

The impact of European Monetary Union on different countries within the EU

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Abstract. The decision on the establishment of economic and Monetary Union will be regarded as a major event in the economic history of Europe. A stable European monetary structure will affect the future not only of the Member States of the Community, but also of the whole world. It is likely to serve as a guidepost for the economic policies of future members of the European Community, such as Austria, Sweden and Finland, as well as the emerging market economies of Central and Eastern Europe. These countries are looking forward to closer links with the European Community. Monetary union would also provide a currency for the European Community. The creation of economic and monetary union is a complex undertaking from both a technical and a political point of view. It requires a high degree of consistency between economic policy and performance. At the same time, it would greatly reduce the economic autonomy of participating countries. The traditional differences in the economic and monetary policies of the member states of the European Community also have different effects. Therefore, this paper mainly studies the influence of EMU on different EU countries by studying the EU's political ideology, historical and economic development, economic main body structure and cultures of different EU countries.

Keywords: Europe, European Monetary Union, Economic.

1. Introduction

COVID-19 has enveloped the world and has spread to more than 110 countries and regions. Europe has become one of the hardest hit areas. The epidemic in major economies such as Italy, France, Germany and Spain has entered a rapid fermentation stage, and the situation is at risk of further deterioration. The epidemic has impacted the global economy, and the corresponding financial and debt risk chain transmission is still continuing. The spread of the epidemic has made the European economy worse. The impact of the spread of the epidemic on the European economy is emerging. In the face of the rapidly spreading epidemic, European countries have generally upgraded their risk assessment and prevention and control measures. At present, joining the EU has become a good choice. However, the internal situation of each country is different, and the differences in economy, policy and culture make it impossible for each country to ensure whether it is suitable to join the EU to avoid risks. From the two aspects of economic development and political ideology, this paper analyzes the advantages and disadvantages of countries' accession to the EU. From the perspective of economic development, member states in the euro area can effectively reduce costs and eliminate risks related to exchange rate fluctuations. At the same time, under the condition of single currency, relatively weak countries will face greater competitive pressure and unemployment. Member countries also have a good macroeconomic environment in the monetary union. On the other hand, political ideology will also affect economic performance. Political system and economic development are inseparable. Different policies will bring different results. At the same time, cultural and historical issues and other factors determine the operation of different governments. From the knowledge of

these two fields, combined with real historical events, this paper analyzes whether European countries can join the EU under the current social background.

2. European economic background

2.1 European economic history before the twenty-first century

Following WWII, Western European economy was depressed, and the two superpowers, the Soviet Union and the United States, began a special period that severely strained the actual international status of western European countries, and the need for eu and cooperation was more prominent than ever before. Six Western European nations, led by France and West Germany, negotiated the establishment of the European Coal and Steel Community in 1951, followed by the establishment of the Customs Union, which gradually reduced barriers to the free movement of commodities and market components.(Heliocentric,1994) The process of European economic integration began then. Other European countries joined the group to efficiently encourage economic development while maintaining political stability. The European Union (EU) was constituted jointly in 1993, consolidating European integration and forming a new pattern of the international economy(Zhang Y G,1979).

2.2 The Current Economic Situation in Europe

Although European economic integration has been developing for a long time and has made significant progress, in recent years, under the strong impact of the international financial crisis and the outbreak of the eurozone countries' sovereign debt crisis, flaws in the EU institutional framework have gradually emerged and become increasingly visible.

2.3 The influence of euro and establishment of EMU

The euro has had a significant impact on the EU economy and the global economy in terms of resource allocation and efficiency (including human capital, financial capital, technology, and management) between countries (both within the EU and between the EU and the rest of the world), the game of economic policy and coordination among countries (monetary policy, fiscal policy, exchange rate policy), and the distribution and structure of economic welfare between countries. The Maastricht Convergence Criteria (MCC) provides a certain level of economic stability in the eurozone by establishing strict criteria for member governments' fiscal policy (fiscal deficit and national debt constraint) and monetary policy (inflation rate and long-term interest rates), which the ECB views as a means of reducing asymmetries. The ECB views these criteria as a facilitation tool for stabilizing the eurozone economy by decreasing asymmetric external shocks. The Stability and Growth Pact (SGP) also assures that EMU accession nations continue consistent economic development, with the exception of when a member state is experiencing a severe recession, defined as a continuous decrease in national income of more than 2%. (Artis & Buti, 2000).

