The EU and Emerging Market Economies
Transformations and New Challenges

Project Report July 2017

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The European Union (EU) and emerging market economies are facing a great variety of challenges and transformations in a rapidly changing world. They are important players on the world stage, working through and shaping the various multilateral organisations they are members of. The European Policy Centre (EPC), in cooperation with the Institute for the Scientific Advancement of the South (ISAS), has carried out a project that looked at the political, economic, and environmental interests of the EU and emerging market economies and considered the future of their cooperation in global governance.

Between November 2014 and December 2015, four policy debates and two roundtables were organised to discuss these issues with policy-makers, experts, business representatives, and civil society representatives, both from the EU and emerging markets. The project would not have been possible without the significant contribution of participants from the following countries: Argentina, China, Mexico, Pakistan, Philippines, Russia, South Africa, and the United States. Overall, the events registered around 500 participants, demonstrating the high level of interest and the need to maintain the ongoing dialogue between the EU and emerging market economies. This report reflects upon the outcomes of the project's discussions, while also providing punctual updates.

The EU is made up of countries with different levels of political and economic might, which could achieve more internationally by pulling their strength together, as their individual international power is waning. This is especially true in relation to emerging market economies, countries that are on track to becoming developed markets, mainly defined by increased growth levels and economic opening. While the BRICS countries (Brazil, Russia, India, China, and South Africa) represent the most important group of emerging market economies, countries like Mexico, Indonesia, Nigeria, Turkey (sometimes called MINT), or Saudi Arabia are also considered to be emerging markets. With their growing economic power, emerging market economies are also gaining more and more political weight on the international stage, making them rising powers in global governance.

Although interested to develop and modernise their economies and societies, the reality is that each of them faces their own different conditions and domestic challenges. These countries therefore do not necessarily share a common agenda or even similar economic, political, social and cultural features. Recently, many of them have been hit by rather sluggish growth or even recession, while others are facing major political turmoil. Despite these problems and the fact that they are not a unified bloc of countries, emerging market economies are becoming increasingly important global players. In this context, developed economies, like the US, Japan, and the EU in particular, still need to find a coherent strategy to respond to these evolving realities.

In order to shed light on the relationship between emerging market economies and the EU, the EPC project analysed four key areas of multilateralism: climate change, trade, international financial institutions, and global governance in the security realm. Each of them carries great potential for cooperation, as the EU and emerging powers are striving to be important global players, in order to consolidate or even increase their influence and power on the world stage.

Increased cooperation between the EU and emerging market economies would mean a more coordinated approach to tackling global challenges, across different regions in the world. That could not only benefit them but also provide much needed stability to the current system of multilateralism and make it more effective and representative.

Climate Change

On 3 November 2014, the EPC organised the first event of the project, entitled 'Heading for Peru: The road to an ambitious global climate agreement in 2015?', which focused on the expectations for the climate change conferences in Lima, Peru, in 2014 and in Paris, France, in 2015 and looked at the diverging priorities of the EU and emerging market economies ahead of the negotiations.

By lifting millions out of poverty through industrialisation and continuous economic growth, emerging market economies are experiencing a steady increase in their middle class. This middle class' endeavour to obtain the same level of comfort and lifestyle as the Western world in turn creates greater exploitation of resources. While this includes a variety of commodities, it is the transport services and car ownership in particular that have a crucial impact on global energy consumption. The International Energy Agency sees a strong relationship between economic growth and emissions growth across emerging market economies,[1] which means that they have to respond to the dual challenge of promoting economic growth and mitigating the environmental impact.

At the EPC event, Gauri Khandekar of the Global Relations Forum talked about the Indian government's main focus on increasing growth. India's belief that ambitious climate change policies have a negative effect on economic growth has therefore resulted in reluctance to agree to legally binding emission cuts, especially as India's industrial production is still primarily coal-based. In China, still the world's largest coal consumer, there is also concern about the impact of climate policies on economic growth. The International Monetary Fund (IMF) predicts that emerging market economies will "remain heavily reliant on coal, and their consumption of fossil fuels will continue to rise", making them drivers of future emissions growth.[2]

Daniele Viappiani from New Climate Economy, a project examining how countries can achieve economic growth while dealing with the risks posed by climate change, however, argued that reducing greenhouse gas emissions and economic growth can be achieved at the same time. The findings of the New Climate Economy report showed that 50-90% of the reduction in CO2 required between now and 2030 has the potential of delivering significant economic growth, stemming from the great amount of investment needed to build the necessary infrastructure in the coming years. On top of that, they found that this would only require 4-5% more investment than a high-carbon energy economy and underlined the long-term pay-offs in resource efficiency, energy storage, city planning, public transport, innovation or the digital economy.[3]

In fact, 2015 has been the first year in which emerging and developing countries have invested more in renewable energies[4] than developed countries (in absolute terms), although this trend reversed again in 2016. Among these countries, China "has been the single biggest reason for the near-unbroken uptrend for the developing world as a whole since 2004". At the same time, European investment in renewables fell by almost 8% from 2014 to 2015 and only grew by 3% in 2016.[5]

Due to their developing status, emerging market economies are both recipients and generators of climate

[1] *International Energy Agency*, "Energy and Climate Change", pdf (2015), available at https://www.iea.org/publications/freepublications/publication/WEO2015SpecialReportonEnergyandClimateChange.pdf, p. 30 [accessed on 14 October 2016].
[2] *International Monetary Fund*, "Commodity Special Feature", pdf (April 2016), available at https://www.imf.org/external/pubs/ft/weo/2016/01/pdf/SF_Commod.pdf, p. 46, 51 [accessed on 14 October 2016].
[3] *New Climate Economy*, "Better Growth, Better Climate", (2014), available at: http://newclimateeconomy.report/2014/misc/downloads/ [accessed on 28 March 2017].
[4] Excluding large hydro-electric projects.
[5] *Frankfurt School-UNEP Centre*, "Global Trends in Renewable Energy Investment 2017", pdf (2017), available at http://fs-unep-centre.org/sites/default/files/publications/globaltrendsinrenewableenergyinvestment2017.pdf, p. 14-15 [accessed on 10 July 2017].

