

## External governance and economic patriotism in European policies

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### SUMMARY

*The concept of external governance tries to define the expanding scope of EU rules beyond EU borders. This article presents the theoretical foundations of the concept, differentiating the various institutional modes according to which external governance may take place. Due to the financial and economic crisis the European Union is forced to strengthen its competitiveness opposite to cohesion. In the second part of the study I present the five mechanisms by which the European Union may foster its position in the global competition. The five mechanisms are as follows: extension of the political space of the EU, expansion of the regulation mechanisms of the EU, active coaching of international organisations, territorial extension of the EU's influence, division of the costs of globalization. After that I deal with the different forms of economic patriotism. Economic patriotism plays crucial role in maintaining the performance and strengthening the position of some preferred domestic industries, 'national champions'. Tools of economic patriotism differ due to ideological affinities.*

**Keywords:** external governance, economic patriotism, political intervention, management of globalization, regulatory mechanisms

### ÖSSZEGLALÓ

*A külügyi kormányzás koncepciója alatt az Európai Unió jogszabályainak uniós határokon túli kiterjesztését értjük. A cikk bemutatja a koncepció elméleti alapját, valamint a külügyi kormányzás különböző intézményi formáját. A világgazdasági válság miatt az Európai Uniónak a versenyképességét kell erősíteni a kohézióval szemben. A tanulmány harmadik fejezetében ismertetem az öt mechanizmust, amelyekkel az Európai Unió meg tudja erősíteni pozícióját a világgazdasági versenyben.*

*Az öt mechanizmus a következő: az Európai Unió politikai erőterének bővítése, az EU szabályozási mechanizmusainak kiterjesztése, a nemzetközi intézmények aktív irányítása, az EU befolyásának területi kiterjesztése, a globalizáció költségeinek megosztása.*

*Ezek után ismertetem a gazdasági patriotizmus különböző fajtáit. A gazdasági patriotizmus kiemelkedő szerepet játszik az előnyben részesített hazai iparágak teljesítményének fenntartásában, és pozíciójának erősítésében. A preferált ágazatokat és vállalatokat „nemzeti bajnokoknak” hívják. A gazdasági patriotizmus eszköztára az ideológiai affinitás szerint különbözik.*

**Kulcsszavak:** külügyi kormányzás, gazdasági patriotizmus, politikai intervenció, a globalizáció irányítása, szabályozó mechanizmusok

### INTRODUCTION

The development of the European Union towards a political union has always proceeded within an increasing international presence. The EU has always sought to broaden its influence on third countries. Apart from the establishment of the common foreign and security policy (CFSP), the EU has developed a wide range of external relations, reaching from the traditional field of external trade to democracy and human rights promotions and co-operation in various policy areas, where the union disposes of legislative competence. Since the basis for external actions was elaborated – being called *acquis communautaire* – the on-going constitutionalization of European values and deepening integration in a wide range of fields – like environmental, competition, industrial, agricultural policies – also contribute to the growing external dimension of the European Union. The EU tries to transfer its common policies to third countries and international organizations. It is the extension of internal rules and policies beyond formal membership that mostly characterizes the external governance. The accession countries are obliged to take over EU rules and policies before entering the European Union.

The most prominent case of external action has been the union's enlargement. The experience of enlargement is illustrative of both the magnetic force of European integration and the transformative power of its norms on candidate countries (Grabbe, 2005).

The externalities of European integration and the interdependence with the surrounding world generate the need for further external engagement. EU external governance varies across countries, regions and policies. Among the vehicles of external governance can be found overarching foreign policy initiative, such as the European Economic Area, bilateral co-operation agreements, such as with Switzerland and Norway, and co-operation frameworks, regulating the relations on special fields between the EU and the African, Caribbean and Pacific countries, or with North America. Certainly, external governance may also emerge spontaneously when mutual interdependence is high enough and adaptation of EU norms meets the interest of third countries or international organizations. In this article I attempt to describe and compare the modes and effects of external governance in various policy fields and areas of EU external relations. This study also deals with the causes of different governance modes. Three sets of factors, institutions, power, and domestic structure need to be analysed in order to clarify why different types of governance are used across policies. The institutional mode explains that the modes and effects of EU external governance are shaped by internal EU modes of governance and rules. By contrast, the power-based explanation attributes the modes of EU external governance to EU resources and interdependence with third countries. Finally the domestic structures of third countries may influence the modes of external governance (Lavenex

and Schimmerfennig, 2009). It is a big question; to what extent the EU is able to integrate its external environment into common systems of rules.

