The Potential Implications of Euro on Developing Economies With A Particular Reference To Jordan: An Exploratory Study

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ABSTRACT

It is expected that Euro will have considerable opportunities and risks at the international, regional and national levels. Euro may eliminate the foreign exchange risk, reduce the requirement for international reserves and the need for hedging, and may eliminate the cost of the currency transfer due to currency unification. The Euro has the potential of being a major international currency that would compete with the Dollar as a reserve. In Jordan, it is expected that the demand on Euro will increase, more commercial and service ties with the EU will be strengthened at lower cost than other currency regions due to low inflation in the Euro Zone. Jordan's export will improve with the liberalization of imports from Europe. On the microeconomic level, the elimination of exchange rate uncertainty and transaction costs within the EU will create efficiency gains in the transactions of the Jordanian firms with the EU. On the macroeconomic level, the elimination of intra -EU exchange rates and the discipline in monetary and fiscal policies will lower the risk built in interest rates and lead to higher investment and output both in the EU and Jordan. The EU demand for imports from non-EU countries such as Jordan will be boosted but this depends on the share of the EU in other country's exports. The introduction of the Euro and the creation of a single EU market have led to external liberalization towards non-EU countries and the market access has been made easier which will benefit the Jordanian exports. It is expected for a country like Jordan to use more Euro in its foreign trade as Euro is relatively a stable currency with low inflation. Given that the EU will be the largest single trade block in the world, some Arab countries with close economic ties with the EU wish to link their currencies to the Euro through some sort of exchange rate peg, but this might not happen to Jordan which has strong political and economic ties with the US, but in the long-run there is a possibility that Jordan will tie the Dinar with a basket of currencies where Euro plays a major role. Concerning the Euro equity and bond markets, these markets will constitute a diversification of investment opportunities for the Jordanian investors as the Euro government securities market will be larger than that of Japan and the US.

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الآثار المحتملة لليورو على اقتصاديات الدول النامية مع الإشارة الخاصة للأردن:دراسة استطلاعية

ملخص

تهدف الدراسة الى استطلاع الآثار المحتملة لليورو على اقتصاديات الدول النامية بما فيها الأردن حيث يتوقع أن يكون لليورو فرص ومخاطر على المستوى الدولي والإقليمي والمحلي حيث ستقل مخاطر تبادل العملة، وتقل الحاجة لوجود احتياطات دولية، ويقل اللجوء إلى التحوط، وتقل تكلفة تحويل العملة بسبب وجود عملة موحدة، وسينافس اليورو الدولار كعملة احتياطية دولية، وسيزداد الطلب على اليورو لأغراض التبادل التجاري والمدفوعات .ونظرا لانخفاض التضخم وتحرير التجارة من وإلى منطقة اليورو ستتحسن فرص الصادرات الأردنية للسوق الأوروبية. وبسبب حالة الاستقرار وانخفاض تكاليف العمليات في منطقة اليورو فإن الشركات الأردنية المتعاملة مع هذه المنطقة ستكون أكثر فعالية، كما أن وجود عملة موحدة داخل دول الاتحاد الأوروبي سيشجع الاستثمار فيها وفي الدول الأخرى المتعاملة معها كالأردن، وستحاول الدول العربية التي لها علاقات اقتصادية قوية مع الاتحاد الأوروبي ربط عملاتها مع اليورو ولكن هذه الحالة لا تنطبق على الأردن بسبب ارتباط الأردن مع أمريكا بعلاقات سياسية واقتصادية متينة ولكن يرجح أن يلجا الأردن إلى ربط ديناره بسلة عملات يكون لليورو نصيب كبير فيها. ونظرا لتمتع دول الاتحاد الأوروبي بسوق مالية قوية للأسهم والسندات وخاصة السندات الحكومية فإن المستثمرين في الأردن سوف ينوعون محافظهم الاستثمارية بالاستثمار في هذه السوق المالية .

I. Introduction

The objectives of this study are to analyze the historical perspectives of the Euro; the significance of the Euro-Zone for the Arab economies, the economic implications of the Euro on Jordan's economy besides analyzing the potential constraints facing Euro in the Jordanian Foreign Exchange market.

As the role of the Euro currency in the Arab economies is vague, the research problem deals with the significance of Euro Zone for Arab Economies particularly Jordan and the potential implications of the use of Euro as a major currency in the Arab economies including Jordan.

