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COMMENTARY

Powerless Europe: Why is the Euro Area Still a Political Dwarf?*

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I. Introduction

Although Europe's external representation in the field of economic policy is the subject of ongoing discussions, progress is being achieved at a very slow pace. There are two main reasons.

First, the degree of European integration differs substantially, depending on both the policy and on the group of countries concerned. While some policies, like monetary, trade and competition, are within the competence of European institutions, others, like fiscal and structural policies, which are also part of international policy cooperation, remain largely the competence of the Member States. Furthermore, not all 25 countries currently participate to the same extent in policy cooperation and integration within the European Union. The most obvious case is that only 12 countries participate in the euro area. This makes the issue of external representation of economic policies quite a complicated endeavour.

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The second reason is that a unified European representation can be achieved only in exchange for the Member States' seats; otherwise the number of European representatives would unacceptably increase. If the Member States believe their participation in international institutions and fora provides them with much prestige, they will tend to oppose a unified European representation. This is why Europe tends to be represented in a unified way mainly in informal or recently created fora, where the problem of national representatives having to leave their seats at the table does not exist.

One consequence of Europe's difficulty in achieving a unified representation is that it has much less influence over international policy issues than would be expected on the basis of its relative economic weight. This is particularly the case in international institutions like the IMF, where, as compared to the WTO, Europe is much less influential than the United States. Another consequence is that Europe's inability to reduce its number of representatives and speak with one voice creates tensions with other major countries, who are denied an opportunity to gain more seats at the table. A more streamlined European representation, with only a single seat for the Euro Area (EA), would open seats for other countries that could then have a greater voice and greater visibility. The legitimacy and authority of international institutions is being challenged, which is detrimental to international policy coordination. Some fora, like the Group of 10, which was dominated for years by European representatives, have lost their relevance.

This article focuses on the EA. It provides an overview of how the EA is currently represented in the most relevant institutions and fora, with a focus on the G7, the IMF and the G20.[1] It then develops arguments in favour of stronger external EA representation, both from a functional and an institutional point of view. Finally, it explores a few avenues for potential improvements to the EA's external representation.

II. The Current Situation

The way EMU is represented externally varies depending on the policy areas. As far as monetary policy is concerned, external representation is the exclusive responsibility of the European Central Bank (ECB).[2] The ECB

[1]For central banks, the Bank for International Settlements (BIS) plays of course an equally important role.

[2]Within the Eurosystem (which consists of the ECB and the national central banks of the EA), the ECB decides on the external representation of the tasks assigned to it. Article 6.2 of the Statute of the European System of Central Banks and the European Central Bank (Statute) specifies that 'the ECB and, subject to its approval, the national central banks may participate in international monetary institutions'. Article 6.3 stipulates that ECB decisions on external representation must not conflict with any decisions taken by the EU Council in

participates in relevant international policy fora, although not always in a way that fully reflects the fact that the euro is currently the second reserve currency by importance, as will be seen below.

Concerning exchange rate policies, competences in the EA are shared between the ECB and the Eurogroup (the Finance Ministers of the EA). The ECB decides on and carries out operations in the foreign exchange market. The overall framework in which exchange rate policy is conducted is the competence of the Eurogroup, in consultation with the ECB.[3] This shared responsibility is reflected in the way the EA is represented, as will also be seen below.

As far as other policies such as budgetary, financial and structural are concerned, the allocation of competences within the EA raises three types of difficulties for external representation. First, the competences are still largely the responsibility of the Member States, although they are subject to various forms of coordination at the European level. These range from a softer type, relating to structural policies (the Lisbon process), to a more binding type, such as budgetary policies in the context of the Stability and Growth Pact (SGP) or financial market policies in the context of the EU Single Market and the Lamfalussy framework.[4]

The second complication is that coordination of these policies takes place at the EU (25) level, rather than at the EA level, except possibly for budgetary issues where the discipline of the SGP is subject to tighter procedures for EA countries. The third is that competences are split between the Commission and the Council. On issues related to financial markets, competition or trade policy, the Commission has substantially greater powers, also in terms of external representation, than in other fields (labour markets, welfare, etc.).

the field of external representation on the basis of Article 111(4) of the Treaty establishing the European Community (Treaty).

[3]Article 111(1) of the Treaty provides that it would ultimately be the competence of the Council (in EA composition) to decide (by unanimity) on the conclusion of a exchange rate system for the euro in relation to non-Community currencies. However, for any such decision, as well as for subsequent decisions concerning the central rates to be applied, the Council would need to act upon a recommendation of the ECB or from the Commission and consult the ECB in order to reach a consensus consistent with the objective of price stability. An equally close interaction is foreseen in Article 111(2) with regard to the possible formulation of general orientations for exchange rate policy. The Luxembourg European Council of December 1997 made clear that such orientations should only be formulated in exceptional circumstances, such as a clear misalignment of exchange rates. See also C. Zilioli and M. Selmayr (1999), 'The External Relations of the EA: Legal Aspects', *Common Market Law Review*, 36, 273–349.

