

THE ROLE OF THE STATE IN ECONOMIC GROWTH PARIS

European Union, World Trade Organization and the future of global governance

A policy brief by Sergei Guriev

European Union, World Trade Organization and the future of global governance

Sergei Guriev

Sciences Po Paris

The debate about global governance and global public goods has always been and will always be difficult. There is no disagreement that certain public goods should be provided at the global level – as well as the other public goods should be provided at the national or local level. However, even though the authority of the local and national governments to impose taxes and issue and enforce regulations is now accepted by citizens, global governance is still an abstract notion. The two most successful examples of global governance – European Union and the World Trade Organization – are now facing difficult times. Does this mean we should be pessimistic about the future of global governance? Not necessarily. The problems faced by the EU and the WTO reflect their own original strengths – and provide important insights in how to build supranational institutions and how they function.

Let us start with the WTO. For almost 15 years, WTO is stuck with the inability to proceed with the next round of trade liberalization. However, this is not because WTO is weak. Paradoxically, the countries cannot agree on commitments to

proceed further exactly because they know that WTO is strong and these commitments would be binding. They know that in the end of the day WTO works. No single country – including an economic superpower – can afford to violate the WTO rules. If the new round is concluded, the rules of these round will be enforced. Given that it is not easy to achieve consensus among 160 member states on any specific issue, we should not be surprised that every subsequent round is more difficult to complete.

European Union is probably the most important example of supranational institution in history. Developed countries voluntarily gave up crucial elements of their sovereignty to an international authority to provide public goods that cannot be provided (at least as effectively) at the national level. Yet, at the moment Europe is facing existential challenges in many dimensions. Most importantly, EU is indeed weak in the sense that WTO is strong. EU cannot enforce the rules that the member states have committed to follow. Very few Eurozone members now stick to the Maastricht criteria. Even the budget deficit commitments introduced after the recent crisis are now being reneged upon – just a couple of years after they have been made. This of course undermines EU's credibility and

legitimacy. Moreover, the argument that EU should “federalize” further with the European institutions taking over further functions from the member states is not convincing – as the EU has failed to carry out the functions it has acquired so far.

There are many reasons to be optimistic about Europe. First, Europe has achieved peace, prosperity and relative social cohesion. Second, some EU members (especially in the North) have managed to combine the European social model with growth and innovation. Third, some EU countries (most importantly, Germany) have shown that pro-market reforms can pay off within just a few years to become competitive. In this sense, the non-Nordic countries are not pre-determined to fail; whoever wants to follow the “Nordic” model of success (combining equality and growth) can do it. Just in early 2000s, Germany was called the “sick man of Europe”. The German reforms paid off in making Germany an undisputed leader of the EU – without making German economic model less German or less European. This experience implies that other countries facing difficulties now may also become centers of growth in the future.

The comparison of WTO and EU does suggest that EU is weaker exactly because it consists of fewer member states and many of these members are “too big to fail”. EU cannot sanction Italy or France while the WTO can even fine the US. Moreover the WTO fine against US would be enforced and would make the US change its behavior (as it was, for example, in the case of US steel tariffs in 2003). This comparison implies that global rather than regional institutions are more likely to enforce their rules – as they by definition have fewer members who are “too powerful to punish”. Therefore we should not perceive the current difficulties of EU and WTO as a proof that the global governance is doomed. On the contrary, the comparison between EU and WTO implies that there is a future for the global governance institutions – if they are designed well.



COLUMBIA | SIPA
Center on Global Economic Governance

Center on Global Economic Governance, SIPA
1401 International Affairs Building
420 West 118th St., Mail Code 3328, New York, NY 10027
Tel 212-854-5310 | Fax 212-854-1229 | cgeg.sipa.columbia.edu