The European Union has acted as a regulator of the European debt crisis, the new pandemic, and other events that have resulted in slow economic development, low exports, and high social unemployment, and has to some extent insulated member states.

Following the European debt crisis, quantitative easing became a crucial economic adjustment tool for the European Central Bank and policymakers in EU institutions, and the European economy gradually recovered. This time, in the face of the epidemic's impact, EU institutional policymakers hope to rely on ultra-loose monetary policy to get out of the recession, the ECB by increasing the supply of base money and increasing the purchase of assets such as treasury bonds to enhance market liquidity, resulting in the euro's depreciation, lower yields on treasury bonds, lower market financing costs, which is conducive to stimulating consumption and investment in the eurozone, p The goal is to revitalize the Eurozone economy.

Due to the lockdown restrictions imposed during the COVID pandemic, the global economy was severely disrupted, and some countries with small economies lacked sufficient capital reserves and

the ability to withstand the crisis, resulting in a sluggish domestic economy and serious social divisions (Ozili and Arun, 2020). While EU member states first concentrated on limiting the spread of infectious illnesses, emphasis swiftly moved to the pandemic's catastrophic socioeconomic implications (European Parliament, 2020a). The European Commission (2020a) postponed the enforcement of state assistance laws in March 2020, providing member states additional leeway in assisting distressed enterprises. Furthermore, on March 23, 2020, the European Commission (2020b) triggered the SGP general exemption provision for the first time, temporarily suspending the implementation of EMU fiscal rules, which was approved by the Council (Council of the EU, 2020a). Simultaneously, the Commission established the EU Solidarity Fund to provide cash assistance to Member States (Regulation 2020/461) and the Coronavirus Response Investment Initiative to redirect up to €37 billion in available cash reserves from the EU Structural and Investment Funds to COVID-19-related expenditure (Regulation 2020/460). Finally, the European Commission (2020c) has proposed the establishment of a European instrument for temporary assistance to mitigate the risk of unemployment in emergencies (SURE) - a secondary insurance system designed to supplement stressed national unemployment insurance systems through loans backed by Member State guarantees (Fabbrini, 2021).

3. The EMU's Success

3.1 Positive effects for EMU members

Germany is a key founding member of the European Economic and Monetary Union, and the German government, opposition, and economic circles all support the euro. Germany has the EU's best economic power and is also the EU's top exporter and foreign investor. It plays a vital role in international trade and finance. As a result, the introduction of monetary union will give more possibilities for Germany's economic development, as well as significant benefits to Germany. For starters, if the euro is introduced, the exchange rate risk inside the eurozone would vanish, facilitating the growth of intra-eurozone commerce. Germany is a major exporter, and the elimination of currency rate risk would surely benefit its exports. Furthermore, the introduction of the euro will strengthen the mark's position as the EU's strongest currency, avoiding the inflationary pressures and negative impact on exports caused by each exchange rate adjustment and mark appreciation. Second, EMU will generate a new, more favorable macroeconomic environment for its member countries, with improved budgetary situations, increased economic convergence, and reduced inflation.

France is a vocal supporter of European monetary unification. France is the European Union's second biggest economy, and the French franc plays a vital role in international banking and commerce. Overall, it would be one of the most significant benefactors of monetary union. France's economic state, inflation rate, and financial status have all been at historically low levels in recent years. The introduction of monetary union will improve France's macroeconomic situation. Low inflation, low interest rates, and lower currency exchange costs, in particular, will encourage the growth of commerce and private investment.

