Table 4. Opening the "behind-the-borders" agenda

<table>
<thead>
<tr>
<th>Doing Business indicators (a)</th>
<th>Market size at (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ease of doing business 1</td>
<td>current USD 5</td>
</tr>
<tr>
<td>dealing with licences 2</td>
<td>PPP USD 6</td>
</tr>
<tr>
<td>registering property 3</td>
<td></td>
</tr>
<tr>
<td>protecting investors 4</td>
<td></td>
</tr>
</tbody>
</table>

**A. The EC and the cohorts of ECMS (c)**

<table>
<thead>
<tr>
<th>ECMS (all ECMS)</th>
<th>52.6</th>
<th>63.2</th>
<th>62.8</th>
<th>33.5</th>
<th>22.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC2004</td>
<td>53.6</td>
<td>40.2</td>
<td>87.6</td>
<td>72.4</td>
<td>13.9</td>
</tr>
<tr>
<td>EC1998</td>
<td>5.0</td>
<td>54.4</td>
<td>88.2</td>
<td>9.9</td>
<td>6.4</td>
</tr>
<tr>
<td>EC1992</td>
<td>55.5</td>
<td>60.2</td>
<td>59.3</td>
<td>91.2</td>
<td>4.7</td>
</tr>
<tr>
<td>EC1985</td>
<td>55.5</td>
<td>34.0</td>
<td>99.6</td>
<td>81.0</td>
<td>24.7</td>
</tr>
<tr>
<td>EC1990</td>
<td>55.5</td>
<td>11.2</td>
<td>65.0</td>
<td>64.5</td>
<td>1.7</td>
</tr>
<tr>
<td>Baltic</td>
<td>55.5</td>
<td>58.2</td>
<td>30.7</td>
<td>60.5</td>
<td>0.1</td>
</tr>
<tr>
<td>EC2007</td>
<td>55.5</td>
<td>95.4</td>
<td>100.0</td>
<td>38.0</td>
<td>0.3</td>
</tr>
</tbody>
</table>

**B. The EC neighbours**

<table>
<thead>
<tr>
<th>EFTA</th>
<th>15.6</th>
<th>45.8</th>
<th>11.0</th>
<th>102.2</th>
<th>1.7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>29.0</td>
<td>131.0</td>
<td>34.0</td>
<td>93.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Balkans</td>
<td>101.2</td>
<td>162.9</td>
<td>93.3</td>
<td>101.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Caucasus</td>
<td>21.9</td>
<td>107.3</td>
<td>7.0</td>
<td>54.5</td>
<td>0.1</td>
</tr>
<tr>
<td>East Europe</td>
<td>193.7</td>
<td>172.1</td>
<td>62.6</td>
<td>97.6</td>
<td>2.7</td>
</tr>
<tr>
<td>Ukraine</td>
<td>145.0</td>
<td>179.0</td>
<td>140.0</td>
<td>142.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Central Asia</td>
<td>156.1</td>
<td>51.3</td>
<td>67.3</td>
<td>0.3</td>
<td></td>
</tr>
<tr>
<td>Gulf countries</td>
<td>285.1</td>
<td>56.0</td>
<td>19.2</td>
<td>48.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Mediterraneans</td>
<td>104.7</td>
<td>196.1</td>
<td>114.9</td>
<td>83.0</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Sources: WDI Trade Profiles (2008), World Bank Doing Business (2008); ECMS: EC member states. Notes: (a) The "ease of doing business" indicator reflects the global "friendliness of the country's regulations towards business. (b) The "dealing with licences" focus on the regulatory costs of building (land and building amount for half to three-quarters of the wealth in most economies). (c) The "registering property" on the capacity to raise financing opportunities via collateral, and "protecting investors" on the capacity to raise transparency and trust in corporate deals. High ranks in these indicators mean high regulatory costs — hence serious obstacles to economic growth and high incentives to corruption. "Authors" of all ECMS or group of EC neighbours are GDP-weighted averages. (d) Percentage of world GDP (c) The cohorts of ECMS are defined by the year of accession, except the cohort EC3 (to which aggregates Greece which acceded in 1981) Portugal and Spain (which acceded in 1986). The Baltic countries are shown separately, but they are also included in the calculations for the EC2004 cohort.

