

**"The European Union and the Euro –  
What Relevance for Japan and Asia?"**

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Panel on the role of Japan within Asia with special emphasis on an East Asian Community and a common currency.

Many thanks for inviting me to participate in this interesting symposium on the Global World and the Dawning of a New Era in Japan.

I understand that my role is to briefly present the role of the European Union in the process of globalization and more specifically the experiences we have gained in creating the European Monetary Union and its common currency, the Euro.

Nobody, I assume, can deny that the project of European integration is an outstanding and unprecedented experiment.

Despite tremendous difficulties, which are rooted in the legacy of our past, the diversity of our societies and the differences in our legal, administrative and **economic** systems, the European Union's integration proceeds steadily and without losing momentum since the creation of the ECSC in the early 1950s.

Whereas the motivation for this decision was **political** ("Never war between us") the focus and instruments at least in the beginning were economic. Even today, despite enormous progress in institutional terms and with respect to competencies, the **predominant power** of the EU stems from economic integration. The establishment of an internal market, the communitarisation of our internal and international trade policy and the introduction of the Euro are the most effective and far-reaching tools when acting as a single political entity in our progressively globalizing world.

The attractiveness of the European Union can be demonstrated particularly through the process of **enlargement**. Starting with 6 countries in 1953 we are now 25 Member States with still a couple of candidates impatiently knocking at our door.

Only two weeks ago, Heads of State and Government of the EU signed in Rome the text of a European **Constitution**. Once ratified (target date is 1 November 2006) this Constitution will become a solid and highly visible legal framework for a clear division of power within the EU, a streamlining of our decision-making procedures and a stronger and more coherent role for the EU in international affairs.

At its meeting last week, the European Council has explicitly endorsed the so-called **Lisbon Strategy** to modernize and further strengthen our economy. Mr. Barroso has already indicated that he will make the implementation of the Lisbon Strategy a top priority for the coming years. I am convinced that the year 2004 will enter into the EU's history book as a year of tremendous change, a turning point towards new momentum and vigour and as a European response to the threat of growing international instability and unilateralism.

What does this mean for Asia? Can the EU be a sort of a model for regional integration in general, a universally valid tool to deal with the phenomena of **globalization**? I honestly do not think so. The history of the EU is linked to the history of Europe, a specific answer to a specific situation in a specific part of the globe. The worst thing the EU can do is to start teaching lessons to others. Other regions' history is different and they might have other priorities and ambitions to those we have in Europe.

Let us not forget either that the EU has not been established on the basis of a blue print for an ideal state or nation. The EU was a concept designed to solve concrete challenges and problems which we share as a group of countries with similar interests, involving societies which have interacted culturally over many centuries. As we need to create a structure in which every Member State can feel at ease, the principle of compromise is our guiding line. Such an approach is the enemy of simplicity! So even on a continent culturally interlinked by its long history, **complexity** is our main problem : politically, economically but also institutionally.

This is the reason why the EU as such can not be a model for a huge continent like Asia. There are, however, aspects in our development which could be of interest for other countries and regions : one of them in the way in which we worked to overcome the **legacy of the past**. The other is the **method** in which we proceed : step by step, linked to mutual recognition when we are faced with problems which one nation alone is not able to tackle. There is also no doubt that our integration process is a logical answer of like-minded nations to the process of globalization. One particularly interesting case in this context is indeed the **Euro**. No doubt : the Euro has been a key step towards our "ever closer Union among the peoples of Europe", the ultimate objective of the Founding Fathers of the EC in the 1950s. The Euro has made the process of European integration more real, more tangible for the citizens belonging to the EU. In this respect it is adding substantially to our efforts to create European identity.

The **international role of the Euro is growing**, since it gained status in replacing 12 currencies. Borrowers outside the Euro area increasingly use the Euro to tap international capital markets. Whereas before the introduction of the Euro, the combined currencies of the 12 Euro countries represented 20% of the international debt market, the share of the Euro today - five years later - is 30%, 10 percentage points higher.

The advent of the Euro has indeed **largely changed the situation of the international monetary system as such**. The creation of a uniform payment and security settlement system within the EU gives borrowers all over the world increased liquidity, thereby reducing their unilateral dependence on the domestic investor markets or by lowering costs in the case of favourable swap opportunities.