The significance of this study stems from the fact that there are very few studies tackling this topic such as that of Hail Agmi-Jemel (2002) related to the expected impact of Euro on Europe and the countries of Gulf Cooperation Council (GCC). Hence, this study is going to fill the gap in the literature on this vital and new topic, by shedding the light on the prospective role and implications of Euro in the Jordanian economy.

The methodology of this study has a descriptive approach that relies mostly on qualitative data collected from secondary sources of national institutions, reports of international organizations and the work of authors in periodicals and books, besides the primary data based on a questionnaire to collect data from a convenience sample of 40 persons from the academia, merchants, industrialists, businessmen in the service sector and normal citizens, for the purpose of exploring the impact of Euro on the Jordanian economy. The questionnaire is analyzed on Likert scale as shown in Appendix I. The Structure of this study includes the following sections: (I) Introduction. (II) The European Monetary Union and EU Monetary Institutions. (III) The Characteristics of Euro in Foreign Exchange Markets (IV) The Determinants of Euro in Foreign Exchange Markets (V) The Significance of Euro Zone for the Arab Economies. (VI) The Potential Implications of Euro on Jordan's Economy. (VII) Conclusions and Policy Implications, besides the Bibliography and Appendix.

II. The European Monetary Union and EU Monetary Institutions

The development of the European Monetary Union (EMU) has passed three stages. The first stage of EMU was initiated in the year 1990 by a close cooperation and free movement of capital and the joining of UK the European Exchange Rate Mechanism (ERM). The first stage also included the signature of the Maastricht Treaty in 1992 in spite of the crisis that obliged the British Pound and the Italian Lire to leave the ERM, but in 1993, the ERM introduced wider margins for some participating currencies. The second stage of the European Monetary Union (EMU) was the creation of European

Monetary Institute and the entrance of Austria, Finland, and Sweden to the EMU in 1994; the Austrian Schilling joins ERM; the devaluation of the Peseta and Escudo currencies; the European Commission presented its Green Paper; the European Council confirmed its commitment to EMU at the Madrid Conference, laying down future steps to EMU, in 1996 the European System for Central Banks (ESCB) was laid out in 1997; the European Commission proposed legislation establishing the Euro as the sole legal tender; stability and Growth Pact of EU members; denomination and shape of the Euro; and the European Monetary Institute (EMI) proposed a blue print for future monetary policy instruments for adoption by the European Council. The Heads of States confirm European Commission endorsement of the eleven countries fulfilling the Maastrict Treaty Convergence Criteria and the EU finance ministers announced bilateral exchange rate for EMU currencies effective as of 1 January 1999. The European Parliament confirmed and formally appointed the European Commision's endorsement of the President and Board. The European Commissions initiated proposals aligning EMU-wide taxation on energy, saving and pensions. The third stage of the European Monetary Union started in on 1 January 1999 with the launch of the Euro that becomes the legal currency but was not yet circulated at that time, national notes and coins remain legal tender, with a gradual introduction of dual-pricing of goods and services, the rate of conversion from participating currencies to the Euro irrevocably fixed, the Euro dominates all new issues of tradable public debt, where the European Central Bank was given responsibility for framing and implementing the single monetary exchange rate policy and the European Exchange Rate Mechanism II (ERMII) to commence operations for currencies of ERM countries not part of EMU. Euro wholesale payment systems was operational, and transferred through the target, and the bank and finance industry were to change over to Euro. On the 1st January 2002, Euro notes and coins start to be circulated and the Euro officially becomes the sole legal tender replacing all other national currencies and by 1 July 2002, national notes and coins will no longer be in circulation A European Central Bank (ECB) was established as of 1 January 1999, to conduct a single monetary policy in order to achieve the changeover from national currencies to the Euro. Within the European System of Central Banks (ESCB), the European Central Bank will co-operate with the 15 National Central Banks in order to strengthen the co-ordination of national monetary policies in the third stage of the Economic and Monetary Union. Among the main tasks of the European Central Bank (ECB) are the following: (Arab Bank Group: 2002):

1. The main task is to define the instruments and internal targets of monetary union, as well as technical matters.
2. The task of Producing Euro banknote and coins.
3. The European Central Bank would replace the European Monetary Institute as of January 1, 1999, which played a preparatory role in initiating the Euro.