Chapter 7
Managing the global trade agenda
Sophie Meunier and Wade Jacoby

The current financial crisis did not trigger a sudden realisation in Europe that globalisation could indeed have negative, deleterious consequences. For more than a decade, globalisation has been the source of many worries in Europe, where it is once more perceived as a danger than as an opportunity. Some Europeans see a threat to their jobs, others to their broader social welfare and others again to their entire way of life. At the same time, globalisation promises opportunities, especially to those actors who can serve new or existing markets with cheaper inputs. This blend of threat and opportunity - combined with a sense that globalisation may simply be too powerful to be resisted outright - has led many European policymakers to speak of what we term "globalisation with adjectives." Typically, the adjective injects a note of caution that suggests the embrace of globalisation is a conditional one - whether globalisation is to be "humanised," "tamed," "harnessed," or "managed." In this chapter, we adopt the term "managed globalisation" as a shortcut for all political attempts to make globalisation more palatable.

The European Union has often been vilified as a Trojan horse that helps bring globalisation into the heart of Europe. Others, however, have heralded the EU as Europe's best defense against the negative effects of globalisation. Over the past decade, European voters and politicians have
increasingly demanded that the EU actively and offensively “manage”
globalisation instead of just passively accepting it. With the current
financial crisis spreading like wildfire across the Atlantic, such demands
for managed globalisation are all the more pressing.

Has this idea of “managed globalisation” been only political rhetoric for
domestic political consumption, or instead has it been a source of real
policies with international consequences? One possibility is that
globalisation with adjectives is a purely rhetorical device. Political leaders
often try to imply that citizens are safer in their hands than they would
otherwise be because politicians are “managing” globalisation, instead of
merely letting it happen. It shows the voters that elected officials are firmly
in control, that they still have a margin of maneuver and that they have
not abdicated policymaking in the face of external forces.

Against mere political rhetoric, however, we argue that the will to manage
globalisation has indeed been a primary driver of many major policies
undertaken by the EU in the past decade. The EU has attempted to
implement policies designed to manage globalisation by using four main
mechanisms that we analyse elsewhere: exercising regulatory influence,
empowering international institutions, enlarging the territorial sphere of
EU influence and redistributing the costs of globalisation. In this chapter,
we focus specifically on how the EU has defined and operationalised these
broad functional mechanisms in the field of trade. Some mechanisms are
meant to ensure that globalisation happens on European terms, with
other countries conforming to Europe’s ways and standards. Other
mechanisms help ensure that the external challenges and pressures
brought about by globalisation have as little negative, disruptive effect on
European citizens as possible. These mechanisms are neither entirely
novel, nor are they necessarily effective. But we suggest that they provide
the contours of an approach to globalisation that is neither ad hoc
deregulation, nor old-style economic protectionism. Perhaps learning the
lessons about the EU’s experience in managing trade globalisation could
be useful as the world embarks on a vast experiment in managing financial
globalisation.

Building a set of constraining trading rules

“Managing” means altering the existing course of things and reorganising
them for a purpose. In trade, this reorganisation has involved, above all,
the establishment of sturdy, empowered international institutions with
clear rules of the game and an institutional architecture to monitor those
rules. The central idea is that rules are better than no rules, that general
rules are better than ad hoc rules, and that the EU is well placed to assert
its rule preferences and expertise vis-à-vis the rest of the world. This fits
with the EU’s global strategy of developing its own regulatory power in
order to decisively shape global governance.

Since the signing of the Uruguay Round in 1994, the EU has strongly
supported the creation of rules for settling trade-related disputes in the
WTO. This pattern holds even when many such disputes have been settled
against the EU, especially in the early days of the system, and many
criticisms were being voiced inside Europe. Managing globalisation in
trade has meant making a codified set of rules for reporting violations,
adjudicating disputes, and implementing resolutions in order to facilitate
trade liberalisation in the world. Today, the WTO’s Dispute Settlement
Body plays the well-accepted role of arbiter of differences. It gives the
losing party the opportunity to bring its regulations in conformity with the
WTO agreements and, if not, authorises the plaintiff to impose retaliatory
sanctions. This trade rule of law reduces the need for unilateral actions
and trade wars, and it contributes to the stability of the system, especially
given the twin pressures exerted by a growing number of goods and
services being traded by a growing number of countries.

The trade policy agenda of the EU currently involves improving the system
further, making it even more transparent and effective. In parallel to the
ongoing Doha round of multilateral trade talks, the EU has been advocating
changes to the dispute settlement mechanism to make the rules even more
constraining, including more permanence in the personnel of the
arbitration panels, greater transparency and greater access to the system
by the developing countries through training and assistance.

One unanticipated consequence of this establishment of strong rules of
the game is that these rules also enabled globalisation to progress even
further. Indeed, the trade barriers that did not conform to the new, clear,
multilateral rules are being torn down under the new regime. As a result,
a central paradox is that the same global institutions the EU often seeks to
strengthen have come under fierce criticism for accelerating globalisation
as opposed to managing it, and therefore have become the target of attacks
and have lost political legitimacy.

