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**Transformation of World Economics Management: From
Political Bipolarity to Financial Dualism**

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Abstract

The paper will show what has been achieved during the Cold War in the world economy and how those achievements can be used and are used in changing participation of particular groups of states in the international division of labor, or using other words how they are able to join the main stream of the economy.

The paper will rely on theories of IR and IER presenting application in practice of some theories formed by Rousseau, Mitrany, Samuelson, Buchanan, Stiglitz, Sachs, Krugman, Nye, Keohane and it will reject some of the theories which are no longer reflecting the new realities like the ones coined by Allais or Prebisch. It will continue the ideas presented in paper on sequencing of international relations.

1. Introduction

The paper deals with changes in approach to world international management, where political bipolarity is replaced by financial dualism (currency bipolarity), what means that hard elements of security are being replaced gradually by soft elements and plans drafted in high politics are being fulfilled in practice. This all is happening in world which is globalized and liberalized, where liberalization follows certain rules introduced by most participants of the international relations in their agreements concerning membership in the international organizations as well as economic and financial regimes which were introduced within the Bretton Woods system in 1944, ie. International Monetary Fund, World Bank and founded later General Agreement on Tariffs and Trade (1948) replaced by World Trade Organization in 1995.

Founders of the Bretton Woods system – John Maynard Keynes (UK) and Harry Dexter White (USA) supported by group of ten economists from other states (including Mexico and Poland) drafted an idea of a system which was supposed to work in two phases. First, forming conditions for employment in national and relatively closed and protective economies. Second, in open environment where states resign from protection and increase their trust and interest in growing international economic relations enhancing social, economic and political security.

The system had an inbuilt mechanism which was designed to eliminate negative consequences of policies conducted by nationally oriented economies, showing in parallel to national political decisions the prospects created by regional/global liberalization. The model of international relations designed in 1944 was supposed to stimulate processes which were capable to of demonstrating that liberalization and integration brings growth and wealth into the economies embraced by them. It was stimulated by specific structures introduced into the world international relations, which were supportive and conducive to desired decisions, which have strengthened development of market forces as well as democracy in political life.

The effect of this process is obvious, although costs were relatively high. Nevertheless, one can imagine their scale when things were left to follow their own dynamics within conditions which were not shaped to support achievement of the desired results. Bipolarity in political, economic and security systems was a stage which helped to make proper choices for its participants on both stages of development of international relation, namely:

- Between 1944 and 1989
- After 1989.

The article is focused on showing how the two stages were stimulating changes and in which way they were supportive in undertaking certain decisions which led the world economics to the point in which we stand today. This will be used as a background to draw possible scenarios for the future.

2. What was achieved in economy during the Cold War period?

Ability to change is framed by the system in each country which defines the way decisions are being taken and conditions determining the climate and mood of voters and those who represent them in decision-taking institutions and bodies. Generally speaking, the mood and climate is positive for some revolutionary changes in specific conditions, either in positive way indicating the future way of changes, or negatively indicating what should be rejected. This means that we can define three types of situations in which decisions changing dramatically the economic policies can be undertaken:

- When the process is pointed against something/somebody what or who is not desired and wanted. This is the easiest way to make people take decisions in favor of certain actions;
- When the process clearly shows that further decisions in the same direction can improve wealth, prosperity, security;
- When the undertaken decisions, model of applied policies drugs the economy into a crisis. Crisis always enforce decisions in favor of new solutions which otherwise bring hesitations .

Both economic and political systems should be considered as self-regulating and self-developing organisms able to react actively to external impulses. The main concern here is the ability of survival and relative stability in conditions of permanent changing environment in which they function¹. In such conditions one of the crucial problems can be ascribed to methods in which society is ready to approve decisions which contain adjustments and adaptations to surrounding changes. This can be achieved in cooperation of the two levels of activities undertaken within state or non-state institutions, which embrace institutions (political and international) and norms (political culture)². The other problem is to keep balance between elements which change and those which are in process of change³. (Look at chart 1).

In the past changes were fostered generally in two ways: within the capabilities of the system, which can be evaluated as internal capabilities and as effects of external forces of different types: political or economic. With advancement of democracy the role of external forces was in rise, while abilities of national system were in decrease. Internal changes are easier in periods, which cause a turning point in politics and are fostered by changes introduced by two or more political parties, which prevail on the political scene. External influences were in past mainly caused by different types of crises or actions undertaken “to prevent” or “to

¹ D. Easton, *A System. Analysis of Political Life*, Chicago 1965, p. 32.

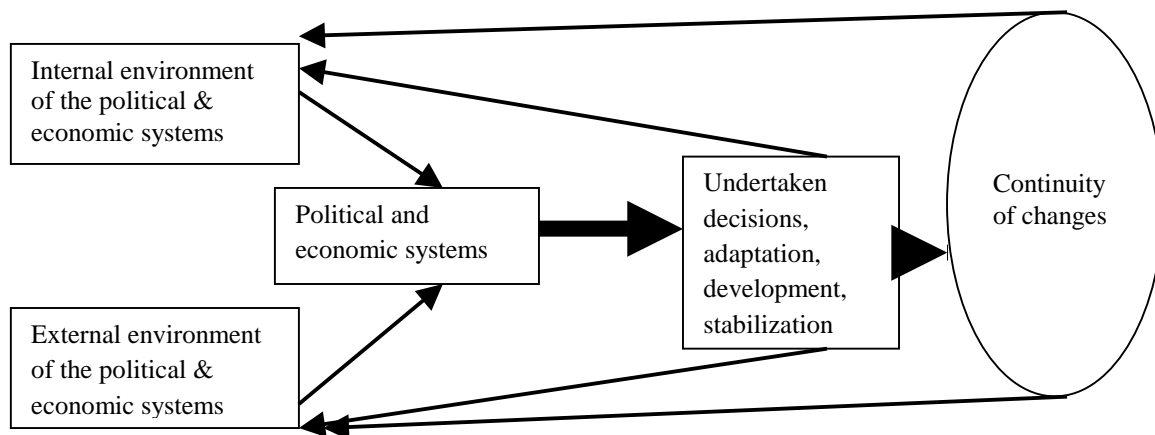
² G.A. Almond, S. Verba, *The Civil Culture*, Princeton 1963, p. 54.

³ This was wisely worked out in post-communist transition in Poland followed by transformation of the political and economic systems.

counteract”, as well as to “act against”⁴. The general conclusion from analysis of changes and adaptation to new conditions was that it is easier to restructure the system using the external forces, than relying only on internal ones. This was so up to development of democracy in national economies.

Internal changes were possible as the political system was diversified and could enforce new methods of governing through rejection of old ideas and replacement of them by new ones, matching more the new requirements created within new, changed conditions. Nevertheless, adjustments turned to be easier when international leverage was engaged. This leverage was affected by institutional arrangements, which were created to serve such purpose. Institutional arrangements which did not fulfill expectations laid on them were eliminated or replaced by new more effective ones. This could be seen in case of international agreements on unification of two or more kingdoms, ie.: Austro-Hungarian power; United Kingdom of Poland and Lithuania; United Kingdom of Britain and Ireland, etc.. or in case of attempts to create cooperative security system in Europe (the League of Nations)⁵. Negative elements were unveiled in functioning and malfunctions replaced by other more effective solutions. The mentioned systems were based on unequal conditions of participation, in which one country was dependent on decisions of the other one, what directly led to imposition of certain decisions. Such decisions, when dependence was one sided, helped to use power in international relations with their growing role after XVII century when the notion was invented by Hugo Grotius (called father of international law⁶).

Chart 1. Model of political and economic adjustments



Source: own arrangement

Evolution of states, of defense systems, family of international organizations, all this led to new solutions in which interdependence was created⁷. Interdependence diminishes the possibilities of using international relations as force imposing certain decisions by one

⁴ This can be proved by numerous illustrations from practice. Some examples are shown within the process of integration of the eastern bloc after WWII.

⁵ Look also: Z. Brzeziński, Wybór dominacja czy przywództwo (The choice: global domination or global leadership), Kraków 2004, p. 23-34.

⁶ In the Polish literature the term was used first by prof. F. Kasperek in Lvov in XVIII century).

⁷ T.G.Weiss, D.P. Forsythe, R.A. Coate, The United Nations and Changing World Politics, Oxford 2001, p. 308-330.

country on another one against its interests. Some sources of conflicts were eliminated with evolution of the system and increased action limiting the resistance to certain external shocks as the economies/states were more and more imposed to external forces, stimulating changes. Protective measures of different type were introduced: like elimination of platforms causing sensitivity to external pressures or shocks, stabilization measures were introduced as well as forming conditions in which main differences deciding about rate of growth or speed of development stage by stage were made alike if not equal.

This process started with a small group of countries representing highest level of development (EEC-6) in Europe, supported by the US (Marshall Plan), UK with EFTA and Commonwealth. Strong support was given along with growing network of international organizations, representing different fields of cooperation (coordination) as well as universal and common ones (UN). The organizations were often mutually dependent or membership in one of them had to be preceded by membership (agreement) with another one. This was so fi. in case of IMF, World Bank and the EU⁸. The dynamic of integration within the bipolar division was accelerated in West by threat coming from the East. Bipolarity was stimulating security integration within all existing structures on the West as well as on the Eastern part of the international scene.

