EU Political Economy Newsletter

Newsletter of the EUSA EU Political Economy Interest Section
http://www.eustudies.org/pesection.html

The EU Political Economy Interest Section is an official section of the ***European Union Studies Association****.*

Section co-chairs: Tal Sadeh and David Howarth
Managing Editor: Mitchell P. Smith
Database Review Editor: Patrick LeBlond
Forum Editor: Dermot Hodson

Issue 7 Fall 2006

Greetings from the new co-chairs of the EUSA Political Economy section:

Tal Sadeh, Department of Political Science at Tel Aviv University, Israel, talsadeh@post.tau.ac.il;
David Howarth, Politics, University of Edinburgh, UK, d.howarth@ed.ac.uk

Dear Section Members

There has been ongoing progress with the Section's main project on *Economic Interests and European Integration* (see previous issue of the Newsletter). As you recall the Section's members were invited to submit abstracts of proposed papers dealing with the role of economic interests in European integration. Eleven short-listed contributions were accepted at the beginning of September based on abstracts, and full version drafts were presented in a workshop in Edinburgh on 8 April 2006. The workshop was also attended by a number of leading British political scientists and allowed fruitful discussion and exchange of ideas among participants. The workshop's program is available on the section's website. September 30th was set as a deadline for submission of final drafts for review. Our intention is that the best contributions will appear as a special issue in *Western European Politics*. We hope to soon obtain the journal's board's final approval for the special issue. Other contributions will appear in the *British Journal of Politics and International Relations*. We plan to sponsor one or two panels drawing on papers from the project at EUSA's next meeting in Montreal in May 2007.

On April 30th and May 1st a conference organized by Tal on *The Political Economy of Currency Unions in a Globalizing World* and sponsored by the Davis Institute for International Studies took place at the Hebrew University of Jerusalem. Following a call for papers posted on our website members of EUSA'a Political Economy Section contributed a majority of the papers presented at the conference. These are available at: http://ir.huji.ac.il/davis/dabispage.htm. The conference was attended by some of the world's best scholars in the field.

It is time to finalize ideas for panels for the tenth biennial conference to be held in

Montreal, Canada in March 2007. Anyone with an idea for a panel is welcome to share it with us and encouraged to make use of the section email list to attract panelists. A successful panel on the progress of economic and monetary integration – organized through our section – took place at the September UACES (UK-ECSA) annual and research conference in Limerick, Ireland.

The Political Economy section, EUSA's largest, is potentially a major source for contributions for the *EUSA Review* and one of the more interested sections in taking advantage of the opportunity to make such contributions. For example, David has contributed a piece to the spring issue of *EUSA Review* on 'The Revised Stability and Growth Pact and French Policy Preferences'. Anyone interested in writing in the *EUSA Review* should contact our coordinator, Michelle Egan.
We also encourage you to keep contributing to the Section's Newsletter, successfully edited by Mitchell, Dermot and Patrick, and our web page edited by Jim. In fact, Jim is in the process of re-developing our page, especially the membership database. Please contact him to provide any material you would like posted.

Best,

David and Tal

Also in this issue

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Call for Information from Members

Political Economy Section Website

For the purpose of updating and enriching the EUSA Political Economy Section website, the section co-chairs invite members to send the following information via email to jangresano@albertson.edu by December 10, 2006:□□□□

- Your name, academic affiliation, and email address;
- web links to your updated cv (and any separate link to your most recent publications (2005, 2006, and those forthcoming in 2007)); and
- web links to any course syllabi for EU courses you offer.

Thank you in advance for providing this information, and thanks to Jim Angresano for updating the web site.

Data Resources Review

World Bank's Enterprise Surveys

Patrick Leblond

A couple of years ago, the World Bank and its private-lending arm, the International Finance Corporation, launched a new database on country investment climates. Its goal was to analyze the link between the investment climate and job creation, innovation as well as productivity growth. As such, the idea was to make data available to study the microfoundations of economic growth. Therefore, instead of being based on expert opinions, which is the traditional way of conducting such assessments, this new "Enterprises Surveys" (ES) database would ask those who actually do the investing—enterprises and their managers—what they think and experience.

