politics, Elcano Royal Institute (Spain)
3:30 – 3:45 p.m.	*Coffee Break*
3:45 – 5:15 p.m.	Session Four **THE BRICS: WHAT CONTRIBUTION DO THEY GIVE TO GLOBAL GOVERNANCE?** *Guiding Questions: What are the strategic priorities of the BRICS in addressing global challenges? On what issues are they united, and where can we expect divergent interest and views? In what areas is there scope for effective cooperation and leadership and where could there be friction? What are the key challenges to the BRICS' economic, political, and security relationships with Europe and the United States?*
Speakers	***Giovanni Grevi***, Director, Foundation for International Relations and Foreign Dialogue (Spain) ***Zhang Haibing***, Executive Director, Institute for Economic Comparative Studies, Shanghai Institutes for International Studies (China) ***Catherine Grant-Makokera***, Head, Economic Diplomacy Programme, South African Institute of International Affairs (South Africa)

Moderator — ***Domenico Lombardi***, Director, Global Economy Program, Centre for International Governance Innovation (Canada)

TUESDAY, SEPTEMBER 10, 2013

8:30 – 9:00 a.m. — *Welcome Coffee*

9:00 – 10:00 a.m. — Keynote Speech

THE EXIT FROM THE EURO CRISIS: OPPORTUNITIES AND CHALLENGES OF THE BANKING UNION

Ignazio Visco, Governor, Bank of Italy

Q&A

Moderator — ***Stefano Silvestri***, Scientific Advisor, Institute of International Affairs (Italy)

10:00 – 11:30 a.m. — Session Five

THE GEOPOLITICS OF ENERGY: THE EUROPEAN CASE

Guiding Questions: What are the primary objectives of the EU's energy security policy? How are changes in the global energy dimension—the shale gas revolution, growing competition for resources, political revolutions in and problems with supply countries—affecting the EU? Is the EU-Russia energy relationship becoming more or less balanced? Is Europe successfully meeting its climate change goals with renewable energy?

Speakers — ***Paolo Andrea Colombo***, Chairman, Enel (Italy)
Bola Akinterinwa, Director-General, Nigerian Institute of International Affairs (Nigeria)
Thomas Gomart, Vice President for Strategic Development and Director of the Russia/NIS Centre, French Institute of International Relations (France)

Moderator — ***James M. Lindsay,*** Senior Vice President, Director of Studies, and Maurice R. Greenberg Chair, Council on Foreign Relations (United States)

11:30 – 11:45 a.m. — *Coffee Break*

11:45 a.m. – 1:15 p.m. — Session Six

THE FUTURE OF THE GROUP OF TWENTY

Guiding Questions: What structural changes should the G20 undertake to increase legitimacy and effectiveness as a global decision-making body?

Should the G20 expand its remit beyond finance to tackle deadlocks on pressing global challenges? On what issues should the G20 cooperate with the UN and non-G20 members?

Speakers	***Michael Fullilove***, Executive Director, Lowy Institute for International Policy (Australia) ***Sergey Kulik,*** Director, Institute of Contemporary Development (Russia) ***Mehmud Karakullukçu***, Vice Chairman and President, Global Relations Forum (Turkey) ***Andrés Rozental***, Founding President, Mexican Council on Foreign Relations (Mexico)
Moderator	***Stewart M. Patrick***, Senior Fellow and Director, International Institutions and Global Governance Program, Council on Foreign Relations (United States)
1:15 – 1:30 p.m.	Keynote Speech ***Emma Bonino***, Minister, Italian Ministry of Foreign Affairs (Italy)
1:30 – 1:45 p.m.	**CLOSING REMARKS** ***Stefano Silvestri***, Scientific Advisor, Institute of International Affairs (Italy) ***James M. Lindsay***, Senior Vice President, Director of Studies, and Maurice R. Greenberg Chair, Council on Foreign Relations (United States)
1:45 – 2:30 p.m.	*Buffet Lunch*

Participant Bios

Hassan Abouyoub

Mr. Hassan Abouyoub was born in 1952. After studying in Lyon (France), he was recruited by the Ministry of Commerce and Industry of Morocco and became Director of International Trade in 1980. In this position, Mr. Abouyoub conceived and implemented Morocco's trade policy reform. He led Morocco's accession to GATT and its trade negotiations with the European Community. He also participated in the Uruguay Round negotiations as a chairman of the textiles group.

Between 1990 and 1993, Mr. Abouyoub was Minister of External Trade and of Foreign Investment and Tourism. He took part in the conclusion of the Uruguay Round and in the organization of the Marrakesh Ministerial Conference. Mr. Abouyoub was elected Member of Parliament in 1993 and appointed Ambassador to Saudi Arabia in 1994.

As Minister of Agriculture, from 1995 to 1997, Mr. Abouyoub implemented Morocco's WTO commitments on agriculture and negotiated with the European Union a fishing agreement and the Euro-Mediterranean agreement establishing a free trade zone with Morocco. In 1998, Mr. Abouyoub became Ambassador in charge of trade negotiations. During this period he was candidate to WTO Director General position. Between 1999 and 2011 he was appointed as H.M the King Mohammed VI Ambassador to France, Italy, the Republic of San Marino, the Republic of Malta, the Republic of Albania and Ambassador at large. In May 2010, he was appointed as Permanent Representative of Morocco to FAO, IFAD and WFP.

Bola A. Akinterinwa

Professor Bola A. Akinterinwa is a Sorbonnard. He read International Studies at the School of Advanced International Studies, Paris 6è; International Law, at the Institute of Advanced International Studies of the University of Paris 2; and Contemporary International Relations and Diplomatic History, at the University of Paris 1, Panthéon-Sorbonne, France. He obtained his degrees with distinctions. An Embassy Translator at the Embassy of Nigeria, Paris, in 1984, and a Ford Foundation Fellow at the University of Maryland Foreign Policy Process in 1989, he has, since 1985, been a Research Fellow at the Nigerian Institute of International Affairs, Lagos, where he has, at various times, received three special Letters of Commendation from the Management of the Institute, for his scholarship and patriotic activities. Professor Akinterinwa served as Special Assistant to two Ministers of Foreign Affairs, and Minister of Interior between 2003 and March 2010. He is a member of several Professional organisations, including the Nigerian Society of International Affairs, of which he was treasurer, Nigerian Society of International Law, of which he was formerly an Assistant Secretary, Nigerian Political Science Association, and African Association of Political Science. He was former Editorial Page Editor of, and a Monday Columnist with, ThisDay Newspapers. He also writes a Sunday Column (Vie Internationale) for ThisDay Newspapers since 2007. At the NIIA, he was Member of the Editorial Board, from 1989 to 1994, and Editor, from 1994 to 1999, of the Nigerian Journal of International Affairs. He is author of five books, editor of ten books, and over fifty chapters in books and articles in learned and reputable journals of international affairs. He is the Secretary of the Board of Trustees of the Celestial Church of Christ Worldwide and a recipient of the Ile-Oluji National Merit Award (inma), and a Fellow of the Nigerian Institute of International Affairs, fniia. He was Acting Director General from November 16, 2010 to November 16, 2011 and since then the Director General of the Nigerian Institute of International Affairs (NIIA).

Francesc Badia i Dalmases
Francesc Badia i Dalmases is the general manager and a senior fellow of the Barcelona Centre for International Affairs (CIDOB). Previously he has served as the director of the Office of Coordination and Orientation of the URB-AL Programme of the European Commission and as executive manager of the European Institute of the Mediterranean. He worked as senior advisor for the Spanish Ministry of Foreign Affairs and Cooperation and was director of the EuroMed Regions conference in the Department of International Relations of the government of Catalonia. He was also dialogues coordinator and spokesperson at the Universal Forum of Cultures and general coordinator of the Interarts Foundation. He worked for fifteen years as an international consultant, specializing in emerging and transition economies, and his interests include global governance, international networks and international action carried out by local and regional governments. Badia, who completed his studies at the Diplomatic School in Madrid, holds an MA from the Open University of Catalonia and an MA from the University of Barcelona.

Lorenzo Bini Smaghi
Lorenzo Bini Smaghi has a PhD in Economics from the University of Chicago. From June 2005 to November 2011 he was a member of the Executive Committee of the European Central Bank. Before that, he served as Director General of the Directorate of International Financial Relations of Italy's Ministry of Economy and Finance (1998-2005), head of the Analysis and Planning Division of the European Monetary Institute in Frankfurt (1988), head of the Exchange Rate and International Trade Division of the Research Department of the Bank of Italy (1988-1994). He is currently Chairman of Snam S.p.A. and Visiting Scholar at Harvard's Weatherhead Center for International Affairs.

Steven Blockmans
Steven Blockmans is senior research fellow and head of the EU foreign policy unit of the Centre for European Policy Studies (CEPS). His expertise lies at the crossroads of international and EU law and governance. He has published widely on the institutional structures for EU external action, the Union's role in global governance, norm promotion (inside out) and norm absorption (outside in), CFSP, CSDP, enlargement, ENP, trade and development. Steven is a Professor of EU External Relations Law and Governance at the University of Amsterdam (part-time), a visiting professor at the University of Leuven, and one of the founding members of the Centre for the Law of EU External Relations (CLEER). He holds a PhD in law from Leiden University.

Emma Bonino
National Political Career: Emma Bonino was elected for the first time to the Chamber of Deputies on the Radical Party ticket at the age of 28, was re-elected in 1979, 1983, 1987, 1992, 1994 and 2006; appointed President of the Parliamentary group and Secretary to the President of the Chamber of Deputies; was Vice-Chair of the Senate during the 16th Legislature (2008-2013). As a radical activist in the 1970s and 80s, she sponsored a series of referendums, one of which introduced abortion legislation in Italy and one that opposed nuclear power plants in Italy. She was appointed Minister for International Trade and European Policies in the second Prodi government in 2006.

European and International Political Career: Minister Bonino was Founder and Secretary in 1978 of the association Food and Disarmament International, which launched the international campaign against world hunger based on the Nobel Laureate-issued Humanist Manifesto. She was elected in 1979 to the European Parliament and re-elected in 1984,1999 and 2004. Lived in Cairo from 2002 and 2004 where she studied the Arabic language and managed the Arab press roundup for Radio Radicale. From 1990 to 2002 she was a promoter of international campaigns on behalf of ad hoc tribunals against war crimes in the former Yugoslavia and Rwanda, the establishment of an international criminal court and a moratorium on the death penalty – a moratorium endorsed by the UN General Assembly in 2007; and is among the founders of NGOs "Nessuno Tocchi Caino" and "Non c'è Pace senza Giustizia".She was Transnational Radical Party President from 1991 to 1993 and Secretary from 1993 to 1994, and was named European Commissioner Humanitarian Aid, Fisheries, Consumer Policy and Consumer Health Protection in 1994, the scope of which activity was extended to Food Safety in 1997. She was Appointed Italian government representative to the Intergovernmental Conferences of the Community of Democracies in Seoul in November 2002 and in Santiago del Chile in April 2005, and led the Italian Delegation to the Third Ministerial Conference of the Community of Democracies in April 2005. She headed European Union electoral observer missions to Ecuador in 2002 and Afghanistan in 2005; launched a campaign against Female Genital Mutilation (FGM) during the same period, which led to a UN resolution for a universal ban on the practise in December 2012.

Emma Bonino is a member of the International Crisis Group (ICG), the Board of the Open Society Initiative for Europe (OSIFE), the Board of the European Council on Foreign Relations (ECFR) and the International Affairs Institute (IAI) Steering Committee; she is also seated on the Independent Commission on Turkey (ICT) chaired by former Finnish Premier and Nobel Peace Prize winner Martti Ahtisaari. She has also been the recipient of numerous awards, some examples of which include the Prince of Asturias Award for international cooperation in 1998, the Award of the President of the Republic in 2003 for her commitment to promoting human and civil rights around the world, and the Atlantic Council Freedom Award in 2012. She has been a Commander in the French Legion of Honour since 2009.

Gianpaolo Bruno

Director, Strategic Planning, Economic Research, Overseas Offices of the Italian Trade Agency (ICE) in Rome, a.i. Chief Information Officer. Editor of the Annual Report on Italy's International Business Activities.

Formerly Trade Commissioner to South Africa and sub-Saharan Africa based in Johannesburg, South Africa; Chief Economist at the Italian Trade Agency in Rome; Advisor to the Executive Director for Italy, Portugal, Greece, Albania and San Marino at the World Bank, Washington D.C.

M.A. in Economics cum laude at LUISS, Rome; Master in Public Administration at Formez, Naples; Research Associate in Public Policy, Graduate School of Public Policy, University of California at Berkeley; Specialization in Export Management, Milan; Diploma in International Marketing at Drexel University, Philadelphia. Chartered Accountant. Teacher in Export Management and International Economics Courses.

Paolo Andrea Colombo

A 1984 graduate with honors of the "Bocconi" University in Milan with a degree in business economics, where he was tenured professor from 1989 until 2010 of accounting and financial statements and where he is currently tenured senior contract professor. He is a founding partner of Colombo & Associati, an Italian independent consulting company which offers a broad range of services in corporate finance and business consultancy to Italian and international clients. He held has been member of the boards of directors of several significant industrial and financial companies, which include Eni, Saipem, Telecom Italia Mobile, Pirelli Pneumatici, Publitalia '80

(Mediaset Group), RCS Quotidiani, RCS Libri, RCS Broadcast e Fila Holding (RCS Mediagroup), Sias, Interbanca e Aurora (Unipol Group). Furthermore, he held the office of chairman of the board of statutory auditors of Saipem, Stream and Ansaldo STS, and of member of the board of statutory auditors of Winterthur and Credit Suisse Italy, Banca Intesa, Lottomatica, Montedison, Techint Finanziaria, HDPNet and Internazionale F.C. Currently, he is director of Mediaset and Versace, and chairman of the board of statutory auditors of GE Capital Interbanca and member of the board of statutory auditors of A. Moratti S.a.p.a. and of Humanitas Mirasole. He is also deputy Chairman of the Italy-China Foundation, a member of the management board and council of Confindustria, a member of the management board of Assonime and Assolombarda, member of the Board of Directors of ISPI, as well member of the board of relations between Italy and the United States. He has been Chairman of Enel's Board of Directors since May 2011.

Marta Dassù

Marta Dassù was appointed Deputy Minister on 27 March 2013. She was Director General for International Activities of Aspen Institute Italia until her appointment as Under-Secretary on 27/11/2011. She remains Editor-in-Chief of the journal "Aspenia". She has sat on the Scientific Committee of Confindustria and of the Trilateral Commission. She sits on the Board of Directors of IAI (Istituto Affari Internazionali) in Rome, the Turin-based Centro di Alti Studi sulla Cina contemporanea, Rome's Istituto di Studi diplomatici, and IISS (International Institute for Strategic Studies) in London. She headed the "Strategic Reflection Group" of the Ministry of Foreign Affairs from 2006 to 2007 and was International Relations Advisor to Prime Ministers Massimo D'Alema and Giuliano Amato. She was inducted into the Légion d'Honneur in 2003. In 2013 she was awarded the Grand Cross 2nd Class of Merit from the Republic of Germany. She taught International Relations at Rome's "La Sapienza" University in 2001 and 2002. She is an editorial contributor to daily newspaper "La Stampa". She has written or edited various studies and essays on international relations, among which "The Reform Decade in China: from Hope to Dismay" (Kegan Paul International, London), and is the author of "Mondo privato e altre storie" (Bollati Boringhieri, 2009).

Michael Fullilove

He has been associated with the Lowy Institute since its establishment. He wrote the feasibility study for the Institute in 2002 and has served as the Director of its Global Issues Program since 2003. He has also worked as a Visiting Fellow in Foreign Policy at the Brookings Institution in Washington, DC, an adviser to Prime Minister Paul Keating, and a lawyer. He remains a Nonresident Senior Fellow at Brookings.

Dr Fullilove writes widely on Australian foreign policy, US foreign policy and global issues in publications including *The New York Times*, *Financial Times*, *The Washington Post*, *The Daily Beast*, *The Washington Quarterly*, *The National Interest* and *Foreign Affairs*, as well as the Australian press. He is a sought-after media commentator and speaker, in Australia and abroad, appearing on programs such as *Radio National Breakfast*, *Lateline*, and the *Charlie Rose Show*. He graduated in arts and law from the Universities of Sydney and New South Wales, with dual university medals. He also studied as a Rhodes Scholar at the University of Oxford, where he took a master's degree and a doctorate in international relations.

Dr Fullilove's first book, *'Men and Women of Australia!' Our Greatest Modern Speeches*, was published by Vintage. He is the co-editor, with Anthony Bubalo, of *Reports from a Turbulent Decade* (Viking), an anthology of the Lowy Institute's best work. His new book, *Rendezvous with*

Destiny: How Franklin D. Roosevelt and Five Extraordinary Men Took America into the War and into the World, was published in Australia and the United States in 2013 by Penguin.

Enrico Giovannini

Starting from April 2013 he is the Italian Minister of Labour and Social Policies. From August 2009 to April 2013 he was President of Italian Statistical Institute (Istat). He was President of the Statistical Advisory Board for the Human Development Report of the United Nations, Member of the Partnership Group of the European Statistical Committee and Chairman of the Board of the World Bank International Project for the measurement of purchasing power parity.

From January 2001 to July 2009, he was Chief Statistician and Director of the Statistics Directorate of the Organization for Economic Cooperation and Development (OECD) in Paris, where he designed and implemented a thorough reform of the statistical system, organised the "World Forum on "Statistics, Knowledge and Politics" and launched the Global Project on the "Measurement of Progress in Society".

He has authored numerous publications and has been a member of important national and international committees, such as the Stiglitz-Sen-Fitoussi Committee, established by the French President Nikolas Sarkozy. He also was President of the Global Council of the World Economic Forum on the "Evaluation of Societal Progress".

For his work on the measurement of social welfare, in 2010, he was awarded the Gold Medal of the President of the Republic by the Pio Manzù International Centre and became a member of the Club of Rome. He is full professor of statistical economics at University of Rome "Tor Vergata".

Thomas Gomart

Dr. Thomas Gomart (Ph.D in History at Paris I Panthéon-Sorbonne, and EMBA at HEC) is both the vice-president for strategic development and the director of the Russia/NIS Centre at Ifri (French Institute of International Relations based in Paris and Brussels). He is the editor of the trilingual electronic collection Russie.Nei.Vision: http://en.wikipedia.org/wiki/Russie.NEI.Visions_in_English.

Gomart's academic and professional background has been closely related to post-Soviet space. As Lavoisier Fellow at the State Institute for International Relations (University-MGIMO – Moscow), Visiting Fellow at the Institute for Security Studies (European Union – Paris) and Marie Curie Fellow at Department of War Studies (King's College – London), Gomart has acquired a diversified international experience. He lectured on international affairs at the Special Military School of Saint-Cyr Coëtquidan (2002-2010). Gomart belongs to the editorial boards of Politique étrangère, and La Revue des deux mondes. Other publications by Thomas Gomart: http://en.wikipedia.org/wiki/Thomas_Gomart

Catherine Grant Makokera

Ms. Grant Makokera was a diplomat for New Zealand for over 10 years and was posted in New York, Geneva and Pretoria, where she held the position of Deputy High Commissioner. She has participated in United Nations and World Trade Organization negotiations. Ms. Grant Makokera also worked as a consultant on trade and development matters before joining Business Unity South Africa in April 2007 as Executive Director: Trade Policy. Her portfolio at BUSA included trade negotiations, trade and investment promotion activities, international relations and trade policy matters. She represented BUSA at NEDLAC on trade and other related issues. Ms. Grant Makokera was the Secretary of the SADC Employers Group and SADC Business Forum from 2007 to 2010 and continues to support efforts towards strengthening private sector participation in regional and trade policy debates. She is currently the Programme Head Economic Diplomacy at the South African Institute of International Affairs. Here Ms Grant Makokera is responsible for managing a research and networking programme on trade, investment, global economic governance and regional integration.

Ettore Greco

Ettore Greco is Director of the IAI and also heads the transatlantic program of the institute. He worked as visiting fellow at the Brookings Institution from January 2006 to July 2007. He taught at the universities of Parma and Bologna. From 2000 to 2006 he worked as correspondent for the Economist Intelligence Unit. From 1993 to 2000 he directed the IAI's program on Central and Eastern Europe. He was also Deputy Director of the IAI from 1997 to 2008. From 2000 to 2006 he was Editor of *The International Spectator*.

He is the author of a number of publications on the EU's institutions and foreign policy, transatlantic relations and the Balkans. He has been a free-lance journalist since 1988.

Giovanni Grevi

Giovanni Grevi is director of FRIDE, where he worked as senior researcher and head of the Brussels office since 2010. Before joining FRIDE, Giovanni served as senior research fellow at the EU Institute for Security Studies (EUISS) in Paris between 2005 and 2010. Prior to that, he worked at the European Policy Centre in Brussels as policy analyst (1998 to 2002) and as associate director of studies (2002-2005). He holds an MSc from the London School of Economics (LSE) and a PhD from the Université Libre de Bruxelles.

At FRIDE, his research focuses on EU foreign policy, EU partnerships with the US and emerging countries, the reform of global governance, EU security and defence policy and foresight projects. Previous publications and major research projects include 'The new global puzzle: what world for the EU in 2025?' (2006, co-directed with N. Gnesotto); 'The interpolar world: a new scenario' (2009); 'European Security and Defence Policy: the first ten years 1999-2009' (co-edited with D. Keohane and D. Helly, 2009); and 'Global governance 2025: at a critical juncture' (EUISS – US National Intelligence Council, 2010).

Ulrike Guérot

Ulrike Guérot is a Senior Policy Fellow of the European Council on Foreign Relations since 2011. From July 2007 until 2011 she built up the German branch of the ECFR in Berlin as Head of Office. Since 2010 she has been leading the Germany in Europe project and is now particularly active in the Reinvention of Europe programme.

Previously she was Senior Transatlantic Fellow with the German Marshall Fund (2004-2007), and headed the European Union unit at the German Council on Foreign Relations (DGAP) in Berlin (2000-2003). Ulrike also worked in the US as Assistant Professor on European studies at Johns Hopkins University and Scholar at Deutsches Haus, New York University. Furthermore she was Senior Research Fellow with Jacques Delors at Notre Europe in Paris, and staff member of the German Bundestag's Commission on External Affairs.

She has been publishing extensively on European and transatlantic issues in a variety of journals and newspapers, and is frequently invited to comment on EU issues in the media. She was also awarded the prestigious "Ordre du Mérite" for her engagement on European integration.

Memduh Karakullukçu
Memduh Karakullukçu is the Vice-Chairman and President of Global Relations Forum, the Managing Partner at Kroton Consulting, and the Founding Partner of the online legal informatics initiative, kanunum.com. His advisory work specializes in the analysis of international economic and political affairs, and in higher education and technology policy. He has served as the senior advisor to the Chairwoman of Turkish Industrialists and Businessmen's Association (TÜSİAD) from 2007 to 2010. Previously, Mr. Karakullukçu was the Founding Managing Director of Istanbul's leading science park, Istanbul Technical University (ITU) ARI Teknokent, currently an innovation community of over one hundred technology companies. During this period, Mr. Karakullukçu also served as the senior advisor to the President of ITU, the coordinator of the Law Technology and Policy programme and the strategic advisor at the university's Center for Satellite Communications. He was a member of the academic staff at the ITU. Earlier in his career, he worked as a specialist in structured finance at the London and Istanbul offices of an international investment bank. His previous academic work includes research commissioned by the IMF and the World Bank on the dynamics of debt markets. He has presented his work on technology and innovation policy at various international fora. Mr. Karakullukçu received his B.S. in Electrical Engineering and in Economics at MIT, his MSc in Finance at the LSE and his J.D. at Columbia University. He is a member of the New York State Bar.

