How THE====EU SAVEDTHE WORLD

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Critics said the European Union was toothless, conservative. Yet it led the way with its decisive moves to solve the credit crunch

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AS THE global financial crisis reaches its climax, for now, many commentators have pointed to the impotence of the European Union and its apparent inability to step in and provide solutions to the predicament faced by member states.

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The United States took action and Britain followed with a much cleverer package, but not the EU.

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The sceptics seized on the argument, heard before, that the EU was conservative, slow-moving and behind the curtain, the member states disagreed much more than they agreed.

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The 27-member EU — of which15 have embraced the single currency, the euro — couldn’t possibly agree; instead they would succumb to temptation, transfer the burden to other members and throw European solidarity overboard.

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Well, it might have looked like that for a time, but the conclusion was hasty and the analysis superficial.

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Over the weekend of Oct 11 and 12, the 15 European Union members met to hammer out an agreement to tackle the financial crisis — a milestone in international cooperation.

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Some years ago, they gave up their individual currencies in favour of the euro. Now, they have closed ranks to fight a crisis that was not of their own making.

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Asia is looking on its own integration so it may be worthwhile to look at how the Europeans got there. The hard-won experiences may be helpful in shaping Asia’s own integration.

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Three things were pivotal: The European Central Bank (ECB), which proved to be as competent — some would say more so — than its American counterpart, the Federal Reserve; the Continental European banks had followed a more prudent policy than the American and British banks; and the resilience of the euro.

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The ECB was watched closely when the single currency was introduced in 1999. It took over from a prestigious central bank (German Bundesbank), which had established a reputation almost on a par with — some would say one a stature better than — the Fed.

The ECB manoeuvred deftly and gradually managed to step into the shoes of the German Bundesbank, earning a reputation as a suitable successor.

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Until a couple of weeks ago, the ECB had managed to stem the tide by pumping money into the financial system. The mass media has reported one bankruptcy after another among US and British financial institutions, but the victims in the Eurozone have been limited. It helped that most of the Eurozone's financial institutions have followed a policy of more traditional banking than the US and British institutions.

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Many European banks did not favour deposits from other banks and were thus less vulnerable to a banking crisis. That policy had previously been depicted as old-fashioned; now it is regarded as sensible.

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The euro was introduced almost 10 years ago. When the financial storm came — arising from a meltdown of the American financial system, not Europe's — the euro provided the stability.

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Before the euro's arrival, upheavals on the financial markets would immediately trigger off a currency crisis among European currencies, with the weaker ones coming under attack.

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But not this time. There were no national currencies for the speculators to play with. It is worth noting that not only was Europe shielded from wild swings among national currencies, but the biggest financial crisis in80 years has also left exchange rates between the three major currencies — the US dollar, euro and yen — broadly unchanged. Without the euro, the outcome would have been even worse.

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Last week, when it became clear that things were running out of control, France, as current chair of the EU presidency, took the lead in rallying other members around a solution based upon a British action plan to help banks to resume lending among each other, thus avoiding the credit crunch.

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A coordinated effort that transcended borders — with individual member states pumping money into the banks — could not have been achieved without mutual trust. It once again illustrates the EU's resilience in the face of a crisis.

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Britain, not a member of the eurozone, was invited to participate in parts of the meeting. That opened the door for the Europeans to feel their way towards one European economic-social model as a replacement for the last20 years when the British model was closer to that of the US than to that of France and Germany.

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This is not the time for criticism or recrimination, but this much can be said: If the ECB and the euro can survive this crisis — and so far they have — the euro will have developed into a truly global currency and the ECB a truly international central bank.

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Europe may still be caught in the maelstrom, but if that happens, blame it on Wall Street, not the euro.

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