The State of the European Union: American Perspective is Volume 2 of the European Union Studies Association (EUSA) series. EUSA is a large, interdisciplinary association interested in the construction of the European Union (EU) and its impact on the world economy. Each edition of this series is sharply focused by a team of prominent and well-known contributors. The current volume is edited by Nicolas J. Sarkozy and Craig Press.

Observers of European integration “Atlanticized.” From the perspective of Washington, the European Union (EU) has been the second major actor on the world stage, most often as the partner with the United States in the fight against terrorism. This is a response to the seemingly ever-present strategic dominance over Europe, the EU, and the Euro. The renewal of the European Union’s (EU) Single Market Program and the EU’s growth in general, as well as the transatlantic trade and exchange rates, have saved the “Europe of Europe has consistently been a part of the US and Europe.”
Trade and money lie at the heart of the European Union (EU) as a polity. Fostering trade among its members and promoting unity vis-à-vis the USA and other trading partners were original *raisons d'être* of the European Economic Community. From its very beginning in 1957, the Community has been a single actor in legal terms in international trade policy and thus a global player in trade relations. In 1999, the introduction of the single currency made the euro area a single actor formally in monetary and exchange rate policy as well. Long since a global player in international trade, the EU is now emerging as a global player in money and finance.

As decision-making processes in economic policy become increasingly federal, the EU acquires greater weight on the world stage. The EU and the USA are now quite similar, as illustrated by a few basic indicators presented in Table 4.1. Their Gross Domestic Products (GDP) are roughly comparable. In 2003, the GDP of the euro area was three-quarters that of the USA, while that of the EU-15 was slightly below, and that of the EU-25 slightly above that of the USA. The GDP of Japan, the next largest single economy, was roughly 40 percent of that of the EU. The euro-area and US populations are also roughly comparable (309 million and 291 million, respectively), while the population of the EU-15 (382 million) and the EU-25 (456 million) greatly exceed that of the USA. The total exports and imports of the EU-15 (about $3 trillion) substantially exceeded those of the USA ($2.6 trillion). In 2003, the EU-15 ran a trade surplus of about $160 billion, while the USA ran a trade deficit of about $490 billion. Finally, the international reserves of the euro area ($223 billion, excluding gold) also greatly exceed those of the USA ($75 billion), though were less than one-third those of Japan. European integration thus gathers under one political entity formidable economic clout, shifting the structure of global economic relations.

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The EU's Role in

broad structural similarities might
and internal politics also bear on pri
cause preferences to diverge. Trans
in the past, but it is far from com

The status of the EU as a heavy
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gradually. Europeans had hoped to
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national stage and raise its stature.
While this remains a prospect, it is
far fallen short of the role the com
politics. We argue that institutions

difference.

This chapter compares the EU’s
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As the EU's global role strengthens, it becomes increasingly important as a
partner for the USA, both in conflict and well as cooperation. Whether the
EU is inclined to challenge or cooperate with the USA depends in turn on
how its preferences compare to those of its main transatlantic partner. While

| TABLE 4.1. Comparison of Europe, United States, and Japan, 2003 |
|-----------------|-----------------|-----------------|-----------------|-----------------|
|                 | EU-25 | EU-15 | Euro-12 | US   | Japan |
| Population (million) | 457   | 382   | 309    | 291  | 127   |
| GDP (billion $)      | 10,936| 10,444| 8,148  | 10,854| 4,278 |
| GDP per capita (thousand $) | 24.0 | 27.3  | 26.4   | 37.3 | 33.6  |
| Exports of goods and services (billion $) | n/a  | 1,477 | 1,530  | 1,042| 505   |
| Imports of goods and services (billion $) | n/a  | 1,562 | 1,389  | 1,530| 436   |
| International reserves minus gold (billion $) | 425  | 321   | 223    | 75   | 663   |
| Stock market valuation (trillion $) | 7.9   | 7.8   | 4.9    | 14.3 | 4.9   |
| Bond market valuation (trillion $)* | 13.1  | 12.8  | 10.2   | 19.1 | 6.9   |
| Outstanding bank loans (trillion $)*| 18.0  | 17.7  | 12.8   | 5.9  | 6.2   |

Notes: GDP data for all countries, exports and imports data for EU 15, US and Japan converted into dollars at a rate of 1.2 dollars per euro (average for 2003); exports and imports data for EU 15 excludes intra-group trade and assumes that services trade is distributed in the same proportion as merchandise trade; exports and imports data for EU 12 excludes intra-group trade and is converted into dollars at a rate of 1.12 dollars per euro.

*2002 Data.

1Assets of commercial banks.

The EU’s Role in Global Trade and Finance

1. The EU As a Political Heavyweight in Trade

If there is any area in which the EU has unquestionably become a leading power in the international system, it is clearly in the field of trade. The Founding Fathers of Europe might have envisioned long-term political prospects for the European Community, but they conceived it primarily as a common trading area with external borders. The objective of the 1957 Rome Treaty was indeed to create among the original six members a customs union in which there would be no barriers to trade and a common external tariff would be applied to imports from third countries. From its very beginning, then, the Community became a single actor in international trade policy and almost immediately started talking on an equal legal footing with the USA in commercial negotiations. With sustained economic growth and successive enlargements from six to twenty-five countries, the influence of the EU in international trade politics and negotiations strengthened over the decades.
1.1. Institutions and Processes of EU Trade Policy

The common commercial policy is based on three main principles: (a) a common external tariff, (b) common trade agreements with the rest of the world, and (c) the uniform application of trade instruments across member states. The EU competence over trade policy covers various roles. In addition to participating in multilateral trade negotiations, the EU concludes and monitors commercial agreements with many countries (such as free trade agreements with the European Economic Area and preferential agreements with Mediterranean countries and African-Caribbean-Pacific countries under the Lomé, and later Cotonou Conventions). The EU is also in charge of protecting its member states against unfair trade practices, mainly through the use of policy instruments to deal with dumping and subsidies. The common commercial policy also covers key aspects of intellectual property, investment and competition.

The common commercial policy is the most prominent EU policy to have been under supranational competence from the very beginning. Although member states might occasionally depart from common positions on selected issues, formally and legally Europe 'speaks with one voice' in bilateral, regional and multilateral negotiations. Trade policy in the EU involves two levels of delegation. First, the Rome Treaty formally transferred the competence to negotiate and conclude international agreements on trade from the individual member states to the collective entity—this is often referred to as 'exclusive competence,' 'community competence,' or 'supranational competence.'

The second level of delegation is the practical transfer of competence from the Council of Ministers to the Commission—the two main institutions involved in external trade policymaking. Schematically, the concrete mechanisms for making trade policy are as follows. The Commission elaborates proposals for the initiation and content of international trade negotiations. The key policy discussions then take place in a special advisory committee, the 'Committee 133,' named after Article 133 on trade policy. Once the Committee has amended Commission proposals, they are transmitted to COREPER (the Committee of Permanent Representatives, which prepares most of the work of the Council of Ministers), which then transmits the negotiating proposal to the Council of Ministers. Depending according to qualified majority in most cases, the Council sets objectives for trade negotiations (known as the 'negotiating mandate'), which it then hands out to the Commission. The actual conduct of international trade negotiations for the EU is carried out by members of the Commission, acting under the authority of the Trade Commissioner.

The EU’s Role in the World

In its initial decades of existence, the EU concentrated on trade negotiations, more preoccupying at the time defending them against assaults from outside. As pressure on the world political economy mounted, the Community’s bargaining position improved for its members (Meunier 2000). Since that time, the EU has initiated international policy changes, particularly the transformation from multilateralism to bilateralism, through its aspirations to global leadership. As a result, the EU is now a key player in international trade negotiations.

