

**THE IMPACT OF ECONOMIC INTEGRATION OF  
NORTH MACEDONIA IN THE EUROPEAN UNION  
ON DOMESTIC COMPANIES**

**Master's Thesis**

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**Eskişehir 2022**

**THE IMPACT OF ECONOMIC INTEGRATION OF NORTH  
MACEDONIA IN THE EUROPEAN UNION ON DOMESTIC COMPANIES**

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**MASTER'S THESIS**

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**October, 2022**

**FINAL APPROVAL FOR THESIS**

Thesis with the title “The Impact of Economic Integration of North Macedonia in the European Union on Domestic Companies” has been prepared and submitted by Gazvan Sherifi in partial fulfillment of the requirements in Anadolu University Directive on Graduate Education and Examination for the Degree of Master of Science in the Program of International Business, part of the Department of Business Administration has been examined and approved on ...../...../.....

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## ABSTRACT

### THE IMPACT OF ECONOMIC INTEGRATION OF NORTH MACEDONIA IN EUROPEAN UNION ON DOMESTIC COMPANIES

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Anadolu University, Graduate School of Social Sciences, October 2022

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North Macedonia is a landlocked country, located in Europe and surrounded by other European countries, many of which are part of the European Union. This is a valid reason for North Macedonia to consider its membership in the European Union as an inevitable factor and strategically important for its economic progress. As we know, the European Union and its member countries have very stable and thriving economies, which means North Macedonia will be able to benefit from the economic integration after full membership in the European Union.

A qualitative research approach is used in this study. The research examines the possible impact of economic integration with the European Union on domestic companies. The research scope includes interviews with domestic companies from different industries that are exporting to the European Union, the challenges, the procedures, and the opportunities that the economic integration with the European Union would create for them. Findings show that some existing issues and challenges have a negative impact on the effectiveness and efficiency of domestic companies on the European market, and membership and economic integration with the European Union will undoubtedly ease and harmonize their functioning and create new opportunities for other domestic companies.

**Keywords:** North Macedonia, European Union (EU), Economic Integration, Domestic Companies

## ÖZET

### KUZEY MAKEDONYA'NIN AVRUPA BİRLİĞİ'NE EKONOMİK ENTEGRASYONU YERLİ ŞİRKETLER ÜZERİNDEKİ ETKİSİ

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Anadolu Üniversitesi Sosyal Bilimler Enstitüsü, Ekim 2022

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Kuzey Makedonya'nın Avrupa'da yer alan ve birçoğu Avrupa Birliği'nin bir parçası olan diğer Avrupa ülkeleriyle çevrili, denize kıyısı olmayan bir ülke olması, Kuzey Makedonya'nın Avrupa Birliği üyeliğini kaçınılmaz bir faktör olarak görmesine ve ekonomik açıdan ilerleme kaydetmek için stratejik öneme sahip olmasına yol açmaktadır. Bildiğimiz üzere, Avrupa Birliği ve üye ülkeleri oldukça istikrarlı ve gelişen ekonomilere sahiptirler, bu da Kuzey Makedonya'nın Avrupa Birliği'ne tam üyelik sonrasında ekonomik entegrasyondan faydalanabileceği anlamına gelmektedir.

Bu çalışmada nitel bir araştırma yaklaşımı kullanılmıştır. Araştırma, Avrupa Birliği ile ekonomik entegrasyonun yerli şirketler üzerindeki olası etkisini incelemektedir. Araştırma kapsamı, Avrupa Birliği'ne ihracat yapan farklı sektörlerden yerli şirketlerle yapılan görüşmeleri, Avrupa Birliği ile ekonomik entegrasyonun onlar için yaratacağı zorlukları, prosedürleri ve fırsatları kapsamaktadır. Bulgular, mevcut bazı sorunların ve zorlukların yerli şirketlerin Avrupa pazarındaki etkinliği ve verimliliği üzerinde olumsuz bir etkiye sahip olduğunu ve Avrupa Birliği üyeliği ve ekonomik entegrasyonun şüphesiz işleyişlerini kolaylaştıracağını ve uyumlaştıracağını ve diğer yerli şirketler için yeni fırsatlar yaratacağını göstermektedir.

**Anahtar Kelimeler:** Kuzey Makedonya, Avrupa Birliği (AB), Ekonomik Bütünleşme, Yerli Şirketler

## ACKNOWLEDGEMENT

The completion of this thesis would not have been possible without the expertise of my thesis advisor Asst. Dr. Betül Yüce Dural. That is why I would like to thank her for all the guidance, share of knowledge and the constructive help over all stages that have contributed to the overall success of this thesis. Also, I want to thank Assoc. Dr. Munise Tuba Aktaş and Assoc. Dr. Umut Koç for their constructive thoughts and ideas that helped me in the process of writing this thesis.

I would like to express my heartfelt gratitude to my fiancée for her continuous support and understanding during all this period of research preparation and writing the thesis.

Finally, I would like to thank my parents, my brother, and my sister for all their help during this period. This goes as a dedication to my parents for their unconditional love and support all my life.

## STATEMENT OF COMPLIANCE WITH ETHICAL PRINCIPLES AND RULES

..../..../20...

I hereby truthfully declare that this thesis is an original work prepared by me; that I have behaved in accordance with the scientific ethical principles and rules throughout the stages of preparation, data collection, analysis and presentation of my work; that I have cited the sources of all the data and information that could be obtained within the scope of this study, and included these sources in the references section; and that this study has been scanned for plagiarism with —scientific plagiarism detection program‖ used by Anadolu University, and that —it does not have any plagiarism‖ whatsoever. I also declare that, if a case contrary to my declaration is detected in my work at any time, I hereby express my consent to all the ethical and legal consequences that are involved.

.....

(Signature)

Gazvan Sherifi

## TABLE OF CONTENTS

Final Approval of the Thesis.....	ii
Abstract.....	iii
Özet.....	iv
Acknowledgement.....	v
Statement of Compliance with Ethical Principles and Rules.....	vi
Table of Contents.....	vii
List of Tables.....	x
Charts & Figures.....	xi
Acronyms & Abbreviations.....	xiii
Introduction.....	1
Chapter 1: Theoretical Aspects of Economic Integration .....	2
1.1. Stages of Economic Integration.....	2
1.1.1. Preferential Trading Agreements.....	2
1.1.2. Free Trade Area.....	3
1.1.3. Customs Union.....	3
1.1.4. Common Market.....	3
1.1.5. Economic Union.....	4
1.1.6. Economic and Monetary Union.....	4
1.1.7. Political Union.....	4
Chapter 2: North Macedonia .....	5
2.1. Overview: Brief History.....	5
2.2. Political Economy.....	7
2.3. CEFTA.....	9

Chapter 3: European Union (EU).....	11
3.1. Overview: Brief History.....	11
3.2. European Union Membership.....	14
3.2.1. Copenhagen Criteria.....	14
3.2.1.1. Functional Market Economy.....	15
3.3. European Union Economy.....	16
3.3.1. Economic Monetary Union.....	17
3.3.2. European Central Bank.....	18
3.3.3. European Economic Area.....	18
3.3.4. Customs Union.....	18
3.3.5. Trade in European Union.....	21
3.4. Association Agreements of European Union.....	34
Chapter 4: North Macedonia & European Union .....	35
4.1. Stabilization and Association Agreement.....	35
4.2. Problems in front of North Macedonian membership.....	36
4.2.1. Institutional Infrastructure.....	37
4.2.1.1. EU Commission Reports.....	39
4.2.1.2. IPA Funds.....	39
4.2.1.3. Ministry of Foreign Affairs - Strategic Plan.....	40
4.3. Membership benefits of North Macedonia.....	40
4.4. Thoughts on the future of North Macedonia.....	52
Chapter 5: Research.....	54
5.1. Subject of the Research.....	54
5.2. Objective and Importance of the Research.....	54
5.2.1. Research Question.....	55
5.3. Research Methodology.....	55
5.3.1. Qualitative Research Methodology.....	55
5.3.2. Sample of the Research.....	56
5.3.3. Data Collection Methodology.....	56
5.3.4. Validity and Reliability of the Research.....	57
5.4. Research Findings and Analysis.....	58
5.4.1. SWOT Analysis.....	60

5.4.1.1. Strengths.....	60
5.4.1.2. Weaknesses.....	60
5.4.1.3. Opportunities.....	61
5.4.1.4. Threats.....	62
Conclusions and Suggestions .....	64
References .....	71

## LIST OF TABLES

Table 1.1. North Macedonia's HDI Value .....	6
Table 2.1. Acquis Chapters.....	15
Table 2.2. Global exports of goods and services (billion EUR, %) .....	23
Table 2.3. Global imports of goods and services (billion EUR, %) .....	24
Table 2.4. Global trade of goods and services (billion EUR, %) .....	25
Table 2.5. Global external trade balances (billion EUR) .....	26
Table 2.6. EU exports of goods to extra-EU by sector (billion EUR) .....	27
Table 2.7. EU imports of goods, from extra-EU by sector (billion EUR) .....	28
Table 2.8. Intra-EU exports, CPA groups, period 2017-2021 (EUR billion) .....	31
Table 3.1. IPA Funds 2014-2020 .....	39
Table 3.2. GDP of North Macedonia & Croatia (billion, US\$) .....	41
Table 3.3. GDP Growth of North Macedonia & Croatia (annual %) .....	43
Table 3.4. Exports of goods and services in North Macedonia & Croatia (US\$)..	44
Table 3.5. Imports of goods and services in North Macedonia & Croatia (US\$)..	46
Table 3.6. FDI, net inflows of North Macedonia & Croatia (BoP, US\$) .....	47
Table 3.7. FDI, net outflows of North Macedonia & Croatia (BoP, US\$) .....	49
Table 3.8. Unemployment Rate of North Macedonia & Croatia (%) .....	50
Table 4.1. Demographic Structure of the Participant Companies.....	56
Table 4.2. SWOT Analysis.....	63

## CHARTS & FIGURES

Figure 1.1. Types of Integration.....	4
Figure 2.1. North Macedonia’s HDI Trends .....	6
Figure 3.1. Share of EU in the World Trade (2020) .....	17
Figure 3.2. EU Export 2020 .....	19
Figure 3.3. EU Import 2020 .....	20
Figure 3.4. Trade forms of transport in export for 2020 .....	20
Figure 3.5. Trade forms of transport in import for 2020 .....	21
Figure 3.6. EU Trade (% of GDP) .....	22
Figure 3.7. EU international trade in goods 2011 – 2021 .....	23
Figure 3.8. EU exports of goods to extra-EU by sector, shares in 2020 (%) .....	27
Figure 3.9. EU imports of goods from extra-EU by sector, shares in 2020 (%) ...	28
Figure 3.10. Extra-EU trade in goods by member states, shares in 2021 (%) .....	29
Figure 3.11. Extra and Intra EU trade in goods, 2021 (% of total share) .....	29
Figure 3.12. Intra-EU trade of goods by member states, shares in 2021 (%) .....	30
Figure 3.13. Top five CPA categories in intra-EU exports, period 2017-2021.....	31
Figure 3.14. CPA groups in intra-EU exports, shares for 2021 (%) .....	32
Figure 3.15. Trade of goods, inside and outside of EU by member countries .....	33
Figure 4.1. Accession to the EU Process Management System .....	38
Figure 4.2. GDP trends of North Macedonia & Croatia (billion, US\$) .....	42
Figure 4.3. GDP Growth trends of North Macedonia & Croatia (annual %) .....	43
Figure 4.4. Exports of goods and services trends in North Macedonia & Croatia.....	45

Figure 4.5. Imports of goods and services trends in North Macedonia & Croatia.....	46
Figure 4.6. FDI, net inflows trends of North Macedonia & Croatia (BoP US\$)...	48
Figure 4.7. FDI, net outflows trends of North Macedonia & Croatia (BoP US\$).	50
Figure 4.8. Unemployment Rate trends of North Macedonia & Croatia (%) .....	51

## ACRONYMS & ABBREVIATIONS

CEFTA	: Central European Free Trade Agreement
CFP	: Common Fisheries Policy
CPA	: Classification of Products by Activity
EAEC	: European Atomic Energy Community
EC	: European Commission
ECB	: European Central Bank
ECSC	: European Coal and Steel Community
EEA	: European Economic Area
EEC	: European Economic Community
EFTA	: European Free Trade Association
EMU	: Economic and Monetary Union
ENP	: European Neighbourhood Policy
EU	: European Union
EUR	: Euro
FDI	: Foreign Direct Investments
FTA	: Free Trade Agreement
GATT	: General Agreement on Tariffs and Trade
GDP	: Gross Domestic Product
GNI	: Gross National Income
HDI	: Human Development Index
IMF	: International Monetary Fund
IPA	: Instrument for Pre-accession Assistance

MFN	: Most-Favored Nation
NATO	: North Atlantic Treaty Organization
NMK	: North Macedonia
OECD	: Organization for Economic Co-operation and Development
SAA	: Stabilization and Association Agreement
SEA	: Single European Act
US\$	: US Dollar
WB	: World Bank
WTO	: World Trade Organization

## INTRODUCTION

Economic integration reflects unification between countries, regardless of geographical position, cultural differences, or ideological views. Therefore, economic integration as a strategic approach is of great benefit to a country's economy and one of the most essential instruments through which countries can improve their economic performance and the quality of life in their territories.

The globalization era we live in makes economic integration a necessary and beneficial instrument for many countries to improve their economic performance. Nowadays, there are many unions for different purposes, such as political, economic, trade, and other essential issues in the world. One of the best known unions with the most members is the European Union. In the EU, the economic aspect is as important as the political aspect. The great number of member states, the different policies and the continuous steps taken for further improvement put EU countries in an advantageous position regarding global issues.

North Macedonia is a developing candidate country, and once it begins accession talks with the European Union, it will be able to benefit from its economic integration in the EU. Therefore, considering all the benefits of being a member of the European Union, including the economic aspect, North Macedonia should work effectively to finish the accession negotiations and become officially a part of the EU.

Theoretical aspects of the economic integration, general overview of the political economy of North Macedonia, the relations between North Macedonia and the European Union, and the impact that the economic integration in the European Union could bring to Macedonian domestic business companies are included and discussed in this study.

Qualitative research methodology will be used during the study. This research design format includes interviews with Macedonian domestic companies that are exporting to the European Union. The research focuses on the types of procedures they have, what kind of challenges they face, and their expectations if North Macedonia as a candidate country becomes a member of the European Union.

## **CHAPTER 1: THEORETICAL ASPECTS OF ECONOMIC INTEGRATION**

Towards the end of the nineteenth century, and at the beginning of the twentieth century when globalization began to have a strong impact in a geopolitical sense, shifting economic power in various countries worldwide, the idea of economic integration at regional and international level was born.

Economic integration is defined as an agreement between different countries at regional and international level to reduce the tariff and non-tariff barriers and facilitate the flow of goods and services between the agreement parties. The objective of economic integration itself is to help countries increase their economic well-being by improving their GDP, the export of goods and the welfare of the country. B. Balassa (1962), known Hungarian economist and one of the brightest minds in the field of economics defines economic integration both as process which encompasses measures designed to abolish discrimination between economic units belonging to different national states, and as a state of affairs that can be represented by the absence of various forms of discrimination between national economies.

### **1.1. Stages of Economic Integration**

Economic integration has 7 different stages, as follows:

#### **1.1.1. Preferential Trading Agreements**

- Preferential trading agreements, also known as PTAs, are a type of trading agreements with lower or zero tariffs that a member offers to a trade partner unilaterally. In some cases, these preferential trade agreements may include Generalized System of Preferences schemes which are used for granting tariffs for imports from developing countries to developed countries. These schemes are important because the General Council may grant members a waiver, which means that the member is not obligated to apply the most favored nation principle (MFN). It is important to mention that the idea of the MFN principle is to treat all your trade partners equally.<sup>1</sup>

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<sup>1</sup> World Trade Organization Glossary  
[https://www.wto.org/english/thewto\\_e/glossary\\_e/glossary\\_e.htm](https://www.wto.org/english/thewto_e/glossary_e/glossary_e.htm)

### 1.1.2. Free trade area

- A free trade area is defined as a group of countries which have removed tariffs and non-tariff trade between them, but this does not create a common trade policy towards other countries, nor does it affect their decisions regarding trade policies that respective member countries practice in other situations.<sup>2</sup>

### 1.1.3. Customs union

- Customs unions comes as a result of agreements between different countries which prefer free trade of goods within the customs union, but at the same time, they agree to put a common external tariff, known as CET, to third parties that are not part of the customs union.<sup>3</sup>
- Customs union effectiveness is based on the measurement of trade creation and trade diversion.
  - Trade creation – is when the more efficient members that are part of the union sell to those less efficient which leads to better allocation of resources.
  - Trade diversion – is when those non-member countries are supposed to sell fewer goods to the members that are part of the customs union because of the external tariffs. This helps the members of the customs union to increase the selling efficiency of goods within the union.<sup>4</sup>

### 1.1.4. Common market

- A common market is like a customs union in terms of how member parties and external tariffs for non-member parties' function. What differentiates the common market from a customs union is that the common market, in addition to free movement of goods and services, also allows for the liberalization of movement of people and capital between member countries.<sup>5</sup>

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<sup>2</sup> OECD Glossary of Statistical Terms, 2007, page 316.

<sup>3</sup> OECD Glossary of Statistical Terms, 2007, page 268.

<sup>4</sup> Corporate Finance Institute Team – *Customs Union*, 2021.

<https://corporatefinanceinstitute.com/resources/knowledge/economics/customs-union/>

<sup>5</sup> OECD Glossary of Statistical Terms, 2007, page 118.

