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Analysis of the Economic Impacts of the Euro, the Efficiency of the Euro in the Optimum Currency Area, and the Place of the Euro in Global Economics

HÜSEYIN ÖZDEŞER

Near East University, North Cyprus, Nicosia, Cyprus.
Email: huseyin.ozdeser@neu.edu.tr

The introduction of the euro has led to three dominant currencies in the financial markets, namely the euro, dollar and yen. The use of the euro as the single currency is a key element for economic and political unification in the EU (European Union). While some of the criteria for achieving monetary integration between the European Monetary Union (EMU) member countries in the euro area have been satisfied, some problems still remain. As the euro is not the currency of a single country like the dollar, the dollar still retains its dominant position in the international markets. After the Brexit referendum, apprehension regarding the collapse of the EU has reached a peak. Originally introduced in 12 EU member countries, and since extended to 19, the euro may potentially embrace 27 member countries. In this study, the economic impacts of the euro on the per capita income, inflation rate and foreign direct investment are analysed. The analysis will be performed on three countries participating in the EMU, namely, Germany, France and Italy.

Introduction

It could easily be said that the EU is one of the most important economic and political developments after the end of the Second World War, a period in which advances in technology and science have led to an increasingly complex globalized world and a rapid acceleration in the establishment of international institutions (McCormick 2005, 3-4). At the end of the 1940s, Europe was faced with two major problems. The first was the reconstruction of Europe, which had been devastated by the Second World War, and the second was the growing threat coming from the East. It was therefore necessary to bolster West Germany to counter the Eastern

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threat. In order to strengthen economic integration in Europe, at least partly as a means of preventing another war between Western European countries, the European Coal and Steel Community (ECSC) was established with the Treaty of Paris in 1951 (Dyker 1999, 43-44). The European Economic Community (EEC) was formed by the Treaty of Rome in 1957. As economic borders may make for low mobility of products, services, factors of production, and communication, economic integration means the relaxation of these borders between multiple member countries (Pelkmans 2001, 2).

The need to form a monetary union in the EU was supported by two monetary programmes. The Werner Plan of 1970 and the Delors Report of 1989. The European Monetary Union was formed in 1991 and was incorporated in the European Union (EU) established by the Treaty of Maastricht in 1992. The same treaty also led to the creation of the euro as a common and single currency to be used by those EU countries joining the EMU or 'eurozone'. The euro as such a single currency came into effect on 1 January 2002 and was adopted as the national currency of 12 EU member countries (Zestos 2006, 26-32).

One of the most important obstacles for the EU to act as a whole is the difficulties that it faces in the establishment of a common foreign policy. The main reason for this is that each EU member state pursues a different foreign policy, and consequently they have different objectives in the international arena. The historical and cultural background of each country plays an important role in determining its foreign policy. For instance, as the UK traditionally shows a strong alignment in terms of foreign policy with the United States, its leaving the EU may well make it easier for the EU to apply a common foreign policy.

As can be understood from its name, the EU is formed from countries that are geographically located on the European continent. Yet, the acceptance of the Republic of Cyprus as a full member, the acceptance of Turkey as a member of the Customs Union since 1996 and continuing negotiations with the same country on possible membership, have all signalled that the EU is also willing to accept members from beyond the strictly geographical boundaries of Europe. These developments have increased the level of uncertainty within the EU regarding the number of countries that may eventually be afforded membership.

Monetary Integration in the EU

Economic and monetary union refers to the integration of the economic and monetary sectors of the member countries. Two conditions are very important for the monetary union: one is fixing exchange rates between the participating countries and the other is that there should be no barriers preventing capital movement between the members. The uncertainty about exchange rates is one of the greatest problems that countries suffer in terms of international trade. As the countries participating in the EMU are either using the same currency or peg their currency to a common standard, there are no problems related to uncertainty of the exchange rates

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when trading between member countries. People who travel for business and leisure purposes must pay transaction costs as a result of changing currencies. These costs are eliminated for travellers within the EMU. Price transparency is also a result of using the euro because consumers have the opportunity to compare prices. The main target of the European Central Bank (ECB) is to keep inflation low and stable within the EMU. This makes for a stable economic environment for participating economies. Price stability is one of the most significant macroeconomic stability factors.

The greatest cost of the EMU is that one monetary policy applies to all participating countries. Although there could be some differences in the economic structures of the countries, they are still obliged to follow the same monetary policy designed by the ECB (Baimbridge *et al*. 2000, 20-30). Before the formation of the EMU, different monetary integration systems were established around the world: the Latin Monetary Union, the Scandinavian Monetary Union and the German Monetary Union (Ryan and Loughlin 2018, 709–725). The integration of the EU takes two forms: economic and political. In order to form powerful political relations between the EU member countries, it is also necessary to have powerful economic relations. For economic integration to be achieved in an efficient manner, the formation and application of monetary integration is a necessity.

Analysis of the Economic Effects of Adopting the Euro on the Three Largest Economies of the EMU (Germany, France, Italy)

Currently, it is possible to see that the euro has become a successful currency after its establishment as an international currency in 2002. The euro area is one of the largest economic areas in the world. The euro has an important position in international markets, along with the dollar and the yen. In global economics, after the dollar, which is the most stable currency in the global economy, the euro has established itself as a stable and powerful currency. In the majority of the countries in the world, the euro serves as a reserve currency next to the dollar (Özdeşer 2015, 477–478).

