

## THE BAD NEWS IS YET TO COME

### Who Would Like The Political Door Ajar ?

There is bad news and there is even badder news.

The baddest news, however, is yet to come by the looks of things, today.

**TARGET** () is referring to last Tuesday's tête-à-tête between Chancellor Angela Merkel of Germany and President Nicolas Sarkozy of France and their joint determination to crack the whip over member states of the **European Union (EU)**.

This meeting is, today, wearing the monocle of the Franco-German Alliance in some quarters.

What one has been told, thus far, about this meeting, or that that may be inferred, is that:

- There must be closer integration of the EU member states;
- There must be closer monitoring of the economies of the EU member states;
- There must be enforced strict limits on deficits of the EU member states;
- There must be biannual summits of the heads of the 17 members of the EU states; and,
- There must be a tax on financial transactions in the EU in order to raise more revenue.

Whereas, the EU was established, originally, to increase economic integration and to strengthen cooperation among its member states, it, now, appears that Chancellor Angela Merkel and President Nicolas Sarkozy are determined to push through an expanded role for the EU to include, inter alia, a special type of governance, with the financial giants of the EU, probably enunciating the whys and the wherefores when the spirit moves them.

In November of 1993, when the EU was originally formed, decision-making was divided between supranational European institutions and the governments of the member states.

It was, always, envisaged that the European Commission and the European Parliament would be administered by the EU, and that the Council of Ministers should be composed of ministers from each of the member governments.

The Court of Justice would serve as the final arbiter on legal matters or disputes among EU institutions or between EU institutions and member states.

The EU's roles, therefore, have always been limited to matters with regard to trade, economics and finance within the EU states, only.

Chancellor Angela Merkel, now, has proposed that the member states of the EU should balance their respective budgets and that such important considerations should be enshrined in each of their constitutions.

Chancellor Angela Merkel is quoted as having stated:

*'We will regain the lost confidence ... That is why we go into a phase with a new quality of cooperation within the eurozone ...'.*

One cannot help but conclude, at this point, that the EU had lost the confidence – or a goodly part of it – that it once boasted when the euro was riding high, having become the second, most-traded medium of exchange in the world, just lagging behind the US dollar, and that a '*new*' quality of cooperation is, now, required in order to regain that lost confidence, suggesting, of course, that the '*old*' quality of cooperation was badder than just bad.

By the Franco-German Alliance, now proposing to tax financial transactions, it will, without question, cut a swath through the economic philosophy of many of the member states, especially those that are continuing to try to keep taxes as low as possible in order to encourage investment from inside and outside the EU.

One of the many strengths of the Hongkong Special Administrative Region of the People's Republic of China is that the corporate tax rate, historically, has been held in check for many a decade, at between 15 percent and 16.50 percent.

This has resulted in foreign investors, establishing presences in the territory and setting up '*back offices*' in order to administer the affairs of the foreign corporate entities as they apply to the Asian divisions of those foreign investments.

Germany and France would like to have a common corporate taxation system and that, by so doing, *inter alia*, both member states could keep track of each others' economic policies and monitor each others' attitude and expectations for the future.

If this idea is expanded to include other member states of the EU, as is quite likely, if adopted, it is tantamount to a surrender, in part at least, of those members' national sovereignty, thus opening up the road to closer political union.

Which is outside the ambit of the EU, of course.

How, investors, locked into the equity markets of the world and especially on Wall Street, will view such a situation is, of course, unknown at this point, but change may not be as good as a rest.

The historic meeting between Chancellor Angela Merkel and President Nicholas Sarkozy did little to allay the fears of investors and, if anything, it is paving the way to reopen Pandora's Box, releasing many plagues and sorrows into the world.

Of course, Pandora was, according to Greek mythology, the first woman on earth, on whom the gods were said to have bestowed many gifts, including a mysterious box with instructions that it must never be opened.

Pandora, being a woman, could not resist the temptation, and she did the baddest thing of all: She looked inside the box.

Whooch!

Today, Chancellor Angela Merkel, a very wise woman of the 21<sup>st</sup> Century, along with President Nicholas Sarkozy are determined to open another box, one that could send shock waves, round the world.

In such a situation, it seems only wise for investors to steer a path, clear of equity markets until the dust settles.

**In conclusion:** Prying the EU political door, even partially open, may turn out to be an unwelcome act on the part of this 17-nation '*club*'; it quite likely to lead to dissent in a number of quarters, inside and outside

of the EU.

Safeguarding the integrity and confidence of the euro must be considered applaudable at this juncture, but expanding the role of the EU under the guise of executing a new plan to accomplish this by the inclusion of a quasi-political extension to the role of the EU poses likely problems, down the road.

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