

MASTER'S THESIS

The impacts of euroization on trade and FDI on the Euro area

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The Impacts of Euroization on Trade and FDI on the Euro Area

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ABSTRACT

This thesis first gives the background of euroization through an overview of the economic cooperation and integration among the EU countries. It is believed that euroization will contribute not only to the reduction of transaction costs and uncertainty, but also to the provision of new potential market opportunities, which in turn will stimulate trade and FDI for the whole Euro Area. The main objective of this thesis is to provide empirical evidence and policy implications.

Chapter 2 empirically shows that the effect of euroization on trade creation started before the E-Day through a modified AGM approach. The estimation results demonstrate that euroization has brought significant trade creation for the whole Euro Area as well as individual Euro-member countries, but less or not for non-Euro member countries such as Denmark, Sweden and the United Kingdom. Moreover, the empirical findings show that the more the openness of the country, the earlier the effect of the trade creation, the greater the magnitude of the trade creation, and/or the longer the time of the trade creation.

Chapter 3 develops structural equations for simultaneously estimating aggregate FDI and trade. The empirical results show that euroization stimulates the inflow of FDI. Moreover, the trade creation by euroization, as found in chapter 2 does not change after considering the complementary effect of FDI on trade. Compared with the trade creation for the whole Euro Area, the effect of euroization on FDI stimulation is much stronger and has been underway since 1998.

Chapter 4 summarizes and concludes that the effects of euroization lie not only in creating larger trade flows, but also in stimulating more FDI inflows for the whole Euro Area. Other things being equal, it is advisable for any non-Euro country whose economic growth greatly depends on the flows of trade and FDI to adopt the common currency, the Euro. Also, some limitations on present study and remarks for future research are discussed.

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