### 1.1.5. Economic Union

- An economic union is another type of the already existing kinds of trade. It aims to eliminate internal trade barriers through free movement of products, services, and workers, in order to generate economic benefits for all the parties involved.<sup>6</sup>

### 1.1.6. Economic and monetary union

- An economic union functions in the same way. but with several provisions regarding certain economic policies, particularly those concerning the macroeconomics and regulation.<sup>7</sup> In this case the tariffs are removed, there is free movements of labor, and monetary and fiscal policies are harmonized between the members. These are the steps towards creating a monetary union in which a common currency is used, as it is euro currency in the European Union.<sup>8</sup>

### 1.1.7. Complete integration (Political union)

- There is complete economic integration when all the firms, organizations, and companies can sell their products and services to everyone in the region of the member countries that are part of the complete economic integration. This is managed by a supranational government, which taxes all its citizens in order to be able to manage and finance all its expenditures. The European Union is such example (EU).<sup>9</sup>

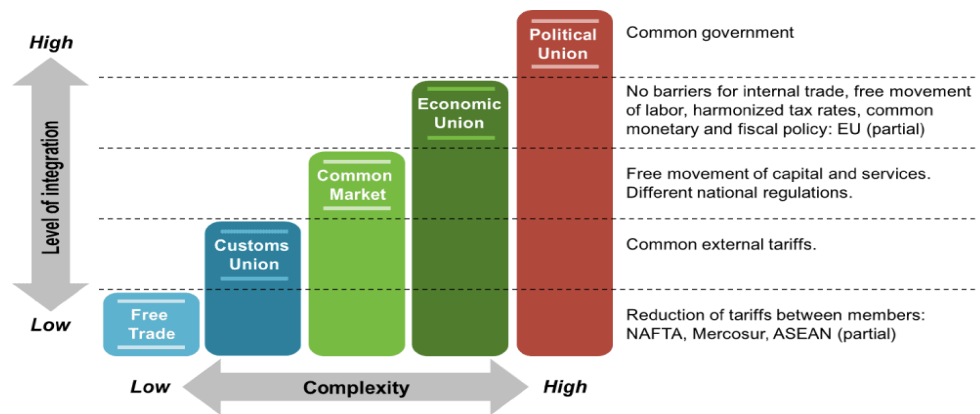


Figure 1.1. The different types of Integration (Rodrigue, 2007)

<sup>6</sup> Corporate Finance Institute Team – *Economic Union*, 2019.

<https://corporatefinanceinstitute.com/resources/knowledge/economics/economic-union/>

<sup>7</sup> OECD Glossary of Statistical Terms, 2007, page 230.

<sup>8</sup> J. P. Rodrigue – *The Geography of Transport Systems 5<sup>th</sup> Edition*, 2020, page 258.

<sup>9</sup> D. Brou & M. Ruta – *Economic integration, political integration, or both?*, 2007, page 7.

## CHAPTER 2: NORTH MACEDONIA

North Macedonia is a country, which is in the south-eastern part of Europe, more precisely in the Balkan Peninsula. In the past North Macedonia was part of Yugoslavia, but since 8<sup>th</sup> September 1991 it is independent as a country for three decades now. But no matter the solid period of being independent, the country is still going through a transition process which from time to time has known to be quite challenging, especially in the political and economic aspect, since being geographically positioned in the Balkan region these issues are known to be very complexed.

### 2.1. Overview: Brief History

North Macedonia became independent in the middle of the deconstruction progress of Yugoslavia. Comparing to other Balkan countries, fortunately North Macedonia became independent without a war, but however North Macedonia was going through a complicated transition progress, because of the challenges that were coming because of the difficult times going on in one of the worst periods in the history of the Balkan peninsula.

North Macedonia was maybe the least developed country in the former Socialist Federal Republic of Yugoslavia, and since the independence of the country, the main focus shifted towards the change of politics and economics of the country. The first changes were seen when the country became multi-party democracy and on macroeconomic level it created fully-fledged market economy.<sup>10</sup>

However, during the first decade of the independence North Macedonia was still struggling with the transition process, but since 2001 after the country was able to successfully avoid civil war with the Ohrid Framework Agreement between then Former Yugoslav Republic of Macedonia (read: North Macedonia) and Organization for Security and Co-operation in Europe (OSCE) concluded in Ohrid and signed in Skopje on 13<sup>th</sup> of August 2001, the country started to have signs of progress in different areas.

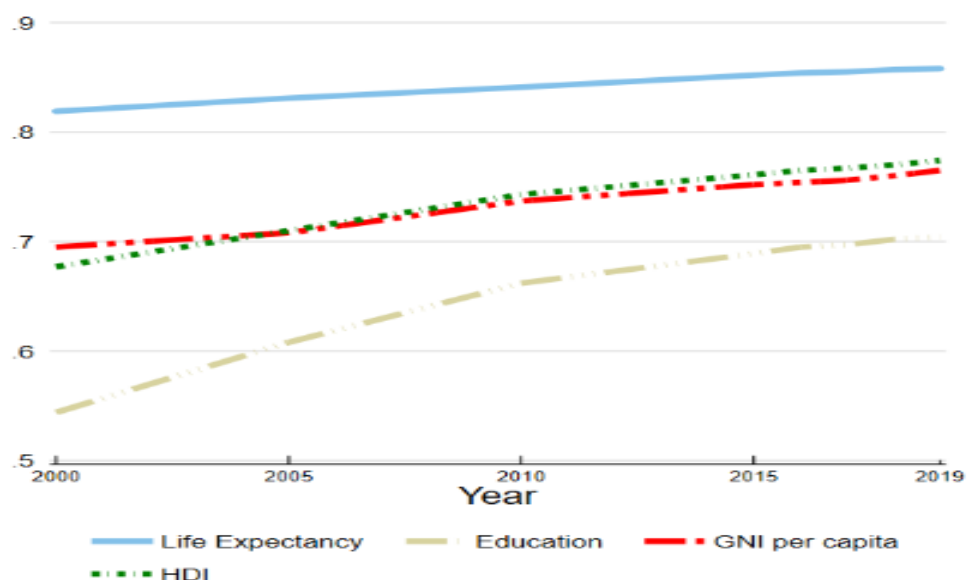
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<sup>10</sup> Erik Pelling – *Macedonia at the doorstep of European Union*, 2007, page 3.

According to the UNDP Human Development Report 2020 regarding North Macedonia, it shows that the North Macedonia's HDI value for 2019 is 0.774, which means the country is part of the high human development category positioned as 82 out of 189 countries and territories. Also, the report shows that between 2000 and 2019, North Macedonia's HDI value increased from 0.677 to 0.774, which means is an increase of 14.3 percent.<sup>11</sup>

**Table 1.1.** North Macedonia's HDI Value (UNDP Human Development Report, 2020)

	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (2017 PPP\$)	HDI value
1990	71.2	10.3		11,202	
1995	72.1	11.0		8,901	
2000	73.3	11.8	6.5	9,946	0.677
2005	74.0	12.1	8.2	10,837	0.710
2010	74.7	12.9	9.1	13,160	0.743
2015	75.4	13.3	9.6	14,509	0.761
2016	75.5	13.5	9.6	14,760	0.765
2017	75.6	13.5	9.7	14,914	0.767
2018	75.7	13.6	9.7	15,279	0.770
2019	75.8	13.6	9.8	15,865	0.774



**Figure 2.1.** North Macedonia's HDI Trends (UNDP Human Development Report, 2020)

<sup>11</sup> UNDP Human Development Report 2020 – North Macedonia.

## 2.2. Political Economy

Political economy is a complex branch which has to do with the relations between the government and the nation, in which through different economic theories and methodologies the government takes direct steps through different public policies in areas such as taxation and tax reform, income distribution and different welfare programs etc. to affect the economy of the country.

North Macedonia since its independence has been through different ideologies and this itself it has created challenges for the country's economy. Starting from the ideological transformation from communist Yugoslavia to multi-party system it has been quite challenging. Since then, the two main political ideologies that have been existing and dominating are social – democratic and liberalism, so generally the economical politics has been shifted generally somewhere between these two ideologies that have shaped the economy of the country for the last three decades.

Nowadays, the country's political economy is focused on establishing stability and growth through change of policies that will affect the life of citizens for good. Since achieving the NATO membership which provides stable security in the Balkan territory, which is known for tensions among neighbor countries for their political differences which exist since pre and during Yugoslavian era, now the focus is shifted on improvement and development of the political issues and economy by policies similar to the European Union which is in accordance with the country's politics.

North Macedonia has a favorable tax environment and educated labor force that is attractive for foreign direct investments. North Macedonia has one of the lowest corporate income tax rates in the world which is corporate income tax of 10%, also has free investments zones which provides ten years tax holiday for investment companies in the country.<sup>12</sup> Regarding the labor market, the workforce in North Macedonia is well educated, in which case every year approximately 80% of the high school graduates enroll in universities and the average gross monthly salary in 2020 was €686 which makes the country attractive and approachable for foreign direct investments.<sup>13</sup> Also, in

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<sup>12</sup> Invest North Macedonia – *Favorable Tax Environment*  
<https://investnorthmacedonia.gov.mk/incentives-and-taxes/>

<sup>13</sup> Invest North Macedonia – *Labor Market* <https://investnorthmacedonia.gov.mk/workforce/>

the World Bank's ranking for ease of doing business North Macedonia is in 17<sup>th</sup> position out of 190 that are included in the ranking.<sup>14</sup>

According to the National Policies Platform of the European Commission, North Macedonia currently has accomplished a significant increase not only in the economical parameters, but also in the political ones, which puts North Macedonia in a stable political situation, which is at a very high level and the only functioning democracy right now in the Western Balkans, compared to other neighbor countries. This is a result of the significant steps that the country has taken, such as the signing of the Prespa Agreement, being the 30<sup>th</sup> member state of NATO, and creating political atmosphere in which all the parliamentary parties are being in accordance with the politics that are parallel with the EU path. While the political situation is being in progress, primary interests of the country are based on the EU Strategy for economic development, which includes the development of the economy through increase of economic growth, domestic and foreign investments that will help in job creation and well-being of the citizens. This type of economic development is possible through stable macroeconomic and fiscal policies, tax and customs policies, improvement of business climate and competitiveness, fostering of investments, and support to small and medium enterprises, which are the core of the country's economy covering 60% of the country's GDP and 75% of all employments. Regarding the economic performance of the Macedonian economy, it shows stable GDP growth and low inflation rate of < 2 % on average during the last 10 years supported by fiscal discipline which is confirmed by the international financial institutions which helps having well-functioning coordination between fiscal and monetary policy.<sup>15</sup>

However, even though the reports of the EU commission about North Macedonia for the last years have shown signs of progress towards full membership in the EU, the country still has faced some years of stagnation, because of the name's issue with Greece, which is also a member country of EU, and the challenges that the country was facing with other complex issues such as the case with Bulgaria, another member

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<sup>14</sup> World Bank – *Doing Business: Comparing Business Regulation in 190 Economies*, 2020, page 4.

<sup>15</sup> European Commission – *Political and Economic Situation: North Macedonia*, 2022

[https://eacea.ec.europa.eu/national-policies/eurydice/republic-north-macedonia/political-and-economic-situation\\_en](https://eacea.ec.europa.eu/national-policies/eurydice/republic-north-macedonia/political-and-economic-situation_en)

country of EU, which was another obstacle for North Macedonia moving towards the European Union.

In July 2022, the European Union Council decided to open the accession negotiations with both North Macedonia and Albania. This creates a situation for North Macedonia to be part of the European Union in the upcoming few years from which the country could benefit in many areas, especially in the economical aspect through the economic integration with the European Union which will bring a lot of benefits to the domestic companies.

According to the data provided by Trend Economy regarding the top export destinations of North Macedonian commodities for the year 2020, as we can see in the list below, seven out of ten countries are already EU member countries, which can be considered as a good sign that once North Macedonia becomes officially a member country the realization of export will be much easier.<sup>16</sup>

1. Germany – 47% (3.12 billion US\$)
2. Serbia – 7.88% (523 million US\$)
3. Bulgaria – 4.69% (311 million US\$)
4. Greece – 3.02% (200 million US\$)
5. Hungary – 2.97% (197 million US\$)
6. Belgium – 2.72% (180 million US\$)
7. Italy – 2.47% (163 million US\$)
8. China – 2.46% (163 million US\$)
9. United Kingdom – 2.44% (163 million US\$)
10. Netherlands – 1.91% (126 million US\$)

North Macedonia is also a part of CEFTA since 2006.

### **2.3. CEFTA**

Central European Free Trade Agreement (CEFTA) was created in Bucharest in 2006. The aim of CEFTA was to create a free trade bloc in the southeastern part of Europe. Member countries of CEFTA were Romania, Bulgaria, North Macedonia, Albania, Bosnia and Herzegovina, Croatia, Moldova, Serbia, Montenegro, and Kosovo.

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<sup>16</sup> <https://trendeconomy.com/data/h2/Macedonia/TOTAL>

Romania and Bulgaria withdrew their membership in 2007 because of their membership in the European Union, and the same happened with Croatia withdrawing its own membership from CEFTA because it entered the EU.<sup>17</sup> The intention of CEFTA is to work on gradually liberalizing trade in goods, services, investments, and employments. This means the idea of CEFTA is creating a common market without a customs union until Western Balkan countries join the European Union.<sup>18</sup> North Macedonia except being part of CEFTA has also additional Free Trade Agreements (FTAs) with Turkey and Ukraine. Also, since 2000 North Macedonia has Free Trade Agreement with EFTA countries too.

The overview and political economy of North Macedonia consist of the main issues, challenges, and successes that have shaped the country since its independence. Furthermore, the inclusion on an international level, such as the membership in NATO, in CEFTA, and as a candidate country opening the accession negotiations with the European Union, are steps that build the narrative of the future that is looking forward to being part North Macedonia.

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<sup>17</sup> CEFTA Secretariat – *CEFTA Parties* <https://cefta.int/cefta-parties-2/#1464102100000-093eb896-8bbb>

<sup>18</sup> Vladimir Gligorov – *Challenges to a Customs Union and Common Market in the Western Balkans*, 2017. <https://wiiw.ac.at/challenges-to-a-customs-union-and-common-market-in-the-western-balkans-n-227.html>

## CHAPTER 3: EUROPEAN UNION (EU)

European Union is the most important and powerful institution on the European continent, as well as one of the strongest and prominent institutions in the world. In addition, it is the world's biggest single market and trade bloc.

### 3.1. Overview: Brief History

On 9<sup>th</sup> of May 1950 Robert Schuman, a well-known French statesman, who was born in Luxemburg and was a World-War II political prisoner, while serving during as the foreign minister of France, proposed the project which is nowadays -known as the “*Schuman Treaty*”, out of which the European Union was born. The purpose of this treaty was to create a European Coal and Steel Community, whose members would pool coal and steel production.<sup>19</sup>

The Treaty establishing the European Coal and Steel Community (ECSC), known as the Treaty of Paris was signed by France, Italy, Germany, Belgium, Luxemburg, and the Netherlands on 11<sup>th</sup> of April 1951. It was ratified in 1952, and its aim was to integrate the coal and steel industries in western Europe.<sup>20</sup> The Treaty did not only integrate the coal and steel industries; it also created a common market and a new economic power, both in Europe and worldwide.

The Treaty of Rome in 1957 was the next big step, when the six countries that were part of the ECSC signed two other important association agreements known as the European Economic Community (EEC), the purpose of which was to unify the economies of the countries and to create a common market, and the European Atomic Energy Community (EAEC), which aimed to create a common market for trade in nuclear materials and equipment between the member countries.<sup>21</sup>

The main objective of the Merger Treaty, also known as the Brussels Treaty, which was signed in Brussels, in April 1965 and entered into force in July 1967, was to merge all the three already existing European communities. This led to the

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<sup>19</sup> European Union – *Schuman Declaration May 1950*.[https://european-union.europa.eu/principles-countries-history/history-eu/1945-59/schuman-declaration-may-1950\\_en](https://european-union.europa.eu/principles-countries-history/history-eu/1945-59/schuman-declaration-may-1950_en)

<sup>20</sup> Matthew J. Gabel – *European Union*, 2022. <https://www.britannica.com/topic/European-Union>

<sup>21</sup> European Parliament – *Treaty of Rome*. <https://www.europarl.europa.eu/about-parliament/en/in-the-past/the-parliament-and-the-treaties/treaty-of-rome>

establishment of the Single Council and the Single Commission, which were responsible for serving the three European communities.<sup>22</sup>

The origins of the European Parliament lie in the Common Assembly of the ECSC. Over the years it became an important factor within the EU as one of the three main legislative bodies in EU together with the European Council and the European Commission. The European Parliament was functioning as appointed majority until 1979 when the first historical elections were held among all member countries to create the new elected parliament.<sup>23</sup>

This change in functioning in the EU, then known as the ECSC, led to the Single European Act, a treaty that took place in Luxemburg and Hague in 1986.

Single European Act aim was to revise the previous Treaties of Rome, to add new momentum to European integration by completing the internal market, which meant no internal borders and free movement of goods, people, services, and capital by 1 January 1993. Also, an important part of the SEA was to expand the powers of the European Community in a number of policy areas, whose goal was to be realized through reforming the institutions. Single European Act is of great importance because it opened the way for more political cooperation and integration, and also possible economic and monetary union.<sup>24</sup>

This led to Maastricht treaty that was signed on 7<sup>th</sup> February 1992 and entered into force on 1<sup>st</sup> November 1993. As a result, all the existing agreements between member countries were put under one organization known as the European Union.<sup>25</sup> Since then, all member countries have been working closely in different policy areas including politics, economics, peace and stability, environment, security, justice etc. The main engine of EU is the economy and its single market which enables most goods, services, money, and people to move freely between member country territories. The EU is

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<sup>22</sup> European Parliament – *Merger Treaty*. <https://www.europarl.europa.eu/about-parliament/en/in-the-past/the-parliament-and-the-treaties/merger-treaty>

<sup>23</sup> The European Parliament – *Historical Background*, 2022 page 3.

<sup>24</sup> European Union Law – *Single European Act*. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM:xy0027>

<sup>25</sup> European Union – *Maastricht Treaty*. <https://www.europarl.europa.eu/about-parliament/en/in-the-past/the-parliament-and-the-treaties/maastricht-treaty>

working hard to develop its other areas in a similar way, which will help them to gain the maximum benefit from other areas, too.<sup>26</sup>

In meantime, the European Union had three other treaties: the Amsterdam Treaty, signed in October 1997 and entered into force in May 1999, the Nice Treaty, signed in February 2001 and entered into force in February 2003; and the Lisbon Treaty, signed in December 2007 and entered into force December 2009. The main aims of these treaties were revision and harmonization of the previous treaties with the enlargement of the European Union with new member countries. These processes go together with the analysis of the challenges that the enlargements bring to the EU, and further extension of the majority-qualifying voting system to new areas within the European Council.<sup>27</sup>

The European Union currently has 27 member countries. It started in 1957 with the first six countries, including Belgium, France, Germany, Italy, Luxemburg, and the Netherlands, which are also known as the founding fathers of the EU. Then the first enlargement came in 1973, when Denmark, Ireland, and the United Kingdom joined the European Union. It is important to mention that the United Kingdom was part of the European Union until 2020, when they decided to withdraw from the EU with their famous Brexit project. In 1981 Greece joined the EU, and in 1986 Spain and Portugal also decided to become members of EU. The fourth enlargement of the EU happened in 1995, when Austria, Finland and Sweden joined the EU. The fifth and largest enlargement so far in the history of the EU happened in 2004, when ten new countries joined the EU, including: the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovakia, and Slovenia. Afterwards, Romania and Bulgaria joined in 2007, and Croatia joined in 2013.<sup>28</sup>

The enlargement of the organization is still active in the plans of the EU as there are 5 countries that have their candidate status: North Macedonia, Albania, Montenegro, Serbia, and Turkey. Also, there are two other potential candidates for the future such as: Bosnia & Herzegovina, and Kosovo.

