

Eu Economic Integration Process Of Macedonia

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Abstract

The purpose of this research is to provide a general overview of the accession process with a special reference to the economic integration and the challenges of the Republic of Macedonia in the road of joining the European Union.

The European Council of December 2005 granted the status of candidate country to the Republic of Macedonia. The Stabilization and Association Agreement (SAA) between the Republic of Macedonia and the EU was signed in April 2001 and entered into force in April 2004. The Council adopted the Accession Partnership for the country, including key priorities for reform, in February 2008. In October 2009, the Commission recommended to the Council to open negotiations with the country, as well as to move to the second phase of SAA Implementation. These recommendations were reiterated in 2010. The Council has not yet concluded its deliberations on the Commission's proposals. Visa liberalization for citizens travelling to the Schengen area has been in force since 19 December 2009.

The country has a small, open economy, with total trade in goods and services recovering to a level of 114% of GDP in 2010, following the 2009 recession. Trade integration with the EU is advanced, with about 63% of all exports currently going to and about 53% of imports originating from the EU. The CEFTA region is the country's second most important trading region, accounting for around 24% of exports and around 10% of imports. The export structure continues to be highly concentrated on a limited range of products, with textiles and clothing accounting for about 17% of total exports and manufactured iron products for 26% in

2010. The stock of FDI increased to about 51% of GDP, with the Netherlands, Slovenia and Austria being the biggest investors. In total, EU countries accounted for about 60% of total FDI inflows. Switzerland, Turkey and Serbia are the most important non-EU investors. The exchange rate against the euro has remained stable in nominal terms. Price competitiveness has remained largely unchanged. Overall, in the last years trade integration with the EU is well advanced, but exports remain concentrated on a few price-sensitive products. International price competitiveness remained largely unchanged.²⁶

Keywords: EU, economic integration, Macedonia, Stabilization and Association Agreement (SAA), candidate-country, membership

1. EU ECONOMIC INTEGRATION PROCESS OF MACEDONIA

Macedonia's process to become a member of the European Union (EU) is an objective that enjoys broad national consensus. This process for EU membership thus must shape national policy, both foreign and domestic, the reform initiatives, and the economic agenda and business strategies.

Macedonia's EU aspiration provided the compass for the reforms that were implemented in the transition process, and it still anchors the social agreement among virtually all Macedonian citizens. It is important for this reason to review here what has been achieved and what is to come; bearing in mind that EU integration reaches into every aspect of the life.

Economic growth is increasingly important for Macedonia for its own sake as well as for the country's path toward the EU; equally important is the growth of its institutional and administrative capacity at all levels of government, from the local to the international. The main objectives and stepping stones in the next stages of Macedonia's EU integration will be economic growth, economic and social opening to the EU and institutional preparedness.

An important milestone in Macedonia's path toward EU membership was the signing of the Stabilization and Association Agreement (SAA) in 2001. This agreement provided a strong motivation for the intensification of the adjustments necessary for the fulfillment of EU membership criteria. One positive outcome of the SAA was the establishment of an appropriate administrative structure and of an institutional framework for implementation of the Agreement as well as for monitoring of its implementation.²⁷

The next important step occurred in December 2005, when Macedonia achieved the status of a candidate country. This was an important political recognition of the progress and reforms achieved; however, an important reservation to this positive assessment of Macedonia's progress is the fact that a date for negotiations has not been set because the country is not yet ready. The acquisition of candidate status does not mean fulfillment of the strict EU criteria for membership. In fact, Macedonia has only reached the point at which the complex process

26 Official documents from the web-page of Ministry of Foreign Affairs of RM,
<http://www.mfa.gov.mk>

27 Commission of the European Communities, The Republic of Macedonia 2011 Progress Report, Brussels, October 2011, p.25

of negotiation about the individual chapters of the Acquis Communautaire and of fulfillment of the membership criteria, especially the economic ones, begins.

