

IMPACT OF INTEGRATION IN THE EUROPEAN UNION IN THE ECONOMY OF THE REPUBLIC OF MACEDONIA

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ABSTRACT

Republic of Macedonia by its structure is multiethnic and multicultural state, where they are present numerous differences in language and sore, religious, customary, etc, differences that play an important role in determining the relationships and processes in the development. All these facts indicate that the Republic of Macedonia is truly multicultural and multiethnic state, which in itself makes it specific, and therefore treatment of any kind of problems requires access from this perspective.

According to the conclusions of the European Council held in June 1993, in Copenhagen, "Membership in the European Union" requires the existence of a functioning market economy and capacity to manage with competitive pressure and market forces within the Union. According to the Ministry of Finance projections for 2014-2016, the economic growth of the Gross Internal Product is expected to be 3.8%, which did not occur in 2016, where specifically were mentioned the significant risks in relation to the internal political, which although brought an extra dose to uncertainty who are estimated to have limited effect on the economy.

This paper aims precisely to answer these questions, where is nowadays Macedonia on the path of integration, does she achieved to meet these criteria, whether the authorities are sincere enough in its actions and performance of obligations taken, is it really Macedonia prepared for full membership in EU and NATO, is there sufficient institutional and human capacities in Macedonia to fulfill these criteria, the chances of the Republic of Macedonia for EU and NATO membership, analyzing the factors that help or obstruct these processes.

Keywords: *Republic of Macedonia, European Union, economic developments, integration, challenges*

JEL Classification: *A1, A3, E5, E6, H3*

1. Introduction

Building the future of the Republic of Macedonia before has had many challenges that determine its path. Steps taken will be key to the operation, development and existence of the state. The challenges were and remain numerous, therefore require a serious approach to the new reality that will determine the building path of the state. An important challenge for the authorities was

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and remains the construction of new institutions based on the principles of the democratic system, where it meant that in the state building should be included the new values that promotes the democratic system.

Republic of Macedonia by its structure is multiethnic and multicultural state. There lives more ethnic and cultural communities. All ethnic communities living in Macedonia are characterized by cultural norms and value systems different from each other. It makes the Macedonian society where numerous differences are present as language, religious, customary, etc and these differences that play an important role in determining the relationships and processes in the development of the country. All these facts indicate that the Republic of Macedonia is truly multicultural and multiethnic state, which in itself makes it specific, and therefore the treatment of any kind of problems requires access from this perspective. Republic of Macedonia since its independence, the fundamental objective is integration into international organizations. It must be mentioned that NATO and EU membership is conditional on fulfillment of the more strictly political, economic and social criteria. So today, due to not meeting these criteria, the Republic of Macedonia is still in front of the doors of two powerful political organizations, economic and military.

Republic of Macedonia unfortunately since its independence, has not managed to build a system of government and political model which would be run by the concept of multiethnic and multicultural reality, and not coincidentally, this state throughout its period has implemented unprincipled and unworkable policies. As a result of these policies, Macedonia has not managed to build stable and effective institutions, but weak and un capable institutions and society of social tensions and ethnic conflicts. Year 2001 is the year of the turn and the most important year in the history of the Republic of Macedonia. In this year two important historical events occur for the future of the country. In April 2001, was signed the Stabilization and Association Agreement between the Republic of Macedonia and the EU, which was opening the door to membership in the most powerful political organization, while in August of the same year, was signed the Ohrid Framework Agreement, which in addition to the stopping of the armed conflict, laid the foundations for the creation of the common state on the principle of equality between communities.