Another consequence is that while trading rules are now legally binding at
the international level, they may not be rules preferred by the EU. This
particular strategy for managing globalisation may backfire when it is too
successful. The ongoing debate over genetically modified organisms
(GMOs) is a case in point. The EU might now be subjected, by virtue of its membership in the WTO, to rules that its citizens consider neither acceptable, nor desirable.

The EU is also trying to manage globalisation in trade by widening the trade issues subject to rule-making. Since world trade is regulated by powerful international rules applying to a very large, ever expanding number of countries, the more issue-areas fall under the aegis of the WTO, the more “managed” globalisation will become. Therefore an important objective of the EU position in trade negotiations in the past decade has been to bring as many issues as possible into the fold of the WTO.

This agenda of “trade and issues” was launched in the mid-1990s, with a specific focus on trade and trading conditions, trade and environment, trade and labour laws and trade and culture. The EU championed in particular the “Singapore issues,” addressing and establishing rules for the conditions under which trading takes place (competition policy, transparency in government procurement, trade facilitation and investment), but it failed in imposing its viewpoint upon the other WTO members, especially the developing countries, which had acquired more voice than ever in multilateral trade negotiations and insisted on retaining control over these key sectors of their economy. The EU, however, is still pushing for the Singapore issues in bilateral agreements.

**Promoting multilateralism**

International institutions with muscle can help manage globalisation only if their constraining rules apply to the largest possible number of countries. Therefore, the EU has insisted on expanding the number of members in an inclusive WTO as part of its policy of managed globalisation. The more members, the more countries subjected to the rules, and therefore the less anarchy in the trading system.\(^5\)

The number of countries making, and subject to, the rules of the multilateral trading system has greatly expanded over time. From 23 original founding members, the GATT had 128 members at the time of its demise in 1994. Today, 153 countries are members of the WTO, and about 30 are involved in negotiations to join in the future. From the time of the creation of the WTO in 1995, the EU has been a champion of enlarging it to more countries, for instance pushing for the inclusion of China (member since 2001) and Russia (still pending) into the world trading system. The EU has also been instrumental in calling for the inclusion of countries such as Cambodia, Saudi Arabia, Vietnam and Ukraine in the WTO.

This broad strategy is central to EU efforts to manage globalisation, but it clearly has its risks: the more countries become members of the WTO, the more diluted the EU’s own influence within the institution and over the outcomes of international trade negotiations. Besides, the more member countries there are, the more they can band together against European interests in negotiations. Up until the end of the Uruguay Round in 1994, most of the important decisions were actually negotiated by the Quad (EU, US, Japan, Canada), when not by the EU and the US exclusively. As the Doha Round is proving, many developing countries, such as India and Brazil, have voiced their new found strength and are intent on not letting the US and the EU run the show as they did in the previous GATT rounds.

In addition to expanding the number of countries subjected to international trade rules, the EU has also insisted on prioritising multilateralism, even to the exclusion of other types of cooperation. This is a controversial policy that has recently given way to a new wave of bilateral negotiations. Under former trade commissioner Pascal Lamy’s tenure (1999–2004), the EU informally imposed a moratorium on new bilateral free trade agreements until the end of the Doha Round.\(^4\) This was a strong signal to the rest of the world that the EU was committed to making multilateralism work. This promotion of multilateralism stood in contrast to the US policy of “competitive liberalisation” during the same time, which was based on the premise that bilateral trade agreements with a host of small economies would help liberalisation at the multilateral level by unlocking stalemated negotiations (even if some of these American FTAs were clearly politically motivated, such as those with Morocco, Dubai and Bahrain, post September 11).

This EU moratorium had real consequences on the policy and negotiating strategies available to the EU during the Doha Round. Above all, because the EU’s limited its outside options at a time when the US and many countries in Asia negotiated a flurry of bilateral deals, it fundamentally shaped the EU’s negotiating position in the multilateral negotiations. Supporting multilateralism in the name of managing globalisation also put head-to-head two competing interests of the EU: on one hand, defending its narrowly defined economic interests (such as in the case of agricultural subsidies, which are under attack by a multitude of members); on the other hand, casting the net of global rules over a wider number of countries, therefore harnessing globalisation more tightly. The problem for the EU is that it does not seem to have prioritised one set of interests over the other, as the consecutive meetings in the Doha Round have shown. In principle, multilateralism should have a liberalising effect on
the world economy, as long as the clash of interests it reveals does not lead to the ultimate collapse of multilateral trade talks and a retreat to national or regional protectionisms.