Enough to look at the simple diagram, which in a symbolic way shows organizations of Western and Eastern bloc and countries which played certain role in shaping the mutual relations of the states.

Diagram 1. Western and Eastern scene after WWII

| Western side of the scene after the WWII | Eastern part of the scene after the WW II |
|---|--|
| Leadership/superpower: USA | Leadership/superpower: USSR |
| NATO (1949) | COMECON (establishment: 1949, statute: 1959) |
| ESCC(1951), EEC (1957) | Warsaw Pact (reaction to FRG NATO membership (1955)) |
| Important states | Important states |
| UK ^a | Poland ^a |
| France ^a | |
| Germany ^c | |

^a Churchill in his famous speech in announced need of creation of “United States of Europe”. This was not the only moment when Britain was giving ideas on European integration. Second move in same direction can be ascribed to creation of internal market ().

^b France was part of the anti-fascist coalition but did not participate in Potsdam and Yalta, where borders of Europe were decided by the Great Three: Roosevelt, Churchill and Stalin.

^c Germany has laid strength of its currency (Deutchmark) on the altar of integration.

^d Poland was (is) the biggest country in Central Europe (four times bigger) in comparison with most of the states here, it had the biggest opposition organized against the communist regime in form of trade unions “Solidarity”. Any of the anti-communist moves (1956, 1968, 1970, 1978) where followed by WP intervention, which was the case with Hungarian uprising in 1956 (Red Army Intervention), 1968 in Czechoslovakia (Warsaw Pact intervention – embracing troops of the Hungarian, Polish, Bulgarian and East German Armies).

Source: own arrangement

On the top on each side we have the two superpowers, which were characterized by different political and economic systems. US is a super state which was inhabited and ruled by emigrants from Europe. Inhabitants of the US today are more diversified than they were if we

⁸ K. Żukrowska, Szerokie otwarcie. Polska gospodarka w aktywnym otoczeniu międzynarodowym (Wide opening. Polish economy in active international environment), Warszawa 1994, p.20-63.

study their roots which are linked with all countries in the world not only European states. In terms of military integration and political cooperation the two blocks were strongly differentiated. Same as in case of economic coordination and integration. On the western side there was NATO, which was called into life in 1949, what was decided by Washington Charter. ESCC and EEC were considered as organizations stimulating economic integration. There was also OEEC (1949) before the EEC and ESCC were established, which was founded to coordinate Marshall Plan transfers from the US to Europe, helping Europe to rebuild from II WW damages and prepare for European integration⁹. This organization is not listed in the diagram as it did not have an equivalent in the eastern part of the globe. It is worth mentioning it here as it shows additional links between US and Europe. Both organizations: ESCC and EEC were structured differently. ESCC was a supranational organization, while EEC an intergovernmental organization. Both were called into life after failure of establishing Political Community and Defense Community. Important countries in addition to US, which submitted first aid transfers within Marshall Plan. The financial sources were coordinated and transferred by a special organization established for that purpose: OEEC. It was aimed at reconstructing economies after WWII as well as preparing states obtaining transfers to integrate in future. Integration was proceeded according to a model invented by Balassa which embraced stages of economic integration from free trade agreement, through customs union, single internal market and monetary union¹⁰. The economic and financial integration was considered in this process as natural platform to establish political integration¹¹. In other words, the assumption was to reach certain level of international economic integration among states in order to create a second stable and strong center cooperating with the USA market thus creating conditions for coordination and management of activities, helping remaining centers, which lack needed political power to join the main stream of world economy and enable them catching up in development.

Eastern bloc was more homogeneous. USSR was functioning upon central planned economic system, which was also labeled as order-distributive system. In political life the system was simply organized in a form of communist party dictatorship. If there were satellite parties (like in Poland: Peasants and Democrats) they played static role and were overwhelmed by decisions taken by majority. In addition to the USSR most of the states were small, in most cases below 10 million of inhabitants. Poland had 38 million. The difference between Poland and remaining states in the region can be limited to size, lack of national minorities (in case of Poland¹²), strong anti-Soviet sentiments, bad relations historically with neighbors (division of Poland between Russia, Austria and Germany). Before end of war, before liberation of Poland from the German occupation (Warsaw) went through an uprising which was organized by a government on emigration (in London¹³). In period 1945-1989 Poland went through a number of political crises, which were not known commonly, as single crises in other states were covered better by media as they were halted by military invasion (within so called WP

⁹ OEEC was transformed in 1960 into OECD – Organization for Economic Cooperation and Development. From aid money transfers coordination it moved towards liberalization of trade and liberalization of capital transfers. It is a specific organization which works as a think-tank indicating possible ways to change the economies of the member-states, what is done in form of annual reports, which cover specialized fields of the economy.

¹⁰ S. Ładyka, *Z teorii integracji gospodarczej* (From theories of economic integration), Warsaw 2001, p. 115-196.

¹¹ A.M.El-Agra, *The European Union. Economics and policies*, London 2001, p. 579-586.

¹² Poles were rather left outside Poland than other national minorities were included into the Polish society after decisions of dividing Europe into national states after WWII, after Yalta and Potsdam, when shape and size of states were decided by Churchill, Roosevelt and Stalin.

¹³ This government was functioning until the systemic change in Poland in 1989. This was the only country that had such government abroad, illustrating attitude towards the imposed communist system.

support). Such dates in Poland indicate attempt of the nation to change: 1956, 1968, 1970, 1980, 1989. Poland has elected its new democratic government in 1989, before the fall of the Berlin Wall. Being the first state in East Central Europe to join the democratic society. Others followed later.

Looking at the institutions we can see that integration in the Eastern bloc was not so easy. COMECON was called into life as response to establishment of NATO but its status was approved ten years later. Warsaw Pact was established as response to German membership in NATO, what was explained as reaction to “remilitarization” of Germany. Those facts show that politically enforced integration was not easily approved by states in the East despite the fact that all countries were functioning according to same model of political standards as well as those introduced in economic field.

General observations lead us to certain conclusions: it was easier to integrate “against” than “in favor”. This remark concerns both poles of international relations. Western bloc was integrating as an attempt to counterbalance the eastern potential, while eastern integration was stimulated by moves in western integration. Nevertheless, the system in east, which excluded market and competition as well as democracy and its mechanism of political competition was deprived of basic mechanisms which enforce progress. In such circumstances the eastern bloc could keep path with the west only in a short period, directly after the war, when economies were developing from WWII disasters. Further on eastern countries and their economies could compete only militarily but in longer run such effort in military sphere was additionally increasing the deficit on consumer goods market, destabilizing further the economies. Controlled prices were limiting the possibility to obtain equilibrium between supply and demand, what in case of limited competitiveness of industrial products and falling prices of raw materials gave limited prospects of financing the build-up of military potential¹⁴. The military effort in eastern bloc was financed by increase of money in circulation, ie. by printing money when needed. This was additionally increasing the gap between demand and supply, creating so called “inflationary overhang”.

Poland has played a specific role in Eastern Bloc, what was caused by its size and general attitude towards the system that was imposed after the WWII. A reading of two statuses: COMECON and WP also lead to interesting conclusions. Status of COMECON is written in communist jargon, while status of Warsaw Pact is written as copy-cat of Washington Charter. Moreover, the latter document states that all countries are entitled to join no matter what system they represent and that the organization can be closed down when an whole-European security system is established¹⁵. The difference in the two documents can be explained partially by dates in which they were prepared. WP in 1955, while COMECON in 1957. Nevertheless, 1955 is only 2 years after the death of Stalin, while 1957 is later than the first political “thaw” after 1956.

In sum the two methods applied in east and in the west were creating problems in economies of countries from the two spheres of influence: USA and USSR. Those problems enforced negotiations on arms reduction, which in turn led to increase of confidence between east and

¹⁴ The situation was opposite in case of market economies, where military production was creating higher incomes responsive to overproduction of the industry. In other words military sector which is financed wholly by state procurement (specific structure, where state is a monopolistic buyer) as side effect of its production was increasing demand and thus stabilizing the market. Nevertheless it effected in increase of inflation by increase of expenditures of the state, what in turn created the budget deficit and had an impact on increase of interest rate.

¹⁵ E.J. Osmańczyk, *Encyklopedia spraw międzynarodowych i ONZ*, Warsaw 1975, p. 3706-3707.

west and in longer run, enabled the realization of New Economic Order that was launched and planned by the UN in the 1970's.

Now integration of the world economy as well as progress of regional integration were stimulated externally by two factors as it was in the past: internal and external. Starting from internal elements one should mention changes within USSR, namely dissolution of the superpower into independent republics, which are organized within Commonwealth of Independent States (CIS) as well as within two economic free trade agreements, both established in 2000: GUUAM and East-European and Asian Customs Union¹⁶. The first surrounds Ukraine, while the second Russia. In 2004 new regional groupings were established within the area of "old USSR". Most of the decisions here are driven by independence forces, often strongly supported by the EU (Partnership and Cooperation Agreements – signed in different years, with the earliest signed by Russia and Ukraine in 1994, what came into force in 1997). In some cases there is also personal and expertise support from the USA or such organizations as World Bank, IMF, etc.