Macedonia on 17 December, 2005 had received EU candidate status, but after 11 years has not yet received an invitation to start negotiations for membership. Whereas, although in 2008 it was safe candidate for NATO membership, and there again failed to join. As a criterion for measuring the degree of realization of the proclaimed goals of a democratic society and a member state of the European Union, remain the implementation of the Ohrid Framework Agreement and the implementation of recommendations arising from the Progress Report of the EU Commission. The last conference on the Western Balkans, held in Berlin on August 28, 2014, initiated by Chancellor Merkel, is a new impetus to achieve our major objective - eventual membership in the European family. It should be mentioned that the issue of resolving the name of the Macedonian state, the Commission recommended opening accession talks with the country, until 2015 when he made this conditional on continued implementation of the agreement PRZINO and substantial progress in implementing the "Urgent reform priorities". Coming closer to the European Union implies the improvement of public sector employment, and guarantee of the maximal rights of every citizen of the Republic of Macedonia. It is a pity, since this political discourse that is still being developed, it appears that their priorities have narrow partisan interests rather than the state. But where is today Macedonia on the road to integration, how much it has managed to meet these criteria, is actually Macedonia prepared for

full membership in EU and NATO, whether there is a sufficient human and institutional capacity on fulfillment of these criteria, these are some of the questions that have recently been present but also needs to given the right answer.

This paper aims precisely to give answers to these questions, by treating seriously the appropriate methodology from which the indicators can draw objective assessments about the situation and problems that is facing the Macedonian society in the way of building cohesive and powerful institutions, as well as the possibilities of the Republic of Macedonia for EU and NATO membership, analyzing the factors that help or hinder these processes.

2. Methodology

In order to analyze and to give a correct conclusion about the topic will analyze the integration of the Republic of Macedonia in the European Union over the years, the causes and consequences. Among the methods that we have used in preparing this paper has been monitoring and analyzing the details of the country integration. The paper used qualitative methods and descriptive research.

3. Macroeconomic achievements for year 2016

Macroeconomic stability in Macedonia is also maintained in 2016. The local economy continued to grow in 2016, the year in which the conformity of the data, domestic production increased by 2.3% (Ministry of Financein RM, 2017). Although with a lower intensity compared to the previous year, the national economy continued to grow among a slow recovery of the national economies of key partners. According to Ministry of Finance data for 2014-2016, the economic growth of the Gross Internal Product is expected to be 3.8%, which did not occur in 2016, where specifically were mentioned the significant risks in relation to the internal political situations, which even brought an extra dose of insecurity, are considered to have limited effect on the economy. In addition, in 2016 there was a large expressed uncertainty that derives from the political situation in the country mainly fear of shedding the negative effects of them on the economic developments as well as domestic entities and foreign promoters that leads to growth in 2016, and this issues out that an important role in this direction played the construction sector, such shifts greatly derives from the realization of the infrastructure public projects.

Even in 2016, the same as in the previous year, the growth of the local economy largely is related to the capacity operation export-oriented, the activity of which provided a substantial increase in production and exports. In such circumstances, they were also recorded positive shift in the labor market, which gave additional impetus to the growth of local economic activity. Despite this we can say that unemployment remains high, particularly for young people, which has fallen during the reporting period through. Unemployment rate reaches 23.9% (Ministry of Financein RM, 2017). Additional contribution to employment growth, as in the previous year, gave the operation of new capacities in technological-industrial development zones, as well as the effects of fiscal policy through active employment measures, infrastructure projects funded with public money, the policies of agriculture subsidies and credit lines provided through the European Investment bank dedicated to small and medium enterprises.

In 2016, it was recorded an increase in some economic sectors. Greater impact on annual growth has had construction, trade, transportation and hospitality that are substantially in line with short-term displacement indicators in these sectors. Seen from the demand perspective, the growth of the local economy in 2016 mainly is explained by the increased of the domestic demand and export activity. Domestic demand, in general it was supported by rising personal request, thus reflecting the favorable movements in the labor market, real wages increased during the year, as well as increased lending to "households" sector. A small positive contribution to such growth gave public consumption and gross investment as a percentage of GDP increased from 31.1% to 31.8% (Ministry of Finance in RM, 2017), with this high participation can say that investments have an important role the country's economic growth. In addition to domestic demand, to express support for the growth recorded in 2016 gave also the export sector, with an increase of 6.9%, in which case similar to the previous year positive shifts in this sector mainly dealing the operation of new production capacities. Such displacement of domestic demand and exports, also resulted in the increase of imports, an increase that was of a lower intensity compared with exports of 5.7%, thus the net export contribution for 2016 year is positive in this sense.