Lamy’s successor, former EU trade commissioner Peter Mandelson, reassessed the direction of the EU trade policy in the Commission’s October 2006 communication, “Global Europe: Competing in the World.” This document renewed and redefined the objectives of EU trade policy in the years to come. “Global Europe” insisted on the “primacy”, not exclusivity, of multilateralism, thereby ending the moratorium on bilateral trade agreements. Therefore, the EU has now launched bilateral and regional trade negotiations with ASEAN, South Korea and India, as well as an update of the political agreement started with the Gulf Cooperation Council 17 years ago. This policy is now pursued by Mandelson’s successor, current EU trade commissioner Catherine Ashton.

Extending the EU’s territorial sphere of influence

In addition to negotiating the collective rules of globalised trade at the international level, the EU’s managed globalisation agenda also includes trying to extend its territorial sphere of influence. This happens in at least three ways. First, the EU can enlarge, admitting new states that must, by definition, conform to its rules. Second, it can try to establish a heightened level of influence on non-member states, which, in practice, has generally meant geographically proximate ones. Finally, and more ambitiously, it can try to export its model to the rest of the world. After all, the EU is itself an experiment in managed globalisation, with a four-decade long experience in market liberalisation combined with regulatory harmonisation.

By expanding its territory through enlargement, the EU “subtracts” new countries from the unadulterated reach of globalisation and therefore expands its control and influence. In the relatively long process of preparation for EU membership, the twelve CEE states that joined in 2004 and 2007 were managed in systematic ways. This strategy has yielded a number of short-term benefits for the old EU15. But it has obvious geographical/geopolitical limits. The EU cannot take on states as members just because it would like to reorder some of their international and domestic economic policies. And even though the EU is indeed trying to engineer some degree of “convergence without joining” with the countries subject to its new “Neighborhood Policy,” recent comparative data suggest that anything short of the promise of full membership tends to generate far less “compliance” with EU targets than does the offer of full membership.

In the longer term, then, another element of EU strategy has been to foster in other regions regional economic integration that is loosely in the EU’s image, for example, encouraging states in other regions to negotiate as a single entity. This has been the rationale behind the long, drawn-out negotiations with MERCOSUR for an association agreement between the two regions, as well as the Commission’s efforts towards the creation of a regional body to promote free trade in the western Balkans. Once again, the hope is that the more rules apply to more members (and the more detailed and extensive these rules), the more efficient Europe becomes in managing globalisation.

A related part of this strategy has been to conclude trade agreements between the EU and other regions. The EU offers access to its market as a bargaining chip in order to obtain changes in the domestic arena of its trading partners – from labour standards to human rights, from democratic practices to the environment. This conditionality enables the EU to leverage its trade power in exchange for a tamer, more managed competition from many developing economies. It is also a way of using trade policy to pursue foreign policy, sometimes out of the limelight and behind the back of the member states.

In addition to the obvious geographical limitations, the effectiveness of using the export of the EU model as a mechanism to manage globalisation in trade is limited in the short run. The objective of managing globalisation is, to some extent, a long-term objective. Even if the EU were to succeed in implementing all of its strategies, the payoffs would come in the future. It will take a long time for the export of the EU regional integration model to be implemented and affect positively the lives of EU citizens. In short, enlargement is an effective management tool but has limited future scope, while the Neighborhood Policy is not nearly as effective. Finally, promoting regionalism abroad is likely to pay off only in the longer term if it pays off at all.

Redistributing the benefits and costs of globalisation

Finally, managing globalisation means not only building a framework of rules within which exchange can occur, but also redistributing its costs and benefits. These strategies can play a crucial role in sustaining public support for economic openness. Some steps are purely intra-European. For example, Lamy introduced the idea of a globalisation adjustment fund before he left the Commission. At the Hampton Court EU summit in December 2005, after a wave of layoffs by multinational companies in Europe and especially in France, the 25 EU leaders, led by French President
Jacques Chirac, agreed to accompany trade liberalisation with redistribution in the form of a “globalisation fund”, in order to compensate for the negative effects of globalisation. The European Globalisation Adjustment Fund, started in January 2007, is designed to help train and relocate about 50,000 European workers a year whose jobs are lost to the dynamics of global trade. On paper, the fund is an instrument for managing globalisation in the face of globalisation pressures. It provides retraining, job search assistance and the promotion of entrepreneurship with an annual potential budget of 500 million euros. However, the fund is for the moment little more than a symbolic gesture. Less than 100 million euros have been disbursed and about 15,000 have been assisted through the fund since it entered into force in 2007.