Sergey Kulik
Sergey Kulik is the director for international development at the Institute of Contemporary Development. He is also a member of the scientific council of the Security Council of the Russian Federation and the Council for Foreign and Defense Policy. His former positions include director of the department for relations with the EU, office of the Russian president; deputy director of the foreign policy department of the Russian president; head of the arms control center at the Institute for U.S. and Canadian Studies, Russian Academy of Sciences; and project leader at the Stockholm International Peace Research Institute (SIPRI).

Elena Lazarou
Elena Lazarou is Head of the Centre for International Relations of the Getulio Vargas Foundation (FGV) and Assistant Professor at FGV's School of Social Sciences (CPDOC). Her interests include European Studies, Foreign Policy Analysis and Regional Integration. Her current research focuses on the impact of the crisis of the Euro on the EU's external relations and EU-Brazil relations. She also coordinates a pilot program on think tanks and foreign policy in Brazil funded by the Ford Foundation and FGV's European Studies group, financed by the Brazilian Science and Technology Council (CNPq). Dr. Lazarou received a Ph.D. in International Relations from the University of Cambridge in 2008. She has held post-doctoral research positions at POLIS/University of Cambridge and the London School of Economics and Political Science (LSE). Other posts previously held include: Head of the Euro-Mediterranean Observatory, Hellenic Centre for European Studies-EKEM (2009-2010); Research Associate at the Centre for International Policy Research, University of Sheffield (2007-2008) and Visiting Scholar at Columbia University & NYU (2005). She is also affiliated to the Hellenic Foundation for European and Foreign Policy (ELIAMEP) and Visiting Professor at Sciences-Po Grenoble. She has published several articles, edited volumes and book chapters in English and Portuguese and is a regular contributor to the Brazilian press.

Nae-Young Lee
Nae-Young Lee is a professor of Political Science Dept. at Korea University and director of Center for Public Opinion Research of the East Asia Institute. Professor Lee is also the Director of the Asiatic Research Institute at Korea University. Professor Lee received both his B.A. and M.A. from Korea University and received his Ph.D. in political science from University of Wisconsin-Madison. He served as a MacArthur fellow of Global Studies Program at University of Wisconsin-Madison, research fellow at Sejong Institute, and visiting scholar in the Warter H. Shorenstein Asia-Pacific Research Center at Stanford University. He has been a columnist to major newspapers in Korea and he is currently a Vice President of the Korean Association of International Studies. His research interests are Korean politics, electoral politics, public opinion, and East Asian political economy. Professor Lee received his Ph.D. in Political Science from University of Wisconsin-Madison.

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Born in Polistena (Reggio Calabria) in April 1952, Ambassador Valensise holds a University degree in Law from Rome's University "La Sapienza" and joined the foreign service in 1975. Ambassador Valensise's overseas assignments with the Italian foreign service have been: to Brasilia, Brazil from 1978 – 1981 with duties in both the press and economic sectors; to Bonn, Federal Republic of Germany from 1981 – 1984 as political officer; to Beirut, Lebanon from 1984 – 1987, during the Lebanese civil war, as acting Head of Mission; to Brussels, from 1991 – 1997 as First Counsellor in the Permanent Mission to the European Union in charge of Community relations with the Mediterranean and the Balkan countries; to Sarajevo, Bosnia-Herzegovina from 1997 – 1999 as Head of the newly opened Italian Diplomatic Mission immediately following the cessation of the hostilities and deployment of military stabilisation troops in that country and their Italian contingent.

In Rome, Ambassador Valensise has served from 1987 – 1991 as Head of the Cabinet of the Under-Secretary for Foreign Affairs; from 1999 - 2001, as Head of the Office for Relations with the Parliament of the Minister for Foreign Affairs Private Office and later Head of the same Private Office; from 2001 - 2004 as Head of the Press and Information Service of the Foreign Ministry and Spokesperson for the Foreign Minister. Ambassador Valensise fluently speaks English, French, German and Portuguese. He is married and has two daughters.

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At the Bank of Italy since 1972, he was appointed Head of the Research Department in 1990. From 1997 to 2002 he was Chief Economist and Director of the Economic Department of the Organisation for Economic Co-operation and Development (OECD). Back in the Bank, he was appointed Central Manager for International Affairs in 2004 and Central Manager for Economic Research in March 2006. In 2007 he became member of the Bank's Directorate (Governing Board) as Deputy Director General, until October 2011. Degree in Economics at "La Sapienza" University of Rome (1971), Master of Arts (1974) and Ph.D. (1981) in Economics at the University of Pennsylvania (Philadelphia, USA). He is a member of the Italian Economic Society, the Italian Statistics Society, and the American Economic Association. He was granted the Leontief Award for Best Dissertation in Quantitative Economics (Eastern Economic Association, 1982), the "Best in Class" prize, "La Sapienza" University of Rome (2006). He was given the title of "Cavaliere di Gran Croce al Merito della Repubblica italiana" in 2011. He is the author of various articles and books including: Price Expectations in Rising Inflation, North Holland, 1984; Saving and the Accumulation of Wealth (edited with A. Ando and L. Guiso), Cambridge University Press, 1994; L'economia italiana (with L. F. Signorini), il Mulino, 2002; Ageing and Pension System Reform (Report for the G10 Deputies, Chairman of the Working Group), 2005; Investire in conoscenza, il Mulino, 2009.

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Institutionalization: Trends and Impacts", World Economy Study, No.9 2010; "Motion and Trend of world Economic System Adjustment under Financial Crisis", Scientific Development, No.10, 2009; "China's Non-Political Conditionality Aid Principle: Theory and Significance", Journal of Contemporary Asia-Pacific Studies), No.6, 2009;" Analysis on G8 aid to Africa", Social Science ,No7, 2009; " "A Comment on the German Aid Policy towards Africa", West Asia And AfricaNo7, 2008; " Japan's ODA Policy towards Africa in 21st Century", World Economy, No.10, 2008; China's Aid to Africa: oil oriented or not ", World Economy Studies, No. 10, 2007; "China-ASEAN Regional Economic Cooperation: Development and Problems", Contemporary Asia-Pacific Studies, No.8, 2005,"Economical Globalization and Regional Economic Integration", Qiu Shi, N0.1, 2004, etc.

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Europe and the Future of Global Governance

Panelists' Memos

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Is the World Becoming Less Democratic? What Can the EU Do About It?

Steven Blockmans (in cooperation with Daniel Gros)
Center for European Policy Studies

The center of gravity of the global economy is shifting. This shift in the economic center of gravity has, of course, a myriad of political implications. One key issue is its impact on the spread of democracy and human rights. The economic trend is of such an overwhelming importance that the entire national security strategy of the United States is built on the question of how to manage it. This contribution asks what the political consequences are for the European Union (EU) and how EU foreign policy should respond to this major global trend.

GLOBAL TREND TOWARDS A LESS DEMOCRATIC ECONOMY

The starting point is that the center of gravity of the global economy is shifting towards countries/regions which do not share the fundamental values of democracy and human rights (including the rule of law). And this seems to be happening at an accelerating pace. The countries which now contribute most to global growth are the less democratic ones. China constitutes the largest single example of this trend, but it is not an isolated case. The 'old' democratic West (EU, US and Japan and the rest of the OECD) is still important, but its weight is declining and it contributes little to growth. By contrast, many of the emerging economic, which are growing on average much faster, have only limited democratic credentials (the biggest exemption being India).

CEPS has measured this trend quantitatively in a report prepared for BEPA (European Commission, forthcoming). Looking forward, it finds that, by 2030, the center of gravity of the global economy will have shifted to countries that are no longer judged to be free. Also, the world will have become more 'brittle' in political terms since smooth transitions from totally unfree systems to partial freedom seem more difficult than a smooth transition from an intermediate value of partial to full freedom.

Democracy and human rights require not only formal procedures, but also a culture of the rule of the law. A similar approach has been used to document that the center of gravity of the global economy is shifting away from countries which adhere to the rule of law.

This situation will put the EU's constitutional aim of spreading democracy in a quandary since it is much easier to insist on partial improvements where at least a certain degree of freedom exists as compared to totally unfree societies where even the slightest concession on human rights is unacceptable because it would open a chink in the armour of the existing regime.

THE DECLINE OF LIBERAL DEMOCRACY'S MAGNETIC POWER

To the economic decline one has to add something less tangible, namely a decline in the power of attraction. For the EU, the worrying aspect is that the cause of liberal democracy is not merely riding the strongest economy; it is also in intellectual retreat. Semi-free countries, uncertain which direction to take, seem less convinced that the liberal path is the way of the future. But perhaps the biggest reason why democracy's magnetic power has waned is the rise of China, and the belief of its would-be imitators that they too can create a dynamic economy without easing their grip on political power. In the political rhetoric of many authoritarian governments, fascination with copying China's trick can clearly be discerned. Conversely, the stunted economic growth of India, the world's largest democracy, is often blamed on the slow pace of decision-making. From the viewpoint of many poor countries, especially in Africa, co-operating with China—both economically and politically—has advantages: not least the fact that China refrains from delivering lectures on political and human freedom. The global economic downturn, and China's ability to largely survive it, has clearly added to that country's appeal. The power of China (and a consequent lessening of official concern over human rights) is palpable in Central Asia. The availability of cheap capital has of made it easier for undemocratic regimes in very poor countries to ignore the pleading for more democracy that came with development aid. This is another way in which the shifting economic weights make it more difficult to spread democracy. (The rise of China in the IMF and the World Bank represents another facet of this trend.)

CONSEQUENCES FOR EU FOREIGN POLICY-MAKING

The shift in the global economic power balance and the demise of the concept of liberal democracy impinge directly on a core element of the EU's foreign policy, which is to foster the spread of its values of democracy and the rule of law as widely as possible. Article 21(1) TEU even formulates this EU external mission statement as a legal obligation.

Fostering this foreign policy objective, the EU has traditionally relied on a combination of its economic weight (as a large market and a source of capital) and its soft power, i.e. the power of attraction of its value-based integration model. But over the next decades the economic weight of the EU will be declining and its normative power seems to decline as well (partially as a result of its shrinking economy). The euro crisis has of course exacerbated this trend as it has created the impression among third countries of a divided European Union unable to solve its own problems; a continent where a certain retreat in liberal democracy can also be observed (e.g. constitutional reform in Hungary; and a rising influence of EU executive bodies dictating terms on democratically elected governments in Member States in order to counter the sovereign debt crisis).

By 2030 the euro crisis should only be a memory, but the speed at which it will be overcome and the 'collateral' damage it might leave behind are today difficult to evaluate. The changing economic weight reinforces the argument that it is in the EU's own interest not to upset the less democratic but increasingly economically powerful partners on which it depends to boost domestic growth through trade.

With a waning influence in bilateral relations with strategic partners like China, the EU will have to resort to other means to meet its constitutional obligation and stay true to its missionary principle of (re-)democratising third countries.

Given that democracy is unlikely to advance, these days and in the foreseeable future, through the economic preponderance of the EU, its best hope lies in winning a genuinely open debate. In other words, wavering countries, and skeptical societies, must be convinced that political freedom works best.

However, even where all the right conditions are in place, democracy will not prevail unless its proponents show success at governing. No constitution can, in itself, guarantee good governance. The success of any political system ultimately depends on whether it can provide basic things like security, wealth and justice. And in countries where experiments in democracy are in full swing, daily reality is more complex than either zealous democracy-promoters or authoritarian sceptics will allow.

While globalisation is thriving, its consequences remain contradictory and controversial. Although it is an effective process in generating economic growth, it can also lead to an excessive concentration of wealth and, in some sectors, increasing inequalities within and between countries. A major explanation for such imbalances lies in regulation deficiencies in economic, financial, commercial and environmental fields, due to unaccountable, undemocratic, inequitable and ineffective global governance.

The way to make global governance more legitimate is to give a strong role to democratic politics and priority to public interest over private/corporate interests in global governance. Arguably, the EU should formulate proposals towards achieving a more accountable, transparent, participatory global governance system, together with an institutional architecture for regulating globalisation that combines economic efficiency and social equity. The EU should put emphasis on multi-level governance, underlining the relevance of regional governance as a link between local and global levels.

The key problem hindering effective EU action abroad is the continuing refusal of member countries to agree to an effective coordination and bundling of the remaining foreign policy instruments (ranging from official development assistance to the absence of a unified euro area representation in the international financial institutions). The EU can fulfil its institutional mandate in an increasingly undemocratic world only if member states allow it to do so.

CONCLUDING REMARKS

The relationship between democracy and growth has been extensively studied empirically. Until recently the broad conclusion had been that there is no systematic link. But it also remains the case that almost all of the high income countries are democratic. Our projections imply that by 2030 China will have a very important weight in the global economy. If it has not become democratic by then it will become very difficult for the EU to continue its mission to spread democracy by economic means. The key underlying question is of course whether China and the non-democratic emerging economies can continue to grow without becoming democratic.

Europe and the Future of Global Governance

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EUROPE IS ITS OWN BIGGEST RISK: FROM GLOBAL ACTOR TO GLOBAL CONCERN

Europe, in recent years, lost its flagship position through the Euro-crisis and became a problem rather than an asset for the global governance system: it dragged on the international system to fix the Euro-crisis and at the same time it became an element of uncertainty.

The impact of Europe on global governance will thus depend on whether or not the Eurozone overcomes its current crisis and comes out of it strengthened both in economic and in political terms, that meaning being more united.

Any other scenario of European fragmentation, Euro-implosion, re-nationalization, or even a lasting two-tier Europe will probably not be able to have any meaningful influence on the system of global governance, be this in global regulatory issues, or in questions of global order and wealth distribution (energy resources, climate protection....); let alone that a scattered Europe would not be able to be a responsible global actor with strategic outreach in order to defend its values and/ or interests (see Libya, Mali, Syria).

Europe can only have a meaningful impact on the global system if it brings together its economic weight, especially Germany's, together with European values and principles such as good governance, rule of law, human rights and the market economy as a political sounding board. Avoiding European break up, improving integration, stabilizing the Eurozone and enhancing the European Security and Defense Policy are thus key and this in crucial times, where populism, social unrest, and dismantlement of integration are serious risks and confidence in the EU is rapidly decreasing. The forthcoming European parliamentary elections will be a litmus test in this respect.

EUROPE NEEDS TO COMPLETE ITS INTEGRATION, ESPECIALLY OF THE EUROZONE

A deep push in European integration, leading first and foremost to the completion of banking union, preferably with some sort of common deposit scheme, should be the main near-term goal for European/ Eurozone integration. This is difficult enough in the time-window between 2014 and 2016 after the parliamentary elections in May and with a new EU Commission in place.

The EU is in a catch-22, as moving towards deeper fiscal integration that may require treaty changes (especially in the legal optic of Germany), which, on the other hand, is politically not on the cards. Germany will likely try to develop an 'amendment culture,' tying to go for chirurgical fixes of the

European constitutional framework in order to allow deeper integration, especially of the Eurozone, without putting the institutional system at political risks.

The new code word for a pragmatic Eurozone fix in the German discussion is 'transnational': a network structure of 'crossed legitimacy' between the European and national parliaments – or national supervision bodies in the case of banking union, rather than targeting the method of more supranational integration and competence transfer to Brussels. It is important to note that this is a default-strategy, which is meant to avoid a two-tier Europe between the current eighteen members of the Eurozone and the EU of twenty-eight. Rather, it is an inclusive approach over time.

The Eurozone also needs a new basis for legitimacy with a quite different parliamentarian set-up; a bigger role for national parliaments (not only the Bundestag) through "crossed legitimacy" between national parliaments and the EP; a clearer distinction between the executive and the legislative branches in the euro-governance system; and a rebooted European Stability Mechanism which will take over parts of the management of the fiscal capacity and the coordination, if not integration of new policy areas, such as taxation, social policies or employment policies. The Franco-German paper of May 30th including its proposal of a permanent president of the Eurozone, which over time could develop into a European treasury, may be considered as a blueprint in this respect.

EUROPE AND THE 'WEST'

A rebooted Eurozone is the condition to move on with issues such as financial market regulation and a trade agenda in a transatlantic setting. This means that transatlantic relations in the future will be more business driven and less security (NATO-) driven. The institutional framework of TTIP reached at the end of the ongoing negotiations may eventually even replace NATO as main institutional transatlantic channel. TTIP may also drive innovation through a transatlantic digital agenda. Obviously, TTIP is a strategy for 'Western' retrenchment in order to secure the trade interests of the West against other emerging global players. The impact of TTIP on preferential treatment regimens with third countries is still unclear, but, in terms of global governance, the underlying, though not admitted idea of TTIP is to reboot the 'West' and to get steering capacity of the international regulatory and trade system, and to not leave this role to China.

TTIP is thus important to watch: it will determine the main poles of global governance and the G-2, G-3 competition settings between the US, China and Europe. With TTIP, the US places itself in the middle of Pacific trade relations, NAFTA and transatlantic trade agendas. TTIP is key for determining future shareholder positions of both the United States and China in the system of global governance.

EUROPE AND GLOBAL META-TRENDS

It is not only the European role in global governance, which is unclear; it is the development of global governance as such, as Dani Rodrik describes. The global governance system suffers from a non-solved triangle of tensions between liberal trade (and its consequences for the 'left behinds'), democracy, and sovereignty. In addition, the global governance system is clearly in erosion (WTO, ILO, NATO...); but a new transnational system able to manage the question of global wealth distribution hasn't emerged yet—and the question of an international supreme body with sanctioning power remains unclear since the United States is withdrawing from its position as a global hegemon. The implementation power of international law has also become shaky (e.g. on nuclear proliferation, TNPT, see Iran). History is back and power tops law once again, whereas the main asset of Europe/the EU is its rule-based system. This is why Europe/the EU may have problems becoming an important actor shaping the future of global governance, although that is what many in the world expect it to do.

The erosion of the world order of the twentieth century comes along with a couple of global meta-trends, for which the international system seems too static in its current governance structures to adapt to: rural/urban divide/mega-towns and urbanization; demography/aging; competition for energy and water resources; new non-state actors in the system of global governance (NGO's, but also pirates and private companies that operate on a global scale in 'state-less' territories, e.g. land-grabbing); 'Singaporization'/ off-shore Islands in the international financial system operating beyond state control; regionalization/ populism/ religious fundamentalism; Mercantilization of foreign policy; shift from geo-strategy to geo-economy; transnational and network-based structures; a fragile global value chain (no storage); smart grids; and cyber/spying.

How Europe will cope with these meta-tends remains to be seen. In a way, the aim for a 'single' European approach represents a monolithic approach to diffused structures. The European Unitarian momentum—based on 'one voice' ideas to shape the European institutional system—is certainly necessary to increase Europe's capacity to act; but on the other hand, it somehow stands against the new fluidity of the global governance system with its diffuse threats. So, it remains to be seen whether the European competence and experience in consensual and transnational policy making, its legal based approach and its knowledge in pooling sovereignty will turn out to be an asset or a handicap to the global governance system of the twenty-first century. For the moment, European weakness cannot be denied and Europe is not living up to its potential.

Global Governance after the European Crisis

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The crises that began with Greece and spread through Ireland and the southern periphery of Europe were path breakers. They occurred in countries embedded in a major currency area, they dispelled the notion that debt crises are the provenance of emerging market countries, and demonstrated that economic weakness remains remarkably impervious to global bail-out assistance. While many factors have contributed to the prolongation of the crisis, the interplay of rigidities in governance within the euro area and the strong political influence of Europe in the main global crisis management institution—the IMF—was one of the most important.

Europe, the global economy, and its supporting institutions have hobbled through the challenges thrown up by these crises. But it has been a costly process in terms of growth and employment lost. The mistakes do not have to be repeated. These are early days for choosing the key weaknesses in the governance frameworks that need attention, but the process must begin with issues that are now obvious. From a European perspective, two types of changes must be undertaken: the first concern is Europe's internal governance and the second concerns Europe's contribution to ensuring that global governance does not stymie effective crisis management again in the future. As the former are widely discussed, the emphasis in this note will be on the latter.

THE EURO AREA DEBT CRISIS—ESSENTIAL FACTS

The basic contours of crisis management in the euro Area were set during the crisis in Greece. Initially, the intention of European leaders was to handle and finance the crisis internally. After the size of the problem—both the adjustment and the financing required—became clear, the EU then turned to the IMF. This invitation came late. A large amortization payment due six weeks after the crisis began brought the threat of a disorderly default to the doorstep. European demands put to the IMF were stark and difficult to reconcile: Greece must stay in the euro area and there would be no debt restructuring, which, it was thought, would deprive Greek banks of funding channels and stir up intensely feared contagion to other weak euro area countries; and that the IMF would negotiate, monitor, and contribute one third of the financing of the adjustment program in a joint relationship with the Commission and the European Central Bank—"the Troika."

To be part of this arrangement, the IMF had to change its own set of rules for exceptionally large loans. The IMF determined that even with the unusually strong fiscal and structural adjustment policies, a rigorous forward-looking analysis raised significant doubts about whether public debt would be sustainable without a restructuring. In other words, IMF funding would not be a bridge to a level of debt that could be financed and repaid, it would only extend the period of uncertainty about how debt would be lowered to manageable levels. As one of the criteria that a large borrower must meet is that it is on a track to debt sustainability, the IMF had to introduce a waiver (the "systemic risk waiver") to approve the loan. After a long period of denial about the sustainability of Greek debt, Europe agreed to a restructuring of Greece's privately held debt two years later.

Greece paved the way for handling other debt crises in Europe. Though the facts surrounding the crises in Ireland and Portugal differed, the basic parameters for handling the crises were similar: each country should stay in the euro area, restructuring would not (initially) be countenanced, the IMF participated in the Troika, and lending proceeded on the back of the systemic risk waiver, without a high probability of debt sustainability. Though no other country has yet restructured its debt, each crisis has entailed significant periods of falling output and employment.

HOW CAN EUROPE CONTRIBUTE TO BETTER GLOBAL CRISIS MANAGEMENT—FIVE EARLY ISSUES FOR ACTION

Europe retains a huge influence—both in terms of the cumulative quota of countries and its role in management—over decisions on IMF governance. As such, a significant share of the responsibility for applying the lessons learned from the crisis to prevent these precedents from feeding mistakes again in future crises. Five immediate issues are critical.

First, Europe needs to support efforts to reinstall arms-length protection for the IMF from pressures that prevent open consideration of all options for fixing a problem early and at its source. Again focusing on Greece, two fundamental problems were at the root of the crisis—unusually high and rising public debt and weak competitiveness. The Troika-backed program aimed to address these issues through severe fiscal retrenchment and structural reforms. But this strategy was not realistic in light of the depth of the problems and the lags in responses to, especially structural, policy. In turn, the optimism embedded in the initial 3-5 year forecasts (for example of GDP, employment, and exports) contributed to an unrealistic picture of the costs of the strategy. Ultimately, after private holdings of debt had fallen substantially, debt had to be restructured, while the slow pace and response to structural reforms meant that the real sector strategy had to shift from a structural reform-lead to a recession-lead improvement in competitiveness.

Admittedly, the constraints posed by membership in a currency union were formidable. But almost every crisis has its own set of constraints that seem immutable at the outset. The critical role for the IMF as an outsider with enormous experience in handling crises is to force a reality check on the parties closer to the crisis. Reconsidering the management and decision-making structure of the IMF so as to strengthen the arm's length distance from the intense political pressures that inevitably surround a crisis is critical.

Second, the IMF needs to provide more thorough analyses of spillover effects. The fear of contagion arises in all crises and most intensely in regional partner countries. They are well-based because all serious 21st-century crises have spillover effects. A critical error in handling the euro area crisis was succumbing uncritically to the view that financing a program without a high degree of credibility would minimize spillover effects. For example, the program for Greece approved in May 2010 did not satisfy the international market's desire to see a clear endgame to Greece's large debt and competitiveness problems. Without providing such clarity, the strategy of lending to Greece without a high probability of sustainability actually exacerbated negative contagion to other weak periphery countries.

The best approach to choosing the spillovers with the lowest costs is to have the IMF undertake a rigorous and transparent analysis of likely spillovers from alternative strategies for crisis resolution. Of course, these would involve many judgment calls on likely responses to different courses of action. For example for Greece, spillover analyses of the actual strategy chosen, a restructuring strategy, a temporary exit from the euro strategy, to name a few alternatives, should have been carried out and made public. Unless the IMF is able to get all strategic options on the table with a clear analysis backing each, it will not perform the essential function of an objective participant in program negotiations.