As such, this new database is complementary to the World Bank's "Doing Business" (DB) indicators (http://www.doingbusiness.org/), which are based on legal and accounting experts' opinion of a country's investment climate, viewed mainly from the main business centre. While the Doing Business dataset focuses on a narrow set of laws, regulations, and institutions that cover specific aspects of firm entry, operation and exit, the Enterprise Surveys database (http://www.enterprisesurveys.org/) has broader scope, albeit with less depth, when it comes to assessing the investment climate. This is because it touches on questions of infrastructure, crime, corruption, informality as well as bureaucracy and the courts. In addition, the ES dataset looks at the relationship between firm productivity and the investment climate. Finally, it performs its analysis of investment climate issues across firm characteristics such as size, ownership (e.g. public vs. private, domestic vs. foreign), and various geographical locations within a country (e.g., large vs. small cities).

An important difference between the two databases is that the DB data are collected annually for about 145 countries while the ES data are collected once every three to five years, with the current country coverage being at 71 (but with more being added regularly). The reason for this difference is that the ES surveys are much costlier than the DB surveys. The World Bank reckons that it is currently able to conduct from 15 to 20 enterprise surveys per year.

For the Europe-focused scholar—which is what most readers of this newsletter probably are—the database is at this stage most useful to those interested in Central and Eastern Europe since it covers the following countries: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine. To this list, one can also add Russia, Turkey and the remaining members of the Commonwealth of Independent States. As for Western European countries, only the following ones have so far been surveyed: Germany, Greece, Ireland, Portugal and Spain. The other countries that are part of the database are spread over Africa, Asia and Latin America.

The database contains over 150 indicators of the business environment and firm characteristics in the various countries surveyed. The indicators are regrouped according to the categories below. I have included a sample of the indicators that one finds under each category.

- Bureaucracy

  - Senior management time spent in dealing with requirements of government regulation (%)
  - Consistency/predictability of officials' interpretations of regulations affecting the firm

- Corruption
  - Unofficial payments for typical firm to get things done (% of sales)
  - Value of gift expected to secure government contract (% of contract)

- Courts
  - Confidence level in the judiciary system (%)
  - Time spent resolving a dispute (weeks)

- Crime
  - Security costs (% of sales)
  - Losses due to theft, robbery, vandalism, and arson against the firm (% of sales)

- Finance
  - Bank finance for investment (%)
  - Informal finance for investment (%)

- Firm characteristics
  - Ownership - private domestic (%)
  - Located in medium size city (50,000-100,000 people) (%)
  - Customers - MNC in country (% domestic sales)

- Informality
  - Sales amount reported by a typical firm for tax purposes (%)

- Infrastructure
  - Delay in obtaining an electrical connection (days)
  - Number of water supply failures (days)
  - Delay in obtaining a mainline telephone connection (days)

- Innovation
  - ISO certification ownership (%)
  - Spending on R&D (% sales)

- Jobs
  - Firms offering formal training (%)
  - Employment growth over the last 3 years (%)

- Productivity
  - Total direct raw materials costs (% sales) excl. fuel
  - Spending on machinery, equipment, vehicles (% sales)

- Tax
  - Average time firms spent in meetings with tax officials (days)

- Trade
  - Average time to clear direct exports through customs (days)
  - Average time to claim imports from customs (days)

The website for extracting the data is very user friendly. It allows one to obtain web reports as well as Excel downloads. Quick reports by country or by topic can be generated from the “Explore Economies” and “Explore Topics” sections. Comparisons can easily be made with other countries, regional averages as well as the entire sample. In the “Custom Query” or “Do Your Own Analysis” section, one has access to a much larger set of indicators than in the two "Explore" sections mentioned above. Whereas the latter sections cover about thirty-something indicators, the former one covers more than 150. So this is something to keep in mind. The "Explore" sections only give a snapshot of the entire picture. But for those scholars interested in conducting fancier analyses, the "Custom Query" section will be the one to rely on. This is also where one gets the indicators for firm characteristics and productivity, which are not available in the "Explore" sections. Finally, it also allows one to extract data according to firm characteristics.

The raw data from more than 51,000 surveys is also available from the World Bank but only upon request. The procedure for requesting the raw data is indicated on the ES website. One needs to fill out an application form indicating the country and indicators for which the data are required and justifying their use for research. The World Bank will then send the requested data by e-mail or cd-rom, depending on the size of the file(s). As far as one can tell, this service is free.