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<sup>26</sup> The European Union – *What it is and what it does*, 2020, page 7.

<sup>27</sup> European Parliament – *Treaties and the European Parliament*.

<https://www.europarl.europa.eu/about-parliament/en/in-the-past/the-parliament-and-the-treaties>

<sup>28</sup> European Commission – *European Neighbourhood Policy and Enlargement Negotiations: From 6 to 27*. [https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/6-27-members\\_en](https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/6-27-members_en)

## 3.2. European Union Membership

Because of the huge population and a lot of member countries, which according to Eurostat are 447.0 million inhabitants in 27 countries<sup>29</sup>, the European Union has complex system procedures of joining the EU.

The procedure of joining EU generally consists of three main stages:

- *The first stage* is when the official candidate status is granted to a country.
- *The second stage* is when the negotiations for membership between the EU and the candidate country start. This process includes the adaptation of the EU law to the national law, as well as preparations for the implementation of the law in judicial, administrative, economic, and other areas. It is noteworthy that this stage does not start until all EU governments unanimously agree on this issue.
- *The third stage* is when all the accession criteria are met by the candidate country and it is ready to become part of the EU. A report is issued, containing either a conclusion on whether to start the joining process or remarks on other important issues that need to be resolved by the candidate country.<sup>30</sup>

In order to solve the issue of the complex system procedure for joining the Union, the European Union Council created certain criteria that should be met by the countries who want to join the EU. These criteria, otherwise, are known as the Copenhagen criteria, were established and took effect in Copenhagen in 1993.

### 3.2.1. Copenhagen Criteria

The Copenhagen criteria were created in the European Council in Copenhagen in 1993. Since then, Copenhagen criteria have become the common ground for all the rights and obligations of the member countries in the EU and they apply to all the countries that may join European Union in the future. In order for a country to be approved and accepted in the European Union all the Copenhagen criteria should be fulfilled. The Copenhagen criteria are divided into three main parts, including:

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<sup>29</sup> Eurostat – *Population and population change statistics*. [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Population\\_and\\_population\\_change\\_statistics#EU\\_population\\_shows\\_a\\_slight\\_decrease\\_in\\_2020](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Population_and_population_change_statistics#EU_population_shows_a_slight_decrease_in_2020)

<sup>30</sup> SchengenVisa – *How Countries Become New EU Members: Rules, Criteria & Procedures Explained*, 2022. <https://www.schengenvisa.info.com/news/how-countries-become-new-eu-members-rules-criteria-procedures-explained/#:~:text=In%20order%20for%20a%20country,EU%20legislation%2C%20including%20the%20euro.>

- Political criteria – which include stability of institutions that guarantee democracy, the rule of law, human rights, and respect for minorities.
- Economic criteria – includes a functional market economy, which is also the most important part of all the Copenhagen criteria, and the capacity to provide and cope with competition and market forces.
- Administrative and institutional capacity – ability to implement the acquis effectively. They consist of 35 chapters, covering important issues from different areas that are of great importance for the EU.<sup>31</sup>

**Table 2.1. Acquis Chapters (EU Commission)<sup>32</sup>**

Acquis Chapters		
1. Free movement of goods	2. Freedom of movement for workers	3. Right of establishment and freedom to provide services
4. Free movement of capital	5. Public procurement	6. Company law
7. Intellectual property law	8. Competition policy	9. Financial services
10. Information society and media	11. Agriculture and rural development	12. Food safety, veterinary, and phytosanitary policy
13. Fisheries	14. Transport policy	15. Energy
16. Taxation	17. Economic and monetary policy	18. Statistics
19. Social policy and employment	20. Enterprise and industrial policy	21. Trans – European networks
22. Regional policy and coordination of structural instruments	23. Judiciary and fundamental rights	24. Justice, freedom, and security
25. Science and research	26. Education and culture	27. Environment
28. Consumer and health protection	29. Customs union	30. External relations
31. Foreign, security and defense policy	32. Financial control	33. Financial and budgetary provisions
34. Institutions	35. Other issues	

### 3.2.1.1. A Well – Functioning Market Economy

The Copenhagen criteria are very important requirements to be fulfilled in order to be able to join EU. However, knowing the significance of the economy inside the European Union, the most important part of the Copenhagen criteria is the existence of a well-functioning market economy in the economic section.

<sup>31</sup> European Commission – *European Neighbourhood Policy and Enlargement Negotiations: Accession Criteria*. [https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/glossary/accession-criteria\\_en](https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/glossary/accession-criteria_en)

<sup>32</sup> European Commission – *European Neighbourhood Policy and Enlargement Negotiations: Chapters of Acquis*. [https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/conditions-membership/chapters-acquis\\_en](https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/conditions-membership/chapters-acquis_en)

A well-functioning market economy is very important because it requires high quality of economic governance, macroeconomic stability, as well as adequate price stability and sustainable public finances and external accounts. Also, of great importance is the proper functioning of the goods and services market, which includes business environment, state influence on product markets, and privatization and restructuring. The same applies to the proper functioning of the financial market, including financial stability, and the proper functioning of the labour market.<sup>33</sup>

The well-functioning of the market economy is also a key factor for the realization of the second economic criteria, which refer to the candidate state's capacity to cope with the competitive pressure and market forces within the European Union. This depends on the existence of a market economy and a stable macroeconomic framework that creates a climate of predictability when it comes to the economic decisions that should be made in accordance with the sufficient amount of human and physical capital that may be required together with a stabilized infrastructure system.<sup>34</sup>

### **3.3. European Union Economy**

The European Union is an organization which is characterized as a strong and powerful economic institution. This is so because of the its functions, the economies of all the 27 member countries come together as one single market. This puts the European Union in a strong position of being a very important economic factor in the world.

Regarding the evaluation of the EU's economic development, the factors that mostly affected the economic development of the member countries in the European Union for the period between 1995 and 2014 are:

1. Development of ICT technologies
2. Structural changes in economy, including the growing role of the services section in GDP and employment
3. The effects of the Single European Market and GATT Uruguay Round
4. Fulfilling the macroeconomic policy aimed criteria of the Economic and Monetary Union

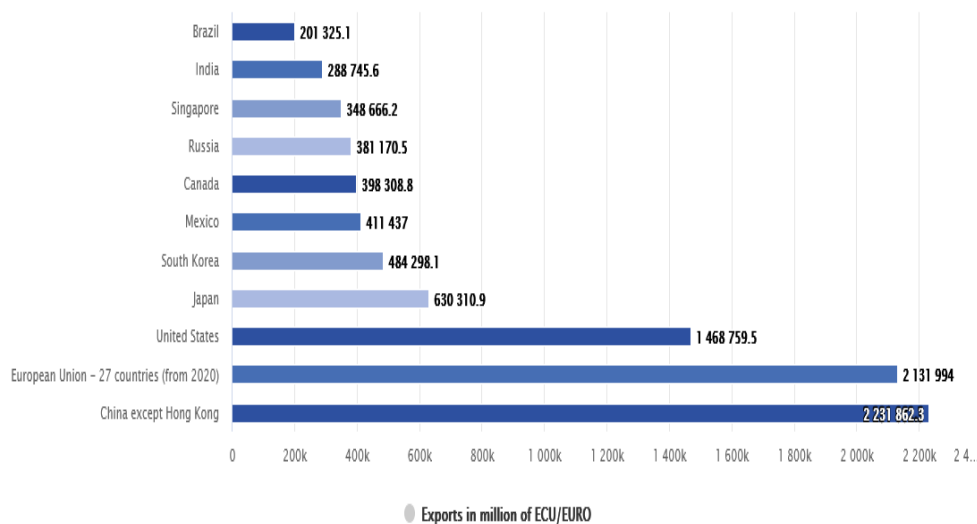
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<sup>33</sup> European Commission – *Economic Criteria for joining the EU*.  
[https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/enlargement-and-neighbouring-countries/enlargement/economic-accession-criteria\\_en](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/enlargement-and-neighbouring-countries/enlargement/economic-accession-criteria_en)

<sup>34</sup> Tanja Marktler – *The Power of the Copenhagen Criteria*, 2006.

5. Euro introduction and effects of the common monetary policies in countries with high and low inflation rates
6. Bursting of the Internet bubble on the New York stock exchange in 2001 followed by the real estate bubble, which led to a financial, economic, and public debt crisis in 2008.<sup>35</sup>

According to Eurostat the total value of all goods and services that were produced (GDP) in the European Union for 2019 when the United Kingdom was still part of the EU, was € 16.4 trillion. Regarding the trade and based on the statistics of Eurostat for the year 2020, EU accounts covered around 15% of world's trade in goods.<sup>36</sup>



**Figure 3.1.** *Share of EU in the World Trade for 2020 (Eurostat)*

### 3.3.1. Economic Monetary Union

The idea about creating the Economic and Monetary Union came from the European Council in the city of Maastricht in December 1991, which was later included in the Maastricht Treaty in 1993. The aim of the Economic and Monetary Union was to take the EU a few steps further regarding the process of economic integration, which started since its creation in 1957. The importance of the economic integration is that it brings different types of benefits, such as the internal efficiency and robustness of the EU economy as a whole as advantages for the economies of the individual member

<sup>35</sup> Bogumila Mucha-Leszko & Katarzyna Twarowska – *The European Union as a Global Economic Power*, 2016, page 30.

<sup>36</sup> European Union – *Facts and figures on the European Union Economy*. [https://european-union.europa.eu/principles-countries-history/key-facts-and-figures/economy\\_en](https://european-union.europa.eu/principles-countries-history/key-facts-and-figures/economy_en)

states, thus creating opportunities and conditions for economic stability, higher growth, and more employment.<sup>37</sup> There are 19 member countries that are part of the Economic and Monetary Union.

### **3.3.2. European Central Bank**

The European Central Bank was established in 1998, and it functions as the central bank in the Eurozone, with nineteen member countries using the euro currency. The main aim and role of the European Central Bank is to maintain price stability through different forms.<sup>38</sup>

### **3.3.3. European Economic Area**

The European Economic Area (EEA) includes all the EU member countries and three out of the four members of the European Free Trade Area (EFTA), Iceland, Liechtenstein, and Norway, but not Switzerland. The European Economic Area Agreement was signed in May 1992 but entered into force in January 1994. Liechtenstein joined the EEA a year later. The EEA Agreement comes as an inclusion of the EU legislation in all policy areas of the Single Market. These policies include the four famous freedoms, such as the free movement of goods, services, persons, and capital.<sup>39</sup>

### **3.3.4. Customs Union**

The EU Customs Union was established in 1968 with the main aim of harmonizing the customs duties on goods from outside the EU. It also makes it easier and more practical for EU companies to be able to trade. All EU member countries follow set of common rules on all their territories. This means they apply no tariffs internally and apply the same tariffs to goods imported in the EU from other parts of the world.<sup>40</sup> The system of functioning internally, otherwise known as the single market, is the largest one in the world as there are no customs duties between EU member

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<sup>37</sup> European Commission – *What is the Economic and Monetary Union? (EMU)*.

[https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/economic-and-monetary-union/what-economic-and-monetary-union-emu\\_en](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/economic-and-monetary-union/what-economic-and-monetary-union-emu_en)

<sup>38</sup> James McBride, Andrew Chatzky & Christopher Alessi – *The Role of European Central Bank*, 2019. <https://www.cfr.org/background/role-european-central-bank>

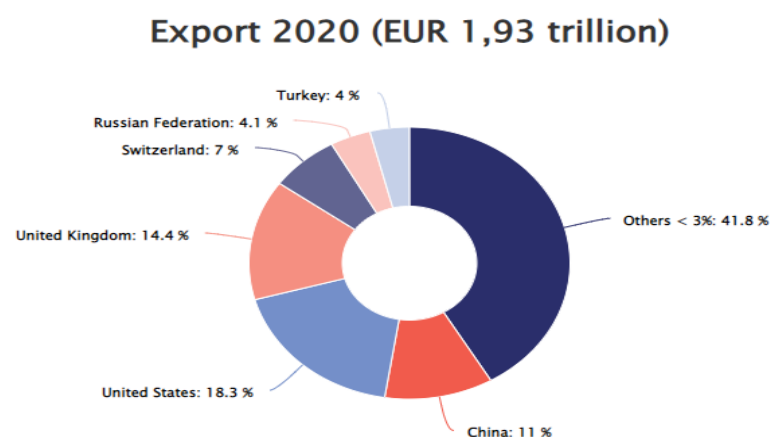
<sup>39</sup> The European Free Trade Association – *The Basic Features of the EEA Agreement*, 2013, page 2.

<sup>40</sup> European Union – *The Customs Union in action*. [https://european-union.europa.eu/priorities-and-actions/actions-topic/customs\\_en](https://european-union.europa.eu/priorities-and-actions/actions-topic/customs_en)

countries, Externally, the EU Customs Union functions on the basis of the different agreements that the EU has with other parts of the world. In order to practice the realization of customs duties more properly the three main factors are taken into consideration:

- *The value of the goods* – it is realized through the rules that are set in WTO Customers Valuation Agreement, which is directly applicable to EU customs legislation.
- *The customs tariff to be applied* – this is realized through the different forms, such as classification of goods, harmonized system, the combined nomenclature, binding tariff information known also as BTI, tariff quotas, suspensions, and TARIC.
- *The origin of the goods* – is realized through the origin of goods which may be of non-preferential origin, preferential origin, and customs union.<sup>41</sup>

The European Union is one of the largest traders in the world, and it is always among the top three traders worldwide, alongside with the United States of America and China. For example, in 2020, the EU trade with other countries totaled a EUR 3.7 trillion, which is a huge amount. The main external partners of the EU are China, the United States, the United Kingdom, and Switzerland. The most used form of transport regarding the EU trade is maritime transport, followed by air, and road transport.<sup>42</sup>



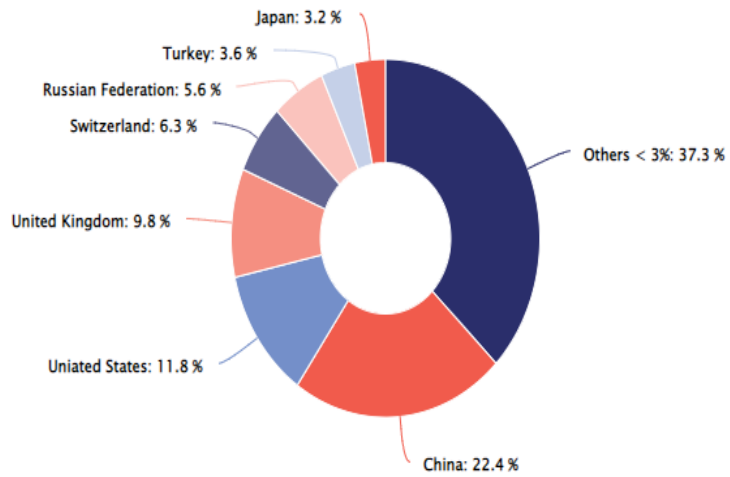
**Figure 3.2.** EU Export in 2020 (Eurostat)

<sup>41</sup> European Commission – *Taxation and Customs Union: Calculation of Customs duties.*

[https://ec.europa.eu/taxation\\_customs/business/calculation-customs-duties\\_en](https://ec.europa.eu/taxation_customs/business/calculation-customs-duties_en)

<sup>42</sup> European Commission – *Taxation and Customs Union: EU Customs Union – Unique in the world, 2020.* [https://ec.europa.eu/taxation\\_customs/customs-4/eu-customs-union-facts-and-figures/eu-customs-union-unique-world\\_en](https://ec.europa.eu/taxation_customs/customs-4/eu-customs-union-facts-and-figures/eu-customs-union-unique-world_en)

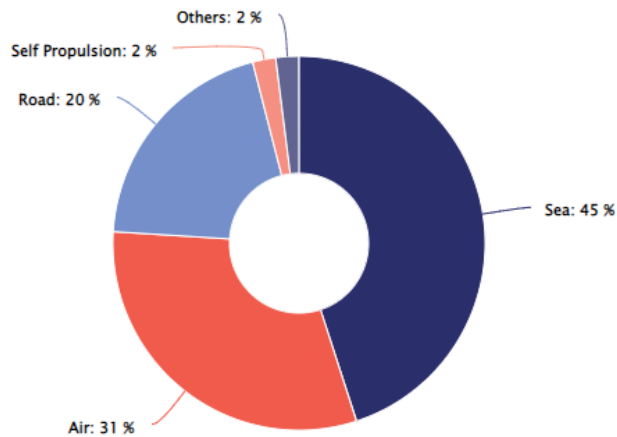
### Import 2020 (EUR 1.7 trillion)



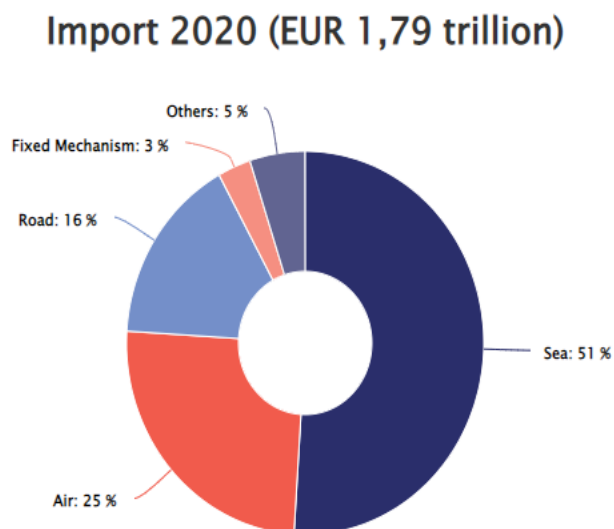
**Figure 3.3.** *EU Import in 2020 (Eurostat)*

Figure 3.2. and Figure 3.3. above show the European Union trade partner countries with which the EU cooperated mostly regarding export and import of goods and services during 2020, with value of EUR 1.93 trillion from export, and EUR 1.7 trillion from import.

