

Can Soft Power Bypass Hard Power?

Future Prospects for Europe's Economic Power

Keynote Address

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Opening remarks

- Key lesson from this year’s financial crisis: the lifeblood of the global economy is trust
- The crisis has replaced counter-terrorism as the main topic on the world’s agenda – from hard power to soft power
- We are witnessing the end of a period of dominance of the Anglo-Saxon economic model
- Europe’s economic model has the chance to establish itself as an alternative to unleashed financial capitalism

Areas with potential for European “Soft Power”

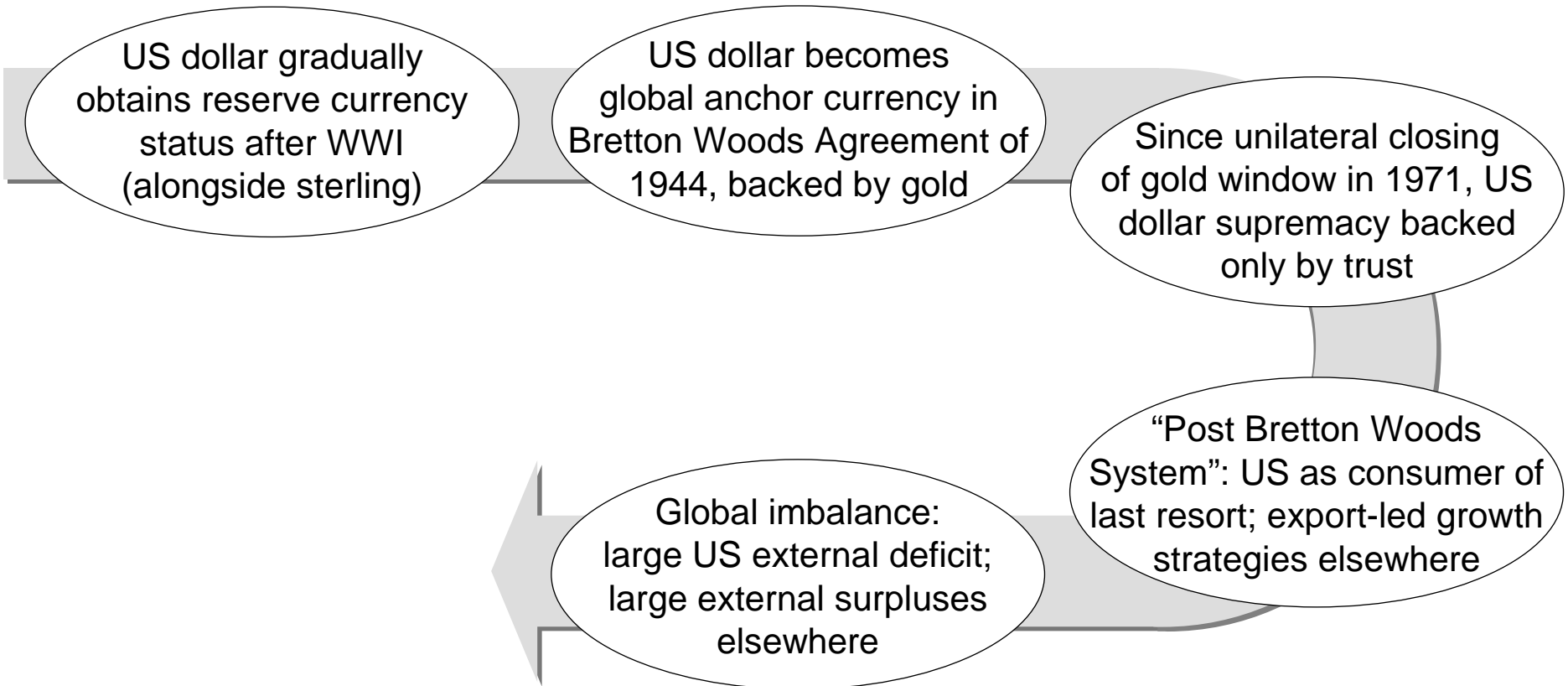
In the economic sphere

- Financial regulation and accounting standards
- International financial architecture
- Development of the euro into a global reserve currency