[4]The term Lamfalussy framework refers to the regulatory and supervisory framework applying to EU financial markets. It is named after Alexandre Lamfalussy, who chaired a group of wise men on this issue.

A. The Group of Seven Finance Ministers and Central Bank Governors

The G7, which brings together the world's seven largest advanced economies, was the first forum to adapt to the creation of the euro.

Before getting into the specifics, it might be useful to recall that the G7, which has recently been expanded to the G8 with the inclusion of Russia, has two formats. One is the same as the format of the summit, with nine participants: the seven countries of the G7 plus Russia and the European Union. The other consists of the G7 countries only. The difference between the two formats pertains to the issue being addressed. For the preparation of the G8 summit, the format is that of the G8 (plus the EU) and only Finance Ministers participate. When the issues relate to economic developments and policies, only the original G7 are involved, but both Finance Ministers and Central Bank Governors are included. The meetings might occasionally be extended to Russia or the European Commission on special topics of common interest, such as money laundering, the fight against terrorism or development policies.

The G7 meetings are generally divided into two parts. The first deals with surveillance of economic policies and market developments, including exchange rate issues. With the creation of the euro, as only the ECB is competent for euro area monetary and exchange rate policies, the President of the ECB replaces the Central Bank Governors of the three EA countries that are part of the G7 (Germany, France and Italy). The three Finance Ministers continue to attend, together with the President of the Eurogroup.

The second part of the meeting of the G7 deals with other matters, such as the architecture of the international financial system (i.e. the IMF and World Bank) and development policy. This part is attended by all the Finance Ministers and Central Bank Governors of the G7 countries, plus the Presidents of the ECB and the Eurogroup (Table 1). Overall, the creation of the euro has led to only a slight reduction in the participation of European representatives in the surveillance part of the G7 meeting.

A key part of the surveillance component of the G7 discussions concerns exchange rate developments between the major currencies. The discussion and the drafting of the G7 Communiqué is prepared mainly by the authorities in charge of exchange rate policies of the three main countries/areas, i.e. the US Treasury, the Japanese Ministry of Finance and, for the EA, both the ECB and the Eurogroup. Overall, the EA is well represented and the ECB and Eurogroup cooperate intensively to ensure a consistent message within the G7.

Consistency is more difficult to achieve with respect to public statements that are at times made, in quite an erratic way, before or after G7 meetings, on exchange rate issues. In theory only the President of the ECB and the

Table 1: Participation in the G7–G8 Meetings

Issues	Participants	Number of meetings per year
G8 meetings		
Preparation of Summit G8	Finance Ministers of US, Japan, Germany, UK, France, Italy, Canada, Russia and European Union*	1 (few weeks before the Summit)
G7 meetings		
1. Surveillance	Finance Ministers of G7 countries (US, Japan, Germany, UK, France, Italy, Canada) Central Bank Governors of four countries (US, Japan, UK, Canada) President of the ECB President of the Eurogroup IMF Managing Director (Observer)	3
2. Other international policy coordination issues (financial architecture, development, etc.)	Finance Ministers of G7 countries (US, Japan, Germany, UK, France, Italy, Canada) Central Bank Governors of G7 countries (US, Japan, Germany, UK, France, Italy, Canada) President of the ECB President of the Eurogroup IMF Managing Director (Observer) On some topics also: European Commissioner Finance Minister of Russia	3 (same as above)

*The EU is represented by the Finance Minister of the country holding the six-month rotating presidency and the Commissioner for Economic and Monetary Affairs.

President of the Eurogroup should speak on exchange rate issues. Such discipline has not always been easy to implement.

B. The Group of 20 Finance Ministers and Central Bank Governors

The G20 was created in 1999 to bring together the Finance Ministers and Central Bank Governors of the G7 countries, Australia and the large emerging market economies. As with the G7, G20 meetings are split into surveillance and non-surveillance sessions.

The EA is not fully represented. While the ECB participates fully, the Eurogroup President does not, unlike in the G7 meetings. Instead, the ECOFIN Presidency, which rotates every six months, does. The European Commission participates at a technical level in the delegation.

The semi-annual rotation of the ECOFIN Presidency and the resulting lack of continuity limit the effectiveness of European representation on economic issues at the G20. This is less important than for the G7 as the G20 is more of a consultative and consensus-building group. Nevertheless, it is quite difficult in such a forum to promote a truly European viewpoint.