financing. So-called South-South climate finance has grown significantly in the last ten years. These multilateral and bilateral initiatives are further supported by new organisations, like the BRICS' New Development Bank or the Asian Infrastructure Investment Bank. It is estimated that China, for example, has spent $40 million on climate finance since 2011, while it pledged another $3.1 billion for developing countries in September 2015.[6]

Although emerging market economies cannot be considered as a bloc in climate change negotiations, or on a par with developed nations, countries like Brazil, South Africa, India and China have been playing a significant role in the past few years. Despite their reluctance to agree to voluntary commitments in Kyoto in 1997, they announced voluntary emission targets before the Copenhagen Summit in 2009. Nonetheless, they insisted on maintaining the differentiation between North and South.

Generally, the EU has been the most active bloc of countries in tackling climate change in the past years. The latest figures show that, in 2015, total GHG emissions in the EU were 23.6 % below 1990 levels,[7] which means that it is overachieving its goal of 20% cuts in GHG from 1990 levels by 2020. It also remains the largest contributor of climate finance to developing countries, and it aims to spend at least 20% of the EU budget on climate action by 2020.[8]

The EU adopted a kind of "leading by example" approach by decreasing its emissions and increasing its funding. Part of this approach is also getting other countries on board and engaging with them on climate change action, especially within frameworks like the United Nations Framework Convention on Climate Change (UNFCCC). The 21st Conference of Parties (COP21) in December 2015 generated the Paris Agreement, the most ambitious global climate change agreement so far.

As the EPC event took place in the run-up to the Paris Conference, Jake Werksman, the EU's chief climate negotiator, pointed out that agreeing ambitious targets in Paris would be a challenge but that there was also a momentum that the EU could use. He stressed that the EU was hoping for a clear decision on the Intended Nationally Determined Contributions (INDCs) – targets that every country has to submit on its own GHG emissions reduction – and a set of rules and institutions that can govern the implementations of emission targets and hold governments accountable.

However, he also discussed the main difficulties of negotiating a legally binding agreement. Individual countries' INDCs would have to add up to an aggregate that keeps global warming below a 2°C rise, while taking into account each country's capabilities to mitigate climate change, and at the same time determine the legal framework that will effectively translate the agreement into national legislation. The divide between developed and developing countries would be tested by the principle of "common but differentiated responsibility"[9] and by finding a balance between mitigation policies and adaptation tools. Mitigation means cutting emissions, which is favoured by the EU, but many developing countries preferred the agreement to focus on financing adaptation measures to help communities around the world to cope with the impacts of climate change.

In this regard, Mxolisi Nkosi, who served as Ambassador of the Republic of South Africa to the EU, underlined South Africa's adherence to the principle of 'common but differentiated responsibility' and the need to focus on adaptation tools, with a global adaptation approach having been one of the main goals

[6] Ha, Sangjung, Hale, Thomas, and Ogden, Peter (2015), "Climate Finance in and between Developing Countries: An Emerging Opportunity to Build On", *Global Policy*, Volume 7, Issue 1.
[7] *European Environment Agency*, "Annual European Union greenhouse gas inventory 1990–2015 and inventory report 2017" (May 2017), available at https://www.eea.europa.eu/publications/european-union-greenhouse-gas-inventory-2017 [accessed on 10 July 2017].
[8] *European Commission*, "International climate finance" (2017), available at http://ec.europa.eu/clima/policies/international/finance/index_en.htm [accessed on 23 January 2017].
[9] Based on the link between industrialisation and climate change, it acknowledges a difference between developed and developing countries' responsibilities to tackle climate change.

of African countries in the negotiations leading up to Paris. At the same time, Delia Villagrasa, an independent expert on climate change diplomacy, acknowledged the importance of adaptation policies but emphasised that adaptation costs will become untenable if the international community fails to mitigate the future impacts of climate change.

The outcome of the COP21 was in the end rather unexpected, as it contained very high ambitions which will be hard to implement. Its main target is to keep global temperature rise below 2°C above pre-industrial levels and to increase efforts to limit it to 1.5°C, which will require substantial investment. Although developed countries pledged $100 billion per year in climate finance until 2020 at the Copenhagen climate conference in 2009 and the EU is confident that this funding will actually be generated,[10] it is not nearly enough to bridge the gap of what the United Nations (UN) or the World Bank, among others, estimate will be needed to mitigate and adapt to climate change in the coming years. Also, in terms of the 2°C target, studies show that the aggregated current INDCs would lead to a minimum 3°C rise in global temperature.[11]

While the EU can confidently claim that it has played a major part in reaching this agreement, the role of other countries must not be underestimated. Especially the US' and China's change of attitude was crucial to the outcomes, as they are the countries with the highest GHG emissions in the world (China at 10.6 billion tonnes CO_2 and the US at 5.2 billion tonnes CO_2 in 2015)[12] and had previously been rather reluctant to agree to such an ambitious deal. Their cooperation on this agreement was unprecedented, including the fact that they joined the agreement relatively early, on 3 September 2016.

Sam Geall, Executive Editor of China Dialogue, alluded to China's positive stance and its long-term strategic interest in establishing a low-carbon economy at the EPC event. Awareness about environmental issues is very high in the country, and China has come a long way since the negotiations in Copenhagen, stepping up as a responsible global player and willing to introduce very ambitious targets.