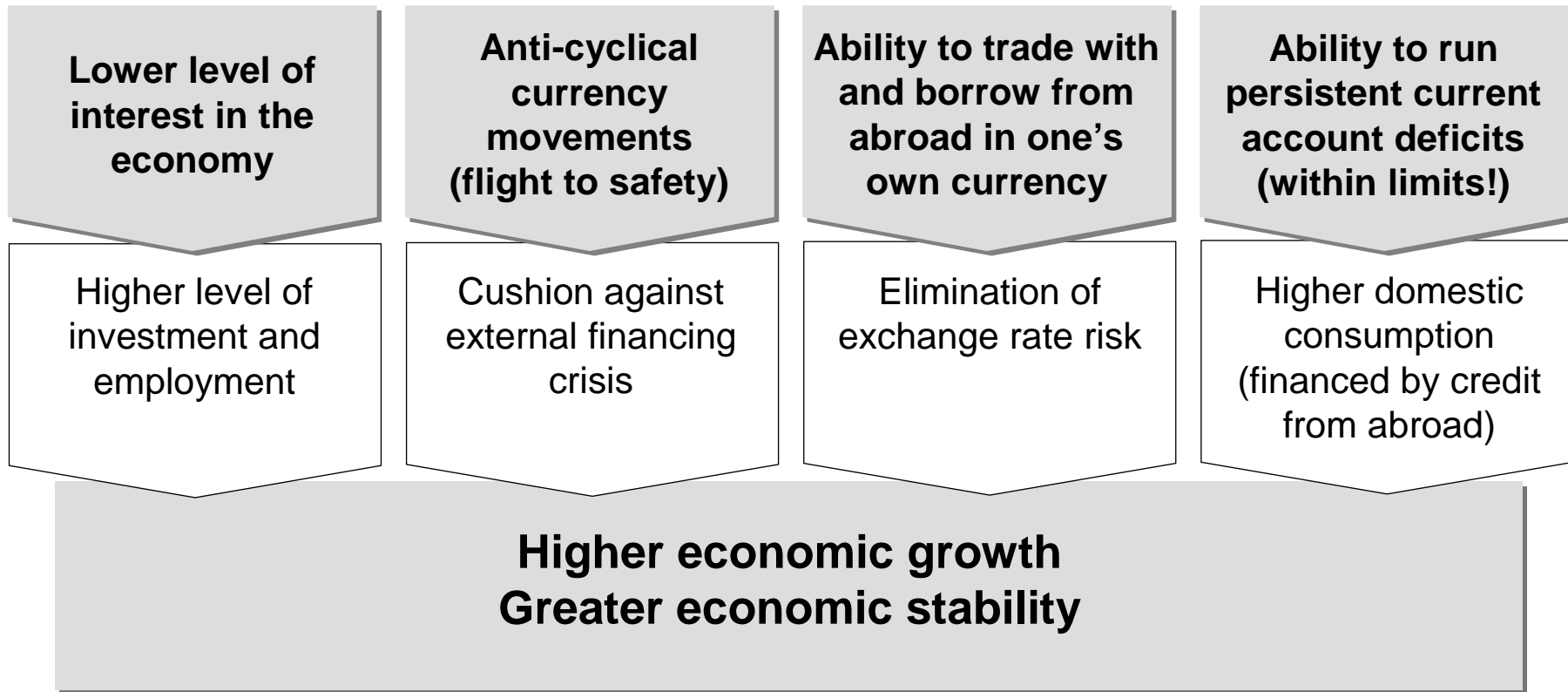
More generally

- Climate change
 - Emissions reduction targets
 - Renewable energy
 - Carbon-trading
- Social standards and social security systems
- Product and food safety standards