Before the euro was implemented, the expectation was that positive effects would be created in the euro area. The use of the single currency in the euro area enables banks to lend the same currency to their clients, while goods and services are sold with the same currency; these two important factors cause interest rate and price transparency to occur, which makes possible interest and price competition and this causes the inflation and interest rates to be lower. Ultimately, consumption and investment levels will rise, which causes an increase in the level of GDP. A rise in GDP means a rise in per capita income, which means a rise in the welfare of the consumers. In addition, the use of the euro as a single currency in the EMU was expected to create a more stable economic structure as a result of higher economic integration. Stable economic structures are important for attracting foreign direct investment (FDI) to countries; hence, as a result of the euro, it was also expected that there would be positive impacts on the FDI of the three largest economies.

By joining the EMU, countries lose their sovereignty in terms of the application of monetary policy; moreover, the inability to apply a common monetary policy

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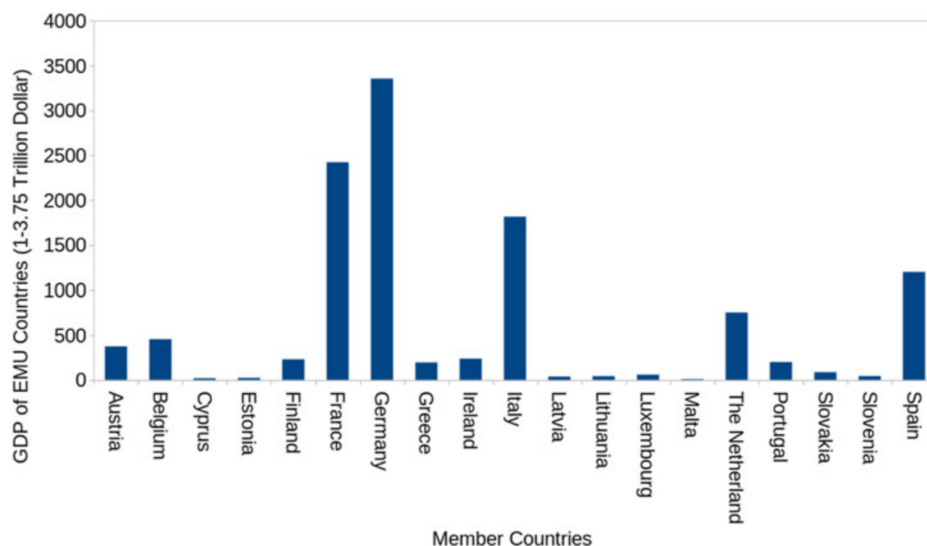

Figure 1. GDP growth rates of EMU countries.
Source: data.worldbank.org

without inflation can be seen as one of the major disadvantages for the EMU member countries (Bainbridge *et al.* 2000, 39). It is no longer possible for countries joining the EMU to pursue an independent monetary policy. All the member countries within the EMU are required to apply monetary policies that are determined by the European Central Bank. For example, if a member country has to apply a restrictive monetary policy because of internal economic conditions, whereas the ECB applies an expansionary monetary policy, this has economic costs for the member country.

The aim of this study is to calculate and analyse the average changes in the values of per capita income, inflation rate and foreign direct investment for the three largest EMU economies, which are Germany, France and Italy, and to make a comparison between the periods 1998–2001 and 2002–2015; in other words, the difference between the 14 years before the introduction of the euro and the 14 years after its introduction. See Figure 1 for GDP growth rates of EMU countries.

Effects of the Euro on the German Economy

Comparison of Per Capita Income as a Percentage for Germany between 1988 and 2001, before the Adoption of the Euro, and between 2002 and 2015, after its Adoption (see Figure 2)

$$352{,}202/14 = 23{,}288.7 \qquad 515{,}204/14 = 36{,}800.2$$

(Total values of two periods are taken as average for 14 years and then calculated as a percentage change)

The average per capita income in Germany after the introduction of euro has increased by 58.02% (36800.2–23288.7/23287.7 * 100 = 58.02%).

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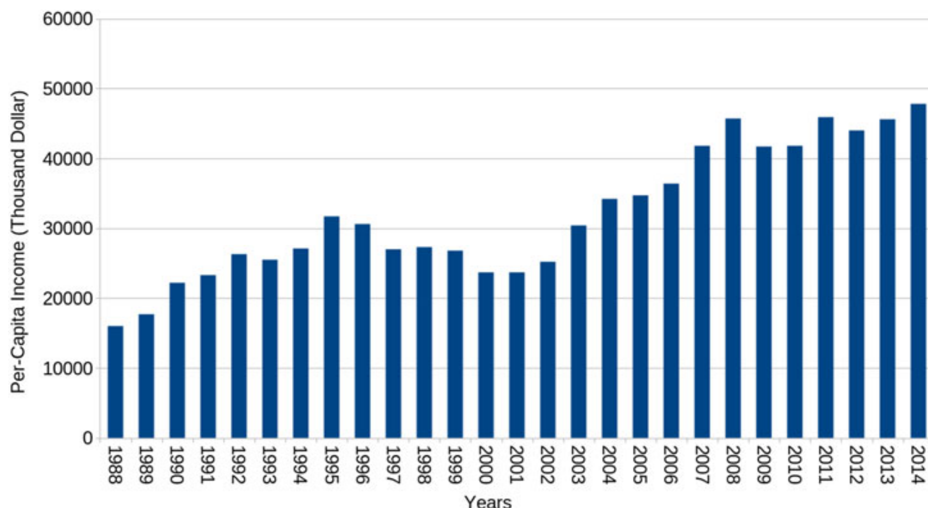