Third, the IMF must be protected by a sensible framework for lending into crises. The IMF changed the framework governing exceptionally large loans in order to act in Greece, Ireland and Portugal. The framework consisted of four criteria that a country must meet to receive exceptional access: the country must have a balance of payments need; a high probability of debt sustainability in the medium term; good prospects for regaining market access; and a program of policies that is likely to be successful. To approve the Greek loan, the option of a permanent waiver was introduced into the second requirement—that related to debt sustainability—when there are risks of international systemic spillover effects. The use of the waiver effectively undermines the avowed role of the IMF—to lend as a bridge to market access. Without sustainability, market access is unthinkable.

The waiver should be eliminated. It was established in the heat of the moment of an impending Greek default. This critical and permanent change in IMF policy was not discussed by the Fund's Executive Board, but merely made part of the approval of the Greek program. It makes little sense. Sustainability is always basic to the objectives of an IMF lending arrangement and no more so than for a country important enough to have international spillover effects. Moreover, that the IMF continues to invoke the systemic risk waiver three years after the start of the crisis for Greece, Ireland and Portugal, speaks to the license the waiver gives for delaying crisis resolution.

That said, it is important for the IMF to have some flexibility or discretion in its initial response to severe crises. For Greece for example, it is arguable that a default in mid-May 2010 (which was the likely outcome of the absence of IMF participation) would have been unduly costly. When such immediate, short-term exigencies arise, it is important that large, short-duration finance can be provided as sound policies that genuinely lead a crisis country back to sustainability are considered and put in place. In other words, in circumstances when a time-constraint prevents fast enough agreement on a program (likely to include a restructuring) that credibly leads to debt sustainability, a formal source of emergency short-term finance (from a special dedicated facility within the IMF or from another institution such as the BIS) is necessary. The IMF would then be enabled to play its proper role of objective outsider in lending support to a credible program.

Fourth, debt restructuring arrangements are still precarious and need formalization. That the Greek restructuring of privately held debt in early 2012 worked so well was fortunate. The decision on the parameters of the restructuring was reached in October 2011; a negotiating group lead by the Institute for International Finance (IIF) was formed, and a deal was reached in February, 2012. Though the fate of the negotiations was a cliffhanger, a large write down with a small number of holdouts was achieved. Creditor coordination problems were mostly successfully overcome. But the circumstances were special. Most debt was issued under domestic law, and retrofitted collective action clauses (CACs) were put in place to secure adequate participation. Hold-outs in the foreign law debt were eventually paid off.

These special features of the Greek deal leave doubts about future restructurings. Problems, well-rehearsed during the 2001-02 debate over the Sovereign Debt Restructuring Mechanism, remain potent obstacles to smooth restructuring as the lingering problems with Argentina's creditors show. CACs, which are now common in bond contracts, continue to be too narrow to ensure timely participation of all creditors. And while the IIF did a commendable job in negotiating the Greek restructuring, it is an organization of bankers without formal channels of representation by hedge funds and other non-bank bond holders. If a full bankruptcy-type body is not favored, a new look at CACs at least is needed.

Finally, the IMF's relationship with regional partners in debt crises needed clearer boundaries. The Troika arrangement has been a novel test. Cooperation between the IMF and regional groups has frequently occurred, but joint responsibility for negotiating, monitoring and financing an adjustment and reform program had not, until the European crises. And, though the logic of the joint effort is clear when the crisis country is a member of a currency union, it has presented problems. Apart from obvious differences in institutional perspectives and responsibilities of the European and IMF teams, there has persistently been at least the appearance of a more direct channel for political influence. As for the future, though crises of the severity of Europe's are unlikely in other currency unions including multiple IMF members, the Troika will set an example that could well be viewed with interest in future crises in other regions.

The IMF needs a clear set of principles to guide any future cooperation with regional groups during crisis resolution. These need to partition responsibilities, reinforce the senior creditor position of the IMF (perhaps even formally), and fortify the constraints on the IMF's discretion in lending into crises. Action on these five issues is critical to avoiding the mistakes that have led to prolonged crises in Europe. Though the list of issues for action will surely expand as the European crises eventually are resolved and studied further, a minimum list is clear:

- The management and decision-making structure of the IMF needs to be reexamined to foster distance from direct political pressures.
- Prior to approval of any lending arrangement, the IMF should be required to carry out and release to the public rigorous analyses of international spillover effects from different strategies for addressing the crisis.
- The option for waiving the requirement of debt sustainability in exceptionally large lending arrangements should be revoked. The very high costs of leaving markets to guess how debt sustainability will be restored are an unacceptable drag on the resolution of a crisis.
- Formal arrangements—whether through enhanced CACs or a bankruptcy-style process—for debt standstills and restructuring are needed.
- Procedures for cooperation between the MF and regional institutions in debt crises should be codified with an aim of separating the two enough to ensure institutional integrity.

The Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership: "For" a More Prosperous Future, or "Against" a More Prosperous China?

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These are very interesting times for international trade talks. The US government has signaled its intention to complete by the end of 2013 the Trans-Pacific Partnership (TPP), which currently involves the United States, Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and – as a latest addition – Japan. At the same time, the first meeting of the even larger Transatlantic Trade and Investment Partnership (TTIP) between the US and the European Union was held on July 8-12 this year, paving the way for what is expected to become the largest Free Trade Agreement ever, covering nearly half of the world's GDP, almost 30 percent of world merchandise trade (including intra-EU trade, but excluding services trade), and 20 percent of global foreign direct investment with exchanges of goods and services worth around €723 billion a year and €1.8 billion a day. TTIP, according to a recent study by the Bertelsmann Foundation, will create a million new jobs in the US and a per capita GDP increase of 13.4 percent, whereas in the UK the deal would result in 400,000 more jobs and a corresponding per capita GDP rise of 9.7 percent; Germany is expected to experience an increase in per-capita GDP by 3.3 percent overall and create an additional two million jobs.

TPP and TTIP are, no doubt, potential game changers: after years of stalemate in multilateral trade negotiations and an agonizing Doha round, the landscape of trade talks is today extremely fragmented with close to 300 regional trade agreements in place and an extraordinary degree of complexity. Importantly, the scope of RTAs in force differs widely, and in some instances (e.g. public procurement) goes way beyond the reach of WTO, opening up big chunks of world trade that the WTO cannot fully govern. Navigating through this thicket has become heroic and unnecessarily costly: if successfully completed, TPP and TTIP will become templates for additional trade talks, and the whole WTO would be able to rely on a much more streamlined status quo, which in turn would facilitate agreements on global rules. Accordingly, key players such as EU Trade Commissioner Karel De Gucht have declared that TTIP could be a great opportunity to reinforce the World Trade Organization (WTO): the WTO's 9th ministerial conference in Bali in December 2013 will demonstrate whether this view is shared by many other players at the table.

However, there are several question marks concerning the possibility for TPP and TTIP to represent transitional steps towards an opening up of global trade. Some of these questions are related to the content of the agreements; other are related to the purpose and membership of the agreements; some relate to the timing; and finally, some are linked to the political support that the agreements are likely to have at national level, and especially in the US and the EU. More in detail:

- As regards the content of the agreements, several challenges lie ahead, in particular for what concerns Intellectual Property Rights, telecom and financial services, rules on state-owned enterprises, and public procurement in the TPP; and all these areas plus, most notably, regulatory convergence in the TTIP (more specifically, how to reconcile Europe's precautionary principle with the more risk-friendly approach to safety adopted in the US). In the TPP, problems are emerging due to the enlargement of the agreement to Canada, Mexico and lately Japan; as well as due to the reported attempt by the US to impose conducts and standards that Asian participants would not be ready to support. In the TTIP, the first meeting on 8-12 July 2013 already marked the de facto exclusion of financial services from the pact; the difficulty (also in procedural terms) of involving regulatory agencies in a dialogue on regulatory cooperation; and the unwillingness of both parties to talk about data protection in the aftermath of the "datagate" scandal. All this seems to cast rather dark shadows on the possibility for the negotiating parties to strike a sufficiently ambitious agreement, i.e. one that really acts as a game changer in the landscape of international trade.

- For what concerns the purpose and membership of the agreements, it is impossible to ignore that both FTAs do not include China, a colossally important trade partner and a maverick that erodes, on a daily basis, the GDP share of the US and the EU. The most malicious interpretations of TPP and TTIP contemplate the possibility that both pacts are to be considered as pacts "against" China, rather than "for" a more prosperous future. The overall idea would be that setting clear rules on state-owned enterprises, government subsidies and technical (including environmental) standards in a way that excludes or harms Chinese products can become the only way for the US and EU to preserve their dominance in global trade in the medium term: paradoxically, from this standpoint the two pacts would become a "protectionist" attempt, window-dressed as free-trade would certainly not the best way to trigger a revival of international trade talks within the WTO; rather, it would lead to a large-scale edition of the infamous trade war against Chinese solar panels, which already raised a hectic debate in the EU—with Merkel taking sides with China, rather than the European Commission.
- As regards the timing of the agreements, both have important challenges to face. First, the TPP should be completed by year-end according to the US government; however, too many issues are still outstanding after 19 rounds, and important countries (notably, Japan) have just joined the table, which is likely to create further complications. The issue with the TTIP is even more evident: the stated objective of completing negotiations by the end of 2014 is clearly unrealistic, despite optimism shown by both sides and in particular by US chief negotiator Mike Froman. One reason is related to the extreme complexity of some of the chapters to be negotiated, from cybersecurity and data protection to regulatory cooperation; another is that 2014 will see turmoil in Brussels with the new elections for the European Parliament and a slowdown of regulatory activity due to the end of the Commission's mandate; and finally, as explained more in-depth below, negotiations might be slowed down by uncertainty on the likely reaction of the US congress, the European Parliament and national governments in EU Member States to the text of the Treaty.
- For what concerns the political support to the agreements in the parties' internal political debate, there are substantial problems to be considered—especially in the United States, where Obama has not obtained so-called "fast track" powers, i.e. Trade Promotion Authority (TPA). As such, he is granted very limited discretion and autonomy in negotiating terms, and is relegated to a position of facilitator of an agreement that will have to be signed and ratified by the US Congress. Currently, work on TPA legislation in Congress appears to be still at a very early stage, Congressmen have already been complaining about the limited information they have received on the TPP, and experts on both sides tend to agree that the best way to proceed would

be to try to discuss TPA after the current agreements have been signed. This, in turn, means that the US delegation, broken into 24 working groups, might end up endorsing an agreement that will be later revised and maybe rejected, or partly overturned, by Congress—this is likely given that Congress seems eager to reject everything that Obama proposes. At the other side of the table, the European Commission seems to face similar problems, with some Member States expected to veto the abolition of non-tariff barriers in some key sectors, such as agriculture; and other Member States ready to stand against protectionist moves. This unpredictability once again shows the weakness of trade talks between regional blocs: some experts have thus asked whether the TTIP is a pact between 2 or 78 different partners.

As a result, the road towards completion of both TPP and—even more—TTIP appears tortuous at best. If the agreements even get to the signature, approval, and implementation stages, the consequences for the WTO system would be significant: rather than strengthening the WTO, the exclusion of China from both pacts will undermine the viability of the multilateral trade talks, and will then lead to less incentives to try to conclude the Doha round: after all, the US government already appears not to have enough resources to fully negotiate TPP and TTIP at the same time—this, in turn, means that nothing will be left for the Doha round. The ball will then pass the Chinese government, which will have to choose whether to adapt to the terms established by the pacts and upgrade and revise its standards and products to be able to compete in the largest world markets; change strategy and focus on Africa and Latina America and some South-East Asian countries as key commercial partners, knowing that they will be increasingly tempted by the Transatlantic giant; or to focus more on its internal market, which would require a massive change in the strategy adopted so far by the Chinese government. All in all, Beijing knows that the pacts are unlikely to be signed and approved in due time: but certainly TPP and TTIP, if successful, would make the stakes higher and life harder for China and other emerging economies in the context of global trade. Not the best starting point for a future of multilateral, cooperative trade talks.

The "New Wave of Regionalism": Some Thoughts on Brazil's agenda

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INTRODUCTION

The number of free trade agreements, increased from 25 in the 1958-1990 period to 88 between 1991 and 2000, and reached 158 between 2001 and 2012. The proliferation of these agreements is seen as a "new wave of regionalism" according to various authors. The reasons are varied and include: the impasse of the Doha Round, the importance of global production chains, the difficulty of reconciling the Chinese and United States views on the regulatory framework of world trade, and domestic constraints.

In Brazil, the issue of "new wave of trade agreements," and especially the recent initiatives such as the Trans Pacific Association Agreement (TPP), the Transatlantic Agreement, and the Pacific Alliance, combined with the weakness of Mercosur as a customs union, led to a resurgence of discussions about the Brazilian trade agreement agenda at the beginning of 2013 [1] [2]. In addition to the possible loss of market access, the country was "isolating" itself from global production chains.

I argue in this paper that the question of supply chains should be analyzed separately from the reasons behind the trade agreements. There is a similarity to the discussions of the late 1980s - early 1990s on the harmonization of domestic rules for the consolidation of the global processes of production and finance. From this perspective, the current debate retains some of the features of the discussions about what happened to the relationship between multilateralism and regionalism during the Uruguay Round (1986/1994) [3]. In addition, I offer some thoughts on the Brazilian agenda of trade agreements.

THE FAILURE OF MULTILATERALISM: THE CONSENSUS ON UNIVERSAL RULES FOR DOMESTIC POLICIES?

At the beginning of the 1990s, R.Z. Lawrence argued that globalization, understood to mean the growing internationalization of production and financial flows, requires the harmonization of domestic policies. The transaction costs imposed by different regulatory systems impose a burden the process of globalization, which would be the source of dynamism for global economic growth. Thus, the inclusion of new issues such as investment and intellectual property rights and services in the Uruguay Round would be part of the globalization process, although this was opposed by a group of developing countries led by Brazil and India.

Note, however, that the attempt to stall the negotiations on these new issues lost strength as the Uruguay Round negotiations continued. The United States, a staunch supporter of multilateralism, signed a free trade agreement with Canada in 1988, where the new themes were introduced [4]. The message was clear: either negotiate at the multilateral level or the United States would choose to use either bilateral or unilateral measures [5]. By the beginning of the 1990s, however, both the Latin American and Asian developing countries had adopted trade liberalization and privatization policies that they believed were necessary conditions to be able to benefit from the era of "new globalization," which facilitated the negotiations. However, Lawrence called attention to the fact that the end of the Uruguay Round notwithstanding, it was unlikely that multilateral negotiations would be able to produce the "profound integration" of regulatory systems that globalization required. The regional route emerged as the most likely path and could be interpreted as a necessary step for the future harmonization of rules in the multilateral system.

The "positive view" of regional agreements in a multilateral system was challenged by Jagdish Bhagwati. In 1996, he argued that the demand for harmonization of rules by the government of the United States would be a way to impose a vision of what the American public viewed as "fair trade." According to the author, the demands were designed to "remake the world in its own image". The "image" would be the US' conception of "fair trade." In 2008, the author criticized the choice by the United States to pursue bilateral trade agreements as contributing to the weakening of the multilateral system [6]. All agreements were classified as "new generation agreements" and included the addition of new issues: clauses on the protection of the environment, labor rights, and in some cases the rules for policies on competition. Indeed, the agreements signed by the United States at that time were all with countries that had little bargaining power in world trade. Therefore, they reflected the preferences of the United States and do not contribute to the creation of balanced multilateral rules.

In place of globalization as the source of the demand for harmonized rules, the question for the twenty-first century is focused on global and regional supply chains. The issue increased in relevance in studies aimed at understanding the transformation of developing economies in Asia. In the decade of the 1980s, Japanese investment fueled the development of the "Asian Tigers." At the beginning of the twenty-first century, Chinese investment incorporated additional countries, such as Vietnam, as links in the supply chain, for example.

Richard Baldwin links the issues of supply chains, the new wave of trade agreements, and the difficulties in the Doha Round. He believes that in the late 1990s a new form of globalization began that required new rules. This globalization involves not only the fragmentation of production processes, but also services. Investments in supply chains under this new degree of fragmentation requires a legal environment that has clear and stable rules to assure companies of the integration of all stages of production and services related to its businesses without the possibility of "breaking" the chain. Negotiations for the elimination of tariffs on imports of intermediate goods, the facilitation trade by reducing bureaucratic formalities, the reduction and/or elimination of taxes on tradable services and establishment of mechanisms for resolving disputes between the private sector and government are seen as desirable. In the formation of global and/or regional supply chains, the focus of the negotiations is on creating rules that facilitate trade in goods and services, in addition to providing guarantees for the investor.

The multilateral nature of the World Trade Organization (WTO), with 159 member countries, makes it hard to negotiate rules that meet the requirements of global and/or regional production chains. In the Uruguay Round, the modest results in the area of services, the general commitments in the field of investments and the vague nature of the penalties for failure to comply with intellectual property rights show the obstacles to these negotiations.

It was in this context that the Trans Pacific Association Agreement (TPP) Agreement and the Transatlantic Free Trade Agreement emerged. The former was launched in November 2011 and had Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam, United States and Japan as members as of July 2013. The agenda for negotiation is extensive and covers the traditional market access issues as well as the issues from the new generation of agreements (investment, intellectual property, labor, environmental protection, government procurement policies, and others). As of July 2013, there have been 18 rounds of talks and the countries hope to complete negotiations in 2013. The agreement has been interpreted as a U.S. response to Chinese influence in Asian supply chains. Note that the negotiations follow the principle of a "single undertaking" where the agreement will only be signed by all members when all the issues have been resolved. There is no clear information on the progress of negotiations and the expectation that the negotiations will be completed before the end of 2013 may well be overly optimistic. [7].

In March 2013, the United States and the European Union announced that they would open negotiations for an Agreement on Transatlantic Trade and Investment. It is still too early to assess the likelihood of success of these negotiations. The member countries of the OECD (Organization for Economic Cooperation and Development) began negotiations for an investment agreement in 1995 but in 1998 France withdrew its support of the negotiations, and was followed by other countries. This episode suggests that a consensus for regulatory frameworks that are in the interest of the two major western economies is not always achieved.

Baldwin argues that countries that are outside of these negotiations with all WTO plus rules, i.e., rules that are broader and with a level of commitment that reduces the degree of flexibility of domestic policies, so that countries may be priced out of global supply chains. An alternative would be to get the backing of China, in particular, and most of the other members of the BRICS (Brazil, India and Russia, especially) for WTO plus negotiations, as soon as the Doha Round is ended. Baldwin believes that these countries will not agree to proposals that would greatly reduce the autonomy of domestic industry and trade policies. So what is at stake are different systems of economic regulation. China has reportedly offered what it considers feasible at this stage of its development in its process of inclusion as a member of the WTO.

Simon Lester disagrees with this assessment. The consolidation of productive chains does not depend on formal regional or multilateral trade agreements. It is a domestic policy option. Countries with similar strategies may want to strengthen their commitments with rules to facilitate the consolidation of the supply chains, but this does not mean transferring the broad regulatory framework agenda to the WTO. The risk is that multilateral discipline applied to protectionist trade practices will begin to receive less attention and negotiations involving commitments regarding domestic political strategies will be caught in continuous impasses.

In November 2012 the Regional Economic Partnership Agreement (RCEP, Regional Comprehensive Economic Partnership) was introduced. Its goal is to combine two areas of cooperation and agreement in Asia and Oceania. One refers to the bilateral agreements of the ASEAN countries with China, Japan and South Korea, and the other area is the Economic Cooperation Agreement between Australia, New Zealand and India [8]. Like the proposals championed by the United States, the proposal is ambitious in terms of coverage of topics.

The issue of harmonization of domestic regulations to facilitate the globalization of productive processes is not new to the multilateral agenda, neither is the resort to bilateral and/or regional agreements to overcome impasses in the multilateral arena. The prospect of a TPP agreement and the Transatlantic Agreement, if it is successful, is that it will limit the degrees of freedom for negotiations of regulatory frameworks in the WTO. A consensus on regulatory standards between the United States and the European Union together with its partners in the agreements could compensate for the presence of China and the links to its production chains in Asia. But, what is new in the current discussion is the presence of China. Initiatives such as the RCEP suggest that the formation of a consensus on regulatory frameworks will not leave China to one side in order to avoid creating tensions in trade. In addition, negotiations that permit a consolidation of a consensus that a multilateral framework is desirable and must be assured. In this case, as Lester suggests, a less ambitious WTO agenda would make this task more feasible.

WHAT ARE THE ISSUES RAISED BY "NEW REGIONALISM" FOR THE BRAZILIAN AGENDA?

The strategy of industrial policy in Brazil is to increase the density of local supply chains, beginning with the local content requirement for investment [9]. Although this is a practice that conflicts with WTO investment rules it is used by several countries. In Brazil's case, the criticism is the generalized use of this instrument. Furthermore, as pointed out by Araujo Jr., the high import tariffs levied on intermediate goods place tax burdens on the final product and reduce the competitiveness of Brazilian products.

The two issues mentioned above (local content and high tariffs) do not require the implementation of new generation trade agreements nor so they require a reflection on the global supply chains in which Brazilian industries might be inserted. The issue is the demand for a new round of trade liberalization in the country, as well as a review and reformulation of the local content policy. However, the Pacific Alliance (June 2012) formed by Chile, Peru, Colombia and Mexico brings some issues to the trade agreements agenda in Brazil. From an economic standpoint, the impacts will depend on the conditions of the domestic economy and guidelines economic policy. If the business environment is favorable, Brazil (the issue of the high tax burden and bureaucratic procedures) and the economy resumes its cycle of expansion, it is unlikely that there will be a diversion of investment [10].

The Pacific Alliance, however, raises questions about the project for the integration of South America and the role of Brazil. This issue is of particular importance at a time when the consolidation of Mercosur as a customs union seems to be increasingly unlikely [11]. So what is at question is the leadership capacity of Mercosur in the South American integration project.

However the main question that the debate on new regionalism refers to is the issue of regional production chains and the format of the agreements negotiated by Brazil. During the debate on the constitution of the Free Trade Area of the Americas, between 1994 and 2001, the creation of a "Mercosur Standard"—as opposed to the "NAFTA Standard"—was widely discussed[12]. The credibility of Mercosur as a "united front" assumed the creation of standards, just as in NAFTA, on issues such as government procurement, services and intellectual property, among others. This effort was interrupted by the Argentine crisis that led to the stagnation of Mercosur negotiations in 1999/2000 and 2002. Later, the impasses in the LAFTA negotiations, in 2003 led to the end of the LAFTA negotiations in 2005, removing the issue of LAFTA from the Mercosur agenda.

As a result, negotiations about regulatory frameworks for investment, services, government procurement and other issues that are present in the new generation free trade agreements are absent or reveal a limited degree of commitment from Mercosur. Similarly, the agreements signed by Mercosur and South American countries in the 1990s (Chile and Bolivia) and later, the agreements with Colombia, Ecuador, Peru and Venezuela, and Peru, in 2004/05 were limited to trade in goods.

FINAL THOUGHTS

The announcement of broad regional agreements like the TPP, the Transatlantic Agreement and the Pacific Alliance gave rise to the debate about the "isolation of Brazil" from the new wave of regionalism linked to the formation of regional and global supply chains. I have argued in this paper that initiatives such as TPP and Transatlantic Agreement are associated with movements led by the United States for shaping the rules that meet the interests of expanding its multinational companies, in addition to trying to create a framework that could eventually be multi-lateralized and thus govern the trade and industrial policies of China, in particular. So the first question that arises is whether Brazil wants to introduce changes in the guidelines of their domestic policies that favor a possible intensification of the country's participation in global supply chains, regardless of whether the agreements are realized or not.

