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The Balkan Economic Union as a Prospective Integral Part of the European Union

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Abstract

Together with the IMF and the World Bank, the EMU is the biggest monetary project in the history of mankind. Its goals are reduction of trade costs between its member-states, increase in the convergence in their relations and their economic growth. The main pillars of the monetary institutions were set up for its normal operation. However, the member-countries kept their fiscal sovereignty. The EMU was not a part of a larger political integration of the member-countries. It enabled them to make political decisions on a national level which were not in line with the so-called Maastricht criteria. The outcome of the lack of a political union is: growing budget deficits and continuing growth of the public debt of most of the member-states of the EMU. A debt crisis was created which shakes the basis not only of the EMU but also of the EU. For the first time in its six and a half decade existence, the EU faces an existential crisis. The exit of this condition lies in redesigning the basic structures on which it stands. This process might be fatal, as well as painful for the EU. In such a situation, the Balkan aspiring member-states will have to wait longer to enter the union. In the meantime, to protect their national economic and political tissue, as well as to prepare for the accession in the EU, a regional cooperation and union is a necessity. A Balkan Economic Union in which Serbia, Bosnia and Herzegovina, Albania, Kosovo, Montenegro, Turkey and Macedonia will be a part will help in achieving the goal of entering the EU less painfully. The Balkans can finally cease being the "gunpowder barrel". With application of a quality, historic, comparative and descriptive method, this paper presents the possibilities and opportunities of this model of designing a political and economic picture of the Balkans. The aim of this paper is to show that with such a union, the Balkan *countries have a serious chance to overcome, still, the prevalent antagonisms and thus clear the way to their final destination – the EU.*

Keywords: European Union, European Monetary Union, debt crisis, Balkan Economic Union, regional cooperation, European integration

Introduction

A basic idea for the integration of Europe was born after World War II. The leading ideologists of the time estimated that the piled nationalisms, which in the past had turned Europe into an arena for various wars, should be eliminated so as to establish some sort of integration between different European nations and peoples. Over time, this noble idea grew into an idea of establishing multiculturalism as a foundation for future establishments of Europe.

The conclusion of the Second World War, the division of Germany, the economic and political crisis in Western Europe and the beginning of the cold war in the early 1950's presented the European integration as a manifestation of economic and political reconstruction of western Europe. That was the true beginning of the process of European integration, which has lasted for nearly six and a half decades, during which the process itself altered and adjusted to the changes in the globalized world.

The strongest change occurred in the early 1990s with the establishment of the pillars of the European Monetary Union (EMU). But then, the European Union (EU) perhaps made the only major mistake that threatens to ruin the idea of a united Europe today. Despite the deviation in monetary unity, member states of EMU have kept their fiscal unity. Monetary political integration was established. It created an opportunity for Member States at a national level to adopt measures that do not match the Maastricht criteria, i.e. the pillars of the EMU. The result of this was the growing budget deficits and the public debts of most members of the EMU. In this respect, their self-mindedness conditioned that the EU face an existential crisis for the first time in its 6.5 decades of existence.

There is a definite way out of this crisis, but it will be neither easy nor fast. This means that the joining of aspiring EU member candidates (including the Republic of Macedonia) will continue to be left on hold without a clear perspective about when the door will be opened again. Hence the question arises: whether the Western Balkans will patiently await for the moment of opening the EU gate at some time in the future, near or distant, or whether they should be organized in a manner that will provide protection from adverse trends in the EMU, as well as foster their economic prosperity and higher-quality preparation for entering the EU.

If the events in different parts of Europe where there are intensive separate groupings of countries (Visegrad, Nordic, Baltic, Eurasian, etc.) were to be analyzed, the positive response should be located in the second part of that question. Following the example of those groups, the Western Balkans (Serbia, Montenegro, Bosnia and Herzegovina, Kosovo, Macedonia, Albania, with an option of the joining of Turkey) should proceed to their economic integration in such a way that it will not only enable economic prosperity and protection from possible future adverse movement in the EMU, but also contribute to replacement of the politics in the region with economy, thus preventing the association of the Western Balkans with the term "gunpowder barrel".