### Export 2020 (EUR 1,8 trillion)



**Figure 3.4.** *Mode of transport for export in 2020 (Eurostat)*



**Figure 3.5.** *Mode of transport for import in 2020 (Eurostat)*

Figure 3.4. and Figure 3.5. above show the forms of trade transport for exporting and importing goods in the EU during 2020, with a value of EUR 1.8 trillion from export, and EUR 1.79 trillion from import.

### **3.3.5. Trade in the European Union**

One of the main reasons why the European Union has a very strong economy is also the position of the EU in the global trade. Being the largest trading bloc in the world and the world's largest single market makes the European Union a significant factor in international trade. European Union's member countries together account 16% of world exports and imports. This makes the EU's position in global markets deeply integrated, as the facts below confirm.

- The European Union is the world's largest trading bloc and the world's largest trader of manufactured goods and services.
- The European Union is ranked first in both inbound and outbound international investments.
- The European Union is the top trading partner for 80 countries, while the US is the top trading partner of over 20 countries.
- The European Union is generally mostly open to the developing countries. Except fuel EU imports more from the developing countries than the USA, Canada, Japan, and China put together.

All of this brings many benefits for the European Union, particularly because of the fact that the EU is known for having one of the most open economies in the world since it has the commitment to free trade. This creates a situation where the average applied tariff for goods imported in the EU is very low, and more than 70% of imports enter the EU zone at zero or reduced tariffs. Also, EU's services markets are highly open which makes EU if not the most then definitely one of the most open investment regimes in the world.<sup>43</sup> It is important to mention that the Directorate General for Trade of the European Commission is in charge of implementing the common trade policy of the European Union.

According to the World Bank for the year of 2020 Trade was considered 86% of GDP in the European Union. Also, in Figure 3.6. we can see the progress of trade in percentage for the EU over the last 50 years.



**Figure 3.6.** EU Trade, % of GDP (World Bank)

Furthermore, in the figures and tables below we can see the statistics on EU international trade in goods and services, global exports, and imports on intra and extra EU, and other tables and figures which show the progress of trade in the European Union and its importance at a global level.

<sup>43</sup> European Commission – EU position in World Trade [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/eu-position-world-trade\\_en](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/eu-position-world-trade_en)

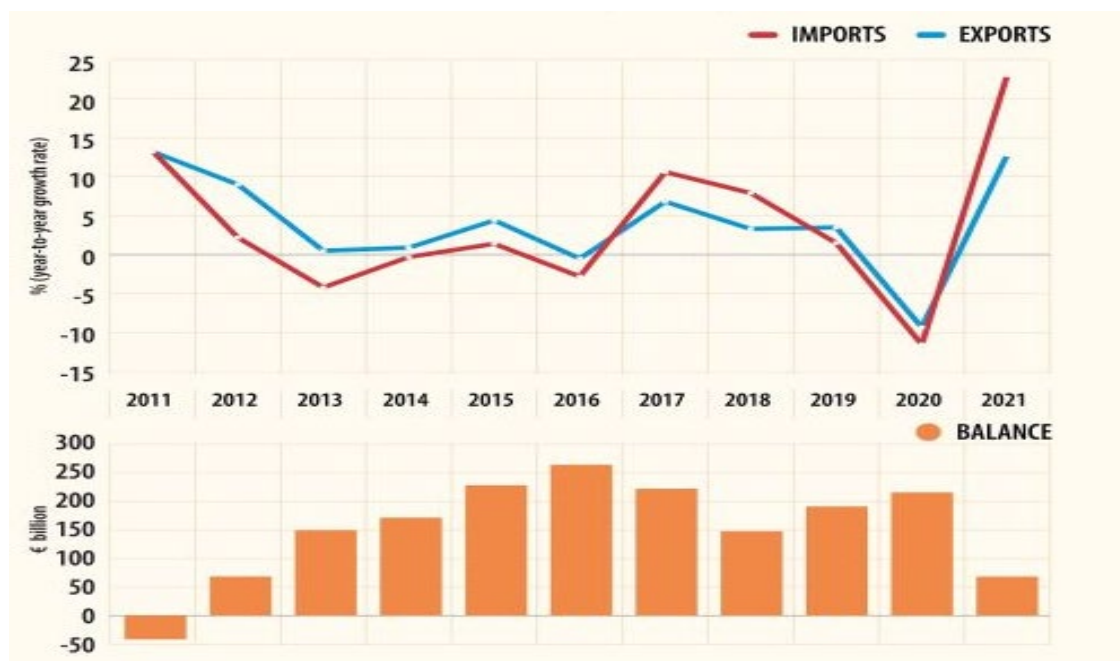


Figure 3.7. EU international trade in goods 2011 – 2021 (Eurostat)

In Figure 3.7. above we can see the EU international trade of goods for the last 10 years, from 2011 to 2021. The upper part of the figure shows the growth rate percentage year-to-year, and the lower part shows the balance in value of EUR billions.

Table 2.2. Global exports of goods and services, billion EUR % (IMF DOTS, WTO)

Reporter	Value in billion EUR					Compound annual growth rate			World share 2020	World ranking 2020
	2010	2015	2018	2019	2020	10y (2010-2020)	5y (2015-2020)	1y (2019-2020)		
World	11 802.9	15 966.6	17 525.9	18 235.0	15 869.6	3.0%	-0.1%	-13.0%	100.0%	
EU27	2 029.9	2 727.1	3 056.9	3 196.9	2 807.6	3.3%	0.6%	-12.2%	17.7%	1
Australia	198.8	219.3	274.4	306.9	248.3	2.2%	2.5%	-19.1%	1.6%	15
Brazil	175.4	202.7	235.2	229.1	209.9	1.8%	0.7%	-8.4%	1.3%	19
Canada	351.7	444.6	466.7	492.3	416.4	1.7%	-1.3%	-15.4%	2.6%	9
China	1 325.2	2 252.5	2 347.8	2 484.8	2 520.3	6.6%	2.3%	1.4%	15.3%	2
Hong Kong	355.2	560.4	577.7	569.7	539.8	4.3%	-0.7%	-5.2%	3.4%	6
India	256.4	380.7	447.3	482.0	419.2	5.0%	1.9%	-13.0%	2.6%	8
Japan	682.0	709.7	789.2	815.6	699.0	0.2%	-0.3%	-14.3%	4.4%	4
Malaysia	176.1	211.7	243.5	249.3	224.0	2.4%	1.1%	-10.2%	1.4%	17
Mexico	236.8	363.6	406.0	439.6	379.9	4.8%	0.9%	-13.6%	2.4%	11
Russia	323.0	356.1	435.1	431.0	337.4	0.4%	-1.1%	-21.7%	2.1%	13
Singapore	341.5	454.9	524.7	543.0	392.0	1.4%	-2.9%	-27.8%	2.5%	10
South Korea	414.4	562.6	596.8	573.3	525.2	2.4%	-1.4%	-8.4%	3.3%	7
Switzerland	223.1	371.1	377.3	397.5	375.6	5.3%	0.2%	-5.5%	2.4%	12
Thailand	171.8	242.2	277.8	291.7	228.3	2.9%	-1.2%	-21.7%	1.4%	16
Turkey	113.4	186.1	199.7	218.3	179.1	4.7%	-0.8%	-18.0%	1.1%	20
United Arab Emirates	141.7	220.3	252.6	277.2	211.5	4.1%	-0.8%	-23.7%	1.3%	18
United Kingdom	532.0	747.0	762.8	782.0	646.0	2.0%	-2.9%	-17.4%	4.1%	5
USA	1 402.7	2 048.9	2 138.8	2 248.7	1 871.1	2.9%	-1.8%	-16.8%	11.3%	3
Vietnam	58.6	154.6	223.1	256.4	258.4	16.0%	10.8%	0.8%	1.6%	14

Coverage: excluding intra-EU trade.

In Table 2.2. above we can see the statistics about the global exports of goods and services over different periods of time, including a period of ten, five, and one year. As the table indicates the European Union, the United States and China are at the top three positions. As of 2020 the European Union makes 17.7% of world's global exports of goods and services. Also, according to the World Trade Organization and the International Monetary Fund Data of Trade Statistics sources regarding the global exports of goods in services, the European Union was ranked first in the world ranking for 2020.

**Table 2.3.** *Global imports of goods and services, billion EUR % (IMF DOTS, WTO)*

Reporter	Value in billion EUR					Compound annual growth rate			World share	World ranking
	2010	2015	2018	2019	2020	10y (2010-2020)	5y (2015-2020)	1y (2019-2020)	2020	2020
	World	12 016.3	16 154.0	17 610.5	18 317.6	15 924.6	2.9%	-0.3%	-13.1%	100.0%
EU27	1 997.1	2 419.4	2 770.5	2 925.5	2 522.1	2.4%	0.8%	-13.8%	15.8%	1
Australia	198.0	249.3	266.1	267.0	228.1	1.4%	-1.8%	-14.6%	1.4%	16
Brazil	191.1	227.6	221.3	230.2	190.5	0.0%	-3.5%	-17.3%	1.2%	20
Canada	389.1	495.6	513.3	536.4	455.0	1.6%	-1.7%	-15.2%	2.9%	9
China	1 197.3	1 836.2	2 251.6	2 295.3	2 137.4	6.0%	3.1%	-6.9%	13.4%	3
Hong Kong	380.1	571.0	600.4	589.3	547.0	3.7%	-0.9%	-7.2%	3.4%	6
India	351.3	464.9	580.1	588.9	457.0	2.7%	-0.3%	-22.4%	2.9%	8
Japan	647.8	745.0	805.9	828.1	714.2	1.0%	-0.8%	-13.8%	4.5%	5
Malaysia	148.9	194.8	222.3	221.9	195.8	2.8%	0.1%	-11.8%	1.2%	19
Mexico	261.3	407.1	448.6	464.4	377.6	3.7%	-1.5%	-18.7%	2.4%	10
Russia	223.7	244.4	281.3	305.2	259.2	1.5%	1.2%	-15.1%	1.6%	13
Singapore	310.3	413.5	483.5	506.8	360.2	1.5%	-2.7%	-28.9%	2.3%	11
South Korea	393.9	494.5	561.8	562.3	499.5	2.4%	0.2%	-11.2%	3.1%	7
Switzerland	194.1	324.2	336.9	356.3	353.9	6.2%	1.8%	-0.7%	2.2%	12
Thailand	170.8	220.2	257.7	264.2	223.1	2.7%	0.3%	-15.6%	1.4%	17
Turkey	154.8	215.5	219.8	213.0	214.7	3.3%	-0.1%	0.8%	1.4%	18
United Arab Emirates	173.8	334.3	268.6	302.7	254.1	3.9%	-5.3%	-16.1%	1.6%	14
United Kingdom	588.2	776.4	795.4	867.3	729.2	2.2%	-1.2%	-15.9%	4.6%	4
USA	1 813.8	2 469.5	2 630.5	2 759.7	2 448.7	3.0%	-0.2%	-11.3%	15.4%	2
Vietnam	70.4	172.2	211.1	239.2	241.7	13.1%	7.0%	1.0%	1.5%	15

Coverage: excluding intra-EU trade.

In Table 2.3. above we can see the statistics about the global imports of goods and services over different periods of time as Table 2.2., for a period of ten, five and one year. As the table shows that European Union, the United States and China are ranked in the top three positions regarding their global imports. As of 2020 the European Union makes 15.8% of world's global imports of goods and services. According to the World

Trade Organization and International Monetary Fund Data of Trade Statistics sources, the European Union was ranked first in the world ranking for 2020, just as it was the case with the global exports.

**Table 2.4.** Global trade of goods and services, billion EUR % (IMF DOTS, WTO)

Reporter	Value in billion EUR					Compound annual growth rate			World share	World ranking
	2010	2015	2018	2019	2020	10y (2010-2020)	5y (2015-2020)	1y (2019-2020)	2020	2020
World	23 819.2	32 120.5	35 136.4	36 552.6	31 794.2	2.9%	-0.2%	-13.0%	100.0%	
EU27	4 027.0	5 146.5	5 827.4	6 122.5	5 329.7	2.8%	0.7%	-12.9%	16.8%	1
Australia	396.8	468.7	540.5	573.9	476.4	1.8%	0.3%	-17.0%	1.5%	15
Brazil	366.6	430.3	456.5	459.3	400.4	0.9%	-1.4%	-12.8%	1.3%	19
Canada	740.8	940.2	980.1	1 028.6	871.4	1.6%	-1.5%	-15.3%	2.7%	9
China	2 522.5	4 088.8	4 599.5	4 780.1	4 657.7	6.3%	2.6%	-2.6%	14.7%	2
Hong Kong	735.3	1 131.4	1 178.1	1 159.0	1 086.8	4.0%	-0.8%	-6.2%	3.4%	6
India	607.7	845.6	1 027.3	1 071.0	876.2	3.7%	0.7%	-18.2%	2.8%	8
Japan	1 329.8	1 454.7	1 595.1	1 643.7	1 413.2	0.6%	-0.6%	-14.0%	4.4%	4
Malaysia	325.0	406.5	465.8	471.2	419.7	2.6%	0.6%	-10.9%	1.3%	18
Mexico	498.2	770.7	854.6	903.9	757.5	4.3%	-0.3%	-16.2%	2.4%	10
Russia	546.7	600.5	716.4	736.2	596.6	0.9%	-0.1%	-19.0%	1.9%	13
Singapore	651.8	868.4	1 008.2	1 049.8	752.2	1.4%	-2.8%	-28.3%	2.4%	11
South Korea	808.2	1 057.1	1 158.6	1 135.6	1 024.8	2.4%	-0.6%	-9.8%	3.2%	7
Switzerland	417.2	695.3	714.2	753.8	729.5	5.7%	1.0%	-3.2%	2.3%	12
Thailand	342.6	462.4	535.5	555.9	451.4	2.8%	-0.5%	-18.8%	1.4%	17
Turkey	268.2	401.6	419.5	431.3	393.8	3.9%	-0.4%	-8.7%	1.2%	20
United Arab Emirates	315.5	554.6	521.2	579.8	465.6	4.0%	-3.4%	-19.7%	1.5%	16
United Kingdom	1 120.2	1 523.4	1 558.1	1 649.3	1 375.2	2.1%	-2.0%	-16.6%	4.3%	5
USA	3 216.5	4 518.3	4 769.4	5 008.4	4 319.8	3.0%	-0.9%	-13.7%	13.6%	3
Vietnam	129.0	326.8	434.2	495.5	500.1	14.5%	8.9%	0.9%	1.6%	14

Coverage: excluding intra-EU trade.

In Table 2.4. we can see the statistics about the global trade of goods and services as a whole and again over different periods of time same, for a period of ten, five and one year. As that the European Union makes 16.8% of world's share regarding global trade of goods and services for 2020, China, on other hand made 14.7% of the world's share in the same year, while the USA made 13.6% of the world's share.

**Table 2.5.** Global external trade balances, billion EUR (IMF DOTS, WTO)

Reporter	Goods			Services			Goods and services		
	2010	2019	2020	2010	2019	2020	2010	2019	2020
EU27	-32.4	198.3	223.9	65.2	73.1	61.6	32.8	271.4	285.6
Australia	5.2	40.7	11.4	-4.4	-0.9	8.8	0.8	39.9	20.2
Brazil	7.1	30.6	37.5	-22.8	-31.7	-18.1	-15.7	-1.1	19.4
Canada	-21.2	-29.6	-33.6	-16.2	-14.5	-5.0	-37.4	-44.1	-38.6
China	139.2	383.7	470.8	-11.4	-194.3	-88.0	127.8	189.5	382.9
Hong Kong	-32.5	-38.4	-18.4	7.6	18.8	11.2	-24.9	-19.6	-7.2
India	-96.5	-138.5	-80.9	1.6	31.6	43.2	-94.8	-106.9	-37.7
Japan	57.1	-13.6	6.1	-22.8	1.0	-21.2	34.3	-12.5	-15.1
Malaysia	25.7	29.7	38.2	1.5	-2.4	-10.0	27.2	27.4	28.2
Mexico	-15.9	-19.6	9.7	-8.6	-5.2	-7.3	-24.5	-24.8	2.4
Russia	119.0	158.2	93.2	-19.7	-32.3	-15.0	99.3	125.9	78.2
Singapore	31.3	28.1	18.8	-0.1	8.0	13.0	31.2	36.2	31.8
South Korea	31.1	35.6	39.4	-10.5	-24.6	-13.7	20.5	11.0	25.7
Switzerland	14.5	33.4	20.8	14.5	7.9	0.9	29.0	41.2	21.7
Thailand	6.2	5.8	18.5	-5.3	21.7	-13.3	0.9	27.5	5.3
Turkey	-54.1	-26.4	-43.7	12.6	31.7	8.0	-41.4	5.4	-35.6
United Arab Emirates	-9.2	-27.3	-44.9	-22.9	1.8	2.3	-32.1	-25.5	-42.6
United Kingdom	-131.1	-199.8	-203.8	74.9	114.4	120.5	-56.2	-85.3	-83.3
USA	-521.0	-765.8	-792.3	109.8	254.7	214.8	-411.1	-511.0	-577.5
Vietnam	-9.9	9.3	15.2	-1.8	7.9	1.5	-11.7	17.2	16.7

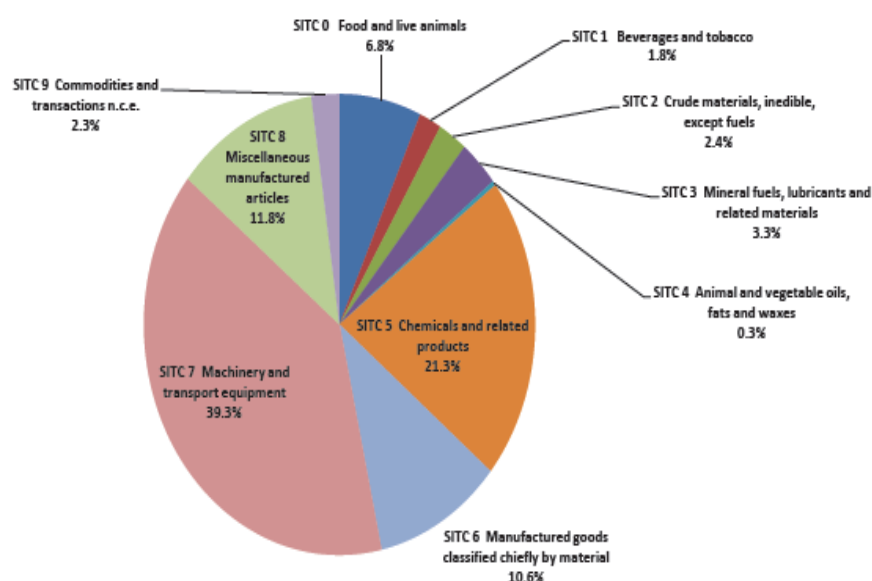
Coverage: excluding intra-EU trade.