### **EXTERNAL GOVERNANCE**

The expansion of external governance is underpinned by several facts. The most important is the historic enlargement of the EU. The second crucial fact to strive forward the external governance is the interdependence with neighbouring countries. The third pillar means the external effects of integration itself. The enlargement process of the European integration seems to exhaust. The number of accession countries decreases. The enlargements in 2004 and 2007 evoked serious problems concerning the EU's integration and cohesion capacities. There is evidence, that the EU cannot foster its social cohesion any more due the fierce competition on the global scene. It is becoming more and more difficult for the remaining candidate countries to be admitted. Their administrative and judicial capacities are quite weak to adopt the EU rules. So, it can be confessed that the relevance of enlargement decreases, but the depth of mutual interdependence and the intensity of EU relations with its neighbours and existing and emerging economic power poles strengthen.

The point of reference of the external governance is not the unified state actor, but institutional processes of norm diffusion and policy transfer (Lavenex and Schimmerfennig, 2009). This change in perspective and the focus on rule expansion show a shift in the observation. The foreign policy perspective concentrates first of all on countries and regions, while the governance perspective observes systems of rules. It deals with the external dimension of the internal process of integration and its sectorial impacts on norms, policies and regulations. Governance is understood as institutionalized forms of co-ordinated action that aim at the production of collectively binding agreements (Benz, 2005). In international relations, the term governance conceptualized the emergence of political order at international level in the absence of a global public regime (Rosenau, 2010). Concerning EU external relations, the governance approach indicates a high level of institutionalization and existence of a common system of rules beyond the borders the EU and its formal and legal authority.

### **EUROPE AND THE MANAGEMENT OF GLOBALIZATION**

Referring to the global competition, the European Union needs to elaborate special mechanisms in order to handle globalization. The EU has to play a leading role in globalization processes, so that they develop according to European values. The EU should strive for its processes accepted within the union to reach international fame. In the following I describe five mechanisms, from which the first one hit the member states, while the remaining four mechanisms assume that the member states dispose of such common preferences that they would expand to other parts of the world. The

European Union constantly makes attempts so that its processes are adopted on the international level. The EU's commercial policy has used the concept of managed globalization since 1999, and supported the idea, that the necessary framework for regulating globalization has to be elaborated (Abdelal and Meunier, 2010). The framework itself should be supervised by international organisations. Referring to the economic liberalization, which is a basic element of the EU, the union disposes of very good positions to set up the institutional background of globalization. The EU's success cannot be disputed to be able to manage the most sophisticated regional integration of the world. According to this fact the EU has to play a pioneer role in elaborating the crucial mechanisms managing globalization. Certainly the efforts are not always successful due to the heterogeneous preferences of the economic power centres.

### **The first mechanism strives to achieve the extension of the political scope of the EU**

The most important achievements of the EU have been the establishment of the European Economic and Monetary Union and the introduction of the euro. The EMU provided a common framework for the admitted countries to co-ordinate their economic and monetary policies. It can be regarded as a reply to the challenges of globalization. The establishment of the monetary union means the authorization of the EU, because the introduction of the euro protects them from the fluctuations of their currencies. The treaty of the EMU assures a framework for the co-ordination of the international relationships, authorising the EU assessing the common priorities. It is of utmost importance that the member states actively use the opportunities provided by the EMU and they do acknowledge herein a source of the global leading role.

### **The European Union has to develop its own regulatory mechanisms, by which it can influence the management of globalization**

The own regulation systems of the EU may be regarded as the second mechanism of the management of globalization. The supervisory organisations assure the sound competition in the most liberalised sectors. The EU succeeded in reaching leading role in numerous sectors on global level, such as in chemical industry, telecommunications and food industry. The data safety directive of the EU is a very good example for that. Despite of heavy opposition of the USA 30 countries took over this directive from the EU, such as Canada, Japan, Australia, which countries are major markets for the USA (Bach and Newmann, 2010). The EU managed to reach an outstanding result on the field of environmental protection. Several studies showed that apart from some positive examples, the existing internal diversity hinders the EU to validate its regulatory standards. Currently the EU does not dispose of an alternative that could compete with the ruling Anglo-Saxon alternative on the global financial market.