Fulfillment of the economic criteria for membership must be a top priority for Macedonia, not only in order to meet the standards of the EU, but also because they are crucial for Macedonia's economic and social progress. Macedonia needs to fully develop a functioning market economy that will allow an even ground for competition and weed out all the oligarchic elements in the economy that stifle its overall growth. The Macedonian economy needs to be able to cope with the intense competitive pressures and market forces within the EU. Consequently, Macedonia needs to be aiming for where the EU economy will be at the end of the reporting period not where the EU economy is today.²⁸

The capacity of Macedonian institutions to effectively manage the requirements implied by EU membership and, before membership, the administration of processes such as the implementation of laws and the management of funds, needs to be strengthened. Answering the European Commission Questionnaire revealed that Macedonia has the potential to meet the administrative requirements of EU membership, but this potential cannot remain latent and needs to become the norm. Firm political commitment and leadership, not only management, is needed to prepare these institutions and the Macedonian economy for European integration. Municipalities need to be able to administer funds effectively and transparently. They need to be able to effectively interact with EU organs and to formulate sound and comprehensive policies. Public and civil servants from all levels of government need to be trained to work within European standards and processes, to effectively plan, budget and administer funds, to create projects and manage them ably and to be capable of being a positive and proactive member of the EU that can fully participate in European governance and in the formulation of EU policies.²⁹

The next step ahead is the negotiation process, which are both a great opportunity and a great threat. If Macedonia proceeds efficiently in this process, it will demonstrate to itself and to the world its institutional readiness for membership; if it fails to do so, its image as a modern state will suffer correspondingly. A successful negotiation will have important positive economic benefits and solidify a fragile national consensus; a negative outcome to the negotiation may nurture Euro skepticism and a general resistance to any further reform processes since these will be seen as having high costs and few benefits.

Macedonia will not be in a position to negotiate parallel chapters at the same time, as other countries have done; it will need to do so sequentially. This may slow the overall process. Macedonia need not rush this process, but, rather, it should strategically adopt segments of the Acquis if it is to its benefit to do so and leave those segments that may be hardest for its economy and society to internalize for last. Furthermore, it is very important that there should be some continuity among Macedonia's negotiators. They will also need to communicate intensively with the general public and explain the process so as to maintain the national consensus for EU membership. Consequently, the process of negotiating Macedonia's entry into the EU must be as transparent as possible.

28 Official documents from the web-page of the Secretariat for European Affairs of RM, www.sep.gov.mk

29 Национална програма за усвојување на правото на ЕУ – ревизија 2011, Секретаријат за европски праша (Влада на Република Македонија), Скопје

The time between achieving candidate status and the negotiations leading to future membership will be challenging, both politically and economically. While issues of political stability and interethnic dialogue have dominated the discussions between European and

Macedonian politicians thus far, economics will dominate the next stage leading toward EU membership.

Macedonia needs to undertake a major overhaul of its laws and institutions to prepare for EU membership. Such a large revision of laws, regulations and institutions should, in the long term, be beneficial. However, there will be transition costs, and considerable thought must be given to the phasing in of various EU-related laws and regulations. Consequently, Macedonia must create the capacity to weigh the costs and benefits of adopting specific EU laws and regulations at any given time and to develop a comprehensive plan for doing so.

Preparing for EU membership will be a major task for the Macedonian government and society, as well as for the business sector. While the experience of other countries suggests that the pace with which changes are implemented may accelerate over time, it is critical that Macedonia have a clear roadmap of the process, one that identifies costs and benefits of adopting specific measures and weighs them against Macedonia's ability to absorb such changes as well as their congruence with Macedonia's economic strategy at any period of time.³⁰

Macedonia has an enormous potential market open to it because of the free trade agreements (FTAs) it has signed, including the one with the European Union. Overall, the FTA's did not initially stimulate Macedonian exports very much, suggesting a weak supply response on the part of Macedonian exporters or ineffective implementation of the FTAs.³¹

Macedonian producers must pay greater attention to such factors as environmental standards, packaging, quality, marketing, management techniques and market study to prepare for the EU market.

