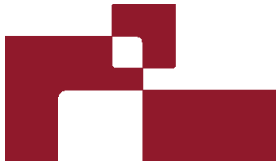

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GLOBAL GOVERNANCE: AN AGENDA FOR EUROPE

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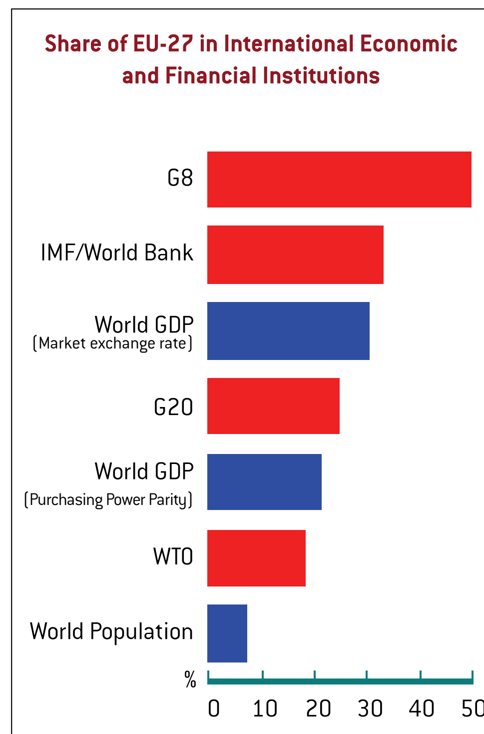
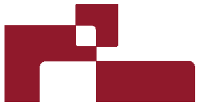
SUMMARY The system of multilateral rules and institutions that is currently responsible for global economic governance is in a sorry state. In the coming months, Europe will be faced with important decisions about the future of this system. **The EU should not wait before proposing and initiating reforms. Europe has a large stake in the multilateral system and has considerable experience in designing effective institutions, making it well placed to lead a reform agenda.** Moreover, the legitimacy of the EU in the eyes of its citizens depends on its ability to tackle the big issues that really matter for the future of the global economy.



Source: Bruegel estimates, World Bank, CIA

POLICY CHALLENGE

Global economic governance matters. Since the US at present appears less ready to move it forward, European policymakers must take responsibility for advancing the reform agenda. Reforms are especially needed in areas such as trade, finance and the environment. Specifically, the EU should act now to unlock the stalled global trade negotiations, push for badly needed governance reforms at the IMF and the World Bank, and take the lead in addressing the problem of global warming. However, the EU is unlikely to be successful unless it first gets its own house in order and makes changes both to its internal governance and to the way that Europe is represented in international forums.



GOVERNANCE of the global economy used to be an issue for the future. It has become a pressing matter and signs of this tectonic shift are everywhere:

- In July 2006 global trade negotiations under the aegis of the World Trade Organisation were suspended. This developement highlights the added complexity implied by the increase in the number of key players in the negotiations, and indicates the difficulty of delivering on the multilateral front. What could in the past be solved bilaterally between the US and the EU requires more demanding compromises involving developed, emerging and developing countries.

- The two global institutions long seen as most effective, the International Monetary Fund and the World Bank, are struggling to adapt to new realities. They have both lost relevance. The IMF's core business of conditional financial assistance is threatened by Asian disaffection and Latin American detachment, and its attempted resurrection as a venue for managing global current account imbalances is a high-risk gamble. The World Bank has been largely crowded out from project lending to emerging countries by the development of financial markets. Furthermore, conditional debt relief to poor countries is being undermined by a new wave of unconditional bilateral credits from China and elsewhere. Both institutions are also sorely in need of further governance reform to enhance the participation and voice of emerging economies.

- Almost ten years after it was signed, the Kyoto Protocol on global warming is still rejected by the US and major emerging economies and even those countries that support it make insufficient efforts to enforce it at home.

- The shifting supply and demand patterns for fossil fuels, water and other natural resources create scope for new tensions, but no meaningful international response has emerged to establish proper-functioning markets and avert the risk of tension. On the contrary, national governments in developed and emerging countries have recently been busy securing access to oil fields through the strengthening of bilateral links with producing countries.