Other emerging market economies, such as Brazil, India and Mexico, helped to create momentum around the ratification process. In comparison, the EU ratified rather late, on 5 October 2016 only,[13] but it helped to reach the threshold for the entry into force of the agreement, which happened one month later. The race to ratify the agreement early was also encouraged by the fact that those countries who ratified early would have been able to vote in (and not only observe) the first meeting of its governing body at COP22 in Morocco.

Nonetheless, Werkman's worries were justified. Criticism around the deal particularly concerns the lack of enforcement mechanisms and of an obligation for emerging market economies to contribute to climate finance. Even though the Paris agreement is the first-ever universal, legally binding global climate deal, it does not foresee any repercussions for non-compliance, and implementation relies solely on each country's willingness. At the same time, the progress in development also led developed countries and the EU, for example, to demand that emerging market economies contribute their fair share to climate finance and investment. The Paris Agreement thus does not make a specific division between developing and developed countries anymore, but includes references to the "common but differentiated

[10] The actual amount of climate finance generated is hard to specify due to a lack of information and of an internationally agreed definition. Climate Policy Initiative estimates a total amount of $391 billion for the year 2014, with $98 billion coming from Western Europe alone (http://www.climatefinancelandscape.org/).

[11] *United Nations Environment Programme*, "The Emissions Gap Report 2016", pdf (November 2016), available at http://capacity4dev.ec.europa.eu/unep/document/emissions-gap-report-2016-unep-synthesis-report, p. xvii [accessed on 23 January 2017].

[12] *European Commission Joint Research Centre*, "CO2 time series 1990-2015 per region/country" (November 2016), available at http://edgar.jrc.ec.europa.eu/overview.php?v=CO2ts1990-2015 [accessed on 10 July 2017].

[13] *United Nations Framework Convention on Climate Change*, "Paris Agreement – Status of Ratification" (2017), available at http://unfccc.int/paris_agreement/items/9444.php [accessed on 23 January 2017].

responsibility" principle which means that differentiation is maintained.[14] Emerging market economies are unwilling to change this situation but are helping unlock additional climate finance, without being obliged to under the Paris Agreement.

Considering their economic power and the resulting opportunities, it is only natural that Western states and the EU should help carry the burden of adapting economic systems and mitigating climate change around the world. However, taking into account emerging market economies' increasing economic weight and political clout, they also need to contribute their fair share to climate change action and convince other countries to follow this lead. Cooperation between the EU and emerging market economies is therefore crucial, which was shown in their collaborative effort in negotiations and creating momentum for the rapid ratification of the Paris climate deal.

The EU needs to encourage emerging market economies to step up their game in order to create momentum, have an impact and help share the burden, while emerging market economies can benefit from technology and know-how but also gain reputation with other countries on this issue. Emerging market economies' initiatives and voluntary commitments so far point to a sense of responsibility for a sustainable environment. This commitment and cooperation is of particular significance considering President Donald Trump's backtracking on the Obama administration's climate change policy and his decision to withdraw the US from the Paris agreement.

This move will not only have a lasting effect on the environment but also necessitates an increased leadership role for the EU and for emerging market economies to motivate other countries to keep to their ambitious targets. Since the announcement of the US' withdrawal, the EU, China, India and other countries have vowed to uphold the climate deal. This cooperation was also highlighted by the G20 declaration on 8 July 2017, in which G20 leaders, except for the US President, reconfirmed their commitment to the Paris agreement.[15]

The EU and emerging market economies could therefore use Paris as an opportunity to take action. They could work on improving data collection on emissions, investments and climate finance, as well as capacity-building, for instance. They could become an example for better coordination among countries, development banks, and other organisations, encouraging more countries by making them realise that, in the end, climate change affects all. Most importantly, they could take steps towards bridging the North-South divide, in the G20 forum for example, as it gathers the world's largest economies and GHG emitters, developed countries and emerging markets alike.

[14] *United Nations Framework Convention on Climate Change*, "Adoption of the Paris Agreement", pdf (December 2015), available at https://unfccc.int/resource/docs/2015/cop21/eng/l09r01.pdf, Article 9 [accessed on 14 October 2016].

[15] Although Turkish President Recep Tayyip Erdogan raised concerns about Turkey's ratification of the agreement at a subsequent press conference, claiming that US withdrawal could jeopardise climate funding for emerging and developing countries.

Trade

On 18 March 2015, the second event of the project, 'TTIP and emerging market economies: Launching the debate', discussed the global impact of the Transatlantic Trade and Investment Partnership (TTIP), with a particular focus on its effect on emerging market economies.

As the EU and the US account for nearly half of the world's GDP and 30% of world trade, TTIP would create the world's largest free trade zone and thus have important consequences for third countries, including emerging market economies. At the event, Ulrich Schoof, Senior Project Manager at the Bertelsmann Foundation, predicted that emerging and developing countries will be facing two opposite effects from TTIP: trade diversion, and direct and indirect spill-over effects on their trading patterns and on global value chains.

At the same time, TTIP aims to address non-tariff barriers through harmonisation, mutual recognition or equivalence of regulations. Signe Ratso, Director for Trade Strategy and Analysis, Market Access at the European Commission, therefore explained that TTIP could provide a unique opportunity to close the gaps in the rulebook of the World Trade Organisation (WTO) and strengthen international organisations, by consulting with other countries on trade standards. Elena Bryan, who served as Senior US Trade Representative at the US Mission to the EU, also underlined the significance of the world's two biggest economic blocs negotiating such a far-reaching trade agreement within the spirit of WTO rules.