1.2. Multilateralism in the World

The EU and its twenty-five member states comprise the World Trade Organization. It is, however, the IPEC (International Policies and Economic Co-operation) the vast majority of WTO negotiations in Brussels and/or Geneva occurring. This is true for the negotiations on multilateralism, as well as for the management of bilateral agreements and ongoing conflicts over intellectual property.

The first multilateral trade agreement of the World Trade Organization was the Doha Round, which is about...
Trade Policy

sed on three main principles: (a) a trade agreements with the rest of the of trade instruments across member policy covers various roles. In addition negotiations, the EU concludes and many countries (such as free trade Area and preferential agreements African-Caribbean-Pacific countries (ACP) agreements). The EU is also in charge unfair trade practices, mainly through dumping and subsidies. The one key aspect of intellectual property, the most prominent EU policy to have been developed, is the ‘one voice’ in bilateral, regional, and global trade negotiations. The EU involves two levels of formally transferred the competence to agreements on trade from the individual this is often referred to as ‘exclusive’ or ‘supranational competence.’

practical transfer of competence from to the Community—the two main institutions, notably the Commission. The concrete mechanism follows: The Commission elaborates proposals for international trade negotiations. They are discussed in a special advisory committee, known as Article 133 on trade policy. Once the Commission's proposals are submitted to a negotiation team, which prepares the position paper, which then transmits the proposal to the Council. Deciding according to the consensus of states for trade negotiations, which then hands out to the international trade negotiations for the Commission, acting under the authority of the Trade Commissioner. Once the negotiations are over, the final agreement must be ratified by the Council (sometimes by the individual member states as well), according to qualified majority in most cases and unanimity in areas involving trade in particular services.

This complex system, carefully crafted over more than four decades of participation by the EU as a central actor in international trade policy, has turned the European Union into one of the world’s two trade superpowers. The very idea that nation states could give up such a key area of their external affairs was, and continues to be, revolutionary. The granting of competence over trade to the supranational authority has not always been without political controversy, and member states have fought hard to conserve some of their competence over trade, especially in the multiple sectors of services (Meunier and Nicolaides 1999). Nevertheless, trade is overall the policy area in which the EU has presented the most united front to the rest of the world throughout the years in a variety of fora, as described below.

1.2. The EU as an International Trade Actor

In its initial decades of existence, the EU was a passive actor in international trade negotiations, more preoccupied by building its own internal policies and defending them against assaults by the outside world, than by initiating international policy changes. As a result, it exerted a more protectionist pressure on the world political economy, especially given the definition of the Community’s bargaining position at the lowest common denominator of its members (Meunier 2000). Since the early 1990s, however, the EU has been initiating international policy changes, rather than reacting to them. This transformation was driven in part by external threats from perceived US unilateralism, by aspirations to global leadership, and by the changing nature of trade. As a result, the EU is now a very active—and proactive—member in a variety of international trade fora.

1.2.1. Multilateralism in the World Trade Organization

The EU and its twenty-five member states all belong to the World Trade Organization. It is, however, the EU who speaks on behalf of its members in the vast majority of WTO negotiations, with a common position coordinated in Brussels and/or Geneva according to the procedures presented earlier. This is true for the negotiation of broad multilateral trade agreements, as well as for the management of trade disputes (even though there are exceptions and ongoing conflicts over issues of competence).

The first multilateral trade agreement to be conducted under the auspices of the World Trade Organization is the Doha Round, which was launched in 2001. The Doha Round is about negotiating away trade barriers with the
goal of improving general economic welfare, in particular for the developing countries. Agriculture is the key variable in this round, with developed countries being asked to reduce their trade-distorting subsidies for farmers and the tariffs, quotas, and nontariff barriers that they use to protect their domestic agriculture. Among the other central issues were originally the so-called ‘Singapore issues’—investment, competition policy, government procurement, and trade facilitation—pushed by the EU and strongly resisted by most developing countries. By August 2003, the EU and the USA had reached a common proposal on reform of the protection of their agriculture. This was not enough, however. The 2003 Cancun meeting collapsed, mainly due to differences over agricultural reform among the USA, the EU and a group of developing countries led by Brazil and India (called the G-22). The abrupt end of the meeting left a big uncertainty on how to proceed next with talks on agriculture, industrial goods, and the Singapore issues, especially during an electoral year in the USA.

In spring 2004, the EU revised its position in at least three important respects in order to remove obstacles to the multilateral talks. Most importantly, the EU put on the table all agricultural export subsidies, with the proviso that the others do the same and that the final agreement offer an overall balanced package on agriculture. Because the issue of agricultural export subsidies had been a sticking point in multilateral trade negotiations for decades, this proposal is potentially very significant indeed. Secondly, the EU indicated more flexibility on the so-called Singapore issues, which probably means abandoning them for the duration of the round, since most countries are not ready to launch multilateral negotiations on investment, competition and public procurement. Finally, the EU proposed a special deal for the ninety poorest countries in the world, which could benefit from freer access to world markets while not opening up further their own markets.

The EU also participates in the multilateral trade regime through its involvement in the formal settlement of trade disputes in the WTO. A cornerstone of the WTO since its inception in 1995 and an innovation over the previous GATT regime, the Dispute Settlement Mechanism enables WTO members to enforce existing trade agreements. Members can ask for the constitution of panels, which adjudicate between plaintiffs and defendants. When members refuse to comply with the judges’ recommendations on bringing their national practices in line with WTO rules, then the winning party is allowed to compensate for lost trade through retaliatory sanctions, often in the form of duty increases.

The EU has been an active participant in this process. In 2004, the EU was actively involved in twenty-nine WTO disputes as both a plaintiff (sixteen cases) and a defendant (thirteen cases) with eight of its trading partners (Argentina, Australia, Brazil, Canada, India, Korea, Thailand and the USA) (European Commission 2004). Of these, the EU was most often out of twenty-nine, the EU was often the plaintiff (e.g. US and European Corporation) and only three times the defendant. The main issues were hormones, and trademark/geographic indications, as well as regional unilateralist tendencies of the United States (on bananas and beef hormones).

1.2.2. Bilateralism and Regionalism

The EU has also become a major player, expanding the number of its bilateral agreements. Since 2000, the EU concluded trade agreements with its neighbors (mainly to the East) and with countries in the Americas (e.g. the USA and Canada), South East Asia, and Latin America (Morocco, Palestine, Syria and Turkey). The EU has also concluded free trade agreements with many countries in Southern Europe (perspectively Mercosur), and agricultural agreements in Asia (Vietnam, ASEAN).

1.3. Challenges and Opportunities

The reasons for the EU’s formidable position have to be seen in its internal factors, which have enabled the EU to become a major trading partner and a powerful player in international trade. The recent enlargement of the EU is one such factor, which has augmented the geographical reach of the Union’s trading power. The EU’s role in the world has grown significantly in recent years, as it has become an increasingly important player in global economic affairs.
The EU’s Role in Global Trade and Finance

USA) (European Commission 2004). In almost half of these cases (fourteen out of twenty-nine), the EU was paired against the USA—eleven times with the EU as the plaintiff (e.g. US Antidumping Act and Foreign Sales Corporation) and only three times with the EU as the defendant (GMOS, hormones, and trademark/geographical indications). This institutionalized mechanism for resolving trade disputes has enabled the EU to curb occasional unilateralist tendencies of US trade policy—even if the first two cases (on bananas and beef hormones) settled in favor of the US position.

