AN EVALUATION OF THE IMPACT OF A COMMON EUROPEAN CURRENCY (EURO) ON INTERNATIONAL BUSINESS.

BY

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CERTIFICATION

This Thesis titled An Evaluation of the Impact of a Common European Currency (Euro) on International Business by Abdulmalik Ibrahim Adeiza meet the regulations governing the award of the degree of Master of Business Administration (MBA) at the Ahmadu Bello University Zaria and is approved for its contribution to knowledge and literary presentation.

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DECLARATION

I hereby declare that the following dissertation is my original handwork, organised, arranged and presented by myself in partial fulfillment of MBA programme.

I also declare that this project or topic has not been written on, as project work and instances where materials are extracted from other sources, acknowledgments are made appropriately.

Signature

Date

DEDICATION

I dedicate this project to ***Almighty*** **Allah** who made all things possible, to my late Mum, **Chief (Mrs.) J.A Ohieku**, and my late brother, **Dr. Yusuf O. Abdulmalik.**

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ABSTRACT

In an attempt to evaluate the impact of the common European Currency (Euro) recently launched by 11 out of the 15 members of the European Union (EU) vis-a-vis how the U.S dollar's dominance is being challenged by the Euro in international business, certain fundamental issues need to be analysed,

In this light, efforts have been made to touch on such topical issues as: an overview of the pattern of international business prior to the launching of the Euro; how and why the Euro came into being; events leading lo the birth of the Euro; conditions necessary for the success of the Euro and finally the implications and possible impact of the Euro on European member nations, African economy and international business as a whole.

However, there are structural changes taking place in Europe's financial markets as a result of the Economic and Monetary Union (EMU) and other developments having significant impact on international portfolio adjustments and capital flows. To this extent the Euro is perceived as a stable store of value and assuming an important role as a global reserve currency.

Willi the integration roles a single market of 290 million people with monetary soundness, fiscal rectitude and appropriate structural reforms, will pave way lor a prosperous Europe. But it will succeed if the Euro is embodied in the bahaviour of business leaders, entrepreneurs, consumers and, above all the entire European citizenry. The success of the Euro is a necessity not only let

[1] Tlime Magazine - (January, 1999. P.24*).*

Europe, but also for the rest of the world, which must be able to count on European growth and prosperity if the global economy is to proper.

Finally, we found out in this study that the Euro has a great impact on Europe considering employment creations, foreign exchange risks, stronger coordination of labour and financial markets, education and training, welfare and safety needs and political integration.

in Africa, the CFA zones whose currencies are tied to the French franc are also expected to benefit more from the success of the Euro.

International business pattern is changing with the impending dominance of the Euro and also witnessing the arrival of another big market in Europe.

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CHAPTER ONE - GENERAL INTRODUCTION

1.1 INTRODUCTION.

The fact that the United States (U.S) is a dominant factor in international business cannot be over emphasized. From a humble beginning by her (U.S) Multinational Corporations (MNCs), trying to increase their presence across the Atlantic, to the present day 40% share of the world's direct, foreign investment.

The American companies indeed have come a long way, and as the saying goes "Uneasy lies the head that wears the crown". Therefore challenge to the U.S dominance in the International Business, is also worthy of note. These challenges particularly from Europe, and in the last decade from Japan, have been of great concern to the U.S from 57.8% share of direct foreign investment in 1970, 46.3% in 1980, 46% in 1980, 46% in 1987 and finally to 40% in 1997[1]. The challenge no doubt, is growing stronger daily and will continue if all things remain as they are.

However, it is obvious that the U.S. dollar still serves as the world's pre-eminent international currency, thwarting challenges from several other currencies. In the early post world war II era, the pound sterling provided some competition to the dollar, while in the 1980's the increased use of the Deutsche Mark and the Japanese Yen led to the speculation that the international monetary system was becoming a tri-polar regime.

[1] Lecture notes on International Business by Mall. A. Sanni.

By the early 1990's the international use of the Deutsche Mark and the Japanese Yen stabilised at modest levels, and expectations of a tri-polar regime subsided. during the last ten years, there been an increasing speculation that the international monetary system may become bi-polar, will the dollar sharing the spot-light with a currency that is yet to come into existence in notes and coins - the Euro.

1.2 STATEMENT OF THE PROBLEM.

European countries have become more and more integrated in recent time. They routinely sell goods and services across national boundaries , own stocks and bonds from other countries and even work abroad. But since each country has it's own currency, a lot of time is spent in trading one currency for the other.

In order to solve this problem however 11 European countries came together to form the Economic and Monetary Union (EMU), which came out with a common European currency (EURO).

Furthermore, forming EMU had cost, as various European countries now have to adjust their exchange rates and monetary policies.

More importantly, it is pertinent to look at international monetary system becoming bi-polar (The Euro will definitely rival the dollar and if things be the same, it will become stronger than the dollar), thus, critically evaluating the impact of the Euro on international business, and also find out if it is a blessing or more of a blessing than curse to international business.

1.3 OBJECTIVE OF THE STUDY.

The objectives of this study involves over-viewing the pattern of international business prior to the launching of the common European currency - the Euro and after it's launching.

In bringing out this, it is pertinent to consider how and why the Euro came into being and the events preceding the birth of the Euro.

We also try to examine the conditions necessary for the success of the Euro and the convergence process of European member nations.

Finally, the implications and possible impact of the Euro on Europe, African economy and international business as a whole will be critically examined.

1.4 THE SIGNIFICANCE OF THE STUDY.

The significance of this study is to provide a critical insight about the current international monetary system and also looking at the birth of a new currency which is very likely to become the much 'needed messiah' in international business. And also the 'good news' it brought in the light of easier international transactions.

Also, the study aims at finding out if the birth of Euro is a curse or blessing, if it is more of a blessing, talking about it's impact on international business.

Finally, the study will serve as veritable service of information and knowledge to students of business administration, economics. Accounting and other related disciplines in Nigeria Institutions of higher learning and also organisations interested or involved in international business.

1.5 THE SCOPE OF THE STUDY (DELIMITATION).

The study is limited to examining and evaluating from the birth and up till the impact of Euro on international business.

In the course of this study, the pattern of international business is looked at, and also looking at the reasons that necessitated the birth of Euro. The various growth stages of Euro up till maturity, it's operational and organisational modalities.

Finally the study is limited to the analysis and evaluation of the impact of Euro and it's expected performance in international business.

1.6 LIMITATIONS OF THE STUDY.

In the course of this study, we cannot forget to not and mention the constraints that has limited this work to what is presented here. The constraints however, include not being able to get a very comprehensive material on the topic as desired, and most of the available literatures were on the challenges of the U.S. dollar by Euro. this is thus, a problem because the area of study is a new and current one. Therefore, of a lot of effort is concentrated on picking up every tiny piece of information necessary to build this study.

Also, there is the time constraint that has also affected the conduction of this study. Despite that the topic was approved by my supervisor on the 27th August, 1999, I did not have enough time to visit all the research and consultancy centres around the country. I could only visit the British Council in Kaduna and United States information services in Lagos to piece-up the information gathered so far before submission.

Furthermore, every information in this studying is pieced together from seminar papers and presentations, Journals, magazine and dailies.

1.7 DEFINITION OF TERMS

International Business is a term used to describe a business whose area of operation or market transcends beyond one national boundary. In a nutshell, international business can be used to describe those business activities of an individual, or a firm that involves the movement across national boundaries by the individual or the firm itself of resources, goods, services and skills.

However in this study, it merely covers the participants in international transactions with Europe from the rest of the world.

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CHAPTER TWO - LITERATURE REVIEW

2.1 INTRODUCTION.

This chapter tries to look at the review of current pattern of international business. This cannot only be done without revealing evidence of the dominance of the U.S. dollar which is being seriously challenged by Europe.

Also, various write-ups and literatures are reviewed thus, giving a background precedence to the birth of a common European currency - the Euro and the convergence trend of European Union (EU) Member States.

2.2 AN OVERVIEW OF CURRENT PATTERN OF INTERNATIONAL BUSINESS.

A cursory look at the literature of the current pattern of international business shows that the United States of American has played a significant role in world trade and investment; accounting for about 12% of the world's total trade for a huge 46% of the world stock of direct foreign investment. In fact, it is estimated that out of about five hundred (500) giant multi-nationals businesses currently existing in the world, United States alone, controls about 250 of these industrial giants. As at 1987, a significant number of U.S. companies derives 1/3 to 1/2 of their total earnings from foreign countries. These included among others, such U.S. giants as EXXON, FORD MOTORS, TEXACO, IBM and ITT[1].

A further look at the above scenario shows that, the U.S. alone operates over 11,000 subsidiaries in 74 different countries in the six continents of the world.

[1] Lecture notes on International Business by Mall. A. Sanni.

This shows a significant increase over the situation immediately after world war II. Despite this, the United States' dependence on foreign raw materials and minerals is increasing yearly.

Up till date, the United States is still having a grip on a lion-share of the world total foreign private investment, it is about 46%. However, the situation has not been rosy as she has slipped in the last decade. The share of countries like Germany, Switzerland, Japan and Canada has of recent been increasing. The U.S. share in direct foreign investment has drastically decreased from 57% in 1970 to 46.3% in 1980, and 46% in 1987. This percentage however, dropped to 40% in 1997. During the period under consideration, Germany and Japan recorded about three-fold and five- fold increase in their own shares respectively[1].

Given the above situation, the impact of these Japanese and European investment in international business-both in the United States and around the world is a formidable challenge to the U.S. opposition. This is sequel to the fact that international business in the form of multi-national companies (MNCs) that had hitherto, been the exclusive preserve of the U.S. not only now come from Europe and Japan, but also from developing countries like Brazil, South-Korea, India and Mexico.

It is important to note here that as at the time the U.S. was loosing grip of its leadership position in international business, Japan was seriously consolidating it's shares. The U.S. is now quickly becoming a major host to foreign companies put succinctly, there is currently a growing shift in international business.