Figure 2. Per capita income for Germany between 1998 and 2015.
Source: data.worldbank.org

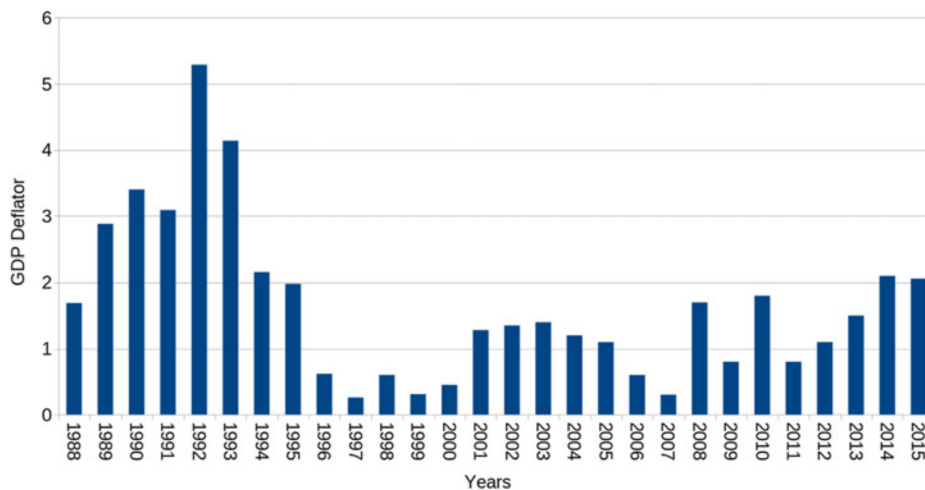

Figure 3. GDP deflator for Germany.
Source: data.worldbank.org

Comparison of Inflation (GDP Deflator) for Germany as a Percentage, 1988–2001 and 2002–2015 (see Figure 3)

$$27.25/14 = 1.94\% \quad 18.06/14 = 1.29$$

The average inflation (GDP Deflator) in Germany after the introduction of the euro has decreased by 33.50% (1.29–1.94/1.94 * 100 = 33.50%).

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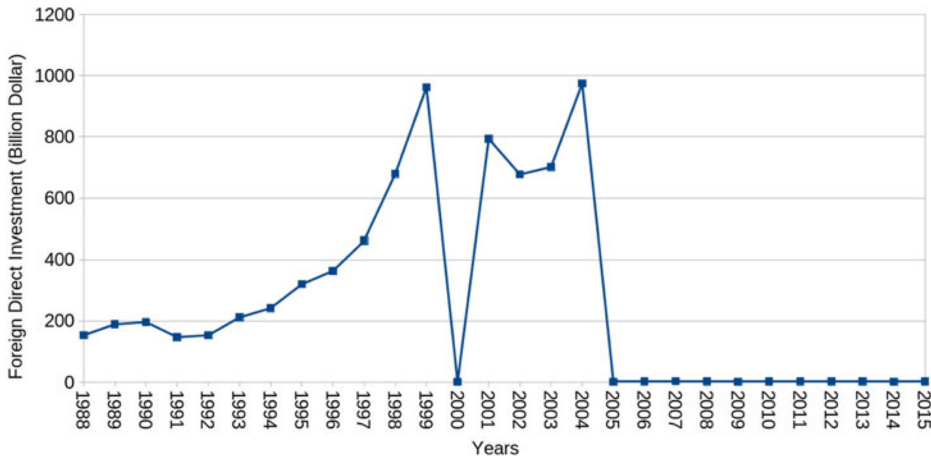

Figure 4. Foreign Direct Investment for Germany between 1998 and 2015.
Source: data.worldbank.org

Comparison of Foreign Direct Investment for Germany as Percentage 1988–2001 and 2002–2015 (see Figure 4)

$$2{,}504.29/14 = 178.877 \quad 2{,}373.494/14 = 169.535$$

The average foreign direct investment in Germany after the introduction of the euro has decreased by 5.22% (169535 – 178.877/178.877 * 100 = –5.22169%).

Effects of the Euro on the French Economy

Comparison of Per Capita Income for France as a Percentage, 1988–2001 and 2002–2015 (see Figure 5)

The average per capita income in France after the introduction of the euro has increased by 66.2% (35595 – 21414.42/21414.42 * 100 = 66.2%).

Comparison of Inflation (GDP Deflator) for France as a Percentage, 1988–2001 and 2002–2015 (see Figure 6)

$$24.42/14 = 1.74 \quad 20.457/14 = 1.46$$

The average inflation (GDP deflator) in France after the introduction of the euro has declined by 16.09% (1.46% – 1.74%/1.74 * 100 = –16.09%).

Comparison of Foreign Direct Investment (FDI) for France as a Percentage, 1988–2001 and 2002–2015 (see Figure 7)

$$249.775/14 = 17.84 \quad 621.623/14 = 44.40$$

The average FDI in France after the introduction of the euro has increased on average by 148.87% (44.40 – 17.84/17.84 * 100 = 148.87%).

