



EUROPEAN POLICY BRIEF



GLOBAL RE-ORDERING: EVOLUTION THROUGH EUROPEAN NETWORKS

Europe's Role in Global Financial Governance – historical lessons and future outlook

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31 July 2014

INTRODUCTION

Since its beginnings in the 1950s, European integration has been transforming the member states of the European Union (EU). As the so-called euro-crisis forcefully revealed, one of the most consequential dimensions of European integration has been in finance—the markets themselves and the design and enforcement of the rules governing them. Even as national borders continue to shape European financial markets and their governance, Brussels has become the undisputed hub of financial regulation in Europe.

The concentration of competencies in Brussels and the attendant expansion and 'modernization' of European financial markets have not only left their mark on the social and economic fabric of European societies. The EU has also acquired sufficient market size and regulatory capacity to end the unchallenged domination of global financial governance by the USA. EU financial regulation and integration had historically evolved in the shadow of global developments and initiatives, for example, the Basel accord on capital requirements. But certainly since the 2000s, Brussels has started to 'talk back'—both to EU member states haggling over EU financial rules and to organizations and governments outside the EU, whose policies it increasingly shapes.

As extra-European initiatives inform the development of European rules and vice versa, neither can be fully understood without a consideration of the other. But practitioners and scholars have had nowhere to turn to for a systematic charting and analysis of these 'European–global relationships'—their history, their current shape as they cut across different levels of governance, and their implications for future policy, global rule coherence, and European influence.

This gap has been filled by an edited volume that is one of the core outputs of GR:EEN's subworkpackage on financial governance.¹ Based on its introduction, this policy brief lays out the main findings, focusing on the historical evolution of these EU-global links and their relevance for present-day challenges and possible future trajectories. In doing so, it builds on the contributions and work of the authors of the individual chapters of the volume. The analysis presented here is thus heavily indebted to their scholarship and effort.

EVIDENCE AND ANALYSIS

In the history of resurgent post-war globalization, the EU has played a double—and indeed, a double-edged—role. On the one hand, European integration has allowed European countries to unite their forces ('pool their sovereignty' in Hoffman's terms). In a cold war Western camp dominated by the United States, this unity allowed Europe to develop a distinct policy project of its own and emerge as an economic force on the global stage capable of rivalling the USA by standard metrics like GDP, population, and market size. At least potentially, European integration was seen by participating states as a shield against outside influence and a means to project EU influence onto the rest of the world.

On the other hand, European integration served to anchor EU member states to the US-dominated post-war order and forestalled alternative orientations among Europe's leading economies. This included the commitment to ever freer trade within Europe and under the General Agreement on Tariffs and Trade, as well as a step-wise abolition of capital controls and limits on inward investment, notably from the USA itself. European integration made the EU a global power to reckon with, but also embedded in its member states a fundamental commitment to a liberal economic order. Europe's sway on the global stage can thus be seen as the flip-side of its inability or unwillingness to use it for political and economic projects that drastically depart from the historical context in which it emerged. Indeed, if there is one empirical pattern that emerges in the history of European financial governance, it is that the lion's share of interaction between the EU and 'the rest of the world' has been transatlantic, even if it was channelled through formally international organizations. Apart from minor episodes, neither the BRICS nor Japan have played leading roles in global financial governance over the past decades. These two at first sight conflicting developments also inform the evolution of European financial governance: the EU emerges as a potential rival to US dominance and at the same time finds itself in increasing agreement with the USA over substantive questions of regulation.