**The involvement and active leading of the international organizations belong also to the management of globalization**

This mechanism is often described as a substitute of the expansion of political scope, because generally global rules are elaborated by international organizations. The European Union often strived to strengthen the position of the international organisation such as the OECD, WTO IMF, to broaden the membership, but all these efforts paradoxical weakened the position and interests of the EU itself. The biggest paradox is that the EU made serious efforts to strengthen the influence of the international organisations, while these organisations were strongly criticized due to the wrong management of globalisation. Due to the constant attacks the international organisations' image became unfavourable and they lost legitimacy (Abdelal and Meunier, 2010). The EU meanwhile discovered that the primacies granted to international organisations do not assure the interests of the union. The competitors, like the USA, Japan or China make strong efforts to weaken the EU's position through the international organizations. It means that the European countries need to struggle for global power on the international field.

**The fourth mechanism refers to the territorial extension of the EU to non-member countries**

The union focuses first of all on countries aspiring membership. The management of globalization on European level has partly been the handling of threats and opportunities of the Middle-Eastern European countries (Laidi, 2009). The constant accessions secure the extension of the influence of the EU. The accession countries continuously take over the directives of the EU that greatly contributes to the global extension of the union. Certainly the take-over of the directives happens not by chance. The European Commission set up a monitoring reporting system involving 30 different policies in case of the accession countries in 2004 and 2007. Before admitting the aspiring countries the experts of the European Commission consulted on all policies, the *acquis communautaire* with officials of the accession countries. Due to Jacoby's interpretation the accession procedure contributed to the competitive European deregulation. The accession of the Middle-Eastern European countries secured extensional market for the enterprises of the old member states. It is also remarkable that in cases of non-potential member-states the union disposes of little influence.

The EU makes attempts to expand its influence by concluding regional commercial agreements. The USA follow the same way trying to shrink the scope for Europe. The EU is exposed to constant attacks by the USA' and the emerging newcomers' ambitions. The European efforts to manage globalization are first of all not hindered by the lack of collective acting but by different geopolitical players becoming more and more active. The European Union strives to increase its influence in international organisations by indirect means. On conferences where the reforms of international economic organisations are discussed the EU appears as generally accepted reference. The EU disposes of modelling value contributing to the

global consensus. The international actors share the opinion that the EU cannot be neglected in the manufacturing of production goods. This fact further strengthens the doctrine referring to the EU's leading global role. The economic integration and the attempts for social cohesion of the EU are acknowledged not just by the member states themselves but by other decisive global players as well.

**The leading of globalisation does not only mean the establishment of the judicial framework regulating the exchange procedures but the redistribution of costs and profit as well**

This strategy can play a crucial role in sustaining public support for economic openness. These redistribution efforts try to extend social democracy to the global level. Such global distribution includes using non-reciprocal trade benefits to help the least advanced countries or recent efforts like the EU initiated "Aid for Trade" program set up within the WTO to channel development assistance to help member-developing countries adjust to freer trade (Jacoby and Meunier, 2010).

**ECONOMIC PATRIOTISM**

International institutions, like the World Trade Organisation's Dispute Settlement Body or the European competition authorities cannot entirely fulfil their task to assure the continuous integration of markets as there is massive local political intervention. Certainly economic interventionism will never cease completely even in countries that traditionally support the liberalisation of markets. The French prime minister, Dominique de Villepin labelled the defence of local interests in integrated markets 'economic patriotism' in 2005 (Clift and Woll, 2012). Economic patriotism returns to Listian economic nationalism suggesting that economic choices should be linked with concerns of states. In a world characterized by diffuse network of economic governance regimes, politicians often face the paradox of neo-liberal democracy, namely their political mandate strives them to pursue the political economic interests of their citizens. This political and economic interest representation is deeply embedded in a complex system of economic, legal and regulatory interdependence where politicians cannot control large parts of economic governance. As international trade regulations and competition authorities increasingly ignore traditional industrial policy, governments had to find out new creative strategies. Ben Clift and Cornelia Woll defined economic patriotism as economic choices which seek to discriminate in favour of particular social groups, firms or sectors understood by the decision-makers as insiders because of their territorial status (Clift and Woll, 2012).

Economic patriotism tries to shape market outcomes to privilege the positions of certain national actors. Economic patriotism differs from economic nationalism because it does not only refer to the home country but also to supranational and sub-national citizenship levels. Present-day economic patriotism is a response to the configuration of economic governance and the interdependence of markets that only fully developed following growing economic liberalisation after Bretton Woods,

the deepening of European integration in the 1980's, and after the fall of communism in 1989. The integration of markets and the concurrent regulatory frameworks put pressure on national economic intervention. Governments therefore have to be creative to assure traditional economic policy objectives. Regional economic integrations created a new phenomenon, namely governments can transfer now economic objectives from the national to the regional level, such as the European Union, which can lead to liberalisation within the EU assuring protection towards the outside, as in agriculture. Some examples of economic patriotism are as follows: 'British jobs for British workers, even the archetypal liberal market economy America proclaims the slogan 'buy American'. Economic patriotism evokes the subordination of economic objectives to the protection of homeland interests. In Europe, insistence on the defence of economic interests increasingly lists European interests alongside national ones. Economic patriotism can shift scales and support a fortress Europe, or aim to create 'European champions' (George, 1996). Interestingly, also local interests can be espoused by international organizations, for example the defence of labels of protected origins in the World Trade Organization constitutes local economic patriotism. Economic patriotism thus suggests a value ordering where the homeland ranks higher than individual economic interests.