1.2.2. Bilateralism and Regional Agreements

The EU has also become a major player in negotiating regional trade agreements, expanding the number of such agreements over the decades. At the outset, the EU concluded trade agreements primarily with its immediate neighbors (mainly to the East) and the former colonies with which it shared historical ties, mainly through the successive Lomé (later Cotonou) conventions. Since the end of the Uruguay Round, which coincided with the entry into force of the North American Free Trade Agreement (NAFTA) in 1994, the EU has pursued a web of regional agreements with a variety of additional countries (Sbragia 2004). This activity was prompted in part by the distinct US shift toward regionalism as well as the increasingly global aspirations of Europe. As a result, the EU now has preferential trade agreements of various types with a wide variety of countries and regional entities—including the Euro-Mediterranean Agreement (covering Algeria, Egypt, Israel, Lebanon, Morocco, Palestine, Syria and Tunisia), an agreement with South Africa, agreements with many countries in Latin America (Mexico, Chile, and prospectively Mercosur), and agreements with countries and regional organizations in Asia (Vietnam, ASEAN).

1.3. Challenges and Opportunities

The reasons for the EU’s formidable successes in trade policy are multiple, ranging from structural to institutional. Yet the complex trade policymaking apparatus that has enabled the EU to emerge as one of the world’s two trade superpowers is currently being challenged on two fronts, and pressure for change is coming from several mechanisms simultaneously. How will the recent enlargement as well as the proposed Constitution, both of which are happening in conjunction with the Doha Round, affect the status of the EU as an international powerhouse in trade policy?

1.3.1. Enlargement

The recent enlargement of the EU to ten new countries increased the single market: it augmented the geographical size of the EU by 34 percent and
boosted the total population by 75 million to a total of 457 million. It did not trigger any immediate disruption of trade within Europe, however, since the transition had been prepared for a decade. Indeed, on the eve of enlargement, over 95 percent of the trade of the EU-15 with the new entrants was already free and the trade impacts of EU enlargement had already taken place.

Nevertheless, these structural transformations may challenge established institutions and compel political change. Structurally, enlargement will make the EU stronger in relation to its trade negotiating partners, because a larger single market is more attractive to outside economic players and the threat of being cut out more costly. By joining the EU, however, the new entrants are bringing in a wealth of different histories and cultures, which also means a wealth of distinct economic interests and capabilities. These will have to be included and amalgamated in the definition of a common European position on trade.

This increased diversity poses a challenge to the current institutional mechanisms, not adequately equipped to accommodate ten additional different viewpoints. Diversity could incapacitate the EU to make decisions and bog down multilateral trade liberalization. It could also lead to common positions that tend to be the lowest common denominator and, therefore, to a protectionist bias of the EU in international trade negotiations. On the other hand, some analysts have argued that enlargement could make the internal EU negotiations more difficult to control for trade ministers, and thus could further concentrate trade policymaking power in the hands of the Commission, which has a historical and functionalist interest in promoting trade liberalization.

The new entrants started to apply the EU’s Common External Tariff on the day of their accession. In most cases, third countries will benefit from a drop in custom duties as a result of enlargement. Official EU calculations predict that enlargement will lead, overall, to a reduction in average tariffs from 9 percent to 4 percent. In some highly visible cases, however, the current custom duties of the new entrants are lower (when not null) than those of the EU—which presumably will lead to trade frictions, in particular with the USA (in a similar way to the ‘chicken war’ of 1963).

From a political perspective, one could expect the new entrants to pursue a general policy line more favorable to the USA, as was suggested by the ‘old Europe, new Europe’ incident on Iraq. The US administration can certainly be expected to pursue its strategy of ‘divide and rule’—although this may seem less successful than two years ago. However, the expansion of qualified majority voting should limit the incidences when such tactics can work. Moreover, on some issues, the new entrants will likely have trade interests contrary to those of the USA. Analysts expect Poland and several other new entrants to become strong supporters of antidumping measures for basic industrial goods such as steel, chemicals, and a sector of services is still relatively weak and the need for internal EU support for price.

Finally, the countries that stand to gain from EU provisions may not be inclined to change, however, that enlargement will require the EU to adapt agricultural trade as much as was part because the benefits of the EU to the new entrants only after a phase in part expect a reform and adaptation have taken place.

Finally, enlargement makes Russia, and the EU now buys 41 percent of its exports in Russia. The EU is Russia’s main trading partner, behind the USA that counts for around 5 percent of the EU’s total trade and supporting Russia’s membership in the EU makes sense if we take into account the USA to secure favorable trade.

1.3.2. Institutional Reform

The institutions for making trade policies for competence and external enlargement. How will twenty-five, single voice on matters of trade agreements negotiated on their be contravened their particular interests or the complex policymaking apparatus clarifies that trade policy is an external measure—only toward sup. Moreover, the use of qualified m is broadened—with only a few cultural and audiovisual services France, supported by a majority many and Poland.

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entrants will likely have trade interests,
expect Poland and several other new

industrial goods such as steel, chemicals and textiles. Moreover, since the
sector of services is still relatively undeveloped in these countries, this may
weaken internal EU support for greater services liberalization in the WTO.
Finally, the countries that stand to benefit from the generous EU agricultural
provisions may not be inclined to make concessions on that issue. It seems,
however, that enlargement will not change the way the EU behaves on
agricultural trade as much as was originally expected (and feared), in large
part because the benefits of the CAP will be extended fully to the new
entrants only after a phase in period of ten years, by which time one can
expect a reform and adaptation of Eastern European agriculture to have
taken place.

Finally, enlargement makes Russia one of the EU’s main trade partners:
the EU now buys 41 percent of its imported gas and 21 percent of its oil in
Russia. The EU is Russia’s main trading partner, accounting for above
50 percent of its overall trade. On the other hand, Russia is the EU’s fifth
trading partner, behind the USA, Switzerland, China, and Japan, and
accounts for around 5 percent of the EU’s overall trade. The EU is openly
supporting Russia’s membership in the WTO and seems to be competing
with the USA to secure favorable trade relations with that country.

1.3.2. Institutional Reform

The institutions for making trade policy in the EU—in particular the rules
for competence and external representation—are being challenged by
enlargement. How will twenty-five, if not more, countries be able to reach a
single voice on matters of trade and abide by the results of international
agreements negotiated on their behalf, even when doing so might sometimes
contravene their particular interests? In order to keep an efficient decision-
making system in an enlarged Europe, the Constitution in
charge of drafting a constitution for Europe introduced rules to simplify
the complex policymaking apparatus in trade. The proposed Constitution
clarifies that trade policy is an exclusive supranational competence, whether
in goods, services, intellectual property and foreign direct investment (Art.
I-13)—going further toward supranationality than the 2000 Nice Treaty.
Moreover, the use of qualified majority voting within the Council would be
broadened—with only a few exceptions remaining in matters of trade in
cultural and audiovisual services (Art. III-315, para. 1), at the insistence of
France, supported by a majority of member states, including Belgium, Ger-
many and Poland.

EU institutions are also subject to complaints about the lack of democratic
legitimacy of the policymaking process in trade—in particular demands for a
greater role for the EP. These demands have increased as the reach of trade
policy expanded to politically sensitive issues that used to be the exclusive
domain of domestic regulation, such as food safety and culture. The Commission also pushed strongly for a greater role for the parliament in trade policy. Indeed, former Trade Commissioner Pascal Lamy had already voluntarily started to involve the EP in the process on trade-related issues such as GMOs (Lamy 2002).

The proposed Constitution, accordingly, would introduce several institutional changes that could open broad avenues for parliamentary influence over trade policy and agreements. Trade-related legislation, such as anti-dumping rules, would be adopted jointly by the Council and the Parliament under the so-called ‘co-decision procedure.’ Once trade negotiations are launched, the Parliament would be kept informed of the progress of the talks on a formal basis. Importantly, the Parliament would have to approve the conclusion of trade agreements struck within the WTO or bilaterally. Overall, should it be ratified, the Constitution would mean more equal power of the Council and the Parliament over trade policy, with a role for Parliament closer to that of the US Congress under fast-track procedures.