Table 2.5. shows the global external trade balances of the world's most active trade countries. We can see that in the European Union the global trade of goods has increased significantly during the last 10 years. On other hand, there it is a small decrease in the global trade of services. Generally, goods and services in the global external trade balance remain in good shape compared to other parties included in this table.

**Table 2.6. EU exports of goods to extra-EU by sector, billion EUR (Eurostat)**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>SITC Rev.3</b>											
TOTAL	1 435.6	1 624.5	1 770.9	1 780.1	1 796.8	1 876.3	1 866.8	1 994.3	2 060.1	2 131.8	1 932.2
SITC 0 Food and live animals	74.4	84.5	93.1	100.1	103.9	108.9	110.6	114.9	115.7	125.2	130.8
SITC 1 Beverages and tobacco	22.2	25.2	28.6	29.1	28.9	31.4	32.1	34.5	35.3	37.7	35.4
SITC 2 Crude materials, inedible, except fuels	35.0	41.0	42.6	41.2	40.3	39.7	38.4	44.5	46.8	48.4	46.7
SITC 3 Mineral fuels, lubricants and related materials	78.1	102.5	129.7	125.8	113.0	88.2	75.8	99.1	113.0	103.1	63.8
SITC 4 Animal and vegetable oils, fats and waxes	3.8	4.8	5.7	5.7	5.0	5.5	6.1	6.4	6.1	5.9	6.6
SITC 5 Chemicals and related products	242.1	266.0	288.6	290.7	300.1	328.6	331.0	354.2	374.4	406.8	411.1
SITC 6 Manufactured goods classified chiefly by material	184.4	210.9	219.8	215.7	217.0	218.2	211.2	225.4	232.0	229.1	204.1
SITC 7 Machinery and transport equipment	603.7	679.2	732.1	737.6	747.6	800.2	796.4	840.8	856.2	871.5	759.3
SITC 8 Miscellaneous manufactured articles	147.1	164.6	182.2	190.3	197.2	211.3	216.1	232.4	241.9	257.1	227.9
SITC 9 Commodities and transactions n.c.e.	41.3	41.4	44.3	39.6	39.6	40.9	44.3	39.2	34.5	44.3	44.4
<b>AMA/NAMA</b>											
AMA Agricultural Products	109.7	124.8	138.6	147.1	149.2	158.3	160.2	168.1	169.0	181.8	184.4
NAMA Non-Agricultural Products	1 325.9	1 499.7	1 632.3	1 633.0	1 647.6	1 718.0	1 706.6	1 826.2	1 891.1	1 950.0	1 747.8

n.c.e. = not classified elsewhere.



**Figure 3.8. EU exports of goods to extra-EU by sector, shares per percentage in 2020 (Eurostat)**

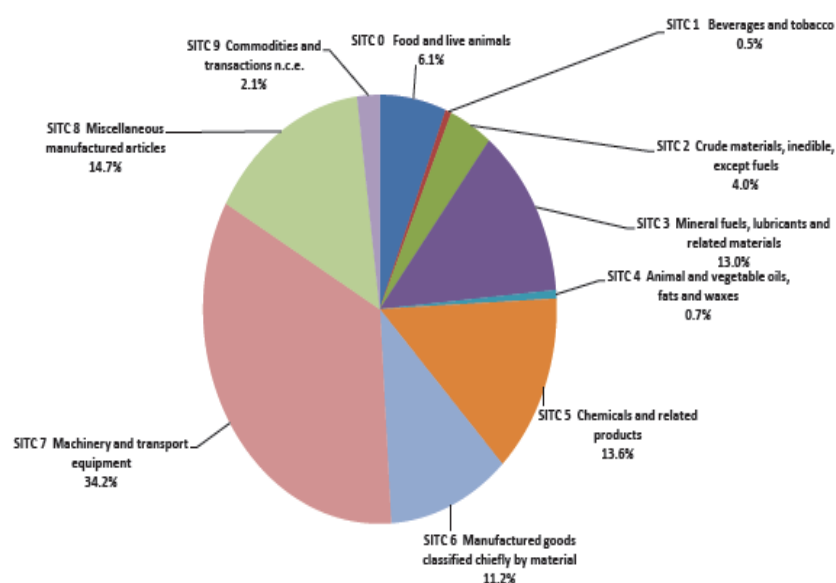
Table 2.6. and Figure 3.8. show the main sectors that are exported mostly to extra-EU, and their share percentages. The main sectors are machinery and transport equipment with 39.3% percentage of the entire exports of the EU, followed by chemicals and related products, which make 21.3% percent of the entire export. Even

though these two sectors have a big percentage of exports to extra-EU in comparison to other sectors we can see in Table 2.6. that during the last decade there has been a growth of export to extra-EU in most sectors. This clearly indicates that the EU exports are increasing worldwide, which emphasizes the importance of the EU in the global trade and the benefits that trade brings to the economy of the European Union.

**Table 2.7.** EU imports of goods, from extra-EU by sector, billion EUR (Eurostat)

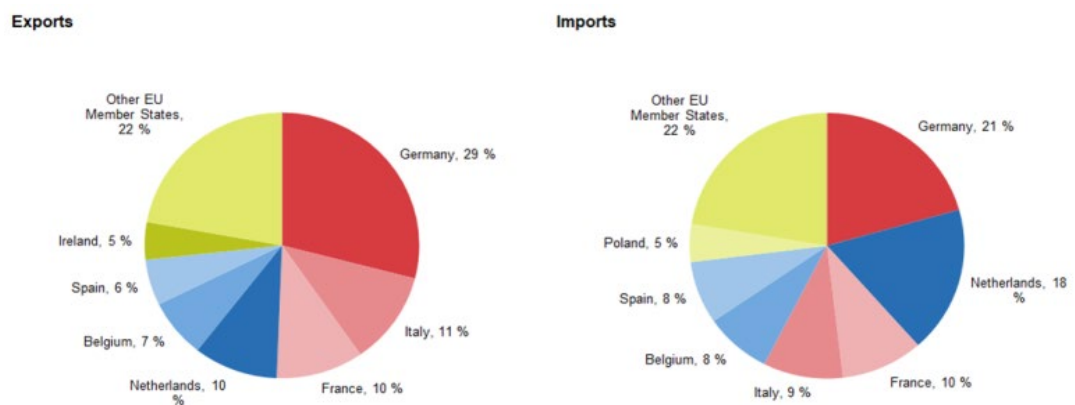
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>SITC Rev.3</b>											
TOTAL	1 471.0	1 666.1	1 702.5	1 630.8	1 625.4	1 648.1	1 602.5	1 772.1	1 911.9	1 940.5	1 714.3
SITC 0 Food and live animals	73.0	84.0	84.6	85.4	90.2	98.6	100.3	103.5	104.5	107.3	104.1
SITC 1 Beverages and tobacco	8.4	8.6	9.0	9.4	9.1	9.8	9.6	9.8	10.1	10.3	9.3
SITC 2 Crude materials, inedible, except fuels	61.5	73.8	69.0	64.8	61.9	60.3	57.0	65.6	70.3	71.3	68.3
SITC 3 Mineral fuels, lubricants and related materials	373.2	477.1	525.0	481.8	426.7	314.3	254.9	319.5	392.1	363.2	221.9
SITC 4 Animal and vegetable oils, fats and waxes	6.5	8.5	9.1	8.6	8.4	8.9	9.1	10.7	9.6	9.5	11.1
SITC 5 Chemicals and related products	153.9	171.8	178.7	176.7	183.5	202.0	202.1	216.1	222.1	235.1	232.9
SITC 6 Manufactured goods classified chiefly by material	152.8	180.3	162.1	157.5	168.1	178.4	175.1	192.6	207.0	197.5	191.1
SITC 7 Machinery and transport equipment	426.9	434.9	435.0	420.7	436.9	507.3	521.0	567.9	603.4	638.0	585.9
SITC 8 Miscellaneous manufactured articles	185.8	198.3	198.6	196.2	213.1	240.9	243.9	253.6	260.9	276.9	252.5
SITC 9 Commodities and transactions n.c.e.	25.8	26.3	28.3	26.5	24.0	24.5	26.6	29.7	29.2	28.9	35.1
<b>AMA/NAMA</b>											
AMA Agricultural Products	85.2	100.1	103.2	103.7	105.8	114.2	114.0	119.3	118.9	121.8	122.1
NAMA Non-Agricultural Products	1 385.9	1 566.0	1 599.3	1 527.1	1 519.6	1 533.8	1 488.5	1 652.8	1 793.0	1 818.7	1 592.3

n.c.e. = not classified elsewhere.



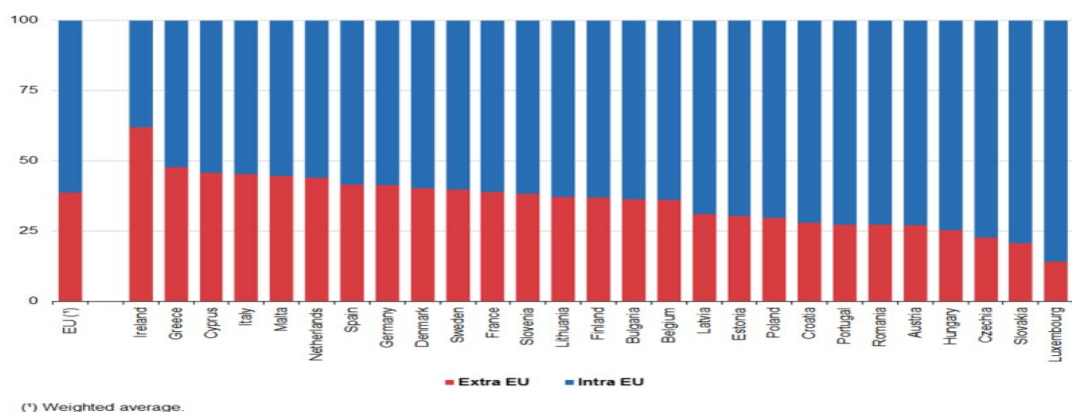
**Figure 3.9.** EU imports of goods from extra-EU by sector, shares per percentage in 2020 (Eurostat)

Table 2.7. and Figure 3.9. show the main sectors that import mainly from extra-EU, and their share percentages. The main import sector is machinery and transport equipment with 34.2% percentage of the total imports of the EU. This suggests that those two sectors are important for the EU as they ranked first in both export and import, followed by chemicals and related products with 13.6% percent, and mineral fuels, lubricants, and related materials with 13% percent of the total imports from extra-EU. The number of exporting and importing activities in the EU once again confirms the importance of the European Union in global trade.



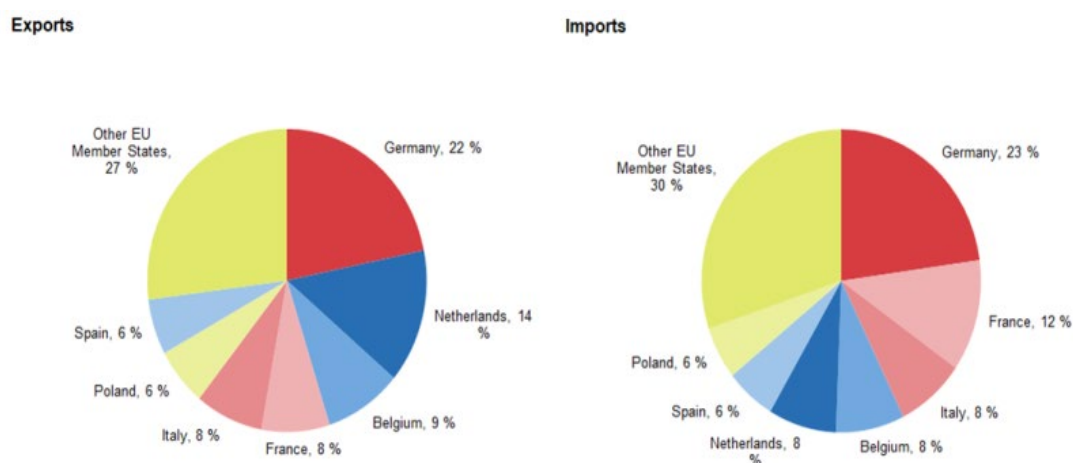
**Figure 3.10.** Extra-EU trade in goods by member states, shares per percentage in 2021 (Eurostat)

Figure 3.10. shows which member states of the European Union were included in the EU exports and imports to and from non-member countries. Regarding exports, Germany holds 29% percent of the share, which is more than any other member county, followed by Italy with 11% percent, and both France and Netherlands with 10% percent of the shares. Concerning imports, Germany and Netherlands hold a significant part of the shares with 21% percent and 18% percent respectively.



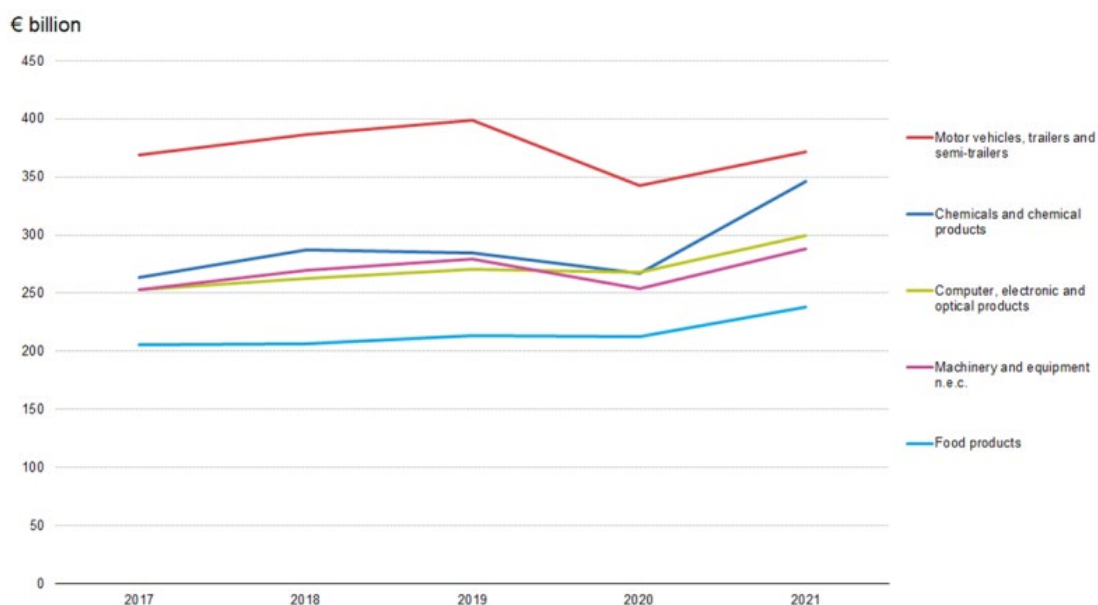
**Figure 3.11.** Extra and Intra EU trade in goods, percentage of total share, 2021 (Eurostat)

Figure 3.11. shows the intra and extra EU trade of all EU member countries. We can see that except Ireland, where 52% of its total trade is to or from extra-EU, all other member countries based on the percentage of shares are trading mostly intra-EU rather than extra-EU. This comes as a result of the fact that the European Union has 27 member states, all of them being geographically located near each other and having close relations between them. This makes intra EU trade very important because a) the European Union has a single market, where most of the countries, more precisely 19 out of the 27 members use the same euro currency and b) it is the largest trading bloc in the world. All these benefits have a positive impact on how trade operates in the member states of the European Union.



**Figure 3.12.** *Intra-EU trade of goods by member states, shares per percentage in 2021 (Eurostat)*

Figure 3.12. shows the intra-EU trade of goods by member states according to the percentage of shares in 2021. Germany has a similar percentage for both extra-EU and intra-EU trade. It is a member state with most shares in exports with 22%, and imports with 23%. If we consider Netherlands in terms of the extra-EU, it is mostly an import country, while its intra-EU trade is 14% of the total shares of all exports in EU trade. Furthermore, many other member states that have a low percentage of extra-EU trade, have a general increase in the intra-EU trade, which indicates here is more trade interactivity between EU member states.



**Figure 3.13.** Top five CPA categories in intra-EU exports, EUR billion, Period 2017-2021 (Eurostat)

Figure 3.13. shows the top five CPA categories that were exported mostly in intra-EU. The exports include motor vehicles, chemical products, electronic products, machinery equipment, and food products.