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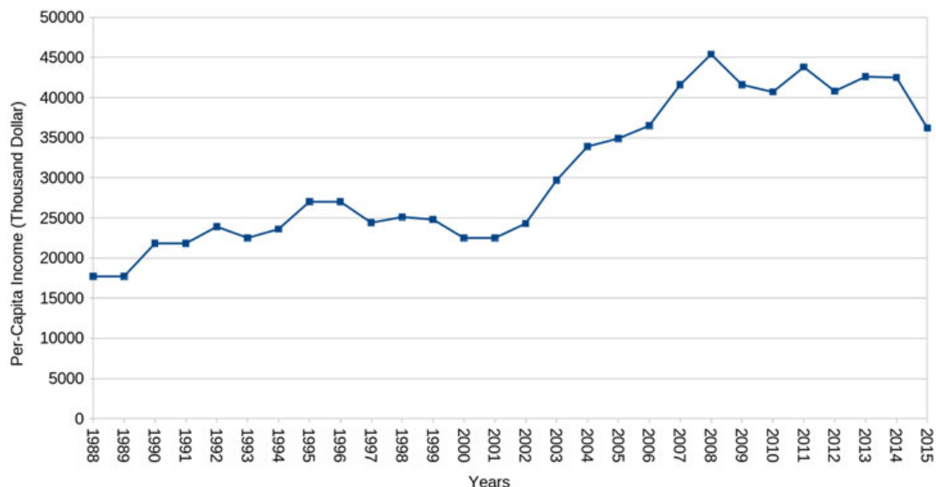

Figure 5. Per-capita income for France between 1998 and 2015.
Source: data.worldbank.org

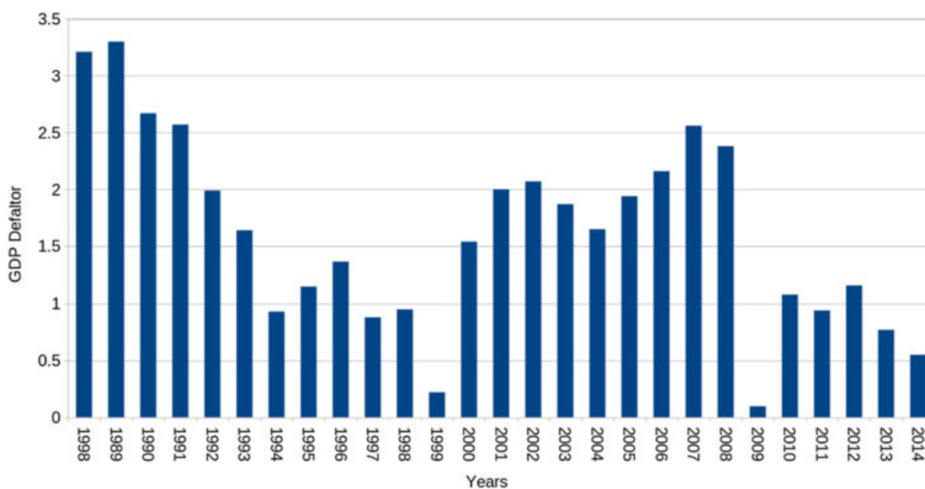

Figure 6. GDP deflator for France between 1998 and 2015.
Source: data.worldbank.org

Effects of the Euro on the Italian Economy

Comparison of Per Capita Income for Italy as a Percentage, 1988–2001 and 2002–2015 (see Figure 8)

$$265{,}602/14 = 18{,}971.57 \quad 464{,}204/14 = 33{,}157.42$$

The average per-capita income in Italy after the introduction of the euro has increased by 87.5% (33,157.43 – 18,971.57/18,971.57 * 100 = 87.5%).

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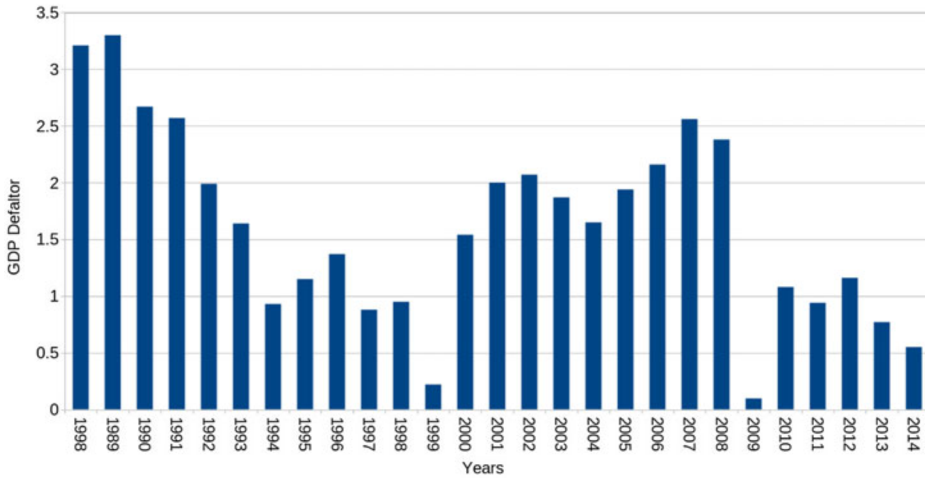

Figure 7. Foreign Direct Investment for France between 1998 and 2015.
Source: data.worldbank.org