This situation raises major, perhaps unprecedented policy challenges. Yet the balance of economic and political power makes addressing these challenges more difficult than at any time in recent decades. Under US leadership, global economic governance was a stable and relatively simple game with few players. It is made much more unstable and complex by the rise in the number and diversity of players, the growing weight of new economic powers, and increasing US scepticism about 'foreign entanglements'.

> *"Europeans tend to regard the EU as a laboratory for what the world of tomorrow could look like."*

Given its economic size and experience, the EU has an important potential role to play in the reform of global governance. Europeans, however, have mixed feelings about it.

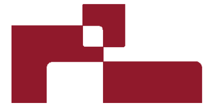
On the one hand, they see themselves as supporters of strong global rules and effective international institutions, and are more comfortable than others with the implied limitations to sovereignty. Having established a system of supranational governance at the regional level, Europeans see global governance as a natural extension, and regard the EU as a laboratory for what the world of tomorrow could look like.

On the other hand, they remain reluctant to exercise leadership and initiate reform. Even though the EU has been enterprising on trade and global warming, its actual policy record in those fields is mixed at best. Europe has generally been a follower on international financial matters, its actions on development assistance are inconsistent, and it is divided on many issues such as migration. Furthermore, the EU's own complex governance system raises issues of internal consensus-building and external representation that frequently prevent the EU from taking initiatives.

In the coming months, Europe will be faced with important decisions about the future of global economic governance. The purpose of this brief is to emphasise the need for clear European views, to flag some key strategic questions in this area, and to outline possible choices along with their implications. Section 1 looks in more detail at the problems of global governance and Section 2 examines the alternatives to collective action. In Section 3 we develop the argument in favour of global governance; and in Section 4 we outline the choices for Europe.

1. THE MALAISE OVER GLOBAL GOVERNANCE

The global economy of the early 21st century has little in common with that of the early 1980s, when a collection of integrating, but still highly segmented national economies coexisted with quasi-autarkic blocks (China, India, the Soviet Union and its satellites) representing about half the total world population. The world today has even less in common with the even more fragmented world of the early post-World War II period, when a few countries started rebuilding the world trade and monetary regime. Yet the global economic governance regime – the set of global rules that govern international economic relations, the network of institutions that support and enforce those relations and the processes that steer change in this system – has not undergone a parallel transformation. Although institutions created 60 years ago have adapted, there is a clear disconnect between economic and institutional developments. This applies



also to the power balance within them (Table 1).

Against this background, two recent trends affecting the world economy are especially noteworthy. On the one hand, there are signs of renewed economic nationalism in the US, some European countries, and parts of the emerging world. Partly as a result of the emergence of new global players, public opinion in the US and France, for example, is turning away from reliance on the multilateral regime.[1] These new economic powers also have a different attitude towards multilateralism. The main players after World War II, the US, Europe and Japan, had been traumatised by nationalist hubris. China, India and Brazil do not share the same historical experience and can easily perceive multilateral commitments as excessive constraints on policies that should be inspired by national interest. The emergence of new global powers has also rekindled the fear of resource scarcity, especially in the area of energy.

On the other hand, regional initiatives have blossomed. The evolution is well documented for trade because all regional agreements have to be notified to the WTO. However, regionalism is by no means limited to trade, nor is Europe its main player as it once was. Today, regionalism is alive on all continents, but most remarkably in Asia. The advance of Asian regional integration is notable not only for its breadth but also for the fact that it is explicitly regarded by participants as an alternative to reliance on global institutions. At the time of the Asian crises in 1997-1998, the proposal for an Asian Monetary Fund was blocked by the Group of Seven, and countries in crisis were directed to the IMF instead. Since then, East Asian countries have been negotiating among themselves a series of regional monetary and financial cooperation agreements. Even though this cooperation has not yet been wholly tested, regionalism has become a fact that cannot be simply ignored or opposed by the supporters of multilateralism.