At the same time Europe accelerates integration by deepening and widening. Both seem to be unprecedented. Deepening embraces creation of single European internal market (Single European Act – 1997), move towards European Monetary Union – EMU, which is a step towards political integration. Despite such changes, Europe is not unanimous and convinced about need to integrate politically at top of the mentioned processes. Widening embraced ten new members in May 2004, two more post-communist states have joined in 2007. others are expected to join later. This covers Turkey (decision on negotiations taken in middle of December 2004), and finally remaining Balkan states like Croatia, Bosnia and Monte Negro, Albania, etc...

2004 brought also a decision on signing by 25 EU member-states the draft of new constitutional treaty, this was done in November in Rome. Ratification of this treaty was slowed down by rejection of the document by France and Holland in 2005. This document was ratified by 15 states, while 3 more had completed their ratification procedure (Finland, Germany, Slovakia). In most cases ratification was completed in form of approval by national parliaments (only 3 were approved in referendum: Spain, Germany, Luxembourg). In sum 18 states have ratified or nearly ratified, 7 have postponed ratification, 2 have rejected the constitutional treaty. On 13 December 2007 a new version of the treaty was signed by member states, the version is called a treaty of Lisbon.

At the same time USA is engaged in creation of FTAA – Free Trade of Americas Agreement, which should embrace all countries situated in Northern and Southern America's. The Agreement was supposed to be signed in 2005. It included not only liberalization of goods transfers but also capital and services. The negotiations and remaining procedures were postponed here, everything seems to be suspended but new vigor can come with the change of presidency in the US, when the democrats will take over (either it will be H. Clinton or B. Obama, or perhaps both of them as a team working together).

The two biggest markets: EU and USA agree within Transatlantic Partnership (1995 and 2001) to manage world economy leading it to stable growth and eliminating sources of tensions and turbulences, while at the same time they create political tensions among

¹⁶ J. Kukułka, *Stosunki Międzynarodowe 1945-2000*, Warszawa 2002, p. 237.

themselves¹⁷. One of the source of tensions is the attitude towards American war in Iraq, second seems to concern mutual relation between changing value of exchange rate of US\$ and €, third deals with future of NATO and mutual relations between politically integrated EU and NATO (political and military identity in Europe vis-à-vis US).

At the same time all mentioned centers: US, EU and Russia with CIS are integrated against new enemy, which is terrorism. The group also includes Japan and China. New threat requires new responses and new protection, which is not available within the old security system. An effective protection against terrorism can be obtained within closer cooperation of internal security systems of the international society as well as espionage systems. Effectiveness here can be obtained by increased exchange of information, as well as exchange of its evaluation. This in turn requires either new approach to security within NATO as well as establishment of new external links with countries that at this point are not tied up with NATO. In other words NATO has to become global in a specific manner, what does not imply that all countries will become NATO members and NATO with time passing will replace UN. It means that such ties as with Russia or Ukraine should be established by NATO also with China, Japan, India (listing the most important) and other Asian states as well as with countries from remaining regions.

The two poles the US and USSR where politics and military relations shaped the balance have been replaced after 1989 by dominance of two new centers, which try to keep balance in the field of economic issues. The security problems are being decided (in most cases) on global level. EU and NATO are intertwined by common membership and common infrastructure. All NATO members are owners of the infrastructure, while the EU is not supplied by needed infrastructure separately and has to rely in this field on the agreement made in "Berlin Plus" Agreement from December 2002¹⁸.

3. What happened after 1989?

After 1989 institutionalization of the international relations widened and deepened. In short GATT was replaced by the WTO in 1995 as a result of decisions taken within the Uruguay Round of GATT (September 1986-April 1994). There were deep changes in the European integration what has embraced both widening and deepening as well as some institutional arrangements of the process have been changed. EEC has been transformed into EU (Treaty of Maastricht), where also phases for introduction of the EMU were marked. This move was preceded by approval of SEA (Single European Act (1987) – which has liberalized mutual relations among the EEC member states at that time (12) in four basic areas: transfer of goods, services, capital and movement of people. Single European Capital market formed primary conditions for creation of EMU. Continuing the process of EU enlargement it was growing in sequences:

- In 1990 by the former GDR by reunification of the two German states what did not increase the number of member states but caused territorial expansion of the EEC;
- In 1995 by 3 EFTAN's: Austria, Finland and Sweden;

¹⁷ M. Grącik, Stosunki transatlantyckie-instytucjonalny wymiar współpracy (Transatlantic relations – institutional dimension of cooperation), in: Europa w gospodarce, polityce i kulturze światowej. Między dziedzictwem a przyszłością (Europe in economy, politics and world culture. Between inheritance and future), ed. J. Osiński, Warsaw 2004, p. 223-238.

¹⁸ M. Reichard, Some Legal Issues Concerning the EU-NATO Berlin Plus Agreement, Nordic Journal of International Law. Vol. 73, No.: 1. February 2004, p. 37-67.

- In 2004 by 10 new members an unprecedented move embracing a group of first post communist states (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Republic of Slovakia and Slovenia) and 2 small market mini-economies (Cyprus and Malta);
- In 2007 by 2 new states: Bulgaria and Romania.

In parallel NATO has approved in Rome (1991) “open door policy”, what led to enlargements in 1999 by three states: Czech Republic, Hungary and Poland and further on by rest of states which after have joined the EU. On Prague summit in 2002 decision was taken to include next seven new members, what has happened shortly before the 2004 EU enlargement in May 2004. Seven new NATO members have joined on 24 March 2004. This enlargement embraced: Bulgaria, Estonia, Lithuania, Latvia, Romania, Republic of Slovakia, Slovenia, other states also declared their interest in joining. Those are: Albania, Croatia, Macedonia, Georgia, Montenegro, Ukraine. Finland and Sweden also consider their membership in NATO. According to testing polls more Swedish people are in opposition to such decisions than those who support it (46% against and 22% support). Finland has received strong critics from Russia after some considerations of such move made by their politicians, nevertheless, such options comes and goes.

Looking closer into the Bretton Woods system organizations: UN has enlarged from 22 members in 1940 and 51 – in 1945 the number increased to 192 members currently in 2008, IMF – from 22 in 1944 to 184 in 2008, while World Bank from 22 in 1944 to 183 in 2008. WTO has smaller number of members, in 2008 the membership increased to 151. This difference can be explained by need of adjusting certain laws, liberalizing trade and prices adjusting them to world level (with some exceptions).

Why countries wanted to join WTO, WB, IMF, NATO and the EU? What has changed their attitude towards external relations, towards third countries, towards their neighbors and finally what made them think that opening will not expose them to impulses, shocks – danger of which otherwise could be omitted. The answer here is simple but embraces two types of arguments:

- On the one hand, countries became interdependent, what creates best guarantees that stronger states will not use power in their own interest but have to take into account also interests of their partners;
- On the other hand, countries noticed that integration, opening, international cooperation, which leads towards creation of homogenous integrated market stabilizes their economy, reduces fluctuation of exchange rates, eliminates down turns of the market cycles, making phases of growth longer and much more gentle.

Opening and integration conducted on bilateral, regional, sub-regional and global level has proved that not only economies representing similar level of development can integrate but also economies representing different level of development can be embraced by this process. Nevertheless, integration of economies representing differentiated level of development requires certain adjustments in institutions, laws and rules of functioning. This was proved by first moves towards integration according to the model worked out by B. Balassa in his theory of Economic integration dated in 1961¹⁹. Most of the ideas, which form background of the paper, are presented as international trade theories, international relations theories,

¹⁹ B. Balassa, The Theory of Economic Integration. Homewood. III Richard D. Irwin 1961.

transformation theories. The concept which can be considered as background of the ideas presented here relies strongly on ideas presented by J. M. Keynes, H.D. White, D. Mitrany, B. Balassa, A. Moravcsik, P. Samuelson, R. Mundell, R. Keohane, J. Nye and P. Krugman.

Globalization followed by liberalization and institutionalization of international relations can be measured in different ways. Most important indicators can be divided into several groups, which embrace:

- Indicators illustrating scope of opening of the economy;
- Indicators illustrating number of regional grouping deciding about reduction of barriers to trade and remaining economic relations (capital flows, services transfers, movement of labor);
- Indicators showing the growth of wealth of people in the world, ie. falling number of people who live below costs of 1US\$ per day;
- Indicators showing shape of changes of the market cycle, in which periods of growth climb and become longer, while periods of slow down rarely slip into values below 0, going into minus values, and are much shorter in their proportions towards phases of growth;
- Indicators of financial crises have improved, what can be assigned to exchange rate policies and regimes;
- Indicators and analysis made by the IMF show that shorter period is needed to double the income per capita in comparison with 1970, 1980.

All this leads us to a question can the European model of integration, which is working so well in one continent, be applied in other continents and further on world-wide scale? And if the answer here is positive, what conditions can guarantee that attempts of application of such model can be successful? Is our knowledge about national economies and relations between them sufficient to make such decisions, leading towards global liberalization in four areas? What can be used as an argument that this can work?