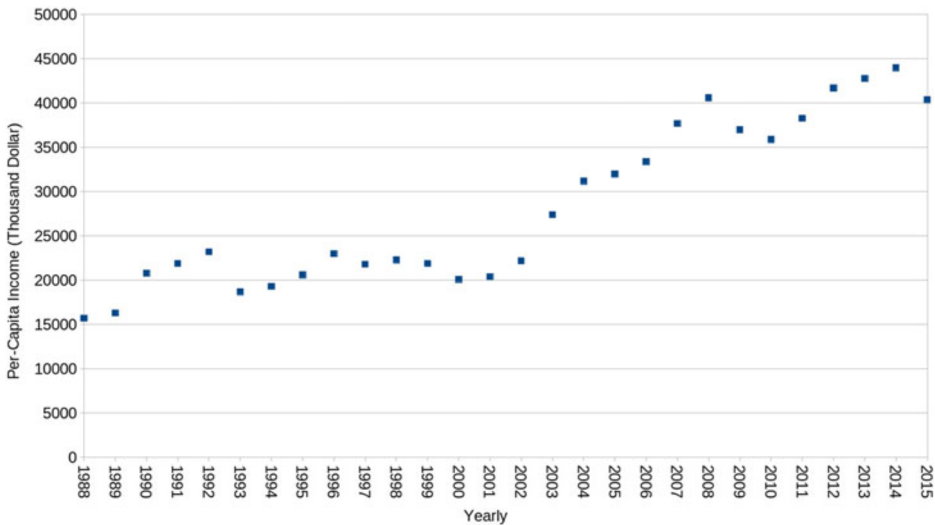

Figure 8. Per-capita income for Italy between 1998 and 2015.
Source: data.worldbank.org

Comparison of Inflation (GDP deflator) for Italy as a Percentage, 1988–2001 and 2002–2015 (see Figure 9)

$$62.33/14 = 4.45 \quad 25.65/14 = 1.83$$

The average inflation (GDP deflator) in Italy after the introduction of the euro has decreased by 58.8% (1.83 – 4.45/4.45 * 100 = –58.8%).

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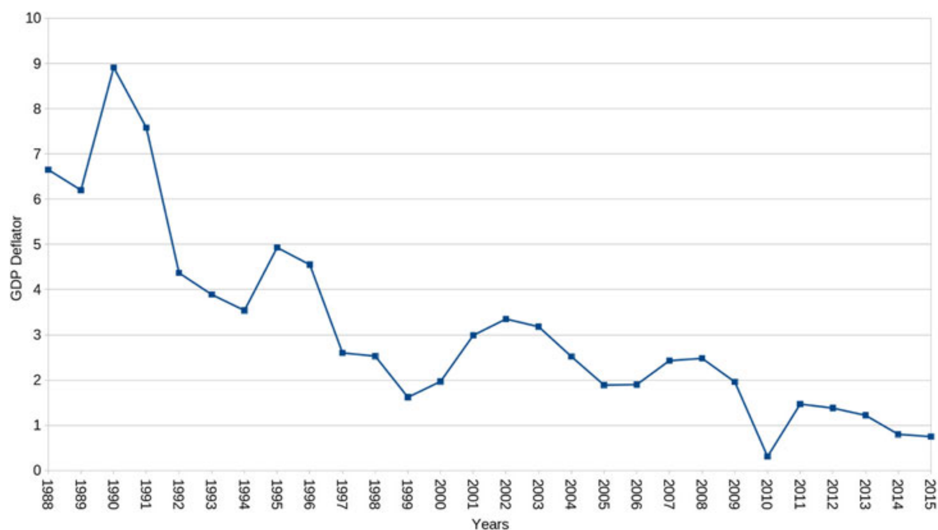

Figure 9. GDP deflator for Italy between 1998 and 2015.
Source: data.worldbank.org

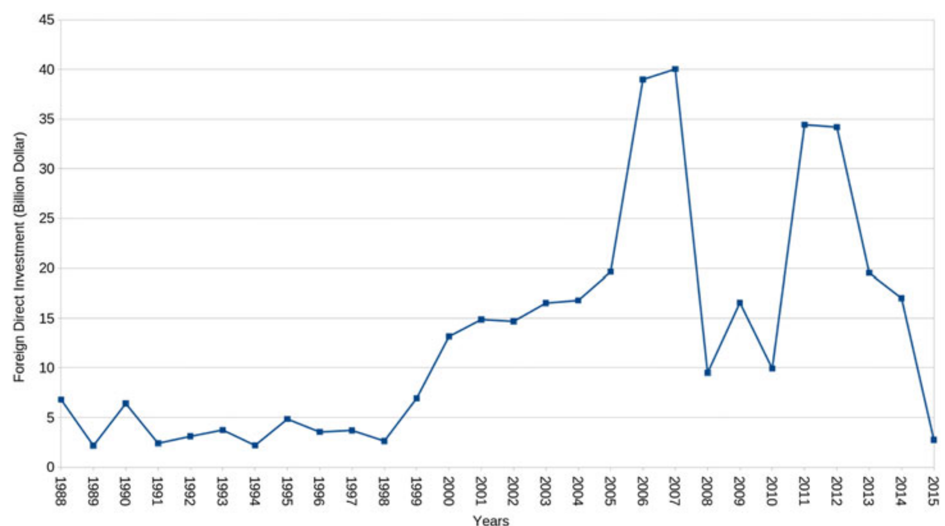

Figure 10. Foreign Direct Investment for Italy between 1998 and 2015.
Source: data.worldbank.org

Comparison of Foreign Direct Investment (FDI) for Italy as a Percentage, 1988–2001 and 2002–2015 (see Figure 10)

$$178.4/14 = 12.74 \quad 70.4/14 = 5.02$$

The average FDI in Italy after the introduction of the euro has decreased by 60.59% (5.02 – 12.74/12.74 * 100 = –60.59%)

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Evaluation of the Economic Effects of the Euro for Germany, France and Italy

When the effects of the euro on the German economy are analysed, it can be observed that the euro has had a positive impact on the per capita income and inflation levels when comparing the 14 years before the euro was adopted as the national currency, and the 14 years thereafter. On the other hand, the level of foreign direct investment has fallen. Even though the percentage decrease, at 5.2%, is relatively low, the fact that this has occurred in Germany, one of the strongest and largest economies within the European Monetary Union (EMU), is still thought-provoking.