The Pacific Alliance raises the question of South American integration. I highlight the choice of a minimalist agenda in the trade agreements in Brazil. Rethinking Mercosur as a customs union or a free trade area requires considering issues beyond trade in goods. Returning to one of the objectives of the Treaty of Asunción—"competitive insertion"—requires member countries to think about the commitments that are favorable for the formation of regional production chains and participation in global supply chains. In this case, the first step is the reform of the common external tariff that still reflects the protectionist preferences of Brazil.

Endnotes:

[1] The next section of this article will summarize these agreements.
[2] Several articles and editorials in major newspapers across the country have dealt with this issue in recent months. Bonomo (2013) criticizes Brazil's trade policy that would have relegated the trade agenda to the background. Leitão (2013) discusses the Mercosur costs for Brazil's trade negotiations.
[3] See Lawrence (1991)
[4] The only free trade agreement signed by the United States prior to 1988 was with Israel in 1985, which was seen as a decision motivated by political issues.
[5] In 1988, the U.S. Congress extended the application of Section 301 that allows the Executive to apply trade sanctions on countries that violate the rights of U.S. companies with regard to investment and intellectual property rights, for example. In the absence of a multilateral trade regulation in these areas, there was no forum for the affected countries to discuss the application of sanctions.

[6] The United States has free trade agreements with Australia, Bahrain, Canada, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Israel, Jordan, Korea, Mexico, Morocco, Nicaragua, Oman, Panama, Peru and Singapore.
[7] In June 2013, Senator Elizabeth Warren (D-MA) wrote an open letter to the President of the United States seeking clarification on the agreement (http://www.huffingtonpost.com/2013/06/13/elizabeth-warren-free-trade-letter_n_3431118.html)
[8] ASEAN is an economic cooperation and trade agreement. Brunei Dar-es-Salaam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam are members.
[9] Local content requirements refer to the use of components produced in the domestic market in product manufacturing and/or exploitation of resources (in the case of oil).
[10] The risk of trade diversion is small. All four countries have had free trade and/or preferential agreements among themselves and Brazil. The volume of trade between the countries is not high. For Mexico, the Alliance accounted for 2.6% of exports in 2011 and Colombia (7.6%), Peru (7.6%) and Chile (5.8%). Exports by these countries to Brazil accounted for 5.6% of exports and imports 5.5% from Brazil, in 2011. Thus, even if the Brazilian markets were lost, the effect would not be great.
Further, the risk of diversion of investment is difficult to predict. The gross domestic product in purchasing power parity for the four countries was 23% greater than that of Brazil, in 2011. The total population is 6% greater than that of Brazil and the current trade (exports plus imports) was US$1 trillion and the Brazil of US$493 billion in 2011. Thus, the potential market of the Pacific Alliance is greater, but the physical distance between Mexico and its partners is a barrier the formation of regional production chains. In any event, an interpretation for the Alliance would be the construction of a platform for Chinese investment in the Latin American region and, in this case, countries that already have agreements with China (except for Mexico) would be in a better position than Brazil.
[11] The full customs union was to have taken full effect in 2006. Since 1999, however, exceptions to the commitments agreed for the conformation of the union have been postponed. In addition, new exceptions to free intra-regional trade and a common external tariff were created. (MDIC, 2013).
[12] NAFTA: North America Free Trade Agreement. Free Trade Agreement of North America between the United States, Mexico and Canada, in effect since 1994.

*References for this contribution were not included in this version

The Transatlantic Trade and Investment Partnership, the Trans-Pacific Partnership, and the Future of International Trade

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International trade negotiations are facing a crucial stage. The multilateral front, led by the World Trade Organization (WTO), is in the midst of a foundational crisis and regional and sub-regional trade negotiations have come to fill the multilateral vacuum.

The future of international trade, at least in the short and medium term, depends heavily on the outcome of these regional negotiations. Two trade initiatives outstand for its economic and strategic relevance: The Transpacific Trade Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP).

WTO AND THE DOHA IMPASSE

The WTO has been a victim of its own success. GATT, the WTO's predecessor, has promoted eight successful rounds of trade liberalization, establishing the rules that have reduced barriers to trade in goods, services, and investment for the past 50 years. Thanks to these efforts, international trade flows have exploded over the last decades and have become the main engine of World economic growth.

GATT's success has also resulted in a dramatic increase in its membership and a huge transformation from the original free standing agreement, into a full fledge international organization. The world trade community has increased from the 23 countries that signed the founding agreement in the Habana in 1948, to the 159 members that are part to the WTO in Geneva.

Despite of this prominent performance, the pillars of multilateralism, key for GATT and WTO success, have recently become one of the main obstacles for further progress. The principles that provided discipline and order to multilateral trade negotiations in the past, such as the consensus rule, single undertaking and Most Favored Nation principles, have given place to free riding and a pace for the negotiations imposed by the least ambitious of the participants.

Developing countries have benefited for decades from the liberalization of the developed countries that founded the GATT. Consequently, developing latecomers have little motivation to open their economies. The consensus principle, on the other hand, has punished those seeking more ambitious disciplines and benefited countries not willing to move forward at the same pace. It is nearly impossible to obtain consensus in a 159 member club with such different levels of development and integration into the world economy.

If Doha Round is to advance, a structural reform of WTO operational rules is most likely indispensable. Meanwhile, countries willing to enter into ambitious trade agreements, with substantive trade and investment liberalization, have opted to use bilateral, regional and sub-regional negotiations.

REGIONAL AND SUB REGIONAL TRADE NEGOTIATIONS

The last round of successful multilateral trade negotiations concluded in Uruguay, in 1995, under GATT auspices. Since then, a great number of trade agreements have been concluded all over the world.

NAFTA gave place, under Mexican leadership, to a wide range of NAFTA-like agreements in Latin America. The US also subscribed NAFTA-like agreements in the Western Hemisphere with Central American states, Chile, Colombia, Panama, and Peru.

Meanwhile, across the Atlantic, the European Union continued deepening and expanding its regional integration. In the twenty years that have lapsed since the conclusion of the Uruguay Round, the EU has more than doubled its membership, going from 12 countries in 1993 to 28 today. And, it has also signed FTA's with countries from other regions of the World, including a group of transatlantic agreements with Mexico, as well as Andean and the Central American Countries. Free trade fever also spread to the Pacific as bilateral and sub-regional agreements have been subscribed by several countries in the region.

Currently, two major trade negotiations are underway: The Transpacific Trade Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). These negotiating processes involve the major players in the international trade scene. If the US, EU, and Japan agree on WTO plus trade arrangements, the resulting agreements would most probably become the transpacific and transatlantic integration platforms.

Successful TPP and TTIP negotiations would result into two types of countries: a) those willing to engage in substantive liberalization; and, b) those not ready to go much farther than the WTO's current rules. In this scenario, the Geneva trade organization would have, at least, two options. Either to remain a forum for global dispute settlement on current multilateral disciplines; or to engage in a two track/two speed negotiation strategies, recognizing that some members will not be able, at least in the medium term, to reach the same level of engagement as the leading countries.

If TPP and TTIP fail, a very worrying signal would be sent to international trade. The most powerful and resourceful economies in the world are no longer able to lead the path to economic liberalization. "There won't be more free trade champions to resort to."

Transformation in the Arab World: The Role of Regional and Global Institutions

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BACKGROUND

The old status quo in the MENA region has been swept away by the Arab uprisings since early 2011. It is very early days to envisage a new economic, geopolitical and geostrategic landscape, which, at best, has only just started to unfold. What began with an initial wave of hope and civil courage has become bloody, messy and tragic: three symptoms of the very revolutionary nature of the matter.

If the Arab Spring represents a paradigm shift for the region, then a new conceptual framework has to be brought up, as it exceedingly speculative to trace a road map under the present volatile conditions and unpredictable events. Yet one thing appears to be certain: the West will have less impact in shaping the Arab world's future for a number of reasons, including the more complex internal policies in Western states resulting in an increasingly "hands-off" foreign policy approach. Neither regional powers nor global institutions appear fit enough to fill the gap. Consequently, while the Arab Spring is ending up in an Autocratic Summer disarray, no one seems to have the capacity to shape the new order the region desperately needs.

The expected path that starts with revolution, goes through transition, and ends up in consolidation has proven uphill in every case, and a counterrevolution is well on its way.

Therefore, since traditional powers and institutions have had great difficulties influencing the different paths that people's revolutions have taken in different countries, there is a serious need to rethink what instruments are at hand and what institutions, if any, can become useful to restore stability.

The paradox is the following: Revolution was made allegedly in the name of freedom and dignity, but fundamentally because it might bring better economic opportunities, and yet the instability it brought about is currently undermining those very economic prospects.

ROLE OF INSTITUTIONS

It has become apparent that the regional and global institutions in place are not fit to deal with the rapid pace of events: Their major mandate is to bring nation states together to search for international peace and stability and to provide legitimate platforms of dialogue and conflict resolution beyond national sovereignty, and yet they have clearly failed in their mission. Instead, what we find today in the MENA region is violence, uncertainty, and growing instability.

This is the consequence of a number of factors; not least the relevant changes in the nature of power occurred worldwide over the last two decades. Diagnosis of rapid power shifting, dubbed "power decay," have been made by different analysts and commentators (Zakaria, Bremmer, Brzezinski, Naím) in recent times, coinciding with the paralyzing incapacity of multilateral institutions to cope with an increasingly interconnected, complex, and fast-changing multipolar environment.

Over the last decade, the UN has had an increasing difficulty to broker the endorsement of relevant multilateral agreements. Global governance has become even more complex and has seen the emergence of many ad hoc pragmatic government networks and coalitions to deal with concrete issues, making the UN system look irrelevant, if not redundant or useless, in many cases.

In parallel, the West's record of ambivalence in its support for democracy in the MENA region became apparent with the Arab uprisings and today questions the credibility of the current Western-dominated intergovernmental institutions. With the exception of Libya and, to a certain extent, of Syria, most of the challenged autocratic regimes were historically backed by the West in support of its economic and political interests (mainly oil and Israel, but not only).

Regional institutions such as the Arab League had also scarce credibility due to its recent past of being more an autocrats-led club than an operative intergovernmental organization, although it has been revisited and could be called to play a significant role in the future of the region: it backed the intervention in Libya—overcoming the opposition of Algeria and Syria—and has suspended Syria's membership since the beginning of the current civil war. In spite of its problems of image and credibility, the Arab League remains a legitimate and relevant regional actor that should be taken into account, if only as a forum where the different visions about the future of the region can be confronted and discussed.

All in all, the old international order in the MENA region led by Western classical powers, one that was dominated by strong (e.g. US, UK, France) states' bilateral relations and where true and sustainable economic development, human rights and democracy were always secondary when hard decisions about energy security, maritime trade routes and arms deals were to be made, is now under continuous scrutiny by the Western and Arab public opinion alike. The role of the UN and other regional and global institutions appear rather minor in comparison.

STRUCTURAL PROBLEMS

Apart from radical political tension and social unrest, the MENA region faces a number of structural problems that may hinder the region from sound development for decades. These problems are of economic, geopolitical and geostrategic nature.

As for the economy, the aftermath of the 1980's debt crisis saw the stabilization of the macroeconomic performance due to "Washington consensus" policies fostered by the IMF and the World Bank. But at a microeconomic level, unemployment, poverty, and inequality have been on the rise, along with systemic corruption. The 2008 financial crisis had an added negative effect due to a sharp downturn in MENA's trade markets (mainly in the US and the EU), sovereign funds capital decline, remittances significant fall, and foreign direct investment shrinkage. Along with the demand of political freedoms and of dignity, late 2010 food and energy price crisis triggered the riots that ignited the Arab Spring. As for the oil-rich countries in the region, buying social peace at the price of massive consumer subsidies may become increasingly unsustainable in states such as Oman, Iran, and Bahrain as well as, in the mid- to the long-term, in Algeria, Kuwait, UAE, Saudi Arabia, and Qatar.

The geopolitical dimension of the region is also being affected in a transformative way. Located in one of the world's most important trade routes and hosting more than 50 percent of the world conventional oil reserves (42 percent of conventional gas reserves), the MENA region represents the southern periphery of the European Union, with implications to its border security—concerns go from international crime and smuggling, illegal immigration, and terrorism. Persistent instability in the region means increased volatility in international trade and oil supply routes and prices, population pressure, and potential violence spill over.

With regional stability and security of supply at risk, the MENA's geostrategic dimension is central not only to the West, but to the Asia-Pacific powers that are already the dominant importers of oil and gas from the region: their interests in handling the problems in the region are shockingly missing. Iran's nuclear ambitions, even if the newly elected president seems more compromising, are of principal concern for both Israel and the West.

Additionally, the current US initiative to revive the moribund Oslo Peace Process has little prospect of success, as positions are shifting within Israel's Arab neighbors public opinion, not least as a consequence of the political rise of the Muslim Brotherhood and Israel's immovable denial of concessions combine to block progress on achieving long-term solutions.

Furthermore, we are witnessing a fluid realignment of regional powers following events in Tunisia, Libya, Egypt, and in Syria. The Shi'a vs. Sunni divide and its political manipulation is at play, adding further complexity to the alignment of states within the region and with their foreign patrons. Turkey and Saudi Arabia, for instance, both old and strong Western allies, are holding very different positions in a number of hot issues. Qatar appears to have an agenda of its own, whilst Iraq's post-war sores remain wide open, casting a long shadow over the whole region.

CONCLUSION

The MENA region is undergoing profound transformation whose pace and logic go well beyond the traditional international instruments available, whereas the classic external powers are losing their pre-eminence and capacity to shape events. Even though a last assault of classic power game seems to take place between the US and Russia in Syria, events seem quite out of control even for those big players.

Furthermore, establishing democracy—allegedly the ultimate goal of the Arab Spring movements—is a long and often painful process: separation of powers, respect of minorities, and independent institutions must be guaranteed by new political players and inexperienced authorities that have to deliver to the people prospects of economic progress, overall security, and social peace.

"Powerlessness" is the name of the game when the UN, the Arab League, the African Union, or the Gulf Cooperation Council is confronted with the brutal reality of civil war, be it in Libya, Egypt, Yemen or Syria. These institutions are not powerful enough to implement decisions and enforce agreements. Ad hoc solutions should be brokered, while regional and global organizations will have to play an institutional role by providing the international legal framework, but will have very little real influence in the field.

Reality today is that identifying reliable and stable interlocutors able to implement policies and enforce agreements has become a daily nightmare. While efforts of working with civil society organizations and NGOs have had poor returns and most of foreign aid has been suspended, backroom deals will have to fill the gap until stability is regained and a new status quo is put in place.

The prospects are, though, that the undergoing complete reshuffling of the geopolitical and geostrategic landscape will most probably not fulfill Western expectations. And yet, the long-term question remains unanswered: will the new Arab order that will eventually emerge from the revolution be capable of providing economic prosperity and a better, open future to its children? At this particular moment in history, nothing seems more uncertain than that.

The EU and the Egyptian Crisis: The Rocky Road Ahead

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THE DOMESTIC SCENE: POSITIONS AND STRATEGIES OF THE PARTIES:

Without belittling the shades and tensions within the various groups, the Egyptian political scene can be characterized by two groups with "winner takes it all" approaches—the military and the Islamists—and a third—liberal—group that is in principle committed to pluralism but that, in view of its minority predicament, has pursued its agenda in alliance with one or the other majority group, both of which have espoused undemocratic practices. Be it out of ideology or interest, neither the Muslim Brotherhood (MB) nor the military have demonstrated a commitment to the democratic process. The MB's year in power may be insufficient for anyone to safely conclude that their rule would have transformed Egypt into a theocratic state. But that year in power, and particularly the November 2012 – July 2013 period, suggests that the MB had espoused a majoritarian understanding of the democratic process, assuming that electoral victory legitimized their attempt to monopolize the state and determine unilaterally its constitution and policies, without meaningfully engaging with political minorities. The military never rescinded its grip on state (and economic) power, which had been largely safeguarded by the MB in what had been a tacit alliance between the two up until the summer. In view of the mass mobilization against the MB in July, the military currently feels legitimized to pursue its own "winner takes it all" strategy by attempting a political wipeout of the MB. To that end, it is resurrecting the age-old narrative linking the Muslim Brotherhood to international terrorism and portraying it as a major national security threat. While the military has committed to return to the barracks in 6-9 months, it views itself as the guardian of the state, with the right and duty to step in and out of politics as need may be and steer the transition process behind the scenes. Liberals, still depressingly disorganized, have played the minority game (despite what may be widespread public support), switching alliances between the MB and the military. They turned against the former when they concluded that it was bent on controlling the state. What also gives the liberals leverage is the support of large part of public opinion for their claims and their capacity to mobilize people: they are a veto player. The conviction of the (few) liberals who still support the coup is that whereas they can steer the military-led process towards a democratic outcome, had the MB been allowed to rule, the outcome would have been undemocratic in both form and substance. This may be an illusion, as it is difficult to see the interim government that was formed in July as anything but a military-led cabinet with a civilian façade. At the same time, the military desperately needs civilian actors—the liberals today—to justify its rule in the eyes of the public. Whether liberals—inside and outside the regime—will successfully steer an undemocratic process into a democratic outcome is anyone's guess. Signals—namely the new draft constitution—are not encouraging.

- *The Syria-Egypt link:* The Egyptian crisis has influenced and been influenced by the Syrian civil war. Syria may well have been one of the triggers that induced the Egyptian military to turn its back on the Brotherhood, despite the political and economic power it had carved out for itself (in many respects enhanced by the 2012 MB-drawn constitution). President Morsi's April rally in Cairo stadium calling for jihad in Syria may have been the straw that broke the camel's back. On its side, the coup in Egypt has added to the turning of the tables in the Syrian civil war, already on course since the regime's recapture of Qusair in June. The Egyptian military is not pro-Assad. However, it is far less sanguine than the MB in its opposition to it in view of its skepticism of the MB-dominated Syrian opposition and the risk that radical groups like the Al-Nusra Front may gain political relevance in a post-Assad scenario. Furthermore, divisions within the Sunni camp over the MB issue – with Turkey and Qatar on MB's side, while the Egyptian interim government, Saudi Arabia and UAE against it—have reinforced the Damascus-Tehran-Hizbullah axis in the short term. A military strike on Syria could further endanger the fragile situation in Egypt.
- *The Egypt-Gulf-link.* The Arab uprisings have taken successive turns over time. The initial revolutionary moment in 2011 included successful regime overthrows—Tunisia, Egypt and Libya—and aborted revolutions in Bahrain and Yemen. It was followed by elections in which the Muslim Brotherhood, in its Tunisian and Egyptian incarnations, successfully captured the revolutions through electoral politics benefiting from Qatari backing and a head-start as the most well organized opposition forces. The Egyptian coup marks a counter-revolutionary moment, in which the pro-stability axis, leveraging the Brotherhood's inability to deliver notably in Egypt, has won the upper hand through the Saudi-Emirati-Kuwaiti backed coup in Egypt and the reassertion of Saudi influence within the Syrian opposition. Some view this third phase as a replacement of Qatari with Saudi dominance, going as far as questioning the political survival of Qatar itself. Rather than a replacement of one by the other, what is more relevant is the convergence between the two following the succession in Qatar. The broader transnational implications of this third counterrevolutionary phase regard the evolution of political Islam. Islamists in and outside the Brotherhood have seen the writing on the wall: Algeria 1991, Palestine 2006, Egypt 2013. Islamists dabbled with democracy, won elections, but were forcibly ousted from power. Hardliners (both within the MB and beyond it amongst Salafist groups) have been vindicated: democracy does not work for them. Best to redirect political strategies elsewhere. What could be the alternatives? In the current state of disarray no clear strategies have emerged yet. But three possible radicalization options may be a return to violence, the sabotaging of domestic political orders through extra-legal means and the withdrawal from politics and return to the social arena.
- *Iran.* Within the broader regional picture, Iran is far less revisionist than the Arab Gulf. Its policies towards Egypt and Syria are telling. Particularly under the current leadership, the strategy is one of seeking inclusion for the sake of political survival. The challenge lies in finding an opportunity for it. Possible options in this respect could revolve around Syria and the chemical weapons regime. Were a CW initiative to take off in the context of the G20 and be

eventually enlarged to other states, including Iran, an opportunity for inclusion could emerge. On this and eventually on the nuclear file, the ultimate objective is a direct US-Iranian engagement. But Europe is the only possible path-breaker towards that end and could create a contact group, eventually inviting the US to join. Saudi Arabia needs to be included in any engagement with Iran, while Russia's eagerness to play a mediating role may also offer some diplomatic opportunities.

THE EUROPEAN RESPONSE

The European hunch is that a democratic—let alone peaceful—outcome is unlikely to blossom from an undemocratic process marked by repression and violence. This assumption underpinned EU Special Representative Leon Gros' heroic—but perhaps belated – reconciliation effort in the summer. That effort has failed. Neither side—nor particularly the military—is currently interested in reconciliation. Their calculation seems to be that violent repression holds the double promise of weakening the MB (by eliminating its leadership and casting the organization in a state of disarray) and inciting a manageable level of Brotherhood violent backlash that would raise the military's domestic and, above all, international support (i.e. triggering a "we told you so" effect). Mediating reconciliation, while preferable, does not appear to be a viable option. The alternative is to engage in the Egyptian transition on its own terms: engaging with the military-led roadmap. The roadmap is essentially a timeline. This may be problematic in its own right—e.g. is it reasonable to expect a constitution that marks a meaningful improvement from its 1971 and 2012 precedents to be drawn up in a few months? But above all, it is a roadmap bereft of substance. The roadmap tells us when a constitution should be drawn up by and when elections should be held. But it is silent on the actual content of how these defining political acts would take place and what the rules of the game would be. Engaging in the military-led transition—as the only viable second best option at the moment—would thus mean adding the meat onto the roadmap's skeleton: the principles and benchmarks, i.e. the constitution and the institutional setting, that may reduce the prospects for what is currently an undemocratic process to predictably end up in an undemocratic outcome.

HOW TO ENGAGE IN THE EGYPTIAN ROADMAP?

- *Negative conditionality*. The EU flirted momentarily with the idea of punishing the Egyptian regime by withdrawing the benefits already delivered to it. Talk of suspending the association agreement was aired immediately after the crackdown. The idea of sanctioning Egypt was rather rapidly dismissed. Not only was the association agreement negotiated and signed with the Mubarak regime, of which the current regime is to all extents and purposes a continuation. But also sanctioning Egypt would risk alienating Egypt in its current hyper-nationalistic mood, would run counter to European trade interests, and would be in stark contrast with any engagement strategy. However, in light of the current crackdown, business as usual risks undermining the EU's credibility: the proverbial barking dog that never bites.

- *Positive conditionality*. The compromise consensus is that of withholding the additional benefits promised to post-2011 Egypt in the context of the "more for more" revision of the European Neighborhood Policy. Concretely, we're talking of the withholding of an additional €800 million, and the eventual withholding of the next financial package covering 2014-2017 (approximately €900 million for the three year period). Cynics are quick to point out the irrelevance of EU assistance when compared to the $1.3 billion of US military assistance, let alone the $12 billion Saudi-Emirati-Kuwaiti aid package. But numbers do not amount to the full picture. No less important is the quality of assistance, its actual implementation (if possible in coordination with the US to strengthen the leverage of both actors) as well as its political significance. Beyond political rhetoric, relations with Europe may be valued at a time in which American credibility is dismally low amongst all Egyptian groups, and the Egyptian military and business elites may not want to put all their eggs in the Saudi/Emirati/Kuwaiti basket). Limited as the EU's influence may be, conditioning the more for more offer to a series of benchmarks and principles for the Egyptian roadmap, especially in the field of constitution and institution building, seems to be the only possible way forward. The Egyptian transition will be led primarily by domestic actors but through its conditional engagement and standard-setting role the EU can aspire to strengthen the bargaining hand of liberals in and out of the cabinet, as well as induce them to espouse the need for broader political participation (and hence, reconciliation with the MB).

The BRICS: What Contribution Do They Give to Global Governance?