By presenting the general ideas, goals, development, crisis and prospects of the EU, the objective of this paper is to present the needs and possibilities of forming a Balkan Economic Union as the predecessor of the membership of other countries of the Western Balkans into the EU. Using a qualitative, historical, comparative and descriptive method, the paper will present opportunities for the design and implementation of a future economic community of the Western Balkans. The final conclusion of the analysis will be that those countries have a serious chance to overcome their mutual antagonisms and thus, economically stronger, to clean up the way to their final destination - the EU!

Idea, Goals, Development, Problems and Prospects of the EU

The foundations of the EU that we know today were set in the 1950's. It was the period when six developed European countries (Germany, France, Italy, Netherlands, Belgium and Luxembourg) decided to establish a European community, which in some way would be the counterpart to the USA and would assume the obligation to establish an international political and economic balance.

In fact, the basic idea of a European integration is much older. Immediately after the First World War an idea (Pushkaric, 2012) was born, according to which the crowded nationalisms, which in the past had turned Europe into an arena for running various wars, should be eliminated so as to establish some sort of integration between different European nations and peoples. Moreover, building upon the basic developments of that idea politicians from certain Western European countries, as well as leading political institutions of the West, were increasingly developing the idea of establishing multiculturalism as a foundation for future European unity, which after the Second World War the English Prime Minister Winston Churchill called "United States of Europe" (Pushkaric, 2012). Hence, we can say that there is a centennial inspiration, tendency and desire to pave the way to the creation of European integrity, and thus of European identity.

This idea was developed throughout the second half of the 20th century. The European integration evolved over the years, gaining new forms that were supposed to act towards the removal of all emerging problems and realization of the envisioned perspectives. Since it was becoming more and more obvious that without economic integration, the ideas for achieving multiculturalism, economic prosperity and a single European identity were not possible, in the early 1990s the EU implemented the second largest monetary project in human history - the establishment of the EMU.

The EMU rests on three main pillars (also called Maastricht criteria): a) the budget deficit of a Member State of the EMU must not be greater than 3 percent of its gross domestic product (GDP), b) the rate of inflation in the Euro-zone is not greater than 2 percent annually, and c) the public debt of a member-country of EMU is not greater than 60 percent of its GDP. Following these criteria, the EMU should be a vanguard of the future overall unification of Europe.

The EMU: Economic Prosperity and European Integrity and Identity

The establishment of the EMU and the introduction of the Euro as common currency (along with the establishment of the Bretton Woods institutions - the International Monetary Fund and World Bank) are the largest monetary projects in the history of mankind (Nenovski, 2002). At first it united about 300 million people from the wealthy Western European countries, with a tendency to expand with other member states, which meant a market of more than 500 million people. It was conceived as the vanguard of the future, not only economic, but political integration of Europe. In fact, it represents the counterpart of the US economic and political federation, as well as the relevant economic associations, such as the North American Free Trade Area - NAFTA. It combines different economies and their currencies, which are at the top of the world rankings. Therefore, there are a lot of high expectations of the common West European currency - the Euro.

Benefits of the EMU: Cost Reduction, Trade Increase

In order to ease the financial life, at the beginning the 12, and today 17 Western European countries (Germany, France, Italy, Greece, Luxembourg, Spain, Portugal, Belgium, Netherlands, Austria, Ireland, Finland, Slovakia, Malta, Cyprus, Slovenia and Estonia) have joined the EMU, which has only one currency - the Euro. Using a common currency was projected to save money and time, and simultaneously increase trade between those countries.

The greatest advantage of the introduction of the Euro was lowering the cost of trading. These are costs that importers must pay while exchanging domestic for foreign currency in banks, for payment of obligations to foreign partners. During the introduction of the Euro (1 January 1999), the European Commission (EC) estimated that those transaction costs amounted to about 0.5 percent of the gross domestic product of Member States of the EMU.