In brief, the challenges facing EU trade policy in the years ahead should not diminish its central role as one of the world’s two foremost trade powers. Its high degree of centralization, in spite of the increasing heterogeneity of national preferences as a result of enlargement, should still ensure the EU’s global influence in the world political economy. Having a single voice in trade, which can make the EU a stronger bargainer and thus stronger actor on the world stage, could potentially serve as a template for other sectors in which the EU is integrating. Money and finance is an obvious area where lessons could be learned from the EU’s long experience in trade policy.

2. The EU as a Nascent Power in Money and Finance

European monetary integration was motivated in substantial measure by a desire to shield member states from the consequences of international monetary instability, spawned in part by US policies. Economic integration and an interest in realigning control over monetary policy, among other factors, also contributed to European monetary integration. But the desire to deflect systemic instability and establish a counterweight to the USA was fundamental to the creation of the euro area (Henning 1998). The size and importance of the euro area in international trade and finance makes the monetary union a natural potential rival for the USA and the euro a natural competitor for the dollar over the long term. The slow pace of development of euro-area institutions for external policy, however, area as an international monetary international currency.

2.1. Institutions and Processes of the EU’s Role in External Monetary Policy

The common external monetary policy of the euro area. Just as the former monetary member states also accept an obligation and speak with unity on external monetary policy, so institutional machinery of external monetary policy was set up as that for external trade policy. One salient manifestation is the periodic tendency of the ECB and other European authorities to discuss the exchange rate with little thought.

The Council, ECB and Commission, with external monetary policymaking, has the authority to determine the exchange rate policy. The authority of the ECB has broad discretion in this choice, the Council and the ECB have the right to assign the objective assigned to the ECB by the Treaty of the EU. The Council may issue a general framework for exchange rate policy. To date, the ECB has retained broad discretion in the ECB’s operational independence and size of foreign exchange the Commission participate in the right of initiative on matters under the Council’s responsibility.

Because not all of the members of the Eurogroup course, the main deliberations are the Eurogroup, the case of the Governing Council, in the case of the European Parliament.

2 For details regarding the internal monetary and provisions of the exchange-based access to the Eurozone, see, among others, Heus and Paedan 2000; McNamara and Metz. 3 The European Parliament has hearings on monetary policy. Discussed
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under fast-track procedures.
Trade policy in the years ahead should be the world's two foremost trade powers.
Despite the increasing heterogeneity of destination, should still ensure the EU's
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Power in Money and Finance

The EU’s role in global trade and finance is motivated in substantial measure by a
of the consequences of international monetary policies. Economic integration and
monetary policy, among other factors, is a means to achieve this. But the desire to deflect
counterweight to the USA was fundamental. (Henning 1998). The size and import-
trade and finance makes the monetary
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the slow pace of development of euro-area

2.1. Institutions and Processes of External Monetary Policy

The common external monetary policy derives from the single monetary policy of the euro area. Just as they accept an unqualified obligation to adhere to the euro area’s monetary policy and participate in its institutions, member states also accept an obligation to abide by a single external policy and speak with unity on external matters relating to the monetary union. The institutional machinery of external monetary relations is not nearly as developed as that for external trade policy, however, and remains a work in progress. One salient manifestation of the incomplete development of the former is the periodic tendency of officials—prime ministers, finance ministers, European Commissioners and ECB board members—to speak publicly about the exchange rate with little or no internal coordination.3

The Council, ECB and Commission are the main institutions associated with external monetary policymaking. Under the Maastricht Treaty, the Council has the authority to determine the exchange rate regime of the euro—that is, for example, whether the currency will be fixed or floating against those of major partners. Once that strategic choice has been made, the ECB has broad discretion in implementing the policy. Under either choice, the Council and the ECB are enjoined to reach a consensus on policy that is consistent with price stability within the euro area—the highest objective assigned to the ECB by the treaty. Under the present floating regime, the Council may issue 'general orientations' to the ECB with respect to exchange rate policy. To date, no such orientations have been formally issued and the ECB retains broad latitude, with discretion over the level, timing and size of foreign exchange interventions, for example. Officials of the Commission participate in meetings of the Council and ECB and share the right of initiative on matters relating to the exchange rate regime and external negotiating arrangements.4

Because not all of the members of the EU participate in the euro area, of course, the main deliberations about external monetary policy gravitate to the Eurogroup, in the case of the Council, and the Executive Board and Governing Council, in the case of the ECB. Both finance ministry and central

3 For details regarding the key provisions of the Maastricht Treaty, their interpretation and application, see, among others, Henning 1997; McNamara 1998; Everts 1999; Henning and Paalzow 2000; McNamara and Meunier 2002.

4 The European Parliament reviews exchange rate matters as part of its oversight hearings on monetary policy. Discussed in Jabko 2003.
bank officials are represented in the Economic and Financial Committee (EFC)—the successor to the pre-euro Monetary Committee—and its euro-area working parties that prepare the work of the Eurogroup. The Commission helps to organize these meetings and participate in them.

The disjuncture between centralization of competence on monetary policy and decentralization on many financial policies and fiscal policy compounds the complexity of external monetary policymaking. This is particularly the case when fiscal and financial policies spillover into exchange rate and external monetary policy, and in international bodies where both sets of issues are treated (Campanella 2000). Because institutional prerogatives differ across issue areas, moreover, the legal determination of boundaries between such areas is a key decision. International financial issues arising within the International Monetary Fund (IMF), for example, have been deemed to fall outside the treaty requirement to adhere strictly to a common position. In contrast to bilateral exchange rate negotiations with the USA, European member states have instead subjected such deliberations to ‘common understandings’ among the European executive directors at the Fund.

External monetary policymaking thus differs from external trade policymaking in several ways. First, the monetary union introduced a new European institutional actor, the ECB, and conferred strong and independent authority upon it. The presence of the ECB has required reconfiguring the roles of the Commission and Council. Second, differences that inhere in the substantive policy challenges also bear on policymaking in the two areas: lack of discipline among European officials can have an immediate effect on foreign exchange markets but a negligible one in goods markets. Finally, being much younger, the monetary union has not yet been forced by circumstances to develop a sustained, coherent position and bargain with multiple actors in international negotiations. The one partial exception, joint intervention in the foreign exchange market in autumn 2000, had mixed results. Because EU authorities have confronted successive rounds of GATT/WTO negotiations, the roles of the member states and institutions in trade have been relatively well defined.

2.2. The Euro Area in International Forums and Organizations

The arrangements for representing the euro area in international financial institutions are complex, representing a balance between the need to convey a common position and the prerogatives of member states. Complexity is enhanced by the fact that the issues addressed in these forums and institutions vary with respect to where competence lies in the EU. In this respect, the distinction between money and finance is particularly important.

Consider three levels: bilateral finance G-7; and the IMF.

2.2.1. Bilateral Relations

In bilateral relations with the US Treasury department and the Federal Reserve, and monetary policy, the ECB is a peripheral player. On matters that have an important role, such as the setting of general orientations regarding intervention, however, the euro-area finance ministers in the Eurogroup and relate to US authorities on operational matters, through the Eurogroup.

The finance ministers in the Eurogroup have in the past intervened for example, the ECB ultimately with the US Treasury—abandoned such ‘cross-talk.’ The case of intervention, as of this writing, occurred in 2000.

2.2.2. Finance G-7

Differentiated competence within the G-7 is evident. Finance ministers and central bank governors from France, Britain, Italy and Canada and the US zone and one member of the G-7 at a time have been part of the Eurogroup. The president of the ECB is empowered and exchange rate policy, but exchange rate matters, has little authority on fiscal matters. Europe’s fiscal policies, but are under pressure not to defer to the Eurogroup. At G-7 Finance attends the morning session on questions, but usually leaves any bank governors within the euro area within their regulatory matters. The political chairman of the Eurogroup, who represents central bank governors of the thr UK. The choreography is further
The EU's Role in Global Trade and Finance

Consider three levels: bilateral relations, particularly with the USA; the finance G-7; and the IMF.

