



Trade Center Europe

16th Frankfurt European Banking Congress 2006
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Trade Center Europe

**16th Frankfurt European Banking Congress
November 17, 2006**

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*Transcription from tape by the organizer of the Frankfurt European Banking Congress and subsequent translation

Welcome Address

Horst Hemzal

Presented the speech of Petra Roth



Good evening Ladies and Gentlemen,
Your Excellencies,
Distinguished Guests,

I wish you a warm welcome to the pre-evening dinner of the Frankfurt European Banking Congress here in the emperors' hall. And I want to thank you very much, Dr. Ackermann, as chairman of this year's Frankfurt European Banking Congress, for co-hosting this evening.

The emperors' hall has its name not because of the portraits of the kings and emperors of the Holy Roman Empire, but because of the fact that the festive dinner after the coronation ceremony in the Frankfurt Cathedral over there always took place here.

This room breathes European history because the Holy Roman Empire was what you might call the "Europe" of the period of 768 until 1806. Nowadays, the Emperors' Hall is once again the place of Europe-related events.

Two of them I would like to mention: The first press conference of the newly established European Monetary Institute in 1994 and the first Plenary Meeting of CEIOPS, the Committee of European Insurance and Occupational Pensions Supervisors in 2004 took place in this room.

Two events of a truly European dimension, both closely related to the financial center Frankfurt and its development.

And by the way, to have two European institutions here emphasizes the role of Frankfurt not only as an international financial center, but also as a decision making center of the integration process.

With all this European background, it's a very good idea to celebrate the pre-evening dinner of the Frankfurt European Banking Congress here in the Römer.

The Frankfurt European Banking Congress, organized by Commerzbank, Deutsche Bank, Dresdner Bank and the City of Frankfurt, is firmly established as one of Europe's most prestigious banking congresses.

The numbers of participants are increasing, especially from Middle and Eastern Europe and the Middle East.

This year, we are expecting 1.300 participants from 50 countries, among them some 300 journalists. To organize such a successful congress in our city, providing the platform for the discussion of important financial and economic issues and the information exchange of so many high level representatives of finance – all this is also great for the reputation of the financial center Frankfurt.

Tomorrow morning, most of us will meet for the 16th Frankfurt European Banking Congress, focussing on “Trade Center Europe”.

The congress will examine the role of free trade, the impact of globalization on the development of economic structures in Europe and the role of the Euro within the world currency systems.

Looking at these topics, we can see how far the European integration process has developed and how much the political process is behind.

I make this statement as a person who is a convinced European citizen, and I hope very much that in the next few years a more satisfying balance between the economic and the political integration of European countries can be achieved.

Ladies and Gentlemen,
Politics is the art of the possible – sometimes it seems impossible. Right now I have to be at two places. These two places are the most important places in Frankfurt – at least for me: one is this Emperor's hall, and the other one is our city parliament. These places are only 50 meters apart. At this very moment our parliament is in session. The topic is education, which is one of the most important topics in Germany. By legal obligation, I have to attend parliament – and I want to be there, because I emphasize the importance of education. Therefore, I have to apologize that I must leave you in a few minutes. I am really sorry about that.

Thank you for your attention. Now you will have the main course.

Afterwards, Dr. Ackermann will extend his greetings to you and introduce our Dinner Speaker, Professor Laura D'Andrea Tyson from the London Business School. A special welcome to you, Professor Tyson!

Now I wish you “Guten Appetit”!

Introduction

Josef Ackermann



Mr. Treasurer,
Mr. President,
Dear Dean Tyson,
Ladies and Gentlemen,
Dear Colleagues,

I am delighted to cordially welcome you to this dinner on the eve of the Frankfurt European Banking Congress. Tonight, we are turning an innovation introduced only last year into an honoured tradition. For the second time, we are guests here in the historic *Kaisersaal* at the Römer, Frankfurt's town hall in the very heart of the city.

Indeed, the *Kaisersaal* provides a wonderful setting for our traditional pre-conference dinner and I would like to thank Mayor Roth and the City of Frankfurt for their hospitality and for giving us the opportunity to meet here tonight.

Ladies and Gentlemen, I am particularly pleased that tonight's dinner speech will be given by Dean Laura Tyson, who has graciously accepted our invitation. Her dinner speech will address the question: "*Does globalization threaten jobs and wages in the U.S. and Europe?*"

But first, I would like to say a few words of introduction about Professor Tyson and her outstanding academic and political career.

Professor Tyson has been Dean of the London Business School since January 2002 and was previously Dean of the Haas School of Business at the University of California Berkley.

From 1993 to 1996, Professor Tyson served in the Clinton Administration, among other posts, as the President's National Economic Adviser. In this capacity she was the highest-ranking woman in the Clinton White House. Indeed, Professor Tyson was a key architect of President Clinton's domestic and international economic policy agenda during his first term in office. Prior to her appointment as National Economic Adviser, Professor Tyson was the sixteenth Chairman of the White House Council of Economic Advisers – the first woman ever in that position.

During this period, the U.S. economy saw considerable growth and a reversal of the federal deficit, from 290 billion dollars in 1992 to the first budget surplus in a generation – in fact, the largest dollar surplus on record.

Before joining the Clinton Administration, Professor Tyson had written numerous publications on industrial competitiveness and trade, including her highly acclaimed book: *Who's Bashing Whom? Trade Conflict in High Technology Industries*.

Political leaders, not only in the United States, but also throughout the world, continue to seek out her advice and wisdom.

Professor Tyson, I am very pleased that you could join us and would like to thank you for taking the time to speak tonight. We are looking forward to hearing your views on the impact of globalization on jobs and wages in the U.S. and Europe, still a controversially debated topic that ties into the key theme of this year's congress: "Trade Center Europe".

Dean Tyson, the floor is yours.

Trade Center Europe

Dinner Speech

Laura D. Tyson*



It's a pleasure and honour to be with you at the dinner on the eve of the Frankfurt European Banking Congress.

It should be noted that Dr. Ackermann is an honorary fellow of London Business School and that we have a wonderful relationship with Deutsche Bank at the School. At London Business School, we think of Frankfurt as a major financial centre and it is one of the cities of great interest to us as we educate future leaders of the financial services industries. So it is a very special honour for me to be here, because of the School's relationship with Deutsche Bank, with Josef and with Frankfurt.

I want to start with the observation that the world economy has been doing spectacularly well lately. If you look at growth rates, the world economy has grown in the past five years faster than any five-year period in our recorded statistics of global economic growth. Not only have we had fast growth, but if you look over a longer period of time, say the last 25 years, you can see that there is an upward trend in overall global growth. There is an upward trend also in overall global growth on a per capita basis. You also see in the data that global growth has become less volatile and if you look at volatility of growth rates even on a regional basis you can see a reduction in volatility. So growth has accelerated on an overall basis and on a per capita income basis, and it has become less volatile. This has occurred despite the geopolitical tensions and after-effects of 9/11, the war in Iraq, and despite the tripling of oil prices.

Moreover, most forecasters think that the current expansion still has a way to go. We have greater balance in the current expansion in one particular way. Japan has come out of the doldrums. Europe has picked up growth, with stronger domestic demand, less excess capacity, continuation in adoption of IT technology and the productivity benefits of IT technology. And China has recognised the need to rebalance its growth from too much dependence on exports and investment to more emphasis on domestic demand and consumption. So it is a very positive state of affairs.

Yet, in both the United States and throughout Europe, there is now concern about the effects of competition from emerging world market economies. Citizens and politi-

* Transcription from tape by the organizer of the Frankfurt European Banking Congress

cians are worried about a race to the bottom in terms of wages, job security and in terms of social welfare policy. They think that the race-to-the-bottom thinking is brought on by competition from low-cost imports, by competition from the off-shoring of jobs and, of course, by competition from the immigration of labour from low-wage locations. All such concerns warrant it. Should citizens be concerned and should politicians be concerned? If so, what should we do? What should be the appropriate policy responses?

Fears about globalization are usually dismissed and indeed they are often derided and made fun of by most economists and most business leaders because economists and business leaders – and I dare say most people in this audience – will point to the efficiency, competition, productivity and specialisation gains that come from globalization. But even the proponents of globalization must admit that globalization creates winners and losers: that there are substantial gains from trade, there may also be pains from trade.

In general, the aggregate gains outweigh the pains, so there is plenty of room to reduce or ameliorate the pain of those adverse effects and to share the gains more generally. But, in fact, that rarely occurs. And that's the problem because if you look for example at my own country. If you look at the election that just occurred – as I mentioned right before during the cocktail reception, that the four members of my party, the Democratic Party – the Democrats are in the news as saying very clearly that they will oppose all further trade agreements, and that they will oppose giving any trade promotion authority to the President. So they are already signalling that “it's over in terms of further progress in trade policy.”

We have to take seriously the set of concerns that motivate that policy position. I want to talk a little about how to take it seriously. It is the case that the IT revolution, the transportation revolution, and the communication revolution really do allow firms to off-shore more of the production of their goods, services and tasks to locations based on cost. No longer are they tying their production to the consumers they want to reach and no longer are they tying their production to their home production base.

The second thing that has absolutely happened is that countries around the world such as China, India, Brazil, Mexico, we could go down the West, certainly all parts of Central Europe, and parts of the former Soviet Union, have opened up, have embraced the global economy and essentially have therefore made their citizens part of the global economy labour supply. So my colleagues who are labour economists in the United States – and this runs from Democrats to Republicans – have come to characterise this as a result of the world becoming more interdependent, and as a result of economies around the world opening their labour supplies to competition from firms from around the world. It's as if the global labour supply has doubled in a very short period of time. People who weren't part of the global labour supply, who couldn't compete for these jobs from foot-loose production, now can. The global labour supply has effectively doubled. The global capital-labour ratio has fallen by approximately half. The global capital-labour ratio is essentially a determinant of productivity, of overall global productivity and global wages.

The consequence of all this is that the median real wage is likely to grow more slowly in the advanced industrial countries for quite a period of time and that many workers in the advanced industrial countries may face job dislocation and falling real wages. It's a basic supply and demand analysis. In Europe, we tend to think about this issue as it will affect median wages for high-income countries. It actually may have more harmful effects on middle-income countries. Imagine labour-intensive production which might have been done in Mexico, which might have been done in Brazil, or might have been done in Turkey. It can now in fact be done for much lower wages in India, Indonesia or China, or perhaps at some later date in Africa.

So that's the nature of the problem. Now in theory and perhaps in practice, if you are a skilled worker working in a technologically advanced industry, working with technologically sophisticated capital equipment, you should be insulated from that downward wage pressure and dislocation. Indeed, you could argue that workers who are lucky enough to have employment in high-income countries in such industries will actually be clearly better off. Better off because the terms of trade will shift in such a way that the prices of things they produce: the very high-end, high-value-added, technologically sophisticated high-productivity products, may rise relative to the prices of all the labour-intensive products that they are importing.

But, looking ten or 20 years out, one has to recognise that China and India, parts of the former Soviet Union, and other parts of the world are moving rapidly up the value chain. We tend to first think about the competition coming from low-income, low-wage economies as competition in labour-intensive, unskilled categories. Think again: there are routine, cognitive analytical services and tasks in research, finance, accounting, consulting and engineering. These services can now be done on a real-time basis through IT-enabled pipelines delivering the service to desktops any place in the world.

What jobs are under pressure? Is it just the low-skilled, labour-intensive job in textile, apparel or shoes? No. Any job that requires very little face-to-face competition that is IT-intensive and that has IT-transmittable output is subject to that kind of competition. I have a very good friend, Lawrence Katz, a great labour economist who was the Chief Economist for the US Department of Labour during the Clinton Administration who has been doing a lot of work in the US on the hollowing out of middle-income jobs and his assertion is the following: IT and IT-enabled globalization are complements for highly skilled workers. They give us all a global stage. Information technology and globalization are giving you a bigger audience around the world for your specialised skills. At the same time, IT and IT-enabled globalization are actually a substitute for a lot of jobs in the middle. He also goes on to argue that IT and IT-enabled globalization may be quite irrelevant to most jobs at the bottom. We tend to worry about jobs at the bottom. It might be irrelevant because a lot of that is face-to-face: personal services, retail services, hotel services, dry cleaning, you name it. Think about all the personal services where you need face-to-face interaction that cannot get to you through an IT-enabled pipeline on your desktop. So the point is that the breadth of jobs that are being affected is getting larger.

At the same time the speed at which countries like India and China are catching up is accelerating. Historically, it has taken developing countries a long time to catch up to global standards in sophisticated products. You would not say that any more when you think about Indian software or Indian IT services. You would not say that anymore about information technology equipment being produced in China. China now has the number one position in the exports of IT and telecommunications in the world and that's up from about 13 in 2000. So it has gone from 13 to one in six years. The speed of this process is getting faster. The breadth of jobs being affected is getting larger. The speed at which these countries are catching up and putting jobs in the middle under competitive pressure is accelerating.

How long will all this last? One might say, if it is going faster, there may also be a decade of downward pressure on median wages, and then after that, there will begin to be a kind of convergence and things will take off. Another labour economist has estimated that Chinese wages approximately doubled in the 1990s. But China is so large that even if wages continue to double in China at that rate every decade, it would take 30 years before Chinese wages would begin to approach western levels. Now this suggests it certainly has to do with exchange rates. But, you can talk about that tomorrow.

Let me turn to some policy issues that arise from this analysis because I think I have said enough. It is clear what the issues are. What does this say about policy? What should we be doing? And I would like to emphasise two things: policies to enhance flexibility, and policies to enhance innovation and productivity. I want to discuss how these two things promote flexibility. I see it in the UK right now and of course in the UK, the debate about flexibility is often a debate that is posed in stark opposite to the US being the flexible labour market and Europe being the inflexible labour market. I do not think that the form of US flexibility is the form that I think is going to maintain support for globalization going forward. So I don't think the US model of flexibility is the model to follow. Because in the US model of flexibility, the adjustment costs fall on the individual. Society does not do anything of significance to help those who have to adjust. The minimum wage in the United States is relative to the median wage at a 35-year low. Unemployment compensation in the United States covers less than a third of unemployed workers. The number of uninsured Americans, those without health insurance, is rising dramatically. If you look at who we draft in health insurance: the people who lose their jobs because they lose their employer-based insurance. And even if you are employed, if you look at this in the United States, health insurance tends to be given to those at the high end of the wage distribution and not to those at the low end of the wage distribution. So, we have a very poor set of social safety nets. That is not flexibility. But of course neither are policies in Continental Europe that make it - through employment protection laws - very difficult to fire, to restructure, to redeploy the workforce. The consequence of which is high unemployment rates, low employability rates, and displaced workers not being reemployed. There is a set of studies McKinsey & Company have done on the effect of off-shoring that compares Germany, France, and the US. Their view is that, in the US, off-shoring will be welfare-enhancing because workers who are

dislocated from one set of jobs will go to others. It says they will be worse off, but society will be better off because profits will be higher and there will be greater efficiency. There won't be a loss of employment, but simply there will be employment at slightly lower wages. But in Germany and France, the analysis says, it's going to be much worse because workers who are dislocated due to off-shoring will not be reabsorbed. So you get a net increase in unemployment and a reduction in employability. You could argue that their estimate that national economic welfare from outsourcing in such a situation (from off-shoring) would be negative. The net national profit will actually decline.

There is going to be a search for flexibility. I want to tell you an interesting anecdote from the US. I work on a new project at the Brookings Institution called the Hamilton project financed by Bob Rubin. It looks at policies for a future Democratic Administration. Recently, they hosted a conference that brought experts together to discuss flexible policies: better wage insurance policies and social insurance policies.

The hit of the conference was a discussion about Denmark's "flex-security". Now, the US is studying Denmark. Indeed, you may think that the Danish situation is very particular. But, I want to say that what we all should be looking for is an appropriate balance of policies that provide meaningful adjustment assistance and income security with policies that activate workers to find alternative employment. We have to find policies that focus not on protecting existing jobs but on the employability of the workers themselves. And of course what the data say we should be trying to do is to provide generous income support with effective activation policies. To make retraining obligatory, to make taking alternative employment obligatory and to make the income support generous.

Now let me turn to a second set of policy areas, and then I'll stop. I think we should focus on the differences in policy approaches because we are working in different national climates. We should focus on flexibility issues. The second area we should focus on is innovation and growth. We should talk tonight about the challenges posed by globalization and the emergence of powerful new competitors like India and China on the issues confronting the competitiveness of high-income countries. High-income countries are, in terms of their capital-labour ratio and in terms of their productivity levels, at the frontier. The possibilities for growth through massive increases in investment, or through imitation of existing technologies don't really exist in high-income countries. The source of growth in high-income countries is innovation. Innovation helps to move the frontier out. We can't imitate our way out and we can't invest our way out. Our new competitors are investing their way out and they are imitating what we have done. So we need innovation throughout our economies in all activities, even those you would call low-tech activities and those you would call high-tech activities. So when is the key role of innovation applied in policy? So there I want to put in a little plug for a new research institute, called Breugel based in Brussels. It is meant to be the Institute of International Economics for Europe. It is very good for Europe to have such an institute. They have recently released a very good paper on innovation and growth. So, I will

summarize some of what they have concluded because I completely agree with the findings.

First of all, if innovation plays a key role, it's very important to invest more in research and development. The EU 15 countries have been investing on average less than two percent of their GDP in R&D, just about 1.9 percent. The US has been investing slightly more than 2.5 percent and this has been going on for a decade. The difference exists both at the firm level and the public sector level. So there really has to be more commitment to research and development. There has to be more commitment to developing policies that promote the entry of new firms. A London Business School colleague, Costas Markides has done work that shows that most business model innovation comes from new firms. It is harder to innovate if you are a successful firm on the frontier. Your incentives for innovation are diminished. So, in the US, if you actually look at the driver of innovation and productivity, you'll see that the entry of new firms plays a very important role. This is an area where if you look at measures of entry and turn-over of firms, the US has had a much healthier environment than Europe. This is an area we need to work on.

A third area is investment in tertiary education. In the US, nearly 40 percent of the working-age population has some tertiary education. In the EU, it is less than 25 percent. Expenditure on tertiary education in the EU is 1.3 percent of GDP. It is a full percentage point higher in the US. Tertiary education is particularly important for innovation because tertiary education drives the frontier out.

Finally, we also need policies that help to enhance the source of capital available to firms, particularly to new firms. Venture capital indicators, private equity indicators until recently, show Europe behind the US in terms of ratio of private capital to GDP indicators, the use of equity as a form of financing. The reason it is important is simply because we tend to focus on labour market constraints on innovation. But, actually there are very serious capital market constraints on innovation. If you cannot find adequate capital to finance your innovation, if you are subject to macro-economic ups and downs and if you are financing out of your current earnings, then essentially you can see how firms will fall behind. The US has had a much more aggressive fiscal policy. I am giving credit to President Bush on this score. In the last few years he has had a much more aggressive counter-cyclical fiscal policy than Europe has had. US firms have been able to continue very high levels of R&D support and very high earnings.

So those are some of my thoughts about policies. I want to end with one observation. There is a wonderful article by Edward Leamer which reviews Thomas Friedman's book, "The World is Flat", which I'm sure many of you have read and so have I. Leamer debates whether the world is flat. He says the world actually isn't flat. It is becoming more unequal. One of the things globalization is going to do is to make the income distribution between high-skilled and low-skilled workers more skewed. So he is basically saying it's all wrong. But he makes an observation that since more and more things are going to become more routinised and mundane, and things are easily moved to any

place in the world, the key issue for policymakers is to focus on things that don't move. Policymakers should focus on immobile assets that create a hospitable environment that people want to be in and a part of, like infrastructure, roads, telecom and broadband systems, parks, culture, universities and researchers. And that's the way to keep talent and also attract talent from the rest of the world.