These two trends partly explain the malaise over global governance, but its fundamental causes are to be found elsewhere. **First**, the diversity of preferences within the world economy has increased dramatically. Global governance traditionally involves a trade-off between economies of scale and differences in preferences. The more diverse countries are, the less they tend to agree on devolving policy responsibilities to a supranational entity. Yet beyond the increase in the number of players (Figure 1, overleaf), differences in historical backgrounds and development levels are bound to result in differences in preferences. This simply increases the cost of agreeing on a common response and makes compromise on any subject much more difficult, even when increased interdependence simultaneously increases the benefits of cooperation.

Second, among countries of unequal development level, many global issues involve an international distributional dimension that compounds the difficulty of reaching agreement. Even when it is a positive-sum game overall, there are losers as well as winners. This is obviously the case for debt relief, but is true also for trade liberalisation, since countries benefiting from existing preferential trade agreements are bound to lose from an alignment of trade tariffs. This also applies to policies designed to tackle global environmental challenges, for which equity issues are compounded by the inter-temporal dimension. The prime objection of emerging countries to curbing greenhouse gas emissions is that developed countries had a free ride on the global environment in the previous stages of their development.

Third, globalisation is divisive within developed and developing societies. The extent of its contribution to the rise of within-country inequality and job insecurity is an open question, but the most basic models of integration through trade, capital flows and migration point to distributional effects that create winners and losers. Furthermore, many people, rightly or wrongly, regard global institutions as the source of globalisation itself and of its harmful consequences.

Table 1

Weight of the EU-27 in international economic and financial institutions

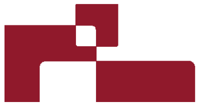
Institution	No. of members		Current-$ GDP 2005 (Billions $)		PPP-based GDP 2005 (Billions$)		Population (Millions)	
	EU	Total	EU	Total	EU	Total	EU	Total
WTO	28	150	13,425	42,289	12,892	56,510	488	5,766
Share (%)	*18*	*100*	*31*	*100*	*22*	*100*	*8*	*100*
IMF/ World Bank[2]	27	184	13,425	43,861	12,892	60,252	488	6,351
Shares (%):								
membership	*15*	*100*	*30*	*100*	*21*	*100*	*7*	*100*
votes	*32*							
control	*33*							
seats	*30*							
G8	4	8	8,807	27,647	7,841	26,816	260	860
Share (%)	*50*	*100*	*31*	*100*	*29*	*100*	*30*	*100*
G20[3]	5	20	8,807	35,096	7,841	46,521	260	4,019
Share (%)	*25*	*100*	*25*	*100*	*16*	*100*	*6*	*100*
memo:								
UN	27	192	13,425	43,942	12,892	60,339	488	6,384
Share (%)	*14*	*100*	*30*	*100*	*21*	*100*	*7*	*100*

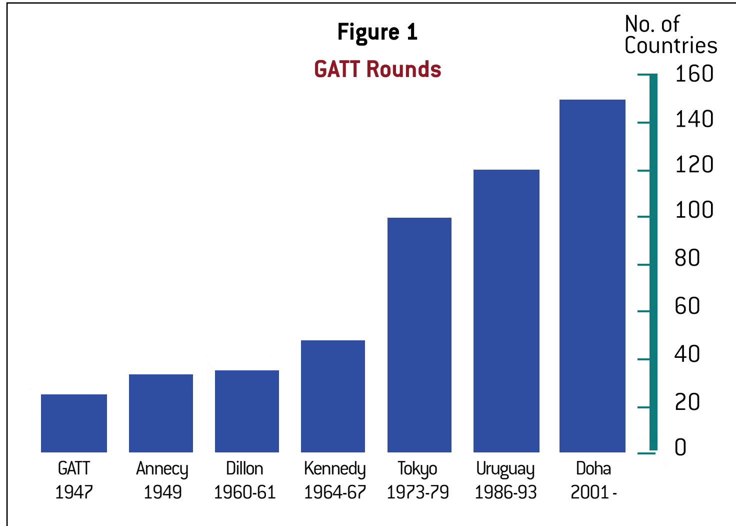
Source: Bruegel calculations. For GDP and population data: World Development Indicators database, World Bank andthe World Factbook, CIA. Data for Myanmar are missing.

