The euro zone enlargement perspective of the European common market

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Abstract
The euro was born with the aim of unifying the European economy. In order to make it more stable, unified and more solid, in the Euro zone are included the most EU countries which have introduced the euro as their currency in use. Exceptions are only Denmark and the United Kingdom, which, although having met the criteria for being part of the euro zone, have negotiated and eventually decided not to adopt the euro as their currency, therefore, retain their national currencies.

Completion of a set of macroeconomic criteria is needed in order for a state to have the option of joining the Euro zone. These criteria are defined in the Treaty of Maastricht. Besides the required conditions and criteria, it is essential to emphasize three key stages of this process.

Key words: Common Market, Euro zone, Respect to the criteria, Euro currency, Harmonization of monetary and economic policy.

INTRODUCTION
The need for a common currency is subject to the goals of efficient and effective functioning of the European common market. A number of criteria have been set as a mechanism for use by states of the common euro currency symbol which are expressed through the symbol €. In this manner, the introduction of this currency has been the result for the creation of an area, which is defined by use of the euro. Consequently, we have the so-called euro zone.

In the interest of the European common market, the common currency has created favorable conditions in terms of monetary union, monetary transactions, customs union, transport tax payments and similar aspects. About the exact meaning of the expression Euro zone and its expansion, it is necessary from the outset to provide the necessary explanations. Euro area is the whole area of European Union member states that have met the criteria and have approved the use of currency euro as common currency.

The euro was born with the aim of unifying the European economy. In order to make it more stable, unified and more solid, in the Euro zone are included the most EU countries which have introduced the euro as their currency in use. Exceptions are only Denmark and the United Kingdom, which, although having met the criteria for being part of the euro zone, have negotiated and eventually decided not to adopt the euro as their currency, therefore, retain their national currencies.

Completion of a set of macroeconomic criteria is needed in order for a state to have the option of joining the Euro zone. These criteria are defined in the Treaty of Maastricht. Besides the required conditions and criteria, it is essential to emphasize three key stages of this process.

The first phase, which began on July 1, 1990, included: Movement of full and free capital within the European Union, increasing the value of money dedicated to European convergence, through multilateral surveillance over European policies of member countries.

The second phase began on January 1, 1994. It provided: Establishment of the European Monetary Institute (EMI) in Frankfurt, the independence of national central banks, and rules to curb national budget deficits. European Monetary Institute was composed of the governors of central banks in EU countries.

The third phase was the birth of the euro. On January 1, 1999, 11 countries adopted the euro, which became the common currency of Austria, Belgium, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. Greece joined the Euro zone on 1 January 2001. The last country that fulfilled the criteria for being part of the Euro zone was Estonia, which since 1 January 2011 is part of the Euro zone.

In order for the Euro zone and the common market to work better and have the effects intended, there must be respected the criteria for membership of new members, and to respect the directives of the European Union. Also, it is necessary that the laws of member countries be fully harmonized with

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European Union directives, as required in the chapters of the *acquis communautaire*, so that there would be no dualism of the laws of the European Union.

**THE ROLE OF THE EURO IN THE HARMONIZATION OF THE EUROPEAN COMMON MARKET**

Towards the road of being part of the euro-zone are also other parts of the European Union. Candidate countries to be part of the euro-zone are also some Balkan countries such as Croatia and Turkey. The purpose of the member countries is to create a union of states with free movement of goods, capital and people, with a common currency and policy on monetary, economic, agricultural, social, and a foreign policy coordination and protection, to the maturing conditions for a certain unique state. In view of the European Union's monetary policy was established that the European Central Bank (ECB) which is the central organ of the EU to issue euro. From this moment, the European Central Bank took over the EMS and became responsible for monetary policy, which was defined and implemented in Euros. European Central Bank was established on 1 June, 1998. It is not the central bank of only one country, but covers a geographical area of 17 different countries, each with its history, culture and certain economic past. Along with 17 central banks of member countries of the euro-zone, they constitute an entity called "EUROSYSTEM" most important task of which is to maintain price stability.

On 1 January 2002, euro notes and coins began circulating in the countries of the euro-zone. National currencies were withdrawn two months later. Hence, the euro currency became legal tender for all transactions with cash and bank transactions in the euro area, which include more than two-thirds of the EU population.