Fiscal policy is an important factor which affects on the positioning of the monetary policy and proper coordination of these policies is a key factor in achieving sustainability of the external position and maintaining macroeconomic stability. The budget deficit in 2016 was 2.8% of GDP, respectively decreased by 0.7 p. p. compared with the previous year. This change results in a significant increase in revenues from profit tax as well as the successful implementation of budget revenue (Ministry of Finance in RM, 2017). Public debt in 2016 was 48.03% of GDP level unlike 2015 which was at 46.7%

Public investments are still the primary targets of fiscal policy. In fact, for the next period is foreseen realization of capital investment projects in road and railway infrastructure, local infrastructure and energy sector, agriculture, etc. It is expected that the deficit funding to be provided from internal and external sources. In this case, in the context of internal resources, it is foreseen the use of a portion of the accumulated deposits in the state National Bank of RM and issuance of securities. The fiscal framework set in this way foresees moderate growth of state debt in the following period, which will not threaten the sustainability of public finances. The settled fiscal policy is accompanied by risks, which like monetary policy, stemming mainly from external conditions and their impact on domestic economic activity and the possibility of having access to foreign financial markets.

However, these situations imposed additional challenges to monetary policy guidance to whom responded with appropriate changes aimed at realization of the set legal targets. Inflation in 2016 was a mild negative rate (-0.2), under the influence of supply-side factors, mainly the lower oil prices on world markets, which had the highest impact of inflation development globally.

4. Macedonia's integration as a driving force for economic growth and stability

Membership in the EU means alignment with a qualitative socio-economic model of the European Union with its own rights, economic, social political goals that gives member country and greater freedom of modest finding ways of organizing society and the economy. When talking about EU membership from the economic viewpoint, this process applies not only to fulfill the political criteria and recognition of the acceptance of common EU legislation *Acquis Communautaire* (ability to assume the obligations stemming from membership, including the

conviction against political union, economic and monetary), but also the fulfillment of the economic criteria, the existence of a functioning market economy and the ability to interact with the pressures and forces inside the EU market.

The European Union is based on the concept of social market economy, where full employment, social progress, social inclusion, social protection, social cohesion and solidarity are included in the EU Treaty as some of the priority objectives.

The European Union Instrument for Pre Accession started from 1 January 2007, following the new amendments to the Financial Perspective (2007-2013). The purpose of this tool is to help these countries, but not with equal participation. The Republic of Macedonia is beneficiary of five-component as transition aid and institution building, cross-border and regional cooperation, regional development, human resources development and rural development.

Technical Assistance Information Exchange Office -TAIEX is a program that covers all aspects of EU law, which is shown as an important instrument for the Republic of Macedonia in providing short-term technological assistance during transportation, implementation and enforcement of EU legislation, including administrative structure.

In 2010, the European Union launched a 10-year development strategy through which it aims to overcome the crisis, which continues to afflict many EU Member States - **Europe 2020**. This strategy aims to create conditions for a smarter, more sustainable and more inclusive development. To achieve this goal, five main objectives were decided to achieve EU by 2020, including here employment; education, research and innovation; social inclusion, poverty reduction and climate/energy. Financial assistance under IPA funds for the period 2014-2020 in support of the Former Yugoslav Republic of Macedonia went up to € 664.2 million. This can be seen from the following table:

Table.1. Indicative Allocations (million EUR) per policy areas and sectors

The former Yugoslav Republic of Macedonia	-2014-	-2015-	-2016-	-2017-	-2018-2020-	Of which climate change relevant (%)	Total 2014-2020
a. Reforms in preparation for Union membership	39.7	17.9	35.6	26.9	85.8		205.9
Democracy and governance				66.1	56.8		122.9
<i>Rule of law and fundamental rights</i>				54.0	29.0		83.0
b. Socio-economic and Regional development	41.0	38.7	38.0	46.0	135.1		298.8
Environment and climate action				61.3	51.6	100%	112.9
Transport				56.4	56.5	60.0%	112.9
Competitiveness and innovation				46.6	27.0		73.0
c. Employment, social policies, education, promotion of gender equality, and human resources development	0.0	14.0	13.0	0.0	26.2		53.2
Education, employment and social policies				27.0	26.2		53.2
d. Agriculture and rural development	5.0	18.3	5.0	22.0	56.0		106.3