2.2.1. Bilateral Relations

In bilateral relations with the USA, the euro area's counterparts are the Treasury department and the Federal Reserve. On central banking matters and monetary policy, the ECB is empowered to consult and cooperate with the Federal Reserve. On matters in which Ecofin and political authorities have an important role, such as the choice of exchange rate regime, issuance of general orientations regarding exchange policy, and foreign exchange intervention, however, the euro-area counterpart to the Treasury is complex. The finance ministers in the Eurogroup have collective political responsibility and relate to US authorities through their chairman and, on more operational matters, through the chairman of the deputy-level EFC. Once consensus among political authorities is reached, on foreign exchange intervention for example, the ECB might coordinate operations directly with the US Treasury—abandoning a long-established norm against such 'cross-talk.' The one case of intensified coordination and joint intervention, as of this writing, occurred near the euro's record lows in September 2000.

2.2.2. Finance G-7

Differentiated competence within the EU has contributed to an elaborate choreography of officials within finance G-7 meetings. Composed of the finance ministers and central bank governors of the USA, Japan, Germany, France, Britain, Italy and Canada, that body includes three members of the euro zone and one member of the EU that is not a member of the euro zone. The president of the ECB is empowered to speak to questions of monetary and exchange rate policy, but shares authority with the Eurogroup on exchange rate matters, has little authority on financial regulation, and no authority on fiscal matters. Euro-area finance ministers have authority over national fiscal policy, but are under no strict obligation to coordinate in that area nor to defer to the Eurogroup chairman on a number of other issues that come before the G-7. At G-7 meetings, therefore, the ECB president attends in the morning session on multilateral surveillance and exchange rate questions, but usually leaves and is replaced by the three national central bank governors within the euro area in the afternoon session on financial and regulatory matters. The political side of the euro area is represented by the chairman of the Eurogroup, who remains throughout the full meeting, as do the three euro area finance ministers and, of course, the finance ministers and central bank governors of the three non-European countries and those of the UK. The choreography is further complicated by the inclusion in some
sessions of the European Commissioner for Economic and Financial Affairs and Russian finance minister.

2.2.3. International Monetary Fund

It is fair to say that European countries hold a very strong position within the IMF. Seven of the twenty-four Executive Directors are nationals of EU member states. European governments play a strong role in electing three additional Executive Directors. The EU-25 collectively control more than 32 percent of total votes within the Fund and, through the constituency system, potentially control an additional 12.5 percent (Truman 2004). By convention, to top it off, the Managing Director has always been a European (Kahler 2001).

The USA, however, is often regarded as having greater influence over the policies of the IMF and is sometimes resented by Europeans. Why would this be? One answer may be that a unified actor is more influential than a complex, nuanced and differentiated one. Member states’ policies within the IMF, as has been noted above, have generally been interpreted as not falling under a strict EU treaty obligation to adhere to a common policy. (The Fund’s Article IV surveillance review of monetary policy in the euro area is an exception.) The European EDs, the ECB representative to the IMF, and the Commission financial attaché in Washington meet regularly to establish ‘common understandings’ on IMF issues. Their work is supported by the Brussels-based external relations working party of the EFC. Common understandings fall short of common position, though, and members have taken different positions on some important issues before the Fund, such as lending to Argentina.

The structure of representation of members of the IMF within the Executive Board, the ‘constituency system,’ brings formidable centrifugal pressure to bear on any common position of the governments of the euro area. The twelve members of the monetary union sit in eight constituencies. Belgium, Austria, and Luxembourg share a constituency with seven other countries. The Netherlands leads a constituency of nine non-EU European countries plus Israel. Spain sits in a constituency dominated by Latin America. Ireland sits in a constituency composed of Caribbean countries plus Canada and represented by a Canadian executive director. Presenting a coordinated EU position while balancing constituency interests is a difficult task indeed.

Over the long run, it would be desirable from the standpoint of European interests, those of the non-European members, and the health of the IMF as an institution to consolidate the European presence in the IMF into a single seat (Henning 1999; Polak 1997; Thygesen 1997; Eichengreen and Ghironi 1997). The long-term future of the Fund rests on better aligning voting strength with the overall economic importance of members and regions.

The EU’s Role in

A consolidation would coincide with the European quota—because intra-European quotas would change the calculation of quota size—redress the overrepresentation of emerging economies (Kenen et al. 2010), and expand the use of quota and voting shares, a structural change in voting structure exceedingly difficult. So with the enlargement of European countries, among others, this could be a problem. This is only likely to be solved if an issue agreement brokered by the USA

Over the short- to medium-term, it would be possible to reconfigure European representation on the Board of Governors could be reconfigured by grouping countries to find other constituencies. The UK, which appoints its own ED, and Germany, which also appoints EDs, would be in a good position in consolidating their two seats—certainly the Fund’s Articles of Agreement (1999), Bini-Smaghi 2004; Bénassy-Quéré 2004; allowing for more countries to participate could expect changes such as the increase in European EDs and enhance European representation.

2.3. The International Role of the Euro

So far, the euro has not become a reserve currency. Tables 4.2 and 4.3 display a decline in the share of currencies in official reserves during and after the inception of the euro. The share of currencies in official reserves appears very stable. The US dollar continues to be the major reserve currency, and the euro as a combined share of its predece

Trends such as these lead Cohen to note that the international role of the euro in the global economy is not only reflected by the percentage share of its currency transactions in international payments but also by the percentage of its currency transactions in international payments.

Trends such as these lead Cohen to note that the international role of the euro in the global economy is not only reflected by the percentage share of its currency transactions in international payments but also by the percentage of its currency transactions in international payments.
A consolidation would coincide with a reduction in the overall size of the European quota—because intra-European transactions would be eliminated from the calculation of quota share, among other reasons—which would redress the overrepresentation of Europe relative to East Asia and other emerging economies (Kenen et al. 2004). The zero-sum nature of redistribution of quota and voting shares, however, makes reform of the governance structure exceedingly difficult. Securing the accession of a number of smaller European countries, among others, to reductions in shares is the crux of the problem. This is only likely to be feasible in the context of a broad, cross-issue agreement brokered by the USA and leading European members.

Over the short- to medium-term, a number of intermediate steps to aggregate European representation could be considered. The constituency system could be reconfigured by grouping EU countries together, requiring non-EU countries to find other constituencies. EU members that are not in the monetary union might be grouped separately from euro-area countries. The UK, which appoints its own ED, would continue to do so. But France and Germany, which also appoint their own EDs, have expressed an interest in consolidating their two seats—although doing so might require changes to the Fund’s Articles of Agreement (Coeuré and Pisani-Ferry 2003; Truman 2004; Bini-Smago 2004; Bénassy-Quéré and Bowles 2002; Trésor 2002). One could expect changes such as these to reduce the centrifugal forces on European EDs and enhance Europe’s influence in the institution.

2.3. The International Role of the Euro

So far, the euro has not become a true rival to the dollar as an international currency. Tables 4.2 and 4.3 display the relative roles of international currencies during and after the inception of the monetary union. As measured by the share of currencies in official reserves, the respective roles of currencies appears very stable. The US dollar comprises roughly 65 percent while the euro comprises roughly thirteen to fourteen percent, about the same as the combined share of its predecessor currencies. As measured by shares in external bank assets and bond issues, the roles of both the dollar and euro appear to have increased somewhat since 1999, at the expense of the Japanese yen, with the dollar continuing to play a significantly larger role in both categories. As measured by eurocurrency deposits, the euro’s role has shrunk compared to the roles of predecessor currencies while the dollar’s dominance has increased.