The one-for-all currency has contributed to reducing uncertainty about future exchange rates of the currencies of the member states. Although, major adjustments to their exchange rates were not common even before, the previous system allowed some daily exchange rates variability. It gave rise to the uncertainty about the future value of a particular currency, and thus risk for importers and exporters. Therefore the risk of exchange rate trade depleted to a certain degree because of the introduction of the hidden transaction costs. The single currency eliminated that risk and thereby increased trade and the positive results that stem from it. These results revealed an increase in the range of products traded and the decline in prices due to increased competition by market expansion.

The following advantage of the introduction of the Euro was preventing member countries from devalueing their currencies in order to increase exports. Previously, a country could devalue its currency to boost exports. For its own protection, its trading partners could devalue their currencies. This phenomenon, which was common in the past, according to Nenovski (2002) is known as *competitive devaluation*. Any reduction in the value of a currency has inflationary tendencies, which means that competitive devaluations could trigger *inflation spiral* (Nenovski, 2002). Although the former regime of exchange rates in the EU were designed in order to eliminate the competitive devaluations, nevertheless such devaluations were possible given the large number of currencies whose rates have often been set more by policy makers than the market itself.

Thus, competitive devaluations bring profits for some, and loss for other countries. However, the cumulative economic impact of competitive devaluations of the Member States of the EMU would be negative, even catastrophic, if it comes to the so-called devaluation spiral (devaluation of a currency in response to a previously performed devaluation in another currency). The single currency within the EMU eliminates the danger of such a mutual competition of the Member States of the Union.

Besides these primary advantages, the introduction of the euro has a secondary, but very important advantage - preventing speculative attacks. Since the former European mechanism of exchange rates allowed large, though not frequent adjustments, it could be vulnerable to speculative attacks. If speculators believe that the value of a currency will decrease (to depreciate relatively to other European currencies), they will sell the values that they have in that currency. If it was believed by a large number of speculators, confidence in the value of that currency could collapse and cause even the appropriate government to devalue its currency, though there was no intention or need.

Indeed, in this case the government may have played speculators by raising interest rates and thereby causing the return of values denominated in that currency on the money markets and capital markets. However, there is a lower limit to which it can be done, because higher interest rates cause enterprises to face large interest costs, which would make them borrow less and less and consequently invest less and less, which in turn basically means slowing down economic growth. The introduction of the Euro completely eliminated opportunities for such speculative activities.

Weaknesses of the EMU: No Autonomous Monetary Policy

Since the introduction of the Euro eliminated uncertainty about exchange rates, interest rates declined. It impacted on encouraging investment and on economic growth within the EMU. That, in turn, encouraged excessive borrowing by individual member states, which led to the emergence of a debt crisis because the fall in interest rates in Southern Europe has encouraged countries such as Italy and Greece to create an excessive debt (Biznis, 2011). Anyway, this is one reason why in the current discussions more commonly the Euro is determined as one of the causes of the current debt crisis and contributes to its enhancement.

By accepting the Euro, member states of the EMU gave up the use of their own monetary policy and exchange rate policy of their national currency as a tool for their own economy and for overcoming potential problems in improving the national economy. They gave control over monetary policy to the European Central Bank, which sets out the general interest rates. Considering the previously eliminated barriers to international transfer of capital and highly developed and competitive financial markets among the member states of the EMU, interest rates, even before the introduction of the Euro, do not differ much from country to country. However, it is important that no uniform (in a way) European interest rates were determined by the major European countries. This implies that smaller member states would have neither the opportunity nor the power to influence the reduction of interest rates in the periods of their economic slump. Finally, no member state can adjust its exchange rate against the exchange rates of currencies of other member states. In other words, the European agreement almost completely eliminates the possibility of smaller member countries to conduct an independent monetary policy in the future (Nenovski, 2002).

The ultimate victim of a cancellation of independent monetary policy and exchange rate policy depends on the types of macroeconomic "shocks" that the national economy will eventually be exposed to, and also on how good the mechanisms for their cushioning or compensation are.