It is hence worthy of mention that one of the elements of the pre-accession process is access to EU funds which will be channeled through the new Instrument for Pre-Accession Assistance (IPA). The main goal of the pre-accession funds is to prepare the institutions of future member countries for the management and administration of the much larger Structural Funds that the country will have access to once it becomes a member of the EU.

Indeed, in order to obtain the pre-accession funds, the country needs to define its development and investment priorities for the medium-term, as well as clearly define and organize the institutional mechanisms for using the funds. The IPA funds will have a positive effect on economic growth through creation of a more attractive business climate by contributing to investments in infrastructure, institution-building, human resources, agriculture, competitiveness of firms, all with a consideration for balanced internal regional development.

Within the region, Macedonia has an advantage in bordering the EU, in the form of Greece, to the south. Indeed, the bulk of foreign investments that have come in the past years have been from Greece. However, the possibility of exporting to the rest of the EU is significantly hampered by the numerous borders that need to be crossed to reach the biggest part of the EU

30 Official documents from the web-page of the Ministry of Economy of RM, www.economy.gov.mk

31 EUROSTAT

market. For this reason, it is in Macedonia's interest that the rest of the Western Balkan countries also enter the EU as soon as possible.

The EU has a market of over 500 million people³², but there is a market of sixty million customers within this region that also can be tapped if unification of sorts occurs regardless of, or as a prelude to, Macedonia's entry into the EU; indeed, regional cooperation of increasing intensity is an important aspect of the Stabilization and Association Agreement. An encouraging move in this direction is the recent political commitment to, and the start of in 2007, a single free trade agreement (FTA) for the countries of SEE.

Improvement of land and air communication must be Macedonia's top priority. The airport is Macedonia's gateway to the world and is in dire need of investments, which will come most easily if it is fully privatized. Except for Greece, all EU countries are a considerable distance from Macedonia, and air connections are critical for trade and business. Nevertheless, this does not undermine the importance of Corridors 8 and 10, for both Macedonia's regional and European perspectives. Corridor 10 has a greater perspective of realization and natural evolution, being also important to Greece. However, Corridor 8 will require more of a push by Albania, Macedonia and Bulgaria. Although corridors 8 and 10 were effectively taken off the European transport map, their importance is increasing as EU foreign policy progressively turns toward Asia.

2.CONCLUSION

In the past ten years the Republic of Macedonia is legitimized as a reliable partner and true ally of the EU. Macedonia has not ignored any institutional stage in the development of relations with the EU - starting with the Cooperation Agreement, the Agreement on Stabilization and Association, applying for membership in the European Union, up to receiving a status as a candidate-country for membership.

The decision of the European Council of December 17, 2005 granting the candidate status for EU membership is an event of historical importance for the Republic of Macedonia as deserved recognition for the efforts and results achieved in the way of achieving the strategic goal - EU membership.

The economic results achieved by the Republic of Macedonia during the transition are far lower than the achievements in the South-eastern European countries. The numerous non-economic events in the country and the region in the 1990's and the beginning of the century also contributes to this. With a low inflation rate of 2.5% in last years and a stable exchange rate (with one devaluation of 16% in 1997), Macedonia was a leader among the transition countries in terms of the macroeconomic stability, but numerous non-economic events in the country and the region led to a low average growth in the entire transition period.

In the recent years, the Republic of Macedonia generally meets most of the Maastricht criteria. The single bigger problem that our country is facing is the non-existence of a long term 10-year bond used as a reference instrument when defining the interest rate. In this period, the Maastricht criteria are not obligatory for the Republic of Macedonia but they still have great significance for approximation of our economy to the European Union.

32 McKinsey, Global investor Opinion survey on corporate Governance (2002)

Having in mind the present situation within the EU, regarding the negative atmosphere for enlargement, the implementation of Copenhagen and Maastricht criteria will simply not be good enough for candidate countries such as Macedonia. Knowing that in the past a decision for accession was often made for geo-strategic reasons, obtaining political support is even more important factor for the Macedonian accession to the EU. Taking into consideration this fact, it is a need Macedonia to solve the name issue with Greece.

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