Let me conclude with something that Larry Summers wrote just last week in his monthly column in the Financial Times. He said: "The twin arguments that globalization is inevitable and protectionism is counter-productive, have the great virtue of being correct. But they do not provide consolation for the losers. The losers are making their voices heard. They have made their voices heard in several of the elections in the United States. They made their voices heard in the decision of some of the national governments and nations of Europe to vote against the European Constitution. There are several examples of the losers making their voices heard. So we really must take seriously those of us who believe in globalization and those of us who believe that protectionism is counter-productive must come up with an active policy agenda and take seriously the concerns of the losers. Or otherwise, I am afraid, we will lose the momentum to further globalization".

Thank you very much.

Trade Center Europe

Welcome Address

Petra Roth



Excellencies,
Distinguished Guests,
Ladies and Gentlemen,

I'm very pleased to welcome you at the 16th Frankfurt European Banking Congress. As many of you know, this congress is a joint venture of Commerzbank, Deutsche Bank, Dresdner Bank, the City of Frankfurt and it's Economic Development Corporation.

After 16 years, the Frankfurt European Banking Congress is firmly established as one of Europe's most prestigious banking congresses, providing a forum for leading decision makers and eminent Heads of State to discuss European issues related to the world of politics and financial markets.

This year, approximately 1.000 delegates and 300 media people are expected. Since last year, the Frankfurt European Banking Congress is the concluding highlight of the Euro Finance Week. The Euro Finance Week combines a congress and a trade fair.

More than 30 symposia and conferences cover the current issues in finance and insurance industries. And as a parallel event, the European Banking and Insurance Fair offers an inside view into the latest IT technologies for banking and insurance business.

I think all of this is a good environment for the Frankfurt European Banking Congress, and altogether it is great for Frankfurt's reputation as a financial center.

Also it fits in well with the fact that Frankfurt is the seat of two European institutions, the European Central Bank and CEIOPS, and the seat of the Deutsche Börse as well as many other companies and institutions of the financial industry.

The organizers of today's Congress have once again created a highly interesting programme, focussing on "Trade Center Europe".

The topic is a more economic and less political one than in the past few years. This is the result of the fact that the European political process has slowed down and globalization has developed more dynamically. We all know that the economic meaning of Europe has more weight than the political one.

The European Union is by far the most powerful market in world trade. And Frankfurt, as a gateway to the European markets, is taking benefits from this situation in terms of growth, jobs and internationalization.

Today's congress will examine the impact of globalization on manufacturing and services in Europe and the development of the importance of the Euro.

I want to express my special gratitude to you, the panelists, for accepting our invitation and sharing your thoughts on the items to be discussed here.

I would like to thank you, Dr. Ackermann, for taking the special responsibility of being the chairman of this year's congress.

I also would like to thank all those who have made this congress possible.

Last but not least I want to thank you, the participants, for being here. I wish you a successful congress with fruitful contacts and a pleasant day in our city.

Trade Center Europe

Opening Remarks

Josef Ackermann



Mayor Roth, thank you for your cordial welcome.

Your Excellencies,

Ladies and Gentlemen,

I would like to welcome you, also on behalf of my co-hosts Klaus-Peter Müller and Herbert Walter, to this year's European Banking Congress, the 16th in Frankfurt's Alte Oper.

Thank you for coming. It is great to see that our annual congress is appreciated as an important event in the international financial market calendar, this year bringing together approximately 1,300 representatives from the financial, business and political communities of 50 different countries all around the world. I am convinced we can look forward to an open discussion, thought-provoking debates and new insights.

The subject of today's conference – Trade Center Europe – is highly topical. As a facet of globalization, world trade provides evidence of the ongoing international integration of markets, which affects everyone, of course, across and beyond the borders of Europe. World trade in goods and services rose by about 450% from the early 1980s to 2005, strongly contributing to the rise in global GDP, which increased by 300% during that period. Trade's stimulating effects on the growth of income and standards of living are undisputed.

However, the disappointing suspension of the Doha round on multilateral trade liberalization in July has again demonstrated that free trade and open markets are not fast-selling items. The aim of the Doha round, to provide a new, more open framework for global trade, in particular, to further dismantle trade barriers between industrial countries and dynamic emerging markets, including China and India, represented an opportunity to increase growth around the world. Obviously, the parties to international trade talks will need to consider how to move on from here.

As the world's largest trading center, Europe is a key participant in these discussions, with a big stake in their success as well as a considerable responsibility for the sound development of the international trade system. And Europe has a lot to contribute to the debate, given its long-standing experience with economic integration.

Against this background, a number of questions emerge:

- For one thing, we have to ask ourselves how should the future world order in global trade be shaped – that is: How free will international trade be in the years to come, and what role will Europe play?
- Second, how will trade relations evolve in the future, given the change in trade patterns and the rise in the ratio of traded services?
- And finally, how will future trade patterns influence the international monetary order, and especially the role of the euro?

These questions will also be the focus of the three panel discussions during today's congress:

Our first panel carries the title "Free Trade and Freedom". Economic freedom and free trade are seen as vital preconditions for the flourishing of our market economies. And yet, not all initiatives to further liberalize economic activity lead to a happy ending – whether they involve market liberalization at national levels or international trade initiatives. I am sure examples such as the suspension of the Doha Round will provide ample matter for discussion for our first panel – which it is my honour to chair.

Our second panel – chaired by Herbert Walter – will address the rising role of services in international trade under the heading: "Goodbye Manufacturing? Hello Services!" Growth in the international service economy has been remarkable, especially in IT, computer and financial services. However, global trade in services still accounts for only about one fifth of total world trade, in stark contrast to the large share of services in the individual GDPs of industrialized countries. In the EU, for example, this figure is at around 70%. So, you might be tempted to ask whether services are more difficult to trade internationally or whether barriers to trade in services are higher than for goods.

Our third panel – chaired by Klaus-Peter Müller – will cover the subject of the "Extended Importance of the Euro", that is, the international monetary dimension of Trade Center Europe. Since 1999, the euro has firmly established its position as the second largest international trade, investment and reserve currency after the U.S. dollar. Essentially, the international monetary system has switched from a dollar standard to a combined dollar-euro standard with a dominant position for the dollar. This provokes the question: Will the euro's challenge to the dollar pick up even more momentum? Last but not least the "Extended Importance of the Euro" may also stimulate the debate on establishing a monetary union elsewhere, for example, in the Gulf region and Southeast Asia.

Ladies and Gentlemen,

Obviously, we have a number of pivotal issues to discuss, and I am glad to say that highly distinguished and experienced guests from business and politics are here today to shed light on these questions. They will be introduced to you by the panel chairmen later on.

Before commencing our first panel discussion, it is a great pleasure for me to announce that our keynote speaker for this panel is a recognized leader, well-known to all of you. I am honoured to welcome Mr. Václav Klaus, President of the Czech Republic. Thank you very much, Mr. President, for joining us in Frankfurt this morning. We appreciate your participation very much as we realize you have political obligations to fulfil at home later today: The Czech Republic is celebrating the Struggle for Freedom and Democracy Day to commemorate the student demonstrations for freedom in 1939 and 1989.

Václav Klaus has been an active participant in the ongoing debate on European integration, both as a politician and academic in economic science. He is known as an ardent advocate of a free market economy who does not shy away from conveying inconvenient messages.

Mr. President, we all look forward to hearing your speech. The floor is yours.

Free Trade and Freedom

Keynote Speech

Václav Klaus



Thank you for the invitation to this important gathering, and especially for giving me such a privileged speaking position.

If I am not wrong, my last presence here was nine years ago. It is fair to say that you kept inviting me year after year but I always – with regret – sent an apology. The main reason is that you have organized the congress on a very unsuitable day for me. The 17th of November is the Czech National Day, the day we celebrate the end of communism and the beginning of building free society after half a century of life in an oppressive, totalitarian regime. I am supposed to be seen at home that day. This time, however, the topic you suggested for my speech “Free Trade and Freedom” was so attractive and seductive that I was not able to refuse your invitation.

I find it challenging to be here, in Germany, in this very special and important country and to get involved in your discussions. I know also that there is almost an abyss between “das geistige Deutschland” and “die Ökonomen”, and I always try – with my arguments – to help the loosing side.

My views on free trade and freedom are heavily influenced by my personal experience, which is connected with this very date. Seventeen years ago I was living in a country which had neither freedom, nor free trade. It becomes difficult to describe it now. For someone like me it was practically unimaginable to be allowed to attend a congress in Frankfurt at that time.

We were not only unable to travel to the free world. There was no political freedom and civil rights. The citizenship was an empty term. We were strictly limited in all our personal activities. The economy was centrally administered (it was Walter Eucken who inspired me to speak about centrally administered instead of centrally planned economy.) We had a rigid foreign trade monopoly based on the quasi-mercantilist thinking that we should import only what was necessary – in the eyes of the central planners – to guarantee the elementary input-output balancing of the economy and that we should export as much as was needed to have no foreign trade deficit. Free decisions of consumers and producers were non-existent. Comparative advantages and other basic economic principles were not taken into consideration. The result was an extremely inefficient, excessively regulated, unfree and illiberal system.

We were dreaming about getting rid of it all the time, and some of us wanted nothing less than a fundamental change, nothing less than the total transformation of the whole political, economic and social system. We knew that it required to fully liberalize both the political and economic life. We knew as well that – at least in our part of the world, in our cultural and civilizational setting (I don't speak about Southeast Asia) – these spheres were inter-related and that it was not possible to open them independently, separately or in any “planned”, sophisticated sequencing. It had to be (and was) done simultaneously.

The political task – after the melting down of communism – was relatively easy. It was sufficient to liberalize the entry to the political market, which only confirms my conviction that it is neither possible to construct the political system from above, nor to deliver it from abroad. It must grow from inside. We made no significant (or worthmentioning) intervention in the spontaneous evolution of the political system in our country.

To substantially change the economic system was more difficult and especially more time-consuming. We had to liberalize, deregulate and privatize the whole economy, because everything was state-owned and regulated.

We understood very early that the precondition for success is the wide-ranging liberalization of foreign trade. I have to repeat that we had to liberalize foreign trade after half a century of a closed and almost autarchic economy. We did it without any gradualism, practically overnight, on the 1st of January 1991. I stress both the totally unfree trade in the past and the speed with which liberalization was done because it is relevant when looking at the situation in the world, and especially in Europe, now. Due to the currently dominant illiberal political, economic and social ideologies, this continent is very far from “free trade and freedom”.

I would like to state that the current situation in Europe is, of course, much better than it was in our country 17 years ago. We are trying to make a shift not from totally unfree to totally free trade regime now but a shift from less free to more free trade. To make a change is, however, perhaps paradoxically, more difficult. It is frustrating to witness that it takes us years to make the slightest change. The powerful vested interests are able to come together, to reinforce one another and to form a truly international fraternity (*Kameradschaft*) which is strong enough to block any progress. When I hear the frequent complaints of trade unions, various *Handelskammern*, and other similar institutions, here in Germany and elsewhere, about the almost deadly losses connected with eventual moving towards free trade, I have to say that had we accepted similar arguments in the moment of our transition from communism to free society, we would not have been able to do anything.

The same is true about political and civic freedoms. Freedom is or is not. It must be introduced fully, not partially, not with looking at currently fashionable – for some perhaps progressive and desirable – ideas, not with accepting the requirements of political

correctness, not with listening to nowadays so popular “isms” (such as multiculturalism, humanrightism, environmentalism, supranationalism, communitarism, feminism, NGOism), etc. These “isms” are not contributing to the increase of freedom. They are endangering it. We have created a culture, legal system and institutions in the last decades that block public debate and make it difficult to discuss any subject honestly.

Seventeen years ago, in the moment of the collapse of communism, I expected the world in the year 2006 to be more free – both politically and economically – than it is:

- I did not expect the current degree of postdemocracy, of democratic deficit and of bureaucratic control of society, I see around.
- I did not expect the rigid version of authoritative economic planning, euphemistically called common agricultural policy.
- I did not expect the harmful ways of blocking trade which are used by developed countries of Europe and America vis-à-vis developing countries in the Third World.
- I did not expect the attempts to construct – which in reality means to block – markets under the banner of an anti-monopoly or pro-competition policy.
- I did not expect the extent of income redistribution and the detrimental welfare-state policies.
- I did not expect raising so many barriers to rational labour mobility (resulting in mass immigration).
- I did not expect the political control of the economy based on the collusion between government regulators and the very industry they are supposed to supervise.
- I did not expect the hypocrisy in demanding trade liberalization from other countries, while maintaining trade barriers and subsidies for own products.
- I did not expect such a risk aversion on the side of politicians who are maximizing their years in office but not the amount of necessary changes aiming at freedom and free trade.

Ideas have consequences. Let's, therefore, start in the field of ideas because the free market for ideas is more important than any other market. And let's not forget that freedom and free trade go together. There is no substitution, no trade-off, between them. There is complementarity. We should do something with it. Now. It is long overdue.

Free Trade and Freedom

Josef Ackermann



Thank you very much, President Klaus, for sharing your insights and stimulating thoughts with us. You have certainly provided us with a lot of food for thought. It is a great honour and pleasure to have you with us, especially since – despite your tight itinerary today – you have also accepted to participate in our first discussion. Thank you, again – and let me now invite you to join us on the panel.

Ladies and Gentlemen,

It gives me great pleasure to introduce our first panel discussion – entitled “Free Trade and Freedom”.

Economic freedom and free trade are pivotal for the success of modern market economies – especially in an increasingly internationalized environment. Again and again, however, we have seen initiatives to further liberalize economic activity run into difficulties over the course of the political process.

The suspension of the Doha Round is a critical case in point and a focus of our discussion today. Undoubtedly the current stalemate around Doha poses serious questions, particularly given its multilateral approach and the simultaneous boom in regional trade arrangements and negotiations. I believe there are three issues we should consider in our discussion:

First, and most importantly, is there an easy way out of the current situation? The World Bank estimated that the Doha round could have increased global income by up to 300 billion euro – half of that benefit accruing to developing countries. This is an important incentive to restart and bring the trade talks to a completion. At the same time, we are aware of the heterogeneity of interests and the necessity of a consensus in the decision-making process. So, it seems that the most important question is, how Doha can be turned into a success for all, in the end.

Second, we should consider what alternatives there are to a renewed launch of the Doha Round, and whether these are viable. While multilateral trade negotiations proceeded over the past years, alternative models in bilateral and regional trade have proliferated. The number of regional trade agreements has increased from 130 in 1995

to almost 300 by the end of 2005, covering half of today's worldwide trade. Although they promote local and regional trade, such arrangements can have trade diverting effects. Are regional trade agreements only a second-best solution, and are they worth pursuing?

Finally, we should consider the needs and expectations of the business community when it comes to international trade arrangements. After all, improving business conditions is their primary *raison d'être*. This is a particularly important perspective, considering that in many cases the concerns of enterprises go far beyond the mere reduction of tariffs, but encompass non-tariff barriers such as industry standards and certifications, reliable rules for foreign direct investment and intellectual property rights as well as effective mechanisms for the resolution of disputes.

Overall, there are several fundamental and highly topical issues on the table, and it is my pleasure to introduce to you the highly distinguished and experienced guests who have joined our panel this morning:

First, as already mentioned, President Klaus is on our panel, whose speech has given us a number of valuable points to consider in our discussion.

Second, let me welcome His Excellency Dr. Jassim Al-Mannai, Director-General and Chairman of the Board of the Arab Monetary Fund in Abu Dhabi. The Arab Monetary Fund is a regional Arab organization of 22 member countries that was founded in 1977. The fund's aims include promoting Arab monetary policy cooperation, financial market development and trade among member states. Fostering regional trade is therefore high on Chairman Al-Mannai's agenda, and – considering the outstanding growth prospects in the region – we are particularly keen to learn more about this specific perspective on the future of trade.

Third, it is a great pleasure to welcome Minister Christine Lagarde, Minister Delegate for Foreign Trade of the French government. Minister Lagarde holds degrees in economics, American studies and law. She has a great deal of experience in academia as well as in the private sector and has been France's Minister of Foreign Trade since 2005. As France is number 5 in world trade and one of the key voices in the current debate, it is a particular pleasure that Minister Lagarde is here today to share her views with us.

Last but not least, I would like to welcome Professor Patrick A. Messerlin. He is Professor of Economics at the Institute d'Etudes Politiques de Paris, Sciences Po, and Director of its Groupe d'Economie Mondiale, which is an independent research unit seeking to boost the performance of French and European public policies in a global economy. Professor Messerlin has long been recognized as a leading expert in international trade and is involved in several UN and WTO projects. And he is a well-renowned academic in the field, focussing on, for example, the costs of protectionism in Europe. He will be able to provide us with interesting contributions to our topic from the point of view of both an academic and practitioner.

Esteemed panellists,

Thank you for being with us today. Following the stimulating keynote speech by President Klaus, we are now looking forward to a lively and spirited discussion, and I would like to ask Dr. Al-Mannai to take the floor first.

Free Trade and Freedom

Jassim Al-Mannai



Mr. Chairman, Ladies and Gentlemen,

It is a great pleasure to be given the opportunity to address such a distinguished gathering. The topic of our session, free trade and freedom, is of course a very relevant issue taking into consideration the current status of the multilateral trade negotiations, as well as the possible world economic slowdown.

We have been, meanwhile, privileged, since the beginning of this decade, to enjoy favourable economic growth, improvement of the standard of living in many developing countries, relatively low inflation and more world economic integration. Globalization of economic activities, and particularly free trade have been behind this positive development. More countries have been involved in the multilateral trading system, substantial economic restrictions have been reduced, if not removed, and economic, financial, and trade reforms have been widely implemented. The Doha Development Round, initiated in Qatar November 2001, has greatly contributed to this effect despite the current difficulties facing trade negotiations. Since the initiative of Doha Round, many developing countries have joined WTO and are now actively participating in the world trading system. More importantly, developing countries through international economic relations have been encouraged, endorsed and supported to reform their economies, improve their investment climate, and upgrade their economic and financial infrastructure. Such a process has helped many emerging economies to achieve impressive economic growth, attract increasing capital flows and acquire expertise, know-how and transfer of technology.

Economic freedom has accordingly been enhanced and more keen interest in international business has gradually become an irresistible engagement. The increasing active involvement of emerging countries in the world economic affairs has not only permitted millions of people in those countries to improve their living standard, but it has also constituted a big boost for the whole world economy. Contrary to the situation of some mature economies, developing countries will continuously offer growing and expanded markets, business dynamism and promising investment opportunities. It is, therefore, in the interest of everybody to keep developing countries consistently motivated and fully engaged in the world economic arrangement. Based on past

experience, it seems to be more effective to help poor and developing countries through fair trade opportunities rather than relying only on development financial aid. Many poor countries have great potential to prosper and liberate themselves from poverty not necessarily through conditional and politicized charity, but rather through giving them fair and adequate opportunities to participate and accordingly share the world economic prosperity. Shared prosperity and responsibility is the most viable approach to reasonably manage our future destiny. Otherwise we are condemned to face the risk of intolerable disparity, disordered economic instability, undesirable protective policies and ultimately, possible retaliation and confrontation.