Both in the popular press and among scholars, post-crisis debates in financial regulation have focused on differences in regulatory preferences, for example, in the G20 or in the EU–US Financial Markets Regulatory Dialogue. Both American and European authorities have been loath to delegate much rule-making power to third parties (accounting standards, set by the International Accounting Standards Board, are a notable exception here). If anything, we have seen more 'cooperative decentralization', not global top-down governance or harmonization.²

Any signs of friction should not blind us to the enormous degree of transatlantic consensus. In the late 1990s and early 2000s, the EU actively sought to emulate what it saw as the American model. Reforms since the crisis have not led to a parting of ways between the EU and the USA, but to efforts to not disrupt transatlantic financial business. Arguably, recent financial disintegration within the EU—between member states in the southern European periphery and its core economies—

¹ Daniel Mügge (ed.) *Europe and the Governance of Global Finance*, Oxford: Oxford University Press.

² Eric Helleiner and Stefano Pagliari, 2011, 'The End of an Era in International Financial Regulation? A Postcrisis Research Agenda', *International Organization* Vol. 65, Issue 1, pp. 169-200.

has been more pronounced than any gulf between Wall Street and the primary centres of European finance.

The overall pattern is one in which EU financial governance has strengthened over the past decades, and continues to do so, but in a fashion that has made it, or at least kept it, compatible with a US-led open international financial order. To a significant degree, this is due to the emergence over the years of a transatlantic circle of financial regulators, experts, and professionals who share a common understanding of the regulatory world they inhabit, even if when viewed from the inside, the differences may appear much larger as they naturally attract all attention. By and large, however, members of the regulatory policy community have stayed the course in the face of the largest financial and economic crisis in almost 80 years. This commitment—and its dominance of actual policy—is remarkable when we compare it to the economic, social, and political disruptions and dislocations that the crisis has caused in Europe and the United States overall. It is also remarkable when we think back to how transnational regulatory initiatives first began several decades ago.

First Contacts, 1985–1992

At the global level, cooperation has been most prominent in banking regulation. Starting in 1975, the governments of the financially most advanced countries entered into agreements on sharing information, and in the late 1980s set common standards for bank capital buffers. Subsequent revisions of the Basel Accord by the Basel Committee for Banking Supervision (BCBS) introduced ever more specific rules which currently form the basis of EU banking regulation.

Early EU efforts in banking and insurance in the 1970s had limited effects on the provision of financial services. But the single market programme of the mid-1980s ushered in a comprehensive opening of banking, insurance, and securities markets. In banking, the single market programme ran parallel to negotiations for Basel I, which eventually became a template for European legislation—a clear instance of global influence on European rules. For capital buffers on securities trading, global negotiations in the International Organization of Securities Commissions (IOSCO) clashed with attempts to strike a deal for the eventual Investment Services Directive, and while the latter saw the light of day, no global agreement emerged. EU regulatory integration clashed with global harmonization. Finally, in insurance, steps towards meaningful cross-border integration failed to materialize both in the EU and in the global arena. Insurance markets were to remain distinctly national for years to come, and beyond wholesale (re)insurance, no meaningful drive ever materialized to truly integrate markets across borders.

These initial rounds of negotiation largely focused on terms of mutual market access for banks, insurance companies, and different kinds of securities firms. Even when successful, they stopped short of detailed rule harmonization or the creation of a truly integrated financial space—comparable to early rounds of trade negotiation when ‘behind the border’ issues often still prevented equal market access for foreign competitors.

The US as a Model, 1992–2000

The mood in EU financial governance changed perceptibly between the official inauguration of the single European market in 1992 and the end of the millennium. Spearheaded by large financial firms, a coalition emerged in favour of transforming European financial markets to align them more closely to US practices. US firms had been grandfathered into the single European market, meaning that their pre-single market establishment in the City of London gave them pan-European access to the single market in line with rules for European firms. The growing internationalization of financial flows created incentives for the unilateral adaptation of regulation to Anglo-American standards.

When the Commission unveiled its first draft of the Financial Services Action Plan (FSAP) in 1998 (adopted in 1999), it was presented as a way for the EU not to fall behind the USA in

competitiveness. In terms of ideas and rules, the 1990s were transatlantic one-way traffic. As more and more European firms sought to list on US stock exchanges, the pressure grew for the EU to unilaterally adopt US (compatible) rules.