At the start of the introduction of the euro the question was raised: what will happen if any of the member states of Euroland slides into recession? Until then there was the opportunity for the respective central bank to influence the recession by increasing the money supply, thus reducing interest rates and increased investment, with the final effect of healing the economy. The grounds on which the European Central Bank is set do (did) not allow it to lead expansionary monetary policy for helping a member state, because such an action would cause inflation in other member countries which are not in recession.

In such a situation, in order to reduce interest rates, the member state in recession could use its fiscal policy to boost the economy. However, larger and lasting fiscal borrowings which may be used by one or more member states, will cause increased costs for all other members of the EMU by increasing repression against the general interest rates or by forcing the European Central Bank to increase money supply in order to avoid a rise in interest rates, which ultimately will increase the risk of inflation. To prevent this, the member states of the EMU agreed to limit the use of their own fiscal policies. Under such an agreement (not solid, binding contract) any member state of the EMU must keep its annual budget deficit from exceeding 3 percent of its GDP. Otherwise, the member state had to pay substantial penalties to other states. It is considered an EMU policy that each member state is denied the chance to use supportive fiscal policy during recessions.

Antirecession Solutions and Opportunities

Then what would be the exit if the country fell into recession?

The rate of release of any country out of recession depends mostly on the flexibility of European labor market. If workers are highly mobile, unemployed and with low incomes in the country which went into recession they will work in another country - a member of the EMU. Such mobility would balance the effects across the EMU and establish greater symmetry in the objectives of its overall economic policy. However, in western Europe there are strong cultural and linguistic differences that restrict the international movement of labor, so that the so-called flexibility in the movement of labor (at least in the near future) may not be the salvation for the member country in recession.

The second saving solution for the member country in recession would be the adjustment of wages. If during the recession, workers are willing to accept lower wages, employers will not only retain the same number of employees, but through reduced expenditure on wages they will decrease prices. Lower prices will encourage exports and consumption of domestic products, which all together would lead to economic prosperity of the country concerned. However, worldwide experience confirms that despite the rise during the economic crisis, wages do not fall during the economic recession. Moreover, economic and social analysis shows that Western workers are more willing to remain unemployed rather than accept lower wages!?

The third solution would be competitive devaluation of the domestic currency. However, the single currency does not exclude the method that Italy and other countries have used during the Second World War when faced with huge debt: permitting inflation and devaluation of domestic currencies. Despite this, now another solution is possible, but the price is high. It is conducting "internal devaluation" ,known as a reduction of wages and mass unemployment, as are now required for Italy, Greece and other European countries in debt (Biznis, 2011).

Despite problems and limitations that lots of EMU member states face in times of recession (Greece, Portugal, Italy, Ireland, Spain), the current Euro crises brought significant advantages to some of the more resistant and more developed countries (Germany, Austria, Luxemburg…). Their economies, especially in Germany, are based on export. They produce more than they can spend at home, because of that they are forced to export a substantial part of domestic production. In that way, the fall of the Euro value towards the US dollar was in their interest. The greatest benefit from that ratio has had been seen in the German economy. For the first time in its history, the German economy realized an export of goods and services bigger than 1.000 billion Euros in 2011. After retaining it at a level of 8-8.5% for many years, the rate of unemployment in Germany decreased to around 6.5%. Therefore, while a bigger share of EMU member states face debt and recession problems, economies of a few members of EMU member states, especially Germany, used the weakness of the Euro to acquire the highest positive achievements.

Obviously there are serious reasons that could confirm the estimation that the introduction of the single currency increased asymmetry between the member countries of the EMU. Because of the many differences between their economies, the appearance of certain asymmetric shocks, particularly in the area of demand or in production of some individual products is a common phenomenon. Faced with such shocks, some of the countries - members of the EMU (Ireland, Portugal, Greece, Spain, Italy ...) have begun to rely more on fiscal policy to compensate for the lack of independence in conducting monetary policy. Practice has shown that the perceived fiscal discipline within the EMU does not exist and that some members have used their growing budget deficit and public debt over the so-called Maastricht criteria as a means to address not only their economic problems, but also to sate the untamed appetites of the ruling structures.