Luxembourg, Belgium, and the Netherlands are minor European monetary union members. Open and small economies describe their economy. Foreign commerce makes for a sizable component of the national economy, and economic growth is heavily reliant on it. The removal of exchange rate concerns and the decrease of currency exchange costs following the introduction of the euro would facilitate the development of overseas commerce. As a result, these three countries will reap the most benefits. As a result, they are enthusiastic supporters of the euro.

3.2 The Allure of EMU

Global inflation in the Eurozone has risen as a result of geopolitical conflict, supply chains and business confidence have suffered as a result of the Russian-Ukrainian conflict, and energy prices have risen, but economic growth in the Eurozone in the first quarter of 2022 is still higher than previously forecast, as is economic growth in the fourth quarter of 2021. (Ozili, 2022).

According to data, eurozone GDP growth fell to 0.2 percent year on year in the fourth quarter of 2021, down from 2.3 percent in the third quarter. The eurozone's better-than-expected first-quarter economic growth was driven by increases in exports and inventories, which more than compensated losses in government expenditure and consumer purchases. Growth was quite robust among the smaller nations, with Ireland's GDP expanding at an astonishing 10.8 percent year on year, while Germany and Italy's GDP rose by 0.2 percent and 0.1 percent year on year, respectively (Finance and economics, 2022). There is no arguing that EMU has clearly benefited smaller economies. According to the Irish Times and the Irish Independent, the latest estimates from Ireland's Central Statistics Office reveal that Irish exports of products will top €165 billion in 2021, a record high and an increase of more than €3 billion (2 percent) year on year. Medical and pharmaceutical items accounted for 38% of total exports (€62 billion), representing a 1% increase (€535 million) year on year. Exports of manufactured products increased by 16.5 percent year on year, while equipment and transportation increased by 8.5 percent. In 2021, the EU will account for 37% of total Irish exports, with the UK contributing for 9%. The EU is also Ireland's primary trading partner, accounting for 33% of total imports in 2021. Small economies will have no tariff barriers to import and export trade with Eurozone nations due to the elimination of tariffs and the removal of import quotas under the EMU agreement, easing the movement of products, money, and labor (IMDO, 2022).

EMU continues to be highly appealing to Europe's smaller economies. Croatia is the European Union's newest member and will soon be the third country to join the trinity of EU, Eurozone, and Schengen Area. Croatia has a strong tourism industry, which is an important part of the country's economy, and successful Eurozone accession will effectively lower the cost of capital flows and transactions between Croatia and other countries, as well as eliminate the risks associated with exchange rate fluctuations, allowing the Croatian economy to advance to the next level. Individual residents and enterprises in their names will both be able to profit from the Eurozone's low interest rates.

4. Influence of economic factors on joining EMU

4.1 Weaker economic countries in EMU

However, not all nations can attain the same level of economic growth as other EMU members; some countries lose economic sovereignty and face higher obstacles. Portugal, Greece, and Spain are the most apparent examples, and they are also relatively unsuccessful EMU members.

The Eurozone is a diverse economy made up of 19 different countries. Although its degree of regional integration is substantially higher than that of other areas throughout the world, the clear variations in economic size and national economic structure among nations have also resulted in tremendous economic imbalance within EMU.

According to research, under the single currency arrangement, the union's comparatively weaker members will experience stronger competitive pressure and a higher unemployment rate. The core zone economies, such as Germany and France, have much more economic power and competitiveness than other nations and have distinct competitive advantages. As a result, they have accumulated large trade surpluses for a long time; whereas other weaker countries, such as Greece, which belongs to the less developed marginal country category, with a single economic structure and a lack of strong new economic growth points, must rely on imports to meet domestic demand. As a result, joining EMU results in a long-term trade and budgetary imbalance with other nations. Furthermore, figures from the survey "Fiscal Deficits of Eurozone Countries from 2001 to 2010" suggest that Greece's economic status did not improve much after entering the EMU in 2001. The budget deficit did not exceed the objective at the time of entry. The deficit rate remained high even after admission. These issues are frequent in Portugal and Spain. All of the aforementioned demonstrate that, after entering EMU, these three nations' economies not only did not improve, but rather deteriorated.