[1] See for example the latest Trade and Poverty opinion survey of the German Marshall Fund of the United States, www.gmfus.org/trade.

[2] For IMF and World Bank, "membership" gives the proportion of EU27 countries in total member countries; "votes" their share in the total quota-based votes; "control" the proportion of votes they control, assuming decisions within a circumscription are taken by simple majority on the basis of the members' votes in the IMF, and "seats", average number of chairs held by EU member countries in the Executive Board (taking rotations into account), divided by the total number of chairs.

[3] The G20 is a group consisting of 19 of the world's largest economies, together with the European Union. Its primary goal is to discuss and develop policies that promote the "high and sustainable growth" of the global economy.





Source: WTO

Finally, the end of the Cold War has removed a powerful incentive to collective action. The change in attitude of the United States, which is now more inclined to adopt a multi-track strategy that includes regional agreements and unilateral initiatives as alternatives to the multilateral route, has probably less to do with economic factors than with political factors. The US position in the world economy is less dominant today than at the end of World War II when it spearheaded the multilateral system. But it is on the political side that the most important shift has taken place. In the eyes of many US policymakers, US national security no longer calls for cementing an economic coalition of states in the way it did in the Cold War period. As scholars of international relations often say, the Cold War glue has gone.[4] Interestingly, the so-called war on terror has not, so far, rested on a system of economic alliances that bind countries together.

"The end of the Cold War has removed a powerful incentive to collective action."

2. THREE POTENTIAL ALTERNATIVES

A world economic system governed by global rules and institutions is by no means the only route. There are at least three alternatives:

National leadership

Countries holding a dominant position may set de facto rules for the global economy. This is typically the case for standards, where the United States and the European Union play a dominant role largely because of their size. The US has generally taken the lead in financial matters, whereas the EU has been a dominant player in certain product standards. On competition matters, the EU often exercises leadership on mergers, while the US does the same on abuse of dominant position.

However, rules based on the "benevolent hegemony" of one player are often not sustained over the long term. The hegemon may succumb to the temptation to use its position to serve its own short-term national interest, thereby inviting followers to seek alternative strategies. This is illustrated both by the recent tendency of many countries, including those of the EU, to endorse International Financial Reporting Standards as an alternative to US accounting rules, and by the growing unease in the US about EU-originated product regulation.

Market-based rules

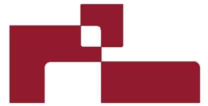
Markets have an ability to self-organise without the direct involvement of international institutions and are generally faster in designing and reforming arrangements. Private-sector global governance regimes are a significant component of global rule-making in financial markets and other areas. This does not need to be regarded as a threat to the multilateral system. Governance through multilateral institutions and rules can coexist with market self-organisation and can even find positive synergies with it. Yet this does represent a challenge as slow-moving public institutions need to adapt to the emergence of competing, often more agile forms of governance.

Regionalism

Regional institutions among countries sharing similar preferences can be a solution to the problem created by differences in preferences between countries, even when there are global externalities. To the extent that the rules adopted at regional levels are mutually compatible and regional governing institutions are in dialogue with each other, the need for a global framework may be reduced. Moreover, the contrast between global and regional approaches is probably not as sharp as it is generally portrayed. Rarely, if at all, are international externalities either purely global or purely regional. To the extent that externalities are both regional and global, they need to be addressed at both levels simultaneously.