C. The IMF

The EA's representation is least satisfactory at the IMF. The ECB has had observer status since January 1999. It participates in the IMFC, the Committee at ministerial level that governs the institution, as an observer without a recognized right to speak. This is obviously a limitation, especially for discussions on surveillance that cannot be meaningful if the representatives of the second largest currency area in the world are unable to participate fully. The Eurogroup President does not participate either, unless one of the IMFC members from the EA gives him his seat. The current Eurogroup President, Jean-Claude Juncker of Luxembourg, can speak at the IMFC meeting only if the Belgian constituency chair gives him his seat. This has happened only occasionally and for a very limited time span.

In the IMF Executive Board, the ECB also participates as an observer, with a right to intervene, in meetings dealing with EMU-related issues, including the surveillance of EU countries as well as of systemically important countries outside the EU. As far as exchange rate issues are concerned, the EA's views are presented by the ECB observer and/or the representative of the Member State holding the ECOFIN Presidency.[5] They coordinate their

[5] In case the ECOFIN Presidency is held by a non-EA country, the task falls upon the representative of the EA country next in line to hold the ECOFIN Presidency.

positions in keeping with the shared competence on this matter between the ECB and the Council.

The main alleged difficulty for EA representation is that the IMF is a country-based institution. The 24 members of the IMF's Board of Executive Directors are in charge of conducting the Fund's day-to-day operations. The United States, Japan, Germany, the United Kingdom and France – as the IMF's largest shareholders – hold individual seats,[6] while the other 22 EU Member States are spread over seven constituencies, four of which have an EU Executive Director (Table 2).

To coordinate their views, Member States have developed procedures to prepare common understandings on relevant issues such as the surveillance of systemically important economies and balance of payment assistance. While these common understandings are not binding, they can be considered a move towards more stringent forms of coordination.[7]

An Article IV consultation[8] is undertaken every year for the EA as a whole, in addition to those conducted for each Member State. The EA Member States' representatives agree on a common position, which is presented in the Executive Board by the representative of the country holding the ECOFIN Presidency.[9]

The current situation is unsatisfactory from many points of view. It is unsatisfactory for the IMF because the system of representation, with several chairs being held by EA countries, does not provide room for a greater voice for emerging market economies. As a consequence, many countries feel under-represented and question the legitimacy of the IMF. This is particularly the case in Asia, where attempts to create an Asian Fund have been discussed for some time.

The current situation is also unsatisfactory from the overall European and EA perspective because it under-represents the effective power of the EA. Even with five executive directors and over 24% of the voting shares, the EA is less influential than the United States, which has only one executive

[6]Article XII, Section 3(b)(i) of the IMF's Articles of Agreement states that 'The Executive Board shall consist of Executive Directors . . . five shall be appointed by the five members having the largest quotas'.

[7]The main preparatory body for the formation of common positions and understandings is the EU's Economic and Financial Committee (EFC). For IMF issues, there is also a specialist sub-committee, the SCIMF, which addresses relevant longer-term, strategic issues such as the IMF's current strategic review.

[8]'Article IV' consultations provide for a regular monitoring by the IMF of its member countries' economies.

[9]In case the ECOFIN Presidency is held by a non-EA country, the arrangements described in footnote 5 apply.

Table 2: Constituencies' Voting Shares and EU Countries (Shaded) in the IMF Executive Board

Constituencies	Voting share (%)	Executive director	Alternate director				
1	17.08	US					
2	6.13	Japan					
3	5.99	Germany					
4	5.13	Belgium	Austria	Belarus	Czech Republic	Hungary	Kazakhstan
				Luxembourg	Slovak Republic	Slovenia	Turkey
5	4.95	France					
6	4.95	UK					
7	4.85	Netherlands	Ukraine	Armenia	Bosnia	Bulgaria	Croatia
				Cyprus	Georgia	Israel	Macedonia
				Moldova	Romania		
8	4.27	Mexico	Venezuela	Costa Rica	El Salvador	Guatemala	Honduras
				Nicaragua	Spain		
9	4.18	Italy	Greece	Albania	Malta	Portugal	San Marino
				Timor-Leste			
10	3.71	Canada	Ireland	Antigua	Bahamas	Barbados	Belize
				Dominica	Grenada	Jamaica	St. Kitts
				St. Lucia	St. Vincent		
11	3.51	Finland	Iceland	Denmark	Estonia	Latvia	Lithuania
				Norway	Sweden		
12	3.33	South Korea	Australia	Kiribati	Marshall Islands	Micronesia	Mongolia
				New Zealand	Palau	Papua New Guinea	Philippines
				Samoa	Seychelles	Solomon Islands	Vanuatu
13	3.26	Egypt	Lebanon	Bahrain	Iraq	Jordan	Kuwait
				Libya	Maldives	Oman	Qatar
				Syria	UAE	Yemen	