4.2 Differences in national economic structure

The following are the primary causes behind these three nations' slow economies. To begin, the failure of the economic development model has resulted in stagnant economic growth, which has been sluggish in several Eurozone nations for a long time, with no significant support and growth points. Second, welfare capitalism is eroding national output. Third, labor market rigidity and a lack of industrial innovation. Fourth, the population is aging. A range of issues have severely harmed these three nations' international competitiveness, resulting in long-term structural low growth and significant unemployment. These three European nations rely on labor-intensive manufacturing the most, and they export labor-intensive items for intra-eurozone commerce. However, as global economic integration has increased, their labor advantage has eroded in the face of competition from Asian developing market nations. On the one hand, industrial reform cannot be completed in time; on the other hand, inhabitants must retain their current high quality of life, causing government debt and foreign debt to continue to climb.

Consider Greece, which has a poor real economy based on tourism and a low percentage of industrial and high-tech businesses. There is also a scarcity of agriculture and manufacturing. Long-term high welfare system and people's propensity to consume have resulted in poor labor productivity and a very low savings rate, which can only be supported for a long period by deficit finance. Furthermore, Greece's excessive welfare programs have weighed down its budgets, leading their fiscal burden to be usually too large. Welfare spending has historically been the greatest component of government spending, accounting for approximately 30 percent of GDP. According to the composition of government spending, social security and health care spending amounted for an average of 24.8 percent of GDP from 2005 to 2008, rising to 27.5 percent in 2009. The huge expense of welfare has not only pushed the government into debt, but it has also crowded out government investment in research and education, resulting in a lack of national innovation and a key factor in weak economic growth. When the external shock of the financial crisis was so catastrophic, a debt crisis was unavoidable. Spain and Portugal are also grappling with similar welfare debt problems. As Europe's aging crisis worsens, the welfare system will take center stage.

4.3 Weaker economic countries do not benefit from EMU

Not only have these three nations' industries and economies not improved since joining the EMU, but their external debt from the EU has also rendered them extremely indebted. After entering the EMU, the country's long-term reliance on imports to fulfill local demand resulted in a long-term trade and fiscal imbalance with other nations. It also demonstrates that, since entering EMU, the economy has not only failed to develop, but has actually deteriorated.

5. Influence of human factors on joining EMU

5.1 5.1 The relationship between economy and politics

The political party system is a catch-all term for a variety of systems in which political parties possess, participate in, or influence governmental power. It is an essential component of the modern national political system. The objective reality that politics influences the selection of national economic policies, and hence economic performance, has long piqued the attention of economists in the link between political system and economic activity.(Yao Wang,Guanqing Guo,2020)"Political institutions certainly impact economic performance because they set and apply economic norms," eminent economist Douglas North (1993) noted in his Nobel Prize address. The complicated and changing political structure makes economic development more precarious. The variable political form is also a deciding element in a country's decision to join the European Monetary Union.

5.2 Typical multi party conflict----Poland

The majority of European countries have a multi-party political system. Poland practices parliamentary democracy, with the president serving as the head of state and responsible for upholding the Constitution and national security. The president is chosen directly by the people for a five-year term. Poland, on the other hand, is a classic multi-party country. In Poland's history, political elites have frequently clashed over the country's foreign policy. Following Poland's accession to the European Union, the domestic political elites' dispute over the country's foreign policy escalated into a battle for diplomatic dominance between the president and the prime minister. The political disagreement between the two factions has resulted in inconsistencies and a lack of efficacy in foreign policy execution. For example, during Lech Kaczynski's presidency, there was a major disagreement with Prime Minister Tusk over EU policy. The former has long been wary of the EU, but the latter proudly displays the EU flag. The president and the governor of the central bank both expressed strong opposition to Tusk's economic reform. However, with the deaths of these two persons in the plane disaster, the government's resistance to developing essential economic reform measures in order to begin the process of entering the eurozone as soon as feasible has been undermined. (Hao Xiong, 2011) The fight of political elites has also resulted in the partition of Poland's political area into East and West. Some farmers in the eastern area are hostile to the EU because of disparities in economic development, research and education, transportation, and the battle between culture, economy, and values. In contrast to the East, the Western area lobbies for more European integration, enjoys the economic benefits of tight links with the EU, and has an open attitude toward the EU's principles. It is clear that the disagreement between Poland's "political territory" to the east and west makes it hard for the administration to speak with one voice when dealing with the EU. Sometimes the opinions in the two areas are radically opposed, putting Poland in a bind when it comes to dealing with the EU problem.