**Table 2.8.** Intra-EU exports, CPA Groups, EUR billion, Period 2017-2021 (Eurostat)

€ billion		2017	2018	2019	2020	2021	Trend
TOTAL	TOTAL	2 845.1	3 014.2	3 071.6	2 855.4	3 427.8	
29	Motor vehicles, trailers and semi-trailers	369.1	386.9	398.7	342.3	371.7	
20	Chemicals and chemical products	263.6	287.4	284.7	267.5	346.2	
26	Computer, electronic and optical products	252.6	262.9	270.9	268.4	300.0	
28	Machinery and equipment n.e.c.	253.0	270.1	279.0	254.3	288.0	
10	Food products	205.4	206.8	213.3	212.4	237.9	
24	Basic metals	167.0	178.9	168.0	148.4	220.0	
21	Basic pharmaceutical products and pharmaceutical preparations	137.9	158.7	168.0	191.2	219.2	
27	Electrical equipment	149.7	161.9	168.0	167.6	200.3	
22	Rubber and plastics products	109.5	115.2	116.6	111.6	131.8	
25	Fabricated metal products, except machinery and equipment	99.3	105.4	105.5	98.2	117.8	
1	Products of agriculture, hunting and related services	80.3	79.6	83.0	85.9	94.3	
19	Coke and refined petroleum products	81.2	95.5	93.7	61.5	93.9	
14	Wearing apparel	74.1	78.3	83.4	75.7	89.5	
32	Other manufactured goods	69.0	70.9	74.9	72.5	84.7	
17	Paper and paper products	59.6	63.5	62.4	57.1	66.0	
30	Other transport equipment	69.3	67.3	73.1	56.4	55.8	
23	Other non-metallic mineral products	40.0	42.4	43.2	41.2	48.0	
15	Leather and related products	42.0	43.7	45.5	40.1	46.0	
31	Furniture	37.8	39.2	40.8	39.2	45.0	
13	Textiles	35.7	36.3	36.3	36.1	39.2	
16	Wood and of products of wood and cork, except furniture; articles of straw and plaiting materials	27.2	28.9	29.0	28.6	38.4	
38	Waste collection, treatment and disposal services; materials recovery services	25.1	26.7	25.5	24.7	37.3	
11	Beverages	22.6	24.2	25.2	24.4	28.0	
6	Crude petroleum and natural gas	17.6	21.9	20.1	11.4	27.6	
35	Electricity, gas, steam and air conditioning	11.1	12.4	12.2	10.5	26.5	

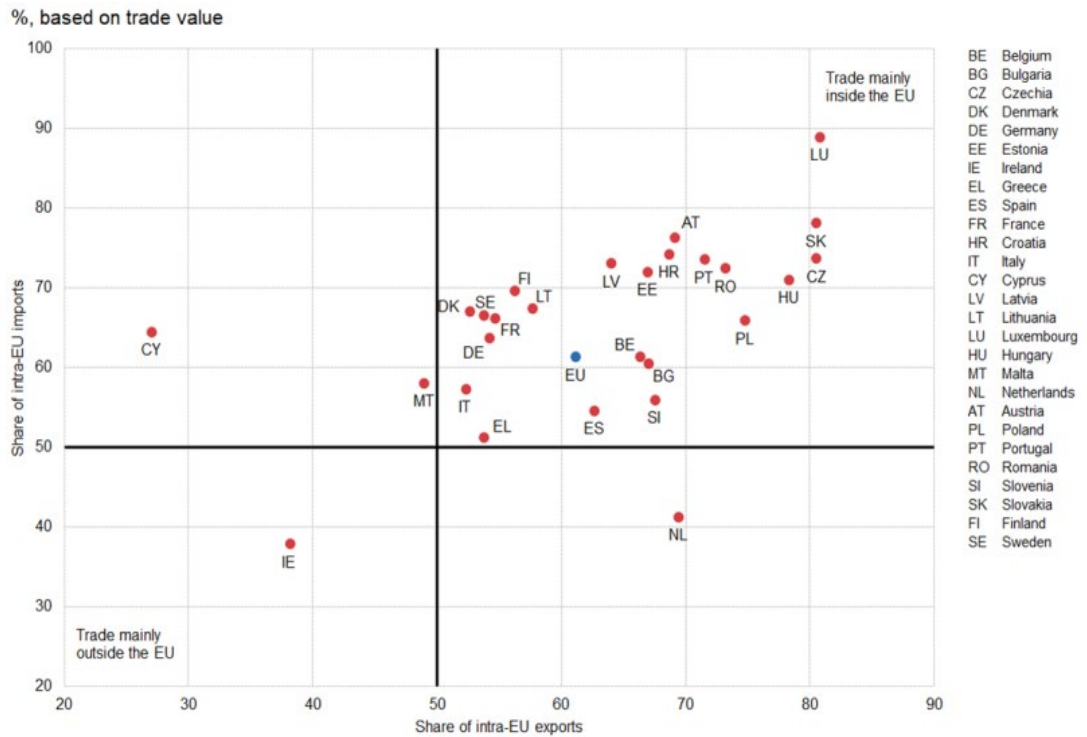
Green is highest point, red is lowest point during 2017-2021

Table 2.8. shows which CPA group was mostly exported in the intra-EU in the period between 2017 and 2021. CPA means classification of products by activity at the level of the European Union. These CPA groups are classified and organized based on the similarities between products. As we can see in Table 2.8. many of these CPA groups are increasing their exports to intra-EU. This is an important factor because it shows also there is an increase in the interactivity between all member countries of the European Union, which in turn means it is helping the economies of the member countries but also the economy of the European Union as a whole.

Figure 2.16. below shows the CPA labels, CPA codes, and their share of percentages for 2021 in intra-EU exports of goods.



Figure 3.14. CPA groups in intra-EU exports, shares per percentage for 2021 (Eurostat)



**Figure 3.15.** Trade of goods per percentage, inside and outside of EU by member countries (Eurostat)

Figure 3.14. shows that most of the exports and imports of the EU member countries are performed within those countries, as indicated in Figure 2.15. Except in the case of Ireland, Cyprus, and Malta, we can see that all other member states trade mostly inside the European Union. This is another sign of the importance that creates the trade in between EU member countries for the economy of the European Union. All the data included in the tables and figures above aims to show the trade industry in the European Union and its importance for the economy of the European Union and its member countries. The data also, show that being part of the European Union as a member country increases the opportunities for improving a country’s economy, but also by being the largest trading bloc in the world trade puts European Union in a position of being one of the key factors together with the benefits that are brought by the impact that the economy of the European Union has in world. That is why being part of the European Union and the economic benefits that comes with that it makes EU an important factor and choice for all non-member countries in the European continent.

### 3.4. Association Agreements of the European Union

Association agreements are bilateral agreements that the European Union realizes with third countries. Concerning the process of enlargement and accession to the EU, this type of agreement is considered a basis for implementing the process of accession. The European Union currently has an association agreement with Turkey. There are also association agreements between the European Union and the Western Balkan countries, which are called stabilization and association agreements (SAP). Their aim is to support the stabilization of the Balkan countries and their accession to the EU.<sup>44</sup>

Regarding association agreements the EU has the European Neighbourhood Policy (ENP), which was launched in 2003 and governs all the EU's relations with 16 of the EU's closest eastern and southern neighbors. These countries include Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia in the south, and Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine in the east.. It is worth mentioning that Russia, is part of the Cross-Border Cooperation activities that are under the ENP's control, but it is not part of the ENP itself. The European Neighbourhood Policy came as a result of the new enlargements in the European Union. Its main purpose is to bridge the gap between the enlarged EU and its neighbours. It also aims to achieve stability, security, and prosperity in different areas.<sup>45</sup>

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<sup>44</sup> European Commission – *European Neighbourhood Policy and Enlargement Negotiations: Association Agreement*. [https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/glossary/association-agreement\\_en](https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/glossary/association-agreement_en)

<sup>45</sup> European Commission – *European Neighbourhood Policy and Enlargement Negotiations: Neighbourhood*. [https://ec.europa.eu/neighbourhood-enlargement/european-neighbourhood-policy\\_en](https://ec.europa.eu/neighbourhood-enlargement/european-neighbourhood-policy_en)

## CHAPTER 4: NORTH MACEDONIA & EUROPEAN UNION

North Macedonia is a candidate country for joining European Union. Since the Thessaloniki European Council summit that was held in 2003 North Macedonia was considered and identified as a potential candidate for EU membership along with other Western Balkan countries. It did not take long further steps to be taken, and the Stabilization and Association Agreement between North Macedonia and European Union entered into force in 2004 which opened the door for the EU Council to grant North Macedonia with candidate status in 2005. Since 2009, the European Commission has recommended to open the accession negotiations with North Macedonia for six times. However, different political obstacles that North Macedonia was facing affected its membership in the European Union.<sup>46</sup> But, in July 2022 the European Union opened the accession negotiations with North Macedonia.

### 4.1. Stabilization and Association Agreement

Stabilization and Association Agreement (SAA) signed by North Macedonia and the European Union is an existing legal framework that regulates the relations between North Macedonia and EU. SAA includes a framework for areas such as, political dialogue and strengthening regional cooperation, promoting expansion of markets and economic relations among the parties, and grounds establishment for technical and financial support. SAA institutional framework also provides a mechanism for implementing, administrating, and monitoring the main 10 areas that are included in the SAA.<sup>47</sup>

1. *General principles*
2. *Political dialogue*
3. *Regional cooperation*
4. *Free movement of goods*
5. *Movement of workers, establishment, supply of services and movement of capital*
6. *Alignment of the laws of the country to those of the EU*

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<sup>46</sup> European Commission – *European Neighbourhood Policy and Enlargement Negotiations: North Macedonia*. [https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/negotiations-status/north-macedonia\\_en](https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/negotiations-status/north-macedonia_en)

<sup>47</sup> Secretariat for European Affairs of North Macedonia – *Stabilization and Association Agreement*. <https://www.sep.gov.mk/en/post/?id=17#.YqfOYqhBzIU>

7. *Justice and home affairs*
8. *Cooperation policies*
9. *Financial cooperation*
10. *Supervision*<sup>48</sup>

#### **4.2. Problems in front of North Macedonian membership**

Since getting the candidate status in 2005, the membership in the European Union has been a top priority for the country. The reasons why membership in European Union is of such importance for North Macedonia is the political stability and rule of law, also the economic benefits that come within the EU, including the benefits of a single market, bigger trade opportunities intra and extra EU, the euro currency etc.

Unfortunately, since the candidate status in 2005, 17 years since the accession negotiations were opened, North Macedonia has been facing different political obstacles that were blocking its membership in the EU. The most known political obstacles that North Macedonia has faced are the dispute with the neighboring countries Greece and Bulgaria. The known political issue with Greece over the name was solved with the Prespa Agreement in 2018, when then Former Yugoslav Republic of Macedonia would change the name as it is now North Macedonia. This come as a result that in the Greek territory there is an area which is called Macedonia, and Greece did not want the wider public to consider it the same as the territory of their neighbor country. When it comes to the political issue with Bulgaria, the problem did stand with the cultural and language background of North Macedonia, and the issue about the Bulgarian minorities which according to Bulgarian official statements were not being respected in accordance with the Friendship Treaty that was signed as a bilateral agreement between North Macedonia and Bulgaria in 2017.

Regarding the political issue between North Macedonia and Bulgaria, the Balkan expert Edward Joseph, a senior fellow with the John Hopkins University School of Advanced International Studies, for VOA's Macedonian Service said that "this is an unconscionable blockage and imposition by Bulgaria against North Macedonia. Failure to do this will destabilize the Balkans and represents an opening for Russia and China in

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<sup>48</sup> European Union – *Stabilization and Association Agreement with North Macedonia*. <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=LEGISSUM:4314937>

the region.” He also added that, “North Macedonia has done what it has been asked; it has done more than any other country has been asked”, “Bulgaria is demanding that Macedonians accept a version of history, a version of who they are – except that version that Bulgarians insist upon is against EU values and members must not bring bilateral issues into the accession process.”<sup>49</sup> Also, Joseph Borrell, the EU’s foreign policy chief, in his last visit in North Macedonia in the first quarter of 2022 during news conference said that North Macedonia’s EU accession process should start as soon as possible to enhance the security and defense of the Balkans as concerns that Russia’s invasion of Ukraine may create volatility throughout the region.<sup>50</sup>

However, even though North Macedonia was facing political obstacles until the accession negotiations opened regarding the membership of North Macedonia in the European Union, by working closely with the EU representatives, the country has already created institutional infrastructure that deals only with the European integration and the Ministry of Foreign Affairs in North Macedonia for its strategic plan for the years 2022-2024 and its main two goals were to solve the political issue with Bulgaria, and to aim for opening the negotiation talks for accession in the European Union, and both were achieved by mid-year. Meanwhile, all three reports for the last years from the European Commission recommended that EU should open the accession talks with North Macedonia.

#### **4.2.1. Institutional Infrastructure**

North Macedonia for some time now has already set up the ground for the establishment of the management system for the process of the European integration. The purpose is to function in a more effective and efficient way, and as the obligations towards EU are increasing the system it gets upgraded. The current institutional infrastructure for the European integration is structured as it follows:

- Committee for Euro-Atlantic Integration – is the decision-making body for the country policy in the European integration process. The Committee is made of the Prime Minister, Deputy Prime Ministers, all Ministers in the Government, and the Governor of the National Bank of North Macedonia.

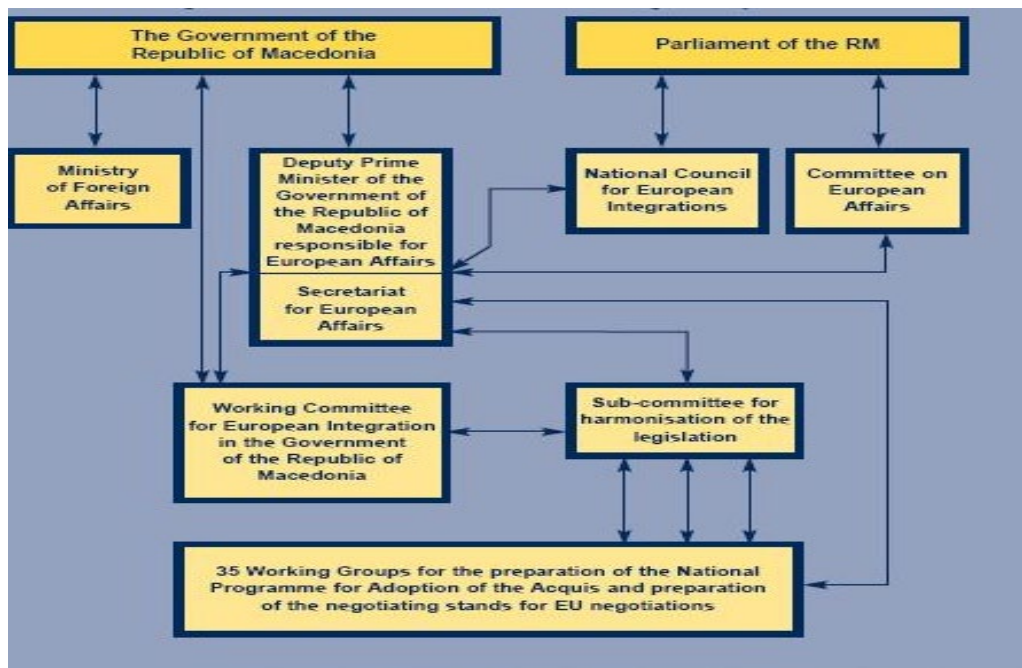
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<sup>49</sup> Jane Bojadzievski – *North Macedonia, Albania Face New Obstacles on Path to EU*, 2021.

[https://www.voanews.com/a/europe\\_north-macedonia-albania-face-new-obstacles-path-eu/6209496.html](https://www.voanews.com/a/europe_north-macedonia-albania-face-new-obstacles-path-eu/6209496.html)

<sup>50</sup> *Radio Free Europe – Borrell says North Macedonia’s EU Accession Should Start as soon as possible*, 2022. <https://www.rferl.org/a/macedonia-eu-accession-borrell/31752298.html>

- Working Committee for European Integration of the Government of the Republic of Macedonia – consists of the Deputy Prime Minister of the Government who is in charge of European Affairs, and the state secretaries of the ministries are members of this Committee. They deal with the dynamics and methods this operational body should practice implementing strategic decisions and political priorities of the Government. Also, to monitor the realization of the tasks in process.
- Deputy Prime Minister of the Government in charge of European Affairs – deals with managing and coordinating the operative part of the Secretariat for European Affairs for the integration process, also coordinates the work of other state administrative authorities and institutions for preparing North Macedonia relating to negotiations for the membership in the European Union.
- Ministry of Foreign Affairs – Sector for the European Union – manages the communication process with the European structures through the Mission of the North Macedonia in Brussels. It also gathers valid information that may have impact on the integration process that may be of different perspectives and positions in the European structures.<sup>51</sup>



**Figure 4.1.** Accession to the EU Process Management System (Secretariat for European Affairs, North Macedonia)

<sup>51</sup> Secretariat for European Affairs of North Macedonia – Accession to the EU Process Management System. <https://www.sep.gov.mk/en/page/?id=13#.YqIzXXZBzIV>

#### 4.2.1.1. EU Commission Reports

According to the European Commission Reports for North Macedonia during the last three years 2019, 2020, and 2021, it is concluded that the country generally is moderately prepared or at a good level of going in the same line with the European standards, including here the fundamental areas of the accession process such as political criteria, judicial system, prevention and fight against corruption, freedom of expression, regional cooperation, and economic criteria which for Cluster 2 on internal market and Cluster 3 on competitiveness and inclusive growth North Macedonia is moderately prepared too. It is important to mention that the European Commission after all these reports had recommended to the European Council to open the accession talks with North Macedonia.

#### 4.2.1.2. IPA Funds

Since last year, North Macedonia is going through its third IPA (Instrument for Pre-accession Assistance) funding period which is meant for the period of 2021-2027. The first period was 2007-2013, and the second was 2014-2020. During the last period, the priority sectors for funding were democracy and governance; rule of law and fundamental rights; environment and climate action; transport; competitiveness and innovation; social development; agriculture and rural development; and regional and territorial cooperation. For this period North Macedonia was funded with 608.7 million euros.<sup>52</sup> In the Table 3.1. that is shown below we can see the IPA funds in more detailed form including here the areas, the years, and the amount of money.