The liberal, capital market-based model of financial regulation was further enshrined in the Compendium of Standards and Codes that the Financial Stability Forum, founded in 1999, compiled in response to the Asian financial crisis. To be sure, the Compendium was intended more as a guide for emerging markets than as a convergence agenda for authorities in Europe and North America. Nevertheless, it encapsulated, at least as an ideal, a putatively coherent set of expertise-based best practice rules for financial market governance. While countries continued to opportunistically deviate from these rules, the liberal technocratic model of financial governance that they embodied and to which EU member states signed up was an indication of how far regulatory thinking had converged over the course of the 1990s.

The EU as a Maturing Power in Global Financial Governance, 2000–2007

Since the beginning of the millennium, the EU has grown more visible and influential in global financial regulation. Three factors underpinned this trend: the emergence and growing coherence of a truly European capital market aided by the single currency; the further concentration of regulatory capacity in supranational hands; and the partial delegitimization of US governance and rules through the stock market crash and high-profile scandals of the early 2000s.

One of the key levers jurisdictions have in international standards setting is the size of the market to which they control access. The rise of stock markets and cross-border integrated debt markets made Europe a much more attractive market for many non-European, and in particular American, financial firms. Germany and France, but also other European countries, were gripped by an intense, if rather short-lived, stock market mania in the run-up to the year 2000, fuelled by a benign economic climate and large-scale privatizations of government-owned enterprises. For some time, observers seriously wondered whether large Continental European economies would ‘catch up’ with the USA and the UK in terms of, for example, stock market capitalization relative to GDP—implying huge business potential for investment banks. Eventually, French and German patterns of corporate finance proved to be much stickier and the wholesale transformation of continental European finance did not materialize—at least not in the way that was anticipated. Nevertheless, control over an attractive market gave the EU much more leverage in regulatory bargaining with the USA than it had previously enjoyed.

This market size leverage was particularly useful in policy domains where the centralization of regulatory competences enabled the EU to speak with one voice. In 2001 the European Parliament and Council decided to delegate decisions over implementing measures in EU capital market legislation to a newly created body, the Committee of European Securities Regulators (CESR). CESR’s competencies included advising or deciding on the equivalence of foreign rule-sets with EU rules and thus determining whether foreign firms could receive a waiver for compliance with EU rules. CESR could thus make demands on foreign authorities, including American ones. Although this power was seldom used, the USA did, for example, adapt its reporting rules so that they would be deemed compliant with EU demands for consolidated supervision.

EU influence was even more tangible in accounting standards where it decided to back IAS in the mid-1990s. As by far the most important jurisdiction to back IAS (and their successor International Financial Reporting Standards, IFRS), the EU effectively propelled IAS to become de facto global standards, now even recognized with some caveats by the USA.

Among the less tangible but still widely recognized factors behind the EU’s growing voice in global financial governance were the corporate scandals that rocked the USA in the early 2000s—most prominently the disintegration of Enron once its dubious derivatives deals and accounting fraud were discovered. These scandals demonstrated that US financial rules were not necessarily best practice and that the USA, too, had something to win by adapting its standards. For example, the

rule-based system of accounting standards which emphasized adherence to the letter rather than the spirit of the law came under heavy criticism. More broadly, the legitimacy and appropriateness of US financial governance as a whole was questioned around the world. Henceforth, when negotiating cross-border rule-sets with other jurisdictions, the USA could no longer claim to 'self-evidently' have the best regulatory system.

The American response to the corporate scandals in the form of the Sarbanes–Oxley Act of 2002 created new transatlantic regulatory challenges. Several of its provisions had clear extraterritorial implications, for example, for European firms listed on US stock exchanges. The perceived need to make or keep financial standards compatible only grew after the 2001 Al-Qaeda attacks in the USA as, for example, efforts to combat money laundering gained new international prominence.