Countries wishing to adopt the euro as their currency must achieve a high degree of sustainable convergence. Convergence rate is evaluated based on several criteria expressed in the Maastricht Treaty, which stipulates that a country must have: 1. High level of price stability; 2. Sound public finances, inflation level not higher than 1.5% of the average of three European Union member states with lowest inflation; 3. The ratio of gross government budget to GDP (public debt) should be below 60% or at least approaching this value; 4. Term interest rates should not be higher than 2% compared with the three member states that had the lowest inflation; 5. Stable exchange rate; 6. National budget deficit must be below 3% of GDP. These countries should join with the mechanism of the exchange rate (ERM II) at least for two years in a roll and during this period should not have devaluation of the national currency.

**THE INTRODUCTION OF EURO CURRENCY AND THE EURO ZONE**

Euro Currency, which is the official currency of the Euro-zone countries aims monetary union, is a symbol of integration and common market, as well as symbolic identification of the European Union. This is an important stage of monetary integration and unification of the European Union market.

Currently the number of members taking part in Euro is seventeen: the fellowship of those nations is called “Euro-zone”. A clearer picture of the level at which European countries are on their way to being part of the euro-zone is as follows:

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4 In the same page 94.
5 Paskal Fonten, “Europe in 12 lections”
6 [http://www.bankofalbania.org](http://www.bankofalbania.org)
7 “The road towards the economic and monetary European Union”, A. Fullani- Governor of the Bank of Albania
From Eastern European countries, as can be seen from the following maps, only Greece is part of the full rights and obligations of the euro area, although recently this country faces considerable difficulties and profound crisis that has put into question the presence of this country in the euro-zone. Countries of the region, Romania and Bulgaria are members of the European Union but have not yet met the criteria required to implement the common currency Euro. However, their perspective is defined, the euro zone.

Special cases are Kosovo and Montenegro, which although not part of the European Union and also do not have any bilateral agreement with the European Central Bank, using the euro as currency in everyday transactions. Eastern European countries will inevitably be part of the euro-zone, although this point was not clearly predictable.

One of the goals of European Union member countries is integration in the euro area as the final step to achieve economic and monetary union between them.

That member countries that use the euro as their currency must meet the technical criteria. All European Union member countries, except Denmark and the United Kingdom, are expected to participate in the Economic Monetary Union (EMU). Seventeen Member States have adopted the euro as their currency, while Denmark, Latvia and Lithuania are current participants in the exchange rate mechanism. Sweden has not joined the ERM II and Denmark remains in the ERM without proceeding to the third phase. The remaining five states (from the accession countries at the beginning), have yet to achieve macroeconomic criteria necessary for being a member. The new Fiscal Treaty of European Union, whose aim is to curb over-spending government. Out of 27 EU member countries, 25 have agreed to this arrangement, with the hope of restored investor confidence in the region. Only the Czech Republic and Great Britain, both of these countries which do not use the Euro, have decided not to support this agreement. It is important that the project be supported by those countries which already use the euro as official currency. The compact fiscal arrangements of the members of the EU have an impact on reducing the budget deficit under 3 percent (%) of gross domestic product.

The advantages and costs of entering the Euro-zone

The decision to join the euro-zone is a result of extensive and prudent economic and political calculation. Euro-zone expansion is associated with advantages and disadvantages for countries that introduced for the first time in the euro-zone, but also to countries currently participating. Mostly these advantages and disadvantages are related to factors of production: capital, labor and people. With EMU, the European Union marked another important step towards creating common internal and unified market. Businesses and consumers already have it easier to compare prices and find the most convenient supplier to the Euro-zone. In addition, EMU has brought economic and monetary stability throughout Europe, which helps increase sustainable economic growth and job creation. Similarly, the common currency ended disorders caused by sudden fluctuations in exchange rates of prior national currencies.

Some of these other benefits are handled as follows:

• Uncertainties of exchange rates and trade

The main reason in favor of monetary union based on the need to avoid the uncertainties associated with exchange rates. Exchange rate risk tends to reduce exports and imports of a country. It exactly fits with a single currency best methods of reducing or avoiding this risk.

• Information and transaction costs

The existence of a single currency highlights the functions of money as the gauge unit and as a medium of exchange. A single unit of measurement is translated into a great convenience in comparing prices which result in less segmenting of markets and increased competition. Whereas, for the purposes of money as a medium of exchange, the advantages of a single currency lie in the avoidance of transaction costs in foreign exchange rates.