I would like, within the remaining available time, to briefly comment on the status of the Doha Development Round. It is certainly regrettable that the progress so far made by the Doha Round has apparently become now questionable. Minority and narrow interests seem to overrule the benefits and interests of millions of people around the world. Although this trade round has been originally conceived as a development round, intended basically to help poor and developing countries, the disappointing results recently revealed out of the multilateral trade negotiation, unfortunately do not confirm the good intention previously expressed and the political propaganda repetitively announced. While nobody is expecting that the Doha Round will be able to resolve all issues, there was, nevertheless a legitimate hope that this trade round will deliver at least what was considered as an indispensable progress to allow poor and developing countries to feel the benefit of being part of the world trading system. In this respect, the multilateral trade negotiations have apparently reached great disappointment, particularly because they have stopped short of agreeing on satisfactory arrangements to liberalize trade, specifically in agricultural products. While it does not represent more than 10% of the world trade, agricultural products constitute the main source of income for more than 70% of the poor and developing countries' population. Progress to liberate trade in agricultural products looks, therefore, a must if there is a genuine intention to help developing countries and if we are serious about reaching a successful conclusion to the Doha development round. Positions taken by the developed countries, specifically, the US and the European Union do not appear compatible with their economic ideology of free market policy. It can't be consistent to advocate trade liberalization, free competition and economic reform while insisting on protection, distorting subsidies and continuous inefficient and unviable business. Agricultural products which are vital for developing countries are suffering the most from such practice. Protection of agriculture in OECD countries is four to seven times higher than those applied to protect industry. Distorting subsidies to agricultural products are even more harmful for many developing countries where artificially depressed prices are hurting poor farmers. The combined effects of protection and subsidies have promoted overproduction in high-cost rich countries and discouraged more competitive products from poor countries. The example of cotton and sugar is very representative whereby farmers in developing countries are losing a great deal from developed countries' practices in this respect.

In the case of sugar, OECD governments provide producers with generous support of approximately \$6.4 Billion annually. In combination with quotas, tariffs such generous subsidies allow local sugar producers to get more than double the world market price. In fact, prices are becoming so high that it is not any more surprising to see sugar beets grown in cold climates. The European Union which used to be a net importer of sugar in the early 1980s became a net exporter today. The case of cotton is even more illustrative. America provides a subsidy of around \$ 4 Billion a year to cotton farmers, about twice the US foreign aid to Africa. This magnitude of subsidy depresses world cotton prices, hurting the income of thousands of poor farmers specially in African countries such as Benin, Burkina Faso, Mali & Chad where more than 10 million people live based on cotton production. Annual losses for cotton growers in these countries exceed \$ 150 million a year. Cotton prices today are almost 50% of what they used to be mid 1990s, while America's subsidies to cotton farmers have nearly doubled during this period of time.

To many developing countries, such a situation doesn't seem sustainable and there is certainly the need and the justification for questioning the current practice.

So, unless we are able to agree on a major and serious reconsideration of current trade practices, the hope of achieving meaningful progress out of the Doha development round could regrettably be disappointing.

To conclude, I would say that Doha trade and development round is still an open opportunity that should not be missed. Being a development round, it has created great hope for many poor and developing countries to be able, through the multilateral trading system, to liberate themselves from poverty. Trade negotiations through the Doha Round has reached now a crossroad where positions of major players will determine sooner rather than later whether this round is capable to fulfill its promises and successfully deliver its highly expected outcomes. The stakes are of course very high but the mutual interest and the responsibility of different parties should never be underestimated.

Thank you for your kind attention.

Free Trade and Freedom

Christine Lagarde*



Thank you Mr. Chairman,

I have decided to be a very strong proponent of freedom on this panel, so I am not going to read my notes, I am freeing myself of such notes.

Madam Mayor, Excellencies, Mr. Chairman, Mrs. Chairman, distinguished guests.

It's a pleasure being here to discuss these important topics of freedom and free trade and the relationship between the two. As a preliminary caveat what I would like to add as a beginning, given that you are all in the financial world, is to underline the importance that the financial institutions and the financial trade and the flows of money around the world can play a role in free trade in general. I think it's very relevant that your forum is actually addressing this issue of free trade and freedom. It goes back to the middle age when with the bill of exchange trade was facilitated by avoiding the movement of cash and it just went on and on and on. And if you talk with those that are experts in aid and trade on how the development of least developed and developing countries can be helped, most experts will actually support the view that by liberating financial services and authorising financial institutions to execute that trade and to operate in developing countries and least developed countries certainly it's a conduit for an improvement of the governance, it's a conduit for an improvement of the way in which trade can be conducted on the ground. There is a lot to be said about the clearing of transactions, there is a lot to be said about the way in which money can flow with proper recording of such flows if only to secure security and security has a lot to do with freedom. So the financial world is very very relevant to free trade, is very relevant to the development of countries, without which certainly there could not be freedom. I think that right before the conclusion or rather the initiation of the Doha-Round it was Mr. Zoellick who developed quite a theory about that free trade, that free trade was actually a facilitator towards better security in the world, more freedom and certainly less doctrinaire views about where the world should go.

Now having heard President Klaus I would just like to make a couple of points before going to the meat of the debate which has to do with WTO trade and what's

* Transcription from tape by the organizer of the Frankfurt European Banking Congress

happening on that scene and whether bilateral agreements are going to be substitutes. I think there should be no hesitation about the fact that freedom is highly desirable, whether it was seventeen years ago, centuries ago or today and tomorrow. Freedom is indeed desirable but freedom without responsibility would be totally irresponsible and I am afraid that I am exactly in the vein of de Rousseau and Montesquieu of my country and you have similar philosophers arguing exactly the same thing. And freedom with responsibility in terms of trade means regulations and a minimum level of regulations to simply accommodate freedom. It was a wonderful Dominican priest who in the 19th century put it very nicely when saying: “between the slave and the master, between the rich and the poor it is actually the law that liberates and freedom that enslaves”. And clearly I am on the side of those that favour regulations to make sure that freedom is actually implemented and respected. My second observation is in terms of the adequacy of what is happening in the world, particularly at the multilateral level. And I think that multilateralism is actually a benefit for trade and a benefit for freedom.

The world is facing threats that are of a completely global nature. Think about weapons of mass destruction, let alone nuclear weapons’ dissemination. That’s global, it goes through borders, it does not know borders. It ignores them. Think about pandemics. It takes a few days to travel from Hong Kong to Toronto and it takes a few birds to disseminate threats around the world that can completely shamble trade in certain sectors. There are quite a few other things in that vein. Certainly, those of you who have read the Nicolas Stern report will agree that the environmental situation and the threats around the world that are raising against environment and against the safety of living on this planet are clearly of a global nature. Now against those global threats, having been in government for not so long and having been in private business many many years before, I must say that I am struck by the level of adequacy or inadequacy between the threats and the actors and the genuine interest of those actors to actually deal with those global threats because of boundaries precisely, because the global actors are very few and not particularly operative and not particularly equipped to deal with global threats. Those that are equipped to deal with those issues are generally of a national dimension. They operate within boundaries and even with great structures like the European Union where we have pushed the boundaries further, we are still operating within our boundaries. So the geographical hurdle is certainly not helping national authorities, or regional authorities to deal with global threats. So there is one inadequacy here. Another inadequacy is related to timing. What is the timing of those global threats? Well I would say, maybe short-term but certainly longer than a political term so that there is also here a level of inadequacy between the term between which people, actors operate and the durability of those threats and the solutions that it would require. And as I said, those bodies that actually could operate and are expected to operate on a global level are not necessarily operative. Look at WTO, the IMF, the World Bank, the World Health Organisations, and so on and so forth. Most of them are very well equipped with good will, very well equipped with teams and sometimes an army of very qualified civil servants. But do they actually have the ability to execute and the

ability to deliver? Not very often, either because there has not been the concession of sovereignty, the delegation of sovereignty by the national bodies to those global agencies or simply because they don't have the ability to sanction. Now WTO I would regard as slightly exceptional relative to the others in that the WTO's dispute resolution system is capable of actually delivering sanctions, verdicts, rewards if you want which then can be executed upon by virtue of raising tariffs or applying retaliation measures and thereby raising funds against those that have been the subject of the reward. Those were my sort of preliminary remarks to sort of state the state in which we operate.

Second series of remarks: It is a lot more complicated than we think it is and it is a lot more complicated than portrayed by the press, by the commentators however qualified they are, simply because it is tough to communicate a message on a situation which is terribly grey. I would say that black and white are not colours that clearly apply to WTO issues. First of all I would like to remind all of us that most rounds have always lasted much longer than they were expected to last. So I am not terribly pessimistic about the fact that the Doha-Round is currently suspended and has not been completed within the time limit that it was assigned to finish. Second, there are clear connections between local and global. If you read about the sort of desperate comments that we can read now and again at the moment, it all has to do with something which is of a purely local nature. Why are we sort of running against a barrier? Because of the local issue in the United States of America. Because the trade promotion authority under which the executive power in the United States operates will expire on July 1, 2007 and after that any WTO negotiated deal will have to be dissected by the US Congress that is not something that the Administration is looking forward to. So local and global are closely interlinked. And something happening locally in the United States has an impact on the way 150 nations are trying to move towards improvement of the current trade liberalisation. Third point I wanted to make is to caution all of us against numbers, forecasts, estimates of what we have to win as a result of a round and the result of a round such as the Doha-Round. I am not saying that it is negative, I am not saying that it is ultimately super-positive. What I am saying is that we should be aware of those numbers that have been floated lately. We have had very different figures floated initially, about three four years ago about the results and the economic results that could be derived. The World Bank has committed a number and then has revised its numbers. Other institutions have also forecast benefits to be expected and they have generally been declining recently.

Another example of how it is not black and white and I'll give you my personal experience of it. In the car manufacturing industry, for instance, and in that lovely bargaining that there is between: "well if we move a little bit the cursor on the agricultural sector what is there to be gained on the industrial product front?" And genuinely, sillily, I thought that the car manufacturing industry in Europe would be delighted if the barriers would come down in most of the emerging countries, particularly those markets with a large number of consumers and therefore drivers. And like many other negotiators I was told, well yes it is interesting of course, if Brazil could lower its barriers by say

50 percent it would be good. However, don't go too fast, don't push too quickly. And why was that? Well, because most of the European manufacturers had operations in some of those emerging markets either by themselves when they could or by joint venturing with local partners and were quite happy to actually develop their respective markets behind barriers. So as I said, it's not black and white, it's always a little bit greyish.

Similarly, another example of how greyish it can be. This huge protest for the development of the world and it is critical of course that the three billion inhabitants that live on two dollars a day can access a better living and that can only be done through better trade, better freedom, indeed. But if you actually look at the net benefits and if you trust some of the figures you soon realise that those that will actually benefit most from the level of concessions that can be sensibly and reasonably expected of all the developed countries, if you look at those beneficiaries, they are not generally the least developed countries, they are rarely the developing countries. They are more often the very significantly emerged and emerging countries that happen to be net exporters of agro-food and agricultural products. And if you dig a bit further down you will soon realise that those operators on the ground in those emerging and emerged markets are generally local operations but very often are also local operations that are themselves either subsidiaries directly or by joint venturing of very significant operators that operate out of the developed world. So I am not arguing against this or pro that. But I am simply saying that it should never be characterised as black and white in any shape or form with all the beneficiaries on one side and all the givers on the other side.

Final point because I think I was sort of expected to play that part. What have we done with the Europeans in that currently suspended WTO talks? Well, we have certainly in the fields that matter quite a lot, in the service industry which as you rightly said represents about 70 – 74 percent of our economies, a large portion of which is local-local service, which is not likely to be de-localised or moved out or transferred or spun off, we have made a very very wide, deep proposal to open our market. And of course we expect reciprocity. In this field, and that is particularly the case in the financial services, by the way, where we are certain that we have made the most advanced proposal for opening our market. In the field of industrial products, we in Europe have an average tariff of about 4 percent. Now 4 percent tariff is not a very significant barrier if you compare with what is currently available in terms of tariff barriers in such countries as India, as Brazil, and quite a few other countries including certain items. For instance, on such a large market as the USA, if you want to export ceramics to the USA you are going to pay 31 percent tariff, for instance. So again, it's not all black and white, not all low somewhere and high somewhere else.

Now the last field which is a lovely subject for debate and controversies and that people love to argue about because it is easy to pick on us and it is even easier to pick on France because we have been the most vocal on that particular chapter is the agricultural product chapter. What has happened in that field? Well, with a view to being

ready for the Doha-Round, with a view to being better students in the class, we have massively reformed the Common Agricultural Policy which by the way, President Klaus, has been the cement of the European Union building and the community in many ways. We might deplore it, we might feel sorry about it but it is certainly what has kept us together in many ways. It's not a surprise if our countryside, if our European member states have a generally well kept landscape which attracts quite a few visitors, not to mention the fact that we can actually track the safety of our food and be confident that what is on our plate has not been washed by chlorinated water and actually tastes of something. Sorry, that's my French appetite coming out. But to better prepare for the WTO Round, in 2003 – and those of you who were around will remember - in 2003 we massively reformed the Common Agricultural Policy to move away from what was subsidies attached to production of goods. What we did was, we decoupled, as the jargon goes, to make sure that the farmers could actually continue to sustain themselves but without pushing production too heavily. Now that was tough, it was difficult to negotiate but it was the price that we Europeans thought we had to pay to be prepared for the Doha-Round.

Unfortunately because of the way we are structured we Europeans have to agree amongst ourselves first of all, to be able to propose concessions that can be offered on the table of the WTO negotiations. And of course the earlier you do that the more you lose out on that exercise because as the months go by and years go by the other players say: "Oh come on, that was in 2003, that was many years ago, what more do you have to bring to the table? What more have you brought to the table which certainly also manages to completely open the borders of Europe to any exports from the least developed countries?" Exports from all the least developed countries go into Europe at zero tariffs and zero quota. Now that's not bad, other countries around the world haven't done that. We have managed in Hong Kong at the last WTO session that brought all the ministers together to convince the Americans, the Japanese, the Australians and a few others to do the same but they only agreed to do that for up to 97 percent of their products which protects their very sensitive products such as cotton, such as a few other things like that. Now I am going to conclude because I am too long – so to conclude on the European position: Number one: we got ready early and maybe that was difficult to sort of compromise with the fact that we have to make concessions almost to the last minute. Number two: we have actually on our own opened our markets to the least developed countries and we are massively contributing to aid for the developing countries and the least developed countries in particular, we altogether, the Europeans.

And finally, clearly such an agreement at the WTO level requires concessions from all corners so that all the constituencies can be at least a little bit satisfied or not too much frustrated. It's a fine equilibrium, it's a fine balance that needs to be arrived at. And clearly it's needed. But it is going to require efforts on the part of all and not just by one group that would be regarded as the developed countries, on the – in my view – false argument that they are the only possible bankers of the Round. Thank you very much.

Free Trade and Freedom

Patrick A. Messerlin



1. Listen to the people

Year after year, polls provide a strong message from the European and American peoples. Two-third to three-quarter of them express their support to international trade, with only a slightly lower proportion supporting freer trade [German Marshall Fund 2006]. People are consumers, and as such, they do recognize that freer trade has delivered ever cheaper and ever more diverse goods and services.

The message is so strong and constant over time that it cannot be denied or dismissed. But, then, how to reconcile it with the anti-globalization crowds and the concerns about real wage stagnation in developed countries?

A first answer comes from the same polls which show that one-third to one-half of the same polled Europeans and Americans fear a globalization that they associate to labor and capital flows. Fears of immigration were generated by the labor inflows of the 1950s-70s which were caused by a trade much less free than nowadays. And they are to stay because of the failure to integrate a substantial part of the children of these immigrants. By contrast, fears of capital flows are more cyclical, with periods obsessed by outsourcing and offshoring (the late 1980s, today) and marked by bursts of “economic patriotism” followed by periods acknowledging the existence of insourcing and the fact that capital flows do not ignore countries with good domestic regulations.

The second key answer is the increasing frequency of very narrow majorities in our huge democracies, with a few thousands votes sweeping tens of millions of votes, as recently illustrated by the U.S., Mexico, or Germany. Such a situation offers a golden opportunity for tiny vested interests (for instance, a few thousands U.S. cotton farmers or EC banana growers) to grab a power vastly disproportionate to their importance, destroying in passing the permissive consensus that existed in favor of freer trade until the late 1980s.

How then to define a strategy which could take into account all these aspects? Freer trade remains the anchor because it is economically the best solution, because it has a broad support, hence is politically sustainable, as underlined by the above polls, and because it is also the best way to alleviate concerns about globalization since, after

all, trading goods and services is trading capital and labor services. When Europeans buy “Chinese” goods, they buy Chinese labor and capital, but also the labor and capital coming from all over the world (including Europe) which has been necessary for producing these goods.

That said, if nothing is done to calm the fears of labor and capital flows, and to reduce the inflated role of tiny vested interests in today democracies, the freer trade policy is at risk. There is thus a need to complement it.

Firstly, even if reduced by freer trade, labor and capital flows are here to stay. Making them more acceptable to the people requires the use of sound domestic policies, anchored to education for labor flows and to “better regulation” for capital flows. The failure to integrate a noticeable share of the second generation of immigrants and the real wage stagnation mirror the dis-functioning of the education system in many European countries. Better regulation is often mentioned for the labor markets, but it is also needed for markets of goods and services including capital. For instance, France has a bad ranking in many aspects of the labor market, but an even worse ranking in some goods and services markets [Doing Business 2006]. What would be the benefits of having more flexible workers if they go to the most regulated goods and services markets and become rent-seekers?

Secondly, there is a need to adapt the World Trade Organization (WTO) to the tyranny of narrow democratic majorities and tiny vested interests. The WTO was conceived at a time (the late 1980s) where the permissive consensus about freer trade of the past was at its peak. As a result, it is based on strict rules – such as the consensus among its 150 Members and the principle that every Member should sign the same texts (the “Single Undertaking”). This is much too rigid for the world of today. Such a rigidity magnifies greatly the power that tiny vested interests can enjoy in their respective WTO Members, hence it slows down dramatically the capacity of the WTO to deliver. What follows suggests a few flexibility options.

2. Bilaterals: a “systemically uncertain” trade regime

Freer trade can be achieved in two ways: through bilateral trade agreements (bilaterals) or through a WTO deal. The recent Communication from the European Commission [2006] reflects a clear shift in favor of bilaterals, and away from a WTO deal. Is this an appropriate shift for the EC?

Bilaterals have a bad performance for opening new markets. They are credited for only 10 percent of the world market opening between 1983 and 2003, compared to 65 percent for unilateral liberalization, and 25 percent for WTO-based liberalization [World Bank 2005].

This is not surprising for the bilaterals created before the mid-1990s. Such bilaterals involved countries enforcing high tariffs on imports from the rest of the world (these

tariffs are called most-favored nation tariffs, or MFN tariffs). In such a case, the two signatories grant to each other high preferences (the differences between the MFN and preferential tariffs). Such preferences distort trade flows since they induce consumers to buy goods from inefficient production sources located in the two countries rather than goods more efficiently produced in the rest of the world. The higher the preferences are, the more distorted trade is likely to be, and the higher the costs of the bilateral may be. Most of these bilaterals have collapsed or do not function.

But, since the mid-1990s, many countries have lowered their MFN tariffs. In this context, bilaterals become less distortionary, but they also provide lower preferences. Why then the boom in bilaterals which has been observed during the last decade?

Firstly, most of the recent bilaterals involve small countries. There are good reasons for such a specific pattern (see Annex 1) and there are good reasons to believe that bilaterals between a large country (such as the EC) and a “not so small” country (say like Brazil) are unlikely or doomed to be meaningless. As there are many small countries, there are many bilaterals, but such bilaterals cover very limited trade flows.

Secondly, a substantial share of the recent bilaterals covers services (and investment). Again, there are good reasons for such a situation (difficulty to negotiate, need of trust, see below). But, to the extent that such bilaterals really open services markets, they can generate distortions bigger than those observed when bilaterals deal with in goods because the level of protection in services is much higher than the level in goods. It remains thus to be seen whether these bilaterals will survive and evolve.