How this is done in practice varies greatly across subject matters. Take the case of health. All communicable diseases have a global dimension and therefore require global solutions. However, many also have an important region-specific dimension. It makes sense, therefore, that the World Health Organisation is, in fact, a network that comprises a global headquarters and six regional offices dispersed across the world. There is no equivalent situation in the field of economic governance. The IMF, the World Bank and the WTO have no regional office to which member countries are affiliated and which

[4] Frieden (2006) elaborates from a US perspective on the links between global economic integration and political and security dimensions.



play an executive role. Some form of regional arrangement exists in each of the domains pertaining to these three organisations, but the relationship between regional arrangements and global institutions is weak at best.

Only in the case of the WTO do the treaties foresee the possibility that member countries form regional groupings and insist that they respect certain rules in doing so. However, those rules are weak and they are not enforced. They cannot prevent "the current logjam in the WTO on regional trade agreements... [and ensure] that regional trade agreements become building blocks, not stumbling blocks to world trade" (Lamy, 2006).

3. GLOBAL GOVERNANCE MATTERS

Global governance should not be considered as the only possible way to manage globalisation. Nor can it be dismissed, however, because there are issues that call for global collective action. This is obviously the case where there are important global externalities, such as for the global environment, global epidemics and global financial crises. In this respect, the current regime of global economic governance is incomplete in several important areas.

In a more subtle way, multilateral rules and institutions, though they may be painful to negotiate among a large number of countries with diverse domestic conditions, offer three advantages even when global externalities are only moderate.

First, they ensure more security than ad hoc arrangements. In time of stress, rules provide core principles to which to refer and represent legally enforceable commitments. Moreover, institutions offer a venue for settling disputes. A comparison between trade and FDI may clarify the point: Global trade is based on clear principles (such as national treatment and the most-favoured-nation clause); the WTO treaty explicitly includes safeguard clauses and established a dispute settlement mechanism. All those elements are lacking for FDI. As a consequence, in the event of a dispute over a takeover, there can be no reference to universally accepted principles, no recourse to exceptional conditions, and no neutral venue for arbitration. This leaves the prevention of unilateral action and retaliation to the sole wisdom of the states.

"For FDI, the prevention of unilateral action and retaliation is left to the sole wisdom of the states."

In other words, strong rules and legitimate institutions may help to ensure the resilience of global economic integration. They are certainly no panacea, and their ability to resist pressure should not be overestimated. But in times of crisis and threats to economic integration, rules and institutions provide a valuable response.

Second, global institutions give a voice to countries of all sizes and are accountable to these countries. Critics may complain about the distribution of votes and seats and about the lack of effective accountability, but global institutions ensure a degree of fairness and ownership which most other solutions lack. In this way, they contribute to the stability of economic integration. This stability, however fragile, would be lacking in a multi-polar world in which integration would be driven by big countries and private initiatives, without the legitimacy that is provided by global rules and institutions.

Third, institutions are a form of capital because, by relying on founding principles and internal governance rules, they help tackle new issues as they emerge. Institutions help to lower negotiation costs and avoid the long and painful process of defining a collective response. Well-designed and well-governed institutions are therefore an asset for all participants in the world economy.

Global public goods are subject to the free-rider problem, however, since their benefits are generally available to everyone. Although everyone would be better off if countries agreed to provide global public goods, it is normally in the interests of individual countries to let others bear the cost. The result is that global institutions are difficult to set up and maintain. The aftermath of World War II was an exceptional set of circumstances that served as a catalyst for building both the multilateral system and regional institutions Europe. In Asia, the 1997-1998 financial crises seem to have played a similar, albeit more limited role.

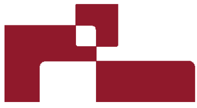
"Global public goods are subject to the free-rider problem; it is normally in the interests of individual countries to let others bear the cost."

4. THE CHOICES FOR EUROPE

Because global economic governance is in a state of flux and hard choices are looming, the European Union needs clarity of vision. The policy implications of our analysis can be summarised into five main points.