[1] Lecture notes on International Business by Mall. A. Sanni.

The above can be buttressed by the observation of a renowned author who noted that, the number of U.S. companies among the world's top 12 declined in all industry groups except Aerospace while the European companies increased their representatives among the top 12 in 9 of the 13 countries.

The facts and figures enumerated above have shown unequivocally, that the U.S. dominance in international business is fast coming to an end. More especially with recent introduction of the common European currency (Euro) in the early hours of January 1st, 1999.

2.3 HOW AND WHY THE EURO CAME INTO BEING.

The European community, also known as European Union Launched its, common currency called ' EURO, in the early hours of 1st January 1999, after much concerted efforts. It marked the creation of a United States of Europe.

There are about 290 million people in fifteen nations of Austria, Belgium Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Greece, Britain, Spain, Denmark and Sweden; that made up the European Economic Community. It is important to point out here that as at the time, the Euro currency was launched in the early part of this year, four nations of the European Union (E.U) are yet to be fully incorporated into the Eurozone. These countries are Greece (An aspirant), Britain (opted out), Denmark (opted out) and Sweden (stood aside). Separated by borders they have border controls, border taxes, border subsidies, nationalistic policies and protected industries. At the beginning of January, 1999, they became a single market.

To those nations who have already adopted the Euro, gone are the barriers to travel, employment, investment and trade. Henceforth, there will be free flow of workers, money, goods and services within the E.U .

The primary motivations for these fifteen nations to unite are as follows:

i. To reassert their position against the industrial might of the U.S and Japan

ii. As separate countries, creating barriers against one another, European industries were unable to develop economies of scale enjoyed by the U.S.

iii. The new European community, will allow European firms to tap what will become the world's single richest market.

iv. This reduction in trade barrier will also encourage non-western European companies to invest in these countries to take advantage of new opportunities.

v. Finally, European multi-nationals will have new clout in attacking American, Japanese and other world markets.

2.4 EVENTS PRECEDING THE BIRTH OF EURO.

Over the past few years of doubts and debate, the gestation period of the 'Euro' has seemed painfully drawn out so much so that it's birth may no longer seem exciting. But in truth, this new currency has been brought to the brink of life with remarkable speed tension and teething troubles not withstanding, preparations for the currency have been speedy.

However, the road to Economic and Monetary Union (EMU) began as war-dazed European countries realised that a repetition of the horrors it has just suffered after the world war II, could only be avoided by integrating their

economies together in what began as a six-nation European common market, which has now evolved into 15-member European Union.

The desire for currency stability in Europe dates as far as the 19th century Latin Monetary Union comprising France, Belgium, Switzerland, Bulgaria and Greece. To put this in place, there were series of agreements beginning in Bretton Woods in 1944, stabilising exchange rates. The system worked well enough, but as it was breaking down, European leaders in 1971 mapped out a route to a common currency by 1980. No sooner has they done so that the first of the great oil shocks of the 1970's dashed notions of currency unions.

Never the less, Europe continued to struggle with monetary stability, first with the "snake" in April, 1972 which was more rigidly than the Bretton Woods Agreement, and then with the European monetary system that in 1978 established the exchange rate mechanism to keep currencies more or less in line throughout the 1980's. But the rising power of currency speculators in the 1990's eroded the ability of central banks to control their money's value and politicians searched for a better solution.

Those who created EMU - mainly politicians and their myrmidons in the office and conference rooms of Brussels - portray a beckoning landscape of wealth, liberty and economic power that rival the United states and surpass Asia. The decision to adopt the Euro, says German Councilor Helmut Kohl "..... is a question of peace and war for the 21st century. If the decision is yes, future generations in Germany and Europe can live in peace and freedom in social stability and prosperity." (CNN world news interview on 1st January, 1999).

The project actually began to take shape in 1987-1988 with the papers from Edward Balladur and Hans- Diectrich; French finance Minister and German foreign minister respectively. In response to the recommendations by these ministries, a summit meeting was held in Hanover (June, 1988), during which European Union (E.U) heads of government duly invited the president of the European Commission, Jacques Delors to assemble a committee and produce a report on economic and monetary Union. The Delors committee returned a year later with proposals for a union in three stages. Stage one involves concerting efforts to coordinate national monetary policies; stage two involves leaving exchange rates of currencies destined to enter the monetary union save for exceptional circumstances that will call for re-alignment. And a European monetary institute would be set up as the precursor to a true European Central Bank (ECB); stage three would now come with a single currency under the new central bank's authority.

2.5.0 ORGANISATIONAL MODALTIES OF EMU

The European leaders eventually began stage 1 on the 1st of July, 1990, the date already set for a general abolition of capital controls within the European Union (EU), the leaders agreed to an inter-governmental conference (IGC) to be convened to draft the treaty commitments needed to underpin a single currency. This conference opened in Rome in December ,1990 and ended a year later in 1991 at Maastricht in the Netherlands.

It produced the 'Maastricht Treaty, one of the most ambitious, and contentious documents in EU history. The Economic and Monetary Union (EMU)

planned an economic unification thus, providing for full liberalisation of capital movement within the European Community.

Again between 1990-1995, things began to move fast. The Maastricht treaty was signed by the European Community (EC) members and also the EC became the E.U. The single market also began, guaranteeing free movement of people, goods, capital and services across European countries.

The stage 2 of the monetary Union began on 1st January, 1994. The European Monetary Institute (EMI) was opened in Frankfurt this year under the directorship of Alexander Lamfalussy, a Belgian. In December, 1995, a meeting was held in Madrid-Spain, during which E.U leaders confirmed their intention to launch a single currency on 1st January, 1999. They decided that the new currency should be called 'Euro', and as expected, confirmed that it would inherit the value of the " ECU", a synthetic currency tied to a basket of European currencies.

Between 1995-1999/2000, the Frankfurt-based European Monetary Institute became the new European Central Bank (ECB).

The " stage 3" involves where the ECB will guard the currency's value by setting interest rates- essential the price of money and fixing of exchange rates. In short, the ECB took control of the monetary policy on the 1st January, 1999, when the Euro as launched.

2.5.1 THE EURO AS A CURRENCY WITH LASTING STABILITY.

By ratifying the Maastricht treaty, the Member States opted for stability after learning from experience that high levels of inflation, the accumulation of public deficits and high long term interest rates distort business decisions and

expectations, shift the burden of a short-lived recovery, onto future generations and deter investment, slow down growth and hold back job creation.

The achievement of a high degree of convergence between Member States' economics laid the foundations for a stable economic framework in the European Union. this frame Work now has to be safe guarded and solidly underpinned.

2.5.2 CONVERGENCE, AN ESTABLISHED FACT IN EUROPE.

The creation of the single currency satisfies the need for stability on which growth depends; the collapse of the international monetary system in 1971 and the lack of tools for economic and monetary cooperation between the Member States caused inflation to soar out of control, growth to fall sharply and unemployment to surge in Europe.

Europe responded to this challenge by putting in place machinery for ensuring economic and financial solidarity. From 1979 onwards, the establishment of the European Monetary System (EMS) and the creation of the 'ECU' thus, gave birth to an area of stability which helped to curb inflation and to stabilise exchange rates between most of the Member States.

However, the globalisation of the economy and the turbulent international environment called for a response commensurate with what is at stake in European integration; it has become essential, in order to secure a deeper single market to shelter it from erratic exchange rate fluctuations. By signing the treaty on European Union 1992, the Member States confirmed their determination to ensure that goods, services people and capital can move freely, to facilitate genuine

convergence of economic policies and to provide Europe with a single currency before year 2000.

Although often put to test in recent years that political resolve has never faltered. It's credibility is founded on a deep-seated and oft-repeated conviction that, in the interests of Europe and of its members states, the objectives, conditions and timetable for achieving economic and monetary union as laid down in the 'Maastricht Treaty' must be scrupulously adhered to. The record of the last few years is impressive.

- The outstanding progress made by Member States demonstrates the extent to which their economies have converged. The average rate of inflation in the community has fallen substantially and is now under the 2% mark nearly all Member States. The average general government deficit in the community fell from 6.1% of GDP in 1993 to 2.4% in 1997[1], allowing a structural reduction in the government debt ratio. These achievements have enabled long-term interest rates to fall sharply thereby benefiting investments and growth, and have strengthened exchange rate stability within the EMS. On the basis of the analysis set out in European Commission report, the commission therefore recommended to the council that Member States adopt the Euro on 1st January, 1999 since they fulfill the necessary conditions.
- The institutional stages of the process have been in line with the provisions of the treaty as spelt out in the reference scenario adopted by the Madrid European council in December, 1995, the legal and the technical framework

[1] European Commission Report on Euro '99 (Recommendation).

(stability and growth pact, legal status of the Euro, new EMS, etc.). Crucial to the smooth operation of EMU is now in place.

- Since the publication of the commissions Green paper in May, 1995, the necessary preparations for introducing the Euro on 1st January, 1999 have *been carried out with determination, precision and vigour by the community* institutions, the Member States and economic agents, who are awaiting the decisions of the heads of state of governments to launch EMU in order to reap the fruit of their labours. The commission recommendation provides the legal basis of that decision to be taken at the European council on 2nd May, 1998.

Even before the single currency was introduced, confidence was restored in Europe. The fact that inflation has been brought under control, that public finances have been placed on a sounder footing and that interest rates have fallen to all time lows was the reason behind the present economic recovery, which is creating jobs and the stable monetary conditions in Europe despite the Asian crises. Growth is back, it rose from 1.8% of GDP in 1996 to 2.7% in 1997[1], and the forecast were for 2.8% in 1998 and 3.0% in 1999. Europe was expected to create 3.4 million jobs over the three years spanning from 1997 to 1999.