Trends such as these lead Cohen, for example, to argue that the prospects for the euro’s international role are ‘dim’ (Cohen 2003). Inertia in international financial markets is compounded, in Cohen’s analysis, by higher transaction costs in euros compared to dollars, an apparent deflationary bias.
### The EU's Role in International Finance

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Source: BIS Quarterly Review (various issues)

Note:
- The figures are based on the national currency of the euro area member countries and are calculated by taking the sum of the euros held in the currencies of the individual countries.
- Excluding the euro area member countries, the other currencies are calculated by taking the sum of the euros held in the currencies of the countries not in the euro area.

**TABLE 4.2: Shares of national currencies in total official holdings of foreign exchange reserves, end of year (in percent)**
### Table 4.3. Currency shares of private external assets, 1995–2002

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*ECU's issued against dollars are treated as dollars.*

1. The real size of the euro area is subject to the difference between total foreign exchange reserves of IMF member countries and the sum of the reserves held in the currencies of the euro area members. The legacy currencies were converted into euros in 1999.

2. Includes the assets received by euro area members when their previous holdings of other euro area members' legacy currencies were converted into euros in 1999.

3. These factors are formidable constraints on the role of the euro and we concur in particular on the importance of governance.

2.4. Less Success in Money Compared to Trade

The reasons for the euro area’s lack of political success in international monetary affairs relative to trade affairs revolve around economic structure and institutions, considered in that order below.

While the EU speaks for the full membership on trade matters, first of all, it speaks only for only those that have adopted the euro on monetary matters, a twelve-country minority of EU member states. The UK conducts its monetary and financial relations with the USA, Japan, and the international monetary community separately, as do the remaining ‘outs.’ Economic underperformance has also limited the attractiveness of the euro area as a destination for investment and location for financial intermediation and has limited the appeal of the euro as an international currency. Moreover, the euro area is relatively young and international roles of currencies exhibit considerable inertia. To the extent that the role of the currency is important to political success at the global level—and this should not be exaggerated—that inertia limits the pace at which the EU can begin to assert itself in this arena.

Turning to institutional explanations, differentiated competence of the Community across issue areas that are functionally linked to monetary and exchange rate policy—including fiscal, financial, regulatory, tax, development assistance, debt relief, and trade policy—limits the unity and coherence of the Union as a monetary actor. Importantly, institutional coherence within the external monetary sector, rotation, and absence of mandate obligation to speak with a common voice have nonetheless sometimes manifested, for example, in exchange controls or EMI of the EU presidency under ECSC. In September 2004, anticipation, the Eurogroup elected a chair; the group left its role on external meetings, officials representing the situation, but still rarely (if ever) hold meetings with US, Japanese, and Brit might stem in part from the role agreements; but it also stems from decision rule within the Eurogroup. By contrast, the European office for five years and is granted reprisals of the Council.

2.5. Challenges and Opportunities

Enlargement of the EU from fifteen to twenty-seven has potential to present both challenges and opportunities that bear on Eurozone.

2.5.1. Enlargement

Although most of the ten new members may also face daunting converge until late in this decade for a devolution, the new economies are small compared to the UK is considerably more integrated in economic and financial terms; and would have political, symbolic, and greater than their economic size.

To provide for reasonably expanded and well-functioning monetary within both the ECB and of rotating voting rights on the central bank governors of large institutions continue to be the relevant con
within the external monetary sector is limited by weak discipline, leadership rotation, and absence of mandate. European officials, while under a formal obligation to speak with a common voice in external monetary relations, have nonetheless sometimes made numerous and conflicting pronouncements on, for example, exchange rates. Until recently, the six-month rotation of the EU presidency undercut continuity in euro-area political representation. In September 2004, anticipating a provision of the proposed constitution, the Eurogroup elected a chairman for two years. Significantly, however, the group left his role on external matters unspecified. When attending G-7 meetings, officials representing the euro area might present a common position, but still rarely (if ever) hold a mandate to negotiate and strike agreements with US, Japanese, and British counterparts. The absence of mandate might stem in part from the relative infrequency of explicit exchange rate agreements; but it also stems from reliance on consensus as the effective decision rule within the Eurogroup and the difficulty in securing agreement there. By contrast, the European Commissioner for External Trade holds office for five years and is granted an explicit mandate for multilateral trade negotiations by the Council.

2.5. Challenges and Opportunities

Enlargement of the EU from fifteen to twenty-five members in May 2004 and consideration of the proposed constitution raise a number of challenges and opportunities that bear on Europe’s external monetary and financial relations.

2.5.1. Enlargement

Although most of the ten new members are eager to join the monetary union, many also face daunting convergence challenges and will have to wait at least until late in this decade for a decision on suitability for inclusion. The size of the new economies is small compared to that of the euro area. (The status of the UK is considerably more important to the future of the monetary union in economic and financial terms.) The inclusion of the new EU members would have political, symbolic and governance implications for the euro area greater than their economic size alone might imply.

To provide for reasonably expeditious decision-making after any Eastward expansion of the monetary union, institutional modifications have been made within both the ECB and the Council. The ECB has instituted a system of rotating voting rights on the Governing Council in which the national central bank governors of larger countries will vote more frequently than those from smaller countries. On the political side, the Eurogroup will continue to be the relevant configuration of finance ministers for the euro
area. Its size will naturally increase as new countries adopt the euro. The EFC and its working parties have been reduced in size, in part by excluding national central bank deputies from some meetings, with an eye to accommodating new members. These changes take effect irrespective of the fate of the proposed constitution.

2.5.2. Prospective European Constitution

External representation of the monetary union, like that of the EU in general, was largely overlooked by the European Convention of 2002–2003, the Intergovernmental Conference that followed, and the negotiations under the Irish and Dutch presidencies that produced the proposed EU constitution. If the constitution were ratified by the twenty-five member states, at least three provisions could affect external representation and policymaking in the monetary and financial area: those regarding the president of the European Council, the chairman of the Eurogroup, and the voting procedure for establishing representation. Although the constitution will probably not be ratified soon, a quick review of these provisions identifies, with respect to the EU’s external monetary and financial character, the (a) stakes in the constitutional debate and (b) limits of external reform under consideration.

The constitution creates the office of president of the European Council, which gathers the heads of government of the member states. The president of the Council is elected for two and a half years, renewable once, to prepare and chair quarterly meetings, facilitate cohesion of the Council and represent the collective views of member governments (Art. I–22). Would the president choose to make pronouncements on exchange rates and exchange rate policy? Would he actively promote the Council in exchange rate policymaking? Would he seek to develop consensus within the Council on external monetary matters, the appropriate level of the exchange rate, and the limits of fluctuation beyond which pronouncements and action might be appropriate? As this official will have responsibility across the full scope of substantive matters concerning the Council, and because he or she might well compete with the president of the Commission among other officials for policy leadership, these questions are germane.

The constitution provides for the formal establishment of a chairman of the Eurogroup, the group of finance ministers from the euro area (Protocol on the Euro Group, Art. 2). Until September 2004, when this provision was implemented by the group without ratification of the constitution, the chairman of this informal group usually rotated on a six-month basis, as has the chairman of the more inclusive Ecofin. (When the Ecofin chairman was not from a euro area country, the Eurogroup chairman was the finance minister from the next euro-area country in the rotation.) The Eurogroup now elects a chairman for two-and-a-half years. This procedure will have a

basis in the constitution, provided it is potentially important because the basis of expertise and consensus-building will strengthen the working relationship between the US Treasury, and the other members.

Finally, the constitution would represent the EU and each member determined. Under present procedures, negotiations is decided by the Council and, in national financial negotiations by representation in both areas of a majority that applies to all member states in the Council rules. Those decisions are for the euro. Single countries or small groups of countries will propose of a large majority under to do. This would apply to decisions presentation of EU countries in the Int.