Despite these high hopes for TTIP, the election of Donald Trump as President of the US has put a hold on the negotiations, and a deal seems unlikely at this point. The consequences of a failure of TTIP would be significant to EU and world trade and serve a blow to the EU's credibility and possibly its attractiveness for emerging powers. Although it is a strong argument that the EU is the biggest trading partner for many emerging market economies, it might not be enough in the future. While Trump's withdrawal from the Trans-Pacific Partnership (TPP) facilitates exactly that, his action might also present an opportunity for the EU to offer itself as a more reliable partner. As Schoof pointed out at the event, TTIP is just one part of the newly emerging world trade order, where mega-regional agreements will take centre stage.

While trade between the EU and emerging market economies has significantly increased during the last 15 years, the slowdown in economic growth in China and other emerging market economies has contributed to a weakening of global trade, which in turn has an impact on the EU's economic growth. Trade between the EU and emerging countries is therefore of the utmost importance and is highlighted by the fact that the EU has already finalised or is negotiating preferential trade or investment agreements with several emerging market economies, such as China, India, Brazil, South Africa and all of the MINT countries.[16]

Although negotiations on agreements with some major emerging market economies were progressing very slowly or not at all (the EU-India Free Trade Agreement was launched almost 10 years ago, and negotiations with Mercosur – of which Brazil and Argentina are members – first started in 1999, for example), the EU is now looking into speeding up negotiations with other countries (e.g. Australia, Mexico, Mercosur) in the face of TTIP's stagnation. Concerned about President Donald Trump's increasing protectionism, the EU is keen for its member states to ratify CETA, the free trade agreement with Canada, as soon as possible and has also finalised a landmark trade deal with Japan in July 2017, similar in size to the North American Free Trade Agreement (NAFTA).

Power dynamics in global trade are also changing in a geopolitical sense with Asia becoming the centre of gravity for trade and China demanding market economy status (MES). Governments in Europe and the US are not too keen on granting China MES in the WTO, as it would render anti-dumping action against

[16] For a comprehensive overview see: *European Union*, "The State of EU Trade" (2017), available at http://trade.ec.europa.eu/doclib/docs/2012/june/tradoc_149622.pdf [accessed on 23 January 2017].

China much harder, like the ongoing cases in the EU and the US on China's steel or solar panel productions. Even within the EU, politics on granting China market economy status is controversial. The European Commission was about to propose the adoption of the term, but was pre-empted by the European Parliament, which voted against it in May 2016. Since the US and EU did not grant China MES by the end of 2016 (as was envisaged), Beijing filed a dispute with the WTO on 12 December 2016.

China's more outspoken and confident approach to trade comes as a reaction to a fear of being marginalised, as Xiang Yu, First Secretary for Economic and Commercial Affairs at the Mission of the People's Republic of China to the EU, pointed out at the EPC event. He also emphasised that China's first reaction to TTIP was one of shock, as it was feared that TTIP might impose new global norms without consulting other important economic players. Notwithstanding TTIP's stagnation, it already had an effect on countries like China, which has managed to translate the pressure TTIP created into reforms in order to become more market-oriented and actively engaged in global economic governance and the rule-making processes. According to Yu, it has strengthened its compliance with WTO rules (e.g. on rare earth and raw material regulation), further opened markets to foreign investors, sought agreements with the US, the EU, Australia and South Korea, and put forward new global initiatives, such as the New Silk Road or the Asian Infrastructure Investment Bank.

In the meantime, the Doha Round's long-lasting stagnation keeps preventing progress at the multilateral level. Despite some breakthroughs in the last few years, critics therefore proclaim the failure of the Doha Round, which started in 2001 and was supposed to last until 2005. In 2015, the Nairobi conference managed to achieve an agreement on the abolition of agricultural export subsidies, which was widely seen as a breakthrough, but not enough to significantly move Doha forward.[17]

One of the main problems in concluding the Doha negotiations is that Doha still classifies major emerging market economies, like China, Brazil or India, as developing countries, which gives them more privileges. That is why it is not in their benefit to finish the Doha Round and risk losing this preferential classification, in particular as developed countries have demanded a further opening of their markets in line with their increased economic might in the past years. Instead, however, the WTO found that in the "period between mid-October 2016 and mid-May 2017, G20 economies applied 42 new trade-restrictive measures", a downward trend when compared to the 145 measures introduced in the same time span the year before, but still a significant number.[18] This problem exists on both sides, with emerging market economies often taking a rather protectionist stance to trade and the EU still protecting its domestic farming products through the Common Agricultural Policy (CAP).

Following this finding, trade and protectionism is featuring more prominently on the G20 agenda, although the forum traditionally deals with financial and monetary issues. This is just one side effect of the blocked Doha Round, causing a move away from the WTO and, therefore, from a multilateral rules-based system with broad membership. The rise of bilateralism and regionalism is leading to so-called mega-regional and plurilateral trade agreements outside the WTO framework, which could have major impacts on global trade.

At the G20 Summit in July 2017, trade and protectionism featured prominently as well, as it was the second issue (after climate change) on which Donald Trump held different views than the other world leaders. Trump has threatened to impose additional tariffs on several countries and blamed some G20

[17] *World Trade Organisation*, "Nairobi Ministerial Declaration" (December 2015), available at https://www.wto.org/english/thewto_e/minist_e/mc10_e/mindecision_e.htm, Art. 30-32 [accessed on 14 October 2016].
[18] World Trade Organisation, "Report on G20 Trade Measures" (June 2017), available at https://www.wto.org/english/news_e/news17_e/g20_wto_report_june17_e.pdf, p.2 [accessed on 10 July 2017]; *World Trade Organisation*, "Report on G20 Trade Measures" (June 2016), available at https://www.wto.org/english/news_e/news16_e/g20_wto_report_june16_e.pdf, p.2 [accessed on 14 October 2016].

economies for the US' trade deficit. Earlier this year, the American president had also announced that his administration plans to renegotiate NAFTA. This move has strained US relations with Mexico even further, as it adds to an already tense relationship between the two countries, due to President Trump's wish to construct a border wall at the US-Mexican border. The NAFTA renegotiation announcement and long delay that followed left Mexico in a situation of uncertainty and had a negative effect on its economy.