These encouraging economic achievement augur well for the success of the Euro. The large number of Member States which fulfil from the outset the necessary conditions for the change over to the single currency demonstrates that the European Union has satisfactorily prepared the ground for this new phase of

[1] European Commission Report on Euro '99 (Recommendation).

European integration. It has found the way back to stability the lasting nature of which should enable it to reap the substantial benefits that will flow from the credibility of the Euro.

2.5.3. THE UNION ON THE ROAD TO LASTING STABILITY.

For this purpose, the Treaty offers a number of essential guarantees which are listed as follows:

- The independence of the ECB the main objective being to maintain price stability. Without prejudice to this objective, the ECB will lend it's support to general policies within the community with a view to contributing to lasting growth, a high degree of convergence and a high level of employment.
- The maintenance of sound public finance: the pooling of the currency imposes an obligation on everyone to observe strict economic and budgetary discipline. The commission intends to play its full part and in particular to ensure compliance with the provisions of the stability and growth pact.
- The instruments necessary for strengthening surveillance and coordinating the economic policies of the Member States in the Euro area: the commission will assume all its responsibilities with regard to the permanent operation of the relevant procedures.

The political resolve of governments is essential for the success of EMU, reasonable and responsible behaviour on the part of the national authorities and economic agents is even more important than mere compliance with the rules of procedure. It determines the future of the European economies. The determination

of governments has enabled all the Member States to reduce their government deficits and to reap the initial positive result. The same attitude should commit them, in the medium term, to pursue the objectives of a budget which is close to balance or in surplus. This commitment forms part of the stability and growth pact.

The Member States, having learnt from past experience and errors, must seize the opportunity that the Euro now offers to exploit their improved economic environment in order, further to consolidate public finance and to conduct their budgeting policies in such a way as to restore the room for maneuver which they still lack. Expenditure must, sooner or later be paid for; the objective of a balanced budget in the medium term must be attained , if only to enable Europe to prepare for the consequences of the inevitable ageing of it's population as the next millennium dawns. To act otherwise would mean bequeathing to future generations the burden of deficits accumulated by their parents.

All the Member States are concerned, whether or not they take part in EMU on 1st January, 1999, since they are all potential members. Progress towards convergence will be facilitated by the consultations on economic, budgetary and financial matters provided for in the Treaty, by the provisions and by the option they have of joining the new exchange rate mechanism.

The political resolve of those in power, the progress made towards convergence, the guarantees offered by the Treaty and the coordination and surveillance mechanisms established by the conclusions and resolutions of the Amsterdam European council will all confer on the Euro, a measure of credibility equal to that enjoyed today by the currencies of the best - performing Member

States. The Euro represents an opportunity for the future of Europe; it is up to Europe to seize it.

2.5.4 COMPATIBILITY OF LEGISLATION AND CONVERGENCE.

Remarkable progress towards the achievement of a high degree of sustainable convergence had being made in all Member States since the beginning of the 'second stage' of EMU. This progress gathered greater momentum during 1996 and 1997 and in the early part of 1998, when efforts to achieve convergence (especially in the budgetary field) were intensified in many Member States. Other necessary preparations for the 'third stage' were also advanced at both national and community levels.

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Compatibility between national legislation, including the statutes of national central banks, and Articles 107 and 108 of the Maastricht Treaty and the statue of the European System of Central Banks (ESCB) has to be ensured in particular, concerning the objectives of national central banks and their independence and in respect of provisions affecting the integration of the national central banks in ESCB and other monetary matters. Member States were required to ensure the compatibility of their legislation at the latest date of the establishment of the European Central Bank (ECB). Most Member States have already enacted necessary changes in legislation, or are in the process of legislating on government proposals for changes. the situation in eight Member States (Belgium, Germany, Greece, Ireland, Italy, the Netherlands, Portugal and Finland) can be considered as compatible with Treaty requirements while on a further four Member States' compatibility will be ensured provided that the existing government

proposals are enacted (in Spain, Luxembourg and Austria) or the present draft government proposal is submitted to and adopted by parliament (in France). In the case of Sweden, the requirements of the constitution prevented the adoption of the government's proposals before late 1998, and there remained some incompatibilities between the present draft laws and the Treaty. By virtue of their opt-outs, Denmark and the United Kingdom are under no obligation to make their legislation compatible except for central bank independence in the case of Denmark, for which this legislation is compatible.

The steady progress made in the community as a whole and by individual Member States in fulfilling each of the four convergence criteria of article 109j of the European Commission, and in moving towards or maintaining a high degree of price stability continued in 1997 and into 1998. The assessment of price stability and inflation convergence in Member States using recently available Harmonised Indices of Consumer Prices (HICPs), which provide a better and more comparable basis for the assessment than national consumer price indices. The average rate of inflation for each Member State has been calculated as the percentage change in the average HICP in the latest 12 months relative to the average index in the preceding 12 months. The reference value has been calculated for the purpose of this report as the simple arithmetic average of the average inflation rates in the three best -performing Member States plus 1.5% points calculated in this way and according to the available information as at January, 1998, the three best inflation performers were France, Ireland and Austria, and the reference value was 2.7% (see table 1 and Graph 1-4). Fourteen Member States Belgium, Denmark,

Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal, Finland, Sweden and the Unites Kingdom) has average inflation rates below this reference value. In view of the structural changes (both institutional and behavioural) which have played an important role in achieving price stability and given the developments in unit labour costs and other price indices, there are strong reasons for believing that the current inflation performance in all these 14 Member States is sustainable. Greece has also had success in bringing the inflation rate down but it still remains much higher than the reference value.

TABLE.