As for France, per capita income, inflation rate and FDI were all positively affected.

For Italy, per capita income and inflation rate were affected positively, while FDI fell by 60.59%, which is a significant decrease.

The Optimum Currency Area (OCA) Criteria

The optimum currency area can be defined as the fixing of the exchange rates of multiple countries within an optimum geographic area in an irreversible manner. The currency used within the optimum currency area is the common currency, and this common currency can fluctuate against the currencies of the countries that do not participate in the optimum currency area (Mongelli 2008, 5). (https://ec.europa.eu/economy_finance/publications/pages/publication12081_en.pdf).

The countries in the EU staying outside the EMU continue to use their domestic currency and apply their independent monetary policies. To be able to join the EMU, the countries in the EU have to satisfy the Maastricht criteria. It is important to mention that EU countries that satisfy the Maastricht criteria are not under any obligation to join the EMU. If they wish they can stay out, as in the case of the UK. EU member countries outside the EMU aim to join the EMU by meeting the Maastricht criteria but this will normally take time. In particular, Eastern European Countries have different economic structures compared with western European countries. The similarities in the economic structures of the countries is a very important factor pushing countries through to the EMU (Rostowski 2003, 993–1008).

Why do Countries Oppose Joining the Monetary Union

- The country may require a different inflation rate to the inflation rate in the monetary union area.
- The country may be required to use the exchange rate to achieve its economic targets.
- A country with a large economy may not want to provide benefits to other countries with whom it has poor relations.
- The country may want to gain the inflation tax itself or may want to use monetary growth.

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- In some cases, becoming a member of the common currency area may mean losing independence for certain countries.
- The countries may not want to share their statistical information with other nations.
- A country may not favour the level of integration that will be formed as a result of the Optimum Currency Area.

Why Countries May Want to Participate in Monetary Integration

- To have the inflation rate within the Optimum Currency Area.
- To lower the cost of trading with the other member countries.
- To eliminate the costs of printing a separate currency.
- To remove the necessity of using the exchange rate as a possible target.
- To be disciplined about money and fiscal matters.
- To have a multinational approach against the economic shocks which may appear.
- To have a currency that offers international competition power.
- To achieve a more powerful international economic status (Mundell 1977).

Basic Criteria for the Formation of the Optimum Currency Area

(a) *Mobility of labour*. Within an optimum currency area it is necessary to have free movement of the factors of production because the mobility of the factors of production within an optimum currency area will eliminate the costs that will be incurred as a result of forming the optimum currency area. If any member in the optimum currency area has restrictions in its labour market, then the workers have the chance to move to any other optimum currency area member country to seek better job opportunities, which is very important for economic stability in an OCA. The free movement of the factors of productions within an area is significantly important for the area to be developed and also to achieve a stable structure. Provided the factors of production within a monetary area can shift from a location where economic restrictions are imposed to the locations where economic development is taking place, this prevents the economic factors from remaining inactive. In this way, a fall in economic production and welfare can be prevented.

(b) *Product diversification*. One of the important methods of averting economic crises at the minimum level for the countries that participate in the Optimum Currency Area is to have product diversification. If a country participates in the Optimum Currency Area, then it will not be affected by asymmetric shocks. For example, if global demand for product A produced in the Optimum Currency Area falls, and if the country produces product B as an alternative product to A, then the country will be capable of exporting product B instead of product A. In this way, a fall in demand for

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product A will not lead to economic restrictions in the Optimum Currency Area.

(c) *The openness of the economy*. Trade restrictions between the countries within the Optimum Currency Area should be removed completely. The openness of the economies of the countries in the Optimum Currency Area will improve the level of competition between the countries and, as a result of monetary integration, there will be no exchange rate differences, which means that equalization of prices can be achieved. Hence, to achieve full competition in the Optimum Currency Area, the member countries should be structured in such a way that all trade restrictions are removed. The relaxation of trade restrictions between the member countries will subsequently increase the trade volume between the countries. An increase in the trade volume will have positive effects on increasing the economic growth and level of economic welfare. In order to create a monetary union between the member countries, it is important that there are no trade restrictions, which will enable the achievement of a higher level of welfare.

(d) *Similar preferences*. There must be similarities in the preferences of the member countries in the Optimum Currency Area in terms of their monetary policies. If there are no monetary policy similarities among the member countries, this means that there will be differences in the application of the economic policies for the Optimum Currency Area countries. In this case, it will not be possible to create a common economic area. For an Optimum Currency Area to function with a healthy economic structure, there should be similarities in the economic and social policies of the member countries.

For the time being, it is not possible to say that all OCA conditions of similarity have been met. There are differences in terms of the debt and inflation levels of the OCA member countries, so the member countries are not all expected to be favourable towards the application of similar monetary policies. For example, while there is low inflation in Germany, the high inflation rates in Italy and Greece create differences in terms of the application of the monetary policies.

(e) *Fiscal transfers*. Fiscal transfers between the countries in the Optimum Currency Area must be possible. If there is an economic problem in one member country another member country should be capable of achieving a fiscal transfer to cover the problem. The availability of the fiscal transfers will prevent potential crises in the Optimum Currency Area.