<i>Agriculture and rural development</i>				50.3	56.0	10%	106.3
TOTAL	85.7	88.9	91.6	94.9	303.1		664.2

Source: The Former Yugoslav Republic of Macedonia - financial assistance under IPA II - European Commission.html

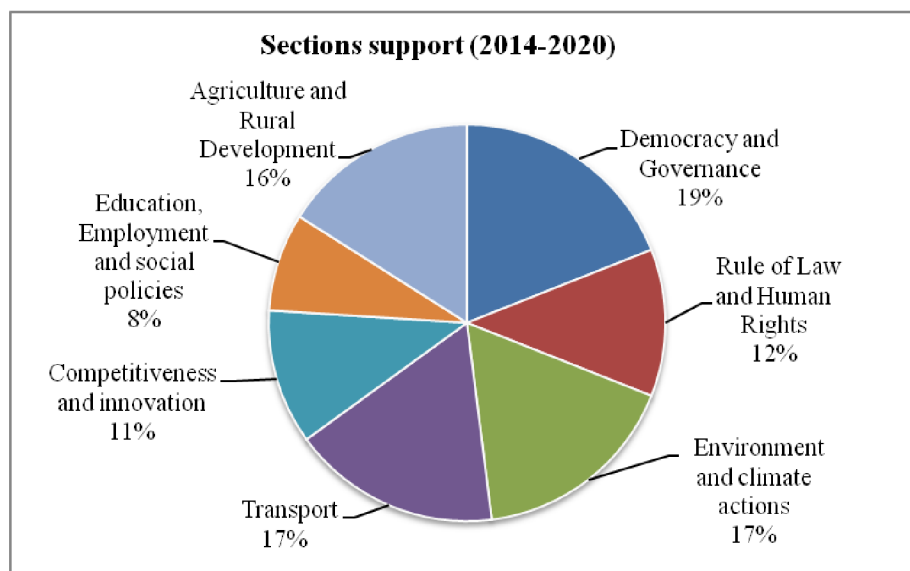


Figure 1: Data retrieved from https://ec.europa.eu/neighbourhood-enlargement/instruments/funding-by-country/former-yugoslav-republic-of-macedonia_en

A political tool was established in 2010, called 'European Semester' which runs every year from January to July in order to allow economic policy analysis of the Member States at EU level and the adoption of EU recommendations to countries in particular, before drafting budgets proposed by governments and their submission to the national parliamentary debates. The EU's aim is to become one of the fastest economies, sustainable and inclusive. In this context, through this study we analyzed the current situation of the country and towards addressing complementary measures which should be taken in terms of macroeconomic approximating with other member countries and the use of these funds planned to use by European Commission. The Commission has again reduced the financial assistance of the EU to the Republic of Macedonia with about 27 million from what was planned for 2016 (Commission staff working document: The former Yugoslav Republic of Macedonia 2016 Report, page 82).

The multi-year trend of declining support for joining the European Union for Macedonia, has continued in the past year, but is still at a high level, totaling up to 77%, according to a survey conducted by the Institute for Democracy "Societas Civilis" in cooperation with Konrad Adenauer Institute. Data of the Institute for Democracy said that the key factor for the gradual decline in support for EU membership have implications for national identity arising from the dispute with Greece over its name.

Regarding the political integration, the country suffers from a divisive political culture and lack of capacity to compromise. Also continue to prevail narrow political party's' interests above the interests of the country and its citizens. The political crisis has continued in 2016. As regards the "Përzhino" agreement can be said that there is partial implementation, which requires involvement and continued support us EU and the US. We can say that there is a lack of political will. The political crisis which deepened in 2015 after declaring illegal communications

interception continued in 2016 and still is going on after 4 months of the elections. Regarding negotiations on forming a new government is wasting enough time which further deepens the political crisis in the country. The new government should be entirely devoted to reforms recommended by the European Commission. All bodies and institutions in the country should be able to be independent, effective and free to carry out their functions.