This question needs to be raised because a bilateral-based trade regime is doomed to be “systemically uncertain”, making the life of investors much more difficult and risky because:

- no negotiator will operate within a stable negotiating framework (for instance, the absence of compromise on a topic in a first bilateral may exclude this topic from the following bilaterals, as illustrated by sugar in the US-Australia bilateral).
- no politician will be able to guarantee stable preferences since they depend on the subsequent – yet unknown – bilaterals.
- no firm could master customs rules (rules of origin) as easily as today, and locate its production in various countries in order to make the best use of their comparative advantages. Buying 150 components from 250 suppliers located in 30 countries for offering 265 varieties of the same product (chainsaw) will be much harder than today [International Chamber of Commerce 2006].

3. Fragmenting the world

It is often said that bilaterals are a “second best” which has to be accepted because the “first best” WTO is out of reach. There are two arguments to consider. Firstly, as sugges-

ted in section 4, a WTO deal is much more doable than generally believed. Secondly, a “second best” can be far inferior to a “first best” – in sum, it is no comfort to think in “second best” terms per se. That said, the recent Commission’s Communication proposes to consider the negotiations of 24 bilaterals. As argued in Annex 2, assessing this objective requires to look separately at goods and services.

Focusing on goods, the Commission’s strategy will be clearly a “costly exercise in futility”. Out of the 24 potential bilaterals, there are only four bilaterals (with Brazil, India, Indonesia and Russia) with high potential preferences. Once again, such preferences are a mixed blessing: it is better to get them if other large trading partners do, but they do also create costly trade distortions. Moreover, none of these four countries are especially known for being an easy partner to negotiate with, and one really wonders what the EC could get in a bilateral setting that it could not get in the WTO forum with the support of other countries.

Looking at services, things are more complicated. Opening markets in services touches regulatory nerves, and requires trust between the partners. The current WTO functioning which requires all the Members to be part of an agreement makes the trust condition almost impossible to meet. By contrast, a bilateral allows to master well this trust condition. But again, it is at a cost of potential trade distortions (that may be much bigger in services than in goods because the level of protection in services is much higher than the level in goods). Last but not least, it remains to be seen how often bilaterals in services can deliver substantially more market access than the WTO. For instance, it is reported that the proposal in services tabled by Korea in the WTO is generous enough to be hard to improve on a bilateral basis.

Lastly, the recent boom in bilaterals is too fresh for having the time to reveal its negative “dynamics”. More bilaterals will create increasing frictions because initial preferences will be eroded by subsequent preferences. For instance, the preferences granted to Costa Rica by the U.S. will be eroded by those that the U.S. could grant later to Peru. The EC has already experienced such an evolution, when its elaborate pyramid of EC preferences collapsed in the mid-1990s, forcing the EC to adopt in 1997 a “pause” in launching new bilateral negotiations (indeed, the U.S. may already show signs of facing this kind of problem with the review of the bilaterals asked by the new Democrat majority in the U.S. Congress). Far to be an inert “spaghetti bowl”, a bilateral-based trade regime would look more like an “electron collider” (the machine used by physicists for clashing electrons against each other).

Which kind of world would then emerge from a rush to bilaterals? The largest economies (U.S., EC, Japan, China, India) may try to constitute “neo-imperial hubs”. But it is hard to predict to which extent they will succeed (and at which costs) especially since the interaction between China and Japan is hard to predict. Smaller hubs could also emerge around countries such as Brazil and Mexico. What seems to be more certain is that the small (often developing) countries will have harder time in a bilateral-based trade regime than in the WTO. Those with some negotiating power may

get bilaterals with (all) the large countries – hence indirectly discriminating against the other small developing countries left in the dark. This would be particularly true if the emerging considerations about securing natural resources by other means than competitive market prices prevail.

4. Back to the Doha Round: what should the EC do?

For the largest trading partners, there is no other place for having substantial negotiations than the WTO. A successful Doha Round is much more doable than often believed. It needs only limited efforts essentially from half a dozen of developed countries and a dozen of emerging economies for reaching an acceptable outcome. What follows briefly describes these efforts, with a focus on the EC.

5.1. Agriculture

Agriculture is a must in the Doha Round simply because it involves 20 to 90 percent of the population of the developing countries. The EC argues forcefully that it has already done its share of reforms in agriculture. This is not correct for international and domestic reasons:

- the EC has unilaterally cut most of its export subsidies. But this is likely to hurt net-food importing countries by pushing food prices up – except if more liberalization is undertaken by the EC and other WTO Members.
- the EC has “decoupled” certain farm subsidies from production decisions (making these subsidies less harmful to trade flows). But this shift covers only 25 billions of euros of subsidies – out of roughly 105 billions of euros of total support – and it has not been accompanied by a liberalization of the EC farm markets [OECD 2004].
- more importantly, the decoupling scheme is politically unsustainable in the long run. As years go by, granting subsidies based on 2000-2002 figures will increasingly look “illegitimate” to European tax-payers. European farmers are well aware of this problem, and they increasingly recognize that it may be better to reform the Common Agricultural Policy in 2008 (the year of the budgetary review) than to wait 2013 for what looks an unescapable new reform.

In the next few months, the EC should improve its proposal in terms of agricultural tariffs – while the U.S. should improve its offer on cutting and decoupling domestic subsidies. The EC move is easier than it seems to be at a first glance because, paradoxically, the current proposal tabled by the Commission for tariff cuts does not protect first and foremost European farmers but processed food industries. Reshaping the EC tariff offer seems thus politically feasible and economically beneficial (see Annex 3).

5.2. Manufacturing (“non agricultural market access” – NAMA)

A better proposal in agricultural tariffs would considerably help the EC to achieve the target in manufacturing suggested by the European business – no industrial tariffs higher than 15 percent in the world (de facto in the emerging economies) [UNICE 2002]. This is the part of the Doha Round where efforts should mostly come from the emerging economies.

A better proposal in agricultural tariffs would also help the EC to insist on another aspect of trade liberalization – the certainty of the commitments – by focusing on the “binding” of the applied tariffs (a bound tariff cannot be raised by a WTO Member without it compensating the affected trading partners, while there is no such constraint on an applied tariff). For instance, an applied tariff of 12 percent with a corresponding bound tariff of 37 percent generates a huge uncertainty for the producers and traders of the corresponding product (the applied tariff could be multiplied by three without notice and with no resort).

That said, the EC (and the U.S.) should exert some restraint on its request for binding tariffs. Emerging economies are very reluctant to bind tariffs at their applied level – they feel loosing too much “freedom”. But, they may agree to bind them at some intermediate rate (say 5 percent above the applied tariffs, for instance). There are several reasons for the EC leniency. Some are plain “real politic”. Why to be very demanding on bindings when the tariffs in question are de facto disciplined by Chinese tariffs (bound at 9 percent)? If the countries in question want to be attractive to foreign investors, producers and traders, they have to offer a tariff structure close to the one adopted by China. Other reasons for the EC leniency are more benevolent. Rome was not built in one day, and the Doha Round is not the last one.

5.3. Services

So much time has been spent on negotiations in agriculture and manufacturing that services have been barely discussed in depth before July 2004. Because it is intrinsically difficult to negotiate services liberalization (as illustrated by the EC history in these matters) the best option is to generate a “coalition of the willing” including the WTO Members (industrial and emerging economies) which trust each other enough to be ready to bind current market access and/or to improve market access in several services. What is needed is to allow a “critical mass” of such Members to go further and faster in terms of liberalization, while allowing the other Members to join later this “avant-garde” under the same terms and conditions.

This solution requires more flexibility in the WTO functioning (indeed the Hong Kong Ministerial has made some progress in this direction). Today, it is very hard to create such a coalition in a context where all the WTO Members should sign the same text. Note that one of the consequences of a more flexible WTO is a much lower attractiveness of bilaterals in services.

From an economically sound point of view, services liberalization should cover all the services. But, one should recognize that, in the Doha Round, only a few services sectors are eager to go forward – financial services being one of them. In fact, one could expect only half a dozen of services sectors to be on the table of negotiations. This feature is a problem to be seriously addressed during the next Round.

5. Concluding remarks

Is the Doha Round suspended for three months, three years, or three decades? A suspension for three months followed by a positive outcome would not be a big deal – it will be barely remembered within a couple of years.

A suspension for three years (requiring a new “fast track” initiative in the Congress by the next U.S. President) will require ways to keep a momentum that cannot be provided by the currently unresolved market access issues. Such a momentum could be provided by enlarging the WTO negotiations to topics improving the WTO functioning – i.e., making WTO negotiations explicitly more flexible and negotiating an investment agreement (there is no WTO provision on investment for goods, and those in services are limited). All this will help to deflate the current “bubble” of the bilaterals.

If the Doha Round is suspended for three decades, then the world will be in a big trouble, and there will be dangerous times ahead. The GATT was first and foremost an effort to cope with the disastrous effects of the bilaterals of the 1920s-1930s on the world economy which culminated in the Second World War.

In this context, should the European business community do more that it has already done (it has already done a lot)? I am afraid the answer is yes. The business community is in the awkward position to defend the consumers’ interests that are held hostage by tiny vested interests at a time of narrow majorities. It is a crucial time for each national business community to talk to its officials – particularly in Berlin since Germany has the privilege to hold the EC Presidency for this crucial first half of 2007.

In Europe, a special effort should be made by the major European processed food firms because of the strategic role of the farm negotiations. These firms should table indications on the highest acceptable tariffs for the processed food products. This effort (similar to the 15 percent cap tabled by UNICE for the other industrial products) will be a decisive contribution for helping the EC to “rebalance” its proposal on tariffs, and to restart the whole WTO negotiating process.

Goodbye Manufacturing? Hello Services!

Herbert Walter



Excellencies,
Ladies and Gentlemen,

Welcome to our next panel:

“Goodbye Manufacturing? Hello Services!”

After the coffee break we can now reconvene to discuss some aspects of the changing face of the global economy.

As we have learned this morning, free trade and freedom are the bedrock of our future prosperity.

This panel really has a provocative heading and our topic has many dimensions.

First of all the employment aspect. The decline of manufacturing employment is generally accepted as a stylized fact. It seems to be a global trend.

But it is also a very local issue. Look at the city of Frankfurt. Twenty five years ago the city boasted 150,000 workers in manufacturing, or what was then defined as manufacturing. Now only 59,000 remain.

But this decline has been more than offset by a rise in the number of those working in the services industry, especially the financial sector. This process has changed the very fabric of the community.

On the other hand, in many regions and countries, the decline in employment has been offset by a strong increase in the productivity of manufacturing. In Germany, for instance, value added in manufacturing has been moving up as a percentage of overall GDP over the past ten years.

So, is “Goodbye Manufacturing” really the right phrase to capture the transformation process? Fortunately enough we have Prof. Wolfgang Franz here on our panel.

Prof. Franz is a Member of the “German Council of Economic Experts” and President of the “Centre for European Economic Research” in Mannheim.

Prof. Franz, you are not only one of the leading economists in Germany and Europe, but also a renowned expert on employment structures and dynamics. Therefore the right man to shed light on the employment side of our topic.

But there are other dimensions, too. The process of globalization is apparent in our context as well. China, India and other tiger countries are gaining importance as global production hubs or workbenches. Jobs are being moved into (these and other) low-cost countries.

This relocation is especially strong in labour-intensive production. But not only there. In services, too, globalization is speeding ahead and the markets are being contested by newcomers, for example from India.

It is of course no coincidence that I mention India as an example. India is (arguably) already a global services centre. In services, there is a saying: Out-sourced jobs have been “Bangalored”. From outside, it looks, as if India has jumped more or less directly into services, skipping “industrialization”.

Prof. Ganesan Raghuram, I am really glad to have you here on our panel. You will tell us whether this outside view is correct. You are a world-wide renowned professor, mainly teaching at the India Institute of Management. You doubtless have some strong views on India’s role within globalization and the distinctive development pattern of India’s economy. We look forward to hearing them!

Returning to Europe - what is in store for services in our countries? Big changes are already visible. The production process in services is changing: IT- and communication technologies have broken down the service production line into many separate pieces. This is what one could call “the industrialisation of services”, “the creation of office-factories”. The splitting up of the value chain of course also holds true for banking.

This is the European Banking Congress. It is therefore more than appropriate to analyse the process of change in the banking industry in more detail.

We certainly have the right man for that purpose. Welcome, Mr. Noel Gordon! Mr. Gordon, you are Managing Director of Accenture’s Global Banking Industry. In your view: what are the challenges facing the banking sector in today’s ever more industrialised and internationalised services world?

I still remember very well, back in 1990: A leading German banker declared: “The banks will be the steel industry of tomorrow”. He said this, predicting that Frankfurt’s skyscrapers are doomed to go the way of the Ruhr’s smokestacks.

So, our panel is comprised of three outstanding experts! From Germany, the UK and India. I’m sure that it will generate some interesting insights on the different dimensions of our topic for this panel.

So, let’s start our discussion. Prof. Franz, you should begin! Over to you. The microphone is yours.

Goodbye Manufacturing? Hello Services!

Wolfgang Franz



1. Although the topic of this panel discussion is well chosen and has a long tradition, the title is somewhat misleading. This is by no means to reproach the organizers but to some extent the result of using inappropriate statistics.

The usual approach goes as follows: take an industrial country, look at its employment statistics differentiated according to sectors such as manufacturing and services, and calculate the corresponding shares of employment. Then you will wind up with the well-known conclusion of the type: In the past decades we have observed a tremendous reduction of workers in the manufacturing sector and quite the opposite is true for the service sector. Between 1970 and 2005 the numbers for Germany showed a decline of employment shares from around 38 percent to some 20 percent for the manufacturing sector and an increase from around 45 percent to some 70 percent for the service sector.

These numbers are, of course, not simply false, but they do not give you the information on what is the actual issue. The problem stems from the statistical definition. For example, all employees of large chemical companies are statistically regarded as employees of the manufacturing sector despite a considerable fraction of them carrying out service jobs. When the employment shares are therefore calculated on the basis of occupation or activity of the employees in question, then the figures somewhat lose their dramatic touch although the basic trend is not reversed. This is also relevant to international comparisons. The huge gap between employment shares of the service sector between, say, the United States and Germany is frequently pointed out. This gap is indeed large on the basis of conventional employment statistics; it would narrow substantially, but not vanish, if employees were counted according to their occupation.

To avoid possible misunderstanding, this is not to say that there is no such development as the title of the panel discussion suggests. But the issue should not be overstated.

2. The reasons for the structural change under consideration are well-understood. Therefore, I can touch on them very briefly:

- The share of service goods among total consumption increases with higher income due to increasing leisure activities, such as sports and travelling; due to a higher demand for health services especially in an aging society; and due to an out-

sourcing of household services, among other factors, stemming from a higher labour force participation of married women.

- Productivity progress is substantially higher in the manufacturing sector compared with the service sector. This results in two opposite effects: on the one hand, less workers are needed in the manufacturing sector. On the other hand, industrial products become cheaper and, hence, the respective demand increases. As a matter of fact, the redundant workers effect outweighs the demand effect.
- A third effect has moved into the limelight in the last years. Firms belonging to the manufacturing sector do not solely sell goods such as cars. Rather the automobile industry sells “mobility”, according to their commercials in newspapers and on television. That means they sell a package of manufacturing goods and services.
- Last but not least, the integration of world markets leads to “slicing up the value-added chain” (Paul Krugman) and to a move of these parts of the chain into low-cost countries. While in the past this concerned mainly production processes which required less qualified work, more recently the same holds true for qualified work in services. Major German banks, for example, outsource their controlling to India and Malaysia, and even parts of their personnel departments are moved abroad, such as settling of travel costs.

3. The last and most obvious issue, of course, concerns future developments and the appropriate domestic reaction especially on behalf of economic policy. There is every reason to argue that the aforementioned trends will continue in the short and medium turn. One should, however, take into account that differences in, say, labour costs between Germany and India will not remain constant but will narrow in the due course of increasing demands for higher living standards in India. But this will take some time and, moreover, these gaps may not vanish. The consequences for Germany as well as for other industrial countries are straightforward: we must become better or cheaper. That means investment in human capital as well as in research and development which raise productivity are most obvious options for becoming better. Moreover, economic policy should take measures in making Germany an even more attractive location for investment, for example, by really undertaking a tax reform which is worthy of its name or by making labour market regulations more flexible. Surely, to reap the rewards of meeting these challenges requires some patience.

4. Let me close by responding to the two phrases which make up the title of our panel discussion.

“Goodbye Manufacturing?” My answer is: no! The dramatic term “deindustrialisation” has to be put in perspective. The fear of a threatening loss of Germany's industrial base is clearly exaggerated. Germany's development in this respect is not particularly exceptional; if anything, the importance of industry is still greater in Germany than in virtually any other industrial nation. As long as German manufacturing goods are

better or cheaper than others, a solid manufacturing sector will meet international competition.

“Hello Services!” My answer is yes if “hello” means that more services are welcome, rather than a “hello” intended to describe a new development. The demand for services will increase and create jobs. That is exactly what we need.

Goodbye Manufacturing? Hello Services!

Noel Gordon



Firstly Mr. Chairman, may I say what a privilege and a pleasure it is to address this very distinguished forum; my deepest thanks for your kind invitation. Perhaps uniquely today, I have been given the task of trying to describe, and synthesise in a few minutes, the “challenge of change” for Europe’s banks – and what the future landscape may look like. If you like, I have been asked to put forward a view from the tip of the spear.

1. Major Banking Trends

So, with heroic brevity, may I first take a step back into recent history to put the spotlight on the most profound trends impacting the banking industry? We all have our favourites, of course, and I would personally choose the following four.

1. The separation (or dislocation) of production and consumption. In my opinion, this is the most relevant aspect of globalization for the banking industry. By this I mean banks no longer have to create services at the point of sale. This changes the economics of a bank and creates greater mobility of production.
2. The second profound trend is the ability of banks to flexibly break up their value chain and dynamically arbitrage it. This means they can create and destroy alliances, partnerships, outsourcing arrangements and distribution agreements.
3. The third trend is the progressive shift to customer self-service. Two aspects are important - supply push and demand pull. It is a result of the pressure from banks to shift cost (and work) to the customer. And, pressure from customers to get easier access to banking services.
4. The fourth trend is consolidation for scale. This has become a prevalent trend in the last three years in Europe with both small and large waves of mergers and acquisitions. It has also become more obvious that third party service providers are similarly consolidating.

With the permission of my distinguished economist friends on the panel, who may allow me to use some poetic licence, I like to think of these four trends as Banking’s own Kondratieff effects. In other words, they are unstoppable forces determining the wave of new operating models we see in banks today.

2. Impact on today's banking landscape

So how have these forces shaped today's European banking landscape? The first observation I would make is that, for different reasons, some banks (and geographies) have had greater success than others in adapting to these powerful forces. Let me give you three examples:-

1. The most agile banks have responded quickly to this "climate change" by
 - using technology as a strategic capability in their business
 - taking advantage of offshore locations, such as India and China
 - understanding the real choice between "make" versus "buy"
 - restructuring the mix in their factors of production

As a result the strong have become very strong and the "weak and wounded" would be subject to consolidation.

2. Some banks have not adapted so well. They face roadblocks to taking advantage of these opportunities such as
 - structural rigidity in the labour market
 - some degree of national protectionism
 - and, the market capitalisation between the top seven European banks and the rest has become much wider.

3. Very clear new goals have been set by the leading banks. The definition of a "high performance bank" is being redefined by these fast adapters to the climate change.
 - 25% ROE – on a sustainable basis
 - Double digit EPs growth each year
 - Sub 50%'s cost-income ratio

3. The new phenomenon of "Industrialisation"

A new phenomenon is shaping the European Banking industry in what Accenture calls "Industrialisation".

Why is industrialisation becoming a phenomenon in the European Banking Industry?