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Global governance is entering uncharted territory because of the conflation of three variables. First, the progressive erosion of the hegemonic position of incumbent powers, namely the United States and European countries, which have by and large shaped the normative parameters and institutional foundations of multilateral cooperation. Second, the fact that a range of large or very large powers with different conceptions of the global order not only co-exist but are also bound by ever deepening interdependence, and associated vulnerabilities. Besides, the global stage is witnessing a proliferation of influential non-state actors that bring ideas and resources but also create challenges of coherence and coordination of separate initiatives and agendas. Third, the issues that collective action is supposed to manage are a moving target, requiring institutional flexibility in response. They take different shapes depending on their multiple interconnections, such as the many potential implications of climate change for food security, energy security, human development and refugees or migrant flows, among other matters.

In this challenging context, the distinction between advanced and emerging countries or incumbent and rising powers is surely relevant, but should be put in perspective when it comes to contributing to global governance. In general terms, all major state actors share three features. First, they have an interest in the preservation of a functioning and open international system, upon which their prosperity and security are predicated. Second, they are tentatively seeking to position themselves in a changing political and governance landscape by debating institutional reforms, testing different partnerships, forming coalitions, and experimenting with light governance mechanisms such as the mutual assessment of respective policies. Third, most if not all large powers are actually rather fragile ones, bent on addressing serious domestic problems which, in turn, delimit their political investment, bargaining space, and resources available for multilateral negotiations and collective action. Of these resources, perhaps the scarcest is trust in respective motivations and designs. Confidence-building will be a strategic enabler of global governance.

What the BRICS countries seem to have in common is little trust in the current shape of the global order, which they perceive as skewed to the advantage of 'the West.' This is, in part, a heritage of their (diverse) historical experiences, in part, a rhetorical argument and, in part, the result of the actual discrepancy between their respective positions in international institutions and the changing distribution of power and influence in the international system. The BRICS also share an emphasis on the prerogatives of sovereignty and the principle of non-interference in domestic affairs. What is distinctive about this position is not so much the importance attached to national agenda-setting autonomy and national interests, but the defensive and sometimes even resentful tone of their discourse. To some extent, this is also a manifestation of the deeper unease of the BRICS, and notably China, with the prospect to overcome differences through common principles and rules, as the Europeans tend to favour, as opposed to recognising and simply managing diversity, whether of political systems or economic models.

Given these premises, it is noteworthy that the BRICS have pursued a strategy of insertion in the international order and not of diversion from it. Assessing their contribution to global governance requires not only taking stock of current affairs, but also turning to the not so distant past. While Russia is a case of its own as it seeks to recover its great power status, since the end of the Cold War the pattern of the so-called BICS has been one of progressive engagement in the multilateral system and of relative convergence, from trade rules to cooperation on trans-national threats.

The BRICS are often regarded as revisionist powers bent to challenge current norms and regimes, with advanced countries keen on preserving the status quo and their related privileges. In fact, this assessment needs nuancing. The BRICS do question the current arrangements in international financial institutions and in the United Nations Security Council (UNSC) as well as, for example, the role of the US dollar in the international monetary system. However, they take a largely conservative approach to other aspects of governance innovation, including stronger verification procedures under the climate change or non-proliferation regimes, new deals with considerable distributional implications such as on CO2 emissions' reduction targets and emerging norms such as the responsibility to protect (R2P). In short, the BRICS could be defined as selectively reformist. Conversely, incumbent powers are broadly cautious when it comes to reforming multilateral bodies but have proven more entrepreneurial, while not always in agreement, in seeking to update some of the norms and frameworks for cooperation, from the International Criminal Court (ICC) to the Nuclear Security Summit (NSS). Besides, they have sought to actively co-opt the BRICS not only by launching the G20 at leaders' level, but also by deepening engagement through the Organisation for Economic Cooperation and Development (OECD).

Surely, the fact that the BRICS have so far chosen to operate broadly within the system and not out of it does not mean that this will be the case in the future. Besides, their growing prominence in global bodies and inclusion in the top clubs, from the new Quad to the G20, is one of the reasons why multilateral decision-making has become harder. There are more players and less like-mindedness, or familiarity, among them. However, this is not a transient phenomenon: the alternative to co-shaping global governance among un-likeminded partners through mutual adjustment, and concessions, is probably the sidelining or demise of the multilateral order.

The question is whether negotiations will produce new shared agendas, or parallel and competing ones. This applies for example to development issues and related institutions. So-called new donors such as China, India and Brazil have not subscribed to OECD DAC rules and conditionality, and have emphasised the importance of kick-starting growth through developing infrastructure or offering better terms for trade to less developed countries. While the G20 has launched a working group on development with a view to working out new approaches, the BRICS have announced the establishment of a BRICS development bank. The project remains rather vaguely defined. Much remains to be decided concerning its capital and scope for intervention and whether it goes beyond the BRICS countries or not. While presented as a supplement to the efforts of other organisations such as the World Bank (WB), there is a risk that the envisaged BRICS development bank becomes an instance of competing multilateralism over time. Like this project, the establishment of a BRICS financial safety net by pooling $100 billion of foreign currency reserves reveals an ambivalent attitude by the BRICS towards the WB and the International Monetary Fund (IMF). For one, these countries aim to lock their enhanced influence within these institutions. For another, they remain uncomfortable with their ways and norms, and perceived political bias, and they take (so far very small) steps towards creating alternative platforms for cooperation.

And yet, at a time of prolonged economic crisis in many advanced countries, the growing resources of the BRICS countries are going to be in increasing demand, whether for development finance or to strengthen the lending instruments of the IMF. This also applies to the contribution of the BRICS to international security. The BRICS stress the centrality of the UN system in this domain, notably concerning the UNSC authorisation for the legitimate use of force. While India has always been a major contributor to peacekeeping operations, China, Brazil and South Africa have expanded their personnel serving in UN missions. In 2012, India deployed over 8,000 troops and police with the UN, Brazil almost 2,500, and China and South Africa in the range of 2,000. These may not be major contributions but signal a new engagement, which is also part of the case that countries like Brazil and South Africa are building to acquire permanent membership of the UNSC. In financial terms, however, the contribution of the BRICS to the UN peacekeeping budget (aside from China with 4% and Russia with 2%) is very small (around 0.3% for Brazil, 0.1% for India and 0.07% for South Africa).

Issues related to so-called humanitarian interventions have, of course, proven very controversial, and not only along a 'West vs. the rest' divide. While South Africa voted in favour of UNSC resolution 1973 on the use of force in Libya, the other BRICS abstained (thereby enabling the adoption of the resolution) and all of them forcefully complained following the implementation of the NATO military campaign. Russia and China are opposing the prospect of military intervention in Syria. The application of the principle of responsibility to protect is one of the most divisive issues on the international agenda, as it touches upon the use of force and national sovereignty. On the other hand, the BRICS are not outright opposed to the use of force to protect civilian populations, as the adoption of UNSC resolution 1975 on Ivory Coast in 2011 showed. The Brazilian initiative to complement the R2P framework with guidelines on the 'responsibility while protecting' has received an overall cold reception from the US and European countries, and has not gained the support of fellow BRICS either, with the exception of South Africa. However, it represents an interesting attempt to promote a debate to bridge normative gaps.

With a view to the future, it is unclear whether the BRICS will cement into a coherent platform for international cooperation. And whether that would contribute to the current global order or detract from it. The extent to which existing institutions will be reformed, making more space for emerging powers, will be an important variable in this context, as it would remove one of the major claims binding the BRICS together. As such, however, enhancing the position of BRICS in top decision-making bodies would not ensure a convergence of their agendas with those of incumbent powers. Rather, it could be the growing global reach of countries such as China, India and Brazil—and their consequent exposure to instability and risks—that might create scope for more collective action in dealing with, for example, fragile states or threats like piracy and illicit trafficking. For example, China and India are set to become the largest importers of oil from the Middle East in the coming years.

Yet another important variable concerns convergence or divergence within the BRICS group itself. Given their diverse political regimes, threat perceptions (let alone geopolitical rivalry between India and China) and economic prospects, the interests of each country within the BRICS group are likely to align differently depending on the issues at stake. That has already been largely the case, for example in the context of the G20 on currency issues. Some of the BRICS, in particular Brazil, are for their part building a niche role as mediators between different agendas, for example in the field of climate change. Overall, it seems unlikely that the BRICS will become a bloc. Instead, it is probable that the respective contribution of these countries to governance mechanisms, including shaping new ones, will grow selectively. This contribution would be driven by their national priorities and having to increasingly depend on the resilience of the international system.

The BRICS: What Contribution Do They Make to Global Governance?

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BRICS OBJECTIVES

South Africa hosted the fifth BRICS summit in March 2013. This was an opportunity for the newest member of this group to cement its role in the political club of emerging economies that includes Brazil, Russia, India and China as well. Economically, South Africa is not a BRIC. But Goldman Sachs or Jim O' Neill's famous marketing brand does not apply to the world of economic diplomacy, with its strong political undertones. Politically, South Africa punches far above its weight in various global governance forums, from the WTO, to the UNFCCC and the G20. Cooperation in these forums and engagement in global governance issues more broadly is taken to be the raison d'être for BRICS.

Beyond the bilateral relationships between China and the other members of the BRICS, there are limited commercial ties that bring the countries together. There is also no common geography like those that link other regional based groupings. The primary goal of the BRICS is to ensure stronger representation of the views of developing countries in global governance structures in line with the growing importance of these economies. There is no doubt that the BRICS matter—the group accounts for 40 percent of the world's population, 25 percent of its landmass, 20 percent of GDP and over 40 percent of global foreign exchange reserves. It provides an important counter-point to the traditional western powers.

DIVERSITY VS. COMMON AGENDA

The group is a diverse one with different interests and therefore it will take some time to define a common agenda that goes beyond generalities. In the short- to medium-term the focus is likely to be on mutual learning between the members. Any external agenda of the BRICS needs to be strongly rooted in the common problems of the members including high levels of inequality and large numbers of people living in poverty.

Despite some of these overarching common socio-economic challenges, the BRICS individually have divergent economic and political interests. Those differences are probably sharpest in the political terrain, especially the relationship of each state to its citizens. This 'democracy question' sharply distinguishes the BRICS from its main counter-poise in the global environment, the countries that constitute the G7. That western formation does share democratic credentials and broadly liberal philosophies, which lends the group a degree of coherence not available to the BRICS for the foreseeable future.

However, democracy is not at the core of economic diplomacy; the cold calculus of economic interest is. Here different economic interests amongst the BRICS will constrain, perhaps sharply, the possibilities for coordinated action amongst them. Therefore it will take time to build a minimum common agenda, much as it took the G7 decades to achieve relative coherence. It can be expected that there will be significant time and resources spent on the internal agenda of the BRICS in the short to medium term. This 'getting to know you' phase or courtship is important and will pay its own dividends with a greater understanding possible among these important countries on a wide range of political, economic and social issues.

MUTUAL LEARNING

In order to build this agenda, it is critical for the BRICS countries to engage in mutual learning. Three components currently seem particularly relevant. First, they must engage substantively on their varying approaches to economic development, and specifically the balance accorded to markets versus the state. Each country can learn lessons, particularly about the challenges of implementing market reforms and balancing economic development priorities. And at the same time they could figure out what they can cooperate on internationally, and what they are going to be best placed to pursued unilaterally or at a bilateral level.

Second, they need to adopt a strong trade facilitation focus. There is much mutual interest in their respective business communities in using the leverage afforded by the forum to cut trade and investment deals. The BRICS discussion should focus on the nitty-gritty of trade and investment barriers that inhibit business ties amongst them, whilst raising mutual awareness in each other's business communities of the opportunities. This is particularly the case if the linkages between the BRICS are to move beyond simply a hub and spoke pattern with China at the center and limited activity among the other members. However, this trade agenda should not extend to negotiating a formal, tariff reducing trade agreement. That would be a major distraction from focusing on the barriers that matter and which are relatively easy to deal with, such as visas or customs procedures.

Third, they should continue to deepen their discussions about financial cooperation, such as using each other's currencies in trade settlement and linking their stock exchanges where it makes sense to do so. This connects strongly to the trade and investment facilitation agenda. Some progress has already been made but the test now is to see implementation of agreements that have been signed.

EXTERNAL AGENDA

The BRICS external agenda should remain firmly focused on global economic governance. The process of mutual learning will greatly help to delimit the comparative advantage of the BRICS process in relation to other possible alliances designed to influence global economic governance. An analysis of the BRICS declarations made to date demonstrates that there is extremely broad coverage of issues and many mentions of global governance matters and institutions. The United Nations is the most widely referred to global institution in BRICS statements. This is in line with one of the initial BRICS priorities being Security Council reform and reflects the importance placed on multilateralism by members of the BRICS.

BRICS priorities are showing signs of shifting to include global economic governance fora such as the G20, WTO and Bretton Woods institutions. The BRICS Finance Ministers have been an active part of the group and their engagement has shown the potential for concrete outcomes, including the work underway to establish a BRICS Development Bank and the contingent reserve arrangement that was agreed to at the Durban Summit in March 2013. BRICS Finance Ministers now regularly caucus in the margins of the World Bank, IMF and G20 meetings. There have not yet been significant examples of common positions emerging from such interactions but there is some value in information sharing that will contribute to the momentum behind the BRICS.

The potential benefits of stronger BRICS engagement on global governance issues include:

- Rebalancing the debate and strengthening the involvement of developing countries especially on issues where they have traditionally been rule-takers, such as trade and financial regulation.
- BRICS economies have direct experience of many of the key development challenges of the 21st century, including on an extremely large scale in the cases of India and China. This should allow them to participate in global debates from a position that reflects more broadly the concerns of the developing world.
- Significant resources and capacity are required to actively participate in global governance debates as the agenda seems to be ever expanding and all encompassing. BRICS countries acting as a group have a better chance of being able to follow and influence these discussions. Such a group provides the chance to share information and also the burden of participation.
- BRICS countries are strong proponents of multilateralism and therefore they have indicated that they will continue to provide ideas and positions for mandating by relevant institutions where appropriate.

It goes without saying that there are significant challenges to realizing this potential. There are those that need to be overcome by all kinds of diplomatic clubs and some which are inherent within the BRICS structure. They include finding a balance between pursuing national interests and common objectives—in other words, overcoming diversity of positions in order to develop a shared approach that can inform an external agenda. Beyond national concerns, BRICS members also have existing commitments to other coalitions and regional groupings. For example, in the case of South Africa there has been a stated objective to ensure that its membership of BRICS is complementary and supportive of the African development agenda. This is not an easy proposition given the existing levels of engagement by other BRICS members in the African continent.

CONCLUSION

Membership in the BRICS has opened up expanded possibilities for engaging on global governance issues for policymakers in Brazil, Russia, India, China and South Africa. However, it is important that a clear view is maintained of which forums are suited for which purposes. Throwing everything into the BRICS because it has the political potential to take on the G7 may not be the wisest strategy. On some occasions, it may make sense to ally with certain G7 countries if that would advance the individual country's national interest. In other words pragmatism, not ideology, should be the guidepost. The process of mutual learning will greatly help to delimit the comparative advantage of the BRICS process in relation to other possible alliances designed to influence global governance. The BRICS is a collective of individual, huge, countries. Bilateral relations among the members are likely to remain the dominant axis for pursuing interests at least in the short term.

BRICS and Global Economic Governance

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Together, the BRICS account for approximately a quarter of global GDP and 40 percent of the world's population. This makes BRICS a growing influence on global economic governance. However, the recent slowdown of the BRICS' economic growth is leading to fears concerning the sustained growth of emerging markets. Some negative commentary suggests that BRICS is losing its golden color. In my view, what has led to the current embarrassment of BRICS economies are not only their own structural problems, but also some long-term systemic factors and primarily the imbalance of global economic governance. Under the background of international financial crisis, BRICS countries are trying to find way out through cooperation. As member of BRICS, China values its identity as an emerging economy and a developing country by enhancing its contribution to the BRICS and South-South cooperation.

BRICS' WEAK ECONOMIC PERFORMANCE

According to the IMF's World Economic Outlook of July 2013, emerging country growth is expected to be 5 percent in 2013 and about 5½ percent in 2014, and growth in emerging market and developing economies is now expected to evolve at a more moderate pace, some ¼ percentage points slower than in April's Outlook. Forecasts for the remaining BRICS have been revised down as well, by ¼ to ¾ percentage points. In China, growth will average 7¾ percent in 2013-14, ¼ and ½ percentage points lower in 2013 and 2014, respectively, than previously forecast.

As for China, its average growth rate in the past 30 plus years has been around 9.5 percent, while currently it has slowed to around 7 percent. Although 7 percent growth is not exactly slow, it is substantially lower than its historical performance. Due to huge resource demand from China, the deceleration of Chinese economy will decrease its imports, so China's economic slowdown will spill over to its emerging market partners. At the same time, the demand from developed market has decreased, which has influenced emerging countries' exports as a whole.

The reasons for the BRICS' economic slowdown are rather complicated. One of the key reasons stems from developed countries' monetary policies. Central banks in the US, EU, and Japan have been responsible for adopting quantitative easing in last two years and have started withdrawing from "easy money" policies, sparking "global currency wars" and creating "financial turbulence" in emerging markets. Hot money has run away from emerging markets and devalues their currencies in the short term. Thing leads to inflation and to shrinking investment. For example, India and Brazil have recently experienced steep sell-offs in their currencies. In short, global financial stability is at risk as central banks of the US draw back from ultra-easy policies that have flooded the world with cash, because emerging markets lack defenses to prevent potentially huge capital outflows.

BRICS' DISADVANTAGED POSITION IN GLOBAL ECONOMIC GOVERNANCE

With rapid economic growth and increasing middle classes, BRICS nations are on their way to changing the political and economic map of global economic governance. However, the reform of imbalanced global economic governance still lags behind the reality, especially in terms of international economic institutions and international monetary system.

The Bretton Woods regime—the World Bank and International Monetary Fund—have some inherent shortcomings in their design. The decision-making mechanisms in the WB and IMF are unfairly dominated by a few countries. Due to the financial crisis, the World Bank and IMF carried out a number of reforms, but the US still enjoys its hegemonic status. Until today, the voting reform hasn't received legal confirmation from its largest member. In addition, the mechanism for selecting senior managers in these institutions is not transparent and lacks the standard criteria and any measure of bureaucratic process. It is commonly accepted that the president of WB will be an American national, and the same is true of the IMF head being a European.

Concern and doubt over the current international monetary system exist in three main areas: Firstly, the US dollar remains the major international reserve currency, and the diversification of international reserve currencies is a slow process. The US dollar currently makes up 60 percent of all international reserve assets. Secondly, the frequent and large fluctuation in exchange rates of the major international currency, i.e. the US dollar, Euro, Japanese Yen have negative impacts on the world economy, and in emerging countries that endure huge pressure in keeping their exchange rate stable. Thirdly, the speed of international capital flows are becoming faster and more volatile, igniting shocks in emerging market.

Due to the unfair international currency system, emerging markets are vulnerable. So recently the rapid devaluation of the currencies of India, Brazil, Turkey and Indonesia etc. is not a short term problem. They represent a long-term and systemic problem.

BRICS SEEKS TO COOPERATE

Given their position as one of the engines for global growth, BRICS leaders have come together to demand a greater voice on the world stage. Although the five countries represent divergent political and economic systems and are often competing instead of cooperating, they still call for the reform of global economic governance under the framework of BRICS and G20. The five countries have emphasized "continue further expanding and deepening economic, trade and investment cooperation" between one another during past summits.

The final document of the fifth summit in South Africa outlined the importance of cementing the BRICS alliance further and declared, "we aim at progressively developing BRICS into a full-fledged mechanism of current and long-term coordination on a wide range of key issues of the world economy and politics," adding that today's global governance architecture is run by institutions that were established during a different era.

BRICS countries agreed to establish a development bank; however the details need further discussion and coordination. The BRICS Development Bank is aimed to resources for infrastructure and sustainable development projects in emerging economies and developing countries. Establishing the BRICS Development Bank is a concrete step for deeper cooperation among the five countries. The bank will help BRICS countries absorb financial risks and provide support for the development of African countries, in particular. The planned development bank is feasible and would supplement the existing efforts of multilateral and regional financial institutions for global growth and development, and stand for the developing world in their trying to reform the unfair international development aid system.

To reduce dependence on the IMF in a crisis, the five-member group agreed to establish foreign-exchange reserve pool and currency-swap arrangements aimed at ensuring financial stability and dealing with any short-term liquidity problems that might arise. On August 27, Yi Gang, vice president of China's central bank said that the BRICS foreign-exchange reserve pool will launch soon, the size of the reserve pool will be 100 billion US dollar, and that China will contribute the largest share. It is timely measures for BRICS members who face the short-term liquidity problem.

CHINESE ROLE IN BRICS

China acts as an equal and close development partner in BRICS, not only in trade but also in investment, foreign aid, and other broader development areas. China shares common ground with other emerging economies, especially in the pursuit of a new international economic order and the democratization of international relations. China devotes to increase BRICS' collective voice in global economic governance. In China's view, this momentum would democratize international relations by offering developing counties a greater voice. During the fifth BRICS summit, Chinese President Xi Jinping emphasized the importance of global partnerships and urged countries to promote cooperation on issues including the economy, trade, finance, infrastructure building, and people-to-people exchanges. President Xi Jinping said, "no matter how the reform of global governance may unfold, we should always take an active and constructive role in the process and make the international order more just and equitable so as to provide institutional safeguards for world peace and stability."

China values its identity as an emerging economy and a developing country by enhancing its contribution to the BRICS and South-South cooperation. China has become Africa's largest trade partner, and Africa is now China's major import source, second largest overseas construction project contract market, and fourth largest investment destination. In China's view, the poor economic basis and insufficient construction capital have always been the factors limiting the development of African countries. So Chinese government encourages and supports enterprises and financial institutions to increase investment in Africa, striving to improve the quality and level of China-Africa cooperation. According to the white paper on "China-Africa Economic and Trade Cooperation," published on August 29, 2013, Africa has seen a decrease of foreign direct investment since 2009, but an accelerated growth of direct investment from China during this same period. From 2009 to 2012, China's direct investment in Africa increased from $1.44 billion to $2.52 billion, with an annual growth rate of 20.5 percent. Over the same period, China's accumulative direct investment in Africa increased from $9.33 billion to $21.23 billion, 2.3 times the 2009 figure. The rapid growth of China's direct investment in

Africa is indicative of Africa's development potential and investment appeal, and also points to the mutually beneficial nature of China-Africa cooperation.

China wants to play a constructive role in global economic governance. BRICS is an important mechanism for China to participate in global economic governance. But it is still in early stage for BRICS' cooperation compared with the G7. In G20, G7 is a very mature bloc in shaping agendas and regulation making. The BRICS' voice in G20 is rather scattered, mainly stressing some principles while initiating few concrete common policies. For China and its BRICS partners, they should do more to shape international economic agendas and reinforce research cooperation among their think tanks, which is the basis for BRICS engaging in global economic governance.

Future of Global Governance within the Context of EU-Russia Relations: The Geopolitics of Energy Resources

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INTRODUCTION

Global governance is increasingly becoming more challenging than ever before, essentially, on the one hand, because of emerging challenges to the leadership of the Western world, and particularly to the United States and, on the other hand, because of the threats to the sustainability of European leadership. Explained differently, global governance has been largely defined by the West in the last century but that leadership is being threatened by various economic factors, such as energy resources. In this regard, oil and gas not only occupy a critical place in the foreign policy of the EU but also particularly in the relationship between the European Union (EU) and Russia.

For instance, in 2008, seven Member States of the EU (Bulgaria, Estonia, Finland, Latvia, Lithuania, Romania and Slovakia) were dependent on Russian gas supply to the tune of 100 percent. Greece and Hungary depended on Russia to the tune of 84 percent and 81 percent respectively while Austria and Czech Republic accounted for 70 percent and 76 percent. While the percentage of total gas import from Russia for some countries was nil (Cyprus, Denmark, Ireland, Luxembourg, Malta, Netherlands, Portugal, Spain, Sweden and United Kingdom), import of Russian gas by France (23 percent), Italy (36 percent), Germany (57 percent) and Belgium (8 percent) is equally noteworthy. Thus, to a reasonable extent, the EU depends on Russia for gas supply and this dependence has been a major source of political and economic concern.