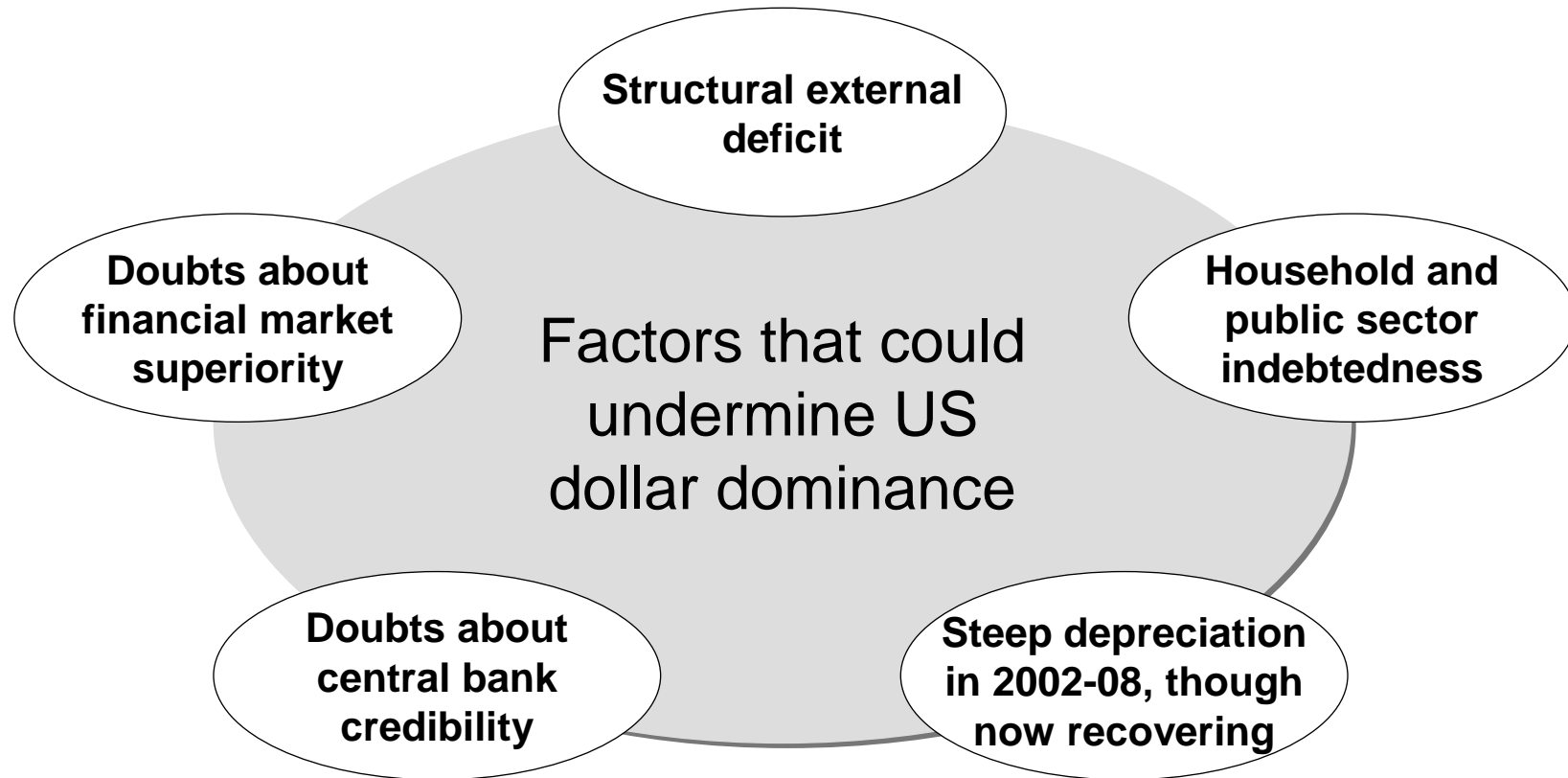
US monetary supremacy revisited