Table 2: Continued

Constituencies	Voting share (%)	Executive director	Alternate director				
14	3.22	Saudi Arabia					
15	3.19	Malaysia	Indonesia	Brunei	Cambodia	Fiji	Lao
				Myanmar	Nepal	Singapore	Thailand
				Tonga	Vietnam		
16	3.00	Tanzania	Kenya	Angola	Botswana	Burundi	Eritrea
				Ethiopia	Gambia	Lesotho	Malawi
				Mozambique	Namibia	Nigeria	Sierra Leone
				South Africa	Sudan	Swaziland	Uganda
				Zambia			
17	2.94	China					
18	2.84	Switzerland	Poland	Azerbaijan	Kyrgyz Republic	Serbia	Tajikistan
				Turkmenistan	Uzbekistan		
19	2.74	Russia					
20	2.47	Iran	Morocco	Afghanistan	Algeria	Ghana	Pakistan
				Tunisia			
21	2.47	Brazil	Colombia	Dominican Rep.	Ecuador	Guyana	Haiti
				Panama	Suriname	Trinidad	
22	2.40	India	Sri Lanka	Bangladesh	Bhutan		
23	1.99	Argentina	Peru	Bolivia	Chile	Paraguay	Uruguay
24	1.41	Equatorial Guinea	Rwanda	Benin	Burkina Faso	Cameroon	Cape Verde
				C.A.R.	Chad	Comoros	Congo, D.R.
				Congo, R.	Côte d'Ivoire	Djibouti	Gabon
				Guinea	Guinea-Bissau	Madagascar	Mali
				Mauritania	Mauritius	Niger	São Tomé
				Senegal	Togo		

Source: IMF (August 2006).

director and a little over 17% of the votes. This issue has been widely examined in the literature.[10]

III. Reasons for a Stronger EA External Representation

This section examines five reasons EA external representation should be further strengthened.

A. Shared Economic and Financial Interests

The first reason for a stronger external representation is that in an increasingly globalized world the members of the EA tend to share the same interests, including in those areas where the policy responsibility has remained at the national level. Even when views do not fully coincide, the distance between EA countries' positions is smaller than between those of non-EA countries. It would thus be more efficient to first achieve a common EA position and then negotiate with the other constituencies, thereby exploiting the stronger voting share of the EA, as is done with trade negotiations.[11] In this context, it would be more efficient to exploit synergies through a common representation, as in the WTO. A few examples of shared interests are considered below.

First, as multilateral surveillance has gained in importance in light of the increasing integration of the world economy, the impact of each EA member state can only be minimal. Monetary and exchange rate policies have been unified in the EA. For the other policies, be they structural or fiscal, each EA country is too small to make an impact on the overall discussion on its own. On structural and budgetary policies, which are an important part of the adjustment process of global imbalances, unless the EA takes a common view it cannot fully participate in the multilateral cooperation framework.

The relative size of EA countries is bound to decrease further as emerging market economies grow and develop. EA countries can have an impact on global discussions, including on issues that pertain to national policies, like structural or budgetary policies, but only if they speak and act in a unified way.

[10]See L. Bini Smaghi (2006), 'IMF Governance and the Political Economy of a Consolidated European Seat', in E. M. Truman (ed.), *Reforming the IMF for the 21st Century, Special Report 19*, Institute for International Economics, Washington, DC, April.

[11]On the relationship between the distribution of preferences and the pooling of votes from a more general perspective, see also J. Frieden (2004), 'One Europe, One Vote? – The Political Economy of European Union Representation in International Organisations', *European Union Politics*, 5(2): 261–76.

Another important area for international cooperation is the liberalization of capital markets and cross-border capital flows. Spillovers have become more important and a source of vulnerability. In this vein, the focus of international cooperation has shifted from exchange rate management, which was initially at the heart of the Bretton Woods system, to issues such as external debt sustainability and systemic macroeconomic and financial stability. Both issues are of interest to EA countries and it is hard to conceive why they should have different views, given their common interests. They can maximize their positions by acting jointly in the relevant fora.

Another area of importance for the EA is its relationship with neighbouring countries. Regional economic integration in Europe has not stopped at the Union's borders. Over the past decade, economic and financial links with the neighbouring countries have become stronger, reflecting increased trade relations and capital flows. In parallel, the EU has developed closer forms of cooperation through its Neighbourhood Policy, which, *inter alia*, provides neighbouring countries with access to financial assistance. At the same time, Europe's neighbouring countries may also receive financial support from international institutions (in particular the IMF). As the EU pursues common interests which are agreed upon within the competent European bodies, it would be consistent to follow a similar policy line in the context of international bodies.