The answer here is positive. The last enlargements of the EU can be used as prove of correctness here. Moreover, transformation of the post-communist states also proves that the positive answer here is what we can expect from that process. Nevertheless, there are certain conditions which states have to fulfill. They need to demonstrate will that they want to join the main stream, what means opening up, less intervention, more foreign capital, quick adjustments of law, institutions, reductions of customs duties and non-tariff barriers as well as alike-tariff barriers. How this can be done, by demonstrating will, level of readiness for such move and self-determination. This can be done only in conditions when third economies will make obvious what they want and show in which way they want to achieve it.

Options here are numerous. States can integrate regionally and further continuing this process can move towards sub-regional integration. Model of integration embracing equals makes them feel better but not necessary finds solutions for development in case of underdeveloped. It passes the test positively for developed but not for underdeveloped. Nevertheless, less developed can integrate with equals as a move sequencing their liberalization agreement with highly developed or as a precondition of an agreement with highly developed. In both cases a market of less developed economy receives impulses which stimulate structural changes and growth. One has to underline that impulses are stronger in case of sequencing of liberalization

moves in which first moves towards liberalization are made between equals, what can be followed by an agreement between unequals. Economic practice supports us with number of proves indicating that creation of a FTA among economies representing more or less similar level of development is not so healthy and helpful for its participants as creation of a FTA between economies representing unequal level of development. This can be illustrated by creation of customs union (in reality FTA) between the Mercosur economies, as well as creation of a FTA between US and Canadian economies with Mexico. Same experience can be seen in sequencing of creation of a FTA between individual East Central European states and the EU market and among them within CEFTA. Here agreement creating CEFTA was signed a year later but in most cases liberalization went faster within CEFTA than in relations between individual CEFTA-ns and the EU market. This was the case except Poland, where liberalization with the European Community was commenced earlier than in case of CEFTA.

As we see both options are applicable. Both bring about different results. Both have different impact on the rate of growth of the economy in question. In case of the Polish economy departure from the transformation depression occurred as early as in May 2001, while in remaining economies the depression was postponed but it also lasted longer and the rate of growth was lower. In sum, the economic and social costs were higher than in Poland. Nevertheless, all strategies applied in an economy require specific conditions. Poland had such conditions, while other states did not.

After building a FTA or along with building a FTA countries who liberalize their economies can introduce liberalization of capital flows as well as in areas of remaining two liberties flow of services and labor.

In current conditions world has two big markets EU with its common currency euro and the US (with remaining NAFTA economies) with the US dollar. Those two currencies are kept as main currency reserves around the world. Share of the US\$ as currency reserve is relatively higher in developed economies, share of euro is relatively higher in developing economies. Share of US\$ in reserves reaches , while share of euro is. Remaining share is made by the British Pound and Japanese Yen.

Table 1. Currency composition of official exchange reserves in years 1995-2007 in %

| Currency | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|----------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| US\$ | 59.0 | 62.1 | 65.2 | 69.3 | 70.9 | 70.5 | 70.7 | 66.5 | 65.8 | 65.9 | 66.4 | 65.7 | 64.6 |
| € | | | | | 17.9 | 18.8 | 19.8 | 24.2 | 25.3 | 24.9 | 24.3 | 25.2 | 25.8 |
| DM | 15.8 | 14.7 | 14.5 | 13.8 | | | | | | | | | |
| £ | 2.1 | 2.7 | 2.6 | 2.7 | 2.9 | 2.8 | 2.7 | 2.9 | 2.6 | 3.3 | 3.6 | 4.2 | 4.2 |
| ¥ | 6.8 | 6.7 | 5.8 | 6.2 | 6.4 | 6.3 | 5.2 | 4.5 | 4.1 | 3.9 | 3.7 | 3.2 | 2.8 |
| | 2.4 | 1.8 | 1.4 | 1.6 | | | | | | | | | |

| | | | | | | | | | | | | | |
|--------------|------|------|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| FF | | | | | | | | | | | | | |
| SF | 0.3 | 0.2 | 0.4 | 0.3 | 0.2 | 0.3 | 0.3 | 0.4 | 0.2 | 0.2 | 0.1 | 0.2 | 0.2 |
| Other | 13.6 | 11.7 | 10.2 | 6.1 | 1.6 | 1.4 | 1.2 | 1.4 | 1.9 | 1.8 | 1.9 | 1.5 | 2.0 |

Source: 1995-1999, 2006-2007 IMF: Currency Composition of Official Foreign Exchange Reserves
Sources: 1999-2005, ECB: The Accumulation of Foreign Reserves.

The above data illustrates that euro from the start had a good position to become a reserve currency. The share of US\$ as a component of official currency reserves increased since 1995 but went down since 1999, when euro has been introduced. Nevertheless, the share is still high and highest (amounting to 64,6%). This is so despite falling value of the American currency. Share of the European currency has increased since 1999 from 17,9% to 25,8%. Share of British pound sterling is also in a rise from 2,9% in 1999 to 4,2% in 2007. Japanese Yen has lost its share since 1999 from 6,4% to 2,8%. Remaining currencies also have lost their position in foreign official currency reserves.

The world economy characterizes by specific features, which are following:

- Most of the capital flows are made between rich economies and there is strong demand of capital in developing economies;
- Production moves to the economies which represent lower level of development as costs of labor enhances competitiveness and enables sales of new products in less developed markets;
- Rich economies start to face a problem of increasing current account deficit (US, small deficit occurs in the EU).

Most of the moves show that what was invented by B. Balassa for Europe or other regions can be applied on global scale.

Diagram 2. Model of B. Balassa integration

| Contents | Free trade area | Customs Union | Internal market | Common currency |
|------------------------------------|-----------------|---------------|-----------------|-----------------|
| Reduction of trade barriers | X | | | |
| Common trade policy | X | X | | |
| Four liberties | X | X | X | |
| Monetary union | X | X | X | X |

Source: B. Balassa.

The question here is how to create a global internal market, what should be the stages here, which can be considered as most probable and approvable at the same time by the societies engaged? Should this be achieved by regional moves or by some sub-regional agreements, or should world move towards one single market and admit economies in groups when they fulfill the criteria of joining? Answers to those questions are not given and can be only found by discussion on this issue. Experience shows that both ways are possible here.

There is about 220 free economic zones, when one would also take into account bilateral free trade arrangements the number of liberalized trade areas would rise rapidly to more than 1000. Dynamics of free trade agreements is shown in the below presented table.

Table 2. Free trade agreement In Different Regions (2007)

| Signatories in regions | Free trade agreements | | Customs unions | |
|---|-----------------------|------------------|-------------------|------------------|
| | Entered into life | Being negotiated | Entered into life | Being negotiated |
| North and South Americas | 66 | 16 | 1 | - |
| Asia and Pacific | 28 | 22 | 6 | - |
| Central and Eastern Europe and Central Asia | 8 | - | 1 | - |
| Western Europe and Mediterranean | 67 | 23 | 4 | - |
| Africa | 20 | 6 | 6 | 5 |
| In total | 189 | 67 | 18 | 5 |

Source: Own arrangement based on WTO statistics.

All regions are engaged in liberalizing their trade. Bigger markets are more attractive for FDI flows than smaller ones. Is trade liberalization going to be followed by next stages which are given in the B. Balassa model? Some economists think that this is inevitable, others recall the ideas of end of XIX century and say that this time is over and current situation is not at all supportive to introduce common currency. Who is correct, the time will show. Most of the international evidences show that common currency not only is in our reach but also inevitable. This is shown in the following paragraphs.

4. *Quo vadis* world economy? Possible Approaches

Currency union as a global challenge can be approached in two ways. On the one hand one can look at the EMU (European Monetary Union) and its role in the global economy. On the other hand, one can consider that the world is heading towards a currency union, which will end with single world currency. Both approaches have a common denominator, which is the experience of the European Union in introducing a common currency, preceded by preparations which helped to converge the economies of states that have participated in the process of deepening of integration, while creating the EMU, with its introductory and transition phases. Additionally economists have gained some more knowledge with the experience gained by the reunification of the two German states, where use of common currency played a crucial role in the process. Moreover, some new comprehension was also obtained by the process of systemic transformation in the East and Central European states as well as by their preparation to the EU membership and further on of some of them to the EMU.

As far as the first approach is concerned, EMU became a second pillar with the US dollar which stabilizes the world finances. The US economy²⁰ (or more precisely the US and Canadian economies together or even NAFTA) for long time were the biggest single market,

²⁰ The US dollar became one of the main reserve currencies after introduction of the Bretton Woods system in 1944, what was followed by establishment of GATT (in place of planned WTO) in 1948. WTO was only created in result of the Uruguay Round in 1995, when most decisions were undertaken on liberalization of the world trade, what included as well the sequencing and debt of liberalization of trade in developing economies. It also has introduced condition for liberalization of capital flows, transfers of services as well as intellectual property.

which played a role of stimulus and stabilizer of the world economy. With creation in stages²¹ of the European Economic Union – what embraced customs union, internal market and currency union – the EU has taken over the role of biggest and wealthiest market in the world. Both the US and the EU have meaningful impact on their partners as far as mutual trade, capital transfers and legal arrangements are concerned. Most of the trade and capital transfers is done between the two, when we add also their trade with third countries, this will embrace ca 40% of world trade. Such asymmetry in world development and weight of the two markets indicates that the US and the EU can on the one hand use mutual relations to introduce changes in their own economies, while on the second hand they can play an important role in shaping the solutions introduced ie. in the WTO or in economies of their partners. In both cases use of external environment is deliberately decided by individual states, what means that they on their own take decision how quick the changes should be and what role in this process should be played by the external market forces.