The European Investment Bank (EIB) is to provide long-term investment to aid the preparation and implementation of the EU structural support programs. The priority task for the EIB is to provide financial support for EU regional development issues; it would play an executive role within EU co-operation policies within members' states by lending outside the Union. Its projects include financing of the Trans-European networks of transport, telecommunications, and energy; it would provide long-term guarantees for small and medium -sized enterprises through the European Investment Fund. EIB has an annual average lending volume of ECU 20 billion. Its headquarters is in Luxembourg.

III. The Characteristics of Euro In Worldwide Foreign Exchange Markets

As of January 1999, the Euro was substituted for the national currency unit of those European Union member states participating in European Economic and Monetary Union, which was designed in May 1998.

During the transitional period running from January 1, 1999 to December 31, 2001, the Euro (1 Euro = 100 cent) is divided into the national currency unit of the EMU -participating States according to conversion rates which are to be irrevocably fixed by the Council of the European Union as of 1 January 1999. The term 'national currency of any EMU - was used to denote a participating State before January 1, 1999.

During the transitional period persons are free to use either the Euro or the national currency unit, but will not (unless ther wise agreed) be obliged to receive or make payment in Euro. Any amount denominated either in Euro or in national currency of a given EMU participating State and payable within that state by crediting an account of the creditor, may be paid by the debtor either in Euro or in national currency unit, with any necessary conversion being effected at the conversion rate.

As of January 1, 1999, the European Currency Unit (ECU) was replaced by the Euro at the rate of one Euro to one ECU.

As from 1st of January 2002, the national currency unit ceased to exit and the Euro would be the only legal currency in EMU-Participating States, and all payments must be in Euro.

Hence, the currencies of the Participating Member States of Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, The Netherlands, Portugal and Spain have been merged into a single, common currency, the Euro.

The Euro has many characteristics and features that may be summarized as follows: (International Chamber of Commerce:1999):

(i) The Euro will help to create an integrated European economy, operating like the US, on a continental scale.

(ii) The European Monetary Union (EMU) will represent a fundamental regime change which will inevitably modify the structure parameters of national economic systems and the differences across countries.

(iii) A single currency will make prices more comparable across nations and also more transparent.

(iv) The European Central Bank will stand as guarantor for a stable Euro.

(v) Low inflation, accelerating growth and current account surplus, ensuring a strong currency will characterize the EMU environment.

(vi) The Euro will take a market share in international invoicing between 35 and 40 percent.

(vii) The Euro and the US Dollar could eventually end up with a 40 per cent share each of international financial transactions.

(viii) The Euro will become a large reserve currency to the rival Dollar.

Moreover, the salient statistical indicators of the Euro Zone are shown in Table 1.

Table 1: The Statistical indicators of the Euro Zone

Item	Year	Measurement	Euro Zone	USA	Japan
Population	1998	Million	292	270	127
Production as a percentage of GDP	1997	%	15	20.2	7.7
Exports as a percentage of International exports	1997	%	15.7	12.6	7.1
Financial Market capitalization	1998	ECU*	319.9	9679.7	3300.9
Annual Growth of GDP	1998	%	3	3.3	-2.5
Rate of unemployment	1998	%	10.8	4.4	4.4
Growth of money supply	1998	%	4.4	7.4	3.3
Interest rate for 3 months	1998	%	3.25	5.0%	0.18
Public Deficit/ Surplus	1998	% of GDP	-2.3	1.4	-5.5
Public Debt	1998	% of GDP	73.8	59.3	115.6
Current Account	1997	% of GDP	1.1	-1.7	2.3

*ECU = European Currency Unit

Source: European Central Bank (1999) Monthly Bulletin, January 1999

IV. The Determinants of Euro In Foreign Exchange Markets

According to Maastricht Treaty, the following convergence criteria are used to accept the European countries in the Euro Zone (European Council: 1992):

1. Low inflation rate not exceeding 2.7%,
2. Low budget deficit not exceeding 3% of GDP
3. Indebtedness not exceeding 60 % of the GDP
4. Low foreign exchange risk.
5. Low cost of currency transfer.