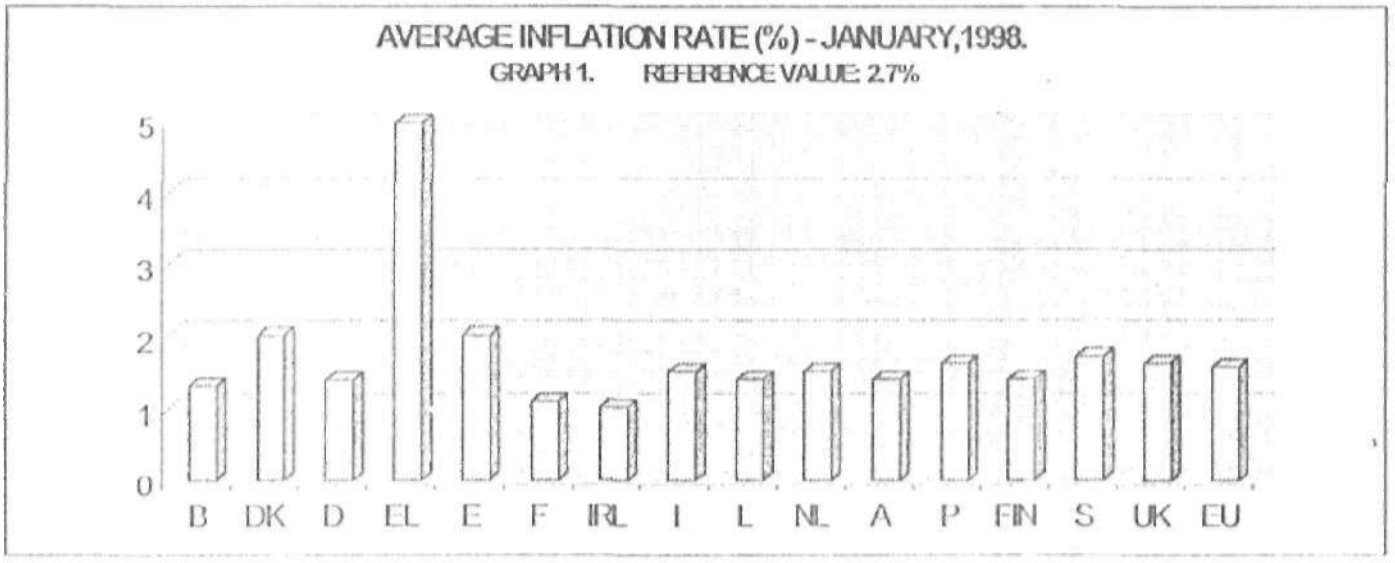
CURRENT PERFORMANCE OF THE MEMBER STATES IN RELATION TO

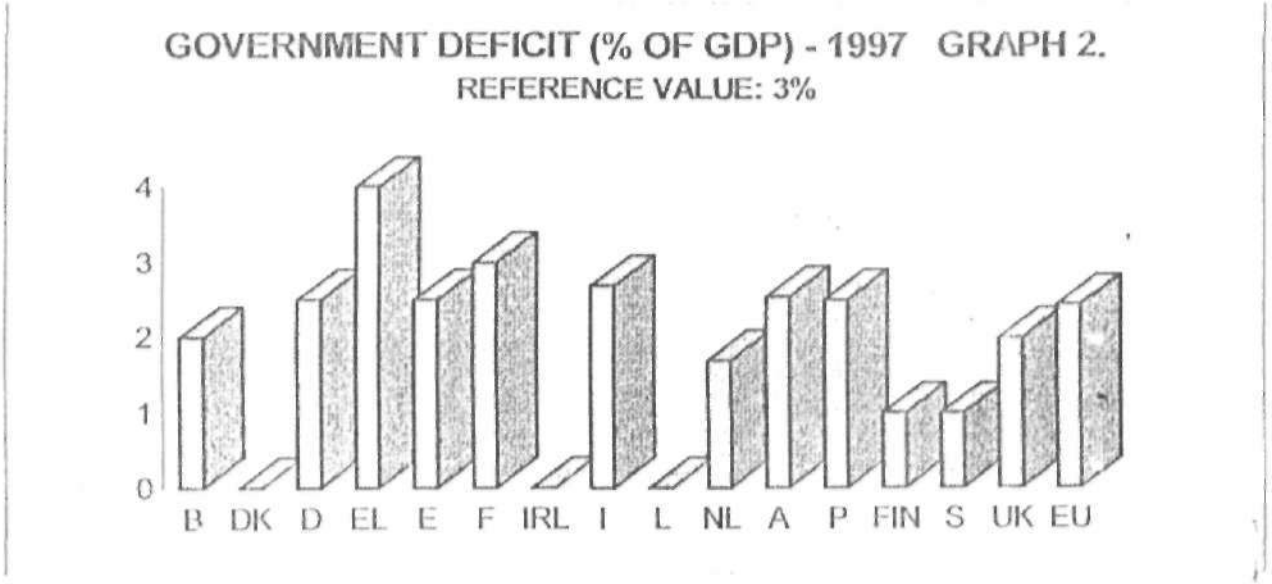
	INFLATIO	GOVERNMENT BUDGETARY POSITION						EXCHANGE RATES	LONG TERM INTEREST RATES (4)
	HICP (1)	EXISTENCE OF AN EXCESSIVE DEFICIT (2)	DEFICIT (% OF GDP) (3)	DEBT (% OF GDP)				ERM PARTICIPATION	
	JANUARY 1998		1997	1997	CHANGE FROM PREVIOUS YEAR 1997	1996	1995	MARCH 1998	JANUARY 1998
REFERENCE VALUE	2.7 (5)		3	60					7.8 (6)
B	1.4	YES (7)	2.1	122.2	-4.7	-4.3	-2.2	YES	5.7
DK	1.9	NO	-0.7	65.1	-5.5	-2.7	-4.9	YES	6.2
D	1.4	YES (7)	2.7	61.3	0.8	2.4	7.8	YES	5.6
EL	5.2	YES	4.0	108.7	-2.9	1.5	0.7	YES (8)	9.8 (9)
E	1.8	YES (7)	2.6	68.8	-1.3	4.6	2.9	YES	6.4
F	1.2	YES (7)	3.0	58.0	2.4	2.9	4.2	YES	5.5
IRL	1.2	NO	-0.9	66.3	-6.4	-9.6	-6.8	YES	6.2
I	1.8	YES (7)	2.7	121.6	-2.4	-0.2	-0.7	YES (10)	6.7
L	1.4	NO	-1.7	6.7	0.1	0.7	0.2	YES	5.6
NL	1.8	NO	1.4	72.1	-5.0	-1.9	1.2	YES	5.5
A	1.1	YES (7)	2.5	66.1	-3.4	0.3	3.8	YES	5.6
P	1.8	YES (7)	2.5	62.0	-3.0	-0.9	2.1	YES	6.2
FIN	1.3	NO	0.9	55.8	-1.8	-0.4	-1.5	YES (11)	5.9
S	1.9	YES (7)	0.8	76.6	-0.1	-0.9	-1.4	NO	6.5
UK	1.8	YES (7)	1.9	53.4	-1.3	0.8	3.5	NO	7.0
EU	1.6		2.4	72.1	-0.9	2.0	3.0		6.1

(1) Percentage change in arithmetic average of the latest 12 monthly harmonised indices of consumer prices (HICPs) relative to the arithmetic average of the 12 HICPs of the previous period.
(2) Council decisions of 26th September, 1994; 10th July, 1995; 27th June, 1996; 30th June, 1997.
(3) A negative sign for the government deficit indicates a surplus.
(4) Average maturity 10 years; Average of the last 12 months.
(5) Definition adopted in this report: Simple arithmetic average of the inflation rates of the three best-performing Member States in terms of price stability plus 1.5% points.

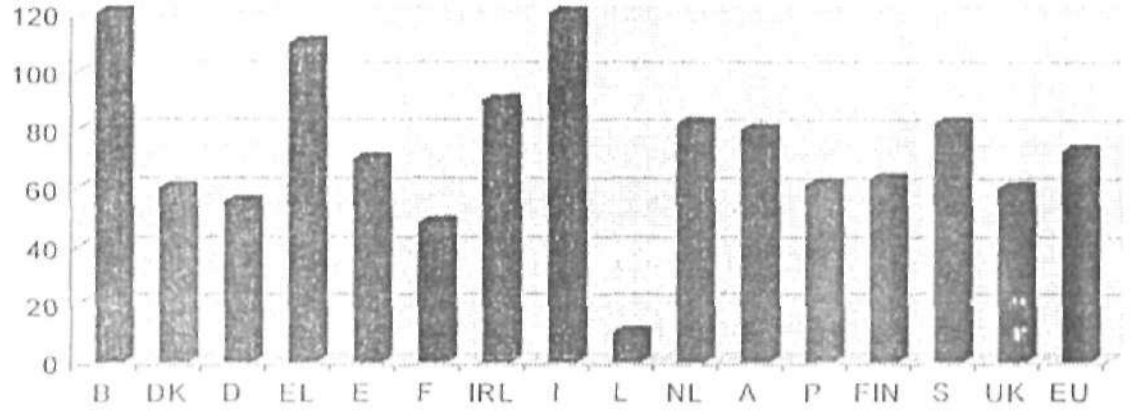
(6) Definition adopted in this report: Simple arithmetic average of the 12-month average of interest rates of three best-performing Member States in terms of price stability plus 2% points.
(7) Commission is recommending abrogation.
(8) Since March, 1998.
(9) Average of available data during the past 12 months.
(10) Since November, 1996.
(11) Since October, 1996.
Source: Commission Services.

KEY INDICATORS OF PERFORMANCE TOWARDS CONVERGENCE.

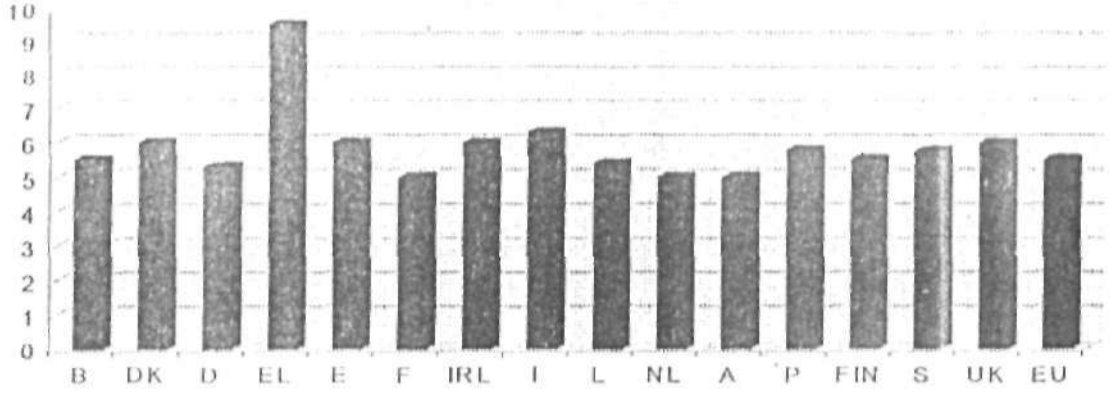




GOVERNMENT DEBT (% OF GDP) - 1997
(AND PEAK VALUE IN PERIOD 1993-1997) GRAPH 3.
REFERENCE VALUE: 60%



AVERAGE LONG-TERM INTEREST RATE (%) - JANUARY,
1998. GRAPH 4. REFERENCE VALUE: 7.8%



Source: Commission Services (European Commission Report, 1999).

KEY.

B	-	BELGIUM	L	-	LUXEMBOURG
DK	-	DENMARK	NL	-	THE NETHERLANDS
D	-	GERMANY	A	-	AUSTRIA
EL	-	GREECE	P	-	PORTUGAL
E	-	SPAIN	FIN	-	FINLAND
F	-	FRANCE	S	-	SWEDEN
IRL	-	IRELAND	UK	-	UNITED KINGDOM
I	-	ITALY	EU	-	EUROPEAN UNION

The assessment of the convergence criterion on the government budgeta y position was linked to decisions made in accordance with the excessive deficit procedure in article 104c of the Treaty of the European commission. As at March 1988, five Member States (Denmark, Ireland, Luxembourg, the Netherlands and Finland) were not the subject of a council decision under article 104c (6) on the existence of an excessive government deficit and so already fulfilled the criterion. The commission is initiating the 1998 implementation of the excessive deficit procedure in parallel with the European commission report. Government deficits have generally been brought down significantly during the second stage of EMU from the levels reached in 1993, when they were swollen by the effects of recession. Substantial further progress was made by Member States in 1997. The deficit in 14 Member States of EMU from the levels reaches in 1993. When they were swollen by the effects of recession. Substantial further progress was made by Member States in 1997. The deficits in 14 Member States in 1997 were either below or equal to the 3% of Gross Domestic Product (GDP) reference value, and further declines in deficit were expected in 1998. While the government debt ratio was below the 60% of GDP reference value in 1997 in only four Member States (France, Luxembourg, Finland and the United Kingdom), almost all the other Member States with higher debt ratios have succeeded in reversing the earlier upward rend. Only in Germany where the debt ratio is just above 60% of GDP and the exceptional costs of unification continue to bear heavily, was there a further small rise in the debt ratio in 1997. In 1998, falls in debt ratio was witnessed in all the Member States where the ratio was above the reference value. Conditions are

in place for a sustained decline in debt ratios in future years. The Commission recommended to the council the abrogation of the excessive deficit decisions for Belgium, Germany, Spain, Italy, Austria, Portugal, Sweden and the United Kingdom. While Greece has made substantial progress in reducing public finance imbalance in recent years, its deficit in 1997 was still well above the reference value but as expected, it was below it by the end of 1998.