Overall, the 2000s witnessed a shift from EU adaptation to US rules to mutual adaptation, often in the form of equivalence regimes. Mutual adaptation caused little overt friction as the EU was not pursuing a financial market model radically different from the American one, and showed little appetite to challenge the continued dominance of US financial institutions in global markets. Although the rise of credit rating agencies and (activist) hedge funds in continental Europe repeatedly led to political controversy, EU authorities saw little need to establish their own rule-sets to place limits on these institutions. In short, if the EU continued to play second fiddle to the USA in the pre-crisis years, this probably said as much about the absence of a clear alternative vision for financial market regulation as it did about the power resources that the USA and the EU could bring to bear on transatlantic and global financial governance.

Responding to the Financial Crisis, 2007–2013

The financial crisis that has beset European and global financial markets since 2007 spawned a wave of regulatory activity, one which consolidated executive capacity at the European level through the creation of financial authorities for banking, capital markets, and insurance and occupational pensions.

The financial crisis triggered a level of international regulatory interaction that far surpassed anything that preceded it. The G20 quickly became the central forum to deal with regulatory reform, with the EU being granted formal membership alongside four of its member states. The Financial Stability Forum was upgraded into the Financial Stability Board, a clearing house for re-regulatory ideas and initiatives, particularly in areas that had thus far not been addressed by any of the existing organizations.

Given the severity of the crisis and the degree to which it unsettled pre-crisis assumptions on which regulation had rested, some observers expected the EU to become a leading advocate for a drastic reorientation of financial systems and their regulation. But rather than a parting of ways between regions and countries, or a new global consensus over a new regulatory model, the emergent pattern since the crisis is one of cooperative decentralization. One central lesson of the crisis has been that faulty regulation can carry a hefty price-tag in the form of taxpayer-funded bail-outs and wider economic damage, leading governments around the world to become more sceptical of 'outsourcing' financial regulation to expert bodies. In consequence, they have sought cooperative arrangements that fall short of full harmonization but marry agreement on basic rules with flexibility in national implementation. The flexibility built into the recent revision of the Basel accord (Basel III) can be understood in this light.

Neither the USA nor Europe—the two epicentres of the crisis—seriously targeted the extent of financialization in their economies. Private debt to GDP ratios, for example, remain high in many EU member states, and decreasing them drastically is not a political priority. Incremental rule adaptation was meant to address the shortcomings of the extant financial market model, not overturn it. Together with the commitment to relatively flexible rules, this generated remarkably little international friction, as a comparison of recent years with the fraught international economic politics of the 1930s illustrates. While the EU found itself disagreeing with the USA on some

issues—for example, executive compensation—the extant regulatory architecture allows different rules to exist side by side, for example for hedge funds. Differences of opinion did not necessarily translate into transatlantic or international bargaining over harmonized rule-sets but to the accommodation of divergence. Only in a few areas such as derivatives trading was the compatibility of regimes so essential that it necessitated the detailed coordination of regulatory reforms.

The tailoring of regulation and supervision to local contexts is one of the prominent trends to have emerged from the crisis thus far. Governments have realized that financial regulation and supervision affect other policy domains that continue to be guarded as national or supranational prerogatives: fiscal policy, monetary policy, and social policies, for example, for housing. A strong case can indeed be made that governments need to preserve manoeuvring room to be able to fine-tune regulatory policy. Examples include special resolution regimes for financial institutions that distribute the costs of bank failure among diverse stakeholders, and capital requirements for bank assets that directly or indirectly finance real estate lending. These issues matter especially in the context of the single European currency. The proposed banking union has implications not only for supervision but, through the proposed resolution regimes, for the financial structure of banks and their legal relationships with various classes of creditors. The perceived exigencies of the euro thus delimit the EU's room for manoeuvre.

The crisis has also underlined how the choice for particular regulatory regimes includes value judgments about the distribution of the spoils and risks of any particular financial system (think, for example, of executive compensation or the scope for banks to speculate with depositors' money through derivatives). As societies reach different conclusions on these issues, it is no longer self-evident that technocratic governance provides the best answers. Taken together, these factors imply that the former ideal of a single global rule set has become obsolete. International regulatory politics in finance is no longer about harmonization but about cross-border rule compatibility and market access.