Trade therefore represents an area that can provide great potential for cooperation between the EU and emerging market economies, especially considering growing US protectionism. While free trade agreements between the EU and emerging market economies can help bridge the gap and bring them closer together, the deal-making can be a very slow and difficult process. They can thus benefit from free trade with each other, but also need to realise that regional liberalisation leads to small clubs and the fragmentation of global trade.

With growing clout and trade power, emerging market economies have a great interest in playing a bigger role in the governance of the world trade system. The EU can use this interest in order to shape their involvement in the process. Within the multilateral system, the EU and emerging market economies could work together to move the multilateral agenda forward and to address limits within the system as frontrunners. Their cooperation could help to better define the relationship between different groups – developed, emerging, and developing countries – in order to find new approaches to advance the Doha round or even open negotiations on new issues. In that way, the EU and emerging market economies could pave the way to revive the WTO agenda.

International Financial Institutions

On 15 September 2015, the EPC held the third event of the series, entitled 'Striving for growth: Emerging markets and the EU in the world economy', which focused on global economic trends that affect the EU and emerging powers, in the face of a global slowdown on economic growth, and possible common initiatives. During this discussion, Victoria S. Bataclan, Ambassador of the Republic of the Philippines to Belgium and Luxembourg and to the EU, brought up the issue of the international financial institutions (mainly the World Bank and the IMF) which represent another example of great potential for cooperation between the EU and emerging market economies.

This current system of international financial institutions has received criticism regarding representation and legitimacy over the past few years, in particular due to the stagnation of IMF reform. The December 2010 IMF Board of Governors reform package – that meant rebalancing votes and quota in favour of emerging market economies and improving IMF governance – was supposed to be implemented in 2013 but the United States Congress did not approve it until December 2015. The package became effective in January 2016, however, and better reflects emerging market economies' economic and political weight on the international stage. China is now the third largest member, with India, Russia and Brazil also being among the top 10 largest member countries of the IMF now (see Table 1).

Table 1: Quota and Voting Shares of the 10 Largest IMF Shareholders after the Reform[19]

Member	Quota (Percent of Total)	Votes (Percent of Total
United States	17.46	16.52
Japan	6.48	6.15
China	6.41	6.09
Germany	5.60	5.32
France	4.24	4.03
United Kingdom	4.24	4.03
Italy	3.17	3.02
India	2.76	2.64
Russia	2.71	2.59
Brazil	2.32	2.22
Canada	2.32	2.22

The US Congress' five-year waiting period to approve the reform package was met with great disapproval, especially as it seems to be that the issue went beyond economics. At the EPC event, Jeffrey Franks, the IMF's Senior Resident Representative to the EU, stated that the US Congress was holding up quota reform as it would increase voting shares of emerging powers, most notably China. Since the reform saw the US keep its voting share of more than 15% and the resulting *de facto* veto,[20] one can argue that the delay was motivated by the desire to balance the rise of China in particular. In the end, though, the new geo-economic and geo-political realities pertaining to the rise of emerging market economies are undeniable, and the prolonged uncertainty has mainly led to emerging market economies looking for alternatives. The EU can therefore learn from this deadlock and instead strive for greater cooperation with emerging market economies in this policy field.

[19] *International Monetary Fund*, "IMF Members' Quotas and Voting Power, and IMF Board of Governors" (April 2017), available at https://www.imf.org/external/np/sec/memdir/members.aspx [accessed on 10 July 2017].
[20] Key IMF Executive Board decisions require 85% of the total voting share.

The first voting reform of the World Bank, which has a similar structure to the IMF, took place in 2010 and aimed to increase emerging powers' and developing countries' shares in the Bank. It was also decided to establish five-yearly shareholding reviews in order to adapt to changing circumstances. The September 2015 review continued the trend and its implementation is expected to conclude in 2018.

As the EU's share in global GDP is decreasing compared to emerging market economies – the BRICS alone with 32.05% are at almost double the share of global GDP (based on purchasing power parity) of the EU with 16.46% now[21] – EU member states have suffered the greatest losses from the IMF and World Bank reforms, meaning that their diminishing economic weight has also been translated to the level of international financial institutions. While more emerging market economies representation means less representation of EU member states, excluding or ignoring emerging market economies and not giving them appropriate representation can lead to resentment on their part and the eventual fragmentation of the system, which is not in the interest of the EU and its member states.

Still, emerging market economies exhibit a very strong interest in a greater role in global economic governance. At the EPC event, the IMF representative also said that the international financial institutions had seen increased participation of these countries. Their current frustration, however, is also mirrored in the West's dominance of the World Bank and IMF, consolidated by the unwritten rule that the President of the World Bank is always an American citizen and the Managing Director of the IMF a European citizen. This status quo was seriously challenged by emerging market economies in 2011 and 2012 when the current two leaders were elected. Emerging powers had put forward strong candidates for the positions and emphasised their desire for a more open and merit-based process, but the elections of Christine Lagarde and Jim Yong Kim showed that there was no great appetite for change, although there was also a problem of disunity among emerging powers on the candidates.

Their increasing dissatisfaction with the established system has manifested in the creation of a few new initiatives over the past years, most importantly the China-led Asian Infrastructure Investment Bank (AIIB), the BRICS' New Development Bank (NDB) and China's initiative "One Belt, One Road" (OBOR), which fall primarily into the scope of development financing and thereby represent a particular challenge to the World Bank. This shows that emerging market economies are ready to play a greater role on the international stage, and if need be also outside the existing system. Emerging market economies, and China in particular with its globally increasingly important Renminbi,[22] envision an international system that mirrors the new realities of global finances and economics.