- (a) Banks have started to take a leaf out of manufacturing books, and particularly automotive, by separating Production and Distribution
 - source components
 - one platform – many models
- (b) We are beginning to see the end of very expensive silos. (Not very scaleable).

- (c) Realisation that more growth creates more complexity
 - complexity is the enemy of most banks. It is rather like the carbohydrate of banking: temporary energy then it starts to slow down the organisation, especially complexity in IT, back offices and front offices.
- (d) Banks today have started to resemble a hand-made shoe
 - very expensive
 - infinitely customised
 - not scaleable/non-replicable
 - expensive to integrate new businesses you may want to buy
- (e) Realisation that more growth creates less efficiency.

4. The three principles of industrialisation

If we try and simplify the things that high performing banks have done better than the rest, then I would conclude it's simplification, differentiation and mastery of execution. These three principles emerge from Accenture's three year research programme studying the attributes of high performing businesses world-wide which includes many banks.

- i) Simplification (simplified on the inside)
 - back office consolidation
 - IT system consolidation
 - outsourcing of non-core functions
 - one manufacturing division
- ii) Differentiated (differentiated on the outside)
 - a clear view and a strong set of capabilities that make the organisation unique
- iii) Mastery of Execution
 - prioritise successful execution as a core capability
 - managing the risks of operational change or transformation
 - leadership skills
 - cultural skills
 - strategic execution

In summary, these three principles create a simple operating model which takes advantage of the “Kondratieff” effects that I explained earlier. In the past, many Chief Executives had to make a choice between simplify the business (and cut costs) or differentiate the business (and increase investment). The industrialised bank of today (and tomorrow) no longer needs to make that trade off. It can have all three capabilities in a single business model. Industrialisation may also be the answer to what I call the

“paradox of growth”. Somewhat surprisingly, we have seen many banks take bold growth initiatives over the last three years that have only made their operating model more complex and higher cost than it was before. In a sense, marginal cost is approaching marginal revenue. This is not altogether surprising given what I have said about the hand made shoe.

Two species of high performing bank are breaking out of this growth paradox; let me call them

- a) the high performance acquirer
- b) the high performance domestic champion

Both species are undergoing major industrialisation programmes in order to emerge as either the leading consolidators in Europe (able to bolt on acquisitions at low cost to their own acquisition engine) or a high performing domestic champion which has taken advantage of significant break-up of its own value chain.

If we look across today’s landscape, it is apparent that the profile of industrialisation amongst European banks is somewhat uneven. Some banks are late arrivals to industrialisation and others are very advanced, putting into practice their low cost, industrialised operating model either to acquire other banks cheaply or in an attempt to dominate their domestic market. The results are quite impressive; if you look at the last ten major cross-border acquisitions (or in-market acquisitions) that have taken place over the last couple of years, you will see the cost take-out promised by the acquirer significantly exceeds the cost take-out achievable in the early part of this decade. And, of course, some of those high performance acquirers are exceeding their initial estimates.

5. Banking Industry’s contribution to Europe’s service economy

If we can agree with the assumption that the competitive advantage of nations is heavily dependent on the competitive advantage its companies create, then we should predict that the banking industry could play a major part in shaping the future economic and competitive structure of Europe.

It hardly needs saying that Europe’s service economy will increasingly depend, in the next decades, on its intangible assets – notably knowledge, R&D, intellectual capital – which will support sustainable economic growth in the face of dramatic globalization.

It therefore seems to me apparent that the banking industry in Europe should therefore contribute to Europe’s economic evolution in three direct ways.

1. Europe needs banks which are agile and flexible to respond quickly to the needs of its corporate and consumer customers. This is particularly important to support trade and the mobility of capital.

2. European Banks need to shift to higher value added ground in their own business model. This means placing a premium on innovation, letting go of lower value-added pieces of the value chain, and transforming themselves towards efficient growth engines.
3. Banks also need to be sensitive to the need to reskill their workforces because they carry enormous social responsibility to enhance the knowledge-based economy.

6. Predictions for the “Golden Age”

If the European economy is now in a golden age, then we might predict two things.

1. Banking Industry will continue to lose its “protection”.

Global banks will get bigger and better in the domestic markets of Europe.

- domestic and cross-border consolidation will continue based on the quantum of excess capital in the industry at present and the evolution of industrialised operating models which extract bigger cross-border synergies than before.
- new brands will “own the customer”, particularly in areas like payments and transaction services.

In summary, the most powerful impact of globalization on a Bank’s P&L is its loss of protection.

2. Now is the moment to seize the opportunity. Globalization is levelling the playing field and there may be only 2 or 3 years left before the competitive race for Europe’s banks is complete. We can imagine that the fit will become very fit and the rest will fail to satisfy increasing shareholder and employee expectations .

7. Summary – the Core Competency of Banking

I have tried to argue this morning that, just as the “core competency” of Europe is moving towards higher value added and more knowledge-intensive services, so also is the core competency of banking.

We know what it isn’t. Some former capabilities are no longer economically attractive for banks to own or produce themselves. The best examples lie in technology infrastructure, payments infrastructure, some business processes, the back office services of finance, accounting, call centres and IT. There are now better third party providers with greater scale, more focus and deeper pockets enabling banks to refocus on what they do best.

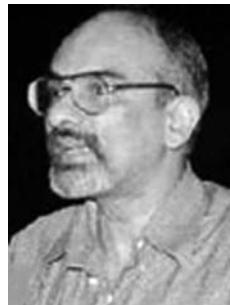
The challenge, of course, is to define precisely what the future core competency of banking is ... and then execute that journey to this new higher ground. We can imagine the core competency of banking lies in higher value added services, in greater quality, in more innovation and, perhaps counter-intuitively, managing simplicity. We know that it means embracing the lessons, techniques and transformation philosophy that manufacturing has undergone in the last five years and continues to this day.

In a sense, the forces of radical change have been unleashed and the banking industry has both an obligation and a responsibility to modernise in response.

Mr. Chairman, thank you very much for your kind attention.

Goodbye Manufacturing? Hello Services!

Ganesan Raghuram*



Thank you very much,

Participants of the Frankfurt European Banking Congress, the organisers, and co-panellists, Dr. Walter, Prof. Franz and Mr. Gordon,

It's for me an honour to have been invited to come here and to be able to share our thoughts on this fairly delectable topic of "Goodbye Manufacturing? Hello Services!"

What I would like to do is just lay out what I see as the global phenomenon and then move over to certain specific inputs as to how this is affecting India and what are some of the challenges that India faces in this context.

On the global phenomenon, we have heard certain concepts from Professor Franz. At the cost of repetition, I will anyway build on that.

First of all, services will be the growing sector in the world economy, for the simple reason that the agricultural sector and the manufacturing sector would increasingly be more and more efficient. Because that's the trend, not just over years or decades, but over centuries. Therefore, the share of the world economy in terms of services, and as was rightly pointed out, not only in services as a consumption part of the economy but also services which support the manufacturing sector, is the growing area. And why would this be so? Well to go back to something as fundamental as the Maslow's hierarchy of needs, as long as self-actualisation and improved quality of life is the human aspiration, we're always going to focus more on services. Further, today with the advent of supply chain management, principles of mass customisation, the focus on value-addition in the supply chain is increasing. Therefore, in the total supply chain, the service component is and will be on the rise.

Will agriculture and manufacturing vanish as is implied by the "Goodbye" term? The answer is a clear "no," as long as we need food and as long there have to be tangibles around us. But, relative to the overall magnitude of the human effort, they would diminish.

* Transcription from tape by the organizer of the Frankfurt European Banking Congress

So what is the net impact of this greater demand for services? This can be seen in the context of major transformations that the world has undergone. Centuries ago, we have had free flows in a truly globalised sense, even at the time when colonisation was happening. So goods flows, capital flows, and labour flows were in some sense free or maybe in the control of those who could wield greater military power. Then came the period which in some sense we are still largely in, namely that of the concept of nations. So today, while especially developed nations do look around for wanting to free good flows (the WTO is trying to remove distortionary subsidies), and capital flows (expecting that all countries should open up so that there can be foreign direct investments in developing nations and so on), but labour flows are really not that open. Free immigration is an issue. It is not like centuries ago where somebody, if they had the entrepreneurial spirit, could go to another land and start a new life. We can't do that today. We are trying to break out of a limited "nation" concept. The European Union is a great example of that.

Today, the IT revolution has changed this whole concept towards free labour flows. To the extent that there is value-addition either as a pure service or as a service supporting manufacturing, the labour flow in a very different way has become closer to a freely traded resource. That's where the concept of being "Bangalored," if you will, that many of the jobs can actually be done in Bangalore, or anywhere else in India or in China, or in any of the lower cost economies, with IT providing the bridge. I think this IT revolution is something that is probably bigger than what many of us even would be able to digest.

Well, on the Indian side, it really was not a strategy by which India got into this. I think it just happened more naturally. India has a large population base. There is a very strong value for education, logical skills and culture. There is a natural aspiration to learn English which in many ways in the globalised world is the common language, as is reflected even in this forum in Germany. I think this is probably the one advantage India holds over China. To some extent, I would say longitude is also an advantage that India and presumably China too would enjoy. Businesses in the US and Western Europe could send over information to India in the evening for business process kind of applications when India has begun its day. They can get the job done during their night and by the time the information goes back to US or Western Europe, you are back the next day. So there is tremendous efficiency in business processes.

These I think naturally have made India cater to the growing service economy. This is not only in what began as maybe relatively low-skilled activities like just programming (building on the logical skills), but today the growth is very much in terms of the value-added activities. In India we call it IT and IT-enabled services, for example transcription services for a lot of professional jobs, (medical transcription, legal transcription), or market research analysis, accounting applications, banking services etc. In fact, anything where the original challenge was that production and consumption needed to

be in the same location for service, as long as IT can break that barrier and transcend time and space, India is in a position to do that. That's the way India is moving, and to an extent many of the other low-cost, high-skill labour countries.

So what are the challenges that this offers for India? If we see the graphs of the GDP share and look at it over the past fifty years, for most of the developed countries, we will have a small line at the bottom which is agriculture and then we would typically have two lines, one going up - which is service - and the other coming down - which is manufacturing. This reflects where the substitution is taking place in terms of the value that the human capital is providing, that is from manufacturing to service. But in India, manufacturing has been sort of steady at around 25 to 30 percent of the GDP share. The substitution is happening from agriculture into service. And it is not as though agricultural production is going down. In fact, on a per capita basis, agricultural output is improving, especially given India's natural location advantage in the tropics and the kind of inherent biodiversity that exists in the country. This is happening through rising agricultural productivity. So, one of the first challenges is that agricultural labour is being rendered superfluous. Can they move into the service economy? There is a basic problem here. India's growing skilled service economy is better placed to draw from manufacturing, which needs to absorb the surplus agricultural labour.

An immediate consequence of this is urbanisation. There are a lot of clichés in India that rural life is the good life. These are getting challenged. I am not sure that India is really ready for the mass migration to urban areas that is beginning to happen. So that is one challenge. Infrastructure development is a big challenge. Education, obviously if we want to cater to this growing economy, is another challenge. While there is an inherent value for seeking higher education, we need a lot more education infrastructure.

In fact, what is interesting is the data about resultant growth as a proportion of investments in different types of activities. In India, the yield of economic growth as a consequence of investment in service is still significantly lower than for investments in infrastructure. In fact, infrastructure is the one that is going to result in the maximum growth for India, followed by manufacturing, and then services. While in the western world, a contrasting scenario applies because by and large infrastructure is in place, manufacturing is in place and any investment in service is the one that is making the economy grow. So in India, the big challenge is infrastructure, followed by manufacturing. The displacement of agricultural labour will have to be absorbed by manufacturing to avoid the attendant social tensions. Manufacturing will also have to grow in India because with the population becoming more aspirational, they would like to consume more and either we have to be open to a dependence on larger imports of tangibles or we have to start catering to that. So this is another challenge.

Of course, even in service, it is interesting that a lot of service concepts are coming in from the West. I mean like Starbucks and Pizza Huts which are making inroads in India. And the aspiring society is going after that.

To summarise, infrastructure development (including a special focus on urban areas), manufacturing sector growth and education infrastructure are some of the key challenges that the country faces.

Just to come back and put the big picture in perspective. Here I'd like to draw from two books which I think have touched upon this revolution that is happening internationally. One is a book by Jeremy Rifkin. It came out in 2000. It looks at what is happening in the world and calls it as "The Age of Access," access as opposed to assets or ownership. The other is a book by Thomas Friedman, (who could be replacing Milton Friedman who sadly passed away yesterday) "The World is Flat." Very interesting ideas have been proposed in these books.

Just two points that come out from reading these. In fact, the concept of being "Banalored," in some sense, Thomas Friedman talks about when he says the world is flat. Essentially the rules of the game are that due to the IT revolution, we have now got a level playing field across the world and therefore competition is really from anywhere in the world. What Jeremy Rifkin mentions is that the entire social contract and the way society needs to look at itself is changing. He identifies some interesting trends. One is from physical markets to networks. The other is from physical geography to cyberspace. The third is from industrial capitalism to cultural capitalism. And the fourth he says is from ownership to access.

I stop here with these thoughts for us.

The Extended Importance of the Euro

Klaus-Peter Müller



Ladies and Gentlemen,

It's my pleasure to introduce three high-calibre panellists to cover our topic "The Extended Importance of the Euro". All panellists will deal with various important aspects of the changing structure of the global financial and economic system and the imbalances that have emerged within that system.

- First, may I welcome Professor Lucas Papademos, Vice-President of the European Central Bank. Before joining the ECB he was Governor of the Bank of Greece from 1994 to 2002. In addition, he can look back on a distinguished academic career. I hope Prof. Papademos will share with us his considerable know-how and expertise, in particular as regards the role of the euro from the point of view of the European Central Bank.
- A warm welcome also to Richard Fisher. Since last year he has been the president and CEO of the Federal Reserve Bank of Dallas – and he is thus also a member of the Federal Open Market Committee that decides on US monetary policy. In his previous work Mr. Fisher had plenty of experience with the global currency markets, for example when serving at the US Treasury under President Carter.
- Finally, let me welcome His Excellency, Sultan Bin Nasser Al Suwaidi. Following a career in commercial banking, he has been Governor of the Central Bank of the United Arab Emirates in Abu Dhabi since 1991. In this role he has accumulated a huge wealth of knowledge on issues such as currency reserves and the international financial system.

So I look forward now to hearing what our speakers have to say.

Your Excellency, traditionally, Arab countries have primarily used the US dollar as a reserve currency. However, recently there has been a discussion that many Arab institutions would shift substantial amounts of assets in favour of the euro. I trust your speech will also address this topic.

The Extended Importance of the Euro

Sultan Bin Nasser Al Suwaidi



Distinguished Guests and Speakers,
Ladies and Gentlemen,

It is my pleasure and honor to be here today, to speak at this important forum. My thanks to the organizers, for their kind invitation.

I will start by the Euro Area's GDP, which had grown continuously over the past five years, especially if we look at the figures as expressed in current prices and in US dollars. Looking at the Euro Area's GDP would then prove that the euro had gained extended importance at a GDP figure of US dollars 9.9 trillion at the end of 2005.

Also, if we look at what the Euro Area represents in world trade, we would find out that it makes about 30 % of it, and the Euro Area is the largest single player in world trade, so Europe / Euro Area is the "Trade Centre of the World".

Having said this, let us look at the euro and the Euro Area from an outsider's point of view.

In the GCC Countries, we see the euro as the second currency in the world after the US dollar. This may be explained, in part, if we look at the import figures and the currency of settlement for trade imports.

If we study the figures of imports to the GCC Countries, we will see that imports from the Euro Area have stayed almost static at about 20 – 21% over the past five years. As an outsider to the euro, the GCC Countries must have economic reasons to hold euros, one of these reasons is to pay for the import bill. In the case of GCC Countries the import bill from the Euro Area has not increased in percentage terms, which means that trade needs for the euro within the GCC Countries did not grow; as a matter of fact the euro's share declined slightly from 21.84% of all imports in 2001 to 20.34% in 2005. This is then the trade-related needs for the euro in the GCC Countries.

The next question then: which currency or currencies make up the other 80% of the GCC Countries' trade-related needs. It will be easy to predict if we know that 34% of GCC imports come from Asia, 11% from USA and 35% from all other countries.

This means that at least 80% of the 80% of non-Euro Area imports of the GCC Countries are denominated in US dollars.

On the other hand, if we look at the UAE imports' picture, the situation is even less in favour of imports from the Euro Area, due to the fact that UAE imports from the Euro Area went down from 24% of all UAE imports in 2001 to only 15.28% in 2005. Interestingly, the picture for Europeans is misleading if we look at it from absolute figures for imports. These have grown from US dollars 7.21 billion in 2001 to US dollars 15.12 billion in 2005, also the UAE gives the Euro Area about US dollars 9 billion of trade surplus.

The next point I want to tackle is the flow of foreign investment funds into the Euro Area, also from a GCC Countries' perspective.

There are two questions here;

1. Can the Euro Area absorb large amounts of investment funds from the GCC Countries in a short period of time?
2. Can the Euro Area provide a competitive environment to attract investment funds from the GCC Countries, to make it worthwhile to convert part of their oil revenue maintained in dollars at the moment?

The answer to the first question is obviously, "NO", probably because Euro Area Countries do not try to attract large foreign investments, in general. One reason may be because they do not want to see a lot of liquidity go into their local markets and cause inflationary pressures, and the other may be that they do not want to create increased demand for foreign labor. However, there seems to be no uniform stand on this issue within the Euro Area Countries.

The answer to the second question is also "NO", but in this case it may be due to the fact that Euro Area has not yet harmonized its labor, tax and financial services laws, which also explains the absence of a common stand regarding the issue of whether the Euro Area is really interested in attracting large investment funds.

The Euro Area Countries have a choice at the moment as regards the interpretation of their prevailing local laws, but once laws get harmonized or unified their choice will be reduced or eliminated altogether, and the euro will witness upward demand through foreign investment flows.

The last point I will consider is tourism and the influence tourism has on demand for a certain currency.

Europe is, and has been, the most popular tourist destination for people of the UAE and other GCC Countries. Hundreds of thousands from GCC Countries visit one or more Euro Area Countries every year. If we consider the demand for euros created by tourists from many countries of the world including of the GCC Countries, we would

realize that more euros will need to be issued and some would be held in cash for ever by all those who travel to Europe.

The euro is the currency of international tourism at the moment, because Europe attracts more tourists than any other region in the world, and it is expanding in this respect.

With this I come to the conclusion of my short speech. Finally I would say that the euro will definitely grow to dominate trade outside the Euro Area.

The Euro Area will harmonize further its labor, tax and financial services laws, i.e. will become more competitive in attracting investments, which will help the euro to become the currency of international investment.

I expect the euro to become the currency of international trade and investment in ten years. If we add to that tourism, the euro will overtake the US dollar as the world's first currency by 2015.

Thank you

The Extended Importance of the Euro

Richard W. Fisher



Thank you, Herr Müller. I am grateful to be here. I am especially grateful to see Graf Lambsdorf sitting up there in the balcony. I have known and admired Graf Lambsdorf since 1978. He is an icon in postwar German economic history. Otto, with you looking now over my right shoulder, I will have to be especially measured in what I say. And, before I begin, let me point out that I am not speaking on behalf of the Federal Reserve or the Federal Open Market Committee. Today, as always, I speak only for myself.

The question posed by Herr Müller was: “Traditionally the U.S. dollar has been the major reserve currency and the first choice when it comes to issue bonds. Is this strong position of the dollar at risk due to the euro?”

The U.S. dollar has long played the role of the world’s premier international currency. It replaced the British pound in this role and has enjoyed a near monopoly for several decades. The creation of the euro fundamentally changed things. The question is: will the euro eventually match or surpass the dollar as an international currency?