The Treaty refers to the exchange rate criterion as the observance of the normal fluctuation margins of the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS) for at least 2 years without severe tensions and without devaluing against the currency of any other Member State. The operational framework used to interpret the criterion verifies participation in the *ERM for at least two years and assess exchange rate behaviour with respect to a* ± 2.25%[1] fluctuation range around each currency's central rate against the median currency in the ERM grid. The two-year period under review is from March, 1986 to February, 1998. Ten currencies, the Belgium Franc, the Danish Crown, the *German Mark, the Spanish Peseta, the French Frank, the Irish Pound, the* Luxembourg Franc, the Dutch guilder, the Austrian schilling and the Portuguese escudo - have been in the ERM for more than two years. The Spanish Markka entered the ERM in October 1996, while the Italian Lira re-entered the mechanism in November 1996. The ERM has been generally stable and the vast majority of participating currencies have been clustered close to their ERM central rates in the period under review. Among these currencies, only the Irish pound has deviated

[1] European Commission Report on Euro '99 (Recommendation)

from its central rates against the median currency for an extended period of time; however, the deviation of the pound has been mostly above its central rate. The Irish pound was revalued by 3% against the other ERM currencies in March 1998 after the close of the review period. All in all, these 12 currencies can be considered not to have experienced severe tensions in the two years under review. The Greek drachma, the Swedish crown and the pound sterling did not participate in the ERM during the review period. However the Greek drachma entered the ERM in March 1998, after the close of the review period.

The fourth criterion, on the durability of convergence as reflected in long-term interest rates, are forward looking indicators which reflect the financial market's assessment of underlying economic conditions including the sustainability of inflation performance and budgetary positions. Developments in bond markets during the last two years of the ' third stage' of EMU approaches have resulted in a significant narrowing in interest rate differentials, especially for the previously yielding countries. The assessment of the criterion is based on the interest rates on comparable 10-year Benchmark bonds (not fully compatible for Greece), using an average rate over the latest 12 months. The reference value has been calculated as the simple arithmetic average of the long-term interest rates of the three best performing Member States in terms of price stability plus 2% points. In January, 1998, the reference value was 7.8%. Fourteen Member States (Belgium, Denmark, Germany, Spain, France Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal, Finland, Sweden and the United Kingdom) had

average long-term interest rates below the reference value. Greece has also experienced declining interest rates over recent years, but the level of the long-term interest rate still remains higher than the reference value[1].

The Treaty also requires that this report should examine developments in several other areas relevant to economic integration and convergence. The scale of, and activity in financial markets in European Currency Union (ECU), have tended to decline in importance during the ' second stage' of EMU.

The spread between the private and public ECU became narrow as the certainty of the one-to-one convertibility between the ECU and the Euro has been incorporated by the markets. The single market programme has been having a significant impact on economic integration, particularly on the structure of trade between Member States, on direct foreign investment flows, on competition conditions and on price convergence for certain categories of goods and services. The current account of the balance of payment reflect the national savings and investment balances in each Member State; the community as a whole and 10 Member States are estimated to have been in surplus in 1997. Additional indicators for unit labour costs, imported prices and other prices confirm the picture of a satisfactory and soundly based price performance in most Member States.

2.6 OPERATIONAL MODALTIES OF THE EMU.

The European central bank (ECB) in Frankfurt, Germany has a staff strength of 570 workers working, in ' Eurotower' within the average age of 35[2]

[1] European Commission Report on Euro '99 (Recommendation)
[2] Time Magazine (January 11th, 1999. P 21)

years. And graduates with degrees from the world's finest economic institutions. They were chosen or recruited on merit rather than nationality or politics, with average salary of $82,000 (or equivalent) which is above twice that of employees at the Bundesbank.

December 31, 1998 the exchange rates of the national currencies of 11 Member States were irrevocably fixed against each other. The exchange rate of one Euro to an American Dollar is 1 to US. $1.17 and to the pound sterling, £0.705; and the Japanese Yen ¥133. The exchange rate of the Euro to the 11 Member States' currencies are as shown below.

Austrian Schilling	-	13. 7603
Belgian Franc	-	40. 3399
French Franc	-	5.55957
Finnish Markka	-	5. 94573
German Mark	-	1.95583
Italian Lira	-	1936. 26
Irish Pound	-	0.78756
Luxembourg Franc	-	40.3399
Dutch guilders	-	2.20371
Portuguese escudo	-	200.482
Spanish Peseta	-	166. 386.

Source: Time Magazine of January 11th 1999.

From January 1st, 1999 government bonds will be denominated in Euro and most corporate financial transactions will be possible using the new exchange currency. EMU boasters also hope that individuals will switch to Euro –

denominated bank accounts and credit and debit cards, tax payments and utility bills for example in the new currency. But notes and coins will not appear in circulation until January, 2002. For six months, the Euro will circulate along side existing bills and coins until July, 2002 when national currencies will cease to be legal tender (see Euro time- table below).

THE EURO TIME TABLE.

June 1989,	-	Delors report on economic and monetary union
July 1990,	-	'stage 1' abolition of capital controls
December, 1991	-	Maastricht Treaty negotiated
January, 1994	-	' Stage 2' European Monetary Institute created
December, 1995,	-	Euro chosen as name of single currency
May, 1998	-	Euro members chosen, bilateral conversion rates fixed, European central bank established.
December, 1998	-	Euro conversion rates fixed
January, 1999	-	'Stage 3' Euro is launched
January, 2002,	-	Euro notes and coins introduced
July, 2002,	-	National notes and coins withdrawn

Source: The economist, October 17th, 1998.

The Frankfurt - based EMI becoming the new ECB like any central bank, will guard the currency's value by setting interest rates essentially the price of money. Growth without unreasonable inflation is the ECB's goal.

Bank notes of 5, 10, 20, 50, 100, 200, and 500 Euros will be issued along with coins worth 1, 2, 5, 10, 20 and 50 Euro cents will be minted. The front of the

notes and coins will be having the same designs across Europe, but each Member State will be permitted to use it's own image on the reverse side.

The EU has recommended that the banks do no charge for conversions of accounts or payment and debit arrangements. And the exchange of reasonable quantities of national currencies into Euro should also be free.

The old notes of various national currencies will be shredded and coins melted down, so that by July 2002, the old currencies can no longer be spend, but for varying period , national banks will still exchange them for Euros. The national central banks will continue to maintain the pan- European banking system which permits the smooth flow of cheques, deposits and payments. They will execute the decisions of the ECB's governing council, intervening on the foreign exchange market to maintain the Euro's value against, say the dollar or the yen.

However the question on whether the ECB will be independent or not in theory, it will look like Germany's Bundesbank (know as the best central bank in Europe), a model central bank for freedom from political meddling. But the French have pressed for a greater political role than was originally envisaged, raising fears that the reality may be different. France suggested a council of Euro finance ministers who would meet informally to advise on monetary policy. Others propose that the ECB explain her decisions to members of the European parliament and the chairman of the finance committees of all 15 EU assemblies bi-annually. Their model is the regular and closely watched testimony of the US. Chairman of federal reserve to the congress, in any case on how the ECB will work.

The Euro countries will appoint by mutual consent an executive board with six (6) members, including a president for an eight-year non- renewable term. The

board will join the 11 Euro national central bank governors to form the governing council. This council will meet ten times a year to set interest rates with one vote per representative.

A striking thing of the single currency arrangements is that, there is no provision in the Maastricht Treaty for leaving, so a country would probably have to abrogate the Treaty unilaterally and leave the EU setting off a political crisis of unthinkable proportion.

Currently, individual EU members set value added tax (vat) and duties on items like alcohol , tobacco and fuel. When all prices are shown in Euros, the disparity between a vat of 21% on restaurant meals in Belgium and 3% in Luxembourg will be much easier to spot. But presently, there are no plans to force the harmonising of excise and luxury taxes.

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CHAPTER THREE- RESEARCH METHODOLOGY.

3.1 NATURE OF DATA USED.

In this study the nature of data used is a collection of more of secondary data and a form of primary data. This is talking about the use of write-ups and selected literature and also the use of interview extracts from electronic and print media.

3.2 PROCEDURE OF DATA COLLECTION.

The study being a new project, a lot of work is entailed. There were visits to some information centres like British council in Kaduna and United states information services in Lagos.

Also live interviews of politicians and economic analysts were viewed from electronic media and extracts were taken and recorded interviews too.

Furthermore, information was also gotten from text books, seminar papers, presentations and lecture notes on International Business by Mall. Sanni Abdullahi, a senior lecturer, Business Administration department of Ahmadu Bello University, Zaria.

3.3 LIMITATIONS OF THE METHODOLOGY.

No matter how much any researcher may put into the statement of his methodology, some imperfections are likely to surface. This is because every research project has some extraneous circumstances that can create imperfections.

However, time is a major limitation because it is obviously impossible to gather all the available material within the time allowed for the project submission. Therefore, the available information at this present stage of EMU is what is presented here from books, seminar papers and presentations, Journals, magazines, dailies, lecture notes and extracts from electronic media.

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CHAPTER FOUR - DATA ANALYSIS

4.1 INTRODUCTION.

This chapter looks at the main presentation and analysis of the evaluation of the impact of the common European currency -Euro on international business but first looking critically at what it means to European nations and Africa.

4.2.0 THE IMPACT OF THE EURO ON EUROPE.

Since the communities were established, economic cooperation and monetary cooperation have alternatively strengthened European integration; the determination to complete customs union and the dismantling of barriers between Member States set the scene for the EMS. This permitted and then spurred on the completion of the single market, which will be consolidated by the Euro. EMU now imparts fresh impetus to the construction of Europe. But for this, it's full potentials must be exploited.

4.2.1 AN OPPORTUNITY FOR EMPLOYMENT - FRIENDLY POLICIES.

For a sustained convergence and monetary stability, the foundations of an employment - friendly economic policy are a balanced mix. EMU laid these foundations but their full impact will not be felt unless they are accompanied by significant progress in the area of structural adjustment.