It is not expected that all the member countries who have agreed to monetary integration will have the same level of welfare, so it is also not expected that all the member countries will have the same level of resistance to possible economic crises. Still, the negative effects of the possible economic crises within the monetary area can be minimized as a result of the availability of money transfers between the member countries.

It is compulsory for all the countries participating in the monetary union to function as one entity, which means that an economic problem that occurs in one

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member country will have a direct impact on the other members as well. Therefore, all economic problems that occur should be resolved as soon as possible, or this could lead to permanent negative effects.

(f) *Utility and nationality*. The monetary policies that are applied within the Optimum Currency Area may not be suitable for all the member countries. The member countries should accept this by promoting feelings of unity and also promoting the feeling of being a EU citizen (Baldwin and Wyplosz 2009, 322–329).

One of the most important subjects for the EU is to improve the sense of common feeling of being an EU citizen through harmony and unity. The unification of multiple and varied cultures and of diverse nationalist sentiments under one framework is extremely complex, but also significantly important. Therefore, it is important that the concept of EU nationalism is formed as soon as possible. It is challenging for the EU to act as a whole without achieving a common sense of national solidarity. After June 2016, when the UK took the dramatic decision to leave the EU, the necessity became improving the ability of the member countries to act as one body. If national solidarity can be improved under the framework of the EU, then the possibility of the EU applying economic and politics in a more efficient and dynamic manner will increase.

(g) Political union. One of the most important conditions for the formation of monetary integration is political integration (Mongelli 2008, 6). The application of similar policies between the member countries is beneficial for the creation of a monetary area. If the countries focus on similar political targets, this will improve the collaboration between the member countries. In this way, the member countries will achieve closer relations and they will have a higher level of collaboration focused on achieving the same targets. It is certain that, with political unity, the application of monetary policies will be significantly more efficient and effective.

Is the EU a Suitable Area for the Optimum Currency Area?

It can be said that the majority of EU member countries have been successful in terms of economic openness and product diversification; however, it cannot be said that they have achieved complete success in terms of the mobility of factors of production. It also cannot be claimed that the EU has been successful in the area of fiscal transfers (Baldwin and Wyplosz 2009, 340). See Table 1 for the criteria that has been satisfied in the OCA.

The situation regarding the problems of factor mobility and fiscal transfer are not highly significant. These are technical matters, and solutions to these problems can be found through efficient cooperation. The main problem revolves around how much the EU member countries wish to act as a part of a whole. A strong desire

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Table 1. Satisfied criteria in the OCA.

Optimum currency area grade criteria	Satisfied
Mobility	No
Trade deficit	Yes
Product diversification	Yes
Fiscal transfers	No
Similarity of transfers	Partial Yes
Unity of density	?

Source: Balmain and Wyplosz (2009, 340).

to achieve this will be beneficial for finding a solution to the problems signalled. Currently, as all the criteria of the OCA are not yet realized, it is not possible to see the expected effects of the common monetary policies that will be applied by the members of the EMU. Each member country may require the application of a different monetary policy based on its own needs. In this context, the important factor is how successful EMU members are in minimizing the cost of applying a common policy.

The economic crisis in 2015 in Greece, which is a member of the EMU, raised the risk of the country leaving the monetary union. If Greece ultimately had decided to leave the euro area because of the economic crisis, this would undoubtedly have encouraged other EMU member countries who have similar crises to take steps to leave the euro area.

The important factor that should be mentioned here is the inevitable reality that the management of the growing organization is becoming increasingly complex. The population of the EU, which has 27 members if we discount the UK, is approximately 460 million. The member countries of the EU are: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden (see European Union, 2016).

The number of countries that participate in the EMU is 19: Belgium, Germany, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia, Finland, Estonia, Latvia and Lithuania (see European Commission, 2016).

When the conditions are evaluated from the perspective of the EU, it is apparent that the management of the EU will become even more complex if more countries, with different cultures, join. As a result of the management of the EU becoming more complex due to the increasing number of member countries, it should be expected that the steps taken to reinforce common feelings of EU nationalism will also be challenging. Based on these realities, it can be said that the greatest obstacle blocking the achievement of monetary integration is the negativity towards the formation of deeper feelings of EU citizenship.

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Evaluation of Brexit from the Perspectives of the UK and the EU

Despite all the doubts and debates prior to June 2016, based on the result of a public referendum the UK decided to leave the EU. This was not only an important decision for the EU and the UK, but also for all the nations that continue to have economic and politic relations with the EU and the UK. In reality, the UK, the EU and the authorities in the global economy did not expect such an outcome. For the time being, it is not clear what the outcome could be if indeed the UK leaves or has left. There will be a new dimension to the negotiations that take place between the EU and the UK and it is an unquestionable reality that these relations will change. However, it is certain that this will take place as part of a process.

The decision by the UK to leave the EU has predominantly impacted the global economy through the fall of the British currency unit, sterling. This has affected the imports and exports of the UK.

One of the areas that impacted the UK as a member of the EU was migration to the UK from the other EU member countries. Since 2012, the yearly migration rate from the EU to the UK has more than doubled. In 2015 it stood at 183,000. This has increased the labour force in the UK by 0.5%. Although this has potentially created significant social costs, the greatest economic benefit that it has produced is that it has caused economic growth without an increase in wages. Any decline in the migration rate to the UK from the EU will depend on the structure of the new relationship that will be formed between the two.