With the new initiatives covering financial, development and infrastructure aspects, pundits have been fast in declaring the emergence of a 'parallel system' to the pre-existing international financial institutions, but the complementary or competing nature of these new entities will depend on the road the relationship between developed countries and emerging market economies will take. While the US sees the AIIB, for example, as a rival to the World Bank and suggests problems with its governance standards and environmental and social safeguards, 15 EU member states decided to join the bank so far.

These new entities do not necessarily have to compete with existing ones, but they do serve to display that emerging market economies begin to challenge US and Western dominance, as the international financial institutions are still modelled on Western post-war concepts. This begs the question of what role

[21] *International Monetary Fund*, "IMF Data Mapper: GDP based on PPP, share of world" (2016), available at http://www.imf.org/external/datamapper/PPPSH@WEO/EU/CHN/BRA/IND/RUS/ZAF [accessed on 10 July 2017].
[22] The IMF added the Renminbi to its basket of reserve currencies (joining the dollar, the euro, the pound and the yen), known as special drawing rights (SDR), on 30 November 2015 (for more information: http://www.imf.org/external/np/exr/facts/sdr.htm).

the EU and its member states will assume in this new global economic architecture.

It is in the EU's interest to avoid a fragmentation of the system, as the new entities could undermine the pre-existing international financial institutions and spill over to key areas like development aid financing. In order to accomplish its goals, the EU needs a common approach to emerging market economies and China especially. Only 15 EU member states joining the AIIB, for instance, does not indicate a unified front.

The best way forward would of course be to strive for single representation in these fora, at least for the euro zone, but the single seat debate has somewhat died down of late. At the EPC event, Norbert Wunner, who served as Deputy Head of Unit for Countries of the G-20, IMF, and the G-Groups at the European Commission, explained that a stronger role of the EU in those institutions would form part of a more sustainable overhaul of the institutional architecture of the EU's Economic and Monetary Union (EMU). He pointed out that the fragmented external representation of one of the biggest economic areas in the world is quite anomalous and that it would thus make sense in the long term to strive for a single seat in international financial institutions – but it will not happen any time soon. Franks added that the idea of single representation of the EU or the euro zone had been discussed among IMF member states, for example, but had not gathered much traction.

Despite the high degree of integration in financial and monetary issues, the EU member states reject to give up their powers in international financial institutions. Even if they realise that only the consolidation of their voting power can match that of the largest and growing economies, it is still a long way to go to reach a single seat. In the meantime, EU member states should coordinate more on their approach to emerging market economies and their new initiatives.

Thus, emerging market economies' proactive approach to changing the established system underscores the necessity for providing them with appropriate representation and a more level playing field in order to avoid fragmentation and obsolescence. The US is naturally significant to reforming the system, but the Trump administration will most likely prevent any proposals that see the US losing power or China gaining power.

The EU and its member states thus have a crucial role to play in recognising the importance of anchoring emerging market economies in the existing system and engaging with their new initiatives in a constructive and coherent manner, working together to prevent the fragmentation of global economic governance.

Security

The last event in the series was held at the EPC on 10 December 2015, with the title "Global governance reform: A chance for strategic cooperation between the EU and emerging market economies". The debate focused on the deficiencies of the post-war world order, which often does not mirror today's geo-economic and geo-political realities, from the perspectives of the EU and emerging market economies.

In a more connected and complex world, new threats and challenges necessitate global solutions. International cooperation and multilateral organisations are increasingly important, but only relevant if they can function properly in order to deal with challenges in an effective and coherent manner. The EU and emerging market economies have increasingly realised that they need each other in order to deal with transnational threats, displayed by their growing cooperation on counter-terrorism, counter-piracy or cyber security, for example.

In this regard, the EU is taking part in the Global Counterterrorism Forum with several emerging market economies (China, India, Indonesia, Nigeria, Russia, Saudi Arabia, South Africa, and Turkey) and in the Financial Action Task Force (BRICS countries, Argentina, Mexico, and Turkey), the two most important global counterterrorism initiatives. On counter-piracy, the cooperation between the EU and China in the Gulf of Aden provides a good example, including joint exercises, which the EU would like to expand onshore in the Horn of Africa. Progress on cooperation on cyber security is slow, as information-sharing between countries remains a sensitive issue, even within the EU, but the EU is committed to engaging more with countries like China and India. Generally, the EU is trying to strengthen cooperation on these issues through high-level political dialogues, cooperation agreements and capacity-building projects.

Countering security threats and making the multilateral system work are long-term challenges. At the top of the list for reform has been the UN and, in particular, its Security Council. While this discussion has existed for several decades, it has gained new momentum in the last two years.

At the EPC event, Vladimir A. Chizhov, Ambassador and Permanent Representative of the Russian Federation to the European Union, emphasised the importance for Russia of a multipolar world in order to avoid unilateral responses to global challenges. He stressed the demonstrated support of emerging powers for the UN and initiatives like the Global Counterterrorism Forum and the Financial Action Task Force. Another speaker, Mxolisi Nkosi, the former South African Ambassador to the EU, argued that there is no doubt that the global architecture needs to be reformed to reflect current realities.

As emerging market economies are gaining more political weight, they are also becoming more influential in shaping the global agenda and have invested greatly into international organisations in terms of funds and manpower. They have, however, been slow in taking on a greater role in providing security on the international stage and their commitment is sometimes questionable, since many emerging market economies do not see global governance as something they can benefit from compared to the expected loss of sovereignty this could entail for them.