What drives global regulatory politics?

The facets of financial regulation discussed in this book vary in ways that are central to the interaction between European policy and global financial governance: do they have prudential implications? Do they matter for cross-border market access? Do they concern thousands of firms or only a handful, based in a single jurisdiction? Do they have implications for retail consumers? And do they pose a collective action problem, like global tax policy? We find differences not only between facets of regulation, but also across time. The historical context in which regulatory coordination efforts unfold is decisive for how they play out: how developed is a particular financial sector at any point in time? How sanguine or sceptical are policy-makers about the net benefits for society of ever-expanding financial markets? And however crudely measured, what is the distribution of power between different jurisdictions trying to influence one another's policies?

The motives of jurisdictions to seek harmonized rules are manifold. The harmonization of standards has been sought in the name of market efficiency and the collective implementation of best practice. At the same time, considerations of competitiveness—protecting the interests of domestic financial firms—have from the outset figured prominently in the dynamics of international coordination. Even if state-firm relations are more complex than simple lobbying perspectives suggest, cooperation has helped regulators to prevent regulatory races to the bottom that might otherwise have resulted from regulators' willingness to secure an “edge” for their firms.

Obviously, the size of a jurisdiction's domestic market influences its bargaining power as it can use (privileged) access to its home market as a dangling carrot in negotiations, and restriction of such access as a stick. In the past, the USA could easily impose its regulatory preferences on others both due to the size and sophistication of its financial markets and the global dominance of the US Dollar. The balance has shifted since the late 1990s due to the rise of capital markets in

continental Europe, the introduction of the single currency, the supranational concentration of regulatory capacity in Brussels, and a spate of regulatory scandals in the USA. This shift has been noticeable for example in auditing, banking regulation, supervision, accounting, securities, and insurance. On top of this, the further cross-border integration and consolidation of the financial sector has altered private-sector coalitions supporting or opposing regulatory harmonization within and beyond the EU. In the fields of banking and capital market rules as well as accounting standards, these coalitions have exerted pressure for either harmonizing rules or at least making them compatible between jurisdictions.

Within forums debating global rules, it matters whether or not participants can draw on extensive regulatory experience and capacity at home. The ability to exert international influence requires strong, clearly articulated preferences as well as the capacity to implement and enforce rules. Enforcement capacity enables regulators to wield influence as they can credibly threaten to enforce rules with 'bite' in their home markets, also for foreign firms. As market segments grew (such as stock trading on the continent) or evolved into truly European markets (such as those for sovereign debt or wholesale lending), EU regulatory capacity has 'caught up' with that of the US in particular. Other financial sectors have long fallen outside of the EU regulatory purview, either because there was no home-grown sector to speak of, for example credit rating agencies, or because it was effectively limited to one country with a light-touch regime – hedge funds in the UK.

While the EU can in some respects be analysed like any other 'big power' in global financial governance, its internal make-up has ramifications both for its global role and for the way in which it accommodates extra-European developments. Differences of opinion among member states can be an asset as they make the EU a less flexible negotiating partner and force others to be more accommodating towards European demands. But divisions among EU member states can also keep Europe from formulating clear policy positions and undermine its influence, noticeably in policy regarding hedge funds and secrecy jurisdictions.

Since the crisis has shaken established assumptions about financial markets and their regulation, debate about the direction of future reforms has become much more prominent, reflected in the intellectual breadth and diversity of recommendations contained in the array of policy reports published since 2007. Past experience suggests that, other things being equal, the tightness, homogeneity, and isolation from politics of transnational regulatory networks increase the importance of expert deliberation. In such deliberations, intra-European diversity can be a double asset: the multiplicity of standpoints within the EU provides it with a large pool of ideas to consider. And, harking back to a core theme of the GR:EEN project as a whole, the need to find regulatory arrangements that accommodate intra-European diversity can make European solutions promising templates for comparable challenges at the global level. This is particularly true in domains that require on-going cross-border cooperation such as supervision. But where convergence on a single set of ideas is necessary, intra-European diversity can hinder the emergence of a coherent template to serve as a focal point for global regulatory efforts.