**Forms of economic patriotism**

The concept of economic patriotism can be regarded as an umbrella to demonstrate some fundamental characteristics of economic intervention. The concept of economic patriotism is used to highlight the fundamental characteristics of economic intervention (table 1). In order to specify the distinct forms of economic patriotism, it is important to distinguish between the practise of economic patriotism, its types, policy content and targets.

Conservative economic patriotism seeks to preserve status quo or static efficiency. It refers to traditional protectionism. Liberal economic patriotism entails selective or strategic liberalization in such a way that it privileges a particular set of economic actors. It can also aim to support the competitiveness of national firms or citizens operating abroad. Economic patriotism can aim

to shield producers and/or preserve extant comparative advantages at each level, even at supranational level which was highlighted by the debate about defensive regionalism and fortress Europe (Clift and Woll, 2012). In cases where regional markets are not integrated, supranational economic patriotism may evoke considerable liberalization, even if the political objective is ultimately the creation of a trading block able to defend the regional interests in world markets.

At national level we speak of national protectionism. At sub-national level we distinguish between the defence of existing local production advantages and the creation of local advantages in the process of integrating markets, typically through creating sub-national champions. As a consequence governments neglect, discriminate the remaining local participants, actors. Conflicts over policies often arise between favouring territorial insiders and resisting outsiders. Some policies are designed to support insiders without in principal excluding outsiders but in effect strengthen position of national or regional target groups. Integration of markets and international jurisprudence put pressure on the instruments available to governments. The hypothesis is that economic patriotism will shift from measures falling in Q4 towards Q3 and Q2 (table 2). Protectionist measures become more sophisticated drifting from clearly identifiable direct subsidies to aid that is in principle open to everybody but in practice just to domestic producers. Activism within Q1 remains possible under international rules, indicating likely increases in re-regulation to shape market outcomes in a manner advantageous to territorial insiders.

**CONCLUSIONS**

The five mechanisms of the management of globalization – extension of the political space of the EU, expansion of the regulation mechanisms of the EU, active coaching of international organisations, territorial extension of the EU's influence, division of the costs of globalization – have to be effectively used by the European Union so that it can foster its position on the global economic scene. The European Union has to improve its competitiveness and extend its rules and regulations if it does not want to lag behind the other members of the Triad and the emerging new

Table 1.

**Forms of economic patriotism**

Description	Liberal ideological affinity	Conservative ideological affinity
Supranational economic patriotism	Strategic regional integration	Defensive regionalism
Economic nationalism	Liberal economic nationalism	Classic protectionism
Local economic patriotism	Liberal policies that facilitate the creation of sub-national champions	Defence of local production

Source: Clift and Woll (2012)

Table 2.

**Classifying the policy content of economic patriotism**

Policy target	Liberal	Protectionist
Favouring insiders	Q1: selective liberalization in strategic sectors	Q3: regulation to maintain traditional product and process standards, state subsidies
Resistance to outsiders	Q2: risk regulation or competition rules that prohibit standards common abroad	Q4: classic barriers to trade

Source: Clift and Woll (2012)

economies. The increase of competitiveness requires crucial structural changes in economic and social policies of the EU that withdraw serious social tensions within the union because the newly joined member states and the Mediterranean countries are interested in economic and social close up while the core countries would prefer growing competitiveness.

Even core advocates of liberalization now rediscover the potential benefits of political interventions. Policy makers seek to resolve the tension between interdependent economies and political benefits of political territoriality in a variety of political economic settings. It brings

into focus the reconfiguration of political economic space with the interdependence of markets and multi-levelled economic governance regimes. Also forms of economic patriotism are changing. They turn from classic trade barrier methods to regulations that maintain traditional product and process standards, state subsidies and risk regulation or competition rules that prohibit standards common abroad. Economic patriotism takes place at local and supranational level as well and its tools are different according to ideological affinity – liberal or conservative.

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