To start answering that question we need to consider the factors that determine whether a currency is used extensively beyond the borders of the country—or, in the case of the euro, the group of countries that issue it.

Probably the single most important factor determining whether a currency will play an important international role is the extent to which private agents perceive the currency as being a stable abode of purchasing power. That is, are investors and other market participants confident that the currency will retain its value over time so that it can serve as a store of value?

The ultimate determinant of the long-run value of a currency is the monetary policy pursued by the central bank that issues it—the Federal Reserve System in the case of the dollar and the European Central Bank in the case of the euro. In the postwar period, the Fed has done a good job as guardian of the value of the dollar, though perhaps we could have done a better job during the 1970s.

The dollar is viewed as a “hard currency,” as was the Deutsche mark during its lifetime, due to the policies of the Bundesbank. From its creation on June 21, 1948, until its retirement on December 31, 1998, the DM retained its value better than any other major currency.

Over the lifetime of the DM, consumer prices in Germany increased fourfold. Over the same period, U.S. consumer prices increased about sevenfold! Most of the difference stems from the different performance of the Fed and the Bundesbank during the Great Inflation of the 1970s. Yet both currencies are viewed as strong currencies because the performance of other central banks was so much worse.

Writing more than two and a half centuries ago, one of our nation’s founding fathers, Benjamin Franklin, noted, “He that kills a breeding sow destroys all her offspring to the thousandth generation. He that murders a crown”—a dollar—“destroys all that it might have produced.” The pernicious effect of inflation on economic activity was well understood by the Bundesbank when it dominated the European monetary landscape, and it is well understood by the Fed and the European Central Bank (ECB) today. Indeed, the experience of the 1970s has taught many central banks the importance of remaining focused on long-term price stability.

The extent to which a country is actively engaged in international trade and finance is of comparable importance in determining whether the country’s currency is used internationally. Specifically, open, deep, broad and dynamic financial markets are key to ensuring that the currency can be used to engage in financial transactions at low cost. Open financial markets usually go hand in hand with active involvement in world trade. Students of history know that both the Dutch guilder and the British pound have played an important role as international currencies at times in the past when these countries were major trading nations with global reach comparable to that of the United States today.

And finally, the economic size of a country will also be important. A country that is economically large will have a large natural constituency for its currency and will find it easier to shift currency risk to its trading partners by requiring that trade be denominated in its own currency. It is not just the current economic size of a country that matters—the country’s long-term growth prospects will also play an important role in determining the international use of its currency.

Germany possessed many of the characteristics needed to make the DM an international currency, and the DM was second only to the dollar in international importance before being replaced by the euro in 1999. We have already noted the remarkable job the Bundesbank did at preserving the purchasing power of the DM during its lifetime. By the 1960s, Germany was the third largest economy in the world and, for much of the postwar period, one of the most dynamic. German capital markets were relatively open and liquid, and Germany’s exporters had a global presence.

But the DM was never likely to displace the dollar in international transactions. Germany was never more than one quarter the economic size of the U.S., measured in terms of GDP in constant purchasing power parity (PPP) dollars, even after reunification. And this factor was probably key to limiting the role of the DM in international transactions. The DM was widely used within Europe and in neighboring countries and played a pivotal role in anchoring the monetary policies of other central banks prior to economic and monetary union (EMU). A significant proportion of the stock of DM banknotes circulated outside of Germany, by some estimates as much as 30 to 40 percent. But this was limited to countries adjacent to the DM area. Despite the global reach of German exporters, the DM never attained the same standing as an international currency as the dollar.

The creation of EMU in 1999 and the launch of the euro fundamentally changed things.

In economic size, the Euro Area and the U.S. are quite similar. In terms of population, the Euro Area is larger than the U.S., which just recently passed the 300 million mark. The U.S. accounts for about 20 percent of global output, while the Euro Area accounts for about 15 percent. The Euro Area is more engaged in world trade than the U.S., according to conventional measures, exporting about twice as much as a share of GDP as does the U.S., while the U.S. is a bigger recipient of international flows of labor and capital.

The guardian of the euro's value, the ECB, has been given a strong mandate to pursue price stability. The ECB has defined price stability in the Euro Area as an annual rate of increase in the Harmonised Index of Consumer Prices (HICP) "below, but close to, 2 percent over the medium term." And in the short history of the euro, it has done a good job controlling inflation.

Since the launch of the euro in January 1999, the average annual rate of inflation in the Euro Area has been just a bit above the 2 percent limit—2.1 percent, to be precise. Measured on a comparable basis, i.e., using the experimental HICP published by the Bureau of Labor Statistics (BLS), inflation in the U.S. over the same period has been somewhat higher, at 2.6 percent.

Of course, the FOMC tends to focus on a different price index in its deliberations, namely the so-called core PCE, which excludes food and energy but includes the cost of owner-occupied housing, an item that is conspicuously absent from the HICP. Measured on this basis, our performance looks a lot more like that of the ECB.

But rather than dwell on the arcana of price indices, let me just note that by any standard, the ECB has done a good job at safeguarding the value of the currency in its care, and in this sense has made the euro an attractive international currency. During its short life, the euro has retained its value just as well as the DM did over the half century of its existence.

While the ECB has delivered a currency that retains its purchasing power at least as well as the dollar, there are at least three reasons why the euro is unlikely to displace the dollar as the dominant international currency in the near term.

First, the growth prospects of the Euro Area.

Second, the uniqueness of EMU.

Third, the benefits of incumbency.

Let's consider each of these in turn.

Growth Prospects

Although the Euro Area and the U.S. are currently about the same size economically, the differential growth prospects of the two raise the possibility that this might not persist.

Both the U.S. and the Euro Area have experienced the same 1.2 percent average annual growth in employment since 1999, but real GDP has grown more rapidly in the U.S., due in part to more rapid productivity growth. Over the past decade, a significant productivity growth gap has emerged between the U.S. and the Euro Area. The gap has proved remarkably persistent and has led to calls for more deregulation of labor and product markets within the Euro Area. Hardly a month goes by without the ECB calling for structural reforms to raise the Euro Area's structural growth rate. In 2000, the leaders of the European Union (EU) embraced the Lisbon Agenda with the objective of making the EU "the most competitive and dynamic knowledge-driven economy by 2010." I think it is fair to say that progress to date has been disappointing, and there continues to be remarkably little appetite for tackling the obvious problems, despite increased pressures from globalization.

Recently, Consensus Economics polled private forecasters for their long-term projections of GDP growth and inflation over the next decade. The forecast was that U.S. real GDP would increase at an average annual rate of about 3.0 percent between now and 2016. The forecast for the Euro Area was about a percentage point less, reflecting both slower population growth and slower productivity growth. The projected decline in the working-age population of the Euro Area, and the repercussions this will have for the sustainability of public finances in many member countries, must surely be a source of concern.

Uniqueness of EMU

The second factor that may limit the speed of the euro's adoption as an international currency has to do with the uniqueness of the monetary union. EMU is without doubt a truly unique undertaking. It is unprecedented for a group of nation states of such size to agree to share monetary sovereignty. There is no historical playbook that can be referred to when problems arise.

The institutional framework of monetary union—the European System of Central Banks—is modeled after the Bundesbank, which was, in turn, modeled after the Federal Reserve System, so in a sense the ESCB is a grandchild of the Fed! As I mentioned earlier, the Bundesbank did a remarkable job of preserving the purchasing power of the DM, and the structure of the ESCB along with its mandate for price stability and independence will help ensure that the euro is a strong currency.

I have already noted that during its short life to date the euro has retained its purchasing power about as well as the DM did during its existence. Looking forward, the same forecasters who are so pessimistic about the Euro Area's growth prospects over the next decade are relatively optimistic about its inflation prospects. They think that inflation in the U.S. will average 2.3 percent or so over the next decade, but only 1.9 percent in the Euro Area. Of course, some—or perhaps all—of this may simply reflect differences in the way we measure prices. The relevant point is that the forecasting community seems to believe the ECB's commitment to price stability, and other measures of inflation expectations seem to bear this out.

Many economists who have followed the process of European monetary integration have expressed concern that the euro is “a currency without a government,” and that there is no precedent for a monetary union that was not based on a political union. At one level, the less government involvement in money, the better. History has shown that countries with central banks that are independent of politics tend to deliver lower inflation with little or no cost in terms of output growth.

Of course, this is not the sense in which some worry about the euro. While it is now generally accepted that central bank independence is the surest path to long-run price stability, this independence must be accompanied by central bank accountability. In the United States, the Federal Reserve enjoys considerable operational independence but is held accountable to the democratically elected representatives of the American people through regular reports to Congress. The ECB is likewise accountable to the European Parliament, but the perceived “democratic deficit” in European Union institutions raises questions in the minds of some whether this is enough. The European Parliament is viewed as subordinate to national parliaments. Not even a Texan would argue that U.S. state legislative bodies are superior to the U.S. Congress or the president!

The recent rejection of the constitutional treaty leaves one wondering what sort of political relationship will exist between the countries of the EU and the Euro Area in the future. Can a monetary union succeed and prosper without a full blown political union, or will the EU create a new model that will serve as a template for the 21st century, just as Europe gave the world the idea of the nation state with the Treaty of Westphalia in 1648?

Benefits of Incumbency

Even if the Euro Area was as politically integrated as the United States, and was not confronted with the prospects of low productivity growth and an increased dependency ratio, the euro might still take some time to match or displace the dollar as the world's primary international currency. The reason has to do with the benefits of incumbency in currency use.

In a world of fiat currencies, my willingness to accept a currency depends on my belief that others will accept it in turn. The dollar is widely used as an international medium of exchange because people know that if they accept dollars in exchange for goods or services, they will find it relatively easy to spend these dollars on other goods or services or invest them in dollar-denominated assets. A currency that is widely used will be more liquid than one that is not, and this liquidity will serve to enhance the attractiveness of the currency.

Dislodging an international currency from its preeminent role is difficult, but it has happened. The dollar displaced sterling as the world's leading international currency during the interwar period. But economic theory and historical experience suggest that large shocks are required for such transitions to occur. In the case of the dollar and sterling, the large shocks were the two world wars and the Great Depression, along with the shift in the relative size of the economies of the U.S. and the UK.

The dollar is widely used as a transactions medium, as an invoicing currency and as a currency of issuance for international bonds. The euro has made some inroads in all of these areas not least as a transactions medium, where the existence of 500 notes has enhanced the currency's attractiveness relative to the dollar in the cash economy but at nowhere near the pace that some analysts had predicted prior to the currency's launch. I would expect the euro to continue to grow in importance as an international currency in coming years.

The benefits of incumbency in currency use are much like those in language use. English has now become the lingua franca of international business. English is widely used in European institutions, including the ECB, despite the fact that native English speakers are a small share of Europe's population. It has become the second language of choice for non-native speakers and will likely remain so for some time to come.

One final observation on incumbency. Offsetting to some extent the benefits that come with incumbency is the desire for portfolio diversification. As the euro becomes established as a credible store of value, it will become increasingly attractive for international investors who want to diversify their portfolios and limit their exposure to dollars. Such diversification seems likely to occur gradually, and the option to diversify is surely a benefit to the world as a whole.

In conclusion, when commenting on the likely fates of two faith-based, or fiat, currencies, it seems appropriate to quote from the Bible:

“What has been is what will be,
and what has been done is what will be done;
there is nothing new under the sun.”
—Ecclesiastes 1:9

Well, it turns out that there is something new under the sun: the euro.

Many decades ago, a prominent international economist noted that the ability to create its own domestic money is the key financial distinction of a sovereign state. Some authors have termed this the “One Nation/One Money” myth. The creation of the euro and its spread beyond the borders of the Euro Area is but the most dramatic example of the so-called deterritorialization of money; the currency counterpart of the ongoing process of globalization that is fundamentally changing the economic landscape.

In a recent interview with the Financial Times, one of the pivotal figures in the early years of EMU, Otmar Issing, noted that the creation of the euro was “an extremely good thing” but that the new currency is “not yet on absolutely safe foundations.” There is no doubt that the creation of the euro has helped strengthen the single market within the EU, increasing price transparency and boosting trade. Many of the participating countries enjoy a degree of monetary stability that previously eluded them.

But challenges remain. The Euro Area countries are still separate political entities. Never before have several sovereign nations of such economic size surrendered their monetary independence to a supra-national institution and agreed to share sovereignty in such an important area. The euro is sailing into the future through uncharted waters, without the usual rudder of political unity.

In addition, the Euro Area faces significant structural and demographic impediments to long-term growth. While there is widespread recognition in policymaking circles that there are major problems, there has been remarkably little enthusiasm for fundamental reforms.

An eclipse of the dollar is very unlikely in the near term. Even so, the Fed must be ever vigilant in preserving the value of the dollar. As Keynes noted, building on Lenin’s famous remark about how best to destroy capitalism: “There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and it does it in a manner which not one man in a million is able to diagnose.”

The members of the FOMC understand this and are committed to price stability. Our counterparts at the ECB are equally committed to price stability. Two strong currencies with global reach are an unambiguous good for the world and make us all better off in the long run.

Thank you.

The Extended Importance of the Euro

Lucas D. Papademos



I. Introduction

I would first like to thank the organisers for inviting me to this prestigious event. It is both a privilege and a pleasure for me to participate in this year's European Banking Congress.

Let me start with two general remarks. First, the international importance of the euro, and that of any other currency, can be measured and assessed on the basis of several criteria, notably: the role it plays in international trade and in global financial markets; the extent of its use by authorities as a reserve, intervention and anchor currency; and its possible use by the public or firms outside the Euro Area as a parallel currency, held for transaction purposes in the form of cash or bank deposits. The share of the euro in global official reserves is an important criterion or indicator for judging its international role, but it is not the only one.

The second general point I would like to make concerns the position of the European Central Bank (ECB) with regard to the international role of the euro. As we have stressed in the past, the ECB considers the global use of the euro as a market-driven process that reflects all the factors influencing the preferences of global market participants and non-Euro Area authorities with regard to the functions it performs. So, we have a "neutral" view on the international role of the euro. Nevertheless, we carefully monitor and analyse pertinent developments in order to better understand the determinants of its global use and potential implications for the ECB's monetary policy.

II. The euro as reserve currency

After these preliminary remarks, let me focus on the importance of the euro in the global official reserves held by central banks. The share of the euro in global official foreign exchange reserves increased during the first few years following its introduction, but has remained relatively unchanged in recent years. Specifically, the share of the euro rose from 18% in 1999 to 25% in 2003 and has been relatively stable since then, reaching 25.4% at the end of June 2006.

There are four pertinent remarks that I would like to make concerning these figures. First, the current share of the euro in global official reserves as calculated from the statistics of the International Monetary Fund (IMF) is higher than the share of the sum of all legacy currencies of the euro – notably that of the Deutsche Mark – in global official reserves at the end of 1998 before the euro was launched, which was about 18%. Second, the pertinent IMF statistics cover only about two-thirds of global foreign exchange reserves, because a number of countries with large holdings of reserves – mostly from Asia – do not fully participate in the IMF’s survey. All countries, of course, provide figures for the total value of their reserves, but not all countries report their composition by currency. Third, it is interesting to note that the share of the euro in the total reserves held by those emerging market economies that do provide the relevant statistics rose from around 19% in 1999 to almost 30% at the end of June 2006. Finally, it is worth keeping in mind that the reported shares are influenced by valuation effects. Expressed in constant exchange rates (measured at the first quarter of 1994), the increase in the share of the euro is somewhat less pronounced (the share increased from 19% at the beginning of 1999 to 24% at the end of June 2006).

What are the main determinants of the currency composition of foreign exchange reserves? And how can we explain the observed gradual evolution of the share of different currencies in total official reserves? When discussing these questions, we need to distinguish, of course, between stocks and flows. Changes in the currency composition of the existing stock of foreign exchange reserves therefore might not only reflect a possible reallocation of part of the existing reserves held or the valuation effects that I mentioned before. They could also be due to changes in the currency composition of the flows of additional reserves. However, the latter – that is, the flow of additional reserves accumulated every year – is relatively small, at about 500 billion US dollars per year. The outstanding stock of global reserves, by comparison, amounts to about 4.6 trillion US dollars (at the end of June 2006). If we exclude large valuation effects, the effects of changes in the currency composition of the flows of reserves on the stock are likely to be relatively small and gradual.

A further important aspect in this discussion is that central banks’ decisions on the currency composition of the stock of their reserves are mainly based on a number of criteria that are different than those that guide the decisions of private investors. For example, central banks of emerging market economies allocate their reserves only partly with a view to optimising the returns of their portfolio. Their decisions mainly reflect other considerations, such as the choice of a currency as a nominal anchor for the conduct of monetary policy, the currency composition of external debt or trade invoicing. In this context, allow me to draw your attention to the fact that some 25 countries use the euro as a reference currency for their exchange rate policies. If we include the countries of the CFA Franc Zone in Western Africa, this number rises to 40 countries which the IMF classifies as having exchange rate regimes that either use the euro as sole reference currency or as part of a currency basket. As those factors relate to long-term policy choices or economic developments, they can be expected to result in strong inertia in

the allocation and management of reserves by central banks. There are, however, exceptions: for example, the authorities in Russia announced in December 2005 that they had increased the share of the euro in foreign exchange reserves to 40% (from 33% in mid-2005). To some extent, this decision may have been linked to a more prominent role of the euro in the Bank of Russia's currency basket for the management of exchange rate volatility. At the same time, in some countries, notably oil- or other commodity-exporting countries, an increasing proportion of the "official" foreign currency assets is held outside central banks by public investment agencies. These agencies may invest in a wide spectrum of assets denominated in various currencies, with the aim of maximising the expected return on their holdings.

III. Prospects for the further development of the international role of the euro

Given these observations, what can be expected with regard to the relative importance of the euro in global official reserves in the future? As is well-known, prediction is very difficult, especially about the future. And you will understand that I will not speculate on this. That said, I will explore, more generally, the prospects for the further development of the international role of the euro. On this point, allow me to make a general pertinent remark. Clearly, a necessary condition for fostering the international role of a currency is its credibility, as determined by the stability of its internal value. The ECB, by preserving price stability in the Euro Area, "sets the stage" and establishes a necessary condition for the wider international use of the euro. But whether or not the international importance of the euro will further increase depends on many other factors as well, in particular the investment decisions of private agents and public authorities.

Traditionally, a key determinant of the international use of a currency – especially as a means of exchange – has been trade, the very theme of this year's European Banking Congress. From the drachma in the kingdoms of the Hellenistic period, to the guilder during the heyday of the Dutch trading empire, to sterling in the 19th century and the dollar over the past half century until today, trade and international currency use went hand in hand: the larger the importance of a country or currency area in world trade, the greater the international importance of its currency. Given Europe's role as the world's largest trader, it is not surprising that the share of the euro in the invoicing and settlement of the Euro Area's trade with the rest of the world has increased significantly. The latest numbers collected by the Eurosystem show that most Euro Area countries conduct more than half of their trade with partners outside the Euro Area in euro. What is more striking is that trade taking place entirely outside the Euro Area – for instance, between EU countries that have not yet adopted the euro as well as between countries seeking to accede to the EU – is also being invoiced and settled in euro. As these developments cannot be fully explained by increasing trade linkages of these countries with the Euro Area, it would appear that the euro has started to become a vehicle currency in international trade. That said, recent ECB research on this issue has also shown that the euro does not display one of the characteristics typically associated with vehicle currencies – namely their use in the trade of commodities.

An international currency is not only used for trade purposes, but also for financing and investment purposes. And also in this respect, we observe wider use of the euro in international financial markets. For example, over the past seven years, the share of the euro in the stock of international debt securities gradually rose from 19% to slightly below 32%. Other market segments – for example the spot foreign exchange market – are characterised by a high degree of stability, possibly reflecting the importance of network externalities. However, market data (from the Continuous Linked Settlement system) show that the euro is the second most widely used currency, accounting on average for almost 22% of all daily transactions.