Why this seems to be important on world scale? The answer here is simple, not all states can easily introduce solutions worked out on their own, which can function smoothly in newly born democracies. International cooperation in this area can be considered as a solution which can accelerate introduction of institutional and legal solutions, which proved to be correct in practical use of advanced democracies. The European Community in its external relations was offering privileged access to its own market to those states who wanted to cooperate. Enlargement of the EC followed by deepening of integration had impact on third states and their desire to cooperate closer and introduce new solutions to the institutional ties connecting their economies with the EC market. Moreover, single global currency can bring material and not-material gains by reducing risk, transaction costs, etc.

The second approach concerning creation of world-wide currency union can be considered as continuation of the first one. Cooperative stage of international relations clearly shows that offering access to wealthy markets and differentiation in development makes cooperation followed by institutional solutions an attraction, which can be conditioned by introduced changes in economic policies, institutional solutions (internal and external liberalization), changes in legal system. The more open the economy is, the more space is created for market forces, while at the same time the impact of politicians with their interventionists and political solutions are reduced to needed minimum.

When internal market of the EC was created in 1987 – this solution was seen as a future model for the world economy. Now it becomes more and more clear that liberalization of world economy will not end on creation of the world – wide internal market but with a currency union. Such a move was planned during the 1867 Paris Monetary Conference²². Single currency eases receipt of external signals which often can be used to stimulate the economy²³. Fear that opening of the economy can lead to economic crises, or can increase vulnerability to shocks or increase dept of economic cycles – seems to be unrealistic as all mentioned threats were reduced if not totally eliminated. Practice from last two decades shows that in all continents, in all regions, the shape of the cycle has changed²⁴. The phase of

²¹ Those stages were modeled by B. Balassa who said that monetary union requires consecutive steps, embracing a free trade area, customs union, creation of single market with four liberties of transfers and finally on top of that a single currency. This model shows that global currency will need same moves and similar stages, nevertheless, the whole process of achieving that can be much shorter and compressed by specific circumstances.

²² Look also in some earlier writings of J.S.Mill, *Principles of Political Economy*, 1860, p. 614.

²³ R. Cooper, *Key Currencies after the Euro*, The World Economy, 22 January 1999, p. 1-23.

²⁴ Analysis of this can be found in following publications: R. Barro, *Makroekonomia*, PWE, Warszawa 1997 oraz A. Heston, R. Summers, B. Aten, *Penn World Table Version 6.2*, Venter for International Comparisons of

growth has become longer, falls of production were eliminated and replaced by short periods of lower, but still positive, rates of growth²⁵. This was possible as a result of several conditions which accompanied the new stage of economic development. Those conditions are following:

- Big size of market (not necessarily limited to national and geographic borders) what means free trade within the region (or sub-regional free trade) where return to protection is impossible (reversibility of liberalization is legally eliminated);
- Stable and predictable budgetary policy;
- Convertibility of the currency and independent Central Bank;
- Control over inflation;
- Reduction of state aid, budget deficit, reforms of financing health, education, pension systems;
- Liberalization of trade;
- Liberalization of inflow of foreign capital;
- Low taxes;
- Concentration of state expenses on field which stimulate creation of human capital and innovativeness;
- Same solutions (unique solutions) for domestic and foreign firms.

World – wide operating single currency seems to be natural consequence of world – wide single market with four liberalizations of transfers, what covers goods, people, services and capital. Both can be considered as continuation of world – wide liberal model of the economy. Both approaches seem to be possible but at the same time application of such visions is a far away goal. Nevertheless, some signs can be found that the world economy is moving towards

Production, Income and Prices at the University of Pennsylvania (2006), czy A. Maddison *Monitoring the World Economy*, OECD, Paris (2007).

²⁵ Except the example of Japan in the beginning of the 1990's.

such direction step by step, region by region. In some cases this process is more advanced from institutional point of view (like in Africa) in some cases it is advanced both institutionally and practically. In remaining cases the process is suspended but can get its momentum with a small impulse, which may come soon.

4.1. Consequence of Currency Union

Consequences of currency union are multifold. Monetary union makes transactions easier, lowers their costs, may increase in result number of beneficial economic transactions. The currency union enables acceleration of changes in both advanced market economies participating in such endeavor as well as in catching up economies, no matter what stage of development they are. However, positive results of such a move are not foreseen as automatic and do not occur in all types of conditions, what is shown in this paper. The regional, sub-regional or global currency union has to include countries prepared for that move, which can be measured by openness of their economy, embracing transfers of goods, capital, services as well as people, ie. all production factors. Moreover, it has to be followed by fulfillment of the so called conversion criteria (monetary and fiscal)²⁶ as well as what was applied in case of East and Central European states – fulfillment of the Copenhagen criteria²⁷.

Such approach to conditions of creating a currency union requires approval of all countries participating in this project. In other words, interests have to be expressed by the countries who already have stabilized currency and have already created a currency union, as well as those who want to join, fulfilling before that move the requirements which accompany such a step. Those interests are obvious, although very often they are hidden in rhetoric of experts who strongly believe in theories of their youth, which actuality has passed away with changes in economy on both levels: national as well as international.

Currency union creates conditions in which asymmetric shocks will disappear. The mutual fluctuations of exchange rates will be eliminated. Asymmetrical shocks, if they occur can be mitigated by undertaken fiscal action, concentrated on non-tradable goods. There is a chance also of moving down the level of wages²⁸.

Not all economies would be interested to join the common currency. Each country should take a decision on itself either to join or stay apart from the currency union.

In long run a currency union can be conducive to stabilize the political structures in catching up economies, creating there conditions for stabilizing and expanding a middle class, considered as one of the feature of stable economic system²⁹. Nevertheless, not all economists

²⁶ Monetary criteria are adjustable in accordance to best performing three economies and should not surpass the average of best three results by 2,0% in case of inflation criteria and 1,5% in case of interest rate criteria. Fiscal criteria are fixed. The budget deficit should not exceed -3% share of the GNP, while public debt should be lower than 60% of its share in the GNP. Additionally the exchange rate should be stable, what is proved by its stable value (limited to $\pm 15\%$ of fluctuation within the Exchange Rate Mechanism (ERM-2)).

²⁷ Copenhagen criteria were simple. Country joining the EU must be able to face competition on the market, shoulder the burdens of membership, be a stable democracy with well functioning institutions. Copenhagen criteria were formulated during the EC summit in Copenhagen in 1993.

²⁸R. N. Cooper, *Proposal for a Common Currency Among Rich Democracies*. Working Paper 127, June 2006, p. 12.

²⁹ R.I. McKinnon, *The Rules of the Game: International Money and Exchange Rates*, Cambridge, MA: MIT Press 1996, and also R. Portes, H. Rey, *The emergence of the Euro as an International Currency*, *Economic Policy* (April), 1998, s. 307-343.

see monetary union as a goal which can increase economic effective on world scale. Some of them like M. Brodo and H. James – see such an idea as an XIX century utopia, time of which has passed³⁰. They support such vision by arguments concerning limited progress in meeting criteria of OCA (Optimal Currency Area) formed by R. Mundell (1961), R. I. McKinnon (1963), and P. B. Kenen (1969)³¹. Nevertheless, this argument seems to be relatively weak as OCA, presented in the quoted works creates a theoretical model which is not met in practice by any single market. Although the model indicates desired direction of changes, according current studies even states who use single currency like the USA economy are not considered as fully meeting the OCA requirements.

4.2. Interests in Creating Global Currency Union

Some of the interests to join the EMU were precisely created by the international finance and economic experts in the period of Cold War, others came into being as a result of badly tailored financial, economic policy applied in national economies individually. This concerns the fiscal decisions as well as monetary ones, what includes also the exchange rate policy which leads the currency from a fixed peg towards more and more liberalized forms of defining the exchange rate value ending with the full float³². One of the preconditions to join the currency union is to introduce laws which make a national bank independent from political influences, what is considered as one of the measures to eliminate interventionists approach to the monetary policy beyond measures approved as suitable in an open market economy, ie. lowering or increasing gently the level of interest rate.

Interest to create a global currency union can be found in both group of economies: advanced market democracies as well as all catching up economies, no matter what level of development they represent. Nevertheless, not all the interests are well defined nor spelled cautiously. Basic interests can be linked with several main conditions, which are following:

- Majority of the currency reserves in all countries in the world are kept in the US dollars and euro as most of the transactions are concluded with those two biggest world markets, also aid transfers and emigrant income transfers or international credits are also made in those two currencies³³;
- With trade liberalization focused on tariff reduction, control of quantity limits as well as harmonization of institutional, technical as well as sanitary, veterinary or chemical

³⁰ M. Brodo, H. James, One World Money, Then and Now, paper on international workshop on “Regional and International Currency Arrangements” 24-25 February 2006, Oesterreichische Nationalbank in Vienna.

