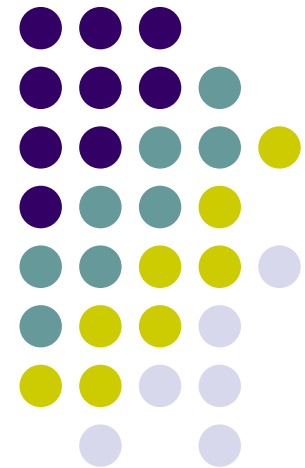


# Asia, Europe, and the Future of Regional Economic Cooperation

**Introductory Remarks by Christine Lagarde,  
Minister of the Economy, Employment, and  
Industry**

Jeju – 15 June 2008

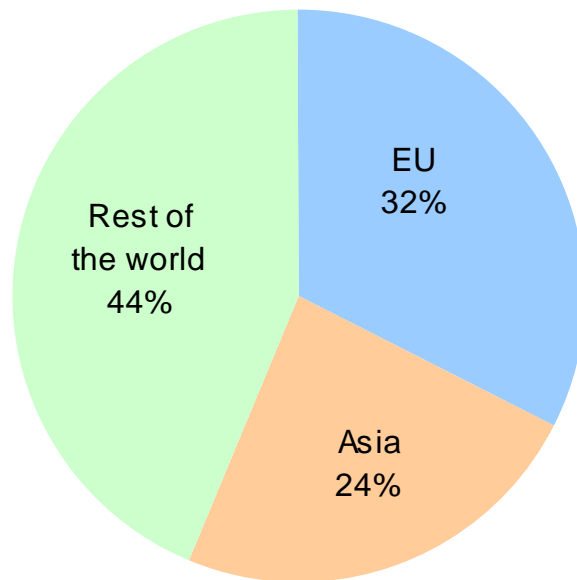


# Asia and the European Union are two key players in the world economy

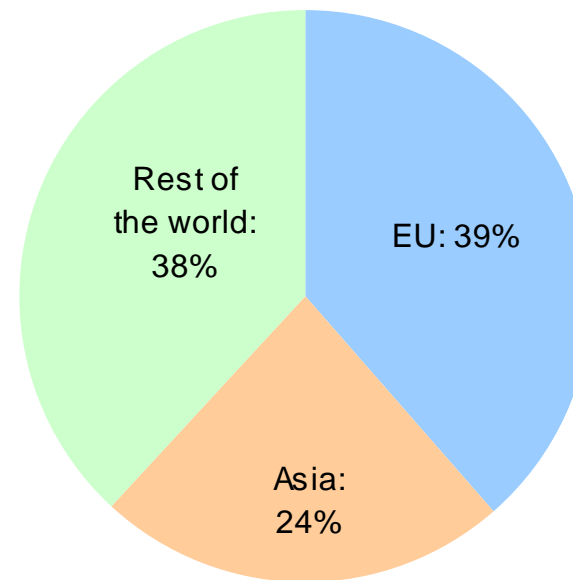


- Asia and Europe represent approximately 60% of the world economy and trade

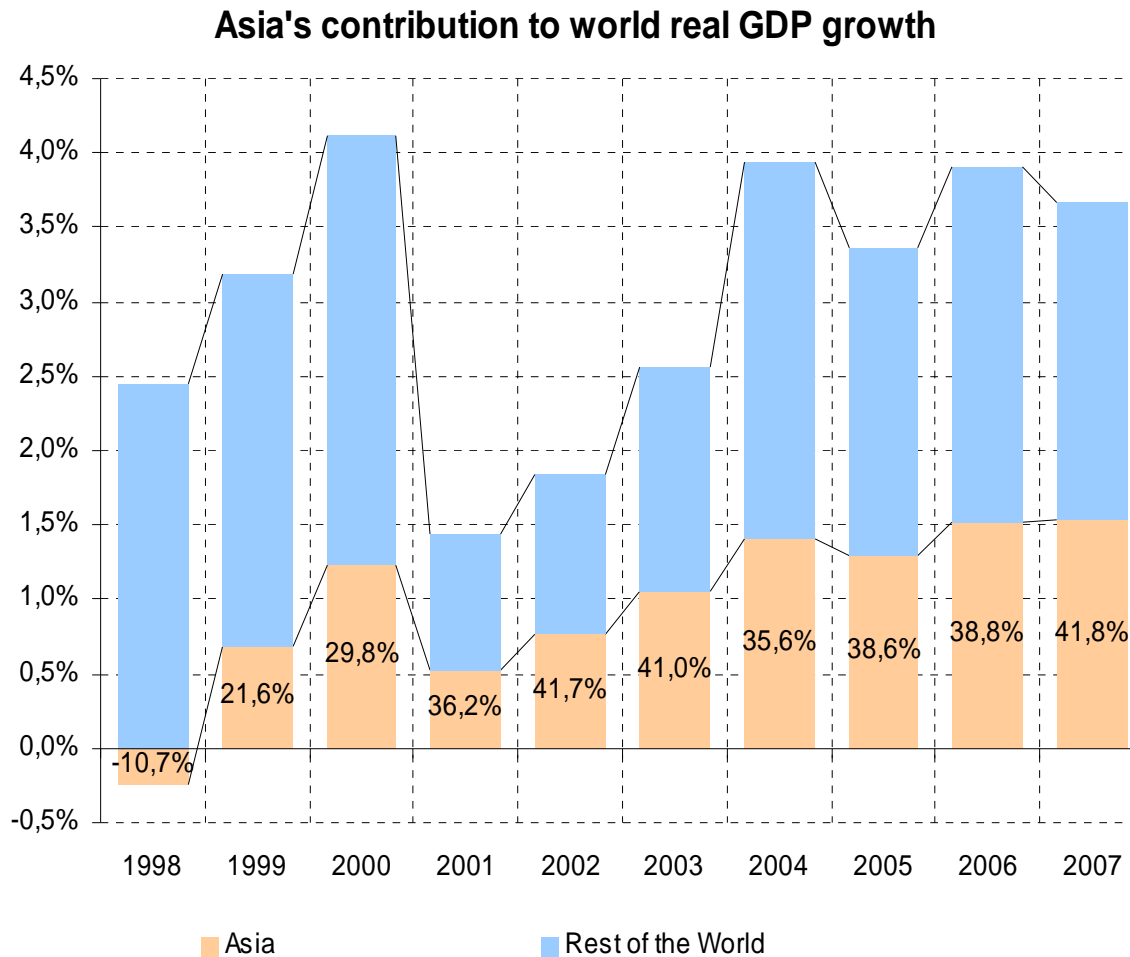
Share in world GDP (2007)