This confirms the conclusion that at the beginning of the functioning of the EMU a possible solution to overcome the problems of a member country fallen into recession was much needed. The analysis according to Nenovski (2002) shows that even then an international tax policy and the policy of distribution of shared revenues through the growth of the EU budget, which would be used to overcome regional differences by conducting a policy of encouraging or limiting, was to be established. This will have satisfied the requirements of the member countries of the EMU and/or will have prevented the occurrence of high budget deficits and public debt which drew the European economy in 2010 into a so-called debt crisis with serious threats to the future of the global economy.

A Political Monetary Union is not Possible without a Political Union: Fiscal Union or Deterioration of the European Union

True and complete confidence in the EMU depends on the confidence in the various markets (goods, labor, and capital). And it is obvious that the member countries of the EMU can not react in different ways to economic shocks that come from inside or outside the EMU. The reasons for this are seen in different levels of economic development of the member countries, diversity in their tradition, culture, language, etc. The enlargement of the European Union with countries from Central and Eastern Europe make the EMU more heterogeneous and complex. That, in turn, raises the question of the need for a political rapprochement between the member countries of the Union and what kind of political structure in the future will be created in Europe.

Given the different traditions, divergent economic standards and the different political approaches to supranational political and economic structures in Western Europe, it is very difficult to find identical solutions for all the member countries. Problems that some countries increasingly have faced in the last 3-4 years point to the conclusion that it is impossible for the European integration to become a composition in which all coaches (countries - members) will move with the same speed. "Striking disparities in the development of certain regions of the EU is one of the key current issues that the EU should resolve as quickly as possible" (Arangelovik et al., 2007).

Since the early efforts for European monetary integration some controversies were present about the impact of national and supranational levels of political decision-making. In this respect, the discussions in some countries for (non) membership in the EMU (UK, Sweden, Denmark), have a long tradition. To overcome this problem the principle of subsidiarity in decision making might be a solution, but not sufficiently (Nenovski, 2002).

Therefore, to be sustainable, the EMU must be part of a wider political integration of the member countries. In the first ten years of the functioning of the EMU attention had not been paid to that fact. That issue is becoming increasingly pressing in recent years, after it has become clear to all that devolution and fiscal sovereignty of member states in the structures of the EMU will determine its future perspective.

The EU needs a strong common constitution that will specify the responsibilities of the different political levels: regional, national and supranational. It would be one of the possible ways of preventing a possible collapse of the EMU in the future, as has happened with some other similar integration in the past.

Namely, in the late 19th century, during the validity of the so-called gold standard, there were several currency unions. Among them was the Nordic or Scandinavian Union, which was without political unification, however, for some time it functioned very well. Economic and political performance in the countries - members of the Union were virtually identical for a longer period. However, in the early years of the last century the member countries of the union turned to implementing various economic policies, which was the reason for the dissolution of that union (Nenovski, 2010).

Politically speaking, a long-term solution for the weak EMU would be the creation of a fiscal union or a genuine political federation. In this regard are the measures as proposed by the leading countries of the Union (Germany and France). They insist on changing the Lisbon treaty (some sort of EU constitution) in order to reduce the fiscal sovereignty of members of the EMU and to introduce a tax on financial transactions.

The first would mean that the member state in the EMU needs to strictly respect the Maastricht rules of conduct in relation to the size of its budget deficit, and thus gradually restore the public debt level up to 60 percent of its GDP. Otherwise, the Commission and any member state of the EMU could bring a complaint before the international courts and the EC to introduce a kind of "forced administration" on the specific disobeying country to control its fiscal finances.