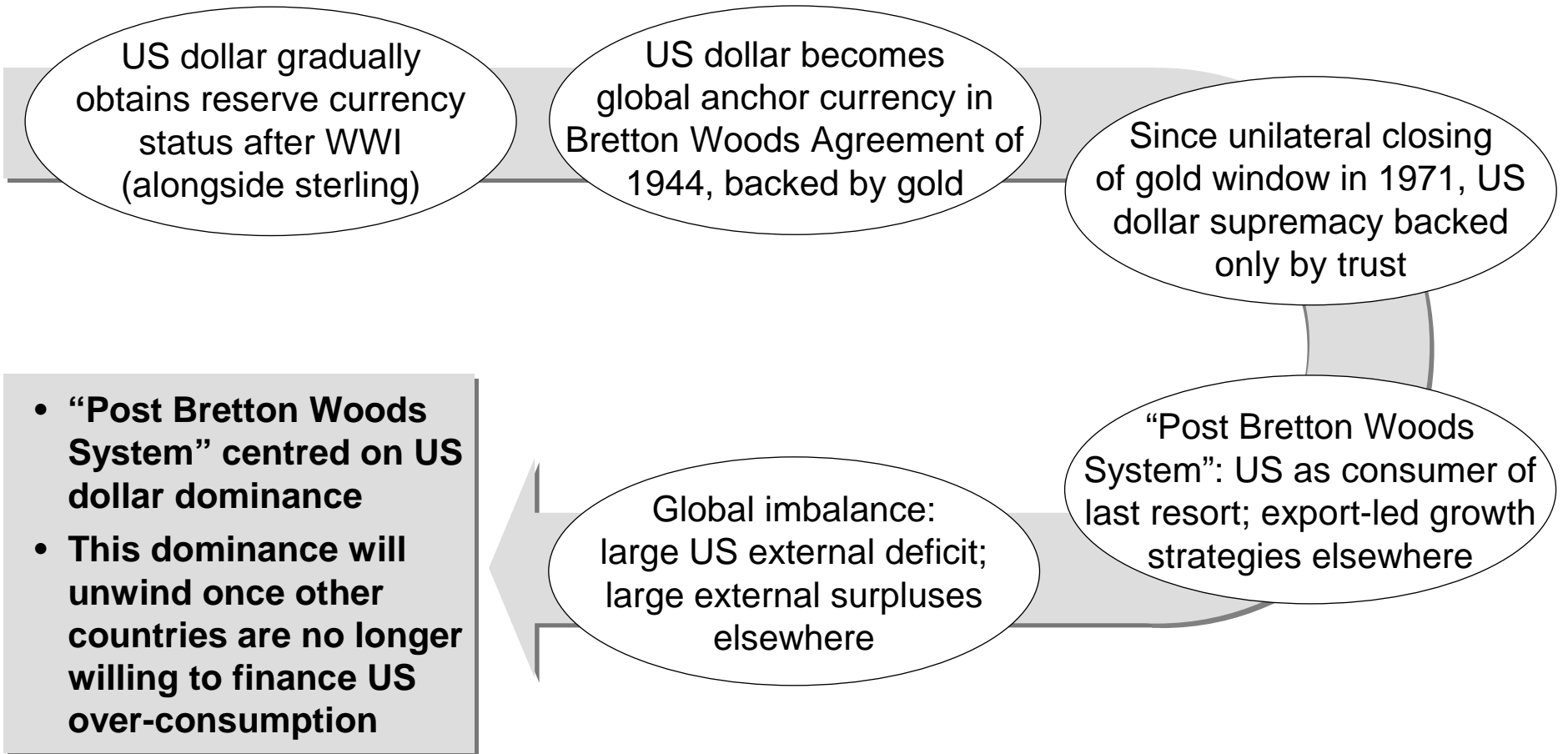
Economic benefits from being the issuer of an international currency