3. Transatlantic Convergence and Tensions

As a world-class heavyweight in finance, the EU might be expected to lead a variety of issues. However, the Brussels process resembles that of the USA becoming somewhat more similar: Does this mean that transatlantic cooperation, transatlantic preferences and policies? Does go international political economy partnership?

3.1. Convergence and Tensions in the US/UK relationship, and they are in the US/UK relationship, and they will not be as bad as in the transatlantic rift over Iraq,
basis in the constitution, provided that document is fully ratified. The change is potentially important because the new chairman can be selected on the basis of expertise and consensus-building skill and his or her continuity could strengthen the working relationship with members of the group, the ECB, the US Treasury, and the other members of the finance G-7.

Finally, the constitution would alter the decision rule by which external representation of the EU and euro area in international organizations is determined. Under present procedures, external representation in monetary negotiations is decided by the Council by qualified majority and in international financial negotiations by unanimity (Art. 111). Under the constitution, representation in both areas would be decided by the standard double majority that applies to all majority decision-making—a 55 percent majority of member states in the Council representing 65 percent of the population. Those decisions are for the euro-area member states alone (Art. III-196). Single countries or small groups of countries would not be able to block the proposal of a large majority under these provisions as they are presently able to do. This would apply to decisions, for example, to consolidate the representation of EU countries in the International Monetary Fund.

3. Transatlantic Convergence in Trade and Finance?

As a world-class heavyweight in trade and an emerging global player in finance, the EU might be expected to go head-to-head with the USA on a variety of issues. However, the broad economic structure of the EU increasingly resembles that of the USA. EU institutions, while distinct, are also becoming somewhat more similar to US institutions in the two issue areas. Does broad structural convergence mean a parallel convergence of preferences and policies? Does greater coherence of the EU’s actions in the international political economy necessarily mean an easier transatlantic partnership?

3.1. Convergence and Tensions in Trade

Ask any American or European official about the state of the transatlantic trade relationship, and they will usually start with a reassuring claim that 98 percent of the trade that occurs between them is uncontentious. As Pascal Lamy, the former EU Trade commissioner, puts it: ‘If you look from the moon, things don’t look so bad’ (Eming 2003). And it is true that even in a tense geopolitical environment, most European and American traders and investors conduct ‘business as usual.’ During the first half of 2003, in spite of the transatlantic rift over Iraq, US corporations invested $40 billion into
Europe, a 15 percent increase from 2002, and European companies invested $36 billion into the USA. Moreover, when frictions arise, they can now be mediated and solved within the framework of the World Trade Organization dispute settlement procedure. Indeed, of the thirty-five WTO cases involving the EU in the period 1999–2004, thirteen were EU–US disputes (Lamy 2004). Several of the famous bilateral disputes have been settled recently—such as bananas, beef hormones, and even steel. The potential sources of transatlantic conflict are still multiple, however, ranging from WTO disputes to the growing role of the EU as an alternative to the USA in the global political economy.

3.1.1. Transatlantic Trade Disputes

Transatlantic commercial relations are revealing two regions deeply intertwined. The EU and the USA are each other’s main trading partners, exchange about $1 billion in goods and services daily, and account for around one fifth of each other’s total trade. The investment relationship is even stronger than the trade relationship, with the EU and the USA being each other’s largest investor, making these two economic powerhouses highly interdependent (Hamilton and Quinlan 2004). If these constant trade interactions foster convergence, they also create tensions, now resolved within the multilateral framework (Petersmann and Pollack 2003). The annual volume of bilateral EU–US litigation in trade increased substantially after 1995, when the WTO implemented its dispute settlement mechanism. Since 1995, disputes between the EU and the USA have accounted for 20 percent of all WTO disputes, whereas bilateral EU–US trade accounts for only 10 percent of world trade (Sapij 2002; Huber and Neumann 2002). The most difficult EU–US disputes to resolve are those resulting not from sheer protectionism but from regulatory differences—such as beef hormones and Genetically Modified Organisms. They reveal that despite convergence on many points, there are substantial differences between the EU and the USA in the regulation of risk and progress in society (Vogel 1997; Pollack and Schaffer 2001). These disputes are harder to resolve than disputes based on the protection of narrow, special interests (such as steel) because they challenge democratic legitimacy: why, in the name of free trade, should European citizens be forced to face risks which they have legitimately agreed to prevent through precaution and patience?

3.1.2. The EU as a Multilateral Power

Another source of potential transatlantic trade tensions is the growing political use by the EU of its trade power. The formidable power of the EU in trade results partly from its central role in the multilateral trade system. The EU has always argued that its single market is a building block for multilateralism and often posits its task in contrast to the USA. Since the mid-1990s, the EU’s active participation in multilateral trade negotiations has become the EU’s role in multilateral trade negotiations. The EU is the leader in multilateral trade negotiations. In the Uruguay Round in 1994, the role of the EU was to lead trade negotiations. Today, the EU is mobilizing support for its positions in the Doha Round. The EU is also participating in the negotiations on the Singapore issues, such as trade in services, investment, and competition policy. In this way, the EU is helping to shape the new global trading system.

Moreover, the EU’s active participation in multilateral trade negotiations further reinforces its global role. In the 1990s, the emphasis on regionalism and regional agreements was high on the political agenda. The EU took the lead in regional agreements, such as the Euroland, the North American Free Trade Agreement (NAFTA), and the EU–Central American Free Trade Agreement (EUCAFTA). The EU’s active participation in multilateral trade negotiations reinforces its role as a regional leader in the global economy. The EU is also very active in the WTO, where it is one of the largest contributors to the budget. The EU has long been a strong advocate of the multilateral trading system and has been a key player in the negotiations on the Doha Round.

3.2. (Non)convergence and EU Split

The formation of the eurozone and the convergence of the eurozone had a significant impact on the political landscape of the EU. The eurozone is not identical to the Federal Reserve System, but it is less dramatic on the political side. The EU Council and Eurogroup contrast the Federal Reserve and other central banks, the differences in the eurozone are less important in domestic policy.

The relative dominance of the Federal Reserve on international deliberations over the institution relations of the eurozone is reinforced by the specific aims of the EU. For example, the EU has always argued that its single market is a building block for multilateralism and often posits its role in contrast to the USA. The EU is the leader in multilateral trade negotiations. In the Uruguay Round in 1994, the role of the EU was to lead trade negotiations. Today, the EU is mobilizing support for its positions in the Doha Round. The EU is also participating in the negotiations on the Singapore issues, such as trade in services, investment, and competition policy. In this way, the EU is helping to shape the new global trading system.
Security, Economic Policies

2002, and European companies invested more, when frictions arise, they can now be resolved in the framework of the World Trade Organization (WTO). Of the thirty-five WTO cases involving the EU, sixteen were EU-US disputes (Lamy 2004). Disputes have been settled recently—such as the steel dispute. The potential sources of transatlantic tensions, ranging from WTO disputes to the CETA deal, are also common to the USA in the global political economy.

Atlantic regionalism are revealing two regions deeply interlocked, each other's main trading partners, with goods and services daily, and account for a significant share of international trade. The investment relationship is even more closely linked, with the EU and the USA being the two largest economies. As the European Union becomes more integrated, these two economic powerhouses highly (Kagan 2004). If these constant trade interactions create tensions, now resolved within the framework of transatlantic wars (Kagan and Pollack 2003). The annual volume of transatlantic trade increased substantially after 1995, as the dispute settlement mechanism. Since 1995, the EU and USA have accounted for 20 percent of all EU-US trade accounts for only 10 percent of US trade. The most difficult challenges are resulting not from sheer protectionism, such as beef hormones and Genetically Modified Organisms (GMOs) that the EU and the USA on the regulars (Vogel 1997; Pollack and Schaffer 2001). Rather, the source of the problem is not a lack of economic cooperation, but rather a lack of political cooperation. The most difficult challenge is the growing political issues of competition, such as beef hormones and Genetically Modified Organisms (GMOs) that are not identical to the Federal Reserve System. Institutional convergence was less dramatic on the political side of the transatlantic union, where the Ecowin Council and Eurogroup contrast with the relative centralization of the US Treasury and other agencies of the executive. Owing to the independence of both central banks, the difference in the composition of the political authorities is less important in domestic monetary policymaking than in external policy.