If cost of labour were to be reduced, firms would be encourage to take on more workers. The room for maneuvers within the budget must be devoted to reducing social security contributions on wages, and especially low wages. Job creation would be fostered by more flexible goods, services and labour markets

and a reorganisation of work within industries and firms as part of negotiations between management and union. Lastly, the neat disappearance of inflation means that a closer link can be established between pay levels and worker productivity which will make it easier for management and unions to conduct a responsible wage policy conducive to employment.

The EU must from now obey the imperatives of :

- encouraging enterpreneurship, particularly in small and medium-sized businesses, by reducing red tape and providing easier access to capital markets;
- according to research, the priority it should enjoy under any future oriented policy; and
- under-taking the efforts needed to educate and train individuals.

The early implementation of the new title on employment in the Treaty of Amsterdam was reflected in the conclusion of the extra-ordinary European council meeting held in Luxembourg in November, 1997, which opens up new prospects in the struggle for jobs. Objectives were jointly agreed, a working method was devised and the multilateral surveillance of results was introduced. Now that EMU is launched, the Member States now have more effective instruments available to promote employment policies and structural reforms at national levels. In this respect, the Euro presents an outstanding opportunity to sever the link between deficit and unemployment and to trigger the dynamics of stability and employment.

4.2.2 A DEEPENING OF THE SINGLE MARKET.

The Euro is an essential complement of the single market. It brings to an end the exchange rate fluctuation between the participating Member States which, in the past, have managed in one swoop to wipe out the productivity gains achieved by businesses and their workers with considerable effort. Low inflation and interest rates and more predictable growth will reduce the uncertainties that impede investment decisions. Lastly, by eliminating the exchange rate risks, the Euro will make firms more competitive and will give them the springboard from which to withstand competition in the global economy. At community level, the remaining barriers to trade must be dismantled and progress made towards tax harmonisation so that the benefits are maximized.

In combination with computarisation and the implementation of the EU's investment services directive, the launch of the Euro will lead to the development of a European - wide equity market for blue-chip stocks in the form of a single electronic exchange with screen based- automated order- driven trading system.

With the Euro in use within the entire EMU no country will be able to devalue its currency to gain competitive advantage against its trading partners, governments will in theory, turn to more basic economic restructuring, like deregulation and improving labour market flexibility. However, short-term dislocations like unemployment may result, the implication of all these is that of an overall improvement in the standard of living of the member nation citizens.

For consumers, as well as for the enterprises which buy, sell, work or invest in another Member State, the Euro will improve the transparency of trade, sharpen competition and enable consumers purchase goods at better prices and firms to

become more competitive. Combined with the freedom of movement provided for in the Treaty, the single currency will thus promote unification of the goods and services markets, improvements in investment quality and integration within the single market. The Euro will lastly herald the birth of the 'European consumer'; whose purchasing power will be guaranteed by the stability of the single currency. But in order to benefit from keener competition, which will now be felt in the most outlying areas of the union, the arrangements for providing consumers with better information will have to be strengthened.

The creation of a large Euro capital in 1999 radically altered the financial markets for the benefit of firms and households through increased competition and improvement on the quality of service. This development is already discernible as financial institutions prepare for the Euro. All economic agents ultimately benefit from the availability of loans or borrowing in one and the same currency on a larger and more liquid, market and under conditions of transparency, equality of access and cost that are similar to those prevailing for the U.S dollar. This led to permanent low interest rates that will benefit households and firms. Under these conditions, the introduction of the Euro is accompanied by acceleration in the reforms needed to improve the efficiency of financial markets.

Finally, the introduction of Euro notes and coins on 1st January, 2002 will constitute the final state of EMU. Thanks to the complete elimination of foreign exchange transaction costs, it will lead to simplification in the lives of European citizens. In addition to its economic and monetary aspects, the introduction of

Euro notes and coins should provide hundreds of millions of Europeans with material and concrete symbol of their common identity.

4.2.3 A EUROPEAN PRESENCE ON THE INTERNATIONAL SCENE.

In adopting the Euro, the peoples of Europe have decide to occupy a place on the international scene that is commensurate with their history and their economic and commercial strength. In so doing, they have demonstrated their unity to the rest of the world and are asserting their presence in the monetary sphere.

At the heart of an integrated international economic system in which trade and financial flows are becoming increasingly mobile, they are establishing a wide area of stability and prosperity, which will minimise uncertainty for economic agents.

In the same vein, with better use of the complementary between Member States' economics, the single currency will enable Europe to become more outward - looking by reinforcing its global position and role. The Euro is suited to taking on the mantle of one of the leading international currencies. Firstly, it will rapidly become a currency in which world trade is conducted and invoiced, reflecting Europe's credibility, allied to a large and very liquid financial market, will attract foreign investment. Lastly, the Euro's development will increasingly confer on it the status of an international reserve currency.

More fundamentally, the Euro, through its recognised stability and widespread use, will help establish a better balance in international monetary relations, offering Europe the opportunity, together with its principal partners to find

ways of making the international monetary system more stable. But, in order for Europe to derive all the external benefits it is entitled to expect from the creation of the Euro and in order for it to play it's rightful role on the international scene. It must be able to speak with one voice. This is essential if it is to defend its interests as effectively as possible.

Lastly, the single currency will consolidate the achievement of more than 40 years of cooperation at a time when Europe is embarking on a new era in it's history, namely enlargement to include countries of central and eastern Europe, Cyprus and Baltic countries. The prosperity brought about by the economic integration of the present Member States and the attraction of the Euro will give the prospective member countries the incentive to take the rapid steps necessary for them to become full member of the European Union. The extension of European integration throughout the continent will guarantee stability and peace in the future.

Looking at it analytically however, there is no doubt that the benefits of switching to a single currency, does not come without costs. Probably, the biggest cost is that each country sees it right to set monetary policy to respond to domestic economic problems. In addition, exchange rates between countries can no longer adjust in response to regional problems.

Another problem or cost tied to the above is what happens if a recession hits just one country? Currently it's central bank may want to respond to the recession by increasing the money supply, thereby pushing interest rates downward and stimulating investment and economic recovery. ECB will be unlikely

to use expansionary monetary policy to help one country, since doing so would cause inflation in EMU countries not in recession.

The Euro will enhance reforms of great importance, as a single currency will ease flow of goods, services and capital within Eurozone. Besides, the Euro will encourage "cross fertilization" of best practice through stronger co-ordination of Member States' policies in areas as labour markets, education and training *initiative, job creation and welfare / safety needs.*

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4.3 THE IMPACT OF THE EURO ON AFRICA.

The introduction of a common European currency may seem distant from African economic life, but this is not exactly so.

Africa, as a continent mainly colonised by Europe, still has strong trading links with Europe. The bulk of the continents' (Africa's) imports and investments come from Europe. The link with the EU is given formal expression in a long-standing trade aid and accord known as the 'Lome Convention'. Among others, this accord, which is due for renewal, gives African export preferential treatment in the EU bloc. The CFA franc, the currency used by the former French colonies in West- Africa is pegged to the French Franc, an arrangement that makes the bond between these countries and France even stronger. It is important to point out here that it is not only the CFA zone that will benefit from the monetary development in Euroland, but rather the entire continent will also benefit from the single currency.

The arrival of the Euro, widely expected to be a credible currency, will offer African central banks a chance of diversifying their currency reserves. A holding of

Euro could come at the expense of other currencies, say the dollar. In other words, the latter may have to be reduced. At present, almost two third of the world's foreign investment is denominated in U.S dollar and 17% of worlds official reserves are denominated in Euro, according to a study conducted by South Africa's Industrial Development Corporation.

Africa can also be looking forward to an alternative to financial instruments denominated in the U.S currency with the advent of Euro. Besides, the Euro brings with it simplicity for African banks or financial institutions; they now have to maintain a single currency account for Euro partners, a move that will also make it easier to monitor the risk of investments.

That the Eurozone is expected to be a low interest rate environment is good news to prospective African borrowers keen to raise cheaper capital in the EU debt market. In fact, the first signs of European monetary unification were seen towards, the end of 1998, when several Member States central banks announced coordinated cuts on interest rates to spur growth.

Growth in the EU will augur well for the demand for Africa exports, though these goods would have to be increasingly competitive. Efficiencies within the Eurozone will effectively challenge exporters to the Eurozone countries, including Africa to be competitive, mostly in terms of quality.

Positive influences of European monetary unification on the developing world's trade balances are expected to result in a 0.1% to 0.2% increase in the annual economic growth of developing countries from 2001 to 2003, according to a research study conducted by the international monetary fund (IMF).

However, the uniformity of monetary policy in Europe accompanied by a low interest rate environment should also make emerging market's bonds yield makes, Africa very attractive to investors.

4.4 AN ANALYSIS OF THE IMPACT OF THE EURO ON INTERNATIONAL BUSINESS.

The use of the Euro as a common currency by the European union no doubt will have implications and possible impact on international business.

From the onset, it is understood that for a currency to serve in international transaction, it should be able to be used internationally as a medium of exchange, unit of account and possible store of value for future transactions or use. The Euro being a common currency of the EU should be able to meet these requirements. Already the Euro has been launched at the rate of U.S $1.17. The single currency, is the keystone of the European single market, which will ensure prosperity in Europe. But for the Euro to ensure economic prosperity and contribute to monetary stability and growth, certain conditions are necessary.

The first condition is the credibility of monetary policy generated by the independence of the ECB, which is enshrined in the Maastricht Treaty and rooted in the independence of each national central bank. For this to be possible, the Euro must win the confidence, not only of the 290 million European in the Euro - zone; but of the non - Europeans with whom the Europeans do business.

The second condition is compliance with the provision of the Maastricht Treaty and the guidelines on fiscal policy laid down in the stability and growth pact, other conditions are structural reforms and competitiveness.

The successful launch of a pan-European currency (Euro) by eleven of the EU members marked one of the most momentous occasions in the history of the trading bloc. With this step, they have given up a crucial part of their sovereignty.