The increase in the use of the euro as a financing currency in international bond markets, has been a key feature of its international role. A geographical breakdown of the outstanding stock of international debt securities issued in euro shows that European entities (public authorities and private firms) in the vicinity of the Euro Area account for the largest share of such issues. What are the factors that influence the choice of currency by firms when issuing bonds? Research undertaken at the ECB (based on the analysis of 8,000 bonds issued by 1,500 companies in the United States, the Euro Area, Japan and the United Kingdom) suggests that these decisions are influenced by both strategic and cost-related considerations. The firm size and the investor base in the Euro Area affect a firm's decision in which currency to issue a bond. And a firm's exposure to the Euro Area also has a bearing on the currency choice for bond issuance. Thus, the increased use of the euro as a currency for bond issuance reflects firms' attempts to hedge their exposure to the Euro Area and to broaden their investor base by tapping Euro Area financial markets. This finding brings me to my last remark.

Whether or not private agents use the euro as their currency of choice when seeking finance or investment opportunities depends on the availability of large, integrated and liquid financial markets. While – as I said in the beginning – the ECB neither encourages nor hinders the international use of the euro, we do promote financial integration in Europe. We know from economic theory that more integrated and efficient financial markets can help raise productivity, foster innovation and thus enhance economic growth. But now we also have strong empirical evidence, based on ECB research analysing the available evidence for many countries and sectors, that the size and depth of capital markets have a significant positive impact on economic growth. For Europe, therefore, the creation of larger and more liquid financial markets is, and should be, a desirable end in itself. At the same time, more developed and efficient financial markets in the Euro Area will increase the attractiveness of our currency for international investors, and thus enhance the euro's global role.

IV. Concluding remarks

In market economies, people are free to choose among alternatives in line with their preferences. The fact that many economic agents – be they private individuals, investors, savers, traders or public authorities – outside the Euro Area increasingly choose the euro as their preferred currency testifies to the trust which they place in its stability and

credibility. This is a sign of distinction. At the same time, it also serves as a constant reminder of the importance to preserve this confidence, by maintaining the euro's internal purchasing power, by enhancing the growth potential of our economy, and by further integrating and deepening Europe's financial markets.

Thank you very much for your attention.

Trade Center Europe

Keynote Speech

Angela Merkel*



Dr. Ackermann, Excellencies, Ladies and Gentlemen,

I am very happy to be able to speak at your conference “Trade Center Europe”. I apologize for speaking German, but German chancellors have to speak German, at least as long as the French Presidents speak French.

Once again, I would like to say that I am very happy to be here at the Alte Oper in Frankfurt. Twenty-five years ago this house was reopened in all its former glory after having survived the Second World War only as a ruin. And the situation of the financial centre of Frankfurt was similar: it developed from very modest beginnings after World War Two into a major global financial centre. This happened for a good reason. After all, Frankfurt was able to build on old traditions. The same applies to the Frankfurt Stock Exchange, which can boast a history of 400 years. Therefore we can say that this centre has long-standing traditions which have enabled Frankfurt to face the challenges of globalization valiantly. But we also know that competition has become stiffer, so we are very glad that many international institutions are based here in Frankfurt, including the European Central Bank, something we are quite proud of.

We are all aware that growth and employment can only be achieved if we have an efficient and internationally competitive financial system. As for the Lisbon strategy, as we call it in Europe, obviously we will not be able to meet the very demanding goal of realising it by the end of this decade, but we still want to be able to claim that we are the fastest growing continent, and that this Lisbon strategy of course cannot be successful unless we have efficient and integrated financial markets in Europe. The stock exchanges are of course an integral part of this, and therefore as a matter of more or less current interest I greatly regret that the intended merger between Börse AG and Euronext has not come off, because it would indeed have promoted the integration of the European financial markets and improved their infrastructure. Not everyone shares this view, but we would have preferred a different outcome. And at this point I would like to share with you some thoughts on what is necessary in Europe.

* Transcription from tape by the organizer of the Frankfurt European Banking Congress and subsequent translation

If the Lisbon strategy is to be successful, and if we are to meet the challenges of globalization, we must also accept the idea of European champions, we can't afford to think only in national terms. On this very issue we currently have a debate in Europe. Do we see Europe with its single market as a heavy-weight and if so, are we willing to accept the existence of companies of a European dimension or are we captives of national thinking whenever companies and employment are concerned? This will not be possible, at least this is my conviction. Of course we need modern answers to today's financing requirements, and naturally the financial institutions know this. The classic bank loan is no longer the panacea for debt financing. Individual, customised solutions are needed, with banks acting as both lenders and advisers in an increasingly competitive environment. Therefore Frankfurt and Europe as a whole know that they cannot rest on their laurels but that we need a number of new regulatory frameworks, frameworks that are adjusted to international developments and foster growth.

Indeed, a great number of international developments have been initiated and are being advanced, also by international bodies in line with global concepts – such as Basle II. But at this point I will not hide my concern at the fact that within the European Union Basle II is being implemented whereas across the Atlantic there now seems to be some last-minute reluctance to do the same. This was not the intention behind Basle II, so it will have to be discussed again with our American partners. Likewise, many measures are being adopted at EU level, such as the very comprehensive package of measures belonging to the Financial Services Action Plan of 1999 which includes many individual steps that have made a great contribution towards advancing the integration of the financial markets in Europe. Now it is up to the member states to transpose these measures quickly and consistently if not already done, and whenever possible on a one-to-one basis to avoid creating new barriers through implementation or others having fewer barriers than we have. I think it was also a good move of the European Commission in December last year to issue its White Paper formulating the guidelines of its financial market policy for the period until 2010. This is not a new ambitious catalogue of measures, and I don't think market participants were particularly vexed by it. Instead, this catalogue is about dynamic consolidation, i.e. a way of monitoring what effects these measures will produce and ensuring that the integration of the financial markets takes place with minimum bureaucracy.

Now, if this White Paper does not include any major new regulatory measures for the financial markets in Europe, does this mean that there is nothing left to be done? I don't think so. For instance, we need a fair and transparent solution for the procedure of cross-border acquisition of major interests in financial institutions, and we need deeper financial integration in the retail banking business. I think it is also appropriate that the Commission has made this one of its priorities. At least on the German side we want stronger integration. But this does not mean maximum harmonisation regardless of national features. However, if we want deeper, transparent and simple relations among the member states we also have to accept harmonisation. Therefore I think that the principle which is now beginning to spread within the European Commission, known

under the motto of better regulation is the right approach. Better regulation is just another way of saying that we want to reduce bureaucracy. In Europe this is not a simple thing to do, but it is necessary.

As we celebrate the 50th anniversary of the Rome Treaties, we can look at a huge stockpile of directives passed by the European Union. If the history of the European Union is seen in terms of ever new directives being added to the so-called *acquis communautaire* without any disappearing, then this is not really a forward-looking approach. Therefore we support the concept of better regulation and will do our best during Germany's presidency to advance it, also by introducing ambitious deadlines.

This morning you had the President of the Czech Republic as a guest speaker at this conference. Well, if you consider the sheer mountain of regulations with which the new member states are confronted at the moment of accession, it seems fair to ask whether the European Union could have been built up efficiently in the 50s, 60s and 70s with such an amount of regulations. As a matter of fact, I think that sometimes we are carrying a heavy burden.

We also need standard payment instruments, and I think that the representatives of the credit institutions surely want more integration. The same applies to financial market regulation. If I am not mistaken, we have in the member states about seventy different regulatory institutions overseeing the financial markets. For banks and insurance companies operating in several member states – which after all is happening increasingly as European champions develop – this is of course a very severe problem. The question is of course: do we want completely Europeanised supervision of the financial markets? Politically speaking, we do not think the time for this has yet come. This is an issue that we will have to discuss more intensively, but we should also bear in mind that market structures in the member states still differ considerably, and from the German point of view we feel that it should not result in a deterioration of competition. We should really consider very carefully whether or not we should transfer powers to the Commission. But we do need harmonisation of the right of supervision and deeper cooperation among the regulatory authorities. And here again, the answer will be: the better we succeed in improving cooperation among the institutions and in finding solutions, the more practical these will be. There is after all always a risk involved if those not actually carrying out the work decide on how the 70 regulatory authorities ought to cooperate, because the regulatory authorities may not accept this. It is perhaps an acceptable standpoint, but if the customers don't like it either, nor those with whom the regulatory authorities will have to deal, then things could really go wrong.

Ladies and Gentlemen, the federal government has always participated actively in shaping the business framework for the financial industry. We will continue to do so and will of course have a special responsibility in that respect during the next year, in the first six months during the EU presidency and during the whole of 2007 within the framework of the G8 presidency. We will be facing many expectations, vastly different and in some instances impossible to meet. Yet we need to discuss where Europe should

be heading. At present we see quite some scepticism among the citizens of Europe vis-à-vis the European Union, because they feel that certain problems – such as unemployment, weak growth and demographic challenges – are not being resolved by the European Union as responsibly as they expect. So it is extremely important for us that the citizens of Europe regain trust in this European Union. And, by the way, talking about retail banking, sometimes little things, if I may say so, can make quite a difference. For instance, looking at simple remittance orders between neighbouring countries in Europe, it is astonishing at times how many things the single market has failed to achieve. And the charges are by no means trivial, if I may say so from my own experience. Therefore, if you want people to believe in a European financial market I suggest that you start with very simple things. You will be surprised what this can do.

Ladies and Gentlemen, we need a growth policy, and currently things are looking quite good. According to the forecasts of the European Commission, we will post growth of 2.7 % that is the highest EU-wide growth in Europe since 2000. This should make us happy but not complacent.

I think it is also fair to say that the positive development in Germany has made a contribution to this performance, because Germany after all is the largest economy in the EU. In Germany too, we will show the highest growth rate in the last six years. Fortunately this development is already showing its impact on the labour market, because the number of jobless is 470,000 fewer than last year. But what is even more important is that 250.000 people have found regular employment and this is of tremendous importance for all the social-security funds relying on contributions from those in work.

At this point I should like to emphasise that we can of course only be strong within Europe and within the framework of our G8 presidency if we as a national government have done our homework. The two go together. There may be some who think that what with all those international presidencies we will neglect our domestic policy. This is not going to happen because our performance strongly depends on what influence and possibilities we have to push forward political decisions. That is to say, we will not relent in our efforts and I think that one year after the government took office we can already see certain developments taking shape and that we have taken and are taking major steps. Just for your line of interest I would mention the corporate tax reform, for which the cornerstones have already been fixed, the estate tax reform, REITs, although I would have preferred housing to be included in these. But then we decided that we would at least tackle this problem and not let it linger. I think this was the right thing to do. And also with regard to the European budget we have made a major contribution to Europe with our threefold goal of revitalisation, reform and investment. After all, it was Germany which championed the growth and stability pact and it is always a bad thing if the initiator of a project is among those who are least able to meet the requirements. Therefore, we are very pleased that this year we will once again be able to meet the Maastricht criteria and that after so many years we shall be able next year to present a federal budget with more investments than new debt. As far as we can see today

new debt will be the lowest since reunification. This I think will make us look better and will give us more room to manoeuvre in the future. This is important because if you look at the make-up of our budget you will realise that interest payments and fixed expenses are so high that there is not enough room for investments, and therefore this scope has to be improved.

It is obvious that Germany will be able to leverage its presidencies to a greater extent if it sets a good example. One of the primary goals of our presidency will be to deepen the single market. I am firmly convinced that the European single market with its 400 million inhabitants offers the opportunity to create a market that is globally competitive, can set standards and point the way to the future. Therefore its further development is of utmost importance. Jacques Delors once said: "Nobody falls in love with a single market". That may well be the case, but without its single market Europe will not be able to reap the benefits of its economic strength.

At this point I would like to draw your attention to an issue for which I have no ultimate solution but that will preoccupy our minds in the next few years, i.e. drawing the line between the single market for which the competence lies with the Community, and which therefore is mainly regulated by the European Commission on the one hand, and social policy on the other, which will continue to remain a national responsibility. This is likely to become increasingly difficult in the future. Where can one draw the line between competition between economic entities and social activities? It is extremely important that we draw this line very accurately to avoid ending up with endless proceedings before the European Commission and people asking themselves what kind of Europe this is. If an ordinary sports club in Germany has to compete with a sports studio and eventually finds itself before the European Court of Justice, people will not understand this, and therefore we have a lot of definition and demarcation work to do. This, by the way, was one of the reasons why Germany so fervently supported the European Constitution, i.e. the European agreement that defines the various levels of responsibility and competence and specifies that if the competence lies with the European Commission it must also be given the necessary powers. And where the competence lies at national level, it must be ensured that the European Commission is not able to seize competence through coordination or through the back-door.

The European Constitution is one step in this direction. This is one of the reasons why we so ardently support it, because we believe that it allows us to make progress, although it is not yet the ideal solution that we had in mind. The issue of allocation of competencies will be one of the key questions for the acceptance of Europe by its citizens. It is really bad if you cannot tell people who is responsible for what in a political system. There are quite a lot of such issues of drawing the line between competencies, where people are tempted to shift the blame on Europe, where national states are using Europe to enforce national interests. This confuses people and is no basis for acceptance. In other words, we must deepen the single market and we must make it clear again and again, also in connection with the EU enlargement, that the creation of the single

market has afforded Germany at least 2 – 2.5 million new jobs and that rather than destroying jobs this open market offers opportunities for more jobs.

The deepening of the single market still requires a great number of measures. I do not think the people here in this room are very happy with the services directive, although we believe that it is a step in the right direction that will simplify licensing procedures. But this is something that will still be around some years from now. It is quite interesting to note that since the very beginning of the EU, the free flow of services has been a priority. But if you look at its practical implementation and the situation in the individual countries, it becomes clear that such a directive was urgently needed. In other words, in many fields we are still a long way from realising our own claims and demands. We also know that even today about half of the flow of goods takes place in the non-harmonised sector, and that member states can still impede the free flow of goods. Therefore, the principle of mutual recognition must be enforced effectively. Above all, we want to speed up the opening of the markets, in particular in services, and above all in the areas of post and telecommunications.

Another thing that is very important, Ladies and Gentlemen, is that we ensure that developments in Europe are in parallel. It makes no sense if Germany takes the lead by setting a good example – for instance, by the end of next year we shall abolish the post office's monopoly over letters. But of course we can only do so if other countries do not slow down the process or take different steps which would create competitive disadvantages. Therefore we will give our full backing to the full deregulation of the European postal markets as from 2009 because this is extremely important.

We also have to review the legal framework for the electronic commission and we also support the Commission's proposal in favour of deregulating radio frequency policies. I suspect the outgoing presidency will leave us with quite a lot of work, and we ourselves will leave some work for the following presidencies.

We shall also have to focus on the energy market. At the beginning of next year, the Commission will launch a number of communications on energy policy, regarding both foreign policy and deregulation of the energy markets in the EU. Discussion surrounding the proposed EON and Endesa deal has made it clear that we are still a long way from a liberalised, free and barrier-free market.

As I have already indicated, we will also give attention to the issues of simplifying and reducing bureaucracy. The European Commission will do what the Dutch and British have already done and we are also going to do in Germany, i.e. we shall install a so-called judicial review council with the objective of doing away with about 25 % of the reporting and control functions. This is, I think, a very important goal. We shall start in the spring of next year and the German presidency will give this move great support.

When talking about Europe and its structures, we also have to consider very carefully where we are heading. On this point there are still enormous differences among the member states. Let me illustrate this using the example of the relationship between

Parliament, Commission and Council. It is my conviction that it is the Commission's task to administer the competences entrusted to the community. For this purpose the Commission can issue the necessary directives. The European Parliament must develop more and more to become a real parliament, like those we have at the national level, and the composition of the Commission - for instance if you look at the president of the Commission - must to a greater extent reflect the outcome of European elections. I can't ask people to go to the polls, then they get a new parliament, alright, then there is a new Commission, but the composition of which is determined by the Council of the heads of states and governments and has nothing to do with the outcome of the elections. People will not understand this. This is why we have made it very clear in the proposal for the Constitution that the political party emerging as the strongest group in European elections should have the right to appoint the President, so that the top position of the Commission reflects the idea that it makes sense to go to the polls. There are still a number of member states which do not believe that this is the right approach.

The other issue concerns the relationship between the Commission's lawmaking function and the tasks of the European Parliament. It is my intention to advance this idea and to seek allies for it, namely to adopt the same principle at European level that we know from the national parliaments: the discontinuity principle. What does that mean? It means that if by the end of parliament's term in Germany a bill has not been fully deliberated, it will not survive so that the new in-coming parliament must put the bill again on its agenda. In Europe, by contrast, a directive survives all and everything. A change of Commission, a change of Parliament, the directive always stays. I think it would be very good for the Parliament's self-image if the principle of discontinuity were introduced in the European Union. I know I still have a number of battles before me, but for strengthening the legitimacy of the European Union we need such a move. If you had invited me to participate in the panel discussion with the Czech president, I am sure we would have arrived at different conclusions, or with the Polish president, for that matter. But never mind. The going has never been easy in Europe, by the way this also goes for the French president. But we also have allies.

Ladies and Gentlemen, we shall put energy policy, de-bureaucratisation, institutions and relationships among the institutions on our agenda. At the same time, we shall advance the European Union's relations with some major partners by organising summit meetings. There is first of all the EU-Russia summit which will take place during our presidency. With Russia we shall have to negotiate a new cooperation agreement, and one of our goals will be to define a negotiating mandate that deals with cooperation in the field of energy similar to the energy charta which Russia apparently still finds difficult to sign. We need good relations with Russia, we need strategic relations with Russia. Russia is a big neighbour of the European Union and this means that we have to define a reliable basis for them.

There is another area and another summit, the EU-America summit, with which we want to advance something that I personally attach great importance to and that was al-

ready started by the Austrian presidency under the title “common market”. We will of course not be able within the foreseeable future to create a free trade zone between the European Union and the United States of America. Nor do I think that it would be very smart to hold endless discussions on agricultural duties. But we must ask ourselves what the foundations are on which the European rules are built and on which the American rules are built. And when we look at the underlying values, we will see that we have many in common: freedom, respect for the individual, human dignity, democracy. In view of the development of the global markets I think it is worthwhile considering whether these common values could not constitute a basis for common positions and common rules. Looking at the financial and capital markets, you will see that there are many different regulations in America and Europe. There is a lot to be learnt and a lot of duplication. There are also differences with regard to new financial instruments and transparency rules, but if we look at the challenges facing us in the Asian markets there would be some common ground for joint action, for instance in the field of protection of intellectual property. Because we, the western developed countries, in spite of our creativity, and innovativeness – which we of course need – will only have a chance if certain principles for which we have fought for centuries in Europe such as the protection of intellectual property, the acceptance of patents and rules, if these principles are accepted on a worldwide basis. If, however, some parts of the world condone counterfeiting and pirate copies, while others condemn it, this will distort competition and competitiveness. That is why I think we should join forces. We will devote special attention to this aspect within the framework of our G8 presidency. We will focus our attention and develop joint positions vis-à-vis third countries. To be clear, the common market America-Europe is not intended to be a fortress. That would be wrong. We must overcome concerns that this would give impetus to new protectionist tendencies – although some are fostered by the US president and also over here in Europe. We will only have a chance if we remain open. You can respond to globalization with fear. But the people out there will understand that playing with this fear will solve none of their problems. Therefore the solution can only be for us to take an open view, reinforce our strong points and overcome our weaknesses.

For all these reasons it is my firm conviction that we must do everything within our power to relaunch and successfully complete the world trade round. Of course I do not want to raise any exaggerated hopes, because it is not only up to Europe, and whether the outcome of the mid-term elections in America have improved conditions I do not yet know.