According to recent report of the World Trade Organization (WTO) other factors might affect the relative position of the Euro vis-a-vise the American Dollar such as the recent surplus in the trade balance of the Euro Zone which reached 60 billion dollar compared to the high deficit in the American trade balance (US$ 476 billion); besides the volume of trade in the Euro Zone which has reached 29% of world export and 26% of world imports. Such factors strengthened the value of the Euro against the dollar. Nevertheless, the dollar still enjoys a comparative advantageous position against the Euro due to the fact that the Dollar constitutes about 47.6% of world's transaction payments, 56.4% of the reserves of central banks worldwide and the dollar constitutes 50% of the loans to the developing countries, while the Euro has only 26.6% of world transaction payments, 22% of the central bank reserves and 16,1% of loans to developing countries. These determining factors are summarized in Table 2.

Table 2: Several Determining Factors of The Euro Against The Dollar

Factors	The Euro Zone	The USA Dollar
Surplus/ Trade Deficit (billion $)	+60	- 476
Share in World Payment System (%)	26.6	47.6
Share in World Reserves of central Banks (%)	22	56.4
Share of Loans to Developing Countries. (%)	16,1	50.0

Source: WTO (2001) Annual Report of the World Trade Organization, Geneva.

In sum, the determinants of Euro in the foreign exchange markets are the economic strength of the European Union countries; the low inflation rates in the EU countries; the relative rise of interest rate on the Euro v. the Dollar; the substantial size of international trade at the Euro Zone vis - a - vise the Dollar; and the surplus of the balance of payments at the Euro Zone compared to the deficit of the balance of payments in the USA. All of these determinants make the Euro currency gain strength vis - a - vise the Dollar. However, The relative strength of the US Dollar v. the Euro is due to the huge inflows of capital in Dollar to the USA compared to the Euro Zone; the increasing use of the US $ as a international reserve in most countries of the world, and the great use of the US $ in the payment settlement of international transactions. All of these factor will strengthen the US $ against the Euro in the foreign exchange markets.

V. The Significance of Euro Zone for the Arab Economies

The fifteen EU members combined have more economic weight than the US economy. In 1996, the European Union (EU) accounted for some 38.3 per cent of the total gross domestic product of the leading industrialized countries, while the US accounted for only 32.5 percent. The European Union also had slightly larger share of world trade and a larger ratio of exports to GDP than the US. More details on the economic significance of the Euro

Zone are shown in Table 3

Table 3: The Importance of the EU Economy

	Population Million in 1995	Share of OECD GDP in 1996 %	Share of World Trade in 1996 %	Export/GDP ratio % 1996	Foreign Exchange Reserve $bn in 1996.
US	263	32.5	19.6	8.2	49.1
Japan	125	20.5	10.5	9.0	172.4
EU	370	38.3	20.9	10.2*	349.8

*Excluding intra-EU Trade

Source: Arab Bank Group (1999) The Euro and Arab Bank Services in The Euro Zone, Arab Bank, Research Department, Amman.

However, the Arab Region trade with the major economic bloc indicates that the trade of the Arab Countries with the European Union is the most significant as shown in Table 4

Table 4: Arab Region Trade with the Major Economic Block

	Import $bn/1997	Export $bn/ 1997
US	19.7	17.8
Japan	10.2	34.5
EU	754.5	554.9

Source: Arab Bank Group (1999) The Euro and Arab Bank Services in The Euro Zone, Arab Bank, Research Department, Amman.

The EU is the largest trading partner of the Arab world. In 1997 Arab imports from the EU were 38.3 times greater than those of the US and 74.0 times greater than those of Japan. In the same year the EU's trade surplus with the Arab world reached USD 199.6 billion. In comparison, the US recorded a trade surplus with the Arab World of USD 1.9 billion while the Japanese recorded a trade deficit of USD 24.3 billion.

VI. The Potential Implications of Euro On Jordan's Economy

The introduction of the Euro will have deep economic consequences for Europe and for the world. The Euro will not only benefit Europe and its citizens, but it will benefit Arab countries including Jordan.

There are great potential for the use of Euro in Jordan due to the fact that Jordan has developed a close political and economic relations with European Union since 1970s, besides the relative proximity of Jordan to Europe.

Jordan has signed the EU-Jordan Partnership Agreement in November 1997 and this agreement came into effect in early 2002. Jordan receives millions of dollars as annual assistance in all fields from European Union. Moreover, Jordan's external trade with the Euro Zone has reached about 27% from the total trade with the world, which exceeds the size and percentage of trade with the US and with Japan. The Jordanian exports to the Euro Zone have recently reached 3.2% of total Jordanian exports, while Jordan's imports from Euro Zone reached 26.7% of total Jordanian imports. Moreover, the Jordanian exports to the Euro Zone were mostly concentrated in raw materials, machines and equipment. Details are shown in Tables 4 &5.