³¹ R. Mundell, *A Theory of Optimum Currency Areas*, American Economic Review 1961, No.: 51,4, pp.: 657-665; P.B. McKenen, *The Theory of Optimal Currencies Areas: An Eclectic View*, in: R.A. Mundell, A.K. Swoboda (ed.), *Monetary Problems in the International Economy*, Chicago 1969, University of Chicago Press, pp. 41-60; R. McKinnon, *Optimum Currency Areas*. American Economic review 1963, No.: 53,4, p. 717-724.

³² M. Obsfeld, *One World, One Currency: Destination or Delusion?* IMF 2000, Economic Forum, <http://www.imf.org/external/np/tr/2000/tr001108.htm>.

³³ G. Galati, Ph. Wooldridge, *The euro as a reserve currency: a challenge to the pre-eminence of the US dollar?* Bank of International Settlements Working Paper No.:218, October 2006; E-G. Lim, *The Euro's Challenge to the Dollar: Different Views from Economists and Evidence from COFER (Currency Composition of Foreign Exchange Reserves) and Other Data*, IMF, Working Paper/06/153.

components standards – exchange rate policies gain importance as measures which can increase (temporary) competitiveness or decrease it. This can be also translated as measure which is used to either open up an market or protect it from imports brought from abroad;

- With advancement of the process of restructuring of the world economy, moving industrial production to economies less advanced in development, where costs of labor are relatively low and productivity increases faster than in most developed economies, what in turn increases the returns on investments, countries representing lower level of development experience appreciation of their currencies, while those who represent higher level of development experience depreciation of their currencies. The paradox here is that depreciating currency is the one in which transactions are concluded and national banks keep their currency reserves;
- In case of advanced economies their interest would be to stop the process of depreciation of their currencies as continuation of this process in long run is conducive to return of inflationary pressure caused by new source of protection of their economies, increasing prices if imported goods as well as resulted by increasing current account deficit;
- Advanced market democracies can see in a global currency union a solution which can limit further their financial aid towards developing economies, which is a burden for their budgets and for their tax payers – replacing it – at least partially – by FDI transfers;
- Advanced market economies see in the perspective of creating a global currency union a solution which will help less developed economies in their catching up process having impact on both political as well as economic changes, based on liberalization imposed internal as well as in external relations with third economies;
- Catching up economies, which have collected in their reserves huge amounts of foreign currencies and keep buying them as an interventionists measure which helps to keep a higher value of those currencies enabling better access to EU and US markets, are not able to continue such policy for ever. Size of their currency reserves as well as falling value of the currencies in which reserves have been kept, increases interests of those economies to think about solutions which can reverse this trend;
- Common currency is in interest of catching up economies as it can open up for them export markets. They need to find first that developed economies have moved from a position of exporters to a position of importers and this is an opportunity for them, especially when developed economies are engaged in capital; exports and “anti-

dumping” procedures adopted by the WTO as well as by the EU work in favor of developing economies – protecting their interest to sell with lower prices at home and with higher prices abroad.

Interests, as can be seen from the above enumeration, are obvious in all states, what does not mean that all mentioned arguments are approved commonly as well that there will be a global enthusiasm to support such idea and undertake such a challenge. Nevertheless economists, if we look back to such ideas, had a single world currency in mind already one century ago. The concept is not new³⁴. Ways of achieving such point are much more elaborated and advanced today, than they were when the concept came into being. The idea comes to day light in certain occasions but most economists are busy following developments in some segments of the world economy not looking at it from the macro level. There are numerous signs, addressed by media, that the US locomotive is losing its energy and power and can have a negative impact on the economic cycle in the world scale³⁵. Such news, mentioning the Big Crises of 1930’s tunes emotions in both ways, in case of international economic thinkers it shows the need to introduce a single world currency. In case of some other economists who specialize in financial issues, monetary policies or fiscal policies it may bring the opposite reactions, especially when the problem is seen apart, artificially separated from the background of international economics.

There is more and more rumor that the current institutions which regulate the functioning of financial system have to be reformed. Such remarks are addressed towards the ECB, policy applied by B. Bernanke (chair of the Federal Reserve), monetary policy of Japan, exchange rate policy of the US (resulting by huge current account deficit). This leads to a conclusion that representatives of the G-8³⁶ should, as it was done in 1985 come with an coordinated action to overcome the problems occurring on world financial markets. This can be done, as some economists suggest, by sequenced introduction of common pegs in form of currency baskets in ie. ASEAN, as well as remaining Asian economies, Africa, Latin American economies, etc. According to conducted studies in this area such a move would deepen mutual cooperation in regions, limiting at the same time the vulnerability of national currencies towards changes of value of the exchanges rates of remaining currencies in the region. J. Williamson³⁷, from Peterson Institute, estimated that correct proportions among the three international currencies put into a common currency basket, which will suit all ASEAN + 3 economies would be following:

- US\$ - 40,2%;
- € 31,6%;

³⁴ R. Gilpin, *The Political Economy of International Relations*, Princeton University Press, Princeton, New Jersey 1987, s. 118-168; E. V. Bowden, *Money, Banking and Financial System*, West Publishing Company St. Paul, New York, Los Angeles, San Francisco 1989, s. 19-36; J. Ziemiński, K. Żukrowska, *Konkurencja a transformacja w Polsce. Wybrane aspekty polityki gospodarczej*, SGH 2004, s. 69-73; P. Langley, *World Financial Orders. An Historical International Political Economy*, Routledge 2002, 41-79.

³⁵ *The Wall Street Journal*, 7.02.2008; *Financial Times* 7.02.2008.

³⁶ Some suggest that the group should have wider background what can be guaranteed by G-20.

³⁷ J. Williamson is the author of Washington Consensus, model of budget changes applied in most economies in the world today.

- Japanese Yen – 28,2%³⁸.

Calculated shares represent transactions concluded by cooperating ASEAN + 3 economies in mentioned three currencies. Adoption of common currency basket would guarantee that no change in third – country exchange rates would disturb the trading relationships among the East Asian countries themselves. In East Asia most of the exchange rates float but the solutions applied here are still far from what financial experts would call free float. Countries intervene mainly because of collective actions as they fear losing competitiveness vis-à-vis their regional peers, and they each have reacted by pegging their currencies to the US dollar. Reactions here were suboptimal, while a common basket in such case could be considered as much better solution.

Problems occurring in ASEAN, where in November 2007 decision was made to create an internal market with four liberties of transfers as the EC model have practices after launching the Single European Act in 1987, are still distanced from the stage in which EC has introduced EMU. Nevertheless, economies here, in this region started some years ago closer cooperation in financial field and clearly see need to continue such cooperation, starting with full liberalization of transfers of the production factors. There are also some unofficial talks on introduction of a new American currency. Nevertheless, the process of liberalization within the FTAA (Free Trade Agreement of the Americas) was slowed down, despite it was planned to lead towards a free trade of the two Americas in 2005.

Reviewing literature on prospects to introduce currency unions on separate continents, regional single currencies or a global approach to that problem, one can see that ideas here are relatively differentiated. Nevertheless, previously gained experience in this area shows that there are possibilities to accelerate this process in comparison with the dynamics in which EMU was launched in EU.

4.3. Ways to Achieve a Global Currency Union

There are several ways to achieve a global currency union. On the one hand the two pillars of the world financial system ie. US dollar zone and the euro zone can enlarge by states/economies which desire to join the two zones. This process has to be conducted in agreement between the two markets, so that vulnerability of such approach are eliminated.

The second option is to create regional currencies using the existing and created regional free trade areas. Such an approach has its advantages as well as disadvantages. The biggest advantage is that states deciding to cooperate in area of currency are not scared by their stronger partners. Nevertheless, practice shows that cooperation with stable and well

³⁸ J. Williamson, *A Currency Basket for East Asia, not Just China*, August 2005, Policy Briefs in International Economics, PBO5-1, p.1-13.

established markets brings quicker and more spectacular solutions to the cooperating economies than processes of liberalization and integration among less developed equals. What can be done here, to use the natural dimension of states from same region to integrate, combining this with integration with a market representing higher level of development? Solution is relatively simple. First stage of such integration should be done on regional level, what should lead towards a regional internal market, as it is planned in ASEAN (November 2007) and as it was achieved by the EC. While second stage would lead to liberalization in four areas with a stronger market, leading towards introduction of common currency, according to formerly introduced conditions (convergence criteria and stabilization of currency within ERM-2).

The third option is to create a common single currency among the two pillars and approve third economies to join in groups of economies which are considered to be ripe for such a step, what can be proved by fulfillment of mutually worked out and approved conditions, similar to those which obliged during the EMU creation or preparation of the new member states to joining the EMU. This option is seen as quickest possibility to bring global currency on world scale into being.