But still, Ladies and Gentlemen, we should try to use the time frame we have, because the great number of bilateral agreements that would proliferate if the Doha Round were to fail would not be an adequate substitute for a multilateral trade system. For this reason, during our G8 presidency and our EU presidency we shall develop a number of activities to this end. And let me say another thing that is very important to me. Over and above all this co-operation, we shall make sure together with the great continent of Asia that Africa will not become a forgotten continent. Therefore, Africa

will play a very special role during our G8 presidency. The migration movements we see have brought it home to us very clearly that Africa is our neighbour and that we can not avoid Africa's problems. We see that China has a very clear strategic policy on that matter, as demonstrated recently by the Africa-China summit in Beijing. We see that China is pursuing a very strategic policy which is closely linked with its commodity interests. But for us Europeans it will be important to develop relations with Africa which will be a win-win situation for the Africans. Talking to African heads of state and government one realises that for them time is the predominant factor. They tell us that if in China they want to cooperate on something, it's all agreed on quickly, whereas in Europe they first of all organise a public tender which eventually ends up in litigation and then you start from scratch. This is not what the Africans want. The time factor is very important to them and at present it mitigates against Europe and in favour of African-Chinese relations.

But in this dialogue with Africa there are two other things we have to bear in mind. First, and this too is important for the Africans, also with respect to the African-Chinese relations, that we tell them: we want fair dealings with you over your commodities. We do not want to fool you, you have a right to get reasonable contracts. But on the other hand we will also make it clear that we need good governance in Africa, otherwise it will all end in tears. This must be possible. We have a strategic interest, but we also must start an honest and fair dialogue and this is what we shall do. For this reason we shall organise an EU-Africa summit for the second half of 2007, together with the Portuguese, so that all these issues can be discussed. You probably know that we are in the process of changing from the regime of six-month-presidencies to a regime of triple presidencies, this time involving Germany, followed by Portugal and then Slovenia.

To sum up, Ladies and Gentlemen, let me say something about the European Constitution. On 24 and 25 March we will have the great opportunity to commemorate in Berlin the signing of the Treaties of Rome. For me this is symbolic that 50 years after the establishment of the European Union we can now celebrate in Berlin – the former symbol of division and of the Cold War -. In the course of the last ten to fifteen years we have come to realise that it has been a long road from the former regular lamentations about our 'brothers and sisters' in the East, behind the Iron Curtain, to their acceptance as member states of the EU. We will soon have as new members Romania and Bulgaria, and I followed the debate on this in parliament. Meanwhile, the feeling of euphoria has given way to doubts. And yet, I think it is the right thing to do. I would like to emphasise this. This European continent only has a chance if it is together and can bring its joint weight to bear in global competition.

On 25 March we shall reaffirm the spiritual foundations of the European Union. After World War Two Europe has managed to emerge from incredible suffering and struggle to overcome long-standing animosities and to build new bridges. The fact that this was possible and that after centuries of wars it has become possible to firmly embody the value of tolerance in Europe, so that individual parties have grasped that their

partners' advantages were also their own and that this could be good for them altogether. This realisation is something Europe must once again experience. Therefore it is important not just to think how nice it is to have this European Union, but then turn around and do our own, national thing. We should also demonstrate our belief in Europe.

And if we can also pass this on to others, Europe can make a contribution towards solving many conflicts outside the European continent too. This is why I think that on the occasion of the 50th anniversary of the Treaties of Rome Europe must reach an understanding over and above its individual rules and regulations. We must ask ourselves what Europe has accomplished and what the challenges facing it are. We need a clear commitment that only an approach of openness will allow us to live in prosperity and security.

This is the spirit in which we will celebrate the 25th of March. And I do hope that out of this common understanding of what holds Europe together, a new, perhaps a rather different debate will emerge on the issue of the European Constitution. Because, after all, the European Constitution is not intended to create more bureaucracy, but to reassign competencies and reaffirm the basic values on which the various rules and regulations are built. Germany will not be able to solve the Constitution problem during its presidency, though; the deadline set is the end of 2008 and I think it was a good thing that the European Council made this decision. It would indeed be counterproductive if we tried to find a solution during the forthcoming presidency, just think of the elections in France and other countries. But we must make progress, and for this we need a common conviction that Europe is more than a mere free trade zone, at least this is my firm belief. But we will only be able to achieve these goals if we politicians have allies. And this is why I am very pleased to be here. Because I think we need in particular our business leaders to fight with us for Europe. We know, and Germany knows it better than others, that we have always gained whenever we have opened up to the outside world. This idea must prevail over individual interests. Europe has already made much headway in this respect. Therefore, those in business, trade and in the financial markets should be our allies on this road. At least this is what I hope for in a critical dialogue. Thank you very much for inviting me here today.

Trade Center Europe

Closing Remarks

Josef Ackermann



Thank you, Chancellor Merkel.

Your impressive address has topped an inspiring day of speeches, panellists' statements and debates as well as lively discussions on the sidelines of this congress.

We have looked at our conference topic, Trade Center Europe, from all sides. I believe there are two major points that we should keep in mind from our discussions:

- First, freedom of economic activity is necessary, now more than ever, for the prosperity of our economies and our societies in general. Pushing ahead with further liberalization – be it in terms of market deregulation or international trade and investment rules – is an indispensable task, which must remain at the top of the political agenda. Europe should play a central role in this.
- Second, achieving optimal conditions for trade and investment requires a close dialogue between policymakers, academics and business at all levels and across borders. There are enormous benefits to be reaped from free trade for all sides, and doing so requires a joint effort.

With our annual European Banking Congress here in Frankfurt, we provide a forum to pursue this dialogue, and I am glad to say that, again this year, the discussions were very open, constructive and productive.

Let me take this opportunity – also on behalf of Mayor Roth, Klaus-Peter Müller and Herbert Walter – to express my special thanks to the speakers and panellists for their valuable contributions and three excellent discussions. I also want to thank everyone here – in the audience and behind the scenes – who helped make this congress a success.

The next European Banking Congress is scheduled to take place on November 23, 2007, here in the Alte Oper, and I am already looking forward to seeing you again on this occasion.

Thank you, goodbye and auf Wiedersehen.

Information about the EBC

The Frankfurt European Banking Congress (EBC) premiered in 1991 on the initiative of the International Bankers Forum Frankfurt (IBF). Since 1992, the congress has been hosted annually by Germany's three leading banks based in Frankfurt - Commerzbank, Deutsche Bank, and Dresdner Bank - as well as by the Deutsche Bundesbank, the City of Frankfurt and the IBF. Each year, the chairmen of Commerzbank, Deutsche Bank and Dresdner Bank take turns in officially hosting the EBC. Traditionally, the EBC takes place on the Friday prior to the very last Friday in November at the Alte Oper Frankfurt.

The EBC aims at providing a forum for open and forward oriented discussion of European issues, their role in the world of politics and financial markets. European politics and finance are discussed by leading decision makers and eminent heads-of-state in three panel discussions. The first panel brings together political leaders, the second panel top bankers, and the final panel governors of central banks. Topics and speakers for each year's event are chosen by the EBC's steering committee.

Today, the EBC is among Europe's most prestigious banking congresses. The EBC is an established meeting place for high level representatives from politics, business, finance, and academia and attracts every year approximately 1,000 delegates and 300 press representatives from more than fifty countries to the Alte Oper in Frankfurt. Admission to the congress is by personal invitation only.

The steering committee of the Frankfurt European Banking Congress consists of members of Germany's three leading banks based in Frankfurt - Commerzbank, Deutsche Bank, and Dresdner Bank - as well as representatives of the Deutsche Bundesbank, the City of Frankfurt and the International Bankers Forum. The steering committee meets regularly and is the sole organ responsible for the EBC's structure and content.

Further information about the EBC can be obtained from the

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List of Speakers (1991 – 2006)

Surname	First name	Organization	Year
Abelein	Manfred	European Bank for Reconstruction and Development	'91
Achleitner	Paul	Allianz AG	'00
Ackermann	Josef	Deutsche Bank AG	'02-'06
Alexander of Weedon, Lord	Robert	National Westminster Bank plc	'95
Al-Mannai	Jassim	Arab Monetary Fund	'06
Alphandéry	Edmond	Ministère de l'Economie et du Budget, France	'93
Al Suwaidi	Sultan Bin Nasser	Central Bank of the United Arab Emirates	'06
Andersen	Bodil Nyboe	Danmarks Nationalbank	'97
Arthuis	Jean	Ministère de l'Economie, des Finances et du Plan, France	'96
Aznar	José María	Prime Minister, Spain	'99
Bäckström	Urban	Sveriges Riksbank	'96
Bangemann	Martin	European Commission	'92
Balcerowicz	Leszek	Minister of Finance, Poland National Bank of Poland	'98, '01
Baldassarri	Mario	Vice Minister of Economy and Finance, Italy	'05
Barre	Raymond	Mayor of Lyon, France	'97*
Bischoff	Manfred	DaimlerChrysler	'99
Blessing	Martin	Commerzbank AG	'03
Breuer	Rolf-E.	Deutsche Bank AG	'97-'01
Brittan	Sir Leon	European Commission	'98
Brodsky	William J.	Chicago Mercantile Exchange	'94
Brok	Elmar	European Parliament	'95
Bryan	Lowell L.	McKinsey & Company, Inc.	'96
Bürkner	Hans-Paul	The Boston Consulting Group	'96, '03
Burggraf	Nikolaus	City of Frankfurt am Main	'05*
Buxton	Andrew R. F.	Barclays Bank	'98
Cartellieri	Ulrich	Deutsche Bank AG	'91
Caruana	Jaime	Basel Committee on Banking Supervision, Banco de España	'04
Cavallo	Domingo Felipe	Fundación Mediterránea	'97
Christophersen	Henning	European Commission	'91, '02

* Dinner Speaker

Surname	First name	Organization	Year
Ciampi	Carlo Azeglio	Minister of Treasury, Budget and Economic Planning, Italy	'96
Corcóstegui	Ángel	Banco Santander Central Hispano S.A.	'00
Crockett	Andrew D.	Bank for International Settlements	'94, '98, '99
Dallara	Charles H.	The Institute of International Finance	'04
Davies	Howard	The Financial Services Authority	'00
Davignon, Viscount	Etienne	Société Générale de Belgique	'95
Dervis	Kemal	State Minister, Turkey	'01*
Doerig	Hans-Ulrich	Credit Suisse	'93
Duisenberg	Willem F.	European Central Bank	'97-'01
Eichel, MP	Hans	Minister President of Hesse, Minister of Finance, Germany	'91 '99
Enger Lahnstein	Anne	Center Party, Norway	'95
Fagiolo	Silvio	Ambassador of Italy, Berlin	'04
Fahrholz	Bernd	Dresdner Bank AG	'00-'02
Fazio	Antonio	Banca d'Italia	'96, '04
Ferrer	Carlos	Ferrer International S.A.	'94
Fini	Gianfranco	Deputy Prime Minister, Italy	'03
Fischer, MP	Joschka	Federal Minister for Foreign Affairs, Germany	'00,'03
Fisher	Richard W.	Federal Reserve Bank of Dallas	'06
Floether	Karl-Heinz	Accenture	'03
François-Poncet	Jean	French Senate, France	'97
François-Poncet	Michel	Banque Paribas S.A.	'95
Franz	Wolfgang	Centre for European Economic Research, The German Council of Economic Experts	'06
Freeman	Ron	European Bank for Reconstruction and Development	'93
George	Sir Edward A.J.	Bank of England	'93, '95
Gordon	Noel	Accenture	'06
Greenspan	Alan	U.S. Federal Reserve System	'98, '04
Gronicki	Mirosław	Minister of Finance, Poland	'04
Gronkiewicz-Waltz	Hanna	National Bank of Poland	'93
Hambrecht	Jürgen	BASF	'05

* Dinner Speaker

Surname	First name	Organization	Year
Harney	Mary	Minister for Enterprise, Trade and Employment, Ireland	'98
von Hauenschild	Caspar	Bayerische Vereinsbank AG	'91
Heikensten	Lars	Sveriges Riksbank	'03
Hirano	Eiji	Bank of Japan	'05
Howe	Robert M.	IBM Corporation	'96
Howe of Aberavon, Lord	Geoffrey	Former Foreign Secretary, United Kingdom	'96*
Hübner	Danuta	Minister for European Integration, Poland	'02
Hüppi	Rolf	Zurich Financial Services	'99
Iozzo	Alfonso	Istituto Bancario San Paolo di Torino	'91
Iwata	Kazumasa	Bank of Japan	'04
Járai	Zsigmond	Minister of Finance, Hungary	'99
Jeancourt-Galignani	Antoine	Banque Indosuez	'92
Jin	Liquan	Asian Development Bank	'05
Jin	Renqing	Minister of Finance, People's Republic of China	'04
Kallas	Sjimi	Minister of Finance, Estonia	'01
Kempe	Frederick	The Wall Street Journal Europe	'93
Klaus	Václav	Prime Minister, Czech Republic	'97, '06
Koch	Roland	Minister President of Hesse	'02
Koch-Weser	Caio K.	Federal Ministry of Finance, Germany	'05*
Kohl	Helmut	Chancellor, Germany	'96
Kohlhaussen	Martin	Commerzbank AG	'92-'00
Kohn	Donald L.	The Federal Reserve System	'02
Kopper	Hilmar	Deutsche Bank AG	'92-'96
Kostrzewa	Wojciech	BRE Bank	'01
Kraus	Adolf	Schröder Münchmeyer Hengst & Co	'91
Lagarde	Christine	Ministry of Foreign Trade, France	'06
Lagayette	Philippe	Caisse de Dépôts et Consignations	'93
Lamfalussy, Baron	Alexandre	European Monetary Institute Université catholique de Louvain	'94-'96, '00, '02
László	Csaba	Minister of Finance, Hungary	'03
Lefebvre	Olivier	Euronext	'02
Leigh-Pemberton	Robin	Bank of England	'92

* Dinner Speaker

Surname	First name	Organization	Year
Lemierre	Jean	European Bank for Reconstruction and Development	'01, '04, '05
Lindh	Anna	Minister for Foreign Affairs, Sweden	'01
Liener	Gerhard	Daimler Benz AG	'93
Lim	Hng Kiang	Second Minister for Finance, Singapore	'02
Maas	Cees	ING Groep NV	'95, '00*
Mallinckrodt	George W.	Schroders PLC	'92
Marsh	David	Financial Times	'92
Martini	Eberhard	Bayerische Hypotheken- und Wechsel-Bank AG	'91
McDonough	William J.	Federal Reserve Bank of New York	'94
Mentré	Paul	Banque C.S.I.A.	'91
Merkel	Angela	Chancellor, Federal Republic of Germany	'06
Messerlin	Patrick A.	Sciences Po	'06
Mikloš	Ivan	Deputy Prime Minister and Minister of Finance, Slovak Republic	'04
Monti	Mario	European Commission	'94, '99
Müller	Horst	Dresdner Bank AG	'03
Müller	Klaus-Peter	Commerzbank AG	'91, '01-'06
Müller-Vogt	Hugo	Frankfurter Allgemeine Zeitung	'98
Naumann	Klaus	General, retired	'99*
Ng	Kok Song	Government of Singapore Investment Corporation	'97
Nilekani	Nandan M.	Infosys Technologies	'05
Nonnenmacher	Günther	Frankfurter Allgemeine Zeitung	'95
Obolensky	Arianne	Ministère de L'Economie et du Budget, France	'92
Ogata	Shijuro	Yamaichi Securities Co. Ltd.	'91
Olechowski	Andrzej	Minister of Foreign Affairs, Poland	'94
Orbán	Viktor	Prime Minister, Hungary	'98*, '00
Padoa-Schioppa	Tommaso	European Central Bank	'02
Papademos	Lucas D.	Bank of Greece	'99
		European Central Bank	'06
Prodi	Romano	European Commission	'92, '98, '00, '02
Profumo	Alessandro	UniCredito Italiano	'01

* Dinner Speaker

Surname	First name	Organization	Year
Quinn	Ruairi	Minister for Finance, Ireland	'96
Raghuram de Rato	Ganesan Rodrigo	Indian Institute of Management Ministerio de Economía y Hacienda, Spain	'06 '96
Rau	Johannes	International Monetary Fund	'05
Repše	Einars	President, Germany	'02
Richardson	James	Bank of Latvia	'01
Rolander	John S.	Cisco Systems Inc.	'00
Röllner	Wolfgang	Gemini Consulting	'96
Roth	Jean-Pierre	Dresdner Bank AG	'92
Roth	Petra	SBN Swiss National Bank	'03
Roth	Wolfgang	Mayor, City of Frankfurt am Main	'95-'06
Rudloff	Hans-Jörg	European Investment Bank	'93
		Barclays Capital	'03
Sampaio Malan	Pedro A.	Minister of Finance, Brazil	'99
Sanio	Jochen	Federal Financial Supervisory Authority	'04
Sarrazin	Jürgen	Dresdner Bank AG	'93-'97
Schäuble	Wolfgang	Group of the Christian Democratic Union/ Christian Social Union	'97
Schlesinger	Helmut	Deutsche Bundesbank	'91, '92
Schmögnerová	Brigita	Minister of Finance, Slovak Republic	'01
von Schoeler	Andreas	Mayor, City of Frankfurt am Main	'91-'94
Scholey	Sir David	S.G. Warburg Group plc	'93
Schulmann	Horst	Landeszentralbank in Hessen	'92
Schüssel	Wolfgang	Federal Chancellor, Austria	'01
Seifert	Werner G.	Deutsche Börse AG	'00, '02
de Silguy	Yves-Thibault	European Commission	'95
Simon of Highbury, Lord		Ministry for European Trade and Competitiveness, United Kingdom	'97
Simmons	Hardwick	The Nasdaq Stock Market	'02
Sobchak	Anatoly	Major, City of St. Petersburg	'91
Strutz	Wolfgang	BHF-BANK Aktiengesellschaft	'91
Tănăsescu	Mihai Nicolae	Minister of Public Finance, Romania	'01
Taylor	Charles R.	The Group of Thirty	'94
Thalwitz	Wilfried P.	The World Bank	'92
Thiemann	Bernd	DG Bank	'91

* Dinner Speaker

Surname	First name	Organization	Year
Thygesen	Niels	University of Copenhagen	'92
Tietmeyer	Hans	Deutsche Bundesbank	'93-'98, '04*
Titzrath	Alfons	Dresdner Bank AG	'91
Tošovský	Josef	Czech National Bank	'91
		Bank for International Settlements	'01
Trichet	Jean-Claude	Banque de France	'94*, '97
		European Central Bank	'03*, '03-'05
Tüma	Zdeněk	Czech National Bank	'03
Tyson	Laura D.	London Business School	'06*
Verheugen	Günther	European Commission	'01
Viermetz	Kurt F.	J.P. Morgan & Co. Incorporated	'93
Volcker	Paul A.	Federal Reserve Bank of the United States of America	'97
Vita	Guiseppe	Schering AG	'98
Wagner	Udo N.	ABB Asea Brown Boveri AG	'94
Walter	Bernhard	Dresdner Bank AG	'98, '99
Walter	Herbert	Dresdner Bank AG	'04-'06
Walter	Ingo	New York University Salomon Center	'92
Weber	Axel A.	Deutsche Bundesbank	'04-'05
Weiss	Heinrich	SMS group	'05
Welteke	Ernst	Deutsche Bundesbank	'99-'01, '03
Weston	John Pix	British Aerospace	'99
Yamaguchi	Yutaka	Bank of Japan	'02
Yavlinsky	Grigory	EPICENTER	'95*
Zeti Akhtar Aziz		Central Bank of Malaysia	'05

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