Table 4: Geographical Distribution of Jordanian Exports

	1997	1998	1999	2000	2001
Euro Zone	6.4	5.4	4.5	2.3	3.2
USA	0.5	0.6	0.9	4.2	10.5
Japan	1.2	1.0	1.0	0.9	0.7

Source: Isbeih Mosa (2002) Impact of Euro on Jordan's Economy, Unpublished Study at Administration & Finance College, Amman Arab University for Graduate Study, June

Table 5: Geographical Distribution of Jordanian Imports

	1997	1998	1999	2000	2001
Euro Zone	26.2	26.2	25.1	27.1	26.7*
USA	9.5	9.5	9.9	9.9	7.9
Japan	5.1	5.9	6.3	3.9	3.9

* This figure was reported as 33% according to Pedro Solbes (2001)

Source: Isbeih Mosa (2002) Impact of Euro on Jordan's Economy, Unpublished Study at Administration & Finance College, Amman Arab University for Graduate Study, June

According to Ummaya Tougan (2201), Governor of the Central Bank of Jordan, Euro should be as important for non-European as it is for Euroland. The 15 countries of the European Union produce around 25% of world output and represent around 35% of world trade and have over 6% of world population. Besides the stability of Euro zone and the liquidity of its financial markets, there are three linkages through which the Euro would affect the rest of the world that can be identified: (1) Trade and foreign direct investment linkage, (2) financial linkages, (3) Linkages with the International Monetary System. Jordan has a special relationship with European Union through the Euro-Mediterranean Partnership and the Association Agreement with the EU, besides Jordan being the highest per capita of European aid as EU has direct investment in Jordan which amounted to around 75% of total foreign direct investment in the year 2000 (Tougan: 2001)

Euro has several advantages in terms of travelling in the Euro Zone where one currency is only required, prices are displayed in the same currency in whole Europe, interest and inflation rates are much lower, businesses men can buy and sell in more competitive market, managing business is easier and less expensive. There is no longer any risk of fluctuation between currencies in the Euro Zone.

Furthermore, the expected economic effects of the Euro on Jordanian economy are summarized as follows:

(i) Potential Impact of the Euro on Jordan's Exports.

Jordan's exports to Europe exceed 3% of total Jordanian Exports. The rise of Euro (0.99 cent per 1 Dollar) in the foreign exchange market will add more value and proceed of the Jordanian export .

(ii) Potential Impact of the Euro on Jordan's Imports.

Jordan's imports from Europe range between 33% and 39% of total Jordanian imports, which is considered substantial. However, the rise of the Euro in the foreign exchange market will adversely affect the prices of Jordanian imports from the EU countries particularly the imports bill of pharmaceuticals will rise due to the rising Euro. (Fanik: 2002).

(iii) Potential Impact of the Euro on Jordan's External Debt.

The rise of the Euro in the foreign exchange to a high level of 99 cent or more of the US dollar will add more to the cost of debt service in favor of the EU countries at the expense of Jordan's public budget. Moreover, there will be a rise in the value of Jordan's debt to European countries. Hence, inflation is not expected to increase in Jordan due to the rising prices of Jordanian imports from the European countries. (Fanik: 2002)

(iv) Potential Impact of the Euro on the Dinar Foreign Exchange Rate. The use of Euro will eliminate foreign exchange risk and eliminate cost of currency transfer. It is a matter of fact that Euro zone is characterized by low inflation not exceeding 2.7%.

(v) Potential Impact of the Euro on Foreign Reserves.

The use of Euro by Jordanian financial institutions will eliminate foreign exchange risk and diversify Jordanian reserves.

(vi) Potential Impact of the Euro on Inflow of Foreign Capital.

European aid as well as EU direct investment in Jordan amounted to around 75% of Jordan's total foreign direct investment in the year 2000 (Tougan: 2001)

In spite of the sizable external trade with the European countries in the Euro Zone which exceeds the size of trade with other zones in USA and Japan, the financial and political relations tend to be more with the USA than with Europe in terms of assistance, financial aid and the fixing of the exchange rate of Dinar with the US Dollar. Moreover, most of the investment of Jordan are concentrated in the US dollar with a percentage of 97% of external investment of Jordan, the other 2.1% are in other portfolio investment in other currencies (Isbeih: 2002).