POLICY IMPLICATIONS AND RECOMMENDATIONS

It is an open question just how committed to global rule harmonization or compatibility the EU should be. In the pre-crisis period, it was an article of faith that a global set of best practice rules was desirable, and ironing out cross-border differences was an important goal of regulatory policy. While the arguments in favour of rule compatibility continue to carry weight, the recent years have demonstrated that this policy goal may compete with others. Financial regulation interacts with other dimensions of economic policy, for example with respect to real estate markets. A serious appreciation of macroprudential policy also underlines the need for financial regulation to be

tailored to regional specificities, if not national circumstances. The Banking Union has exposed the link between regulation on the one hand and monetary and fiscal policies on the other. In short, we can no longer think of financial regulation only, or even mainly, as a rule set for just another economic sector or as policy that is primarily concerned with optimizing the flow of capital to its best uses, whatever those may be. Instead, the now evident strong links between financial regulation and other dimensions of economic policy mean that in the future a careful balance will have to be struck between tailoring EU financial regulation to its non-regulatory European policy context and improving its interface with financial regulation elsewhere.

At the height of the financial crisis, global political leaders stressed the importance of erecting a solid global financial architecture under the auspices of the G20. Since then, efforts to build this integrated global regulatory edifice have lost steam, leading to the emergence of ‘cooperative decentralization’. Nevertheless, the cooperation should not be taken lightly. Whatever the transatlantic differences in the past years, at no point has either the EU or the USA seriously considered erecting a regulatory fortress. The on-going political and economic turmoil in the EU may dent further reform enthusiasm or capacity, but it is unlikely that it will either overturn European or global agreements or cause the EU to radically change its regulatory course. But though incremental change has been the dominant mode of reregulation, this does not mean that cumulatively these changes cannot cause financial blocks to drift apart. As indicated above, the exigencies of the single currency circumscribe the kinds of supervisory and regulatory arrangements the EU, or at least the Eurozone, can countenance.

Reform fatigue seems to have set in on both sides of the Atlantic. Once pending projects, including on-going discussions about the appropriate conclusions to draw from the Liikanen report, are finalized, we should not expect major new initiatives—unless, of course, extant arrangements were to fail dramatically in the event of a new crisis. But even then, with the exception of banking rules, it is likely that financial regulation will have left the political limelight. To be sure, it has not become less important. But the economic malaise that the subprime crisis precipitated in 2007 has since grown to such proportions that it has required the whole arsenal of economic policy instruments to address it—often with mixed results. If another episode such as that following the Lehman Brothers collapse were to recur anytime soon, policies would most likely have to go beyond financial regulation to transform the structure of the financial sector and its relationship to public authority.

One of the most remarkable patterns to emerge from the book that informs this policy brief is the centrality of transatlantic relations in the EU’s dealings with ‘the rest of the world’. Both conflict and cooperation in international regulatory organizations such as IOSCO can mostly be understood as a function of EU–US relations. Japan, China, India, Russia, and Brazil have all, to date, only played modest roles in the evolution of global financial governance. The incentives that these countries have to become much more heavily involved vary, but in all cases they mitigate against taking a leading role in global financial governance. China, for example, shows little appetite at the moment for fully embracing the idea of a single global rule set for financial markets, given that financial regulation remains in important ways tailored to the exigencies of the domestic Chinese economy. On top, as the previous analysis has shown, mutual rule adaptation across the Atlantic was significantly driven by the desire to facilitate cross-border market access for financial firms. In that respect, countries such as India or Brazil these days have much less to gain from a full commitment to global financial governance than Germany or the UK did two or three decades ago. After all, the chances of an Indian bank securing a place on Wall Street as Deutsche Bank did, or of Sao Paulo rivalling the City of London as a financial centre are very slim. In addition, the global financial crisis has done lasting damage to the idea that “Western” financial governance was necessarily the kind of best practice that deserved emulation. On-going European economic weakness and repeated IMF reports that highlight the continued financial fragility in Europe have solidified rather than overturned that impression. In short, the incentives for taking full “ownership” of global financial governance for these countries are much smaller than they were for countries in the North Atlantic region in earlier periods.