5.3 The impact of people's cognition----Denmark

Denmark has not joined the European Monetary Union as a member of the European Union. Denmark is another multi-party country. Different perspectives on the evolution of the European Community and the European Union have emerged since Denmark's accession to the European Community in 1973. Some opposition parties are concerned that as European integration deepens, the European Economic and Monetary Union would ultimately lead to political union. Denmark, being a tiny country, may lose some autonomy in economics, society, diplomacy, national defense, independence, and national identity. Second, Danes have the highest welfare security of any industrialized country, and most Danes are concerned that after joining the eurozone, the Danish government would modify the present social welfare system to fit the European Union's uniform criteria. (Suchun Zhen, 2000) All important measures concerning deeper integration into Europe must be resolved by referendum, according to Danish legislation. Denmark conducted six referendums on European membership between 1973 and 2000. On the question of whether Denmark should join the eurozone, the Danish government is optimistic. The main parties in the administration and parliament have often explained to the people the benefits of entering the eurozone. Rasmussen, the Danish Prime Minister, has personally went to the streets to promote the euro. According to research, there are three major reasons why Danes are opposed to entering the eurozone. First, there is concern over the euro's demise. The euro has been weak since its inception, producing a significant psychological impact on Danes, despite the fact that Denmark's domestic currency is in decent health. Second, be concerned about the decline in social welfare. They feel that the building of various regional integration networks will diminish present wellbeing. The third factor is a fear of losing national sovereignty. They believe that the country will lose more rights than simply monetary rights.

5.4 A unified culture and consistent cognition are the key factors to join EMU

The interplay between economics and politics, multi-party disputes, and people's views will all influence whether or not a nation joins the EMU. Economic insecurity will have an impact on the

political situation, and political insecurity will have an impact on economic growth. The economics and politics complement and affect one another. Economic and political issues will influence the decision to join the European Monetary Union. Second, the multi-party dispute will destabilize the domestic environment and alter the growth of the economy, culture, science, education, and transportation. If the values culture is different, there will be diverse perspectives, putting Poland in a bind when dealing with the EU problem. Denmark's government remains optimistic about entering the EU's monetary union. The primary reasons why Danes oppose entering the eurozone include concern about the influence on the currency, concern about social benefits not being guaranteed and becoming increasingly difficult, and concern about losing national sovereignty. The "Euro Pact" is an economic reform plan to improve eurozone economic convergence. Its foundation is economic governance reform to foster member nations' economic integration, and it establishes four goals to that end: enhancing economic competitiveness, creating employment, budgetary consolidation, and maintaining financial stability. Specific methods to attain these objectives are left to individual nations, under EU oversight.

6. Conclusion

Nowadays, EMU has become an important union for the economic integration of Europe, It not only has effectively promoting economic development and creating a new world economic form, but also played an important role in assisting countries to reduce risks during the crises they have faced over the past 20 years. Germany and France are the ones have particularly benefited from EMU due to their trade patterns, while other smaller countries such as Luxembourg, Belgium and the other have also been the biggest beneficiaries of the union. However, not all countries that joined EMU have benefited the most from it, including the three southern European countries. These three countries have not only seen much significant economic improvement, but have also become more indebted since joining the EMU. In addition, in terms of political and cultural aspects, there are also countries with huge cultural, political and other differences with the EU, which show uncertainty in their attitudes toward joining EMU, making them face a dilemma when facing EU issues. Therefore, although the EMU has a strong attraction, the suitability of the EU countries to join and benefit from the EMU varies considerably, largely depending on compatibility with the EU in their politics, economies and other aspects.

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