A. Global economic governance matters for Europe

There could be a sense that the apparent loss of purpose of many global



Box 1: European representation in the Bretton Woods institutions

Governance reform is on the official agenda of the Bretton Woods institutions. In Singapore in September 2006, it was agreed in a first step to redistribute IMF voting rights[5] in favour of four emerging countries (China, Korea, Mexico and Turkey) that were considered substantially underrepresented. A more comprehensive reform of the quota and voice system, to be completed within two years, was also begun. Furthermore, the IMF Executive Board has announced that looking beyond this second round of adjustments, "it will be important to ensure that quota shares continue to evolve in line with changes in members' positions in the global economy". [6]

This realignment is widely seen as implying a reduction in the weight of Europe in the governance of the Fund and the World Bank .[7] There are several ways of assessing this weight (Table 1), but all lead to the conclusion that the EU-27's nominal power within those institutions exceeds its share in world GDP and world population. Over the last 20 years, the EU-27's share in the world economy (in PPP terms) has declined by five percentage points and it is set to decline further in the years to come.

Another reason for a rebalancing is that the IMF has been asked to contribute to addressing global imbalances through enhancing "multilateral surveillance" – that is, through assessing the major countries' and regions' policies and exchange rates. To carry out such a highly challenging task, the IMF needs legitimacy. Yet the Asian countries still recall the financial crises of the late 1990s and what they then perceived as an inequitable attitude of the Fund and resent that in spite of their growing weight in the world economy, the Bretton Woods institutions continue to be dominated by the US and Europe – hence a quid pro quo between ensuring the Fund retains a key economic role and reforming its governance.

Pressure is therefore mounting for a redistribution of power and the US administration has unambiguously expressed support for such a move. The EU has an interest in encouraging all countries to rely on the multilateral system. This has revived the issue of European representation and resuscitated long-standing proposals for either a single EU or euro-area seat. By committing to enter a permanent coalition, the EU member states, some of which currently belong to non-European constituencies, could increase their effective power.

The IMF voting rights system makes it possible to measure the effective power of a country or a group of countries by tallying how often it would be the swing voter in a decision. Effective power obviously depends on nominal power – voting rights – but also on the distribution of voting rights among the other players (for example, having 30% of the voting rights in an assembly means a great deal of effective power if the other players are small but none if another player holds 50% of the rights). True enough, there are very few instances in which IMF Executive Directors actually vote. But the underlying power structure serves as a benchmark against which players measure their influence. The fierce controversies associated with each quota rebalancing are a clear indication that voting weights really matter.

Lorenzo Bini Smaghi (2006) finds that, if they were to form a coalition, the EU-25 member countries would be, by far, the dominant power in the IMF with an effective power index of 48% - the next one being the US with 7%. An important issue, however, is whether individual member states would gain or lose from going beyond the forming of a coalition and merging their representation in a single seat.

A first question is how their quota and votes would be determined. According to the Fund rules, votes are based on a formula that excludes internal trade, which would mechanically reduce the weight of the EU although it would remain bigger than the US. However, it would be unrealistic to assume that the EU could replace the US as the largest shareholder. In their simulations, Leech and Leech (2005) therefore suppose that a single EU seat would have the same voting right as the United States and that all the excess voting rights would be redistributed uniformly among other countries. This is a realistic assumption which implies that Europe's nominal power would diminish by about a third compared with the current situation. What about its effective power?

Whether or not Europe would gain in effective power depends on the decision mechanism within the EU. Under the assumption that internal EU decision would be determined by simple majority voting on the basis of current IMF weights, Leech and Leech have shown that all EU countries would still gain power (Figure 2). However, IMF quotas substantially differ from EU voting weights and a common representation of the EU would use voting weights and decision rules as currently defined by the Nice treaty. This would favour Poland, Spain and the smaller countries whose vote counts more within the EU than in the IMF and disadvantage the bigger member states as well as some medium-sized countries such as Belgium and the Netherlands. But the change of voting system would not amount to a zero-sum game. The Nice rules involve a qualified majority threshold that renders reaching a common decision notoriously difficult: according to Baldwin and Widgren (2004), the probability that a randomly selected coalition would command a qualified majority is 2.1% in the EU-27 against 7.8% in the EU-15 and 21.9% in the original EU-6.