Share in world exports (2007)



# Asia plays a central role in the world economic growth



- Asia is a major contributor to world economic growth
- Asia is key to help global imbalances unwind smoothly

# We have important economic and financial challenges in common



- Adverse shocks have affected our economies
  - High energy and food prices
  - Expected slowdown in the United States
  - Deterioration of market and financing conditions, especially on credit markets
- So far, Euro area growth has been resilient, and Asia as well, even if the impact of recent turmoil may affect all economies
  - Deeper economic and financial integration has increased 'coupling'
  - But strong autonomous demand in emerging economies might play as a buffer

# Close coordination is needed to face common policy challenges



- Common policy challenges:
  - Need for a political and economic answer to the rise in oil and food prices and their social and economic impact
  - Necessity to support growth in less favourable external conditions
  - Preserve international financial stability
- In addition to existing fora for world cooperation (G7, G20, FSF...), increased regional coordination is a key to strengthening integration and improving economic activity and resilience to adverse shocks

# Benefits gained from forming an economic union: Europe's experience



- The European Single Market
  - Free movement of people, goods, services and capital
  - Common trade norms
  - Unified representation at the WTO
- According to the European Commission, between 1992 and 2006, thanks to the Single Market, ...
  - ... EU prosperity increased by more than 2% of GDP
  - ... Trade within the EU increased by 30%
  - ... 2.75 million extra jobs were created
  - ... FDI inflows more than doubled

# Europe's experience: institutional cooperation



- EU: Benefits from single market have been reaped thanks to common institutions and transversal coordination
  - The Lisbon strategy: incentives for structural reforms that increase member countries resilience and long-term growth
  - Market regulation is either common (e.g. competition policy) or coordinated (e.g. banks, financial markets regulation)
- Euro area: Reinforced economic policy coordination
  - Monetary policy conducted a single institution: the ECB
  - Fiscal policy conducted by member States
  - Common exchange rate policy
  - Efficient liquidity provision by the Eurosystem
  - Policy dialogue within the Eurogroup

# Euro area: monetary integration experience



- Price stability
- Elimination of exchange rate risk and decrease in transaction costs
  - Intra-EMU trade =  $\frac{1}{3}$  of euro area GDP, against  $\frac{1}{4}$  in 1998
- These 2 factors + low nominal interest rates contributed to increase euro area resilience to adverse shocks
- The euro has accelerated financial markets integration and facilitated adjustment to asymmetrical shocks
  - Portfolio diversification opportunities for households and companies
  - Easier access to market finance



# European integration is still on the move



- Enhancing further growth and resilience of the euro area still a challenging task - and will underlie the objectives of the **French presidency of the European Union**, starting 1<sup>st</sup> July 2008 - notably:
  - Increase financial stability through more transparency
  - Pursue financial integration by improving supervision and prudential rules
  - Improve euro area resilience by re-thinking Lisbon strategy after 2010
  - Governance:
    - implement the novelties of Lisbon Treaty
    - Exert our global responsibilities, including in bilateral dialogues

# France closely follows progresses of Asian cooperation



- Shared experience between Asia and Europe on such topics as integration, cooperation, and coordination is particularly relevant
- Important steps have been taken towards financial and commercial integration in Asia
  - Deeper trade integration
  - Chiang Mai and Asian Bond Market Initiative
- Some lessons from European experience
  - Importance of surveillance and policy dialogue
  - Need to ensure consistency with overall multilateral framework (e.g. IMF, FSF ...)

# Better exerting our joint responsibilities in world governance: strengthening the voice of emerging countries



- Need to address together challenges of 21st century economy: high commodity and food prices, climate change, financial stability, poverty reduction
- Important steps already taken:
  - Vibrant policy dialogue in new fora such as the G-20
  - IMF quota reform
    - France deeply engaged in the process
    - Emerging Asia is the main winner
    - France and the United Kingdom made the biggest efforts in terms of voting rights
  - World Bank reform launched at last Spring Meetings
- In the longer run, France has stated its objective to transform the G8 into a G13