The latter would mean imposing a tax on financial transactions which in the early 1970s was advocated by the American Nobel laureate James Tobin (so-called "Robin Hood tax"). Under the proposal, trading in stocks and bonds would be taxed at a rate of 0.1 percent and transactions with so called financial derivatives will be taxed at a rate of 0.01 percent. It is estimated that the tax that would be collected annually would be about 74 billion dollars that would be instilled in the fund for interventions to EC countries facing debt crisis.

Regional Groupings for Protection against Bad Scenarios for the Future of the EU and the EMU

Once ignited the so-called debt crisis in the EU, imposed the following frequently asked questions: 1) Will the EU survive, and 2) whether and to what it will be transformed?

In order to answer these questions, the European dignitaries in late 2011 began to lead (finally) a political battle, basically, for saving the Union. The proposed measures previously discussed, should lead in that direction. However, even to ratify the amendments to the Lisbon treaty, it will mean an easy and quick solution to political problems of countries - members of the EU. "Politically speaking, a long-term solution to the weak euro is creating a fiscal union or a genuine political federation. But it would be a solution for which the application of the same takes decades, a crisis that escalates each week" (Biznis, 2011). It is a long time, in which there may be new challenges and uncertainties. That means a guarantee of reliability, stability and durability of the EU, will still not exist.

It is well known by most of the existing member states. Moreover, they know that coming a long way is a possibility for new adverse scenarios whose realization would jeopardize their overall national interests and strategic objectives. Therefore, even now some of them are beginning to prepare the ground for their own protection against possible new adverse trends in the EU. Thus the Baltic and Vishegrad group appeared and the Nordic Union was formed.

The Baltic group includes Letonia, Lithuania and Estonia. Those three countries are among the most recent EU members. Of them, only Estonia is a member of the EMU. It shows satisfactory overall political and economic performance. Its public debt was only 4.5 percent of its GDP, the lowest level of public debt among all countries in Europe. Because on the whole they are not getting what they expected from the EU and EMU, these countries have developed strategies for joint action aimed at their protection from any new turbulence in the EMU.

The Vishegrad group consists of Hungry, Checz Republic, Poland and Slovakia, out of which only Slovakia is an EMU member. Since the beginning of the debt problems, officials increasingly emphasize that entering, or, remaining in the Euro zone has negative consequences for the Slovak economy. Although Poland is not a Euro skeptic, it postpones its EMU membership with a great deal of caution, though, it may be said that Poland functions in such a way that anticipated the whole EMU to function. The Checz President very often states his attitude against the euro-concept, and Hungary faces many other serious economic problems which drag her away from the EMU. All in all, due to tradition and self-protection from eventual future negative events in the Eurozone these countries tend to turn to their political and economic relations established by the Agreement of Vishegrad in 1991.

If we take the Scandinavian countries (Denmark, Sweden, Norway and Finland), only Finland is a member of the EMU. Occasional referendums in Denmark and Sweden confirm the animosity of the majority of their population toward the euro. Norway is not a member of the EU. In such conditions, and recalling the experience of their monetary union which was previously discussed, these countries are distancing themselves from the EMU, organizing a loose alliance which should protect them from any new adverse events in the EMU.

Great Britain saw a perfect opportunity in the crisis to weaken the Franco-German pillar of euro domination and took an aggressive stand to position itself as a carrier of an alternative European project based on euro scepticism.

Although unofficially, the idea of a so-called Eurasian Union as a new and very broad and superior economic region is being advocated. The concept of Eurasia is based on trade relations, and not on ideology. It is imagined to be an economic union that would allow free movement of goods and capital across the borders of its Member States. It would include Russia, Belarus, Ukraine, Armenia, Turkmenistan, Tajikistan, Uzbekistan, Kyrgyzstan, Kazakhstan, Turkmenistan and Moldova, with an ample opportunity later to be joined by Turkey, Syria and Azerbaijan. Obviously it would be a huge market composed of countries that have proven to be more resistant in times of crisis. No wonder that this market each day is becoming more and more attractive to all western economies. It is particularly noticeable in Germany and France who, in difficult circumstances when faced with the economic crisis in the Union, all increasingly turning to the states that Russia, as a carrier of the idea, originally imagined them as members of a future Eurasian Union (Neshkova, 2012).