(vii) According to the Arab Bank Group (1999), the use of one European Currency (Euro) will minimize the cost of corresponding banks of the Jordanian banks in EU countries. Instead of using so many corresponding banks before the Euro, the Jordanian banks may have one corresponding bank in the EU. There is no great need for the small Jordanian banks to have so many branches in the EU countries.

(viii) No negative effect of the use of Euro by banking institutions in Jordan as a result of the use of the letter of credit and other payments procedures with the European banks after the introduction of the Euro will be the same (Salameh: 2002).

(ix) One of the positive impact of Euro on the reserves of the Central Bank of Jordan (CBJ) is that more diversification of reserves will be introduced as the CBJ will definitely increase the share of Euro as a component of foreign reserves in Jordan (Banking Magazine: 1998).

(x) The reverse effect of Euro on the Jordanian economy might result if the inflation in the Euro Zone has risen to a high level which might be imported to Jordan through the increase of imports from the EU which is expected to be more than 32.5% of Jordanian imports. (Salameh:2002).

(xi) It is in favor of Jordan in the long -run if Jordan could price its exports of phosphate, potash and pharmaceuticals in Euro which is expected to be a stable international currency in relation to other currencies. (Banking Magazine: 2002).

(xii) Jordanian companies trading with Iraq will benefit more foreign exchange from the high price of Euro as Iraq has stopped its deal with US dollar and replaced it with Euro (Fanik: 2002).
(xiii) Tourism in Jordan will benefit from the rising value of Euro and the relative weakness of the Jordanian Dinar, as more European tourists will find Jordan as a cheap place to visit while the Jordanian tourists will find European countries an expensive place to visit. (Fanik: 2002).

The above mentioned implications mostly go with the questionnaire's results on the potentil implications of Euro on Jordan as shown in Table 6.

Table 6

Questionnaire on Impact of Euro On Jordan Economy Using Likert Scale Measure

(Likert answers in percentage, mean and STD in numbers)

Questions	Extremely Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Extremely Disagree (1)	Mean	STD	Results of Testing
1. Euro will have positive impact on the economy	12.5%	72.5%	2.5%	12.5%	-	3.850	0.802	Accepted
2. Euro leads to complex relations with EU	10.0%	60.0%	2.5%	20.0%	2.5%	3.650	1.051	Accepted
3. Euro will lead to more agreements with EU	17.5%	65.0%	7.5%	10.0%	7.5%	3.900	0.810	Accepted
4. Euro will be a stable currency due to the strength of EU Economy	32.5%	42.5	10.0	12.5	2.5	3.900	0.810	Accepted
5. Euro leads to more demand on Euro for settlement of Imports	45.0	45.0	5.0	5.0	-	4.300	1.08	Accepted
6. Euro will lead to more exports to EU countries.	15.0	37.5	10.0	25.0	12.5	3.170	1.318	Accepted
7. Euro will lead to less imports from EU	10.0	22.5	7.5	55.0	5.0	2.770	1.165	Rejected
8. Euro leads to no more Jordan's reserves in Euro due to dominant raw material in Jordan's export evaluated by dollar.	17.5	32.5	7.5	40.0	2.5	3.220	1.229	Accepted
9. Euro will not make a change in the central bank reserves in $	15.0	37.5	5.0	35.0	7.5	3.170	1.278	Accepted
10. Euro will reduce the competition of Jordanian Products in EU.	10.0	25.0	10.0	47.5	7.5	2.820	1.195	Rejected
11. Euro leads to less EU investment in Jordan's markets	5.0	15.0	7.5	57.5	15.0	2.370	1.070	Rejected
12. Jordanian Banks will have more reserves in Euro.	25.0	37.5	5.5	30.0	2.5	3.520	1.240	Accepted
13. Euro will have less risks of foreign exchange	32.5	50.0	7.5	5.0	5.5	4.000	1.037	Accepted
14. Less cost of currency exchange for Jordanian exporters.	20.0	52.5	5.0	15.0	7.5	3.620	1.91	Accepted
15. Euro will lead to more links of Jordanian Dinar and Euro.	12.5	25.0	20.0	32.5	10.0	2.970	1.229	Not Sure
16. Euro will affect exchange rate of Jordanian Dinar.	7.5	22.5	22.5	42.5	5.0	2.850	1.075	Not Sure
17. Euro will increase deposits of Jordanian in Euro.	20.0	52.5	12.5	10.0	5.0	3.720	1.061	Accepted
18. Euro will affect European Assistance to Jordan.	12.5	30.0	15.0	37.5	5.0	3.070	1.185	Accepted

STD= Standard Deviation

Source: Computation of the Researcher based on the findings from the questionnaire

V. Conclusions & Policy Implications

The introduction of the Euro is a major event for international monetary relations and system, as Euro will have important implications not only for the EU and its member states but also for other countries such as the Arab countries including Jordan.