Since the mid-2000, the question of energy security in Europe has been a top priority among the Member States of the European Union, especially because the international developments in the energy sector had led many Member States to feel threatened. Access to oil and gas in the Middle East is increasingly hampered by the political instability and insecurity in the region. Russia is also stymieing Europe's efforts to erect alternative pipelines that would give it access to oil and gas and reduce its dependency on Moscow. The European Union market-based or liberalization of its energy policy does not guarantee Member States access to oil and gas outside their traditional partners. This situation compels the need for the EU's consideration of combining the liberalization policy with a geopolitical approach, or even resorting exclusively to the geopolitical strategy in order to guarantee its Member States energy security. The choice between these considerations is the focus of this presentation.

Some basic questions are specifically required to be addressed for the purposes of the Conference's Session Five on 'The Geopolitics of Energy: The European Case': what are the primary objectives of the EU's energy security policy? How are changes in the global energy dimension... affecting the EU? Is the EU-Russia energy relationship becoming more or less balanced? Is Europe successfully meeting its climate change goals with renewable energy? Apart from these questions, it is useful to also ask if there can be any good global governance in which Europe will be actively involved without Africa. What really is the place of Africa in the geo-politics of energy?

In addressing these questions, it is useful, grosso modo, to put the analyses not only within the context of the geo-politics of energy in Europe, but also, more interestingly, at the level of the energy relations between Russia and the EU.

GEOPOLITICS OF ENERGY IN EUROPE

One major problem on which the geopolitics of energy in Europe is largely predicated is the fear of the unknown at the level of the attitudinal disposition of Russia towards the EU. True enough, the EU wants to relate with Russia on the basis of its cherished democratic values largely predicated on market-based or liberal principles, with the ultimate objective of ensuring alternative sources of energy supply. However, there is nothing to suggest that the same fear of uncertainties at the level of Russia cannot exist at the level of the new energy sources.

Against this possibility, Europe is confronted with a choice between a market-based approach and a geopolitical approach, or even a combination of both in its energy policy. There are benefits in the market-based liberalization approach to energy security, but Europe may, however, be better off combining the geopolitical approach with the market-based approach to energy problems. The reason is that the geopolitical approach is essential to guarantee the security of Europe's energy supplies pressure, as well as contain likely threats and sanctions from Russia. Energy security is not only assured in this postmodern era with the buyers and sellers market mechanism, but also with the involvement of geopolitics. In any case, the liberalism or market-based approach can only apply to EU partners and cannot assure EU member countries of supplies from non-members; which means that it is a limited option.

So, the geopolitics of energy in Europe is of very significant interest to all European countries, and this concern also includes the threat that Russia poses since the demise of the Soviet Union. It is for the importance of geopolitical considerations that the Russian President Putin described the dissolution of the Soviet Union as "the greatest geopolitical disaster of the (20th) century" and decided that the separation of Abkhazia and South Ossetia from Georgia must be upheld because of Georgia's tilt towards the West.

Thus, as far as the international energy sector is concerned, and particularly the geopolitical calculations, Russia is determined not to let the United States have the entire Georgia with Abkhazia and South Ossetia because an independent Georgia is critical to the international flow of oil. As noted earlier, a pipeline for crude oil now runs from Baku in Azerbaijan, on the Caspian Sea, through Georgia to the Turkish Mediterranean coast. The link provides the West access to the energy resources of Central Asia. [And] if that access is cut, Western Europe would lose its alternative source of energy.

The foregoing is not only an illustration of the strategic importance of geopolitical consideration in the quest of energy, but also why it is important to develop the competence to employ the dual approach of market-based and geopolitical strategy in Europe. As such, the growing competition for global resources is affecting Europe to the extent that it is creating new consciousness about the imperative of employing geopolitical considerations in ensuring the availability and access to energy resources across the globe. Whereas political revolutions and sundry terrorism-related security problems are creating obstacles for Europe's access to oil resources in the major supplier countries in the Middle East (Iraq and Iran for example) and South America (Venezuela for instance), Russia itself has started playing politics with energy resources. Since the second coming of President Putin, Russia, which 'holds around 6 percent of the world's oil and 23 percent of the world's gas reserves,' has demonstrated a willingness to use its energy resources as a political tool in pursuit of sundry interests. This is the reason why Europe needs the dual approach of market-based and geopolitical approaches to energy security.

DEALING WITH THE ISSUES RAISED:

What are the primary objectives of the EU's Energy security policy?

The EU is one of the world's leading importers of oil and gas. The untoward implication which such a high import dependence on external sources of supplies for this critical resource portends was brought to the fore by the oil crisis of 1973 and 1979 and, equally important, by the 2006 Russian-Ukrainian gas disputes. Since then, at the core of the values of the EU foreign and security policy has been the active pursuit of energy security defined by the European Commission as "the ability to ensure that future essential energy needs can be met, both by means of adequate domestic resources worked under economically acceptable conditions or maintained as strategic reserves, and by calling upon accessible and stable external sources supplemented where appropriate by strategic stocks'. Barton et al. elaborated further on some of the key indicators of energy security by suggesting that it is "a condition in which a nation and all, or most of its citizens and businesses, have access to sufficient energy resources at reasonable prices for the foreseeable future free from serious risk of major disruption of service."

Against this backdrop, the primary objectives of the European Union's energy security policy have clearly been to attain:

- Secured energy resource supply chains whilst guaranteeing the least possible likelihood of disruption delivery of network systems;
- The establishment of competitive internal energy markets;
- The development and deployment of innovative technology for the development of alternative as well as renewable energy sources and in the same vein, but pursuant to attaining sustainable levels of energy consumption;
- And the establishment of a very low-carbon economy by 2050.

How are changes in the global energy dimensions – shale gas revolution, growing competition for resources, political revolutions in and problems with supply countries—affecting the EU?

The global energy market is currently in a flux with immense potentials for disruptions given the momentous changes taking place across the broad spectrum of the supply chain, as well as the burgeoning demand from emerging global industrial complexes in China and other Asian countries. The political turmoil occasioned by the Arab Spring has also introduced additional dynamics into the supply equation of major oil suppliers, including Libya, Algeria, Morocco, Tunisia, Egypt and Syria. The face-off between Iran and the West portends even further potential disruptions.

Already the EU's dependence on Africa and the Middle-East and on Russia for oil and gas supplies has been made even more tenuous not only by the unprecedented growth in its own energy demand profile but also by the fact that the increasing liberalization of the global energy sector has simultaneously intensified the extant competition posed to it by other countries and regions of the world.

Consequently, the EU is compelled to re-assess/forge new partnerships with the view to mitigate, if not completely overcome, its vulnerability in the energy sector. From the association with its Mediterranean and new eastern neighbors to the transatlantic cooperation with North America; from its strategic investment drives in emerging financial capitals of the Middle East to the development co-operation arrangements with the African, Caribbean and Pacific (ACP) group of countries (i.e. the Economic Partnership Agreement, EPA), EU energy security policies dovetails the critical reality in these countries in their capacity as key external energy suppliers to Europe.

Rising up to its energy security challenges (i.e. to the challenges of competitiveness, sustainability and cost effectiveness) dictates an increasing resort to EU wide—rather than parallel national—energy schemes. This, in itself, is throwing up external governance challenges for the EU as its energy security policies are thrust into the vortex of complex interdependencies as well as their concomitant institutional praxis.

Global energy changes are also impacting the EU in terms of compelling the revolutionizing of its technology for efficient production and use of renewable energy to meet with its set greenhouse emission reduction goals. This goal—attaining an 80 percent reduction of Greenhouse gas emission by 2050—is now also been actively canvassed and furthered by policies and targets that are deemed congenial to the establishment and sustenance of low carbon economies. These efforts notwithstanding, the realization of this goal is markedly dependent on the vicissitudes of economic growths and geopolitical developments, global energy price levels, market dynamics, the availability of natural resources the development of future technologies, the availability of natural resources, social change and public opinion.

In effect, global energy situations have presented simultaneous conditions of threats (from globalized competition) and opportunities (from wider market spaces) for diverse stake holders in the energy sector of the EU and its constituent states. This is having far reaching socio-economic implications for restructuring the sector at the home front.

In the same vein, energy sector reforms, growing capital investment in the oil and gas industry and the diffusion of shale gas technologies, as on-going beyond the shores of the EU, i.e. in other countries of the world, are also of critical interest to the EU.

Is the EU-Russia Energy Relationship becoming more or less balanced?

The degree of dependence on one another is about 50-50, but it has the potential to become detrimental to the EU in the foreseeable future. Russia actually supplied 55 percent of EU's energy needs in 2008. As projected by the International Energy Agency (IEA), the EU may import 84 percent of its energy needs in 2030. Even though the EU is giving the impression of goodness in regional integration, the EU is increasingly challenged by critical problems of migration. The increasing membership of the EU also implies an increase in consumption of energy resources, and therefore, increases in the degree of dependence on Russia. Besides, the EU demands for Russian energy resources are partly explained by the fact that internal European sources are on the path of depletion.

Another main reason is not only that supply is generally a function of demand in any trade relationship but particularly that the instrument for dependence is constant for both the EU and Russia. This constant factor is the pipeline which is the channel of gas supply. The fear of the unknown can be explained and understood in many ways. For instance, Russia has consciously and abruptly reduced energy supplies to Ukraine and Belarus in the past and the reduction has had adverse effects on the EU. Besides, Russia is not favorably disposed to western influence in Georgia, Abkhazia, and South Ossetia because of the crude oil pipeline running from Baku in Azerbaijan through Georgia to the Turkish Mediterranean coast. In this regard, if there is any disruption of supply, the EU may not have access to the energy resources of Central Asia.

High energy prices and the lack of spare capacity, particularly in the oil market, have made the global economy sensitive to energy disruption. Energy security, in terms of supply and stability of price (two key factors for economic strength and growth in industrialized and industrializing countries), is intertwining with geopolitics and international relations. Therefore, the need to ensure greater energy security and better regulation of energy supplies will turn energy policy into a much more politicized issue, as the energy relationship between the EU and Russia has portrayed. The EU–Russia economic relationship is, in reality, about oil and gas.

The European Union is almost 50 percent dependent on imports for its energy consumption. A large part of its oil and gas imports come from Russia. It is common knowledge that Russia and the European Union have an interdependent relationship in trade, energy and investment; however, it is often a source of tension and of course not balanced, as witnessed in a number of conflicting situations, including several cases of suspension of oil and natural gas deliveries, as well as various embargoes. The EU–Russia relations have remained in bad shape. The most prominent in the main being the misunderstanding arising in the last crises over oil and gas deliveries from Russia to Ukraine which triggered virulent criticism about Russian energy strategies and its abilities at being a safe supplier. Part of the problem of the EU–Russia energy relationship stems from the fact that countries in Europe prefer to deal with Russia on energy under the framework of the Union, instead of as individual countries. It is important to note here that in engaging Russia on energy, the EU does not have a single full fledge energy policy. And as scholars opined, if the EU wants to arrive at a more balanced relationship with Russia, it needs to have a single full-fledged policy on energy with an internal market and an external approach. In fact, Europe should worry less about the exercise of a geopolitical strategy but more about Russia's ability at reforming itself and being the right supplier for Europe's 21st century.

Although, there have been many attempts at reviving this vital relationship as have been noticed at the launch of an energy dialogue, plans to build four 'common spaces,' promises of visa-free travel, or the start of negotiations on a comprehensive new cooperation treaty. For a robust relationship, it is necessary that before the EU attempts yet another re-launch of its Russia policy, it should take stock of what works in favor of its existing relationship and what doesn't.

Is Europe Successfully Meeting its Climate Change Goals with Renewable Energy?

Fighting climate change is a strategic priority for the European Union as it is working hard to substantially cut its green gas emissions and at the same time encouraging other countries and regions to cut emissions too. This is evident as the EU leaders have committed to transform Europe into an energy-efficient, low-carbon economy.

In 2007, Europe's political leaders made another joint commitment in the area of climate policy. During Germany's EU presidency in March 2007, they agreed to an EU Commission proposal dated January 2007 which sets out new climate protection goals for the EU. In January 2008, the European Commission presented a designed framework which is to help coordinate the individual mechanisms of the European climate policy and the 20-20-20 (known as "3x20") targets.

During France's EU presidency in July 2008, energy policy was set as one of the top priorities. The measures comprised commitments by the EU to reduce its total energy consumption by 20 per cent through increased energy efficiency, to reduce its total carbon emissions by 20 per cent and to increase the overall share of renewable energy in total EU energy to 20 per cent. In October 2008, the European Parliament approved the energy and climate policy with its final version agreed on by the European Council at the EU summit in December 2008.

Basically, the main focus is on the future form of the EU emissions trading system. This emission trading system encompasses around 50 percent of all greenhouse gases emitted in the EU. In other sectors like the agriculture or small industrial operators, an overall emissions reduction target of 10 percent by 2020 was also set. For the first time, binding targets for the use of renewable energies were also set. This states that, by 2020, renewable energies must make a 20 percent contribution to electricity and heat production with a parallel 20 percent drop in overall energy consumption. Since Member States have different energy mixes, economic wealth and capacity to act, the framework has also included mechanisms that will ensure a fair distribution of efforts between them. This framework is also complemented by the Energy 2020 Strategy that assesses the challenges and measures which will ensure that a competitive sustainable and secure energy system is in place.
Europe has also made successful efforts in reaching its 20 percent 2009/28/EC Directive on the promotion of the use of energy from renewable sources (referred to "RES Directive") by 2020 with a renewable energy share of 13 percent in 2011. 21 Member States had already met, in 2011, the 2011/2012 interim targets set by the RES Directive with only six Member states needing to make additional efforts. In the renewable electricity sector (RES-E sector), 14 Member States overachieved the 2011 targets they had set in their National Renewable Energy Action Plans (NREAPs), while 13 underachieved them. In the renewable heating and cooling sector (RES-H&C sector), 23 Member States were above their 2011 NREAPs targets and just four Member States underachieved. Renewables in the transport sector (RES-T sector) have seen slower progress than in the former two sectors, with only nine Member States having reached or exceeded their NREAPs 2011 targets, and 18 having underperformed.

The EU is still a pioneer and role model when it comes to climate change and energy policy and is also the driver of international climate protection.

CONCLUDING REFLECTION: FUTURE OF AFRICAN RESOURCES AND GLOBAL GOVERNANCE

Africa remains a critical nexus of the global energy system. With Nigeria in the lead and many other countries that have recently struck oil in commercial quantities (Niger, Ghana for example) joining the league of oil producers, any country or group of countries can ill afford to minimize the significance of the African continent in any energy security calculations. Fortunately, the basis for a robust collaboration between African and EU energy industries already exists, given historic partnership ties under the ACP-EU relations, as well as at other economic and commercial levels. Nigeria and the EU are certainly on the same page in terms of the conviction and commitment to energy sector reforms. As we speak, for example, the people and Government of Nigeria are actively deliberating on a Petroleum Industry Bill (PIB) which will usher in extensive reforms in the Nigerian petroleum industry. EU energy security policies can therefore meaningfully interface with global industry situations as obtained in Nigeria, in particular, and Africa, in general.

Although the combination of the market-based and geopolitical approaches to energy security in Europe is very attractive, this, however, is not to say that the combination of the two approaches is fool-proof. It is far from it. It has a very severe challenge in the division of EU member states into different economic and geopolitical interests that still militate against the acquisition of the competence to adopt the two approaches. In terms of the adoption of these two approaches, therefore, Europe is still an international energy actor in the making, for although the liberalization or market-based approach is a point of convergence between member states, it is still not a sufficient or strong platform for projecting a geopolitics-based energy policy to non-members or outsiders. The implication of the foregoing is that energy security has continued to be a key problem to the EU and its Member States..

More interestingly, estimates in 2003 portrayed Nigeria's recoverable crude oil reserves at 34 billion barrels, which is expected to increase due to additional exploration and appraisal drilling. As it is, over 900 million barrels of crude oil of recoverable reserves have been identified. That said, Nigeria has an estimated 159 trillion cubic feet (Tcf) of proven natural gas reserves, pitting the country as among the top ten natural gas endowed country in the world. However, due to a lack of utilization infrastructure, Nigeria still flares about 40 percent of the natural gas it produces and re-injects 12 percent to enhance oil recovery. According to the World Bank estimates, Nigeria accounts for 12.5 percent of the world's total gas flaring. Although, it was officially pronounced that gas flaring would end by 2008, unfortunately, it has yet to stop. It is important to also observe that, over the years, Nigeria has proven to be among the most investment-friendly nations for International Oil Companies, not only because of the geological configuration of its terrain but for the relative security of investments in the industry, as compared to other parts of the world endowed with oil and gas; e.g. Middle-eastern countries.

As a matter of fact, the above data suggest that, for the EU to find leverage against Russia in oil and gas, it is pertinent and necessary for the EU to court Africa and most specifically Nigeria in its search for alternatives. This alternative cannot but be dual focus, it is either they look for alternatives to fossil fuel or alternative market that will guarantee them access to oil and gas. However, alternative s to fossil fuels remain expensive for the time being. Above all, what is the surety that the alternative will be enough to spread around countries that make-up the EU? What about cost of production, taking into consideration the cost of research and development (R&D)? Invariably, that leaves the EU with no other option than Africa with particular reference to Nigeria and the Gulf of Guinea nations. For the accruing benefit to come to the EU, it is important for the EU to invest in the restructuring and redirection of the industry towards achieving sustainable development of the country. This must also include technology transfer that is of utmost importance to the oil and gas industry, especially which one that will trap gas for export purposes.

The Geopolitics of Energy: The European Case

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It is very often stated that the European Union (EU) will complete its internal market for natural gas and electricity by 2014. It is much less said that the EU will become in 2015 the largest oil importer in the world taking over from the United States. Its gross consumption in terms of oil and gas is now far greater than its domestic production. By 2035, net imports of oil, coal and gas in Europe should have increased by 48 percent. Even if the EU continues to develop renewable energies and promote an international cooperation agenda against climate change, it will be increasingly dependent on its various regional environments and partners to be supplied with requisite energy sources. In addition to that, the global energy demand is projected to increase by more than 30 percent until 2035 – this growth is likely to be driven by China and India. In this context, 'energy can (either) be a powerful vector of cooperation and integration or a major source of conflict' as claimed the EU Commissioner for Energy Gunther Oettinger in 2011. The same year, the EU imported crude oil from Russia (35 percent of the total), Norway (12 percent), and Saudi Arabia (8 percent). The EU also imported natural gas from Russia (30 percent of the total), Norway (28 percent), and Algeria (13 percent). The EU also imported coal from Russia (26 percent of the total), Colombia (24 percent), and the US (18 percent). There are essentially three key countries to EU energy supplies: Russia, Norway, and Algeria. Given its international positioning, Russia plays a very particular game which deserves to be discussed with ramifications for the EU market and Russia's normative and external powers.

BACKGROUND

In 2012, the economic crisis within the EU seriously impacted its energy demand. Annual consumption of gas was 4 percent lower that year than in 2011. Liquid natural gas (LNG) deliveries have continued to drop faster than consumption owing to higher prices on the Asian market (the three largest exporters of LNG to the EU are Qatar, Nigeria, and Algeria). At the same time, EU coal consumption and imports have continued to rise. The EU energy policy suffers from the economic crisis, and consequently the declining competitiveness of the European industry, the consequences of the shale gas boom in the US (US industry has a significant energy price advantage over Europe), and the depression of the EU's Emissions Trading System (ETS). In this context, the recent EU summit dedicated to energy issues in May 2013 has been based on very controversial issues including shale gas development, indigenous resources, and investments in infrastructures and generation capacity. Generally speaking, given the deepness of the crisis, the debate on energy policy will be more and more focused on the tensions between the strong need to improve the EU competitiveness at the global scale and its international ambitions for example on climate change (next UN conference on climate change should take place in Paris in 2015). This recent background would be incomplete without mentioning the geopolitical consequences of the current turmoil in Egypt, and obviously Syria. Added to this, the oil and gas deposits in the Mediterranean Sea from Israel to Cyprus through Lebanon, Turkey and Syria will dramatically impact energy balances at various levels.

In other words, EU policy makers should focus not only on energy policies but also on energy geopolitics which requires a far more long term perspective. Energy geopolitics is very often related to energy security, which is an intrinsically multidimensional notion, as it depends on where one sits. Whereas consumer states such as European ones are mainly interested in securing their supply, producer states are primarily focused on the security of demand from interdependent markets. It is also important to get access to the markets through transit countries. Given its location, the EU strongly insisted on the security dimension of its nascent common energy policy, which is supposed to articulate security of supplies, stable prices and environmental concerns. The finalization of the internal energy market can only be successful if accompanied by significant progress in the external dimension.
In this respect, the EU is facing at least three main political challenges. The first is to overcome the inherent obstacles and to ensure more convergence and coherence between the respective member states' external energy policies. The second is related to the actors. European energy policy regularly seems to be limited to the debate between member states, the Commission, and third countries whereas corporate actors as well as opinions are highly involved. The third challenge is to design the political framework of the relations with both supply and transit countries, to say nothing about rising competitors over energy supplies. This memo will be focused on this very last one.

In fact, a fine attempt at tackling the issue of the sensitive relationship between European energy and foreign policies is needed, not only for the EU but also for its partners and competitors. On the one hand, energy dramatically impacts European economic competitiveness in a context of serious crisis, and therefore its current international positioning. In such circumstances, its power market has been seriously questioned. On the other hand, the EU can use its energy needs to fuel its nascent foreign policy, not only in its neighborhood, but also in its "far abroad." In terms of policy making, the main challenge for EU policy makers is certainly to link different issues and level of analysis in order to map properly (and possibly differently) powers acting.

This brief memo is not aimed at presenting a comprehensive approach by listing all policy issues; it instead intends to draw attention on three points to open discussion:

UNDERSTANDING RUSSIA'S ENERGY POSITIONING

In broad outline, since 1945, Russia (and formerly the USSR) was the only UNSC permanent member which has not been obliged to give political tolerance to authoritarian Middle East regimes to ensure receipt of oil supplies. However, it is worth remembering the Saudi-US joint oil producing policies in the 1980 to dramatically decrease Soviet oil incomes. This is something V. Putin and his team has surely not forgotten. Given its great power background, Russia can neither be compared to Norway nor to Venezuela. Russia's international standing is not at all limited to its energy supplies—the way it is for instance for Saudi Arabia—but spans from its nuclear status to participation to G8 and G20, not to mention UNSC and since 2012 WTO (still out of OECD).

Not surprisingly, when dealing with Russia, EU policy makers above all think of European energy security. The EU's objective of liberalizing its domestic gas and electricity market have in fact clouded their perception of the different actors—Russia first and foremost. Consequently, the policy making debate has been certainly Euro-Atlantic centric and mainly focused on Europe's dependence on Russian gas (especially after the crisis between Russia and Ukraine), on the possible forms of economic—political blackmail made by the Kremlin, the Russian monopolistic control of pipelines between certain energy producers and the European market, and on the injection of corruption into European politics. EU policy making has since a long time a dramatic need to better understand Russia's organization, capacities, and more importantly motivations. Policy making has been for instance mistaken by all the debate from 2005 to 2011 about the so-called 'gas deficit': Russia's very capacity to meet contracted demand at home and abroad has been at the core of the questioning. Looking back, this was not the most relevant question.

Policy issue: Given Russia's importance in the EU energy mix (gas, oil, and coal), there are two ways to formulate the current policy issue depending on where you seat. First, can the EU ensure Energy Security without jeopardizing its relations with Russia? Second, isn't Russia one of the most robust pillars to ensure Energy Security?

