
AICEI PROCEEDINGS

“THE CHANGES ARISING FROM EU MEMBER CANDIDATE STATUS”

Tome Nenovski

University American College Skopje, Republic of Macedonia

Abstract

The admission to the EU will considerably reduce the transaction costs of the Macedonian companies, because of the elimination of the current obstacles and the required adjustment of most of the administrative and business procedures to those applied to the EU. The market of placing their products will increase to over 500 million people. Such market will induce development of the so-called economy of scale of the domestic companies, the need for specialization of their products and introduction of innovations in their businesses. The admission to the EU will provide a significant opportunity for the RM to become a part of the “Euroland”, which will further encourage positive developments in the domestic economy. As an EU member state, the RM will improve its international relations, particularly with the IMF, the World Bank, the UN, the World Trade Organization, etc. As a result, its international rating will be higher, opening the doors for more intensive cooperation with the potential international investors in the RM. The admission to the EU will entail introduction of Schengen visa regime for the Macedonian companies and citizens, enabling them to move freely throughout the “Schengen zone” and to use the benefits offered by the rich EU capital and labor markets. EU membership will imply enhancing the political, economic and other type of security in the RM. This quality of life is of a particular essence, if we are aware of the fact that in the last fifteen years of transition, the RM failed to build a system of democracy, rule of law and market economy, which would at least bring us closer to the EU.

Keywords: *EU, membership, Macedonia, market, companies*

1. Advantages of the admission to the European Union

The Macedonian public is unambiguously friendly to the opportunity for becoming a member of the Republic of Macedonia to the European Union as soon as possible. The reasons behind the consensual determination to the EU are multiple and, first and foremost, economic.

The citizens primarily expect that the admission of their country to the EU will make them wealthier, and that their standard of living will come close to the standard of the citizens of the EU. There are obvious and major expectations that the admission of the RM to the EU will ensure inflow of high amounts of subsidies, which will rapidly improve its economic situation. Such subsidies usually range around 2% of the gross domestic product (GDP) of the respective country.

The admission to the EU will considerably reduce the transaction costs of the Macedonian companies, because of the elimination of the current obstacles and the required adjustment of most of the administrative and business procedures to those applied to the EU. The market of placing their products will increase to over 500 million people. Such market will induce development of the so-called economy of scale of the domestic companies, the need for specialization of their products and introduction of innovations in their businesses. The admission to the EU will provide a significant opportunity for the RM to become a part of the “Euroland”, which will further encourage positive developments in the domestic economy. As an EU member state, the RM will improve its international relations, particularly with the IMF, the World Bank, the UN, the World Trade Organization, etc. As a result, its international rating will be higher, opening the doors for more intensive cooperation with the potential international investors in the RM.

The admission to the EU will entail introduction of Schengen visa regime for the Macedonian companies and citizens, enabling them to move freely throughout the “Schengen zone” and to use the benefits offered by the rich EU capital and labor markets. EU membership will imply enhancing the political, economic and other type of security in the RM. This quality of life is of a particular essence, if we are aware of the fact that in the last fifteen years of transition, the RM failed to build a system of democracy, rule of law and market economy, which would at least bring us closer to the EU.

2. Price of the admission to the EU

It is widely believed, however, that there is "no free lunch". In order to get the benefits from the EU membership, discussed above, the RM should also pay a certain price.

The admission to the EU automatically entails enforcement of ample and expensive regulations developed by the administration in Brussels, applied throughout EU. Such regulations have to be implemented particularly in the area of labor market, consumer protection, administration, environment, judiciary, etc. The costs for introducing such regulations, sometimes and somewhere, account for 2 to 3% of GDP of the respective country, which is higher than the amount of subsidy the respective country obtains from the EU.

The admission to the EU will require from the RM to pay contribution to the mutual fund of the Union. On annual basis, it equals 1.24% of EU's GDP.