• Credibility

A major benefit of being part of EMU’s credibility is being a member. This has to do more with countries that have experienced or experiencing high inflation rates such as Greece, Spain or Portugal. Their
membership is associated with certain restrictive conditions which as a purpose have reducing the instability that accompanies the economies of these countries. The fulfillment of these conditions makes it possible to win the confidence of their citizens but also to other countries. Despite arguments pro-joining the Euro zone there are also some arguments against this issue. Arguments against this have mostly to do with the impossibility of designing and implementing an independent monetary policy and the loss of control over exchange rates.

**Challenges and prospects of expanding of Euro zone**

Based on the circumstances of the functioning of the common currency Euro and the European common market, widening the euro zone cannot be considered complete without the accession of new candidates. This has been said above is the main challenge with which the European Union is facing recently. Presumably, the euro zone countries deserve to be called optimal currency areas. Optimal currency area is defined as a geographical region in which member countries use fixed exchange rates with the same coin.8

Besides trade and Customs Union, European Economic Community has aspirations to be the monetary union. The main features of this monetary union have to do with the shape of the single and unique currency, central bank and unique fiscal and monetary policy.9

There are a variety of criteria to be classified as an optimal currency area among which may be mentioned: a mobile workforce, symmetric external shocks, opens economy, etc. These criteria are especially important for countries that intend to establish a dependence of their currency with a currency which they consider powerful. To explain more clearly about what was said above, it is worth adding that the progress of the euro area is directly associated with "optimal currency area". So, countries that seek to join in this area must meet all the criteria mentioned above and should also fit as soon as possible with current member countries. However, with regard to this challenge I must say that not all criteria can be met, since various specialists in various fields of economy claimed that joining the euro itself is not entirely one with the optimal currency area as there is no synchronization of business cycles, low flexibility of prices and wages and labor migration is not viewed as a good example. Another challenge facing the European Union is an impossible trinity (impossible triangle). This concept refers to the fact that there cannot be simultaneously fixed and exchange rates, free movement of capital and an independent monetary policy. So in terms of fixed exchange rates and the free movement of capital is impossible to pursue a cheap money policy. As far as the monetary authority uses independence is better to forgo such a thing and import stability.

The expansion of the euro zone countries currently bring as a member but also to new countries to join. European Union should take measures for an easier adaptation to new countries entered in order to avoid major problems with which these countries can be proposed.10

European citizens are generally satisfied with the opportunities offered by European common market, primarily because it offers greater choice of products, as the Euro-barometer survey shows. According to the survey 74% of EU citizens as the main reason for the positive report to the European single market, have highlighted the very large selection of products. As a second reason for a positive report to the European common market have highlighted the attitudes to the job opening. However, on the other hand the Europeans consider that the single market only benefits large firms, but not citizens of poor and deprived of rights. With this attitude agree 52%. Also from this survey indicate that many Europeans are not aware of the advantages offered by the single market.

**Greek crisis impact on the euro monetary system**

Euro zone member states last year faced a financial crisis derived from one of its early members, Greece. But Greece's debt crisis also affected the economic conditions of countries outside the euro zone. This crisis led to a weakening of the economies of many countries of the Balkans and particularly slowed economic growth in those countries that are highly related to the Greek economy such as Albania, Kosovo, Macedonia, Montenegro and Serbia. Greek banks subsidiaries in these countries play an important role. Also, Greek investments or demand for goods from countries of the region has declined.
But securing the funds necessary for financing as well as other income are very important for these countries for economic development and stability in the integration phase in which they are. We think that this crisis could jeopardize meeting the criteria of these states for EU membership in the euro zone and beyond.

On the other hand, the EU Member States and the euro zone are facing this crisis by bringing important issues in economic terms. This experience may make these countries feel they should be more careful in the membership of new countries. A further confirmation of the above mentioned statement is Lars Christensen, head of analysis at the Bank of Denmark in Copenhagen, which stated that: "Germany and the European Central Bank (ECB) are determined not to accept anymore any other Greece.

