

27/12/1997

Euro a viable trade currency for Southeast Asian countries

Ashraf Abdullah

BESIDES their own, the Southeast Asian nations are also looking at the yen and the European currency, euro, as alternative currencies for intra-regional trade.

Although not in so many words, the Asean Informal Summit which ended on Dec 16 concluded that the primacy of the United States dollar must end.

Southeast Asian trade could not depend solely on the US dollar as more and more speculators use it in active manipulation of the currencies of the region, causing them to fall like dominoes.

The world today is dominated by the US dollar which is used for 60 per cent of global commercial transactions and 80 per cent of financial markets.

The leaders of the nine Asean countries agreed that it was timely for Asean to look at the yen or the euro.

Prime Minister Datuk Seri Dr Mahathir Mohamad said there were views at the meeting that there should not be just one currency and that other currencies like the euro and yen, be considered for international dealings.

He said, however, the matter needed to be studied closely.

It was suggested that Southeast Asian countries should reduce their dependence on the US dollar in the wake of the regional currency problem and must now consider diversifying into currencies that were less volatile. The euro is a viable alternative to the US dollar as its inclusion in national foreign exchange reserves would reduce currency volatility.

Asean in particular needs stable currency regimes to liberalise trade and investment.

As economic interdependence increased, so did the consequential spill-over of both positive and negative effects. The most rapidly transmitted and damaging of these was currency confidence problem.

Regional currencies have fallen by some 10 to 60 per cent against the US dollar since the baht's devaluation against the greenback on July 2.

Therefore, some analysts argue that the introduction of the euro is much awaited.

Although there are still scepticism about the effectiveness of the euro, the European Union has passed the point of no return for its introduction in the financial market on Jan 1, 1999.

Twenty billion notes in seven different denominations and 70 billion coins in eight denominations will be circulated in year 2002 for practical use at the people-to-people level.

Most of the 15 EU members are confident that the euro will have a huge impact on international monetary relations and will propel Europe into prosperity and financial stability in the next century.

The EU also believes that the euro will open up new business opportunities for Asian business and markets.

"It has become a routine now that every time Europe's leaders meet in the European Council, they reiterate their determination to respect the timetable and conditions for the introduction of the euro," said Prof Jozef Van Ginderachter, a honorary director of the EU said at a recent seminar on Asia-Europe relations for Asian journalists in Maastricht, Holland.

Van Ginderachter, a former economist with the Union, said by next year

the EU has to decide which of the 15 EU members will join the European Economic and Monetary Union, or in other words, accept the euro.

Although countries like Britain, Denmark and Sweden have decided that they will not join the EMU as yet because they see it as abandonment of national sovereignty, Van Ginderachter is optimistic that they will do so as "the euro will simplify and stimulate trade". Greece is unable to do so because of economic problems.

Van Ginderachter joins the chorus of other EU officials who believe that the euro will have a huge impact on the international monetary system.

They dismiss the belief that the euro will be weak in comparison to other world currencies arguing that their value is determined by the market, based on the economic mix in the countries concerned.

"The euro's value against the dollar and yen will therefore depend on the economic policies and conditions in Europe, the US and Japan," Van Ginderachter said.

Steps have been taken to ensure that the euro will remain strong. These include ensuring that conditions for membership of the euro zone will be applied strictly, with only countries which attain high sustainable convergence allowed to join.

"The stability and growth pact is aimed at ensuring that member states in the euro zone maintain a sound budgetary policies permanently in the future," said Yves-Thibault de Silguy, a member of the European Commission responsible for economic, monetary and financial affairs.

There are four basic criteria for countries joining the EMU - price stability, financial stability, deficit not higher than three per cent of the gross national product, debts not more than 60 per cent of the GNP and interest rates not exceeding three per cent.

The European Central Bank in Frankfurt will be free from political influence.

Given these conditions, the euro looks set to help remedy the structural imbalance and instability caused by the domination of the US dollar in global commerce and financial transactions.

The US domestic economy is highly protected against the effects of fluctuations in the external value of the dollar.

American policy-makers are more concerned by the internal effects of their actions than the potential impact on the international monetary system.

The result is that the world economy is heavily exposed to the effects of the often significant and unpredictable movements in the value of the dollar.

Controlling 21 per cent of the world trade, Europe is the world's number one economic and commercial power. The US accounts for 20 per cent of world trade and Japan 10.5 per cent.

However, Europe has no presence on the international monetary scene. The paradox will be remedied with the arrival of the euro, paving the way for a more balanced multi-polar international monetary system.

Instead of one dominant currency, there will be three - the dollar, the yen and the euro.

But having said that, one should not completely ignore the sceptics who argue that there is an enormous political risk in introducing the euro.

This is mainly because the EU is set to impose the currency on restive, sometimes openly hostile citizens, for whom union has become synonymous with stagnation and sacrifice.

Sceptics worry that architects of the euro are inviting disaster by imposing a single currency economic policy on diverse countries with vastly differing traditions, national identities and economic philosophies.

The EU countries which opt for the euro will no longer be able to make unilateral decisions to devalue their currencies as a strategy for greater export competitiveness.

Will a loaf of bread cost the same in euro in Portugal as it will in Germany? Will the depreciation of the euro benefit one European country but jeopardise another?

These questions need answers, but nevertheless crucial decisions and commitments for the introduction of the euro have been made. There is no stopping now. Come 1999, the greenback will at last have a real rival.

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