Needs, Opportunities and Advantages of Forming a Balkan Economic Union as a Future Member of the European Union

It is obvious that the Balkans are absent from all political and economic events, and groupings in Europe. This is probably the reason for the more frequent and louder mentioning of the so-called Balkan Union in the world public, even in the administration of the leading countries in the world. Because the term union could mean a political union, which in this period is neither possible nor desirable (it reminds one of the former Yugoslav federation), and due to the goals we want to achieve with its formation, probably a more suitable name for such association would be Balkan Economic Union (BEU). All Balkan non-EU countries would participate in it: Bosnia and Herzegovina, Serbia, Macedonia, Montenegro, Kosovo and Albania. It is possible for the Republic of Turkey to join it as well unless it joins the Eurasian Union. The BEU would be created as a kind of protection from the global economic crisis, and from the shocks and misunderstandings inside the EU. It is estimated that: "none of the mentioned Balkan countries has the capacity to independently realize prosperity for its citizens. They all have small and barely competitive economies, weak and underdeveloped labour market; have out-dated educational systems, etc" (Velinovska, 2011).

With the current economic (non)development, these countries cannot expect to become EU members soon. Further efforts are needed to raise their level of economic development which will lead to achieving the ultimate goal - admission to the EU. The frequent messages from Brussels point of the need to: "create an economic union based on a Balkan free characterized by a close "cross-border "cooperation and loose political ties" (The Washington Times, 2003).

Western Balkan countries should increase mutual trade, which will increase their economic growth, thereby increasing the amount of foreign investment in their economies. To achieve this goal, they need to establish a framework for trade cooperation. In fact, it means establishing a free trade zone in which these countries will trade without any restrictions. By applying the so-called diagonal accumulation which now operates under the CEFTA, those countries of the European market will export goods with a regional prefix that will export goods that originate not from a particular country, but the free trade zone. Thus, the competitiveness of their products to European, and thus the global market will significantly increase.

There are several reasons why the formation of a BEU would be acceptable to the Western countries, and thus to the Republic of Macedonia.

First, all these countries that would have entered the commercial zone, except for Albania and Turkey, emerged from the breakup of the Yugoslav economic integration where, before beginning the process of transition, they had based their development. With the dissolution of that federation, the market where these countries placed most of their products disappeared as well.

Secondly, the western Balkan countries are not optimal economic zones. Their own market capacity (excluding Turkey) is very small. By connecting the common trade area, a market of 100 million people will be created. Given the closeness to other countries in southeastern Europe, that market could increase to about 250 million people. This fact is especially important for significantly reducing the high unemployment rate in these countries, especially in Macedonia, Bosnia and Herzegovina, and Kosovo.

Thirdly, the process of European integration of these countries is very complex. Several factors can confirm that most of these countries are still not ready to accept the challenges of EU membership, especially in the realization of significant economic performance. Their average level of economic development is far behind the level of the economic development of the EU countries. This data can significantly slow down their European integration if positive things do not happen in their development. In that sense, linking the regional economic community is a complement to their integration into the global conglomerate - the EU. Indeed, the successful functioning of the BEU would be the best recommendation for acceptance of all its members in the EU in 5 to 6 years’ time.

Fourthly, without a strong recognition sign (brand), the products of most of these countries show difficult competing schemes on the European market. The establishment of a regional regime of free trade will allow a reduction of such weaknesses.

Fifthly, after the disintegration of the former Yugoslav federation and after the various wars on its territory, countries of the western Balkans feel alienated from one another. Most of them have significantly higher trade with other countries than with their neighboring countries.

Accordingly, there is a strong economic interest in unification and economic integration of the Balkan countries. An initial mutual free trade agreement should gradually become a customs union. Members of the regional economic community should have a common customs policy towards third countries.