The size, the stability, the policy framework and the integration of the Euro Zone's financial markets imply that the Euro will become a major world currency and this will affect the economic conditions in non-EU countries particularly the trade creation which will be positively affected by the economic growth in EU and that will increasingly affect the business cycle in other regions including Jordan. Moreover, the use of the Euro as a vehicle currency on foreign exchange markets, the use of the Euro in private portfolio holdings and the role of the Euro in international borrowing have implications on the exchange rate policy, debt management and the management of the foreign reserves in the non-EU countries including Jordan.

On the microeconomic level, the elimination of exchange rate uncertainty and transaction costs within the EU will create efficiency gains in the transactions of the Jordanian firms with the EU. On the macroeconomic level, the elimination of intra - EU exchange rates and the discipline in monetary and fiscal policies will lower the risk built in interest rates and lead to higher investment and output both in the EU and other countries including Jordan. The EU demand for imports from non-EU countries such as Jordan will be boosted but this depends on the share of the EU in other country's exports. The introduction of the Euro and the creation of a single EU market have led to external liberalization towards non-EU countries and the market access has been made easier which will benefit the Jordanian exports.

The impact of the introduction of the Euro on non-EU countries will depend on the share of these countries' trade with the EU and on the elasticity of economic growth of these countries, but it is expected that a trade diversion towards the EU countries will result in the non-EU countries as a result the competitiveness of the Euro area visa-vise the rest of the world.

Moreover, it is expected for a country like Jordan to use more Euro in its foreign trade as Euro is relatively a stable currency with low inflation.

Furthermore, given that the EU is the largest single trade block in the world, some non-EU countries such as the Arab countries which traditionally have close trade and economic ties with the EU, will wish to link their currencies to th Euro through some sort of exchange rate peg, but this might not happen to Jordan which has strong political and economic ties with the US, but in the long-run there is a possibility that Jordan will tie the Dinar with a basket of currencies where the Euro will play a major role.

The size of the Euro area, the elimination of the exchange rate risk, the existence of a single monetary policy, the unified money and interbank market, the development of efficient and new cross-border payment system, the harmonization of procedures, the increased efficiency resulting from financial market integration, stable macroeconomic environment, are salient characteristics of the Euro Zone which will be positively reflected on the economic transactions between Jordan and the EU countries.

Concerning the Euro equity and the bond markets, these markets will constitute a diversification of investment opportunities for the Jordanian investors as the Euro government securities market will be larger than that of Japan and the US (Bekx: 1998).

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Appendix I

The Questionnaire Design on The Impact of Euro On Jordan Economy

Questions	Extremely Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Extremely Disagree (1)
1. Euro will have positive impact on the economy					
2. Euro leads to complex relations with EU					
3. Euro will lead to more agreements with EU					
4. Euro will be a stable currency due to the strength of EU Economy					
5. Euro leads to more demand on Euro for settlement of Imports					
6. Euro will lead to more exports to EU countries.					
7. Euro will lead to less imports from EU					
8. Euro leads to no more Jordan's reserves in Euro due to dominant raw material in Jordan's export evaluated by dollar.					
9. Euro will not make a change in the central bank reserves in $					
10.Euro will reduce the competition of Jordanian Products in EU.					
11. Euro leads to less EU investment in Jordan's markets					
12. Jordanian Banks will have more reserves in Euro.					
13. Euro will have less risks of foreign exchange					
14. Less cost of currency exchange for Jordanian exporters.					
15. Euro will lead to more links of Jordanian Dinar and Euro.					
16. Euro will affect exchange rate of Jordanian Dinar.					
17. Euro will increase deposits of Jordanian in Euro.					
18. Euro will affect European Assistance to Jordan.					

Source: The Researcher Design