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The Greek Tragedy: How the Euro Failed to Promote Greek Bilateral Trade

At the end of the 1990's, a group of 11 European countries set out on arguably the biggest macroeconomic experiment: adopting a single common currency called the euro. Eurozone membership expanded considerably since then, rising to a current group of 17 countries in 2011, and could possibly reach 19 members by 2015.¹ Having been implemented for almost 15 years, we now have enough data to see how much using the euro has affected bilateral trade in these economies.

Rose (2000) was the first to consider how a currency union impacts trade. Because its originality and timing were so close to the implementation of the euro, his research opened the floodgates of massive inspection on how the euro had the potential of increasing bilateral trade within the Eurozone (usually referred to as the “Rose effect” or the “euro effect”). Although Rose first estimated an increase in trade of around 200% between common currency users, these estimates were quickly grounded (after an uproar from essentially every economist) to somewhere in the range of 5-10%.² However, these estimates were for the Eurozone as a whole, not for a specific country; testing the Rose effect by country, economists found somewhat unanimously that the estimated Greek euro effect is negative for both intra and inter-Eurozone trade: a result that contradicts common intuition that a country should only (greatly) benefit.

Greece is the Eurozone's biggest loser in terms of the size of the euro effect. It also argues that the poor performance of Greek bilateral trade was due to the lack of competitiveness of Greek exports. Moreover, Greece's adoption of the euro appears to have aggravated the decline in the trade with intra-Eurozone and inter-Eurozone partners. As the Global Competitiveness Report notes, “Greece has a number of strengths on which it can build, including a reasonably well educated workforce that is adept at adopting new technologies for productivity enhancements. With the correct growth-enhancing reforms, there is every reason to believe that Greece will improve its competitiveness in the coming years.” Athanasoglou, Backinezos, and Georgiou (2010) support this call for reforms, claiming that “policies that support innovation, variety and quality and create a suitable environment through investment in research and development are necessary, especially in sectors where Greece already has a comparative advantage and substantial competitive power.”

And finally, it is also worth noting that Greece is not alone in their struggle. For instance, during the ongoing debt crisis, Germany (among other Eurozone countries) pledged its support in ensuring Greece's turnaround to positive growth. These growing political ties with neighbors in Europe, and all other relationships created during the process, will be the invaluable longest lasting consequences from the adoption of the euro.