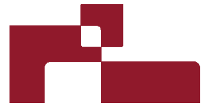
With a single seat but an inefficient internal voting rule, most EU countries would in fact lose, rather than gain effective power, with the largest countries losing the most because they would weigh less. But it would be a mistake to consider the issue as a primarily distributional one. The main problem here is the overall inefficiency of the Nice system, not the relative weights of the EU member states. In fact, using the Nice voting weights but changing the Nice decision rule from qualified to simple majority (and removing the demographic threshold) would imply that most EU countries actually gain power and the losers would only suffer marginally.

Such calculations should not be taken at face value. What they do indicate, however, is that under the Nice system the large countries would lose influence in the IMF on issues where the EU is not unanimous (or close to being unanimous). This illustrates that internal governance matters considerably and that there is little hope the EU can increase its external influence without reforming its internal governance. This reform was one of the main purposes of the draft constitution, and is one of the main costs of its current abeyance.

[5] More precisely, it was agreed to revise both the member countries' quota (their participation in the Fund's capital, which also determines their access to credit) and their voting rights (which closely follow their quota).

[6] Report of the Managing Director of the IMF to the International Monetary and Financial Committee, 14 September 2006.

[7] Quota and votes are decided upon by the 184 "governors" of the Fund (country representatives). They are traditionally adopted by the World Bank also.



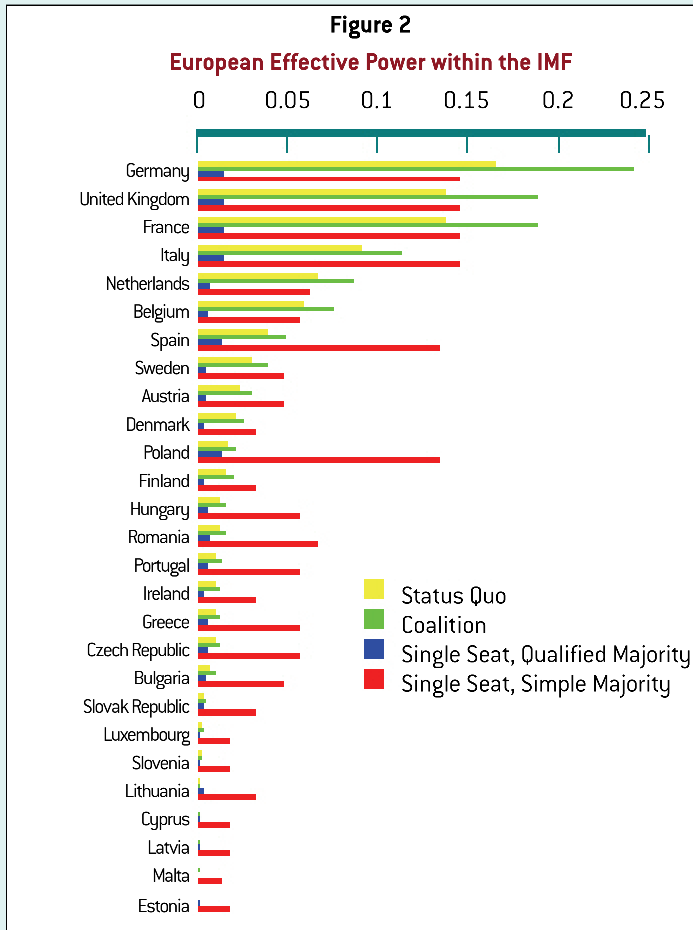


Figure 2

European Effective Power within the IMF

Source: Bruegel calculations using Leech and Leech software (www.warwick.ac.uk/~ecaae/)

institutions is not a matter of significant concern. This would be a costly mistake for the world and the EU. Some of the missions of these institutions have indeed become obsolete, but others are more crucial than ever in the current age of unprecedented economic interdependence. At the same time, although it could rely on alternative modes of governance on a case-by-case basis, the EU would ultimately lose from a demise of the existing system of global rules and institutions.