B. Maximizing Synergies

The EA has, in terms of membership, 43% of the share of the G7, 20% of the G20,[12] 40% of the OECD and 8% of the WTO. It holds 24% of IMF quotas and is the provider of a large number of UN contributions.[13] In spite of these numbers the EA appears less influential than it should be in international policy cooperation. Evidence bears out a lack of influence and agenda-setting capability. For instance, the measures taken in response to the Asian financial crisis of 1997–98 were mainly dictated by the United States, despite the fact that the exposure of European banks was considerably larger than that of US banks.[14] The main agenda setter at the IMF remains the United States, with 17.4% of IMF voting shares. This power derives in part from the fact that, as the largest shareholder and the only 'super-majority'

[12]Fifteen per cent if the ECOFIN President comes from a non-EA country.

[13]See also J. Pisani-Ferry (2005), 'The Accidental Player: EU and the Global Economy', lecture at the ICRIER, New Delhi, 25 November.

[14]See also S. Everts (1999), 'The Case for Mr. Euroland', *Centre for European Reform Bulletin*, 8, October.

Table 3: Voting Shares and Voting Powers in the IMF Executive Board

		50% majority threshold		70% majority threshold		85% majority threshold	
Constituency[a]	Voting share	Voting power	Blocking power	Voting power	Blocking power	Voting power	Blocking power
United States	17.08	21.48	65.46	11.12	98.85	6.65	100.00
Japan	6.13	5.81	17.71	6.46	57.38	5.84	87.87
Germany	5.99	5.68	17.31	6.32	56.17	5.79	87.02
Belgium	5.14	4.87	14.84	5.47	48.64	5.36	80.67
France	4.95	4.69	14.29	5.28	46.92	5.25	78.97
United Kingdom	4.95	4.69	14.29	5.28	46.92	5.25	78.97
Netherlands	4.84	4.59	13.97	5.17	45.92	5.18	77.93
Mexico	4.27	4.04	12.32	4.58	40.68	4.78	71.92
Italy	4.18	3.96	12.06	4.49	39.88	4.65	69.93
Canada	3.73	3.53	10.76	4.01	35.67	4.30	64.60
Finland	3.51	3.32	10.12	3.78	33.60	4.10	61.72
Korea	3.32	3.14	9.57	3.58	31.81	3.93	59.10
Egypt	3.26	3.08	9.40	3.51	31.24	3.87	58.24
Saudi Arabia	3.22	3.05	9.28	3.47	30.86	3.83	57.67
Malaysia	3.17	3.00	9.14	3.42	30.39	3.79	56.94
Tanzania	2.99	2.83	8.62	3.23	28.69	3.61	54.27
China	2.94	2.78	8.47	3.17	28.21	3.56	53.50
Switzerland	2.85	2.70	8.21	3.08	27.36	3.47	52.12
Russia	2.74	2.59	7.89	2.96	26.31	3.35	50.39
Iran	2.47	2.34	7.12	2.67	23.74	3.06	46.01
Brazil	2.47	2.34	7.12	2.67	23.74	3.06	46.01
India	2.39	2.26	6.88	2.58	22.98	2.97	44.68
Argentina	1.98	1.87	5.70	2.14	19.06	2.50	37.61
Equatorial Guinea	1.44	1.36	4.15	1.56	13.88	1.85	27.81

[a]Current executive director.
Source: L. Bini Smaghi, 'IMF Governance Reform and the Political Economy of a Consolidated European Seat' (2006, op. cit.).

veto-player,[15] the United States dominates the IMF's Executive Board by exerting more voting power than its formal share allotment.[16] This is shown in Table 3, taken from Bini Smaghi (2006), which calculates effective voting power on the basis of the ability to build coalitions with other constituencies.

[15]According to the IMF's Article of Agreement, a number of issues of fundamental relevance for the fund need to be decided with a majority of 85% of shares ('super majority').

[16]See L. Bini Smaghi (2006, op. cit.) and D. Leech (2002), 'Voting Power in the Governance of the International Monetary Fund', *Annals of Operations Research*, 109, 375–97.

