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# A global economy that works for the good of all: responsible trade and financial policy coordination

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# The Current Column

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## A global economy that works for the good of all: responsible trade and financial policy coordination

*Bonn, London, 25 August 2014. On 1 September 2014, the European Think Tanks Group (ETTG) will publish a major report addressed to the new leadership of the European Union entitled "Our Collective Interest: Why Europe's problems need global solutions and global problems need European action". It calls for a new understanding of the EU's global role, and in particular, a new approach to international development. The key message is that the EU's ambitions for its own citizens – for prosperity, peace and environmental sustainability – cannot be divorced from its global responsibilities and opportunities. We identify five global challenges where we believe the EU has a comparative advantage to act and make a positive contribution to the world's future. These are: trade and international finance; environmental sustainability; peace and security; democracy and human rights; and, poverty and inequality.*

*The full report on 1 September will put forward recommendations for the EU's engagement in each of these areas and propose organisational and structural changes to enhance the EU's performance. We believe that this will involve creating a truly integrated, but flexible approach across institutions, and stronger political leadership to enable complex linkages between today's global challenges and agendas.*

After a long period of economic prosperity in advanced and developing countries, the 2008 financial market meltdown and subsequent global and Euro crises came as a shock. The limitations of orthodox market governance approaches were starkly revealed, the global economy remains fragile, and few policy reforms to address the imbalances and loopholes that led to the crisis have been undertaken. The EU could drive a more holistic reform process, while articulating its vision of a sustainable 21<sup>st</sup> century growth trajectory.

Despite the Euro crisis, the EU single market is still the world's largest trader and investor. This is not expected to last past 2020, so the EU needs to use its leverage in the global economy while it still can. There are several levers that European policymakers can pull. Two stand out, both for their potential impact on the framework conditions for global economic exchange, and for the fact that if they are to be pulled successfully, collective action at the EU-level is needed: first, responsible trade; and, second, global financial policy coordination, particularly with regard to tax havens.

National regulators have not been able to match the

speed of the transformation of global trade and financial flows, particularly as a large part of the process has been conducted using offshore financial centres out of reach of national tax authorities. Furthermore, as around one third of global trade is now conducted within multi-national enterprises (MNEs), there are big questions about how to track and tax these intra-firm transactions.

The EU-US TTIP, if agreed, could do much to reinvigorate and strengthen trade and investment relations between two of the world's largest trading blocs. However, should this new ambitious partnership be agreed, greater attention needs to be paid to the effects that TTIP has on the global trade system, emerging economies and on developing countries.

A further priority is addressing illicit financial flows out of and into developing countries, including measures to improve the exchange of information and transparency. Estimates show that developing countries lost close to \$6 trillion in illicit financial flows over the last decade, much of it linked to tax avoidance. Several of the world's most notorious tax havens are under the sovereignty of EU member states, such as those located in British overseas territories, while the tax policies of some member states, including Austria, the Netherlands, Luxembourg, Cyprus, Ireland and the United Kingdom, do not go far enough in questioning the origin of funds invested by non-residents. The EU should be a role model in promoting the automatic exchange of tax information.

Domestic and global reform processes must go hand in hand. Europe needs to lead by example and assume a new, more positively influential role within a multi-polar global economy. In order to do this, it needs to get its own house in order and articulate a new vision of growth and development. Such prescriptions may seem pie-in-the-sky. But as the new Commission takes office, we need to ask ourselves what the alternatives are. We can muddle along, hoping that everything will be fine but fearing that it will not; we can give up on internationalism and retreat into our shells, a move that would foster inefficient isolationism and dangerous nationalism; or we can try again at the global level to strike a series of deals that make a difference.