**Table 3.1. IPA Funds, Period 2014-2020 (European Commission)**

North Macedonia	2014	2015	2016	2017	2018	2019	2020	Total 2018-2020	Total 2014-2020*	Of which climate change relevant (%)
<b>DEMOCRACY AND RULE OF LAW</b>	<b>39.7</b>	<b>15.8</b>	<b>24.4</b>	<b>24.6</b>	<b>37.9</b>	<b>5.8</b>	<b>39.6</b>	<b>83.3</b>	<b>187.8</b>	
Democracy and governance	19.7	15.8	9.8	24.594	36.5	4.4	20.2	61.1	130.9	
Rule of law and fundamental rights	20.0	0.0	14.6	0.0	1.4	1.4	19.5	22.3	56.9	
<b>COMPETITIVENESS AND GROWTH</b>	<b>42.0</b>	<b>51.4</b>	<b>40.2</b>	<b>57.6</b>	<b>69.8</b>	<b>115.6</b>	<b>44.4</b>	<b>229.8</b>	<b>421.0</b>	
Environment, climate action and energy	15.0	18.4	11.0	16.6	27.6	10.4	24.2	62.2	123.3	100%
Transport	4.0	14.7	18.2	11.2	29.4	35.4	2.3	67.1	115.2	60%
Competitiveness, innovation, agriculture and rural development	23.0	18.3	11.0	6.0	11.4	49.4	16.5	77.3	135.6	10%
Education, employment and social policies	0.0	0.0	0.0	23.7	1.4	20.4	1.5	23.3	47.0	
<b>TOTAL</b>	<b>81.7</b>	<b>67.2</b>	<b>64.6</b>	<b>82.2</b>	<b>107.7</b>	<b>121.4</b>	<b>84.0</b>	<b>313.1</b>	<b>608.7</b>	

<sup>52</sup> European Commission – North Macedonia – *Financial Assistance under IPA II*. [https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/overview-instrument-pre-accession-assistance/north-macedonia-financial-assistance-under-ipa-ii\\_en](https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/overview-instrument-pre-accession-assistance/north-macedonia-financial-assistance-under-ipa-ii_en)

#### **4.2.1.3. Ministry of Foreign Affairs – Strategic Plan**

In the strategic plan that the Ministry of Foreign Affairs of North Macedonia has prepared for the period 2022 – 2024 the first two main priorities have to do with the good neighborly relations for stable and long-term friendship with the main focus on Bulgaria, and finalization of the start of negotiations with the European Union, where both these issues were solved, showing how important it is for North Macedonia to be part of the European Union.<sup>53</sup>

#### **4.3. Membership benefits of North Macedonia**

North Macedonia since the Stabilization and Association Agreement (SAA) with the European Union in 2001, and its candidate status in 2005 aimed to join the European Union. However, political obstacles were always in front of North Macedonia which affected the country not to be able to join the European Union until now, when after 17 years the European Union finally opened the accession negotiations with North Macedonia. By being part of the European Union, North Macedonia would benefit in many areas, but the most important one is the economic benefits that the European Union could bring to the country through economic integration, single market, trade benefits, possible euro currency etc. North Macedonia lost all these economic benefits that are coming by being a member of the European Union, because of the political obstacles for almost two decades.

In this case, to see clearly how North Macedonia was losing economic benefits by not being part of the European Union, we are going to do a comparison with Croatia to see the economic differences between the two countries. The reason why Croatia is selected is because it is a Balkan country as North Macedonia. Both of them were part of ex-Yugoslavia, and they are located close to each other in the Balkan Peninsula. North Macedonia applied for EU membership in 2004, and on other hand Croatia had applied for EU Membership one year earlier in 2003. Croatia had the candidate status in 2004, and North Macedonia had the candidate status in 2005. In 2011 Croatia leaders and EU leaders signed the accession treaty, and since 1<sup>st</sup> of July 2013 Croatia is part of the European Union. On other hand, North Macedonia, because of the political obstacles that the country was facing until this year was not able to open the accession

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<sup>53</sup> Ministry of Foreign Affairs of North Macedonia – *Strategic Plan 2022-2024*

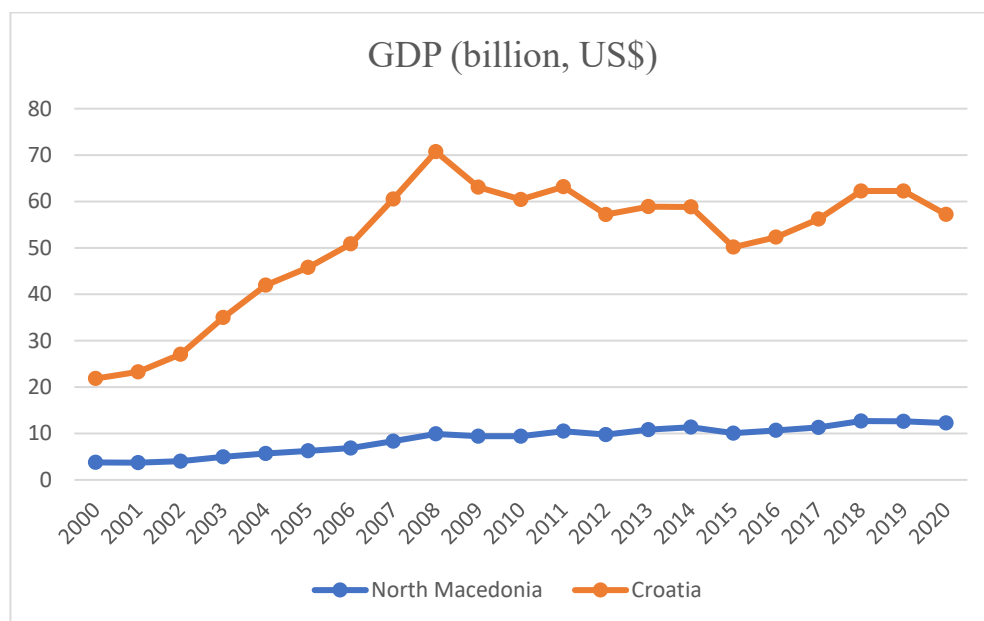
negotiations with the European Union for full membership. For this comparison between North Macedonia and Croatia we are going to compare seven different economic indicators that are important for every country's economy. The data for these economic indicators was collected from the World Bank.

The Tables and Figures that are going to be shown in this section are by own preparation. The economic indicators that are going to be included in this comparison are GDP, GDP growth, total exports of goods and services, total imports of goods and services, foreign direct investments in net inflow, foreign direct investments in net outflow, and the unemployment rate. These economic indicators are selected because not only they are important for a country's economy, also they are the most affected areas of the economy when there is an economic integration or joining a union such as the European Union. The comparison between these two countries is going to include a period of twenty years starting from 2000 until 2020 in both Tables and Figures in order to have a clearer view of the process and progress during the time included. The important parts of this comparison are going to be the periods pre and post candidate status of both countries, and in the case of Croatia pre-membership period and post-membership period with the European Union which will be shown through the data collection of these economic indicators how the country's economy is affected.

**Table 3.2.** *GDP of North Macedonia & Croatia, billion US\$*

GDP (billion, US\$)		
Years	North Macedonia	Croatia
2000	3.77	21.84
2001	3.71	23.27
2002	4.02	27.07
2003	4.95	34.99
2004	5.68	41.96
2005	6.26	45.78
2006	6.86	50.86
2007	8.34	60.54
2008	9.91	70.75
2009	9.4	63.08
2010	9.41	60.43
2011	10.49	63.17
2012	9.75	57.19
2013	10.82	58.89
2014	11.36	58.83
2015	10.06	50.16
2016	10.67	52.30

2017	11.31	56.21
2018	12.68	62.25
2019	12.61	62.25
2020	12.26	57.2

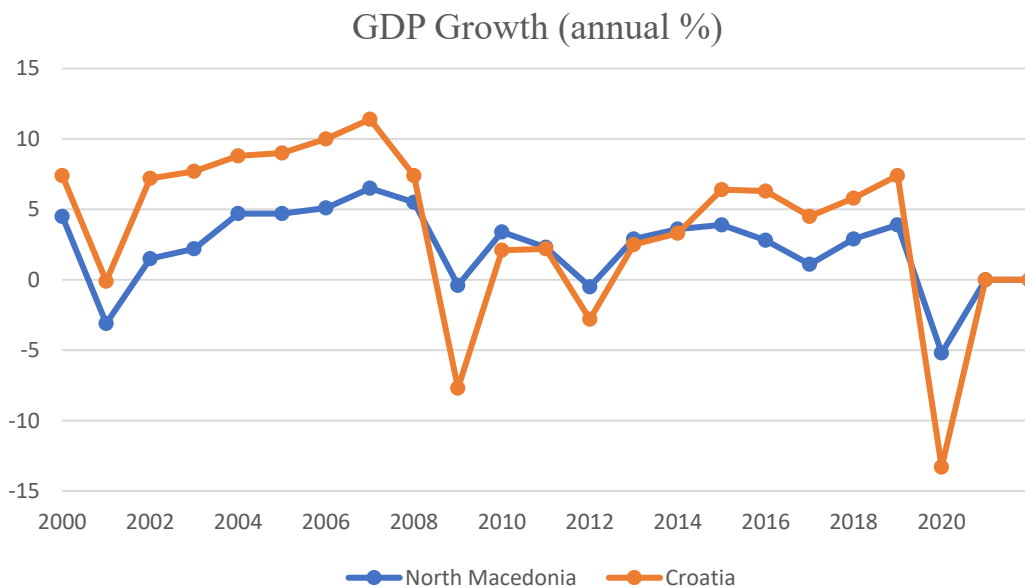


**Figure 4.2.** GDP trends of North Macedonia & Croatia, billion US\$

In Table 3.2. and in Figure 4.2. we can see the data regarding the first economic indicator of the comparison between North Macedonia and Croatia. In North Macedonia's case we can see that the GDP of the country is increasing but in a very slow pace which for the period of 20 years the GDP of the country was able to go from 3.77 US\$ billion in 2000 up to 12.26 US\$ billion which means an increase of roughly 9 US\$ billion in GDP for 20 years. On the other hand, in the Croatian case we see very dynamic pace of the country's GDP. After the peak of the GDP in value of 70.75 US\$ billion that resulted in 2008 after a successful economic progress, the country's GDP was going slowly down until year 2015 when it came down to the value of 50.16 US\$ billion, because of the excessive macroeconomic imbalances that the country was going through. After that, we can see that the Croatia's GDP was healing and in period of five years the country's GDP increased at the value of 62.25 US\$ billion, during this period of healing Croatia was already part of the European Union.

**Table 3.3.** GDP Growth of North Macedonia & Croatia annual %

GDP Growth (annual %)		
Year	North Macedonia	Croatia
2000	4.5	2.9
2001	-3.1	3
2002	1.5	5.7
2003	2.2	5.5
2004	4.7	4.1
2005	4.7	4.3
2006	5.1	4.9
2007	6.5	4.9
2008	5.5	1.9
2009	-0.4	-7.3
2010	3.4	-1.3
2011	2.3	-0.1
2012	-0.5	-2.3
2013	2.9	-0.4
2014	3.6	-0.3
2015	3.9	2.5
2016	2.8	3.5
2017	1.1	3.4
2018	2.9	2.9
2019	3.9	3.5
2020	-5.2	-8.1



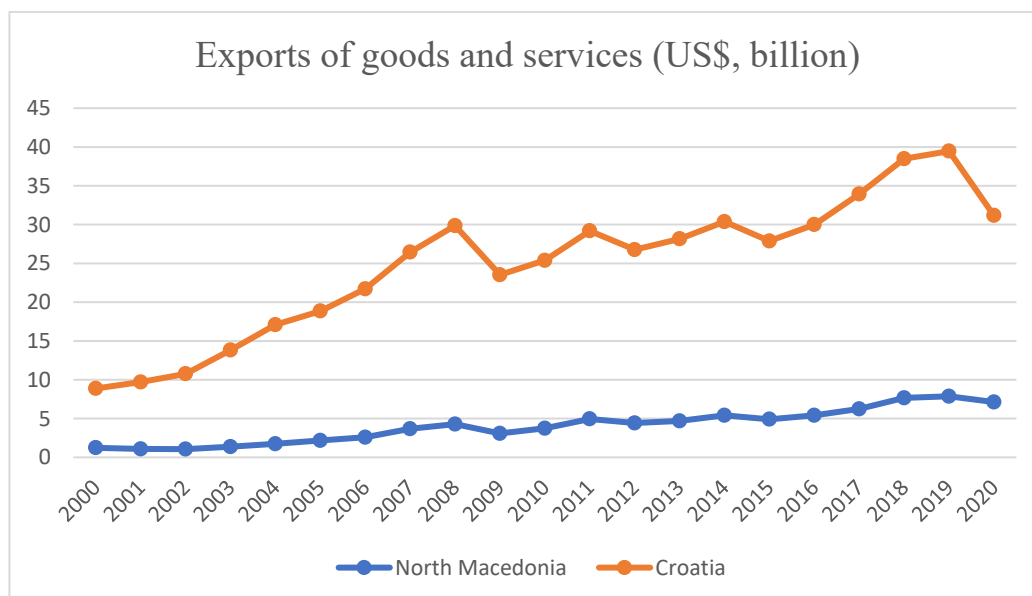
**Figure 4.3.** GDP Growth trends of North Macedonia & Croatia annual %

In Table 3.3. and Figure 4.3. we have the provided data for the second economic indicator which is the GDP Growth of North Macedonia and Croatia. Similarly, to the

GDP, also the GDP growth of North Macedonia during the last two decades was going in slow pace. Both countries faced decrease in GDP Growth in 2009 after the financial crisis that happened a year before in 2008, and in 2020 during the pandemic. In both cases the decrease was bigger in Croatia. Since 2013 when Croatia joined EU we can see a stable increase of the GDP Growth in the country every year except the last one because of the pandemic. On other hand, in North Macedonia's case we can see that the GDP Growth is fluctuating every year.

**Table 3.4.** *Exports of goods and services in North Macedonia & Croatia, US\$ billion*

Exports of goods and services (US\$, billion)		
Years	North Macedonia	Croatia
2000	1.24	7.64
2001	1.08	8.63
2002	1.06	9.71
2003	1.37	12.45
2004	1.74	15.35
2005	2.18	16.67
2006	2.59	19.12
2007	3.68	22.76
2008	4.28	25.58
2009	3.08	20.45
2010	3.74	21.64
2011	4.95	24.24
2012	4.42	22.34
2013	4.69	23.47
2014	5.42	24.95
2015	4.91	22.97
2016	5.41	24.58
2017	6.24	27.69
2018	7.66	30.82
2019	7.87	31.59
2020	7.13	24.04



**Figure 4.4.** Exports of goods and services trends in North Macedonia & Croatia, US\$ billion

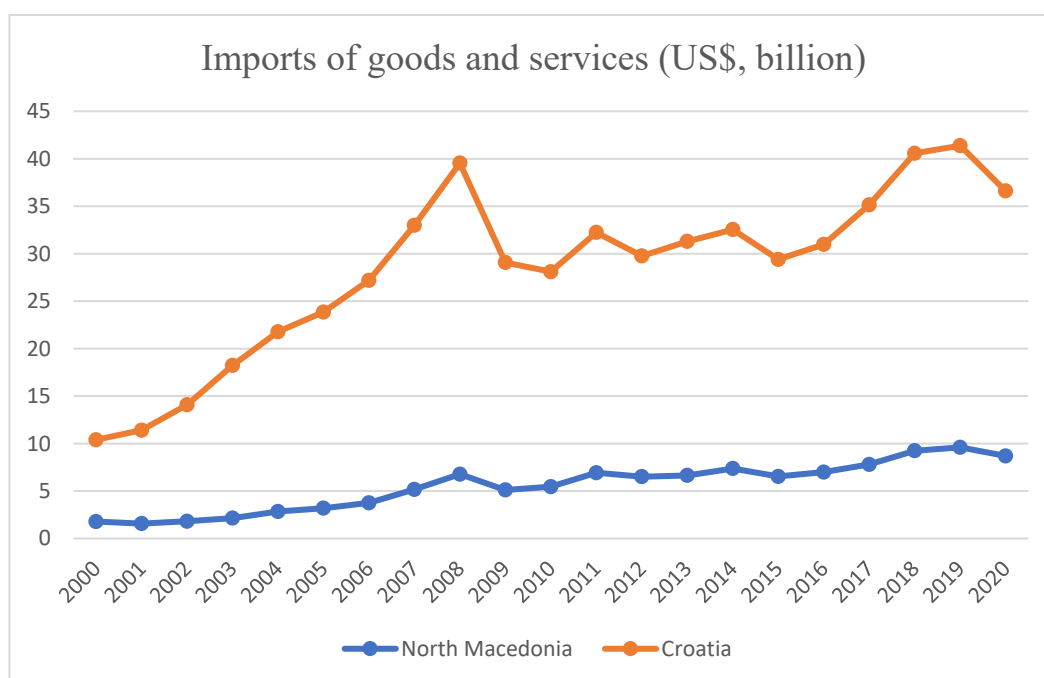
Table 3.4. and Figure 4.4 shows us the data for the third economic indicator of the comparison between the two countries. In this case we have the exports of goods and services for period of 20 years. In North Macedonia’s case we see the pace of exports almost growing every year but in a slow way. Being part of the EU would mean that the pace of exports may be able to grow even better with the benefits of a single market and full economic integration. On other hand, in Croatia’s case we see an overall good performance in exports. After some years of fluctuation after the financial crisis in 2008, we can see that since 2013 when Croatia became EU member country the exports are growing, except in 2020 when the pandemic started.

Also, in a publication of the European Commission regarding the European Economy and the Economic Briefs in March of 2021, “*Understanding the Croatian Export Boom*” by Kristian Orsini and Arian Peric, in which according to their recent analysis based on the gravity model for Croatia, the positive impact of EU membership on trade was confirmed.<sup>54</sup>

<sup>54</sup> Kristian Orsini & Arian Peric – “*Understanding the Croatian Export Boom*”, page 8, European Commission, 2021.