This exciting and growing database not only measures business perceptions of the investment climate in a given country but it also serves to analyze the link between the investment climate and such factors of economic and political concern as corporate governance, job creation, innovation, investment and productivity growth. For academics and policy-makers interested in the continued restructuring of Central and Eastern European economies and their adaptation to the EU's investment climate, this database provides a wealth of useful information. An example of the type of analysis that can be performed is given by Kenyon and Kapaz (2005) with respect to Brazil. They show that informal firms that evade taxes, are less productive and less likely to access financial markets than other firms. As a result, the authors recommend that the Brazilian government reduce the cost of becoming formal for firms as well as tighten its enforcement against tax evasion.

References:

Kenyon, T. and E. Kapaz. 2005. "Tax Evasion, Finance, and Productivity in Brazil." Public Policy for the Private Sector Note #301, December, 4 pages.

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Forum Section

Dermot Hodson, Forum Editor
Introduction

At the European Council in December 1998, EU leaders agreed that the launch of the euro necessitated a stronger voice for Europe on international economic issues. To this end, it was proposed, *inter alia*, that the views of the EU and euro area would be presented at the IMF Board by the relevant member of the Executive Director's office of the Member State holding the Eurogroup Presidency, assisted by a representative from the European Commission.

Thus far, limited progress has been made towards realizing these goals. In the IMF Executive Board, euro-area positions are now represented by the Executive Director holding the EU Presidency or, as in the second half of the 2005, the next euro-area member in line for the EU Presidency. However, the Eurogroup President is usually not present at the meetings of the IMF Executive Board. Meanwhile, plans to put a senior European Commission official in a European Executive Director's office have stalled.

In its recent Annual Report on the Euro Area, the European Commission concluded that "the shortcomings in the external representation of the euro area…[are] far from satisfactory at a time when Europe is being criticised in some quarters for being over represented in international institutions and fora".[*] In particular, it argued that increased informal cooperation among European representatives at the IMF, though welcome, was unable to prevent weak, defensive position taking and the slow response of common positions to fast-changing policy discussions.

Although this situation has undoubted implications for Europe's role in the world, what does it mean for the functioning of international financial institutions and fora? In a thought-provoking contribution to this Forum, Lauren Phillips argues that deficiencies in the external representation of the EU are a potential stumbling block to the reform of global governance. The current arrangements, she suggests, have made it difficult for Europeans to reach a strategic, forward-looking position on IMF reform, in part, because individual countries that wish to protect their current voting rights can exercise a *de facto* veto over reform proposals. Improving coordination between EU Member States and, ultimately, agreeing on institutional measures to strengthen the EU's external representation could, Phillips implies, help to further the cause of global governance reform by encouraging potential veto players to relent in return for measures that would allow the EU to project a stronger voice on the world economic stage.

Looking forward to future editions, I would like to remind readers that the Forum is open to all members of EUSA who wish to share their views on empirical, theoretical and policy questions relating to EU Political Economy. Further information can be obtained from Dermot.Hodson@cec.eu.int. Contributions to the next Review Forum should be sent no later than 19 February 2007.

[*] European Commission (2006), Annual Report on the Euro Area, European Economy Special Report, No. 3. http://ec.europa.eu/economy_finance/publications/european_economy/2006/eespecialreport0306_en.htm

The EU and the Bretton Woods Institutions: Reforming EU institutions to reform the IMF

Dr Lauren Phillips
Overseas Development Institute, London

Recent threats to the relevance of the IMF, including the rapid growth of economies in Asia and other developing regions, have resulted in a plan to reform its governance. A limited number of fast-growing and underrepresented countries (China, South Korea, Mexico and Turkey) will have increased representation immediately, and over the next two years, members of the IMF will debate how to change the representation of other countries. The contours of this reform will involve intense and complicated political bargaining amongst shareholders, and in some cases between shareholder governments and their legislative branches.

Key amongst these discussions will be the future representation of members of the European Union (EU), whose current representation is generally portrayed in the voluminous literature on Bretton Woods' reform to be over weighted, based on metrics such as contribution to global GDP. Their representation is also fragmented, and complex. EU Member States are currently represented in 10 of the institution's 24 seats at the executive board, and there are no formal mechanisms to coordinate their positions across these so-called 'constituencies.' Instead, coordination is reliant primarily on informal weekly meetings of EU Executive Directors to discuss the differences and similarities of their national positions. While this occasionally leads to cooperation (e.g. the issuance of joint statements), it rarely leads to a unified voting position, given that fact that EU Member States share constituencies with a number of non-EU states, including developing countries that remain active borrowers, which constrains their ability to act as a unified voting block.

