



Session 38 - Multilateralism tested against new risks
Yaroslav LISSOVOLIK, Sberbank

A post-pandemic revival for regionalism: the role of the EU

The current international economic system is stress-tested by a series of systemic challenges ranging from trade disputes and protectionism to climate change and global scale epidemic. The response of the world community is constrained by lingering gaps in global governance as well as lack of leadership across countries and regions in mustering a coordinated response to these daunting challenges. At this crucial juncture for the world economy, it is the regional layer of multilateral institutions and integration blocks that has the potential to overcome the excesses of narrow national self-interest and raise international cooperation to a higher level. The European Union as the most advanced regional integration block could play a leading role in creating a platform for cooperation among the regional integration arrangements and their development institutions for the benefit of the world economy.

Indeed, a stark paradox of our time is that in a world where regionalism is playing an increasingly prominent role, there is still no mechanism for cooperation/coordination among regional integration blocks and their development institutions. This lack of coordination between regional blocks and regional development banks/funds deprives the world economy of additional reserves in promoting trade liberalization, infrastructure/transport connectivity and securing macroeconomic stability. Indeed, in terms of trade integration regional integration arrangements have overshadowed the significance of the WTO; the reserves of regional development banks as well as regional financing arrangements have exceeded those of the World Bank and the IMF respectively. In effect, the sum of the regional parts is greater than the total (namely the reserves and capabilities of global institutions).

In light of the above, the creation of a platform for cooperation among regional integration blocks, regional development banks and regional financing arrangements may deliver an important positive impulse to multilateral cooperation across countries. The question is whether within the rising power of global regionalism there is a force that is capable of driving such a coordination effort. In this respect, of all the regional integration blocks, the EU plays a leading role in the pursuit of regional integration across all the main areas, namely trade/economic integration, as well as the creation of regional development institutions such as regional development banks and regional financing arrangements. In the area of trade integration the EU is the largest customs union in the world, being also a regional block with the deepest and most institutionalized economic integration framework. In terms of the breadth and scope the EU has been a source of inspiration for other regional integration projects such as the Eurasian Economic Union.

Moreover, the EU is also the regional block that is the most active in constructing a framework of “integration of integrations”, some of the cases in point being the European Economic Area (EEA) with EFTA as well as an Economic Partnership Agreement (EPA)



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with the South African Development Community (SADC). The EU is also engaged in ongoing talks and ratification of trade agreements with other regional blocks, including with respect to the MERCOSUR-EU FTA accord as well as the EU-GCC FTA agreement. The ASEAN-EU action plan for 2018-2022 envisages further efforts to attain the conclusion of a free-trade agreement – according to the EU, “a joint EU ASEAN Working Group for the development of a Framework setting out the parameters of a future ASEAN-EU FTA gathers at a regular basis”¹.

With respect to development banks, the EU features such heavy-weights as the European Investment Bank (EIB), the largest multilateral financial institution in the world. Its subscribed capital amounts to 243.3 bn euros, while the amount of loans disbursed as of the end of 2018 amounted to 451.1 bn euros². Apart from the European Investment Bank, the EU also finances economic development via the European Investment Fund³, and plays an important role in the Council of Europe Development Bank (CEB)⁴ as well as other multilateral banks such as the EBRD.

Among the regional financing arrangements (RFAs), the EU has the largest RFA in the world, namely the European Stability Mechanism (ESM), whose resources are estimated by the IMF at nearly 400 bn SDR, more than twice as much as the second largest RFA in the world, the Chiang Mai Initiative Multilateralization (CMIM). The EU also employs the European Union Balance of Payments Facility, whose resources amount to nearly 40 bn SDR⁵. The ESM is already an active participant and one of the initiators of the formation of a common platform for regional financing arrangements in coordination with the IMF and the G20. In effect a prototype of a global platform for RFAs has already been launched and has progressed towards an elaboration of common principles and standards for all RFAs.

Most importantly, among the regional integration blocks the EU is uniquely positioned in the global economic institutions such as the WTO and the IMF where it has official membership and observer status for the ECB respectively (as opposed to other regional arrangements). In this respect, the EU becomes not only a crucial link in the horizontal coordination of the regional arrangements among themselves, but also the vertical coordination between the regional integration arrangements and global institutions.

The creation of a full-fledged layer of regional governance in the world economy would enable the EU to play a leading role in the formation of a revamped global governance that is more equipped to deal with the rising challenges afflicting the world economy. It will also allow the EU to use its political capital and soft power derived from the decades of success in trailblazing the paths of regional economic integration to the benefit of global development with a significant “multiplier effect”. In terms of EU’s geoeconomics, the

¹ <https://ec.europa.eu/trade/policy/countries-and-regions/regions/asean/>

² https://www.eib.org/en/about/key_figures/data.htm

³ The EIF specialises in finance for small businesses and mid-caps.

⁴ <https://coebank.org/en/> As noted on the official website of the Bank, the Bank promotes the values and principles of the Council of Europe, but is nevertheless a separate legal entity and financially independent.

⁵ <https://www.imf.org/en/Publications/Policy-Papers/Issues/2017/07/31/pp073117-collaboration-between-regional-financing-arrangements-and-the-imf>



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creation of a regional layer of cooperation among integration arrangements would alleviate the pressures faced by the EU in a bipolar world paradigm, characterized by the domination of the US and China. Such a platform of cooperation among regional institutions could create new diplomatic and business communication lines as well as create new venues for mediation of disputes and economic cooperation. It would provide greater optionality for the EU in pursuing trans-regional and mega-regional projects via the Transatlantic partnership or the Eurasian integration and connectivity with China's BRI and other continental initiatives in Eurasia.

The emergence of a regional platform in global governance would also provide an important venue for addressing such global challenges as climate change and global warming. In particular, the "Green Deal" advanced by the EU as a response to the environmental challenges could be effectively promoted through the regional platform not just within Europe and Eurasia, but across the globe. The building of a regional platform for integration blocks and their institutions would inform the integration projects across continents about the values and innovative approaches to integration and attenuate the country-level fragmentation in building consensus on key global issues such as the environment.

The mechanics of the creation of a platform for regional arrangements could involve cooperation between regional institutions with the respective global organizations with active support coming from the G20. Accordingly, regional integration arrangements could strengthen their cooperation with the WTO, regional development banks would step up cooperation with the World Bank, while RFAs would further strengthen their coordination with the IMF. These lines of cooperation could be brought under one umbrella of an R20 (Regional 20) within the framework of the G20, with important synergies being exploited across all three main venues of economic cooperation, namely trade integration/liberalization, connectivity and macroeconomic stability. The EU as the leading force across all three areas of cooperation could perform a coordinating role in close cooperation with all international institutions and the G20.

In the end one would hope that in line with Arnold Toynbee's dictum, in civilizational development challenge creates response. The severity of challenges faced by the global community today needs a far more coordinated and bold response that requires leadership and commitment to advancing the development goals of inclusivity and sustainability across the globe. European regional integration and Pax Europaea in the period after the Second World War were critical to securing prosperity and stability in Europe. The time may have come to take this virtuous mission of regionalism to the global level.