With the Euro, came a major change in the international monetary system. The Euro is expected to challenge and see to the overthrow of the dollar's hegemony in international transactions since the EMU has the characteristics needed to establish the Euro as a strong currency in the international monetary system.

Given the above scenario, the implications and possible impact of the Euro on international business can be highlighted in the following areas.

In financial the markets or segments, the increased integration of the European financial market with the Euro taking the place of many currencies, will lead to lower costs of financial transactions, narrow interest rates spreads and the supply of Euro denominated assets, as borrowers (both within and outside the EMU), will be tapping into the expanded European financial system. The greater depth and breadth of markets in financial assets denominated in Euro, compared with today's markets in which assets are multiple currencies, will provide incentives for non-EMU countries to diversify their reserve holdings, so that they will be more in line of the currency competition of their trade and financial transactions.

In the realm of relative economic size, the E.U. and the U.S each account for about 20% the world's output and 15% of world exports but the U.S dollars is used much more widely as an international currency than all of the EU currencies

combined. The larger economic base of the Euro (relative to the base of the individual European currencies in the past) and the elimination of the transaction costs currently involved in exchanging multiple European currencies, will likely lead to a gradual increase in Euro's use as a unit of account in the denomination of trade flows, particularly in transactions between the Eurozone and developing transition countries. Moreover, if all 15 EU countries eventually join the Eurozone, then more than 60% of their current foreign trade would be reclassified as domestic, so that EMU will become a more closed economy than any of those of individual members. This singular factor and the potential for the Euro to be used for denominating foreign trade will help make the Euro area less susceptible to exchange rate changes than individual European countries currently are. As a result, the Euro will make an attractive alternative to the dollar as a safe haven in the event of shocks to the world economy (such as the oil price shocks of the 1970s).

In the area of political underpinnings, a fundamental distinction exists between the dollar and the Euro. The dollar is issued by a single political jurisdiction, while the Euro is issued by a union made up of multiple jurisdiction. It is to be noted here that political stability is an important determinant of international use of a currency. For instance, differences between say states of Alabama and Texas over the stance and mix of monetary and fiscal policies are unheard of, so are threats of any state to secede from the U.S monetary union. Before now, differences for instance, Germany and Italy over macro-economic policy issues cannot, however, be ruled out of priority. EMU has established its

credential as a politically cohesive entity before the world that she is truly ready to move to a bipolar international currency system.

With the introduction of the Euro, comes the disappearance of currency diversification. This will enable investors and financial institutions both within and outside the EM to diversify their portfolio with a broader range of Euro instruments as well as with asset outside the Euro area.

The Euro will strengthen Europe's single internal market by eliminating the disruptive effects of currency fluctuations, which will eventually make Europe more competitive and produce economies of scale similar to those possible in the U.S. Also, the barriers to cross-border investments will drop, and some intra-EMU foreign exchange and investment restrictions that had hitherto applied to pools of capital such as pension funds and insurance companies will become irrelevant. The size and diversification of portfolio managed by the EU institutional investors could increase rapidly as a result. The implication of this on international business is that the Eurozone will become an attractive investment nectar to both international investors as well as EU investors alike.

The successful launch and acceptance of Euro by the EU (the Euro could become a global reserve currency) one held in central bank reserves as well as one used by other countries in trade and investment accounting .

One of the long term consequences of EMU is the creation of what will become a new super- state stretching from the Atlantic to the steppes of eastern Europe and possessing a larger gross domestic product (GDP) than the U.S. But will that wealth translate into political, diplomatic and military power? Those who

know EMU best say "yes". "There is no question that EMU is a giant step towards a united states of Europe." says Karl Lamers, the senior foreign affairs specialist for Kohl Christian democratic union. "Common currency" he says "eventually means common political and security policy".

"It's unimaginable that if you share the same economic destiny, you do not share the same security destiny". Lamers argued that it will make Europe a more robust and reliable U.S partner. Others however warn of a danger that, in competing economically with the United States, a United States of Europe will also compete politically and militarily. In summary, a politically unified Europe with an independent military and foreign policy would accelerate the reduction of the U.S military presence in Europe, weaken the role of North Atlantic Treaty Organisation (NATO), and to that extent make Europe less vulnerable to attack. International business transactions will enjoy a conducive trading environment since there is a new power to check NATO and U.S presence in Europe.

Providers of products and services sold nationally, like newspapers, television shows and construction, won't see much of a change as a hairdresser in Barcelona will not have to worry too much about what their counterparts in Berlin are charging. But companies that sell products whose Provenance does not matter, like basic chemicals, automobiles, steel and telecommunications equipment will feel the heat.

The new currency will slam home first and hardest in the banking sector, and particularly among the smaller banks. "Many parts of a business will simply disappear" says Theo Klein, vice-president of the consulting firm - A.T kearney in

Dusseldorf. Foreign exchange income from trade within the Eurozone will dry up and with it a substantial share of European bank profits. Banks will also see their role, as corporate lenders dwindle as companies that tended to finance themselves at home turn, instead to the European capital market, which will be bigger and more efficient once the Euro obliterates currency barriers.

The automobile industry also faces a real crunch with the birth of the Euro. Currently Germans can save 34% on the price of a BWM 316i by crossing the boarder to buy it in Denmark or almost that much by turning to one of Germany's 125 "independent dealers" who import cars outside the official networks. And estimated 15% of German cars are already purchased that way. The Euro will only make cross - border price differentials more apparent. That means that the " gray imports" business could grow further unless auto makers iron out price difference across Europe[1].

The wrangling over the Euro's governance has done little to diminish it's prospects on the world stage. Most analysts are confident that within five years, may be less, it will be a serious challenger to the dollar as a reserve currency. European currencies come nowhere close to punching their weight now, accounting for only 20% of currency reserves compared to the dollar's lion share of 62% despite the roughly equal size of the U.S and European economics[2]. A better counter balance to the over-weighted dollar, some analysts believe could help stabilise a parlous world economy simply by giving it another strong leg to stand on. They (analysts) also claim that the initial rate of $ 1.17 to one Euro

[1] Time Magazine (May 11th, 1998. P.33)
[2] Time Magazine (May 11th, 1998. P.37)

could rise to $1.32 by the end of 1999. If it comes on too strong though, the Euro also further swell the already massive U.S trade deficit, push American interest rates up and increase protectionist pressure in the U.S.

From the other side of the Atlantic, at least for the time, being the Clinton's administration sees the new currency as a potential booster of European growth and thus, a boom for the U.S economy as well. "We have everything to gain and little to lose from the success of this momentous project" says U.S Deputy Treasury secretary, Lawrence Summers. Washington's earlier concerns that the banks monetary policy would be too flexible to promote growth, which has eased with the recent rate cut. As for the Euro's relative value, Summers professes to be unconcerned. " If we stick to strong and credible policies, the dollar will remain a sound currency" he says yet alongside that official optimism are concerns in Washington that the dollar could weaken too much as Asian investors diversify out of it in order to lay in Euros.

However, Europe could turn to a bargain hunter's heaven, as currency transparency will drive down prices of many European goods. The 15 members of the E.U together issues 34.5% of the world's debt securities, compared with 37.2% for the U.S. In foreign exchange transactions, the two regions are also nearly matched with Europe responsible for 30% next to 41.5% for the U.S[1].

More so, with size being an enormous advantage in Eurozone, merger fever is climbing into the atmosphere. Most countries in Europe including the French giant chemical firm - Rhone Phoulenc and the U.S computer giant –

[1] Time Magazine (January 11th, 1999. P.24)

Compaq, plan a two-phase transition. phase 1 involves preparing sales and purchase account in Euro which is nearly completed. phase2 involves putting in place an internal account transaction for Research and Development (R&D) budgeting, tax reports will take place over the next 12-18 month during which many operate with dual internal account system that put the local currency and the Euro side by side.

However, strategy is being put in place to protect and make the most of the monetary union, and also make sure it does not collapse. Companies may need to redefine their notion of competitiveness as the European market becomes integrated as a result of the possibility of 'survival of the fittest' situation emerging.

4.5 RISK ANALYSIS OF THE EURO.

It is only the beginning that the Euro will not by itself transform the European economy the challenges of further fiscal and political integration still lie ahead.

The start of monetary union in Europe is an exciting event and there is no doubt that it can unleash a new dynamic of enterprise and growth benefiting all of us. But the introduction of the Euro is also replete with risks. These are worth keeping in mind even as champagne bottles are uncorked in celebration.

Euroland faces these risks because it is still an incomplete and unfinished project, in the sense that, while monetary policies will now be conducted at the European level, the other tools of macro-economic management remain firmly in the hands of national authorities. And the ECB itself has been left handicapped in the event of major financial crises.

The simple fact that monetary policies will be governed by a European institution while fiscal policies remain in the hands of the national government creates the risk of serious conflict between governments and the ECB. These conflicts will arise when economic conditions diverge with Euroland. Inevitably, the difficulties in coordinating different national policies with the monetary policy of the ECB will create tensions and disagreement. Of course, the same thing happens within a nation between national central bank and the government. But the intensity of the conflict is likely to be greater in Euroland because the national governments bear political responsibility for deteriorating economic conditions, whereas the ECB will be some faraway institution without political accountability.

The ECB itself will be handicapped by the fact that an essential part of monetary policies (bank supervision and control) has been left to national authorities, including national banks. This will not matter much in times of financial stability. But in periods of financial upheaval, which inevitably will occur, it could have a substantial impact. The ECB will then lack the information and instruments to act quickly. This may very well exacerbate the crisis.

History tells us that monetary unification must be part of a whole. One cannot simply centralise monetary decision- making without at the same time centralising the other parts of macro economic management. And the fact is that crucial pats of the latter have remained in the hands of the nation states in Europe. In a sense, one can say that the start of Euroland is like a move into a new and beautiful house which, unfortunately, does not yet have a roof.