While this is problematic, and has been well documented in the literature, there still exists a gap in analyzing the political-economy constraints to achieving more cohesive EU representation. Within this context, the institutional setting is exceptionally important, and is also decisive in setting the parameters of IMF reform. EU institutions, in particular the Commission, play a severely minimized role in the formulation of Bretton Woods' policy, and therefore are unable to help generate a common European reform proposal that is both strategic and forward-looking. There are few coordinating institutions for the formulation of Bretton Woods' policy. Development policy remains a shared competence between the Commission and Member States and significant differences in preferences remain amongst major bilateral donors on the form and content of foreign aid. With regards to IMF relevant policies, the uneven adoption of the euro complicates the ability of the European Central Bank (ECB) from taking a more active role on monetary and exchange rate policy, as well as on more systemic issues such as the regulation of global capital flows.

But what are the consequences of this low communitarisation of Bretton Woods' policies on IMF governance reform? In effect, the lack of delegation to EU institutions to help forge consensus amongst Member States implies that broad ranging reform is less likely. This is because they could otherwise play a role in moderating the 'extremes' of Member State preferences by forging consensus amongst Member States. Cooperation would utilize the intra-EU debate to moderate the preferences of, for example, small countries that are currently highly over-represented in the Fund relative to their total economic weight and that therefore stand to lose significantly from governance reform. This would help to bring their positions closer to more moderate, pro-reform members. This is in part because in the context of intra-EU bargaining, these states may be able to mitigate their losses from IMF governance reform by obtaining a role in whatever new institutional settings are proposed, or may be able to gain concessions on other policy areas, making them more likely to agree to a reformist approach.

In the absence of institutional arrangements which facilitate cooperative EU decision making, anti-reformist countries are likely to hold up international negotiations because every IMF member enjoys an effective veto on governance reform: the IMF's charter stipulates that a country's representation cannot be reduced without their explicit consent. The entire scope of the international negotiation is therefore influenced by the unwillingness of such countries to moderate their stances – they have little to gain from reform and much to lose. And it is difficult for states with something to gain, namely developing countries, to make horse-trades that are attractive enough to satisfy such states.

Therefore, in the context of international negotiations the importance of EU institutions could be critical. Global governance reform would be more likely to go forward in the context of a single EU voice. Given the legal impracticalities and political impossibility of changing the role of these institutions in governing Bretton Woods' policy in the coming two years, the most positive outcome would be if EU Member States chose to utilize the non-formalized institutions that already exist to come to a joint position on governance reform. The constraint mentioned above – namely that EU members cannot vote jointly even if consensus is reached on an issue given their representation of non-EU states on the Board – is not salient in the case of IMF reform, where each state is ultimately represented by their Finance Ministers at the larger annual board meeting. There states are free to adopt ad hoc constituencies, such as EU members and associate countries to advocate reform proposals.

Thus, the fate of IMF governance reform in the coming two years rests overwhelmingly on the ability of EU members to generate a proactive and strategic reform plan that moderates the resistance of some more recalcitrant EU members. Whether this happens depends on the willingness of EU leaders and Finance Ministers to dedicate their political capital to this issue. Doing so is in both their interest, and that of many developing countries.

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Members' Recent Publications

Angresano, James (2007). *Sustaining the French Exception: Lessons in the Political Economy of Welfare State Reform from Sweden, Netherlands and New Zealand.* London: Anthem Press (forthcoming).

Angresano, James (2006). "ASEAN + 3: Is an Economic Community in Their Future?" Chapter 3 in Michael G. Plummer and Erik Jones, eds. *International Economic Integration and Asia*, Hackensack, NJ: World Scientific Publishing, 2006, pp. 97-134.

Borrás, Susana (2006). "The Governance of the European Patent System: Effective and Legitimate?" in *Economy and Society*, volume 35 (forthcoming)

Borrás, Susana (2006). "Legitimate Governance of Risk at EU level? The Case of GMOs" in

Technological Forecasting and Social Change. Volume 73, Issue 1: 61-75.