Small and less efficient companies or, moreover, entire economic branches will be exposed to a steep competing pressure from the EU companies. Some domestic companies will have to reduce the output, and some will even have to be wound up.

The vertical subsidies (subsidies for particular areas and branches) will be substituted by horizontal subsidies (suitable for each areas and branches, rather than only for some of them). Most Macedonian companies, however, lack capacity (due to well-known reasons) to absorb such subsidies, implying that larger portion of the financial assistance from the EU might remain unused.

3. Requirements for the admission to the EU

In any contest, the candidates are required to meet certain requirements to be admitted to somebody's company or to get a job. Similarly, if the candidate RM seeks to become a member of the EU, it has to meet the contest requirements (criteria).

If, politically speaking, we could say that the RM meets, to a certain extent, or is in a stage of meeting the required criteria, unfortunately we cannot say that for the economy. The only segment, referred to by the competent bodies as a trump for representing the macroeconomic environment and situation in the RM, is the many years of macroeconomic stability. Furthermore, the performances of the Macedonian economy demonstrate that it has been the most underdeveloped country, relative to the economies of all other European countries. This implies that the macroeconomic stability turns to be an impediment to the economic growth. After all, neither the theory nor the practice calls for strict adherence to orthodox macroeconomic stability, when the economy has been suffering recession for long years, occasionally getting traits of depression (excessive unemployment and poverty in the country).

The underperformance of the economy is caused, primarily, by the lack of adequate environment for economic activity in the country. There is no efficient market economy in the RM due to the myriad of hindering factors that hold it back. The slow and complex administrative and legal procedures at all levels, provide no legal security for the economic agents. The commercial lawsuits are sometimes everlasting, thus diminishing the confidence of the entities (both domestic and foreign) in the legal system of the country. Therefore, there is hardly any wonder that the RM is not a fertile land for both the domestic and foreign investors to invest their funds. In a country with modest level of investments (the lowest level in Europe), primarily directed towards fast-

profiteering activities (supermarkets, petrol stations, etc.), one cannot expect evident economic development.

The insufficiency of investments results in a lack of competitiveness, low output volume, low income level and high unemployment and poverty rates. It is unreasonable to count for an EU membership by maintaining an unemployment rate of roughly 40% of the labor force and by one third of the Macedonian population living on the brink of survival, with 100 Denars a day. Also, one cannot count for admission to the EU with a rate of "gray" (unregulated) economy of approximately 50% of the GDP. The reign of such economy calms down the social tensions, but at the same time crudely distorts the overall economy of the country. Finally, one cannot expect to become an EU member with corruption dwelling in all pores of the society, which houses the RM at the top in this area, as well.

The lack of inadequate economic setting in the country also affects the competitiveness. The favoring of some domestic companies, closely related to the government, or foreign investors in the country by the system of direct negotiation, holds the competitiveness back. The Macedonian companies, in turn, owing to the above-discussed reasons, do not seem to be that competitive on the foreign markets. They would not endure the pressure of the bitter competition that rules the EU market. Therefore, the competitiveness of the Macedonian companies must change dramatically. Otherwise, most of them will have to leave the economic arena, suffering consequences that are easily predictable.

Obviously, in the following 3 to 4 years, the RM will face serious challenges in defeating the obstacles on its path towards creating economy in the European fashion. The courses of action are well known. First, the current macroeconomic policy has to be fully revised and an evolving macroeconomic environment needs to be created. There is also a need of changes in the institutional setting, particularly aimed at strengthening the legal security of the economic agents. This, along with the establishment of equal treatment of each entity (both domestic and foreign), will clearly initiate creation of sound environment for doing business in the country.

The public money have to be spent rationally and productively, thus compensating the current excessive crowding the corporate sector out of the arena of

economic contest. The “gray“ economy should be gradually transferred into the main stream in a heartbeat, and the corruption should be drastically reduced. Ultimately, we should speed up the adoption and application of the European standards in all realms of life. Otherwise, the EU markets, instead of opening, will be more frequently closed for the Macedonian goods and services.