The relative dominance of the US Treasury and its relationship to the Federal Reserve on international monetary matters are often noted in EU deliberations over the institutions of bilateral, plurilateral and multilateral relations. Ecowin reinforced coordination on IMF matters in 2002 with the specific aim, for example, of developing a working relationship with the
Managing Director and Fund staff similar to that of the Treasury (Trésor 2002). The monetary union has developed consultation mechanisms that compensate for the multiplicity of officials involved in external monetary and financial relations. On the one hand, these mechanisms appear to provide a workable basis for managing problems such as the extreme weakness of the euro in 2000. On the other hand, they do not approach the relative coherence of the US model (or national models within Europe before the monetary union), have not been tested by severe crises, and are not likely to underpin a strong leadership role on the part of the euro area in international monetary affairs.

Implementation of the constitutional provision establishing a two-and-a-half year chairman of the Eurogroup goes some distance toward creating a genuine ‘Mr./Ms. Euro’ (Henning 1997; Everts 1999; McNamara and Meunier 2002). This step remains incomplete, however, until the Eurogroup also grants an effective mandate to the chairman to speak in international meetings (beyond simply reading a prepared text) and negotiate with some flexibility with counterparts in close consultation with ECB officials. Creating the office and conferring a mandate is a significant step toward greater institutional coherence; but the Eurogroup process, and the tilt in the balance of initiative toward the ECB on intervention, for example, will continue to distinguish the euro area from the USA’s institutionally.

With respect to preferences regarding the content of policy, as distinct from institutions, the euro area and USA exhibit more convergence. The two large monetary areas have adopted similar targets for inflation. While both pay lip service to fiscal sustainability, the USA has embarked on a new era of fiscal deficits while France, Germany, and Italy, among others, have broken the rules of the Stability and Growth Pact. The greatest apparent difference in macroeconomic preferences is the lower tolerance for unemployment in the USA compared to the euro area. On the exchange rate regime, the question of direct relevance to the external concerns of the monetary union, the euro area and USA clearly prefer flexibility. The compatibility of their preferences for the level of the exchange rate is being tested in the present cycle of adjustment of global current account imbalances, during which the dollar has fallen considerably against the euro.

US current account deficits and the problem they pose for global adjustment in the mid-2000s is a useful lens through which to measure the institutional maturity of the euro area. The adjustment process will almost certainly involve conflicts over which states must change policy, accept currency (ap) depreciation, and by how much. During the Plaza-Louvre period, the USA confronted a disparate group of European states tied only loosely through the European Monetary System. Now, however, the USA confronts a full-fledged monetary union in Europe that is three-quarters its economic size.

The EU’s Role in the Global Financial System

Will this structural change and the distribution of the costs and benefits be such that the euro is a beneficial addition to the global financial system? Will it compete with, or complement, the dollar? Will it replace the dollar as the key reference currency? Will the euro area, in line with the USA, become a single economic bloc vis-à-vis the rest of the world? Will it add to the fluidity and efficiency of financial transactions, or will it become another source of friction and yet another currency to add to the global mix? These are not easy questions to answer, particularly as the world of financial markets is so closely linked to the rest of the global economy.

The EU is becoming a more assertive player in the world. The budget, the monetary union, and the euro demonstrate its increased power in the monetary sphere. Institutions and decisions with respect to international monetary policy-making will determine how these differences affect the EU’s global role in world politics. Whether a US–Chindia partnership or a US–Europe partnership will be successful over beef hormones, GMOs and biofuel policy, its ability to use its economic and political leverage to promote global prosperity and human rights. Whether a US–Europe partnership can act on the need for cross-border financial stability, which European countries will become the next Lehman Brothers? A major country with global financial clout that can become a true counterweight to the world’s leading economy, the USA. The EU’s role in shaping the global financial system will be critical.

Convergence between the EU and the USA: Institutional and Substantive

The USA and the EU are increasingly convergent institutions and they increasingly shape each other’s trade and finance depends in large part on the introduction of the European Constitution. Even within the operational risk of the Council and Eurogroup with the USA. With enlargement, the role of the ECB in financial policymaking and the efficiency of European financial markets is of fundamental importance. Substantial progress in these areas is likely to continue. But that convergence will be driven not only by such factors as, on the trade side, the EU’s environment and competition; and on the financial side, the financial system in which the financial system is the key macroeconomic objective.
The EU’s Role in Global Trade and Finance

Will this structural change affect the management of the adjustment process and the distribution of the costs of adjustment? Our tentative answer is that the effect over the medium term, while significant, is likely to be partial rather than a quantum transformation. The complexity and fragmentation of euro-area decision-making and representation constrains its ability to assert itself strongly vis-à-vis the USA. To act as a full-fledged ‘counterweight’ to the USA in monetary affairs, as some proponents of the euro had hoped, the EU will probably have to proceed further toward a federal institutional structure.

4. Conclusion

The EU is becoming a more assertive actor in both international trade and money, but its international leadership is further developed in the trade than in the monetary sphere. Institutional arrangements for designing policy and making decisions with respect to these external matters are a substantial part of the explanation for the difference. Further evolution of the EU as a polity will affect the EU’s global role in both areas.

The power of the EU in the world political economy can be expected to grow as the EU uses economic instruments in lieu of foreign policy. On the trade side, indeed, the EU’s power transcends the requirements for defending its own interests in international commercial negotiations. Its trade power influences the adoption of EU regulatory practices in much of the rest of the world and promotes other values and policies—from the environment to human rights. Whether a US rival or ally, the EU is an alternative to the USA for countries seeking a powerful and prosperous partner. The disputes over beef hormones, GMOs and data privacy are evidence of the EU’s ambitions to shape the global rules of the game.

Convergence between the EU and USA varies according to issue area and institutional and substantive questions. Institutional convergence in both trade and finance depends in large measure on the fate of the proposed European Constitution. Even with substantial reforms, however, the roles of the Council and Eurogroup will continue to differentiate the EU from the USA. With enlargement, the role of member states in external economic policymaking and the efficiency of Council decision-making will remain fundamentally important. Substantive convergence on trade and finance is likely to continue. But that convergence will vary across specific issues such as, on the trade side, market access; linkages to labor standards, environment and competition; dispute resolution; and regional trade arrangements. On the financial side, the degree of convergence will vary across macroeconomic objectives, exchange rates, payments adjustment
and financial rescues. Convergence on substantive preferences, more fundamentally, does not necessarily reduce transatlantic conflict. While similar preferences can ameliorate conflict on some issues—such as macroeconomic coordination and exchange rate regimes—convergence can be a source of tensions in others, such as current account surpluses, exchange rate levels, and competitiveness in specific sectors.

Convergence of the respective roles of the EU and US legislatures in trade policymaking could be especially important. Any grant of greater authority to the EP to ratify international agreements, as envisioned in the proposed Constitution, or to define the negotiating mandate would shift the EU in the direction of the USA and other national models. Granting such authority to the EP would not necessarily augur well for transatlantic cooperation, however. While it would give greater internal legitimacy to trade policy, the EP could also give greater entree to policymaking to particularistic interests. As the Council would retain a strong role, moreover, granting co-decision powers to the EP would add another veto point. Under the Nice framework the EP's role in approving any result of the Doha Round could be limited to consultation. Under the proposed Constitution, it could block an agreement entirely.

References


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— References