Jabko, Nicolas (2006). *Playing the Market: A Political Strategy for Uniting Europe, 1985-2005*. Ithaca: Cornell University Press.

Leal Arcas, Rafael (forthcoming, 2007). "Is EC Trade Policy Up to Par?: A Legal Analysis Over Time - Rome, Marrakesh, Amsterdam, Nice, and the Constitutional Treaty," *Columbia Journal of European Law*, Vol. 1, No. 2.

Leal Arcas, Rafael (forthcoming 2007). "The GATS in the Doha Round: A European Perspective," in Andenas, M. & Alexander, K. (eds.) *The World Trade Organization and Trade in Services*, Brill/Nijhoff.

Leal Arcas, Rafael (forthcoming, Winter 2007). "Choice of Jurisdiction in International Trade Disputes: Going Regional or Global?" *Minnesota Journal of International Law*, Vol. 16, No. 1.

Leal Arcas, Rafael (forthcoming, January 2007). "EU Legal Personality in Foreign Policy?" *Boston University International Law Journal*.

Meunier, Sophie, and Kalypso Nicolaidis (September 2006). "The European Union as a Conflicted Trade Power", in *Journal of European Public Policy*, Vol. 13, No. 6: 906-925.

Sadeh, Tal (2006). *Sustaining European Monetary Union: Confronting the Cost of Diversity* (Boulder: Lynne Rienner).

Sadeh, Tal (2006). “Adjusting to EMU: Electoral, Partisan and Fiscal Cycles,” *European Union Politics*, 7, No. 3: 347-72.

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Call for Papers

The EU in International Trade Negotiations

Call for papers for a workshop at Cornell University, Ithaca, New York
Early May 2007

Andreas Dür, University College Dublin
Hubert Zimmermann, Cornell University

The EU is one of the key actors in the international trading system. Until recently, it pursued both offensive and defensive interests in the Doha Development Agenda. The EU also engages or plans to engage in trade negotiations with different countries and regions across the world. Given the importance of the EU in these negotiations, and the importance of these negotiations for the EU, it is surprising to see how little research has been conducted on this subject. Despite some recent advances in the literature, single case studies on the most visible negotiating processes and covering only few sectors still dominate the field.

To remedy this state of the art, we propose to hold a workshop that brings together researchers from Europe and the United States to discuss the role of the EU in international trade negotiations. By doing so, we hope to widen our theoretical horizon and to get an overview of the different theoretical perspectives that have been developed to understand the role of the EU in international trade negotiations. We also hope to broaden our empirical basis by bringing together expertise on a wide variety of trade negotiations in which the EU has been involved (e.g. WTO, EU-Mexico, EU-Mercosur, EPAs, etc.).

In particular, we want participants to address questions such as:

• What determines the EU's preferences in international trade negotiations? What is the relative importance of economic interests, geopolitics, ideas and bureaucratic interests in shaping the EU's positions?

• How effective is the EU in accomplishing its objectives in trade talks? Which strategies does the EU use to achieve its goals?

• What is the role of the different EU institutions in international trade negotiations? How do the institutions interact?

The contributions should be based on original primary research and provide new insights to specific negotiation processes.

Potential participants should send an abstract of about 300 words to Andreas Dür (Andreas.Duer@ucd.ie) and Hubert Zimmermann (hz48@cornell.edu).

The **deadline** for submission of abstracts is **30 September 2006**.

The goal is to publish the results in form of a special issue of a peer-reviewed journal, later expanded in a book, and to establish a network for longer-term research collaboration. We are currently seeking financial support to subsidise travel expenses.

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Deadline

for submissions to the Spring 2007 issue

Monday, 19 February 2007

Please direct all correspondence concerning the Forum and the Data Resources Review to the appropriate editor. All other correspondence to the Managing editor.

Patrick LeBlond (Data Resources Review): **patrick.leblond@hec.ca**

Dermot Hodson (Forum Editor): **Dermot.HODSON@cec.eu.int**

Mitchell P. Smith (Managing Editor): **mps@ou.edu**

In particular we are looking for:
◊ Members' recent publications (since this issue)
◊ Members' news (since this issue)
◊ Calls for papers (due dates prior to 15 September 2007)
◊ Notice of forthcoming events (taking place prior to 15 September 2007)