As you know Greece was allowed to be members of the euro zone in 2001, though did not meet any of the criteria necessary for membership. And this crisis as a result of its policies made that “old” EU member states understand that following the principle of solidarity may be associated with a high financial cost. We think that all this will increase the reluctance to further EU enlargement in the region and could weaken the political will to continue this process. We expect the European Commission and the ECB to be stricter in assessing the fulfillment of membership criteria and to require from candidates a line between their economic stability and the euro area. Also think that it is possible to impose more stringent new criteria of acceptance.

Given that these criteria at the present time are more stringent about how they have been for the accession countries initially, it will bring considerable extension in time of negotiation of the accession process for candidate countries.

**Common market and its functioning in practice**

Worried about the problematic areas of the single market, the Commission developed an action plan, which was approved by the Amsterdam European Council in June 1997. Earlier analysis and market reports only gave a distinct contribution to competitiveness and employment growth in the European Union.

The action plan sets out four strategic objectives:

- **You make the rules for more efficient market.**
  In order to ensure meaningful implementation of the European single market in all member states, the action plan says that each member state must submit detailed programs to incorporate any implementing directive, which has not become part of national law. Member States also need to establish liaison offices. These offices, then, should ensure that the deficiencies in the law enforce single market, as established by the commission, will be eliminated more rapidly by national authorities.

- **Dealing with major market disturbance.**
  Member States shall cease to pursue tax anti-competition policies which distort the single market in addition to his come to an agreement, they should bargain for a system with fewer disturbances on the capital gain tax, the minimum rate of VAT. Restrictive measures against private and public practices should be strengthened program that aims to lessen subventions and assistance, focusing more firmly in the European Union grants to the poorest regions.

- **Removal of sector barriers to market integration.**
  The action plan recognizes that services are less integrated into the community and suffer from the fragmented implementation of directives related to them. Financial services, in particular, suffer from barriers to movement and distortions of competition. There’s a need for progress in opening the market useful services.

- **To create a single market for the prosperity of all citizens**
  To promote mobility of EU citizens within the single market, should be removed every obstacle that has remained, a need to modernize the system for the coordination of social security arrangements should be introduced for supplementary pensions and the need to extend the information system in the whole Europe. Finally, the commission wants to distribute information and service for the rights and

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11 Same page, 183.
13 Same page 532.
14 Same page 533.
opportunities that the European Union single market that offers its citizens. Commission presented a five-year strategy in October 1999 to pursue the action plan. This plan has four strategic goals:\(^\text{15}\)

- To enhance the life quality of the citizens.
- To increase the effectiveness of goods and capital markets in the European Union;
- To improve the economic environment, and
- To reap the prosperity of the single market in a changing world.

**Costs and benefits of the common market project**

The image of the single market should be promoted by rhetoric politics so that the single market will stimulate employment growth and create world-class European firms, which would rival their counterparts in the U.S. and Japan. Abolition of border controls reduces costs for businesses. The large single market allows members to benefit from economies of scale\(^\text{16}\). Greater competition between businesses in the European Union leads to rationalization, a different division of labor and increased competition.

The single market gives no evidence that makes a decrease for the customers. The main advantage of the single market is the biggest supply of goods and services available for use. The single market increases gross production of the European Union, which means it has increased both revenues and economic growth. In general the single market in European Union member states has a smaller increase in prices and inflation rate, meaning that the rate of inflation is below the prescribed parameters 1.1 - 1.5\(^%\)\(^\text{17}\).

The project of a European federal state with which the European Union countries agreed in the spring of 2004 in Nice, and signed an agreement to ratify the European Constitution, on the occasion of the ratification of this project encountered numerous difficulties and became inapplicable, when France as a country with a long European tradition after the 2005 referendum, said no to ratifying the European Constitution. Same happened with the Netherlands, member of the European Union. Constitution enters into force only after ratification by all EU member countries, which can ratify the constitution through a referendum or by parliamentary procedures\(^\text{18}\).

Countries who have decided to ratify the EU constitution referendum have completely vulnerable state formation project of the Federal Union with common legal basis. Today there are two fundamental issues on the agenda of the EU:

- The process of enlargement; and
- Revival of the European Constitution

Both these processes are very complex and in a way contradict each other, because the enlargement process requires more energy and resources to prepare new countries to join EU whereas the adoption of the Constitution requires more energy to persuade EU countries to accept such a constitution\(^\text{19}\).