In that light, it comes as no surprise that the USA and European countries have continued to dominate regulatory reforms since the crisis, including for example, agenda-setting in the G20. This can be seen as a sign of continued EU and US strength, but a more sceptical reading may perceive it as a sign of weakness: the EU and the USA are so heavily involved in global financial regulation precisely because it is they who have built their growth regimes of the past decades atop an unsustainable financial sector and expanding debt. Which interpretation prevails will depend on how they emerge from the crisis. In any case, that this point is ambiguous is a reminder that ultimately, the future of regulatory politics—in Europe and beyond—is inseparable from governments' ability to tackle an economic crisis that will soon have festered for a whole decade.

Recommendations

Two central themes have run through this policy brief: the special position of the United States in the array of non-EU jurisdictions with which the EU interacts in financial governance, and the multidimensional character of financial regulation, which simultaneously is a form of economic governance and service sector regulation. The emphasis of this policy brief has been on providing historical background on the EU in global financial governance to practitioners in order to give them a basis for understanding current developments. Still, jointly considering these central themes does yield two recommendations:

Recommendation 1:

To the degree that financial regulation is increasingly dealt with in the EU in sync with other dimensions of economic policy, the EU should also consider this interaction in the external dimension and ask: in which ways can and does EU interaction with non-EU jurisdiction in financial services need to be attuned to EU-internal economic policies? Think for example of the implications of macroprudential policy imperatives for the appropriate ease of access of foreign credit institutions to EU capital markets. In the past, such interactions seem to have been driven by the sense that, as long as European firms are not at a disadvantage, the more seamless global financial markets are, the better. That stance implied strong a priori support for cross-border rule harmonization. While the range of relevant considerations will vary from one policy field to the other, it will be appropriate to re-examine that position in light of the tight links between regulation and fiscal and monetary policy. The implication is not a turn away from international cooperation or engagement per se, but a sober weighing of the benefits and costs of harmonization not only with respect to the price of financial services but also the ease with which other important policy goals can be realized.

Recommendation 2:

The United States was and is the most important capital markets hub outside the European Union. Given its interpenetration with European markets, the USA should also remain the most important partner in financial governance for the time being. That said, even if many countries outside the North-Atlantic region are at the moment not particularly relevant partners in global financial governance, the EU is well-advised to maintain an open dialogue with them, even if not with an eye to concrete results. It is unclear how exactly economic weights will shift during the 21st century, but there is near-consensus that the relative weight of the EU and the USA will decrease at the expense of so-called emerging markets. Even if that shift may currently not be felt in global debates about the regulation of financial services, when it will make itself felt, it will be useful to have developed good working relationships with for example India, China and Brazil, also to understand better the different views of financial markets and liberalization these countries may hold. The past ten years have shown just how quickly momentous dynamics can spread in capital markets. It will be useful to have well-established connections outside the North-Atlantic region if and when that happens again.

PROJECT IDENTITY

PROJECT NAME Global Re-ordering: Evolution through European Networks (GR:EEN).

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Waseda University
Tokyo, Japan

FUNDING SCHEME

FP7 Framework Programme, Collaborative Project, SSH – Europe facing a rising

multi-polar world

DURATION

March 2011- February 2015 (48 months)

BUDGET

EU contribution: 7 944 718 €.

WEBSITE

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