The BRICS countries are therefore described as so-called "sovereignty hawks", 'generally only prepared to provide global public goods if it serves their domestic needs',[23] and have voiced their support for non-interference by objecting to coercive measures under the 'Responsibility to Protect' (R2P) initiative, for instance. Especially China and India are ready to take on more responsibility in global governance, and

[23] Van Ham, Peter (2015), "The BRICS as an EU Security Challenge: The Case for Conservatism", *Clingendael Report*, September 2015, available at http://www.clingendael.nl/sites/default/files/the_brics_as_an_eu_security_challenge.pdf, p. 10 [accessed on 28 March 2017].

have substantially contributed to UN peacekeeping operations in the past, but regard their sovereignty as untouchable by international organisations.

Nkosi also highlighted emerging powers' major role in global peace, security and development. African countries are playing a key role in peacekeeping and promoting security and stability, particularly on the African continent. However, the African and also the South American continents are not represented at all among the permanent members of the UN Security Council. He claimed that the UN can be seen as neither representative nor legitimate while this is the case, which is why the African Union is calling for at least two permanent seats for African countries on the Security Council.

The aftermath of the election of the new UN Secretary-General, António Guterres, also depicts emerging market economies' frustration with the Western monopoly on top jobs in the international body and their strong push to change this and take over important departments, such as Peacekeeping Operations or Political Affairs.[24]

Regarding coordinated efforts, Chizhov explained that the BRICS organisation is based on equality and mutual respect, without a confrontational bloc mentality, representing "what international cooperation should look like in the 21st century". The BRICS are trying to enable regional linkages (e.g. Eurasian Economic Union or OBOR) in order to coordinate better among emerging market economies. Still, they struggle with the fact that they have very heterogeneous interests and are therefore often unable to find common positions, which is underlined by the circumstance that they are split up across different groups advocating for different UN reform proposals (Brazil and India in the Group of Four, which is bidding for permanent Security Council seats for these two plus Japan and Germany; Argentina, Mexico and Turkey under 'Uniting for Consensus', which is against new permanent members of the Security Council but for more and longer-term non-permanent ones; or Nigeria and South Africa in the African Group, which wants two permanent and five non-permanent seats for African countries).

A failure to coordinate also hinders a common EU approach to international security, especially since security falls under member states' competences. While all EU member states recognise this need and are keen to work with partners, there are differing views on how to achieve it, often along a North-South divide, according to Jonas Jonsson, Head of Division for Multilateral Relations at the European External Action Service, one of the speakers at the EPC event. Another speaker, Louise van Schaik, Senior Research Fellow at the Netherlands Institute of International Relations Clingendael, explained that incoherencies in the actions of the EU and its member states are understandable, given that the EU is not a federal state, but also that this state of play is not sustainable in the changing global governance environment. The EU is essentially multilateral at heart but it has no single voice or seat in these institutions, as member states want to preserve this national domain.

Jonsson also elaborated on the continued challenge for the EU to have its own external representation, because it is not always obvious to accommodate a regional organisation in international discussions. Van Schaik added that other countries were also irritated at "too many Europeans being in the room". When the EU attempted to increase its speaking rights at the UNGA, for example, it was surprised that the rest of the world saw this as claiming an extra seat for European interests, according to her. Europe is also overrepresented at the UN Security Council, with Germany bidding for an extra permanent seat.

[24] Lynch, Colum (2016), "China Eyes Ending Western Grip on Top U.N. Jobs With Greater Control Over Blue Helmets", *Foreign Policy*, 2 October 2016, available at http://foreignpolicy.com/2016/10/02/china-eyes-ending-western-grip-on-top-u-n-jobs-with-greater-control-over-blue-helmets/ [accessed on 14 October 2016].

At the EPC event, Van Schaik reflected on the need for the EU to treat global governance as a central theme in its external action, as international institutions have a key preventive role, avoiding threats before they arise and allowing emergencies to be addressed. She pointed out that the concept of effective multilateralism, which was established in 2003, needed to be revised in the context of new power systems, as the EU lacked overarching guidelines, goals or objectives in its international efforts at the time and was unable to effectively defend a global rules-based system.

She noted that there is now a new world and the EU is slow to adapt to this reality. Instead, it needs to be more outspoken about what it wants, and make more decisive choices. The EU Global Strategy that was published in June 2016 is a step in the right direction in this regard. It emphasises that a "commitment to global governance must translate in the determination to reform the UN, including the Security Council"; the EU wants to "lead by example on global governance", but also acknowledges that "it cannot deliver alone".[25]

Both Chizhov and Nkosi underlined the EU's crucial role in reforming the current system of global governance. Seeking to build strategic partnerships is in the EU's own interests as well as the interests of the wider world. Nkosi stated that there is great potential for cooperation with the BRICS countries, as they are trying to promote a fair and just global system, based on rules-based multilateralism rather than power-based unilateralism.

The US still represents the primary actor in this field, but its new president's negative perception of the UN as being outdated and not serving its purpose can have devastating effects not only in terms of the US' substantial contributions to the budget and peacekeeping operations but also in terms of encouraging those who are demanding a dismantling of the world body altogether. Trump's isolationism might also translate in a lack of willingness to get involved in the management of crises, such as those in South Sudan or Haiti, which the Security Council is concentrating on but which might not be among the immediate interests of the US. There are already plans to cut voluntary US funding for key UN agencies (like UNICEF and the World Food Programme) by 40% and to review mandatory funding (e.g. peacekeeping operations) and US adherence to a number of international treaties.[26]

Nonetheless, the UN remains the most important international organisation with the power to bring all countries together to discuss and deal with global challenges. Facing such a great extent of criticism from one of its most important members, though, makes this a critical moment for the UN. Furthermore, the emergence of new centres of power is becoming an irreversible feature of globalisation, according to Chizhov, who also claimed that it can be a "win-win" situation for all, because enabling greater buy-in and ownership for emerging market economies will make the international system more inclusive, legitimate and stable and help to encourage positive North-South cooperation.