Economic cooperation could be further promoted by: forming a Balkan Exchange, concluding contracts for joint appearance on third markets, as well as conducting joint energy, tourism, agricultural and transport policy (Jovanovski, 2009), a joint organization of sports events on regional, European and global levels, "forming a fund for economic assistance to Member States" (Domljan, 2008) more efficient use of the EU IPA fund, etc.

Besides economic factors, which seem to be major, the BEU would have other benefits for its members. Thus, Bosnia and Herzegovina, would finally become a functional state, political tensions in the region would be reduced and any possibility of secession of the Republic of Srpska will be prevented; Serbia would solve its internal affairs and relations with Kosovo; Montenegro would solve the still open Serbian question, Macedonia would improve its quality of life; Albania would create major economic opportunities; Kosovo would finally be stabilized in the Balkan framework. Finally, the BEU would create conditions for establishing a common security, social and educational policy, as well as a policy of protection of human rights. However, to make this come to life, we need someone's initiative. Will any of those countries, the western Balkan countries, dare to take the first step?

Conclusions

In the early 1950s the process of European integration began as a means of gradual economic and political reconstruction of western Europe. It is a process which took 6.5 decades, constantly changing and adapting to the demands of the globalized world. In his new idea lies the need to establish multiculturalism in order to overcome the various nationalisms and reach economic prosperity and political harmony of the united countries. Fashioned in this manner, the EU should be the third equal partner of the global economic and political map – right in the middle between the U.S. in the West and the former USSR, now Russia to the East.

The wider European identity was deliberately based on a series of principles and above all, the idea of a single European economy that will connect all nations. It was considered that if the EU provided a basis for European prosperity, the continued existence of nations in Europe will be a threat for the EU and, perhaps, over time some nationalism will "reduce" their intensity and the European identity will be strengthened. It was assumed that economic prosperity will lead to a reduction of national tensions. In this capacity the EMU formed, which in the long run displayed more advantages than disadvantages. However, over time, it is becoming increasingly clear that Europe is a lot more than just an integrated trade zone and its economies are far from homogeneous. Debt crisis revealed some more cracks in the European construction. It became clear to everyone that without political integration there can not possibly be a monetary one, or an overall economic union.

Therefore, for the sake of its longevity, the EMU must be part of a wider political integration of the countries - members. In other words, a long-term solution for the now weak Euro is the creating of a fiscal union or a genuine political federation. However, this solution can take years, given its daily growing size and the strength of the Euro crisis. That means that a guarantee for the reliability, stability and durability of the EU will be impossible to provide.

In response to such uncertainties, some countries in Europe suit their own grouping in formal and informal alliances, which are supposed to represent some kind of preventive measures against possible future serious consequences of the (non) functioning of the EMU. The Visegrad, Baltic and Scandinavian group of alliances were renewed. More and more frequently the establishment of a so-called Eurasian Union is mentioned, which should be led by Russia. From these events, the Balkan countries seem to be missing. Do they need to come together in a Balkan economic union?

If we follow the example of others, wealthier and more experienced, then the answer to that question should be affirmative. With the formation of the BEU there would exist some kind of protection against the global economic crisis, as well as the economic shocks and incongruities within the EU. In addition to that idea is the fact that along with the ongoing economic (non)development, the Balkan countries should not hope for EU membership soon. Further efforts are needed to raise their level of economic development, which will bring about the ultimate goal - admission to the EU.

The BEU would be an economic union following the example of Benelux. It means absolute cooperation of the member states, primarily in the field of economics. Thus, the western Balkans would become an economical and not only a geographical name, what it is at the moment. Indeed, the process of disintegration in the Balkans ended. A period begins when the economy will conquer politics. The possible formation of a BEU as the vanguard of the integration of the western Balkan countries into the EU could be persuasive evidence.

Finally, it can be concluded that the successful functioning of the BEU would be the best recommendation for admission to all its member countries in the next 5 to 6 years. And with integration of the Balkan countries into the EU, the process of European unification can be considered completed.

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