The current arrangements for external representation fall short of fully exploiting the potential leverage that Europe could have in international bodies. Coordination between country representatives is based on common understandings, which often tend to reflect the 'lowest common denominator'. In fact, EA coordination usually reacts to IMF and G7 agendas rather than the other way round. Without strengthening its external representation on EMU issues, Europe will, as Jean Pisani-Ferry pointedly remarked in a recent paper, remain an 'accidental player' on the global scene.[17]

In sharp contrast to the internationally negligible weight of EMU's economic pillar, Europe's common representation in the field of trade policy suggests that, when Member States work in a unified way, the EU increases its effectiveness in international negotiations and can even set the agenda. Once a common position is defined and agreed upon in the EU, its unitary representation at the WTO has proved a very efficient lever for getting Europe's common positions across. In his 'legacy paper', former Commissioner Pascal Lamy argued along these lines:

> The experience of the past five years shows that, when it chooses to pursue a truly federal policy, the EU can play a decisive role on the world stage. Together, we have a far greater 'weight' than the sum of the Member States. We have the ability, not only to resist initiatives . . . but also to set the international agenda. The priority given to development in the Doha Agenda . . . [is] evidence of this pivotal European role.[18]

C. Legal Requirements

The Treaty contains specific requirements, which suggest that Member States have an obligation of close cooperation in international fora.[19] In practice, although the Treaty cannot change Member States' international rights and obligations (such as those under the IMF's Articles of Agreement), it provides for measures to control how Member States should exercise

[17]See J. Pisani-Ferry (2005, op. cit.).

[18]European Commission (2004), 'Trade Policy in the Prodi Commission 1999–2004 – An Assessment', November, p. 4.

[19]This paper does not aim to provide a full-fledged legal analysis. For a more comprehensive picture, see, in particular, B. Steinki (2003), 'Competencies of the European Community on IMF Matters: An Overview of the Key Legal Questions', IMF, *Current Developments in Monetary and Financial Law*, 2, 109–47; C. W. Hermann (2002), 'Monetary Sovereignty over the Euro and External Relations of the EA: Competences, Procedures and Practice', *European Foreign Affairs Review*, 7, 1–24; C. Zilioli and M. Selmayr (1999, op. cit.), and R. Frid (1995), *The Relations between the EC and International Organisations*. Leiden: Martinus Nijhoff.

them. On the basis of the Treaty, Member States are required to align their external obligations with the Community framework.

In a seminal opinion, the European Court of Justice (ECJ) gave more substance to these obligations by arguing that

> ... when it appears that the subject–matter of an international convention falls in part within the competence of the Community and in part within that of the Member States, it is important that there is a close association between the institutions of the Community and the Member States both in the process of negotiation and conclusion and in the fulfilment of the obligations entered into. This duty of cooperation ... results from the requirement of unity in the international representation of the Community.[20]

The ruling of the ECJ reflects a number of general Treaty principles which seem relevant in the present context of EA external representation.[21] In particular, Member States must take all appropriate measures to ensure fulfilment of their Treaty obligations and are bound by a general obligation of loyalty that imposes a duty of sincere cooperation to achieve the objectives of the Community. In international organizations such as the IMF, where the Community is not a full member,[22] Member States speaking on Community matters act as Community agents and, as in a regular principal–agent relationships, are bound by instructions from the relevant Community bodies.

D. International Pressure

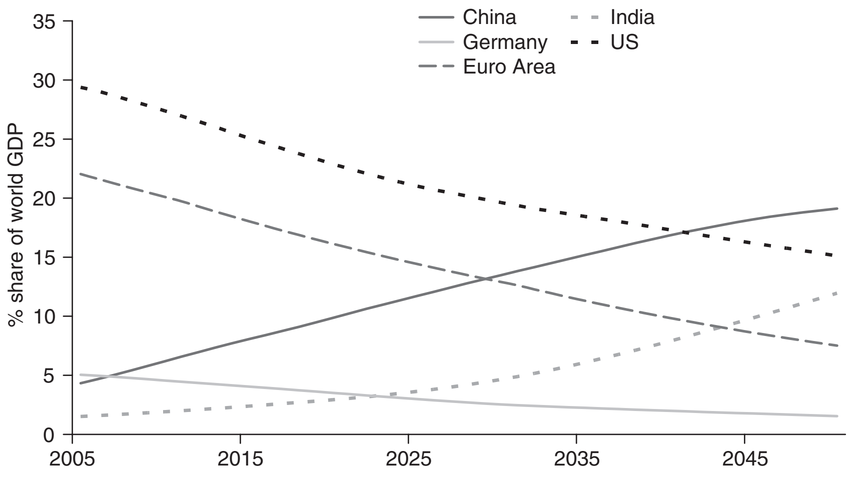
While Europeans remain hesitant about the need for a consolidated representation, outside its borders the Union is increasingly perceived as a single economic and monetary entity. This can, in part, be explained by the fact that outsiders do not have a full understanding of the complex division of labour between the Community, the Member States, other levels of government and other organizations. There is a gap between how the EA is perceived externally (as an essentially single unit with common interests) and the high number of different representatives.

The pressure to consolidate also comes from underlying economic trends, which will change the relative size of economies. Extrapolating the recent

[20]ECJ Opinion 2/91 [1993] ECR I – 1061, paras 36 and 37.

