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Euro seen stabilising world currency system

Hamisah Hamid

THE European Union (EU)'s single currency, the euro, is expected to stabilise the global currency system by acting as an alternative to the dominant US dollar in the international trade, says the head of European business centre.

European Business Information Centre (Ebic) executive director Raffaello Tarroni said the euro, to be introduced by January 1 1999, would be able to stabilise the imbalance created in the global trade transactions through the monopoly position held by the greenback.

"Currently, 60 per cent of world trade transaction is made up by the US dollar but the US only represents 16 per cent of the world trade.

"It's like four times of imbalance between what the US represents and what the US dollar represents (in the international trade).

"This would create imbalance in the circulation of US dollar and instability in the currency system due to the monopoly of the US dollar," he told a press conference in Kuala Lumpur yesterday.

The conference was held to announce a seminar on "Euro: The Implication of the European Single Currency on International Trade and Banking", to be held in Kuala Lumpur on October 15.

Tarroni said in the long run, the euro can be an instrument to stabilise the global currency system.

Currently, the use of euro in transactions by people outside the EU is on a voluntary basis until the euro will be fully adopted by the year 2001.

He called on Malaysian businessmen to be aware of the currency development in the EU as it is a very large market.

Two years ago, there were about 373 million people in Europe compared with 266 million in the US.

Tarroni also said before the full adoption of the euro, the national currencies of each of the EU members are allowed to fluctuate at a certain spread.

This, he said, will negate uncertainty and promote stability in business transactions in the EU economies.

"Before the currency exchange control, the Prime Minister (Datuk Seri Dr Mahathir Mohamad) has been looking at alternative measures... this (the euro) is the alternative," he said when asked how relevant is the introduction of euro to current Asian currency crisis.

Meanwhile, Malaysia Institute of Directors vice president Dr Ian Chia, who was also present at the press briefing, shares Tarroni's view.

He said the euro will have a great significance on Malaysia as it will be the alternative currency instead of the US dollar in business transactions.

He believed that the euro could also become the major reserves currency among banks instead of the greenback.

In 1996, the EU held US\$350 billion (US\$1 = RM3.80) in foreign exchange reserves, compared with US\$49 billion in the US and US\$172 billion in Japan.

"The introduction of euro will also provide new avenues for Asian countries to raise loans from the EU as well as tapping new technology that is not available in other parts of the world," he said.

Chia, who regards the EU as "a market not tapped properly by Malaysian businessmen", said it is the right market for local businesses looking for

stability.

Chia was optimistic when asked whether Asean could emulate EU in coming out with a common currency.

"It can be done," he said, adding that if Europe took almost 45 years to see its common currency materialise, Asean could do it within 15 years.

He said despite the big differences in economic development among Asean members, the association can use the euro as a model for a common Asean currency.

He said the recent currency attack means that it is imperative for countries to talk about all the possibilities.

"The way Asean countries are moving together, the region's common currency could be seen within a span of 15 years," he added.

Tarroni, meanwhile, is quite cautious. While he did not rule out the possibility of Asean having its own currency in the future, he believes Asean has to take into consideration the needs of each member country.

Unlike the European countries, he said Asean countries do not have common needs. "The needs of Cambodia and Laos are different from the needs of Malaysia and Thailand... a move like this requires things to be taken step by step".

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