All three options have their advantages as well as disadvantages. The experiences of former creation of currency unions show that in certain conditions need to stabilize the currency in a special mechanism are not always necessary. This is so, when a country which tries to join a currency union has limited size of its economy, introduces all institutional and legal arrangements (as it was in case of the two German economies reunification), becomes part of the applied political solution of another economy, ie. is included into budgetary policy of such state.

Past experience, achieved with the existing free trade areas shows, that progress in creation of free trade arrangements are slow, troublesome politically, usually do not lead to expected results. This was the case with Mercosur, SAARC, and many other free trade arrangements. Much better effects were achieved by integration of states representing differentiated levels of development ie. NAFTA and Eastern enlargement of the EU³⁹. Nevertheless, not all attempts to integrate developing and developed economies have brought about positive effects and ended with a success, enough to mention a long way of Turkey to create a free trade area with the EU, what finally ended by a decision to include this economy into a customs union. Different experience was achieved by economies which decided to open up towards different markets and economic groupings, using almost all available opportunities in the economic international relations as it was the case with Chile and Viet Nam. Both those states have gained in such process, successfully restructuring their economies as well as stimulating the economic growth in longer period.

Conclusions deriving from these observation can be following. In most cases integration among equals when not followed or preceded by integration of states representing

³⁹ K. Żukrowska (red.), *Zróżnicowanie rozwoju jako impuls pro wzrostowy w gospodarce światowej*. Warszawa 2008, SGH, 69-84.

differentiated levels of development brings about limited results when economies of integrating states are under-developed. Same experience can be expected in case of forming a monetary union, states which decide to participate in such an endeavor have to be labeled as developed or catching up economies and should create conditions for interaction with a group of economies representing higher level of development than the one they have achieved. Integration among un-equals requires decisions concerning with whom one should integrate and on what conditions. Best solution, applied among un-equals, has to take into account the fact that states try to postpone all liberalizing moves, they indicate that they are open but they are closed. Similar reaction can be expected in case of joining or creating a monetary union. In other words conditions which a country has to surpass have to be precisely formulated and defined. A country should be prepared to acquire the needed conditions. This can be done by introduction of convergence criteria, stabilization of the exchange rate, institutional and legal arrangements which enable reaching introductory stage of single currency.

In certain circumstances the catching up economies can introduce euro-ization/ dollarization as a single decision (this is the case with Andorra, Monte Negro and Herzegovina. Such a step is based on one-sided decision to join the monetary union.

4.4. Possible Scenarios and Their Expected Consequence

In 1988 The Economist predicted that in 2018 there will be a global world currency. Fulfilling such prognoses means that there are still only 10 years to go. The 21 century began with 159 currencies which were used by 189 UN members. By 2005 the number of currencies declined to 147. If we assume that the speed of reduction of currencies will continue, each year 12 currencies should disappear. With such dynamics it will take 62 years to come to a single, world currency, what means that single currency can be introduced in 2067, which will be the year in which economists can celebrate a 200 anniversary of the 167 Paris International Monetary Conference. There are also some other speculations concerning common currency. The one presented above is based on a simple assumption that it is possible to keep the dynamics in which 12 currencies will disappear each year. Such dynamics is not possible, although in average terms it could be so. On the other hand the process of international cooperation and trade liberalization is advancing. There are about 220 free trade areas and customs unions, high number of participants in international economic organizations indicates growing interest in closer international cooperation, preparation for further opening and creation of FTA's. Free trade and capital flows are preconditions for a single currency although this does not end the list of necessary requirements which have to be fulfilled here, as was mentioned earlier. Liberalization of capital flows can be achieved either in WTO or in OECD (MAI – Multinational Agreement on Investment⁴⁰). Trade liberalization requires some decisions concerning agricultural products liberalization. Cairns Group⁴¹ can serve as one of

⁴⁰ Negotiations were launched in 1995 and lasted till 1998. Agreement is open to any non-member states to join. The agreement embraces such issues as: taxes, exchange rate policies, competition law, investments for development and corporations responsibilities, guidelines for multinationals, etc...

⁴¹ Cairns – Cairns Group was established in 1986. Today it embraces 20 states: Argentina, Austria, Bolivia, Brazil, Canada, Chile, Colombia, Costa, Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand, Uruguay. All (as average) have agriculture as 11% share of their GDP (as compared to the EU's – 3, or the US – 1%, and world total's of 4%). Share of male labor force of

the steps increasing pressure of food exporters on the EU and US who subsidize their agricultural production and thus increase barriers to enter their markets for food exports. Liberalization of trade also demands some unification in technical, technological and environmental standards. The goal of trade liberalization, seems to be still remote, but states see interests in arriving with this solution and there are some signs indicating that groups of states have identified their common interests what increases their ability to articulate them on the international level.

To a certain extent states are prepared to join the world-wide EMU, in others they are not. This preparation embraces liberalization of trade. As far as industrial goods are concerned – liberalization here is more advanced than in case of agricultural products. Most experts stress the need of liberalization of agricultural products as preconditions to remaining moves. Interesting is a fact that in most cases, there is very little discussion concerning foreign direct investment transfers or even wider: capital transfers. All economies declaring desire to joint common currency should be part of an internal market on world-wide scale. Transfers of capital, in my opinion, should precede liberalization of transfers of capital. Liberalization of transfers of capital can be achieved within the framework of the OECD. Remaining liberalization of transfers (services and people) can be done with a little delay. Most of the catching up economies do not have similar problems with their fiscal and monetary policies as those which occurred in European states. In such circumstances the task here is simpler than it was in case of the East and Central European economies.

Nevertheless, problems may occur in some other areas, fi.:

- Agricultural products exporting economies can face a problem of appreciation of their currencies, resulting from the fact that with growing wealth consumption of food in catching up economies increases;
- Main raw materials producers and exporters will face a similar situation, with growing prices their gains from exports will increase, what can lead towards appreciation of their local currencies;

those working in agriculture is 22,4% and food and agricultural products make 19% of their exports. All this means that value added in agriculture is relatively high in this group of states mounting to 7,379 per worker. Those states use an argument that with reduction of barriers to their exports this could increase. The EU level is 21,695 per worker, what means shows the space for the Cairns Group to move up with this indicator. (Source: World Bank, World Development Indicators 2006), Print Version and Online Database; World Trade Organization International Trade Statistics 2006; EIU Viewswire on-line).

- US economy faces a huge current account deficit, which undermines the value of US\$ and should be dealt with internationally. There are opinions that solution here could be found by a new Plaza Agreement⁴².

Currently, observing what is happening in preparation to regional currency unions, one can say that monetary unions will be introduced in regions. This will be so with NAFTA, ASEAN + 3, African monetary unions. Nevertheless, observed activities can be also considered as preparations for a single global currency, introduced as a transitional phase. Single currency has to be preceded by full trade liberalization as well as by liberalization of exchange rate policy, which has to be relatively stable. In most cases such stabilization is achieved by different solutions applied in exchange rate management and exchange rate policy. There are several solutions, which are considered as being popular in this area, they embrace:

- Dollar peg;
- Other currency peg;
- Basket of currencies peg.

In most cases they are not ready to introduce full float nor in most cases they are still not able to apply a managed float. This has to come with time and cooperation with the EU and the US. Well managed transition of towards monetary union embracing groups of economies can be approved by both developed and developing economies. This is decided by the fact that:

- In case of developed economies appreciation of a catching up economy can influence the value of their currencies, which will be resulted by appreciation of catching up economies according to the model observed first by B. Balassa and P. Samuelson⁴³;
- In case of developing economies, common currency gives them advantages at least of two types. On the one hand it should stop depreciation of currencies in group of advanced market economies. On the other hand, it will upgrade as value is concerned the monetary reserves, kept by this economies in question.

Decisions to liberalize trade, capital flows, labor and services transfers can be undertaken within the Doha Round, which until now is considered to be a first failure of multilateralism since the period of the 1930's, between wars.

⁴² W. R. Cline, *The Case for a New Plaza Agreement*. Policy Briefs in the International Economics. Institute for the International Economics, December 2005, Nr PBO 5-04. C. Fred. Bergsten, *Global Balance and Currency Misalignments*, outline remarks at the World Economic Forum, Davos, Switzerland, January 2008.

⁴³ Called after their name a Balassa-Samuelson effect.

5. Conclusions

The challenge is real and possible but has to be preceded by liberalization of economic relations among individual economies, who show interests in forming a monetary union. This liberalization according to the B. Balassa model, experienced within EMU, has to embrace liberalization of trade (including agricultural goods and food), services, capital flows and people movement. Generally, such a goal can be accomplished in two ways: either by creating regional monetary unions around euro, dollar and yen, or alternatively euro, dollar and pound (or euro, dollar, yen and pound) which with advancement can be transformed into a world global currency called bancor as J.M. Keynes has seen it or using fi. first letters of existing currencies around which such currency unions would be created : dey, dep, deyp (from first letters of dollar, euro, yen, pound). A second way leading to single world currency can look different: biggest and most important currencies used in international transaction can form a currency union – letting remaining currencies to join in groups or one by one, using the experience here which was gained by the EC in its enlargements policies. In both cases liberalization of mutual economic relations is considered as a precondition. The questions here would be:

- How liberalization is advanced to prepare economies to form a global/regional monetary union?
- To what extent states are ready to give up their national monetary policies?
- Are interests to organize a global/regional monetary unions strong enough to drive international community and states into that directions?
- Will benefits of such a move surpass national costs of it?
- Is there any pattern which can be used to organize the World Central Bank? Can IMF, WB, WTO play an important role in this process or there is need to organize new institutions based on other principles than those used in case of the existing ones?