There are some scenarios about how the economic relations between the UK and the EU may develop after Brexit. One scenario is that the UK becomes a member of the European Economic Area and continues to be part of the single market. The lack of a free trade agreement with the EU after Brexit is the worst-case scenario for the UK. In this case, the UK economy will undoubtedly experience many negative effects (see The Economic Impact of 'Brexit', 2016).

Leaving the EU will negatively affect the UK more than the EU. Many businesses in the UK have serious concerns about the nature of the relationship that the UK will establish with the EU. This uncertainty will have profound effects on businesses within the UK. The potential policies that the UK may follow can be summarized as follows.

- The UK joins the European Economic Area and continues to work within the single market system.
- The UK adjusts its trade relations with the EU with a customs union agreement similar to Turkey.
- The UK does not join the European Economic Area. However, it independently achieves the required adjustments in its trade with the EU.
- The UK may sign dual agreements related to certain sectors.
- The UK does not sign any agreement with the EU and experiences losses because of EU tariffs.

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In total, the UK economy constitutes one sixth of the EU economy. Furthermore, one tenth of the EU exports are to the UK, and there is strong demand in the UK for EU products (BREXIT, 2015).

Even though the UK is leaving the EU, the EU should be careful in its relations with the UK. Although it will not be a member of the EU, alternative channels apart from membership can be used to take efficient steps towards achieving effective economic and political relations. Unquestionably, the UK will experience a greater negative impact compared with the EU as a result of its leaving the EU, as the EU is a much larger economic formation which can more easily absorb the negative impacts the UK leaving. The greatest impact for the EU will be the loss of prestige. Losing such a powerful member as the UK has shaken the position of the EU in global politics and economics. In a way, this has caused the enlargement process of the EU to move in the opposite direction and has had a detrimental impact.

Undoubtedly, the current EU members apart from the UK have concerns regarding their EU membership and there is the possibility that the referendum held in the UK might encourage similar referenda in other countries. The referendum in the UK has presented a significant threat for the EU because it has increased the risks for the other members. The existence of this threat will undoubtedly do harm to the level of confidence that the rest of the world has in the EU. After this process, the EU should pay closer attention to the problems of dissatisfied member countries and should take steps to address the problems. If this is not done, the possibility of other members leaving the EU as a result of a referendum could trigger its ultimate collapse.

In the global markets, approximately 80% of financial activities are realized using the dollar. In 2015, 43% of all global transactions were conducted in dollars. Political stability in a region is very important for the demand of a currency, and in 2014 there was very high demand for the euro as the other regions around the world outside the euro region were experiencing political instability.

According to the data from the end of December 2014, it is thought that approximately €175 billion was used outside the euro region, which was equal to 18% of the euro in the euro region. (Ecb.europa.eu/pub/pdf/other/euro-international-role-201507.en.pdf)

When the US and Euro area economies are compared, we can say that the US economy is performing better. The main reason behind this is that the euro area economy is formed of 19 different countries and it is not possible for all of them to pursue the same economic targets as with the single-country US economy. The policy applications of the US Federal Reserve are also more efficient than those of the ECB (European Central Bank) because the monetary policy applied by the ECB may not be suitable for all members. Another important reason for the American dollar performing better than the euro in the international markets is that it is the currency of a global superpower with the world's largest economy and a powerful military.

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Conclusion

The enlargement process of the EU is dynamic: it is a continuous process. There is a school of thought that the rising numbers of member countries will weaken the integration process of the EU. There is also a belief among some Europeans that as a result of the enlargement process of the EU, it will simply become a trade bloc. This was always consistently stated by the British authorities to be its aim, as the UK never wanted to submit its sovereign authority to the EU authorities. On the other hand, countries such as Belgium and Germany have supported integration within the EU. Hence, it is evident that the EU is moving between these two extremes. It is just as unlikely that the EU will become the United States of Europe as that the EU will end up a simple free trade area.

Is it possible for the EU to assume a world leadership role just like the United States of America? Since the EU is significantly more diverse compared with the USA, this is a very difficult question to answer. Because of its diverse structure it is much more difficult for the EU to adopt a common foreign or defence policy. In the case of the Iraq War, the EU did not succeed in establishing a common foreign and defence policy. The EU also does not have the same military power as the USA, so it is not possible for the EU to assume a similar world leadership role. Without a strong military presence it is impossible to be influential in world politics.

For a deeper integration of the EU, further monetary integration is a must because it is the only way to achieve full economic integration. Without the application of a common monetary policy with a single currency, it is unlikely that common economic policies will be applied in the EU.

The performance of the euro since it was first introduced has been impressive, and because of its historical performance there is also optimism for its future. The euro is becoming an international currency that can compete with the dollar. In particular, after 2001, the euro started to become more popular, thus causing the dollar to depreciate against the euro (Zestos 2006, 232–236). There are now 19 countries using the euro as members of the EMU. As there are 28 members in the EU, this means that the number of countries applying the single currency will tend to rise. From this point of view, it is possible to say that the euro as the single currency of the EMU will continue to affect global economics and politics.

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About the Author

Hüseyin Özdeşer holds an MBA from Eastern Mediterranean University, Famagusta, Cyprus, and a PhD in Economics from Marmara University, İstanbul, Turkey. He is a Professor in, and Chairman of, the Department of Economics of Near East University, Cyprus. He also founded the European Union Relations Department at the same university. His research interests include International Political Economy, Economic Development, International Trade and Finance, European Economic and Monetary Integration.

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