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Workshop on Regulatory assessment and Decision Analysis *and* Effective Policy making.

Topic: Economic Integration and FTAs

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Prelude. Basic problem.

- Formerly economic activity took place primarily at the national level. Regulatory framework was also national.
 - Now economic activity is being globalised but a large part of regulatory framework and legislation is still national.
 - The main problem: Ensure that economic activity and regulatory framework plus legislation operate on the same level.
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TEACHER : Boys' can you give an example of Globalization?

Answer : Yes sir. It is Princess Diana

Question : "...How???"

Answer : "An *English* princess

with an *Egyptian* boyfriend

crashes in a *French* tunnel

driving a *German* car

with a *Dutch* engine

driven by a *Belgian* driver

who was high on *Scottish* whiskey,

followed closely by *Italian* Paparazzi,

treated by an *American* doctor

using *Brazilian* medicines

and now

DEAD !"

I. The former and the new model (1).

The former – national – model was based upon.

- ❑ Nationalism.
 - ❑ Pursuance of national interests.
 - ❑ Safeguard of sovereignty.
 - ❑ Von Clausewitz: Crisis – conflict – confrontation → possible war.
 - ❑ Protect the nation-state. Gain on behalf of other nation-states, zero sum game.
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I. The former and the new model (2).

The new – international – model is based upon:

- ❑ Transnational forces.
 - ❑ Supranational enterprises.
 - ❑ International organisations.
 - ❑ Multinational civic society.
 - ❑ New strategic thinking: Co-operation – compromise – consensus → Global governance.
 - ❑ Protect globalisation. Positive sum game.
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I. The former and the new model (3).

Legitimacy of the political system. Protection of the citizen.

- Formerly: Threats – militarily and economically – against nation-states.
 - Now: Threats at human security, human welfare, stability of society: Well functioning of society. Economic↑ Military ↓
 - How to deliver when regulatory framework and legislation becomes more international hence outside the grasp of national political system
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II. Changed outlook–new definitions (1)

- ❑ Regulatory framework slips out of national box.
 - ❑ Cuts link nation-state ↔ corporations.
 - ❑ Asymmetry. Established players + established interests less influence on regulatory framework. Unknown players with unknown interests more influence.
 - ❑ Different target. Economic integration: protect nation-state + globalisation. FTAs liberalise trade rules in a broad sense.
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II. Changed outlook–new definitions (2)

- ❑ Transfer/pooling of sovereignty.
 - ❑ Sovereignty (power) not fixed/static but can be increased and exercised at several layers at the same time.
 - ❑ Globalisation makes the conventional notion of sovereignty meaningless.
 - ❑ Domestic rules interact with economic internationalization and international rules to enlarge room of manoeuvre – economically and regulatory framework.
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II. Changed outlook–new definitions (3)

- ❑ Nation-state pursue own political preferences. Legitimacy political system.
 - ❑ Only in conformity with and not in contradiction to international rules.
 - ❑ Nation-state shifts from defensive attitude to offensive tactic shaping international rules.
Examples (1): Nuclear power stations. Haze.
Examples (2): SARS. Bird flu
 - ❑ The defense of nation-states sovereignty takes place internationally.
 - ❑ Adjustment burden on other nation-states.
Example: Technical standards.
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II. Changed outlook–new definitions (4)

- ❑ Legislation and regulatory framework shift from national level to international level.
 - ❑ How to ensure
 - transparency
 - accountability
 - legitimacy
 - ❑ How to make an international political system responsive to OUR needs and wishes.
 - ❑ Which channels to built up? A whole new pattern of political communication with new players.
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III. The EU System (1).

- ❑ Supranational.
 - ❑ Conceptually accept the realities and draw the consequences by pooling sovereignty.
 - ❑ EU rules directly applicable in nation-states, takes precedence over national legislation.
 - ❑ Answer the question above: How to ensure transparency, accountability, legitimacy.
 - ❑ A European model but basic elements universal.
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III. The EU System (2).

- ❑ Commission - Europe
 - ❑ Independent of member states
 - ❑ Exclusive right of initiatives
 - ❑ The guardian of the treaties
 - ❑ Why? The driver of integration, look at EU as a whole disregarding national interests.
 - ❑ How to know what is going on, how to influence?
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III. The EU System (3).

- ❑ Council – member states
 - ❑ Decision-maker
 - ❑ Ref EU rules↑National rules↓ explains why member states must be ultimate decider.
 - ❑ Unanimity, simple majority, qualified majority (QMV).
 - ❑ Negotiation process heavily influenced by QMV.
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III. The EU System (4).

- ❑ QMV. Break through 1986, Single Market
 - ❑ Force member states to negotiate in earnest
 - ❑ Explain negotiating position → pressure on domestic group to explain and understand
 - ❑ Consensus and compromise. Join a consensus to get i.a. 75% or say no and get nothing. You cannot block!
 - ❑ Education in INTERNATIONAL POLITICAL MATURITY.
 - ❑ Link EU → domestic political system.
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III. The EU System (5).

- ❑ European Parliament
 - ❑ More and more influence.
 - ❑ Only powers to block.
 - ❑ Still consultative.
 - ❑ Moving gradually towards people`s chamber in a bicameral system but slowly.
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III. The EU System (6).

- Court of Justice
 - A powerful institution getting influence on the integration
 - Not only institutions and member states but also individuals can take matters to the Court and they do!
 - Remarkable example of a rule based international system
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III. The EU System (7).

- Analysed over the years the EU is moving towards a bicameral system – commission/government, Council/Senate, parliament, Supreme Court. Still some way to go
 - The reason
 - the new model, international
 - offensive interpretation of sovereignty and nation-state`s political preferences
 - Legitimacy of political system
 - Most important of all: If you stop halfway in an integration you will face all the problems but you limit political instruments to deal with them
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IV. Two case studies (1) - EMU.

- ❑ The long march – 1969→ 2002.
 - ❑ Economic interdependence→Congruous economic policies→EMU→reap the benefits of a de facto situation.
 - ❑ Background. Exchange rate adjustment no longer effective economic policy instrument.
 - ❑ Regulatory impact
 - Strong: Single market for goods, freedom for labour and capital, monetary policy, fiscal policy?
 - Weaker/slower: Tax harmonisation, services, restructuring across borders, supervision financial institutions
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IV. Two case studies (2) - WTO.

- ❑ Common External Trade Policy (CET) sovereignty transferred, the Commission negotiates.
 - ❑ Mandate approved by the Council by QMV.
 - ❑ Each member under pressure, yes, but also enhanced possibilities for pursuing national interests, EU weighs more than one of the member states.
 - ❑ The challenge is to convince the other member states that `our` problem must be on the list.
 - ❑ Common denominator between national interests, European interests, responsibility for international trade system.
 - ❑ WTO two things at the same time. Protect globalisation and liberalise trade/instrument for nation-states.
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V. New players.

- ❑ Nation-state – change in attitude
 - ❑ International institutions
 - ❑ Multinational companies – political enterprises
 - ❑ International civic society – pressure groups
 - ❑ Regions inside nation-states
 - ❑ Cross border regions
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VI. Conclusion

- ❑ Objective: legitimacy. How?
 - ❑ International political system.
 - ❑ Make the system effective – international – same level as realities.
 - ❑ Channel players into the system – more transparency, predictability – risk taking less risky!
 - ❑ Due diligence, corporate governance, corporate compliance.
 - ❑ Level the playing field: Economic realities, political control, corporations.
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