- The EU is considered as a federation (with a focus on monetary, agricultural trade policy and policies for the environment);
- As a confederation (with focus on economic and social policies, to protect consumers and internal relations), and
- As an international organization (with a focus on external relations).\(^\text{20}\)

**Cross border purchases and the citizen priorities**

In a survey done in 1995 by Euro-barometer ascertained the desire of consumers to do shopping in a European Union member state, their neighboring country. The survey showed that the number of EU consumers who make purchases in the neighboring state of European Union members, amounted to 24\(^%\) of all EU customers\(^\text{21}\).

\(^\text{15}\) Same page 538.
\(^\text{16}\) Same page 540.
\(^\text{17}\) Same, page 542.
\(^\text{19}\) B. Beca, “Integration of Eastern Europe economy - challenge or possibility?”, Prishtina, 2008.
\(^\text{20}\) Same, page 33.
The survey, which examined the habits of customers from 18 years and older, the following sequence shows the goods purchased in another member state:

- Cross-border consumers who purchased clothes, shoes etc... Was 12.3% of the total number;
- Cross-border consumers who purchased services related to their trips was 11% of the total;
- Cross-border consumers who purchased specific financial services and insurance were 5.5% of the total;
- Consumers who purchased of durable goods (televisions, cars, washing machines, etc.). Was 3.8% of the total.
- Cross boundary customers who purchased real estate (for example land, house etc.) were 0.6% of the total;
- Cross boundary customers who purchased food, drinks etc... Was 7.1% of the total number.

Number of cross-border European Union customers may change from one state to another. Reasons for this include the size of the internal market and geographic position. As after the above survey findings reflect that consumers are more conscious about the opportunities generated by the single market and that they have confidence in consumer protection measures for the customer, European Union conclusions are that the customer is movable. With the free regional trade not only peace is secured but prosperity and existence of the European Union is the most visible evidence of this claim.

**CONCLUSION**

Common Market of the European Union has an important role in domestic economic development and international economic relations. The liberalization of the exchange of goods, services, capital, free movement of labor, transport facilitation, creation of a common customs tariff, the common Euro currency are some of the advantages of the European common market. However, there are challenges in integrating and fully functioning of a unique common market, one of the challenges is that the European Union is not federal and has not approved a European constitution with which to work in a unique way in terms of political and economic aspects. Great loss to the creation of European Federal State was by not ratifying the European constitution by some European countries (France, Netherlands), which has had as main goal to unify all the fundamental agreements of the European Union and give the legal personification, so it is given the opportunity to sign on behalf of member countries for some areas that were defined by the Constitution.

Euro-zone community has a perspective to increase in number in the future. Towards the road to being part of the euro zone are all EU member states. Destination of all countries of Europe in a distant future is the Euro-zone. Eastern European countries that aspire to EU membership are in their interest to make technical preparations so that domestic national currencies are replaced by euro common currency within a reasonable potential timeframe to be completed. However, being part of the Euro-zone has its benefits and costs. Benefits consist in protecting these countries from exchange rate risk, lower cost of transactions and higher credibility to the economy of these countries. In the probable costs we may mention the inability to design and implement independent monetary policy and loss of control over exchange rates. Inclusion of measures of the action plan has had major changes regarding the integration of the European common market. While Belgium and Germany made a significant move in the implementation of agreements and treaties of the EU directives, where Portugal, Ireland and Greece have shown serious shortcomings in these issues.

This shows that those States that have not refrained agreements and treaties of the European Union and the incorporation of EU directives into national laws. Among the first of these European Union member states is presented the global financial crisis that has hurt them economically and politically. European Union crisis, which started with opposition from the French and the Dutch constitution and with no arrangements for quotas for member countries of the EU budget. All these internal problems and difficulties of the EU, it would weaken the position of international influence on various aspects, it was proved with the management of the global financial crisis which affected some EU countries and currently continues to be in crisis.

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22 *Same*, page 546.
23 *Same*, page 547.
There are opinions and proposals from the European Union member states that Europe must change, but not to fail the common European market and common currency euro (€).

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Figure 1: Introduction of Euro

Figure 2: Member States which have adopted the euro zone currency euro (€)

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<th>Country</th>
<th>Austria</th>
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Figure 3. Graphical representation of the euro zone

The data to complete the figure were taken from the web page: http://sq.wikipedia.org

www.ecb.int/ecb/html/index.en.html