GAME CHANGERS FOR AND IN RUSSIA

Outside Russia, the two main game changers have impacted the Russia's energy model on which Putin's power is based. The first one is the declining gas demand from the EU and the CIS. Therefore in 2012, for the first time since 2001, Gazprom has suffered from a significant decrease of its benefits due to a lower demand not only from the EU (-3.6 percent), but also from the CIS (-19.1 percent). The second one is obviously the shale gas revolution in the US. As known, the IEA has predicted a 'global age' for natural gas, which releases much less greenhouse emissions and particulates than oil or coal. Thanks to its shale gas boom, the US could become self-sufficient for its energy consumption, and has started reindustrialization process. So far, at the global level, the US boom has reinforced the three-way division of the global gas markets between North America, Europe, and the Asia-Pacific region (which absorbs 2/3 of globally traded LNG). Apparently, Gazprom is under pressure, and its business model would be directly challenged by this revolution. One question is to know whether Russia would be obliged to move away from lucrative oil-linked gas contracts to lower prices in order to be competitive on specific gas markets. Recently, Russian authorities and Gazprom have persisted on oil-indexed pricing in welcoming the GECF (Gas Exporting Countries Forum) in Moscow in last July. Added to this, the EU Commission launched an antitrust case against Gazprom in September 2012. For Gazprom, it is highly important to secure the European market, and its market dominance in the Central and Eastern Europe countries as its strategic relations with Germany and Italy, not to mention Turkey out of the EU.

Inside Russia, the first game changer has been the merger between Rosneft and TNK-BP in November 2012. Since a few months, Rosneft and Novatek took important steps to consolidate their positions both abroad and within Russia. Both companies have clear ambitions to develop their gas production, and intend to destroy Gazprom's monopoly on gas exportations. To some extent, the real competition is within the Russian system.

Policy issue: EU policymakers' attention will be drawn on the antitrust case launched by the Commission against Gazprom (which is good news for other Russian energy players such as Rosneft or Novatek). However, the key point is to say that Gazprom's strategy will not only be oriented towards Europe, and to foresee possible consequences and adjustments. As stated one Gazprom's high level executive: "Asia with its growing gas demand potential and willingness to buy gas at oil-indexed prices is becoming an increasingly attractive destination for gas producers including Gazprom." EU policy makers should be very careful on this shift, and on the gas relations between Russia and its Asian clients (Japan, and China). Gazprom's strategy does not exist by itself anymore (the analysis should not be focused only on its relationship with the States, and its foreign partners): it will be increasingly related to Rosneft's one.

FSU (FORMER SOVIET UNION) AND TRANSIT COUNTRIES

Within the FSU, Russia has favored bilateral approaches with energy producing and transit countries, amongst which it is still the dominant power. As a result, the FSU space has been considerably fragmented. Likewise, the EU has supported regional integration in every part of the world, except in the post-Soviet space (this approach has been reinforced after the 2004 EU enlargement). The EU—and in different ways the US—has deliberately tried to politically split Russia from former Soviet republics. Launched in May 2009, the Eastern Partnership was supposed to provide a 'specific Eastern dimension' to the European Neighborhood Policy (it was also a way for some member states to balance the Union for the Mediterranean launched in July 2008). Major events have happened since that time: there is no need to insist on the transformative process within states involved in the Union for the Mediterranean, some of them are critical for EU oil and gas supplies.

A development would have deserved more interest from the EU policy makers: the Eurasian Customs Union (ECU) of made Russia, Belarus and Kazakhstan, which acquired institutional coherence and efficiency. In fact, the FSU can also be seen as having been partly maintained, not only through ECU and other regional organizations. The war in Georgia in 2008 marked a turning point. By using military force, Moscow has conspicuously added a military component to its foreign and energy policies. This extra dimension, coming on top of energy investment and infrastructures within the region, may be the bonding agent that maintains the notion of FSU in the foreseeable future, especially if Western countries use military force in other parts of their neighborhood (Libya, Mali—and possibly Syria).
In the current context, a special attention should be paid to two countries: Ukraine and Azerbaijan. Both are related given their different role in EU gas supplies. In April 2010, Ukraine and Russia signed the Kharkiv Agreements (discount gas deliveries against military presence). Whereas Brussels negotiates with Kiev a Deep and Comprehensive Free Trade Area (DCFTA) on conditionality, Moscow emphasizes the benefits of the ECU explaining that a DCFTA would seriously damage Ukraine's economy. Since 2009, there is also a clear strategic choice made by Moscow to decrease its gas transit dependency on Ukraine to get access to the European market: for Gazprom, the operating North Stream and the South Stream project are aimed at developing a transit-diversification policy. From the EU Commission point of view, this debate has been summed up for a while by a project-word: Nabucco. In June 2013, instead of choosing Nabucco, the Shah Deniz consortium favored the TAP (Trans Adriatic Pipeline) for its gas transportation to Europe. The EU continues to negotiate an association agreement (without a DCFTA) with Azerbaijan. In August 2013, Vladimir Putin visited Baku, and energy agreements between SOCAR and Rosneft were announced.

POLICY ISSUE

The forthcoming November 2013 Eastern Partnership summit in Vilnius is challenging. A redesign of EU external policy towards its Eastern neighborhood, as its Mediterranean flank is in deep turmoil. Part of the challenge is to integrate energy supplies into a robust neighborhood policy taking into account the key influence of Russia.

'Relaunching the G20' [Extract]

Mike Callaghan
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THE G20: A POSITIVE START BUT GROWING CRITICISM

The establishment of the Group of Twenty (G20) Leaders' Summits has been a significant development in global economic leadership. This was underlined by the forum's initial response to the global financial crisis. US President Barack Obama described the G20's London Summit in April 2009 as a 'turning point in our pursuit of global economic recovery,' with the G20 leaders agreeing to 'unprecedented steps to restore growth and prevent a crisis like this from happening again.'

Outside observers shared the President's view. In an opinion piece for the Brookings Institution, Colin Bradford and Johannes Linn characterized the London Summit as '...an enormous success in stopping the drop in the global economy, in strengthening the financial and institutional capacity of the international community to address future crises, and in pushing for national and global financial regulation reform.' They even predicted that '...in coming years, the London G-20 Summit will be seen as the most successful summit in history, eclipsing the G8.'

More recently, however, critics have questioned whether the G20 is living up to its role as the premier forum for international economic cooperation. Countries outside the G20 have claimed it lacks legitimacy because it is unrepresentative, despite the fact that G20 members contribute over 80 percent of global economic output. Recent leaders' summits have been described as being little more than talk-shops that have delivered few real outcomes.

Chris Giles, writing in the *Financial Times* on 18 June 2012, in the lead-up to the Los Cabos Summit, charged that 'living up to its billing as the world's premier economic forum was always going to be a challenge for the Group of 20. After a string of failures, the task for the Los Cabos G20 summit is to stop the rot and prevent the organization from becoming irrelevant.' He concluded: 'Despite the hype surrounding the April 2009 London summit, when leaders promised a new global economic order, the reality has been sobering.... It has the right countries around the table, but the sheer size of the G20 prevents spontaneous discussion, participants say. Sterile debates without any chance of agreement by countries to change policies are the order of the day.'

What is more troubling is that public interest in the G20 agenda seems to be diminishing. 'National Perspectives on Global Leadership (NPGL)' is a joint project by CIGI and the Brookings Institution that observes how national publics in G20 countries perceive their leaders at global summits, as seen through local media reporting. Its survey after the 2012 Los Cabos G20 Summit found little or no interest in issues on the formal agenda, such as financial regulatory reform and 'green growth.' What captured greatest public interest were issues that were discussed by leaders in the margins of the Summit, such as the conflict in Syria.

Much of the criticism of the G20 is harsh, and expectations of what it can realistically achieve have been excessive. The G20 has shortcomings, but it is an active forum of international economic consultation at the highest level. In a highly integrated global economy, cooperation and dialogue are essential.

Nevertheless, some of the critics of the G20 have a point. Real leadership will be required from within the forum for it to realize its full potential. To date, the G20 has evolved in line with the ambitions and processes of the countries that chair it each year. The agenda has largely become cumulative. If this approach continues, the danger is that the forum will become weighed down by procedural baggage and an expanding agenda, and will lose what has been the key ingredient to its success so far—the direct involvement of the leaders and ministers of member states in dealing with the main challenges confronting the global economy. The G20 needs strategic direction and broad agreement as to its objectives, structure and processes.

As an open, trading economy, it is vital for Australia that the G20 lives up to its potential and contributes to a stronger and more stable global economic environment. As a member of the G20 Troika in 2013—comprising the past, present, and future chairs of the forum—and as chair of the forum in 2014, Australia is in a position to help make that happen. One of Australia's goals as chair of the G20 in 2014 should be to put in place arrangements that will help ensure that, as the forum develops, it will remain focused and effective.

TO BE EFFECTIVE THE G20 HAS TO BE FOCUSED

The G20 has achieved a great deal. There is now a much closer dialogue between emerging-market and developed countries than existed prior to the crisis. The Framework for Strong Sustainable and Balanced Growth is an historic exercise in mutual surveillance, in contrast to what was often perceived as external surveillance by international bodies like the IMF. The G20 has helped reduce policy tensions between countries. It has contributed to positive policy developments in major emerging markets, such as China's moves towards greater exchange rate flexibility and its efforts to boost domestic demand. The G20 has helped drive a major effort to strengthen the regulatory framework for the financial system through the work of the Financial Stability Board. It has also generated significant governance reforms in the World Bank and the IMF.

But while these achievements should be acknowledged, issues relating to the effectiveness of the G20 must be confronted. The forum needs to build on what has worked, and avoid what has not. For this to happen, there has to be recognition by all G20 members that change is required.

The G20 must maintain its focus and not lose its inherent strength, namely the engagement of leaders. But to achieve this there needs to be a circuit-breaker to move beyond the current approach whereby each year's chair builds on the agenda and processes of their predecessors. Without a break with the past, the G20 will be left with an ever-expanding agenda and procedures that will undermine the effectiveness and credibility of the forum.

To prepare ground for change the following approach should be pursued: Start the conversation about change within the Troika in 2013: the Russian chair is already seeking to focus the agenda and improve

the processes of the forum, and this should be fully supported. But there should also be a broader discussion within the Troika about the need for a fundamental overhaul of the G20 processes.
Hold a high-level seminar: Australia, as 2014 chair, should convene a high-level evaluation seminar at the end of 2013 to discuss how G20 processes could be made more effective. It should be more than a talk-shop. There should be a pragmatic discussion on specific changes that would enhance the effectiveness of the G20. The seminar could be held back-to-back with the first Sherpa's' meeting under the Australian chair in December 2013.

Drawing on the outcomes from the seminar, Australia, as chair, should prepare specific proposals for what could be termed the 'relaunch' of the G20 in 2014 in order to reform its procedures and agenda. These proposals should be discussed at meetings of G20 finance deputies and Sherpas. The proposed changes could then be discussed at the first meeting of G20 finance ministers and central bank governors in 2014, and agreed changes adopted for the 2014 leaders' summit. In particular, Australia should make changes to the way the leaders' agenda is decided and progressed in 2014 and establish this as a precedent for subsequent years. The goal should be to keep the G20 leaders focused on the key issues, maximize their involvement in areas where they can make a difference, and ensure that the messages coming from their summits are clearly communicated.

A multi-tracked approach: rather than leaders attempting, or pretending, to cover all items on the G20 agenda, a focused leaders' agenda should be adopted alongside a single leaders' declaration or communiqué. Much of the current work within the G20 could continue at the official level and in consultation with the international organizations. The outcome of this work would be reported on a dedicated G20 website, rather than being part of the leaders' communiqué from each year's summit. The meetings of finance ministers and central bank governors should also be more focused and strategic, which would be reflected in shorter and more targeted communiqués so that the key messages are not lost.

Leaders' and ministers'/ governors' meetings should be as interactive as possible: lengthy presentations by international organizations or status reports on work programs should be eliminated. These matters should be covered in documents tabled in advance of the meetings. The practice of having many 'lead speakers' for each agenda item should be dropped. Formal set-piece interventions should be discouraged. The chair of the meeting should ensure that the discussions are focused on achieving an 'outcome.'

The measure of success for drafting leaders' and ministers' communiqués should not be a text that avoids all contentious issues: the objective of officials should always be to facilitate a meaningful discussion between leaders, ministers, and central bank governors. That means officials should focus on identifying the critical roadblocks that need to be discussed by leaders and ministers. The chair of the leaders' and various ministerial meetings should be encouraging debate, and hopefully resolution, on the areas of difference.

Keep the focus on the economy: given the considerable uncertainties confronting the global economy, the focus of the G20 leaders' and ministerial processes should remain on the economy. If the G20 is really to be the premier forum for international economic cooperation, its main focus must be on helping to stabilize the global economy and achieving sustainable economic and jobs growth. It must not be distracted and should be flexible in responding to changes in global economic conditions.

The Framework for Strong Sustainable and Balanced Growth and the MAP should be central to the G20's agenda and narrative: the Framework provides a pathway for moving to a post-crisis world that is characterized by strong, more sustainable and more balanced economic growth. It should be the mechanism that is used to respond to all vulnerabilities confronting the global economy and is flexible enough to respond to the unexpected. It should also be central to the G20's public narrative, used to demonstrate that the objectives and policy measures or member states are consistent.

The risk, however, is that the Framework and the MAP will degenerate into a routine, procedural exercise for technocrats. To avoid this happening, finance ministers and central bank governors should consider ways to strengthen the MAP. These would include: ensuring that there are common goals and the need for complementary policy action; fostering an active debate between leaders, ministers and governors on key areas of dispute; keeping the Framework member-led while fully utilizing the assessments undertaken by the international organizations of members' policy performance in order to enhance accountability; focusing more extensively on the 'up-side' scenarios presented by the IMF staff; and recognizing the need to balance short-term policy imperatives with desirable medium-term actions.

CONCLUSION

Many observers of, and participants in, the G20 agree that an ever-expanding agenda is damaging the effectiveness of the forum and that it is being weighed down by a growing amount of procedural baggage. The G20 must maintain its focus, but to do so there must be a distinct break with the procedures of the past. G20 members have to collectively agree that the forum will not simply follow established practices and will in future do things differently. In this regard it will be important to learn from the history of the forum and retain what has worked, and dispense with what has not. This is a challenge Australia should take up when it chairs the G20 in 2014.

In particular, the G20 needs to build on its key strength, namely its ability to bring together the leaders of the world's most important economies to confront key global economic challenges. This means taking steps to ensure that the interest and engagement of G20 leaders is retained, including by ensuring that their agenda is focused only on the most important and unresolved issues. Moreover, given the uncertainty and fragility of the global economic environment, the highest priority of the G20 should be on restoring sustainable growth. This will continue to be the key measure of the forum's credibility and its ability to realize its potential for global economic leadership.

In Search of a Sustainable Future for the G20: Disciplined Process, Realistic Expectations, New Measures of Success

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There appears to be a general sense of disillusionment about the Group of Twenty (G20) as an effective global governance mechanism. Disappointment typically stems from the incongruent expectations and performance. Therefore, thinking constructively about the G20 requires a critical evaluation of expectations together with an assessment of the efficacy of actual G20 processes.

The G20 is a platform that brings together national leaders, driven by national political concerns and national interests, to agree jointly on responses to global challenges. The member nations are quite diverse in their wealth levels, political culture, population and economic size as well social psychology. Given these conditions, divergence of national priorities is almost inevitable. The divergence ranges from fundamental economic priorities to the style of political leadership.

At a fundamental level, the developed nations in the G20 are primarily concerned about maintaining the prosperity level and standard of living of their citizens, whereas most developing nations are focused on sustaining their remarkable growth rates. "Maintaining wealth" and "catching up" usually lead to very distinct policy priorities. This rift underpins diverging outlooks on many global issues including financial regulation, rebalancing, monetary policy spillovers, climate change etc.

There are fault lines at a more artificial level as well. Some leaders may view the G20 as an opportunity to promote their national standing or even to air their moralistic outlook on global issues with a limited concern for actual results whereas others may measure their success predominantly by the joint actions of the G20. This divergence between a preference for grand standing and actual results may even exist between political leaders and bureaucrats and experts in their own country.

At another level, some nations try to protect their privileges associated with other smaller groups such as G8, BRICS, and UNSC at the expense of limiting the G20 mechanism and agenda. On the other hand, those left out of these smaller groups may have an incentive to distinguish themselves by working on the legitimacy gap of the G20 and position themselves as the proxy representative of those nations not in the G20. That implies an incentive to broaden the G20 agenda to appeal to non-members.

Given these and other structural divergences, it is important to set expectations realistically. It is equally important to design the G20 processes creatively in recognition of these fault lines and with a view to bridging them over time as the context evolves. Otherwise, disillusionment with the G20 may be unavoidable.

With this context in mind, there may be different approaches to making the G20 more effective. To the extent that one believes in the dominance of common global interests over myriad fault lines, procedural remedies and improvements will be the more relevant approach to enhance G20 effectiveness. If, on the other hand, fault lines are viewed as a fundamental barrier to consensus and joint action, other innovations would be necessary. These approaches are not mutually exclusive and may require concurrent experimentation by G20 Presidencies. The following outline some ideas for experimentation, starting from a premise of "strong common purpose" and moving to a more skeptic view of "shifting fault lines."

STRICT PROCESS MIGHT DISCIPLINE G20:

One could argue that the fault lines among the members are not deep and that the interdependence especially in global economics and finance can anchor an effective G20 process.

Such a premise would justify a belief in the viability of achieving consensus by streamlining G20 processes.

First, the agenda could be strictly and narrowly shaped around the Framework of "strong, sustainable and balanced global growth." The Presidencies would be required to link any new agenda items to this core domain of interdependence. The current agenda accumulation problem can be further curtailed by introducing clear sunset conditions to each new proposed item. Also, the Troika can be used more effectively to achieve continuity rather than allowing expansion of the agenda with each Presidency.

Second, agenda items may be formulated to include concrete policy alternatives (mobilization of funds, institutional mandates, launching new institutional mechanisms, dictating harmonization of domestic policy actions etc.) built on extensive preparatory work. Furthermore, the joint decision process of G20 countries can be streamlined by assigning the negotiation process to different levels of the political hierarchy. The leaders would be discussing only the key issues and groupings of ministers would take on the responsibility for negotiating other agenda items.

Finally, although there are no formal mechanisms to force members to abide by agreed norms, transparency and peer review of progress may be used as instruments of soft pressure. Similarly, international organizations may be given stronger mandates to coordinate and implement policy action at different levels of policy-making.

BROADER G20 AGENDA MAY BE WELCOME AS THE BASIS FOR A "GRAND BARGAIN":

The usual assumption is that as the G20 agenda broadens, effectiveness is diminished. However, from a more skeptical vantage point, a broader agenda may be the only way to achieve a "grand bargain" in the context of so many fault lines and divergent priorities in the G20.

Furthermore, the desire to constrain agenda creep may simply be unrealistic as each Presidency has the incentive to leave its mark by formulating or reformulating the agenda. Although some Presidencies may be more disciplined in focusing on the core, the general trend appears to be in the opposite direction.

As indicated before, the policy rift between advanced economies and advancing economies is fundamental with implications for almost every policy domain. Confronting that divergence directly by, for example, forcing a rapid currency adjustment or constraining national monetary policy is likely to be futile and counterproductive. Instead, it may be more productive to bring in global trade, energy issues and even intellectual property concerns to allow for a "grand bargain" in negotiating what is essentially an allocation of future global growth prospects and job opportunities.

However, it would be important to keep these agenda items as part of a whole rather than compartmentalizing them because the appeal of this high-risk (in terms of efficacy) G20 approach lies in the ability to get results by balancing various interests in one ambitious policy agreement.

G-20 POLICY OUTPUTS MAY BE ALLOWED OR EVEN ENCOURAGED TO INCLUDE "CONTINGENCY PLANS":

Most G20 observers appear to measure the G20's success by joint action which in itself may be a limiting approach that inevitably makes the G20 an ongoing disappointment. It may be wiser to reformulate and broaden expectations that will both allow for a more positive assessment of the G20 process and also guide it to joint action over the longer run.

Specifically, it may be possible to focus the attention of G20 governments and avoid the existing faultlines by targeting contingencies of global significance. Experience indicates that consensus is achieved most effectively when crises occur. Rather than waiting for crises, anticipating and preempting them by agreeing on well-defined trigger thresholds for action may prove to be a useful methodology to achieve consensus among G20 countries.

Disruptions to fossil fuel flows, rapid shifts in climate, food and water shortages, building up of global financial tensions are all contingencies with global impact and will certainly receive the attention of G20 members. However, action in the absence of an actual crisis may be elusive.

However, it may be possible to agree on threshold measures that will trigger pre-committed joint action. To the extent that these crisis thresholds appear to be not imminent, members' aversion to constraining their policy flexibility is likely to be overcome by moral and even political considerations.

This would at least limit and set the boundary conditions of global rivalries and non-cooperation. Once these mechanisms are established, it would be possible to tighten the thresholds in future G20 meetings.

When joint action appears elusive, it may be better to reformulate expectations and introduce goals that may, not immediately but gradually, guide the G20 to joint action in the future.

IN THE LONGER RUN, MOBILIZING NATIONAL PUBLIC OPINIONS ON GLOBAL ISSUES IS THE MOST ROBUST APPROACH TO AN EFFECTIVE G-20

As national leaders are accountable to the public in their respective countries, their decisions on global issues are unavoidably shaped by the national impact of those policies.

If one is deeply skeptical about the prospects of any substantive G20 action in this context of divergent national public demands, then the most promising long run solution is to build popular understanding of and support for the pressing global issues.

A possible and technical dimension of such an effort may be to devise and promote metrics that reflect global trends and interdependencies. Almost all current national policy debates revolve around and are conditioned by national metrics of growth, jobs, inflation, risks etc. It would be a relatively easy technical task to develop and promote global metrics that may gradually lead to te emergence of convergent understanding of global problem across nations.

Although building popular support may have no immediate use for current G20 effectiveness, it should be an ongoing element of every Presidency's agenda.

CONCLUSION

Effective global governance is a core long-term challenge and is likely to become more so as the global interdependencies increase. G20 is among the few mechanisms that are available to address this need. It is critical to think broadly and creatively about the bottlenecks and the possible remedies. Defining our expectations of success narrowly will almost certainly lead to frustration and the gradual loss of confidence in the G20 platform.

It is certainly necessary to streamline paths for immediate joint action where possible but it is equally critical to invest in a broader set of G20 processes and measures of progress in global governance. Exclusive focus on immediate action may come at the expense of losing a platform that may prove its worth in the longer run.

Does the G20 Have a Future?

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In spite of the seven Group of Twenty (G20) leader summits held so far since 2008, it is premature to draw definitive conclusions about the future of the G20, which has yet to graduate fully from a crisis-response body to an agenda setting global steering committee, and from solving short-term financial disequilibria to establishing global economic governance. The main task for the G20, the self-appointed premier forum for international economic cooperation, continues to be the adoption of medium and long-term financial regulatory reforms to mitigate the world's worst economic crisis since the Great Depression and to stimulate renewed global economic growth.

The impact of the G20 on the management of global financial affairs has been relatively positive and significant, yet up to now insufficient to prime the world's main economic engines to regenerate real growth. Although the G20 could do considerably more regarding the international economy, the financial crisis and some of the major political issues that have remained deadlocked or unsolved in other fora, enlarging the agenda has proved difficult, mainly because economic recovery is proving slow to arrive in most of the world's economies, and in part because the group's members have very different views on both the diagnosis of what is needed to put the global economy on a strong, sustained growth path, and on what a broader agenda should entail. Until now, only the Seoul summit was able in practice to include two new agenda items: development and anti-corruption, both of which were closely tied to the economic and financial stream of the G20's work.

French President Nicolas Sarkozy, the summit's host in 2011, tried to get the G20 leaders to enlarge the group's agenda. He proposed inter alia UN Security Council reform, climate change, energy security among possible additional issues for the G20 to consider but failed to get support for their inclusion. Other leaders would go further to include political and security issues, such as nuclear proliferation, terrorism, or drugs and organized crime.