What we can observe as a positive development with respect to the debt securities markets can so far not be confirmed in the context of the **foreign exchange markets**. It seems that on these markets, incumbency plays a key role in the sense that once a currency, the greenback, has been selected as a means to exchange other currencies, it gains a self-reinforcing advantage. As a result, the growing liquidity of this currency makes it very costly to switch over to other currencies. More has to be done in the coming years to make the Euro "palatable". This was one of the reasons behind a conference which the European Commission organized last week in Tokyo. The international status of a currency cannot be promoted over night. It is a lengthy, gradual process to gain confidence and to convince customers and central banks of the advantages of the Euro.

Presently the Euro still plays a predominantly **regional role**. EU-neighbouring countries use the Euro for a number of purposes, in particular through borrowing or in establishing the Euro as an anchor currency.

The **anchor role** of the Euro varies from country to country. Some neighbouring countries like Bosnia, Bulgaria, Estonia and Lithuania have established a Euro-based currency board. In these countries, the quantity of domestic currency is fully covered by an equivalent amount of Euro. Some African Countries (the former Franc-zone) have a **hard peg to the Euro** with a fixed exchange rate. Other countries like Morocco or Tunisia have included the Euro in their currency basket. The former Yugoslav countries have installed the Euro as a parallel currency which means that their households use the Euro both in cash and in deposit form. Thus the Euro constitutes a protection of their savings in a time of domestic monetary uncertainty.

ECB studies suggest that at present more than 50 billion Euro are used in neighbouring countries for these different purposes.

The regional character of the Euro, however, does not mean that the new currency is **not used in other parts of the world**. Asia in particular is more and more interested in using the Euro. Tokyo and Singapore alone account for close to 10% of all transactions involving the Euro outside the Euro area. **Euro-bonds** are increasingly popular in Asia. Only recently a bond issued in China was welcomed by the market almost enthusiastically, thus underlining the liquidity which the Euro might offer in East Asia.

But the role of the Euro in Asia goes beyond its usefulness for borrowers or bond-holders. Exporters and importers in Asia increasingly use the Euro for invoicing or settlement in bilateral contracts. In the absence of harmonized international statistics, data on these operations are sometimes difficult to gather. Concerning Japan, where figures are available, already 40% of its bilateral trade with the EU is carried out in Euro. Overall, Asian countries use the Euro to raise debts, to invest or to trade. It can be expected that the trend in Asia to rely on the Euro for business transactions may in a long term perspective also translate into a wider use of the Euro as a **reserve currency**.

Should **Asian countries** learn from the European decision and **introduce a regional currency** similar to the Euro? Should both EU and Asian countries go even further and work towards the establishment of a **global monetary system** with very few major and interlinked currencies? This seems to be an ambitious goal, far beyond what the European achieved after a lengthy and sometimes controversial process. As for the Euro, the advantages of such a step look very promising : greater independence from exchange rate fluctuations, enhanced economic stability, drastically reduced transaction costs, increased competition because of a larger accessible market and more prosperity in better performing economies.

The European exercise of creating a single currency however, has made it clear that the merging of national currencies is not only a technical problem but a very political act of daring. The UK has not refrained from the introduction of the Euro for macro-economic reasons, but because the British people by their large majority could not accept the abolition of the beloved British Pound. The British government is fighting an uphill battle to overcome this resistance.

The introduction of the Euro was successful because we worked for over almost half a century towards the convergence of already from the outset rather similar economies. Newcomers to the Single Market, in particular when their GDP is much lower and their economy much more vulnerable to outside competition, need and have asked for time to adapt.

This does not mean that Asian countries with open and comparable economies should not work towards a multiple currency monetary union, in particular including states with experiences in open market economy and comparable business standards. But in the light of the EU experience one must be aware of the difficulties. In Europe many financial experts warned that a common currency can not be successful without political and macroeconomic convergence. Our internal disputes over the terms of the so-called "Stability Pact" are in this respect a warning. The institutional framework and decision-making procedure of the EU should, however, be strong enough to cope with these difficulties. The strength of the Euro shows that the financial markets all over the world share this view.

What one could therefore also learn from the EU is patience and a sense of what is politically, economically and culturally feasible. And contrary to what happened 150 years ago with Percy's black ships, change in Asia and Japan has to come from the countries themselves and not as a result of outside pressure.

Thank you for your attention.