Risks to the “Post Bretton Woods System” and to US dollar dominance



US monetary supremacy revisited

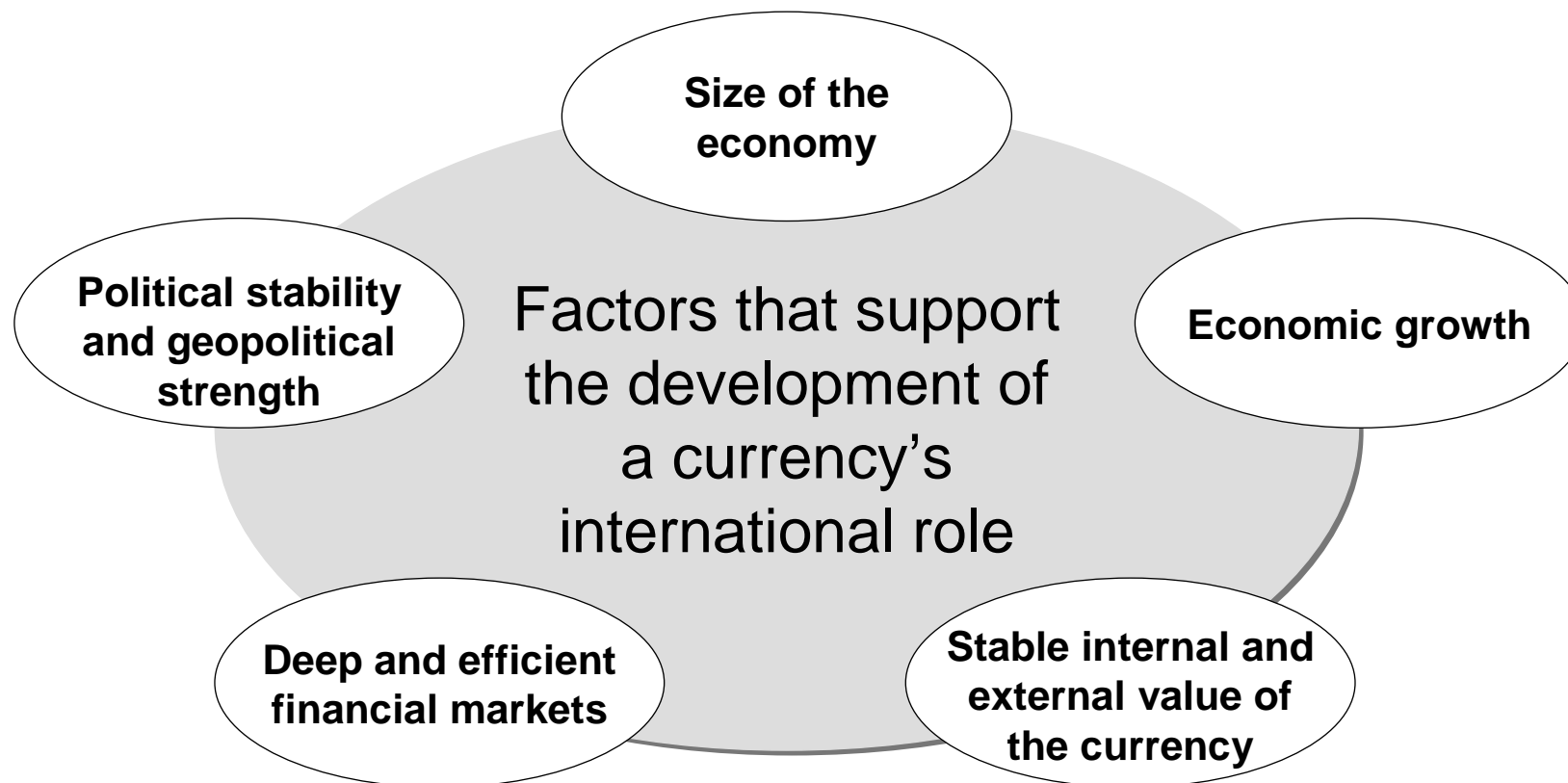


What comes after the dollar?

Euro dominance	Euro-dollar power-sharing	Monetary regionalisation
<ul style="list-style-type: none"> • Unlike in previous US downturns, there is now an alternative to the US dollar as the main reserve currency: the euro • Collective interest in supporting the US dollar conflicts with individual incentive to be first to abandon the US dollar if long-term decline seems inevitable 	<ul style="list-style-type: none"> • Continued gradual increase in the use of the euro in international transactions and in official reserve and private investment portfolios • Co-existence, rather than competition 	<ul style="list-style-type: none"> • US dollar dominates Western hemisphere • Euro dominates Europe and North Africa • Regional monetary ambitions in Asia and Middle East exist, but lack credibility • Euro and US dollar might vie for supremacy in these two regions

An enhanced international role for the euro is likely

How to obtain international currency status



US dollar versus euro

Size of the economy	US\$13.8 trn = €10.1 trn 27% of the world economy	US\$12.2 trillion = €8.9 trn 24% of the world economy
Economic growth	2.6% p.a. (1999-2008f)	2.1% p.a. (1999-2008f)
Inflation and FX rate stability	2.9% p.a. (1999-2008f) 7.8% (NEER StDev 1999-2008)	2.2% p.a. (1999-2008f) 8.7% (NEER StDev 1999-2008)
Financial market liquidity	Low transaction costs (bid-ask spreads)	Low transaction costs (bid-ask spreads)
Political stability and strength	Political and military superpower Unified voice in international fora	No corresponding political entity Cacophony of nation-states
Incumbency	Main reserve currency since 1945	Founded only in 1999

Europe’s homework: how to foster the euro’s role

Institutional reform

- Give the euro a political face and voice
- Give the euro-area’s financial system a common legal and regulatory framework

Ideological shift

- Don’t view currency weakness as positive, just because it fosters exports

Facilitating an enhanced international role for the euro

In summary: opportunities for European economic leadership abound