It remains to be seen how far the common ground among the world's most powerful leaders will expand, and a shared sense of responsibility for global governance emerge. Unlike the members of the more politically and economically homogeneous G7/8, economic policy makers from the G20's emerging economies have less experience with the peer review processes that have facilitated policy coordination among advanced economies. In this forum it is possible that the differences in culture, language, experience, economic philosophies and interests of the G20 will just be more starkly apparent, but no easier to resolve.

So far, there has been some disposition in the G20 to merely stake out positions, rather than to enter into cooperative problem solving. Further, the more narrow the financial scope of the G20's work, and the more leaders are expected just to endorse extremely technically complex outcomes pre-negotiated by their finance ministers and officials, the less compelling the G20 format will be for the leaders. If the G8 experience is any guide, the G20 leaders must either broaden their agenda or tackle global problems that go beyond the immediate financial crisis or the forum could slowly become irrelevant.

The St. Petersburg Summit that just took place does not seem to have furthered the institutionalization of the G20 as this more relevant global steering committee prepared to deal with the world's pressing political and social issues. The forthcoming summits in Australia and Turkey offer more hope because they will take place in countries that have considerably more at stake in the longer term survival of the G20 process.

Istituto Affari Internazionali and Council on Foreign Relations
Council of Councils Regional Conference
Europe and the Future of Global Governance
Italian Ministry of Foreign Affairs

The Exit from the Euro Crisis: Opportunities and Challenges of the Banking Union

Speech by the Governor of the Bank of Italy

Ignazio Visco

Rome, 10 September 2013

The euro area has suffered two recessions in the last five years. GDP contracted for five consecutive quarters starting in the spring of 2008; the fall came to more than 4 percent in 2009. The subsequent recovery was short-lived: the outbreak of the sovereign debt crisis in mid-2011 was followed by six quarterly declines. In 2012, GDP was still 1.3 percent less than in 2007.

The signs now are that the contraction is drawing to a close. GDP resumed moderate growth in the second quarter of this year, reflecting the expansion of exports and progress in domestic demand, and the confidence indicators improved somewhat over the summer. Actual and expected inflation remain subdued, well below 2 percent.

However, the timing and strength of the recovery are still highly uncertain. The resolve with which European and national authorities continue to implement the reform strategy devised to deal with the crisis will be decisive for financial conditions and for business and consumer confidence. Externally, the slowdown in the emerging economies and the recent geopolitical tensions in the Middle East threaten to undermine the prospects for world demand.

The crisis did not hit all the euro-area countries in the same way, and the recovery is correspondingly asymmetrical. In Italy the recession has been longer and deeper than in most other countries. Last year's output was almost 7 percent less than in 2007. In the first half of 2013 GDP diminished again, but at a slower pace, with exports still providing the main stimulus. The latest indicators are consistent with gradual improvement: the decline in output should come to a halt in the coming months. The downside risks to this scenario are compounded by investors' concerns about possible political instability.

The spark that ignited the sovereign debt crisis in the euro area at the end of 2009 was the unveiling of the dramatic state of the public finances in Greece. But the tensions soon fed on the economic weaknesses of other member states – macroeconomic imbalances, real-estate bubbles, distressed financial systems, high public debt. The crisis became systemic in the summer of 2011 with the announcement of the involvement of private investors in restructuring the Greek debt, which made the markets suddenly aware of the implications of the no bail-out clause in the EU Treaty. These events laid bare the incompleteness of the European construction, the euro being a "money without a state". The spreads between the government bond yields of the fiscally weak countries and the German Bund soared.

A serious crisis of confidence in the very survival of the single currency ensued, with adverse consequences for the real economy. The situation deteriorated most severely in the banking systems of the countries most directly affected by the tensions, whose perceived credit standing soon aligned with that of their sovereigns; wholesale funding conditions deteriorated sharply, cross-border interbank lending all but dried up. There emerged a perverse loop between fragile public finances, weak economic performance, and deteriorating bank conditions.

Given the risk of a severe credit tightening, the Governing Council of the ECB took resolute action. With two special refinancing operations in December 2011 and February 2012 the Eurosystem supplied banks with a trillion euros in three-year funds (over €500 billion net of the volume of funds reimbursed in other refinancing operations). The liquidity injection was effective: sovereign spreads dropped and the wholesale markets revived.

Europe's response to the sovereign debt crisis has been twofold. Domestically, to rein in the risks from unsustainable public finances, individual countries have committed to prudent fiscal policies and structural reform to enhance competitiveness. At European Union level, to dispel the fears of euro break-up and "redenomination risk", a reform of economic governance has been undertaken.

National action on the sovereign debt crisis has been heterogeneous. Fiscal adjustment was indispensable in the more economically fragile countries, including Italy, to ward off the risk of losing access to the market, which would have precipitated the crisis. Its negative short-term effect on economic activity was the price paid for averting more serious consequences.

With the benefit of hindsight it is clear that the reform of European governance was long overdue. The long-dormant process was effectively set in motion by the sovereign debt crisis. Despite hesitancy, overlaps and redundancies, within a very short span of time definite progress has been achieved.

Together with the efforts at national level, the reform of European governance has begun to rebuild trust among member states. The strengthening of the budgetary rules, which has reinforced existing commitments and made them more credible without imposing more demanding targets, and the extension of multilateral supervision to macroeconomic imbalances have accompanied the institution of mechanisms for managing sovereign debt crises and paved the way for discussion with a view to deepening European integration.

Until recently, Europe lacked the tools for managing a sovereign crisis. Between 2010 and 2012 EU countries disbursed some €280 billion in loans to their partners in difficulty, either directly or through the newly established common financing instruments (the European Financial Stability Facility, EFSF, and the European Stability Mechanism, ESM). Italy's contribution amounted to €43 billion, which according to official estimates will rise to more than €60 billion in 2014.

The European reforms are still in the making. Their full pay-off, as well as the reward for national efforts, will come in the medium term. In the meantime, the distortions still affecting the financial markets could undermine the transmission of monetary policy and jeopardize the entire process. This risk materialized in the spring of 2012 when sovereign spreads started widening again. By July the differential between 10-year Italian BTPs and the equivalent German Bunds had once more exceeded 500 basis points, against the value of about 200 points then estimated to be consistent with the two countries' economic fundamentals.

The ECB Governing Council reacted by announcing Outright Monetary Transactions (OMTs), a new method of intervention on the secondary market for government securities whose purpose is to counter excessive increases in sovereign yields where they stem from redenomination risk and distort monetary policy transmission; as such, they are fully within the Eurosystem's mandate. The announcement of OMTs produced immediate benefits: medium- and long-term yields in the countries under pressure decreased and the fragmentation of markets along national lines was attenuated.

OMTs were made possible not only by the credibility of the Eurosystem but also by the very process of reform they intend to protect. The fears of euro reversibility are linked in the first place to concerns about the sustainability of the public debt and the competitiveness of some member countries. For this reason the activation and continuation of OMTs are subject to specific commitments regarding the public finances and structural reform, as part of assistance programmes. The financing of the programmes with the ESM's resources is an incentive to strengthen the governance of the Union further. Monetary policy can guarantee stability only if the euro area's economic fundamentals and institutional architecture are consistent with it.

Confidence in the irreversibility of the euro is the key. In the short term, the effective use of ESM resources will preserve the progress made and safeguard the rights and the efforts of those who have helped to develop the instruments of financial support. The OMT announcement prevented a financial collapse with potentially ruinous consequences for the European economy: all the member countries benefited, not just those at the centre of the sovereign debt crisis.

Towards deeper European integration: the Banking Union

To ensure stability over the longer run, the effort to reform the European governance has been stepped up. The subsequent stages are outlined in the report *Towards a Genuine Economic and Monetary Union* (presented in June 2012 and updated in December by the President of the European Council, working closely with the Presidents of the European Commission, the Eurogroup and the ECB) and in the *Blueprint for a Deep and Genuine Economic and Monetary Union* published by the Commission last November. Both documents envisage a banking union, the introduction of autonomous fiscal capacity for the whole euro area, and a common budget; they set the scene for the eventual political union.

A keystone of institutional reform, Banking Union is crucial to break the perverse feedback loop between sovereigns and domestic banking systems. It has three key components: a single supervisor, a single bank resolution mechanism, and a single deposit insurance scheme.

In the summer of 2012 the European leaders decided to give priority to the construction of the first component, the Single Supervisory Mechanism. The SSM comprises the ECB and the national supervisory authorities. For the largest banks it will be based on strict integration of European and national structures. For the others, it will involve the direct responsibility of national authorities, under common guidelines; the ECB will retain the right to take over direct supervision responsibilities where circumstances warrant. This far-reaching institutional innovation will require an organizational adaptation as far-reaching and at least as complex as that leading to the single monetary policy. The delicate launch phase will require substantial investment in human resources and technical infrastructure. The national supervisory authorities' workload will not diminish, as we strive to build a unitary new mechanism from frameworks that differ in many respects. The preparatory work is proceeding at the greatest speed compatible with the challenges of the task.

Building on the technical experience and reputation of national authorities, the SSM will have to ensure a supranational vision. Supervisory practices within the euro area are quite heterogeneous. It is vital to avoid any lowering of standards and instead to converge on the best practices in supervisory methodology, modelling and assessment of banking risks. This will ensure early warning of emerging instability at individual banks and at systemic level. We attach special importance to aspects that are a fundamental part of the tradition of the Bank of Italy, such as the central role of on-site inspections, methodologically robust quantitative analysis, and close interaction with banks.

If successfully managed, the SSM will bring substantial benefits to the single market: it will improve the effectiveness of monetary policy transmission, counter the ring-fencing trends observed in the last years, thus fostering financial integration, facilitate comparison between banks and banking systems in different countries, and in this way improve the monitoring, control and mitigation of vulnerability factors.

Work is also continuing on the single resolution mechanism (SRM), the second component of the banking union. This is indispensable to align the responsibilities for supervising banks and handling crises. The Bank Recovery and Resolution Directive is intended to harmonize the heterogeneous national practices, rules and tools for bank crisis management and keep rescue operations from being financed with public funds. The Directive lays down a number of preventive measures, together with rules for timely intervention and resolution, including the bail-in of bank creditors. A fund to be financed by the banks themselves will be earmarked for bank resolution. The European Commission recently issued a proposal for a Regulation – which should be fully operational in 2015 – to institute an SRM under a single resolution authority and with pooled resources. Concerning the third component of the Banking Union, a draft directive has been prepared to implement a common network of national deposit guarantee schemes by the end of this year.

The institution of the SRM must proceed expeditiously, with appropriate negotiations between national and Community authorities. Once the mechanism is fully operational, the availability of adequate resources will allow the cost of crises to be divided between the bank's shareholders, creditors and the banking system as a whole.

During the transition to the SRM, the risk of a vicious circle between a fiscally weak sovereign state and its fragile domestic banks persists. The ESM will only be able to directly recapitalize banks – with the aim of restoring their viability and obtaining a remuneration of the capital invested – after the effective entry into operation of the SSM. There remains the possibility of using ESM funds indirectly, by means of loans to member states, but this would bear on the public debt of the countries concerned, bringing the bank-sovereign loop back into the picture.

The comprehensive assessment of the main European banks ...

With a view to the launch of the SSM, the ECB and the national supervisory authorities are working to undertake a comprehensive assessment of the soundness of the significant euro-area banks, those that will fall under the direct supervision of the SSM. This assessment consists of thorough analysis of each bank's risk profile, comprising an overall balance-sheet assessment (BSA), including an asset quality review, and a stress test. The exercise will also cover other relevant aspects of banks' business, including leverage, corporate governance and organization.

The comprehensive assessment is designed to make sure that the area's main banks are managed in a sound and prudent manner, helping to dispel market concerns over their soundness and risk profiles. Significantly, from the outset the assessment will also foster confidence in the SSM itself, reinforcing mutual trust among participating countries. It will therefore be a fundamental step in normalizing wholesale markets and restoring the banking system to its principal, fundamental role of supporting economic activity and growth.

In order to attain these objectives, the comprehensive assessment must be completely transparent, as regards not only results but also process and methodologies. The appropriate involvement of external reviewers may enhance the credibility of the exercise. Attention must obviously be paid to potential conflicts of interest and problems of confidentiality. Also, level-playing-field issues among participating banks must be avoided.

The design of the balance-sheet assessment must recognize that national accounting and supervisory practices differ radically, especially in the definition and measurement of non-performing loans (NPLs). The European Banking Authority (EBA) is working to make definitions uniform across systems and has recently issued a consultation paper on the matter. This is a step in the right direction and should be finalized in time for its results to be used for the BSA. In any case, the BSA requires a de facto harmonization of NPL definitions.

National practices also differ substantially in the measurement of risk-weighted assets, the denominator of regulatory capital ratios. Differences in the models used by banks to compute capital requirements – or in the approaches adopted by supervisors for validating them – may undermine the comparability of banks' capital, so the BSA will have to pay close attention to the way in which these models compute the risk weights of different categories of assets, including off-balance-sheet items and "level 3" assets (non-traded assets whose fair value is estimated through internal models). Again in this case, de facto harmonization is necessary.

Furthermore, in order to be fully credible and to be perceived as a confidence-building exercise the comprehensive assessment must be rigorously designed and carried out, with clearly defined and well motivated thresholds for gauging any capital shortfalls. If, as observed earlier, one of the objectives of the Banking Union is to break the perverse feedback loop between banks and sovereigns, then an essential prerequisite is the presence of adequate backstops against the capital shortfalls that may emerge from the BSA. Also, to avoid pro-cyclical effects, clear and extensive communication of the process and its results is necessary. The mistakes of the past in the sequence of the actions taken by different policy makers should not be repeated.

... and a perspective on the Italian banking system

The Italian banking system offers a few illuminating examples of the problems and challenges of the comprehensive assessment. In the international comparison Italian banks appear to have a high NPL ratio and a low coverage ratio (i.e., the ratio of loan loss provisions to gross non-performing loans). But it is clear by now that the comparison is vitiated by disparities in accounting and supervisory practices, which must be taken into account in order to obtain a fair assessment.

A case in point is the treatment of collateralized loans. Some major European banks do not classify fully collateralized loans as NPLs, while in Italy loans are classified on the basis of the borrower's creditworthiness, irrespective of collateral or guarantees. Both practices are fully consistent with international accounting standards enforced in Europe, but the Italian method makes the bank's balance sheet more transparent for investors. If Italian banks used the same definition as some foreign banks, their stock of non-performing loans would fall by about a third, decreasing their average NPL ratio significantly and raising their coverage ratio; at the same time, the rise in the NPL ratio in the recent years would be less accentuated, reflecting the sharp increase in collateral demanded by Italian banks in reaction to the deteriorating economic outlook.

Let me be clear: I am not suggesting a relaxation of the Italian definition of NPLs – which, by the way, is broadly in line with the one proposed in the EBA consultation paper. I am arguing that the BSA needs to take this and other sources of heterogeneity into account.

Similar considerations apply to leverage. Italian banks have lower leverage than their international competitors, partly because of their relatively small volume of business in derivatives. Arguably, their operational risks are also comparatively low: Italian banks have not been involved in any of the serious episodes of malpractice or the market-rigging schemes that have damaged the reputation of some foreign intermediaries and cost them expensive legal settlements. These and other sources of heterogeneity, which tend to bias international comparisons against Italian banks, have been documented by the Bank of Italy in its *Financial Stability Report* as well as by market analysis. They will have to be duly taken into account in the comprehensive assessment.

These arguments are intended simply to support a fair approach to the forthcoming BSA; they are not meant to downplay the risks that the Italian banking system faces. While Italian banks have demonstrated good resilience overall, thanks to their sound fundamentals at the outset of the financial crisis, the sovereign crisis and two long and deep recessions have put their balance sheets under severe stress. NPLs have been rising steadily since 2008, depressing profitability and raising concerns over provisioning among analysts and market operators. And even though I have set out the reasons why we need to quickly enhance comparability among European banks, we take these concerns seriously. Indeed, we have taken decisive action to address these risks, and we are confident that this will improve the outlook for the Italian credit market.

Apart from episodes of malfeasance, which are relevant but circumscribed, serious difficulties mainly concern a handful of medium-sized and small banking groups. This class of banks has been particularly hard-hit by the recession, owing among other things to lesser diversification of risks and revenues. Additional challenges have sometimes been raised by weak ownership and corporate governance structures, which may complicate capital strengthening and adaptation of business models. Intense supervisory actions have been – and continue to be – taken on these banks. In some instances special administration has been necessary to allow a clear recovery and return rapidly to ordinary management.

The Bank of Italy regularly reviews banks' asset quality as part of its standard supervisory activity, assessing the risk exposure of each institution. The quality of banks' assets is assessed continuously off-site, on the basis of detailed monthly supervisory reports. In particular, the information contained in the Central Credit Register includes the exposure of each bank to each individual firm: this enables us to assess the consistency of the different banks' classifications of the same borrower, checking that non-performing debtors are not classified as performing by some intermediaries. Moreover, the Bank of Italy monitors the adequacy of loan classification criteria through extensive on-site inspections, among other things in order to curb the forbearance risk typical of economic slowdowns.

In the second half of last year, against the backdrop of an exceptional and largely unanticipated macroeconomic deterioration, the Bank of Italy launched an ad hoc supervisory review of the adequacy of banks' NPL provisioning policies. This involved simultaneous on-site inspections at 20 large and medium-sized banking groups whose coverage ratios either were lower than average or had fallen significantly. The main findings were published in a note posted on our website. Overall, the coverage ratio for the entire NPL portfolio of the 20 groups rose from 41 to 43 per cent between June and December 2012, notwithstanding the sharp rise in NPLs themselves (the denominator of the ratio) in the same period. In other words, the downward trend in coverage ratios since the beginning of the crisis (2007-08) has come to a halt. The intelligence gathered in the course of the review will also be used for the application of second-pillar capital add-ons.

Our supervisory action continues. We are closely monitoring the implementation of the corrective measures that the banks were asked to adopt, while assessment of banks' asset quality and provisioning levels is still ongoing and has been extended to other banking groups in the course of regular on-site inspections. Any capital shortfalls that may emerge will have to be met through proper actions within the banks' perimeter of decisions and with recourse to the market.

At the same time, we are taking care to minimize the pro-cyclical impact of banks' actions on the availability of credit to the economy. This is why we have called on banks to increase their internally generated resources by curbing operating costs as well as dividends and executive and directors' compensation.

Our current assessment is that notwithstanding specific difficulties, the challenge will be met and market concerns will abate. But the state of the banking system is not independent of the general economic environment. Action to revitalize the Italian economy and raise its growth potential is thus as important as ever.

The move to the SSM must not blur our focus on the conditions of the banking system. Supervisory standards and practices must be kept at the highest level of quality. This will permit us to perform a homogenous and comprehensive assessment of euro-area banks, with full disclosure of differences in business models but also with a common mandate to build on existing strengths and to counter and shrink the areas of weakness.

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The crisis has constituted a fierce challenge for the European construction. The threat of a break-up of the euro, never taken seriously by the markets before, increasingly distorted asset prices across the euro area. The economic and social costs have been severe. Unemployment, especially youth unemployment, has soared. In the worst-hit countries poverty levels have risen sharply, and social tensions have surfaced.

The responsible reaction of national and European authorities has averted the worst. The recovery is now at hand, but downside risks remain significant. If we are to seize the opportunity, we cannot relax our efforts. Ultimately, our economies must restructure to become more competitive in order to rise to the challenges of technological, demographic and geopolitical change. We must press on with structural reform. The key to success will be a shared determination to advance towards a fully fledged European Union. In the current stage, the test of our resolve is the building of an effective Banking Union.

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IAI

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Visco: the keys to recovery,
a full-fledged European Union and a European Banking Union

Speech by the governor of the Bank of Italy to the Council of Councils Regional Conference organized by IAI

In Europe, "recovery is now at hand, but downside risks remain significant. If we are to seize the opportunity, we cannot relax our efforts" and must continue with structural reforms. Ignazio Visco, governor of the Bank of Italy is convinced that "the key to success will be a shared determination to advance towards a full-fledged European Union. In the current stage, the test of our resolve is the building of an effective banking union."

The governor spoke this morning at the regional conference in Rome of the Council of Councils, a group set up by the Council of Foreign Relations which brings together twenty of the most prestigious think tanks in the world. The regional event was organized by the Istituto Affari Internazionali (IAI), the only Italian think tank in the Council, and was held yesterday and today at the Italian Ministry of Foreign Affairs.

Visco noted that technical measures cannot replace political actions and recalled that the European Union had to deal with two main risks: default in some country and the breakup of the euro. Each country had had to put its own house in order, but some order had to be put into the EU as well. Emphasizing the positive role the European Central Bank played in the crisis, the governor stated "confidence in the irreversibility of the euro is the key to avoiding collapes."

In his speech, Visco pointed out that "between 2010 and 2012, EU countries disbursed some €280 billion in loans to their partners in difficulty, either directly or through the newly established common financing instruments (the European Financial Stability Facility, EFSF, and the European Stability Mechanism, ESM). Italy's contribution amounted to €43 billion, which according to official estimates will rise to more than €60 billion in 2014.".

In his speech entitled, *The Exit from the Euro Crisis: Opportunities and Challenges of the Banking Union*, the governor spoke of the Italian situation. Starting out from the assertion that "the recession has been longer and deeper in Italy than in most other countries", he confirmed that there are signs that the recession is coming to an end, even though political instability still poses a threat to recovery. Citing figures from the Italian National Institute of Statistics, he said that GDP fell by 2.1% in the second quarter of 2013 and family spending by 3.2%. "The latest indicators, however, are consistent with gradual improvement. Last year's output was almost 7 percent less than in 2007. But "the decline in output should come to a halt in the coming months."

The governor believes that, "fiscal adjustment was indispensable in the more economically fragile countries, including Italy, to ward off the risk of losing access to the market, which would have precipitated the crisis". Its negative short-term effect on economic activity was the price paid for averting more serious consequences.

Visco ended with comments on the establishment of the banking union, analyzing its impact on the European and in particular the Italian credit system.

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Bonino: Syria, a window of opportunity of 2/3 weeks to avoid military strikes

Address by Foreign Minister Emma Bonino at the Council of Councils Regional Conference organized by IAI

Recent developments in the Syrian conflict, and in particular Russia's proposal to place Bashar Al-Assad's chemical weapons under international control, have created a window of opportunity for diplomatic action, one that may ultimately avoid a military intervention. The time-frame, however, is limited to two/three weeks, said Italian Foreign Minister Emma Bonino, who also specified that the full details of the plan must be made public before Italy can express any formal position.

According to Bonino, the fact that the Russian proposal was put forth, delaying the expected vote in the US Congress, will postpone any decision to intervene militarily in Syria, leaving more room for diplomacy. This window of opportunity is further increased by the upcoming annual meeting of the UN General Assembly in New York, making it unlikely that a military reprisal against Assad's use of sarin gas on 21 August will be mounted in the next two to three weeks.

The foreign minister spoke on 10 September during the regional conference of the Council of Councils (CoC), a global network of 20 leading think tanks created by the Council on Foreign Relations (CFR) in New York. This edition of the CoC's regional conference was organized by Istituto Affari Internazionali (IAI), the only Italian think tank to be part of the CoC's global network, and took place at Italy's foreign ministry on 9-10 September. The final day of the conference was opened by Ignazio Visco, governor of the Bank of Italy, while Minister Bonino delivered the closing remarks.

During her address, Bonino denounced the weak and inadequate state of global governance and stressed that Europe is not living up to its expectations but insisted that deeper consolidation and unity is the solution. "We must continue down the road of greater institutional integration because this is the only alternative to unilateralists and nationalists", said the foreign minister.

"There are those who view the European Union solely as a single market, those who are in favour of a closer political Union on an intergovernmental basis and those who advocate a federalist Union" added Bonino. "I am for a 'light' federal Europe, because I don't see any other system that can effectively ensure democracy, accountability and diversity".

What is needed is a federal Europe with clear competences in areas such as foreign and defence policy but also civil rights: "Such a Europe would carry more weight on the international scene and contribute more effectively to global governance in an ever more multipolar and interdependent world", added the foreign minister.

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