4. Through CEFTA to the European Union

Such assessment applies to all countries-candidates for EU membership. Due to the situation of their economies, at the end of 2005, the EU brought most of the countries of Western Balkans (Croatia, Serbia and Montenegro, Bosnia and Herzegovina, Macedonia and Albania) to their senses and got them back to reality. It suggested them to become members of the Central European Free Trade Association - CEFTA. Thus Brussels made it clear to those countries that with such economic (under)development, they cannot hope to become members of the EU soon. Additional efforts are required to rise the degree of their economic development, which will bring them closer to the achievement of the ultimate goal - admission to the EU.

a) Reasonableness of the aforementioned idea for the Western Balkan countries

There are several reasons why the aforementioned idea of the EU is reasonable for the Western Balkan countries, including the RM.

First, many member-states of this trade association spooled up from of the disintegration of the Yugoslav economic integration underlying their development prior to the onset of the transitional process. The disintegration of such federation made the market where those countries placed their product vanish.

Second, the Western Balkan countries are not optimal economic zones. Their market capacity is exceptionally small. The association with CEFTA will create a market

of roughly 60 million people. This fact is immensely important if those countries, particularly the RM, seek to reduce significantly the excessive unemployment.

Third, the process of Eurointegration of those countries is more than complex. Most factors confirm that all of them are still not ready to face the challenges of the EU membership, particularly the achievement of relevant economic performances. Their average level of economic development lags behind the economic development of the EU countries. This could significantly slow down their Eurointegration, if their development fails to experience positive accomplishments. In this light, the association with the regional free economic zone is complementary to their integration into the global EU conglomerate.

Fourth, without own powerful brand, the products of such countries will hardly ever be competitive on the European market. The establishment of a regional free trade regime will make the above disadvantage diminish.

Fifth, after the period of disintegration of the former Yugoslav federation and in the wake of the wars fought on some of its territories, the countries of the so-called Western Balkans have been considerably alienated from each other. Many of them, in the terms of economy, cooperate rather with other countries than with their neighbors.

Thus there is a strong economic interest for the Balkan countries to unite and economically integrate. The CEFTA membership, which replaced 31 previously made non-performing bilateral trade agreements, should gradually turn into customs union. The members of such regional economic association should, in the future, conduct common customs policy to third countries.

b) Expected effects from the admission to CEFTA

Requiring from the Western Balkan countries to join CEFTA, the EU advised them to enhance their mutual trade. It should increase their economic growth, and consequently, the foreign investments in their economies. For these purposes, the existing trade cooperation framework needs to be further developed. In fact, it is necessary to develop a free economic zone, where the countries-candidates for EU membership will

trade free of limitations. Accordingly, the first effect from the admission to such integration will be the *free movement of goods in the CEFTA member-states*.

The so-called diagonal accumulation will enable these countries to export goods to the European market with regional brand, that is, export of goods originating not from a specific country, but from the free economic zone. Thus, the *competitiveness* of their products on the European, and consequently, on the international market, will improve substantially.

The high competitiveness and the possibility to present the region to the world will impose the need of creating *high quality* products. Otherwise, most of the goods and services manufactured and provided by those countries will remain “into a shell (cutoff)” within their local boundaries, and will hardly ever be able to find the way out not only to the world markets, but also to the Central European integration.

Such economic changes in those countries will result in *higher volume of production* of goods and services. This will compensate for what these countries currently need the most: higher supply of goods and services. Insufficient offer is the major hindering factor for their foreign trade, which is the rationale behind the high foreign trade deficit of the CEFTA member-states. A positive feedback from the high volume of production of goods and services will be the far significant *increase in their GDP*, as an embodiment of their overall economic power, which represent their face to the world.