Decentralization of government is an important element, where the lack of central budget funds and low capacity of local tax collection affects the capacity of some municipalities to perform their duties. The legal framework for local governance needs to be reviewed for a more transparent and balanced distribution of national funds.

Regarding the functioning of the judicial system has not been progress. Political interference in the judicial system is still disturbing. The Special Prosecutor's work should not be hindered. So, the country should adopt and implement a new strategy for judicial reform in order to prevent further barriers. In terms of corruption remains prevalent in many areas and continues to be a serious problem. Protection of human rights is in accordance with European standards, but the laws are often not implemented fully or correctly. Freedom of the media remains a serious challenge, and the country in the coming period should continue with reforms in this direction.

Economic integration is an important step to be joined EU. Being part of the European Union, means also have obligations. Macroeconomic stability was maintained in 2016, supported by the high cost of public infrastructure and foreign direct investment. Government in future should be engaged in fostering growth through economic policies. According to The Heritage Foundation estimates for 2016, Macedonia climbed to 31st position in the index of economic freedom and entered into the category of free states. The report shows considerable climbing Macedonia within one year of the country's 47th place in the 31th until the assessment has improved 70.7 points.

In 2016 we have a drop in Foreign Direct Investment from 2.1% to 1.9% as a percentage of GDP. Movement of citizens to work in another Member State, simplification of administrative procedures for work and residence permits can be calculated as a direct effect to the integration.

The EU supports the smooth functioning of the internal market for electronic communications, electronic commerce and audio-visual services. Agricultural policy in place support farmers. Rural development investments help improve access to irrigation, land consolidation and promotion of agricultural cooperatives remains low. Preparation for the implementation of IPARD program measures is not yet at the required level where about 16.2 million euros from EU funds have remained unused. The country is moderately prepared so in the field of transport policy, but with some shortcomings that has led to the reduction of financial assistance from the EU. For Research and innovation the EU provides significant support and this financial support enables Member States to benefit from research programs of EC.

The country has continued to participate actively in regional initiatives such as the South East Europe Cooperation Process (SEEC), the Regional Cooperation Council, CEFTA, the Western Balkans Six, the Energy Community Treaty, the European Common Aviation Area Agreement, the Central European Initiative (CEI), the Regional Initiative for Migration and Asylum (MARRI) and RECOM (Commission staff working document: The former Yugoslav Republic of Macedonia 2016 Report, page 22).

5. Conclusions

The Republic of Macedonia is involved in the European integration process since 1991. The process of the European integration contains itself in almost all aspects of a state activity from lawmaking to labor standards or traffic on the road. The main benefit of this process is expected access or participation in the country's exports to foreign markets, promotion of competitive structures and improvements related to long-term effects in the period leading to the strengthening of the economy of the country.

According to the estimation of the European Commission, the administrative capacity to plan, design and implement projects remains a matter of concern, along with the rules of financial management. The main challenge remains the government's inability or unwillingness to prepare essential reforms in Key Areas. In response, the Commission has again lowered the EU financial assistance to about 27 million from what was planned for 2016. Therefore, it is recommended that, for the realization of strategic goals through which will improve the citizens' conditions in RM, the political authorities should change the political discourse being committed to the full implementation of the Ohrid Agreement with most obvious and time dynamic, as well as the implementation of all recommendations for meeting the Copenhagen criteria.

We must improve the current model of coordination of EU aid and bilateral international assistance, by channeling it toward the country's development agenda. It should be a mechanism for inter-institutional level to identify the needs and capacities for programming and implementation of EU-funded projects. The country needs to implement the recommendations of the EU's auditors in connection with the accreditation of structures for the management of EU funds, including here the role of the National IPA Coordinator and distribution measures to facilitate management of agricultural funds IPARD.

The state should deprive new political relations by promoting the culture of political compromise and production of tangible reforms and consistent states building. Sustainable reforms which aimed at consolidating the democratic state of law, the establishment and strengthening of a functioning market economy able to cope with competitive forces and implementation of European standards in everyday life remain a priority of the country.

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