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Introductory Remarks[1]

Globalization is currently seen by many as a potentially dangerous process, especially in Europe. However, globalization is not without historic precedent. Professor Taylor will show that the history of Globalization displays a distinctive U-shaped pattern, featuring high economic integration at the end of the 19th century up to the World War I, low integration after the World War II, and rapidly rising integration in the 1980s up to now. Of particular interest to a central bank, exchange rate regimes and monetary policy have been playing an important role in this U-pattern. Sharing a common currency helps explaining the history of world trade, e.g. Professor Taylor finds that the gold standard had a significant impact on trade. Judging from this historical perspective, the euro should have similar beneficial effects. A comparative perspective on globalization also leads to the empirical validation of the so-called trilemma, which is very important not only for central banks: macroeconomic policy cannot simultaneously achieve a fixed exchange rate, international capital mobility and autonomous monetary policy. For monetary policy to be effective either the exchange rate must float or capital controls must be applied. The trilemma is one of the most fundamental constraints of economic policy.

A simple generalization of the economic impact of today's globalization is not valid, but benefits seem to be greater in countries that improve their institutional quality. For Europe in particular, empirical research seems to point towards gains. Existing studies such as the EU Economy Review (2005) reach the conclusion that globalization can be positive for Europe, even though adjustments will be necessary. Free trade has proved to be beneficial: No country closed off to trade prospered in the past. About one fifth of the increase in living standards in the EU-15 over the past 50 years comes as a consequence of Europe's integration into the world economy. It seems obvious that

globalization entails opportunities and challenges not only for Europe, but also for many other advanced and developing countries. But given the right adjustments, globalization should prove to be positive for everyone in the long run. In particular, voices which say that Europe cannot deal with the speed of adjustment seem to exaggerate the actual process of globalization. A few examples show this:

Concerning capital markets, Professor Issing stated earlier on that the global tendency to invest in the home market has been declining, albeit at a

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pace more slowly than expected and only in the equity market – the equity home bias still amounts to approximately 70% in the euro area and in the U.S.A.

In terms of FDI, globalization remains a rather European phenomenon for the European Union – between 2001 and 2003, 7% of all EU-15 FDI went to new Member States, while only 1.6% to China and 0.4% to India. Overall wage levels do not appear to be the main driving force for FDI flows from the EU-15. As regards the fear of job losses due

to delocalization, although it is difficult to measure the phenomenon, available indicators suggest a rather limited impact on employment which is even smaller in comparison with ongoing structural change.

Concerning trade, the European Union has held its world export market share stable at around 20%, while the U.S.A. has somewhat declined to around 15%. While China's exports are growing, so are its imports, and as a result its trade surplus stands at a mere 1.6% of GDP; India even runs a trade deficit with the rest of the world.

There are however worrisome signs that the EU is losing its attractiveness as a location for R&D investment. The EU lags far behind the U.S.A. in its ability to attract highly skilled immigrants.

All this means that there is a window of opportunity, that we have got some time to deal with the challenges of globalization which entail changes in economic, social and education policies. The EU has committed itself to change these policies in the framework of the Lisbon agenda until 2010. It is time to use the remaining years to implement these changes.

The panel discussion will provide the opportunity to further reflect on these issues from the perspective of economists and economic policymakers, by addressing, among others, the following questions: What are the economic consequences of globalization? What can Europe do to adjust to the challenges of globalization? What can we learn from the historical process of globalization?