So, where does that lead us? Two possible scenarios emerge, an optimistic and a pessimistic one. In the optimistic version, European leaders realise the unfinished nature of the EMU project and act quickly to unify the other parts of macro economic policies. They started working immediately to build a roof so that every body finds the new house comfortable even when storms erupt.

The second scenario is less idyllic. European citizens resist further attempts to transfer power to European institutions. Euroland lingers in its unfinished state. Economic storms stir rancour between the ECB and the national government, and among national governments themselves. Instead of an oasis of monetary stability, Euroland becomes a source of instability. In this scenario, the Euro could not become the strong and stable currency that so many observers expect it to be. On the contrary, it would be weak and no match for the dollar.

In the pessimistic scenario, the inhabitants of the new and beautiful house rue the day they decided to move into a structure without a roof that is able to protect them against the rain. Some of them seriously consider moving out.

Which of these two scenarios is the more likely? To attach probabilities to these scenarios, one needs past observations of similar event. These do not exist. One conclusion however can be drawn. If Euroland fails to move forward toward political union, it will not last. The present institutional structure is too fragile to withstand the coming storms. We need further steps toward political integration, yet Europe already shows signs of integration fatigue.

One may be termed to conclude from all this that it was a bad idea to launched the Euro. But such conclusion would be wrong. Not starting Euroland

would also have been risky, leaving Europe unable to stabilise exchange rates within the union. Economic and political disturbances would inevitably lead to wide swings in exchange rates very much like those likely to hit Euroland in the future? Nobody knows.

European integration has the dynamics of a Greek tragedy. Whatever choice one makes, drama will follow, for European integration has reached a point of no return. Going forward may in the end be less risky than standing still or moving backward.

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CHAPTER FIVE - SUMMARY AND CONCLUSION.

5.1 INTRODUCTION.

This as the last chapter of this research work tries to look at a brief summary of the whole study, thereby making an analytical conclusion of the study.

5.2 SUMMARY.

The birth of Euro as a common European currency has heralded a lot of structural changes that are taking place in European financial markets presently, as a result of EMU and other developments who has significant impacts on international portfolio adjustments and capital flows.

The Euro is meant to integrate economies of Europe and unite Europe politically, thus forming a single economic and financial bloc to challenge the dominance of U.S in international business and forge ahead of other challenges from Asia, Central and South America.

To make this possible however a lot of structures have been put in place the make a success of the launching of Euro on a long-road to stability. To this extent, the Euro is perceived as a stable store of value, and it assumes an important role as a reserve currency. Indeed, the roles could be greater than the combined roles of the former currencies of EMU members. This will make Euro the world's most important reserve currency ahead of the U.S dollar. Whether the Euro will also play a prominent role in international financial transaction and trade invoicing is almost certain and clearly possible. It is quite obvious that with the

success of Euro, the European market within EMU will become integrated, and if the Euro is widely and quickly accepted as a successful and stable currency, it could become a global reserve currency - one held in central bank reserves as well as one used by other countries in trade and investment accounting. The EU share of international trade is presently 17% compared with 12% for the U.S but the dollar accounts for 61% of global reserves[1]. The dollar's dominant era is closing up with the Euro already challenging it in debt market.

The Euro certainly possesses the potential to challenge the hegemonic role of the U.S dollar in international business. Either the Euro fulfils that role or go the route of other challengers of the dollar, which to a large extent depend on it's credibility - both in terms of inflation performance and political cohesion - governed by EMU in the years leading to the twenty first century.

More so, with EU Member States' move and preparation towards a successful convergence to adopt the Euro, all hands should be on deck to make Euro a success since the road to EMU is a one- way bridge.

However, the Euro has a great impact on Europe considering employment creations, foreign exchange risks, stronger coordination of labour and financial market, education and training, welfare and safety needs, and finally political integration.

In Africa, the CFA zones whose currencies are tied to the French franc are also expected to benefit from the success of the Euro. However, international business pattern will change with the success of Euro since it will now be

[1] Time Magazine (May 11th, 1998. P. 37)

denominated in Euro and no longer the U.S dollar. International business will witness the arrival of another big market in Europe and a global reserve currency as well as one used by other countries in international business.

5.3 CONCLUSION.

The question on Euro is one of nature or nurture? The financial DNA of the Euro indicates it will begin life as a stable, rock hard currency, but it's adoptive parents may spoil the toddler.

The Euro was not conceived during a moment of passion, it's gestation was as closely monitored as any royal heir's. It's prepartum nutrition informed by the experience of successful godparents like the U.S Federal Reserve and the German Bundesbank. It is exposed to all the right environmental influences to assure it would enter the world as a hard young currency, firm footed and apolitical, it's genetic code etched with one task; to maintain price stability. Now the Euro is loosed upon the world, and its nervous parents have passed the moment where nature alone holds sway and entered the murkier realm of nurture. Like a child, the Euro could roller-skate into heavy traffic and suffer grievous injury. Or it could grow strong and healthy, the pride of it's progenitors and a boon for the world and international business.

However, there is a great hope for EMU that it will force reforms that are as vital to Europe's future as they have been politically impossible to achieve by governments too weak or pusillanimous to tackle them. The free movement of capital from high-cost to low-cost regions will force unions to abandon many of the work rules and wage demand that accrued in the economic hot-houses of pre-

EMU welfare states. Both companies and consumers will benefit from the so-called "price transparency" – knowing, without the complexity of exchange rate calculations, where to get the best deal on a car, a coat or a trainload of artichokes. Similarly, banks may move funds from country to country without costly currency conversions - about $65billion a year[1]. Overall, the switch to a single currency will draw together almost 290 million Europeans in an economic and political colossus to rival the U.S. But pessimists or are they realists? Argue that, whether Trojan horse or gift horse, EMU is an animal that bears a far closer examination than it has received so far. Even advocates agree that EMU, at least initially will bring a sudden surge of mergers, downsizing and bankruptcies of businesses unable or unwilling to compete in the new environment. Banking especially will undergo a fierce shake out that is expected to bring closings of hundreds of branches. That in turn will mean job losses, pay cuts for millions of Europeans including a disproportionate number of white-collar workers who had come to view their jobs as life-long sinecures.

Even if Euro-efficiency brings a new era of growth and job creation as proponents promised, there will be a time lag of several years that could prove to be more than Europeans are willing to tolerate. But they will turn in vain to their politicians for relief, because the politicians are giving up the means by which they traditionally reduce unemployment and absorb economic shocks. The minting of money and regulation of the economy through adjustments in interest and exchange rates, after July, will become the province of the ECB located at the flint-

[1] Time Magazine (May 11th, 1998. P.42)

-hearted banking capital of Frankfurt and led by a Dutchman with a strong personal inclination toward hard money.

Despite all the risks and uncertainties of EMU, some of the people whose lives are about to be unalterably redirected are strangely indifferent to it. The most recent EU wide polls, shows only 67% of Europeans in favour of accepting the Euro as a continent - wide currency, with 23% against a rousing endorsement that could turn overnight to raging opposition, when votes will begin to feel the pain of Euro induced reforms, while 10% are just indifferent (CNN financial news on the 19th August, 1999). Ominously those in favour of the Euro are the ones who know least about it. Almost half of Danish citizens for example, consider themselves "well informed" on the subject, while fewer than a fourth of Spaniards feel that way. Yet Danes voted in June 1992 to reject of the Euro, while Spain is one of the most enthusiastic of the 11 charter members.

Europe is now firmly committed to a common currency - the Euro, on a one way bridge. It would be a mistake all along but there is no turning back now. In choosing a design for Europe's new currency, the bureaucrats of Brussels took the bridge as their symbol. Bridges in styles representing the continent's architectural traditional are to adorn each of the multi-coloured bills that will become legal tender for 11 of the 15 EU nations by 2002. The symbol being apt, is nothing shot of a common currency to bridge economic, political and cultural differences among a people. But the Eurocrats might have added yet another bit of symbolism to the bridges on their bills: Show them burning, for there is no going back on this bridge.

Therefore, all hands should be on deck to make it a success. If it fails, God forbid what it's impact will cause.

5.4 RECOMMENDATIONS

In a research study of this nature, it is simply not possible to identify and discuss all that is needed to be laid on a subject matter like evaluating the impact of a common European currency on International Business, since the road to EMU is still in progress. We have attempted to examine how well the unification of European currencies and the introduction of the Euro can go.

As an overview, the credibility of the Euro is of utmost importance both in terms of inflation performance and political cohesion as governed by EMU in the years leading to the twenty first century. Every necessary form of nuture should be given to Euro to enable it grow as a hard, young currency, thus, maturing into a healthy and viable currency.

It will all be too good since there are already plans to harmonise and achieve a high degree of price stability in Member States, sustainable government financial positions without excessive budgetary deficit and a durable convergence by Member States.

Therefore, EMU should make provisions to handle emergencies. There is no doubt that the road to EMU is a one-way bridge and since there is no provision for any Member State pulling out due to inability to maintain a sustainable satisfaction of the EMU conditions.

More so, EMU has tried to set criteria for Member States to satisfy before the Euro takes off, but there should also be provision for handling a

possible economic dislocation in a Member State that ordinarily devaluation of currency in the country could have solved the problem. This will no longer be possible since there will now be a common currency situation where on country's problem should not affect the rest members.

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LIST OF ABBREVIATIONS.

E.C	-	European Community
ECB	-	European Central Bank
ECU	-	European Currency Unit
EEC	-	European Economic Community
EMI	-	European Monetary Institute
EMS	-	European Monetary System
EMU	-	Economic and Monetary Union
ERM	-	Exchange Rate Mechanism
ESCB	-	European System of Central Banks
EU	-	European Union
GDP	-	Gross Domestic Product
GNP	-	Gross National Product
HICP	-	Harmonised Indices of Consumer Prices
IGC	-	Inter-Governmental Conference
MNC	-	Multi-National Corporation
NATO	-	North Atlantic Treaty Organisation.