[21]The key provision in this respect is Article 10 of the Treaty.

[22]Unlike in the WTO, where the Community has become a full member alongside the individual Member States. As trade is an exclusive Community competence, only the Commission takes the floor at WTO meetings.



Graph 1: Shares of key emerging economies in world GDP in % (in PPP).

Sources: IMF, European Commission, Goldman Sachs.

rates of growth of the major economies, the EU and EA are likely to be overtaken within the next 30 years by China and India (Graph 1).[23] The largest EA country, Germany, would have an economy not larger than 3% of world GDP. Unitary representation on EMU issues might be the only way to preserve Europe's place among global economic powers.

Some have argued that with regard to the EMU's external representation, 'the present system is conceived for happy times'.[24] Europe should make sure that its external representation in the field of EMU also holds water in 'unhappy times'.

E. Citizen Support

Apart from the validity of the many arguments in favour of a stronger external representation, it is also worthwhile to assess the extent to which such a move would find the support of the general public. There are no specific figures to assess whether a more unitary representation on EMU issues would have the support of EA citizens. However, it is notable that 73% of EA citizens consider the euro an international currency comparable

[23]See also A. Virmani (2005), 'A Tripolar Century', ICRIER Working Paper 160, March, p. 10.

[24]J.-V. Louis (2003), 'Governing the EMU or Governing the EU', *Revue bancaire et financière*, 67(6), 341–7.

to the US dollar or Japanese yen.[25] It is also striking that a clear majority of citizens in every Member State consistently support a common foreign policy.

EA citizens have little knowledge of the functioning of international institutions and fora and how their countries' interests are represented and defended. The participation of Finance Ministers or Central Bank Governors in the various G's or in the IMF is hardly noticed by the public at large. It is mainly an issue of personal prestige for the persons directly interested. To be sure, many European citizens are concerned that the EU does not do enough to govern globalization so as to safeguard their interests. This seems to have been one of the main factors behind the negative votes in the French and Dutch referenda on the EU Constitution.

EU institutions do not have much power in the global scene, where the Member States maintain their role. This gives rise to a vicious circle. On one side, EU citizens would like globalization to be governed to ensure a smooth transition and a fair adjustment. On the other side, EU Member States do not want to give the EU, or the EA, greater powers to represent and defend European interests. As a result, the EU is scarcely effective in governing international institutions and fora. EU citizens tend to blame the EU institutions rather than their own political spheres. This is often fuelled by national authorities who also blame the EU for problems affecting their countries. As a result, the EU becomes less popular, and it is not surprising that EU citizens are wary of greater integration.

The real obstacle to stronger EA representation does not reside in the aversion of its citizens but rather in its national institutions and policy makers' reluctance to leave their seats at the table. The latter believe that they are still able to influence international financial policies through their direct participation in institutions and fora. The problem is not new and often emerges at the European level. It is only human for each national representative to believe that he/she has a very important role to play at the table with other international representatives. It is also very difficult to realize that the other representatives do not really attach much importance to national positions and rather request a common EA position. Unless national representatives are particularly gifted in understanding the little power that they have in their current role, they will tend to use all possible arguments to oppose a single EA representation. The ultimate argument is 'the political conditions are not yet ripe', which means in plain words 'I don't like it'.

[25]See Eurobarometer flash report (2005), 'The Euro, Four Years after the Introduction of Banknotes and Coins', November.

IV. Overcoming the Obstacles to Enhanced EA Representation

The Treaty contains only a general clause for the external representation of the EA (Article 111(4)). The task of laying down the precise arrangements is left to the Council.[26]

While there has been ample time since the ratification of the Maastricht Treaty in 1993 to establish an efficient external representation, little action has been taken. An attempt by the Commission, in 1998, to establish a coherent framework of EA representation based on Article 111(4) of the Treaty failed due to insufficient support from Member States. The subsequent Vienna European Council, partially drawing on the Commission proposal, agreed on some arrangements to ensure EA representation at the international level, including the roles of the Presidents of the ECB and the ECOFIN/Eurogroup in relevant international fora such as the G7 and the IMF.

Since Vienna, Member States have been willing to consider very limited steps towards practical improvements of the EA's external representation, without going beyond the scope of intergovernmental agreements. This still seems to be the prevailing mood.