B. Time for initiatives

Europe's traditional temptation is to look inward, procrastinate, and follow the US. Europe can no longer afford to behave in this manner.

First, procrastination is a losing strategy. The longer the EU waits to recognise that the world has changed, the smaller its weight in this world will be. The time for action is now.

Second, the EU can no longer hide behind the US. For economic and political reasons, the US is now less ready than at any time since World War II to move global economic governance forward. It would be imprudent to assume that this situation will soon be reversed. Rather, European policymakers should indicate willingness to take their share of global responsibilities and build on this commitment to initiate a renewed dialogue with the US.

Third, the legitimacy of the EU in the eyes of its own citizens largely hinges on its ability to tackle global issues. An EU that has regained legitimacy by setting itself an ambitious agenda on trade, energy, global finance and climate change will be better placed to find a solution to the constitutional conundrum than one that gets lost in introspection.

C. Reforms are needed

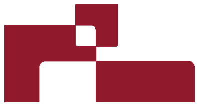
This applies especially to trade, finance and the environment. The EU should stand ready to take initiatives to unlock the global trade negotiations. It cannot anymore give precedence to sectoral interests nor render its external stance hostage to internal compromises, especially on agriculture.

The Bretton Woods institutions are another immediate area for reform. EU member states should be proactive in specifying a mandate for the EU as a catalyst for reform of the IMF's and World Bank's governance. This is a necessary, if not sufficient, condition to ensure the legitimacy of these institutions, which have played a helpful and important role in the past and could do so again in the future. Against this background, the case for a single European or, more realistically, a euro-area seat at the IMF Board is strong. Within the framework of an significant realignment of quota and votes, a unified representation would actually solve two problems. It would allow a better representation of emerging and developing countries and strengthen Europe's influence (see Box 1).

Adhesion to the Kyoto Protocol is not enough to face the challenges of climate change. While sticking to its commitments, Europe should take the lead in preparing for the emergence of a credible, globally shared approach to address the causes and consequences of global warming.

D. A new architecture

Beyond sectoral steps, the rapidly shifting balance of economic power in the world economy may urgently call for more wide-ranging reforms.



Regionalism is both a fact and a natural response to the diversity of preferences in the world economy. It is therefore bound to develop further not only in trade but also in other areas. But for regionalism to support rather than undermine multilateralism, safeguards need to be defined. Being itself the archetype of a strong and successful regional grouping, as well as a traditional supporter of the multilateral system, the EU is ideally placed to contribute constructively to this conversation. It should seize the initiative and exercise leadership in the definition of guiding principles for making regional agreements building blocks of the multilateral order. This should apply first and foremost to its own regional initiatives.

There is a need for a better political framework to define global priorities and coherent policy and institutional reforms. Specialised institutions cannot fulfil that role, which has for the last quarter of a century been fulfilled by the Group of Seven. However the G7 does not have the legitimacy to fulfil this function anymore and ad-hoc invitations to attend the head-of-state-level meetings do not suffice to engage emerging and developing countries. A better approach would be the creation of a permanent grouping at head-of-state level. An idea worth exploring would be to shift G7-G8 tasks to the G20 (Linn and Bradford, 2006).

> *"There is no point in aiming at more external influence while at the same time retaining an internal system that prevents the EU reaching decisions."*

E. External influence requires efficient internal governance

The ability of the EU to act as a global player is often hampered by its inefficient arrangements for external representation and internal decision. Common external representation does not imply federalisation. Member states can retain control rights through the definition of a mandate and the supervision of its implementation (Coeuré and Pisani-Ferry, 2006). But the reform of the EU's external representation requires a definition of the ways in which various national views are mediated and the external representatives are monitored. There would be no point in aiming at more external influence while at the same time retaining an internal system that prevents the EU from reaching decisions. This highlights the need to renew the debate on constitutional arrangements. The current framework as it results from the Nice Treaty, including decision-making by qualified majority with a high threshold, does not combine the features of efficiency and legitimacy that are called for to address today's and tomorrow's global challenges.

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