The strategy also contemplates redistribution at the global level. That means, for instance, using non-reciprocal trade benefits to improve the economic development of the least advanced countries. The stated cornerstone of the EU’s trade policy since the launch of the Doha Round in 2001 has been to distribute fairly the benefits of globalisation, using trade liberalisation to improve the economic development of the least advanced countries. This explains some of the EU trade initiatives under Lamy’s tenure, such as the 2001 “Everything But Arms” policy, the “Access to Essential Medicines” policy designed to improve the affordability of medicines in developing countries, and the new Generalised System of Preferences (GSP) for developing countries adopted by the EU in 2005. These initiatives were an essential component of the doctrine of managed globalisation, even though they sometimes appeared to run counter to the immediate interests of the member states – for instance those who have a large pharmaceutical industry.

The strategy of ensuring the redistribution of the costs and benefits of globalisation has hit some contradictions in the current Doha negotiations. The main problem of the European commitment to using trade to foster development is that it conflicts with certain trading interests – especially in agriculture. But conflicts of interests have also emerged with respect to the access to medicine initiative, for instance, since it affects many European pharmaceutical companies concerned with intellectual property issues, who might have preferred a more aggressive defense of their trade interests.

Finally, it is not clear that the EU’s efforts to devise special trade regimes in favour of the developing countries have paid off in terms of bargaining power in multilateral trade negotiations. From a rational perspective, one could understand the strategy of redistributing the benefits of globalisation to the poorest countries as a way of creating allies in a multilateral system, where an increasing number of actors have a voice. But this does not seem to have happened in the Doha Round. At the Hong Kong meeting in December 2005, as at the Geneva meeting in July 2006, the EU found itself accused and isolated.

**Back in full force: managing globalisation for Europe**

This chapter has detailed four ways in which EU efforts to manage globalisation go beyond the undeniable rhetorical uses to which the term lends itself, even if the success of this strategy has been limited in practice. First, management entails an effort to set regulatory standards in the international economy, including outside of Europe. Second, management includes an effort to empower international organisations. Third, it involves various strategies for enlarging the territorial sphere of EU influence. Finally, management can entail efforts to redistribute the costs of globalisation.

But each segment of this agenda also makes the EU vulnerable. The EU must accept that it will lose trade cases, an outcome that tends to erode the legitimacy of their efforts to promote further institutionalisation. The EU efforts to bring more states into international trade organisations also tend to undercut their own voice inside those organisations. Its commitment to multilateral approaches left the EU with a large deficit to overcome when the US moved aggressively towards more bilateral trade agreements while the EU long kept a moratorium on such deals. The enlargement tool has few places left where it can plausibly be deployed, and the EU’s redistribution of costs to, in some cases, its own material detriment has not (yet) really bought it new allies in multilateral forums. Broadly, the central paradox is that the same global institutions the EU often seeks to strengthen have come under fierce criticism from European actors not only for not managing globalisation but for even accelerating it in some cases. As these organisations become the target of attacks, they lose political legitimacy inside Europe – a trend for which the WTO may be the best example. Moreover, we have seen an inherent, risky contradiction: the management of globalisation through trade can be successful only as the greatest number of countries and issues are covered; but more countries increases the risk that management will more likely go in directions uncongenial to EU interests – unless the EU can find a way to impose its regulations on the rest of the world.
All of these tensions are sobering as the financial crisis poses a stiff challenge to all capitalist economies. Interestingly, the term “managed globalisation” was used somewhat less under Lamy’s successor, Peter Mandelson, and the idea moved from being a primary motivator of EU policies to the back burner in the past three years. Therefore when the financial crisis hit in the fall of 2008, the initial instinctive reaction in most European countries was not one of immediately asking the EU to step up its efforts to manage globalisation. Nor was it to appeal to the WTO and bring a quick settlement to the Doha round in order to provide a boost to world trade and a stimulus to the world economy. But, more than a year of ongoing financial and economic crisis has brought back the idea, in full force, of the EU as a manager of globalisation, which the current EU trade commissioner, Catherine Ashton, has embraced.

The widespread perception that the crisis is one of a failure of regulation – including and perhaps especially those of non-European actors like the United States – is likely to increase the legitimacy of the concept in the eyes of many European voters, including many who defeated the proposed European constitution and are wary of Brussels’ perceived repeated encroachments on national sovereignty. Its decade-old experience in trying, successfully or not, to manage globalisation may give the EU a comparative advantage in the current period. “Managed globalisation” may indeed be coming back in full force as a possible savior of the current era of globalisation from its worst excesses.