Attempts to streamline the EA's external representation have, so far, met with the resistance of entrenched national interests. EMU has, paradoxically, led to an increase (rather than a decrease) of European participants in international fora. On the other hand, the emergence on the world scene of other systematically important players like China, India and Brazil becomes ever more compelling. As Mervyn King said recently,

> As we looked around the table it was obvious that some of the key players, such as China and India, were not present . . . the membership of the top table must change with circumstances . . . India and China have to be at the table.[27]

The most ambitious response to the changed parameters in international cooperation, and the only one that would properly ensure effective EA representation at the IMF and other international fora, would be the creation of a single EA chair. While this solution has been widely discussed, its

[26]Article 111(4) provides that 'the Council acting by a qualified majority on a proposal from the Commission and after consulting the ECB, shall decide on the position of the Community at international level as regards issues of particular relevance to economic and monetary union and on its representation, in compliance with the allocation of powers laid down in Articles 99 and 105'. The Treaty of Nice extended qualified majority voting, which now applies to Council decisions on both EA positions and their representation (previously, decisions on the latter required unanimity).

[27]See M. King's speech of 20 February 2006 to the ICRIER on 'Reform of the International Monetary Fund', New Delhi.

political backing has so far been rather limited.[28] A notable exception is the European Parliament, which, in a resolution adopted in March 2006 on the strategic review of the IMF,

> calls on the Member States to work towards a single voting constituency – possibly starting as a euro constituency, with a view, in the longer term, to securing consistent European representation . . .

A single EA representation at the IMF would be commensurate with the creation of the single currency and its role and interests at the international level. Applying the IMF's current quota formula, a single EA chair would bring together as much as 24% of IMF voting shares, compared to the 17.4% held by the United States.[29] A single chair could significantly strengthen the EA's influence by enhancing its coalition-building potential and agenda-setting capacity. From a more general perspective, such a move would correspond to a broader trend towards greater regional coherence within the Fund, which has been identified as one emerging pattern of constituency building over past decades.

The obvious question is why, if such a scheme represents clear gains for the EA, it has not already been implemented.

The most obvious explanation is the fear of some Member States (and possibly also national central banks) of losing prestige, power and influence. This loss is somewhat illusory because any seat at the table, be it in the IMF or any of the G's, has by itself very little influence, and only becomes influential when it forms part of a broader coalition. Each IMF constituency in itself has very limited influence on IMF issues, including those affecting the other members of the constituency. It is argued by some, for instance, that having many non-EU countries participating in constituencies led by EU, or EA, countries enhances the influence of the latter, and therefore of

[28]Cf. L. Bini, Smaghi (2004), 'A Single EU Seat at the IMF?', *Journal of Common Market Studies*, 42, 229–48, and (2006, op. cit.); E. M. Truman (2006), 'Rearranging IMF Chairs and Shares: The Sine Qua Non of IMF Reform', *Reforming the IMF for the 21st Century*, Institute for International Economics, *Special Report 19*; G. Mahieu, D. Ooms and S. Rottier (2003), 'The Governance of the International Monetary Fund with a Single EU Chair', *Financial Stability Review*, Banque Nationale de Belgique, and (2005), 'EU Representation and the Governance of the International Monetary Fund', *European Union Politics*, 6, 493–510. D. Leech and R. Leech (2005), 'Voting Power Implications of a Unified European Representation at the IMF', LSE Research Online; E.-R. Perrin (2006), 'La représentation de l'Union Européenne dans les institutions financières internationales: vers une chaise unique?', *Questions d'Europe – Les policy papers de la Fondation Robert Schuman*, 20.

[29]However, it is unlikely that an EA chair's voting rights would be calculated in such a mechanical manner. Even allowing for technical corrections, however, the EA would still have a blocking minority on fundamental IMF policy decisions requiring 85% of votes.

Europe. Such a contention can hardly be proven. The influence of the US on individual country matters, and on the way the IMF deals with these countries, is far greater than even that of any member of the same constituency.

How can this obstacle be overcome? Like in many other cases of the past, it cannot be expected that the initiative for greater political integration will be taken by whose power would have to be devolved to the EA. It cannot thus be expected that Finance Ministers will be the main promoters of a single EA representation in international financial policy fora. This type of initiative has to come from the Heads of States or Foreign Affairs Ministers. This does not mean that Finance Ministers are not associated at some stage in the design of the scheme. This was the case for the project of Monetary Union, which was started by a joint initiative by the French and German Foreign Ministers (Dumas and Genscher) and picked up by the Heads of State and Government, and involved at a later stage the central bankers as part of the Delors Committee.

V. Conclusion

Although the Euro Area (EA) is an important actor in the international financial system, it clearly punches below its weight.

The solution to this under-representation of the EA is easy in theory but not in practice. It would require some of the national representatives who actually sit at the table of international institutions and fora to give up their seats for EA representatives. This is not easy, mainly for reasons of personal prestige.

External events are putting increasing pressure on Europe to get its act together. As China and India emerge as the new economic powers, the EA will be forced to strengthen its common representation at the global level. Willingly or not, this is the only way forward.

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