The data, on the other hand, reveal that their GDP is moderate, distracting the attention of the foreign investors, and therefore, the foreign investors in those countries is far from the potential volume and their desire. It means that the shifting of the manner in which they mutual cooperate, the change in the overall economic environment for running business in those countries and the increase in their GDP will further *enhance the volume of foreign direct investments* in the CEFTA member-states.

Such changes will particularly be attractive for the foreign investors if knowing that the admission of new countries to CEFTA will create a market of roughly 60 million people. There is nothing much to say except that such widely united market is far more attractive for investing and for running business, than the present narrow markets, some

of which (such as Macedonian and Albanian markets) hardly reaching two million people.

Under such circumstances of trading, the workers from the member-states will freely move from one territory to another, and seek for a job where they could prove their skills and competencies. The labor market will extend, and the market competition will multiply. All the above will make the *labor force mobile*, increase the inter-competitiveness, and therefore reduce the high unemployment rates these countries face today, without exception.

The aforementioned economic changes in the CEFTA member states will eventually result in change in their overall *economic environment*. Environment will be created all economic agents to do business, which will be a fertile soil for attaining their projected entrepreneurial goals.

v) Future economic and political implications from the CEFTA membership

Requiring from the potential EU member-states to apply for CEFTA membership, Brussels sent them a clear signal. They cannot hope for soon membership in the EU with a level of economic development which obviously diverges and lags behind the level of economic development of the existing EU member-states and the countries-candidates for EU membership (Bulgaria and Romania). Their economic (under)development also means that they are not ready to get down to the challenges of such membership, and consequently, to the responsibilities that (for sure) go along with such membership. Therefore, the Western Balkan countries are faced up to the challenge to triumph over the myriad of prejudices, and to a certain extend, over the apparent political frustrations, by accepting the requirements of the CEFTA membership. It is a prerequisite for gradual approximation and establishment of economic systems compatible with those of the EU member-states, but also a requirement to defeat the fifteen-year period of economy of dividing, fighting wars and national intolerance. By exercising such attitude towards the neighbors, none of these countries could hope to become a member and to integrate soon into their future and fate, that is EU.

g) Replacing politics with economy

The process of disintegrating the Balkans belongs to the past. We are witnessing the onset of the period of the economy triumphing over the politics. The accession to CEFTA, as a forerunner of the integration of the Western Balkan countries into the EU will be a persuasive evidence of that. The potential member-states are required to be patient, but also to make sure that they are on the right track. The mutual respect and cooperation within CEFTA, supported by the EU, will make this long path to the Eurointegration significantly shorter than it seems to be today.

SUMMARY

In the Republic of Macedonia there is a consensual determination to become a member of the European Union. The reasons are manifold, and mainly of an economic nature. It is widely known, however, that there is “no free lunch”. In order to get the benefits from the EU membership, the RM will also have to pay a certain price and meet the required criteria.

If, politically speaking, we could say that the RM meets, to a certain extent, or is in a stage of meeting the required criteria, unfortunately this is not the case with the economy. There is no efficient market economy in the RM due to the myriad of hindering factors that hold it back. Therefore, in the following 3 to 4 years, the RM will face serious challenges in defeating the obstacles on its path towards creating economy in the European fashion. The courses of action are well known. We should speed up the adoption and application of the European standards in all realms of life.

Requiring from the potential EU member-states, including the RM, to apply for CEFTA membership, Brussels sent them a clear signal. They cannot hope for soon membership in the EU with a level of economic development which obviously diverges and lags behind the level of economic development of the existing EU member-states and the countries-candidates for EU membership (Bulgaria and Romania). Their economic (under)development also means that they are not ready to get down to the challenges of

such membership, and consequently, to the responsibilities that (for sure) go along with such membership. Therefore, the Western Balkan countries are faced up to the challenge to triumph over the myriad of prejudices, and to a certain extent, over the apparent political frustrations, by accepting the requirements of the CEFTA membership. The mutual respect and cooperation within CEFTA, supported by the EU, will make this long path to the Eurointegration significantly shorter than it seems to be today.