The EU and emerging market economies could use the momentum around UN reform that was created over recent years through different initiatives for greater transparency and accountability (e.g. by France or ACT, the Accountability, Coherence and Transparency Group), the ongoing Intergovernmental Negotiations on Security Council reform (and the resulting 'Elements of Convergence' paper), and the election of a Secretary-General that promised to be proactive on these issues. Despite the EU's limited

[25] *European Union*, "Shared Vision, Common Action: A Stronger Europe – A Global Strategy for the European Union's Foreign and Security Policy", pdf (June 2016), available at https://europa.eu/globalstrategy/en/global-strategy-foreign-and-security-policy-european-union, pp. 39-40, 43 [accessed on 30 October 2016].
[26] Fisher, Max (2017), "Trump Prepares Orders Aiming at Global Funding and Treaties", *The New York Times*, 25 January 2017, available at https://www.nytimes.com/2017/01/25/us/politics/united-nations-trump-administration.html?_r=0 [accessed on 25 January 2017].

role in the UN and the lack of consensus on several aspects, EU member states and emerging market economies have worked together on several initiatives for reform (e.g. Germany, Brazil and India with Japan collectively bidding for permanent Security Council seats as the Group of Four or Italy, Spain, Mexico, Turkey and Argentina opposing any extra permanent seats under 'Uniting for Consensus').

Together they could also form broader alliances to bring other countries on board, due to their different backgrounds and relations, giving them a stronger backing by the UN membership. This inclusive approach would also give them the possibility of including diverse ideas on reform, moving away from the reproach that the UN is modelled on a post-war Western world view. With changing power relations, emerging market economies rightly demand fairer representation, including across different regions of the world. Acting collectively, the EU member states and emerging market economies can therefore bring a stronger and more inclusive bid for UN reform that would better reflect the realities of the 21st century.

Their past cooperation can act as a stepping stone for future multilateral cooperation on other issues that are linked to security matters, such as migration for example. At the EPC event, Jonsson stressed the need for a new sense of purpose and urgency in order to address not only the effects but the root causes of conflict, extremism and forced migration. So far, the rules-based global system has fallen short of coming up with a comprehensive approach. He emphasised the resulting need to look at how best to address different issues at different levels. The EU in particular has a very keen interest in the 'global governance of human mobility', which has become an international phenomenon.[27] Nkosi contended that a reform of global institutions should form part of efforts to avoid crises like the current unprecedented flow of irregular migration, including serious consequences for countries that contravene a reformed UN Security Council's resolutions.

[27] *EEAS*, "Speech by Federica Mogherini at the Roundtable 5 on Global Compact at the United Nations" (September 2016), available at https://eeas.europa.eu/headquarters/headquarters-homepage/10081/speech-by-federica-mogherini-at-the-roundtable-5-on-global-compact-at-the-united-nations-_en [accessed on 20 September 2016].

Towards enhanced cooperation on global governance

The EPC project debated the varying degrees of cooperation between the EU and emerging market economies on climate change, trade, international financial institutions, and global governance in the security realm. It also made clear that the main problem is that they have different interests and thus lack consensus on many issues. However, the project also pointed out that there is a great need for them to work together in these areas.

Emerging market economies and the EU made huge strides with the Paris climate deal. While emerging market economies have shown their commitment on climate change, the implementation phase will show their true dedication. Trade still represents a mixed area, as free trade agreements between the EU and emerging market economies advance slowly, China is still waiting for its MES, and the Doha Round stagnates. On the one hand, emerging market economies' engagement in new economic fora depicts their frustration with established international financial institutions, which is also becoming apparent in the UN. The EU, on the other hand, is trying to find its own place in this international system in order to become more relevant on the world stage.

The EU does not possess sufficient competences to act as a unified actor in the financial and security realm, but its member states can still strive towards coordination on these issues. Emerging market economies cannot be seen as a bloc, as their interests diverge greatly on different subjects, but their increased cooperation can help the EU identify the most important and open partners in each field. China plays a special role in all of these fields, which makes it the most important player the EU needs to engage with and find a particular approach for.

Each of the four explored areas provide potential for cooperation, but cooperation needs time to develop in some areas, which means there will be multiple speeds and a diverging set-up of actors on different topics. Past cooperative initiatives between the EU or its member states and emerging market economies on climate change or UN reform exhibit this potential, but economic vested interests in particular still pose a problem for their partnership, in terms of trade and global economic governance. The EU and emerging powers therefore need to identify what their real interests are in each area and how they can benefit from cooperation.

The underlying challenge is still that the current global governance system does not mirror today's geo-economic and geo-political realities and has become increasingly ineffective, which leads to calls for reform in many domains in order to reflect the global distribution of resources, wealth, and influence. Allocating institutional, financial, and political resources away from established organisations and the proliferation of restricted clubs would, however, undermine the current system even more and make global solutions virtually impossible.

Reinforcing global governance politically and economically would be the basis for a more multipolar and encompassing system. That is why there is a strong need for the EU and emerging powers to cooperate within the established institutions, but adapt their set-up and functioning to cope with current challenges and adjust to the power relations and demands of the 21st century.

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About the EPC

The European Policy Centre (EPC) is an independent, not-for-profit think tank dedicated to fostering European integration through analysis and debate. The organisation supports and challenges European decision-makers at all levels to make informed decisions based on evidence, and provides a platform for engaging partners, stakeholders and citizens in EU policy-making and in the debate about the future of Europe.

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