As usually there is no unanimity among economists when they try to answer to those questions. Opinions are diversified, rarely economists studied problems which are mentioned here in the context of world single currency. Never they have thatched them all in one approach. Although information concerning all those issues can be easily found in literature – it is spread in articles, mentioned in books, referred in interviews, etc.. In most cases problems were considered separately as issues on their own. This was the case with liberalization of

economic relations (question of regional groupings as well as WTO), this was so with reforms of the IMF and WB, as well as with exchange rate policy. Advancement of liberalization of economic relations is highest in case of the EU, what is followed by NAFTA (where common currency was envisaged in several plans) as well as by ASEAN+3 (which planned in November 2007 to form a single Asian market with four liberties). Advancement of liberalization at this point of international relations does not show which way of achieving single currency will be used: either in stages forming three unions and ending with one or by immediate dive into a single currency which will attract others to join.

My prediction is to set up a single currency combining the three mentioned markets and have others to join, helping them in such a process to introduce reforms and changes into their internal policies. The alternative solution, based on three/four currency regional unions brings about some dangers. First it can replace national tensions by regional ones, what is a solution which in any respect can be considered as a desired one. Second it can postpone changes in regions. Thirdly it can delay the process of coming to a single world-wide currency.

When economies can start forming a single world-wide currency? The answer is simple here, such move requires:

- Harmonization of economic cycles on world scale and this is already achieved;
- Liberalization in 4 spheres, what is advanced and the process is accelerating within WTO as well as within the regional as well as sub-regional arrangements;
- Working a plan how monetary world policy has to be conducted?
- Working out the criteria of admittance and methods of control how advanced they are;
- Working out an institutional form of decision making in this specific area;
- Date when world single currency should be launched? Dates of achieving consecutive phases listed on the road-map to create the common currency.

Until now we have one main experience in creating a monetary union in our experiences of international economic relations, to which we refer commonly as an example which helps us to understand how such a move can be accomplished. Is such approach correct or we have had some other experiences of such type which can be followed? There were several examples in history which can be followed. One of them is introduction of a common currency in the regions which were forming one internal market due to historical, political decisions. This

was the case with Germany or the USA, taking first examples. But those experiences are gained in periods when economic or financial relations were not so well established as they are now. We also have some experiences of single decisions on euro-ization or dollarization undertaken by individual states, which are mentioned in this text. Finally we have an example of the reunification of the two German states, where common currency played a crucial role. This last move was accompanied by all remaining adjustments embracing harmonization in such fields as law, institutions, political structures. In such circumstances we arrive at the point where a question should be asked: can the German unification experience be used on a larger scale? If so, on what conditions? What could be the scale of such move concerning number of states and size of their economies?

Answer to those questions require detailed studies of the topics. Nevertheless, trying to be brief in giving some general views on this subject one can say that:

- Such a move should be preceded by creation of a bigger currency union (regional or world-wide) and followed by consecutive enlargements by states/economies who are ready to do so;
- States who will be included into that enlargements should be divided into groups representing similar level of development, similar problems and demanding in consequence similar approaches in applied politics (on the margin, one should say that in most cases some of the economies in question (mainly African ones) do not have problems with public debt, budget debt or inflation;
- In case of economies, representing relatively low level of development (including low level of infrastructure development) – opening of their economies can be done in parallel with introduction of common currency.

The advancement of trade and capital movement liberalization as well as applied exchange rate policies have made the environment of exchange rates less vulnerable what can be used as one of the crucial arguments in favor of further financial integration of the financial and capital markets⁴⁴. The approach represented here divides economies into general two groups:

- First with developed enterprises and also some infrastructure. This group requires some adjustments prior to liberalization of their economies, where both micro and macro approach should be applied in preparations;

⁴⁴ K. Rogoff, *Why not a Global Currency?* The American Economic Review, Vol. 91, No. 2, Papers and Proceedings of the Hundred Thirteen Annual Meeting of the American Economic Association, May 2001, pp. 243-247.

- Second with no enterprises and very limited infrastructure. This group requires a macro approach in liberalization, the whole process should be easy;

In both groups problems may occur on the level of decision-taking process. Moreover, both groups of economies demand adjustments in the law and institutional fields what has to be done in a transitional period on individual terms, where the Commission has to evaluate the scale and scope of required changes as well as progress in applying them in practice.

Concluding one has to say that if there will be support of majority of states (group of states) to create a global currency union, such a move has to be proceeded by creation of currency union among biggest markets (when they are ready for such move), ie. NAFTA+EU and further followed by the ASEAN, while in parallel economies such as New Zealand, Australia, Mercosur can prepare for joining. Similar procedure should be prepared and introduced towards less developed economies. Moreover, it seems advisable to start all processes in parallel announcing openly where the policies are heading and what is the goal of such moves. The general idea on launching global currency should be framed within decisions taken in G-7/8 or even better G-20⁴⁵. G-20 should be considered as more influential forum to decide on this issue than G-7⁴⁶. Within G-7 states demonstrate minor interest in such move but this can be considered as part of the strategy. The interest is obvious on both sides.

Goal leading towards introduction of a common currency dictates certain moves in applied macro-policies on national level what can be defined as open coordination moves (if you want to join a certain regime, you need to apply certain solutions, but when you do it and how it is your problem. International organizations offer help in this area but it is the choice of a country to what extent it will rely on available solutions and offered help).

All changes in the international relations in period 1944-1989 and after 1989 until now show that international coordination of relations among states went through a deep reform. Now states are freer to make their own choice concerning policies applied, dynamics of changes they want to introduce and use of “external power” in supporting such moves. All this indicates that methods to manage the world international relations have changed deeply. In period 1944-1989 they were more coordinated with use of power, where hard elements of security were utilized. There were certain differences in use of power inside the two spheres of influence defined by the Potsdam - Yalta decisions, which have created the foundations for bipolarity. The Western bloc used power-politics outside the core of developed economies. Model of functioning of the economy turned to be more effective in this block than the one used in the Eastern one. Same opinions can be given to the political model, which after the

⁴⁵ G-20 current membership is: Argentina, Australia, Brazil, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Korea, Turkey, The United Kingdom, the United States and the European Union. The Managing Director of the IMF and President of the World Bank, as well as the Chairpersons of the International Monetary and Financial Committee and Development Committee of the IMF and World Bank, participate fully in the discussions.

⁴⁶B. Carin, G. Smith, *Making Change Happen at the Global Level*, October 2003, p.15.

collapse of the system in East became a dominating system in world politics. The Eastern bloc in years 1944-1989 was using power in both circles of countries belonging to it: the core as well as the peripheries. Today, almost 20 years after 1989, with still some exceptions, prevailing method in management of the international relations is done within institutional frames which exist and expand as well as within frames which are being formed and negotiated. Democracy and market mechanism has won in politics and economy over uni-party model applied in command-distributive system. This has increased the number of states who have joined the main stream economy, demonstrating the possibilities and strength of the system as far as growth and catching up is concerned. They have also unveiled lack of effectiveness of the system which was imposed on them after IIWW.

Bipolarity was replaced thus by non-polarity. In a non-polar system, characterized with single model of functioning of the economy as well as single model in politics, what in both cases does not exclude some specific solutions, matching national, cultural, regional philosophies and tailored to specific needs of the individual state, states demonstrate more interests to cooperate internationally. Such solutions are conducive for their growth, development and catching up.

Two main currencies, the American dollar and the European euro, in such circumstances can be considered as a transitional period which starts a new era, in which number of currencies operating in world economy is being reduced and finally this will lead towards a more cooperative solutions with World Central Bank and one currency. Dynamics of reaching each stage of international relations was not too fast. It may continue in the future but there are certain signals (ready to sign, advanced agreements, ready to follow patterns of change, advanced regional agreements, established sub-regional agreements as well as institutionalized relations) which with some demonstration of political will can be used in accelerating the whole process. States tied up together by strong interdependencies feel safer undertaking some moves which open up their economies and bring them into the main stream of the world economy. They are more optimistic in seeing that they are needed by other countries and changes helping them to grow are in interest of the surrounding world. They have more guarantees than in the past which show that they will be able to pay back the credits they will take to build their economies as competitive entities which can cooperate closely with remaining partners in the world economy.

In sum changes in world international management can be considered as something obvious. The future is closely tied up with continuation of controlled liberalization and controlled here means that this process is not a wild one (as some critics of liberalization call it) and countries willing to join the main stream economy need to prove that they are able to do that without harming themselves, what in practice means that they need to follow certain guidelines, which can be given and checked if they are fulfilled by the EU or some other approved international regime. The EU has gained big experience in this area and has approval to do so given by its partners, enough to mention the Cotonou Agreement (approved in 2000) with 79 ACP states, and remaining agreements signed with other countries on all continents.