**Table 3.5.** Imports of goods and services in North Macedonia & Croatia, US\$ billion

Imports of goods and services (US\$, billion)		
Years	North Macedonia	Croatia
2000	1.78	8.62
2001	1.57	9.84
2002	1.82	12.26
2003	2.15	16.08
2004	2.85	18.93
2005	3.19	20.66
2006	3.76	23.43
2007	5.17	27.82
2008	6.77	32.77
2009	5.11	23.96
2010	5.46	22.64
2011	6.93	25.31
2012	6.51	23.25
2013	6.65	24.65
2014	7.37	25.17
2015	6.54	22.86
2016	6.99	23.99
2017	7.80	27.34
2018	9.24	31.34
2019	9.60	31.78
2020	8.70	27.91

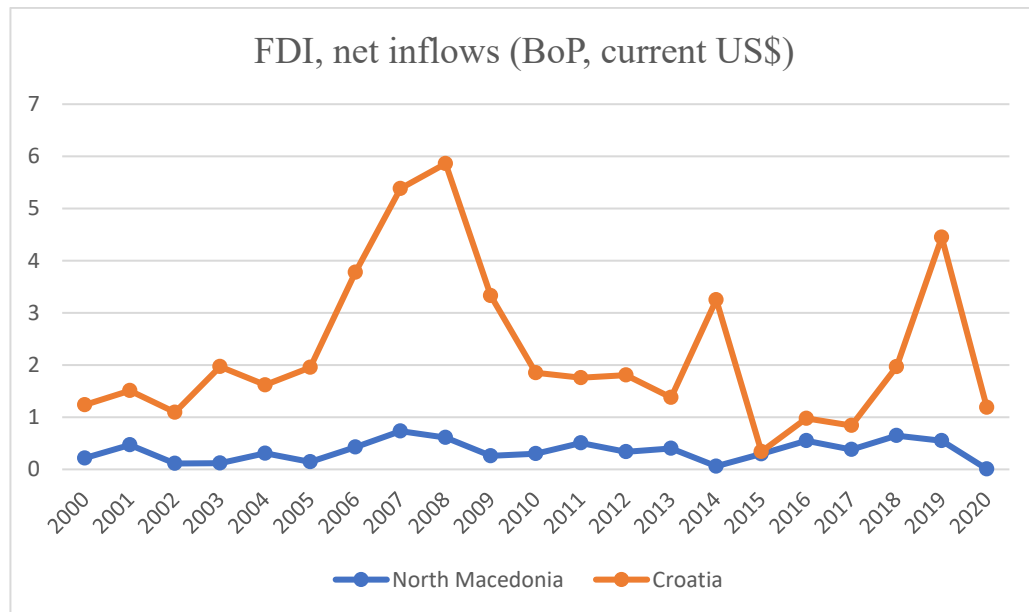


**Figure 4.5.** Imports of goods and services trends in North Macedonia & Croatia, US\$ billion

In Table 3.5. and Figure 4.5. we have included data for the fourth economic indicator which is the imports of goods and services in both North Macedonia and Croatia for the period from 2000 until 2020. Similarly to the previous economic indicator that included the exports of goods and services, also in this case we see similar pace of the progress during the mentioned period including here the continuous slow increase on imports for North Macedonia, the fluctuating period of Croatia after the financial crisis in 2008, and the constant increase of imports since 2013 when Croatia became part of European Union, which is another sign of increase in total trade for Croatia as we having growth in both exports and imports of the country.

**Table 3.6.** *FDI net inflows of North Macedonia & Croatia, BoP current US\$*

FDI, net inflows (BoP, current US\$)		
Years	North Macedonia	Croatia
2000	217.507.099	1.020.000.000
2001	469.570.706	1.040.000.000
2002	114.193.471	980.784.305
2003	119.041.753	1.850.000.000
2004	309.137.639	1.310.000.000
2005	145.329.602	1.810.000.000
2006	427.444.589	3.350.000.000
2007	733.466.879	4.650.000.000
2008	611.688.379	5.250.000.000
2009	259.530.321	3.070.000.000
2010	301.441.682	1.055.000.000
2011	507.920.733	1.025.000.000
2012	337.911.248	1.470.000.000
2013	402.458.310	975.476.236
2014	60.879.915	3.190.000.000
2015	296.604.200	44.642.053
2016	549.371.102	429.948.323
2017	380.738.978	460.160.215
2018	648.732.425	1.032.000.000
2019	549.500.830	3.900.000.000
2020	7.693.780	1.180.000.000



**Figure 4.6.** FDI net inflows trends of North Macedonia & Croatia, BoP current US\$

As we know foreign direct investments are an important economic indicator for every country’s economy. In this case, in Table 3.6 and Figure 4.6. we have the data for FDI net inflows of North Macedonia and Croatia. FDI, net inflows are the inward direct investment that is done by investors in the economy of the country. In the case of North Macedonia, even though the FDI net inflows are increasing from time to time which shows FDI attractiveness in the country, they are also fluctuating from year to year. We can see that after 2005 there is a significant increase for some years in a row. In the same year North Macedonia became a candidate country for EU membership. However, since 2009 North Macedonia was facing political obstacles and together with the financial crisis created a stagnation situation in the country that was affecting the foreign direct investments in the country. On other hand, regarding Croatia, it became candidate country in 2004, and it became member of EU in 2013. After both these years, we see a very significant increase and growth regarding FDI net inflows in the country.

It is important to mention that during 2015 the Croatian economy was facing challenges in general because of the macroeconomic imbalances which was also treated in the country’s report of Croatia for 2015 that was prepared by the European Commission in which it is mentioned that “Croatia is experiencing excessive

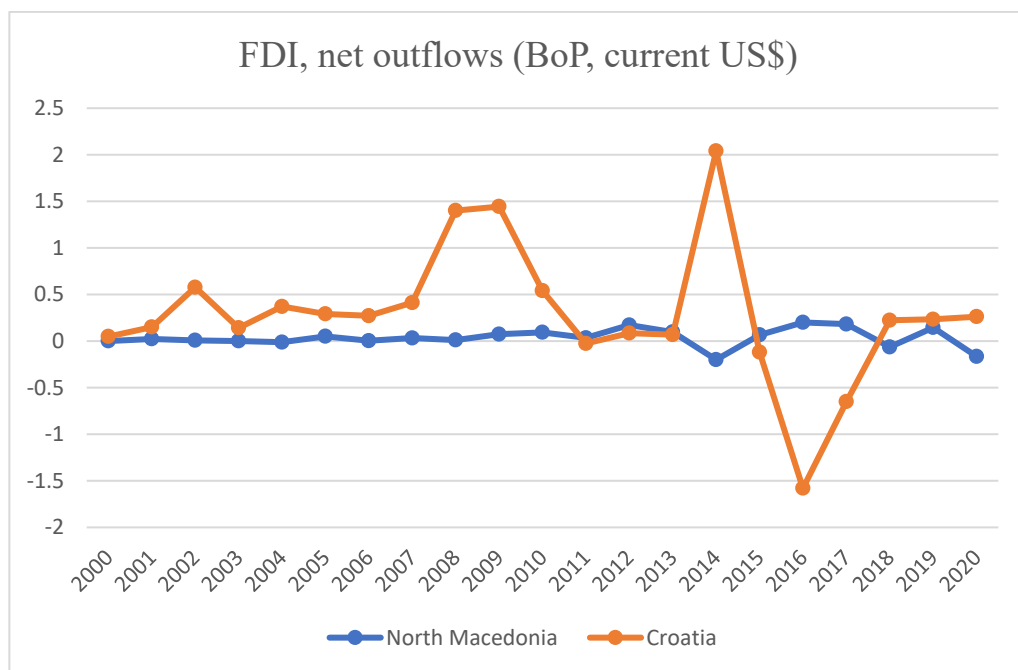
macroeconomic imbalances, which require decisive policy action and specific monitoring”.<sup>55</sup>

After this period in 2015, we see a fast growth and an increase in FDI net inflows in Croatia except in 2020 when the pandemic hit and affected the fast pace of growth in FDI net inflows in the country.

**Table 3.7.** *FDI net outflows of North Macedonia & Croatia, BoP current US\$*

FDI, net outflows (BoP, current US\$)		
Years	North Macedonia	Croatia
2000	1.847.674	48.125.438
2001	23.311.232	127.641.886
2002	8.723.394	568.999.097
2003	1.579.107	141.439.860
2004	-12.729.602	383.058.887
2005	51.098.471	240.977.676
2006	3.482.820	268.641.958
2007	33.316.131	379.695.359
2008	11.186.653	1.039.000.000
2009	74.002.493	1.037.000.000
2010	94.584.866	446.194.611
2011	34.007.846	-60.395.679
2012	172.407.663	-87.172.077
2013	97.482.333	-28.509.531
2014	-200.509.668	2.240.000.000
2015	66.290.399	-185.255.662
2016	200.006.441	-1.078.000.000
2017	182.200.846	-832.709.279
2018	-64.525.689	287.978.571
2019	145.532.686	89.729.849
2020	-165.220.701	427.431.082

<sup>55</sup> European Commission – *Country Report: Croatia, Macroeconomic Imbalances*, 2015.



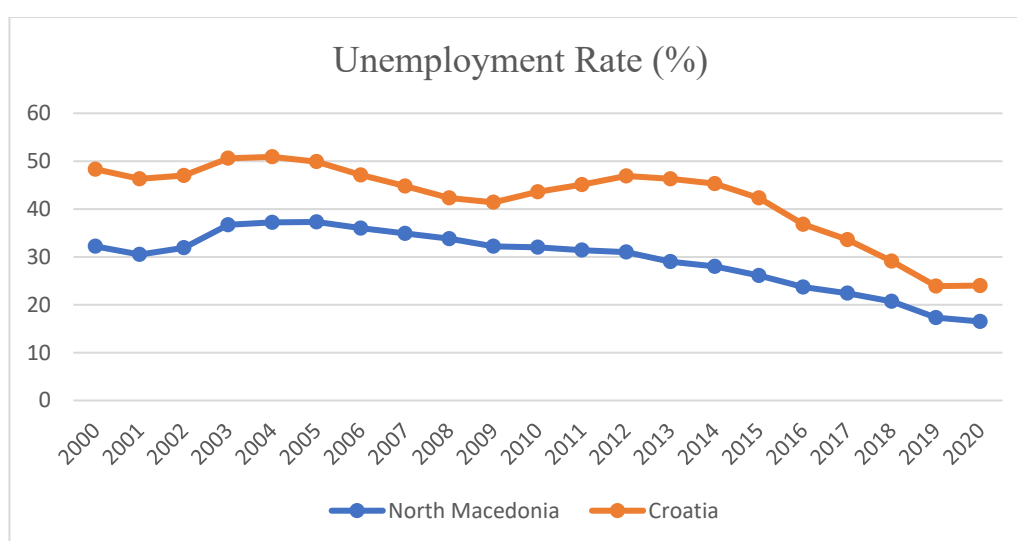
**Figure 4.7.** FDI net outflows trends of North Macedonia & Croatia, BoP current US\$

In Table 3.7. and Figure 4.7 we have FDI net outflows of North Macedonia and Croatia. FDI net outflows is the opposite of FDI net inflows which means citizens of the countries are making outward direct investments in external economies. In North Macedonia's case, the numbers are low which comes as a result of North Macedonia being a small country and at the same time having limitations on external economies, compared to Croatia in which case we can see that after the membership in the European Union in 2013, and after the economic challenges that the country was facing in 2015 which affected the outward investments in the next year, there is continuous increase and growth of FDI net outflows.

**Table 3.8.** Unemployment Rate of North Macedonia & Croatia, in percentage %

Years	Unemployment Rate (%)	
	North Macedonia	Croatia
2000	32.2	16.1
2001	30.5	15.8
2002	31.9	15.1
2003	36.7	13.9
2004	37.2	13.7
2005	37.3	12.6
2006	36	11.1
2007	34.9	9.9
2008	33.8	8.5
2009	32.2	9.2
2010	32	11.6

2011	31.4	13.7
2012	31	15.9
2013	29	17.3
2014	28	17.3
2015	26.1	16.2
2016	23.7	13.1
2017	22.4	11.2
2018	20.7	8.4
2019	17.3	6.6
2020	16.5	7.5



**Figure 4.8.** *Unemployment Rate trends of North Macedonia & Croatia, in percentage %*

The last economic indicator regarding the comparison between North Macedonia and Croatia is the unemployment rate of both countries in which case we have decrease in both countries. The only difference is that in Croatia's case we can see that after 2009 the unemployment rate was increasing from 9.2% up to 17.3% in 2013. Since then when also the membership in European Union entered into force in 2013 the unemployment rate is decreasing constantly coming down to a 6.6.% in 2019, and 7.5% in 2020 because of the pandemic. These seven economic indicators that were mentioned and explained above show clearly the economic process and the economic differences between the two countries for the last two decades. Through the collected data that was provided for these seven economic indicators we were able to see how the Croatian economy benefited from the European membership by enjoying the economic benefits that EU brings to its members. Unfortunately, in North Macedonia's case because of the political obstacles that the country was facing we could see what kind of economic

benefits the country was losing until these obstacles were passed and the issues were solved.

#### **4.4. Thoughts on the future of North Macedonia**

The future of North Macedonia towards the European Union looks closer now by solving the issues and opening the accession talks after a lot of years being dependable on the political obstacles that were being the reason of not having membership in the European Union and with it, losing the economic benefits that EU's economy provides for its members. This creates a situation of an existing optimism for the future of the country, its stable functioning and economical improvement by being able to open the accession talks for EU membership after all this long process that the country has been through. All this could create a backfire in the wider opinion that could have tendencies of creating unstable situation inside the country, which may also have side effects in the region knowing that the specific reasons for failing in this would be exactly the vetoes used by two out of five neighbour countries that North Macedonia has borders with, and the only two that are already EU member countries, which could create doubts in the population that more stalling and stagnation in this process may up bring other unneeded issues with other neighbour countries. All this had a possible cost on the economic development and improvement of the country by knowing that North Macedonia is a landlocked country, and the economic integration is of great importance for the country. Solving the political obstacles for North Macedonia except stability means also improved economic performance and different economic benefits in areas such as GDP growth, increase in trade, possible improvement in foreign direct investments and in many other economic indicators. The membership and economic integration with the EU will help North Macedonia to build even stronger ties with other member states that the country already has good relations, such as in the case of Germany, Italy, Austria, Croatia, and Slovenia. As a result, these countries can increase their presence in North Macedonia.

All this opens the stage for the Macedonian domestic companies to take advantage of the economic benefits that can be provided through the economic integration with the European Union if North Macedonia becomes a member country. Through the economic integration Macedonian companies that are already exporting in the European Union, but also those that did not, will have the chance by increasing exports and with it

their production to help themselves but also the country to have better economic performance, which creates a win-win situation for both the Macedonian domestic countries and the country itself.

This is also the topic that is going to be treated in the upcoming chapter through the research done with some of the Macedonian domestic companies that are already exporting in the European Union.

## **CHAPTER 5: RESEARCH**

### **5.1. Subject of the Research**

The purpose of the research is to analyze the situation of the Macedonian domestic business companies, and the impact that the economic integration in the European Union may have on their functioning. In July 2022 North Macedonia began the accession negotiations with the European Union and is expected to become an official member country of the EU in the near future. The economic benefits of the membership in the European Union are expected to affect the country's economy through its economic integration. The first to feel the positive economic impact of the EU membership are expected to be the domestic business companies in North Macedonia that are already working on the European market. That is why the research included companies that are already exporting to the European Union, what are the export procedures, are there factors that prevent them from operating properly, what is expected to be easier, and will the economic integration of North Macedonia in the European Union affect or increase the business opportunities for the domestic companies in the EU market.

### **5.2. Objective and Importance of the Research**

The research aims to examine the Macedonian domestic companies that are exporting to the European Union. Different companies from several industries are discussed in order to provide detailed insight and analysis of the current situation.

The importance of the research comes as a result of the issues that Macedonian domestic companies are being struggling with, instead of taking advantage and enjoying the benefits that the membership of North Macedonia in the European Union could bring to them through economic integration. This would involve business facilitation, fewer procedures, greater harmonization, and bigger markets and opportunities in the respective business sectors.

Historically, North Macedonia has had the candidate status since 2005. However, the stagnation of the accession process has affected the country in all areas, particularly its economy. Being a small and landlocked country, North Macedonia could greatly

benefit from the economic power of the European Union, primarily the domestic companies. Joining the EU would cause a positive domino effect, which would bring great benefits for both the domestic companies and the country's economy in general.

The research aims to contribute to the debate about the benefits of economic integration in the EU by providing a detailed overview of the current situation of the domestic companies that are exporting to the European Union, their challenges, and analysis of the possibility for North Macedonia to officially become an EU member and the opportunities this would create for the country.

### **5.2.1. Research Question**

The study aims to answer the following research question:

- Will there be more business opportunities for the Macedonian domestic companies if North Macedonia joins the European Union and economic integration begins in the country?

### **5.3. Research Methodology**

A qualitative research design is used in this study in order to fully understand the situation of the Macedonian domestic companies that are exporting to the European Union. An interview with open-ended questions is used as an instrument to gather the necessary data.

The findings of the research will be presented through a SWOT Analysis, which will cover the strengths, weaknesses, opportunities, and threats for the Macedonian domestic companies that are exporting to the EU market. This type of analysis will allow us to examine the situation from different perspectives and gain deeper insight into the findings, as well as to obtain more accurate data.

#### **5.3.1. Qualitative Research Methodology**

The qualitative research paradigm defines the methods and techniques most suitable for collecting and analyzing data (Merriam and Tisdell, 2016). It provides us with real and accurate data from the participants who have experience in the research area of this study.

### 5.3.2. Sample of the Research

Nine domestic companies from North Macedonia are included in the research. The companies chosen operate in different industries so that various aspects of the economy in North Macedonia can be presented and more accurate data can be obtained through the research.

**Table 4.1.** *Demographic Structure of the Participant Companies*

Company	Participant's position	Year of establishment	No. of Employees	Industry	In the EU market
A	Clerk	1991	150-200	Textile	2006
B	Director	1997	500-1000	Steel	1997
C	Owner	2006	10-50	Manufacturing	2017
D	Manager	1974	150-200	Water Supply	2000
E	Manager	1990	500-1000	Export-Import	2017
F	Manager	1992	50-100	Granite, Marble, Wood	2015
G	Manager	1946	350-400	Bakery	2001
H	Owner	1991	10-50	Digital Printing	2015
I	Owner	2019	10-50	Production	2022

Table 4.1. above shows the demographic structure of the participant companies in greater detail, including participant's position, year of establishment of the company, number of employees, respective industries in which they operate, and the year in which they entered the European market.

### 5.3.3. Data Collection Methodology

Research data were collected through interviews with open-ended questions. The following research questions were used in the interview:

1. Brief introduction (name, surname, and job position)
2. What is the demographic structure of the company, including year of establishment, ownership structure, number of employees, and the particular industry in which the company operates? Please, provide more details.
3. To which EU member countries does your company export goods?
4. How was your company selected by the clients that you have in the EU member countries?
5. When did the company start exporting goods to the EU member countries?

6. Why did your company start exporting in this particular year, could this have been possible earlier? Please, provide more details.
7. How many types of goods does your company export?
8. Describe the procedure for exporting goods to EU member countries?
9. What are the most common challenges the company faces during the procedure for exporting goods? Please, provide more details.
10. What are the challenges of competing in the European Union with other local businesses of the respective countries to which you export?
11. If North Macedonia enters the European Union, do you think that the export procedures will be easier? In which aspect? Please, provide more details.
12. If North Macedonia enters the European Union, do you think it will be possible to increase the export of goods to other areas or countries, and why? Please, provide more details.
13. If North Macedonia enters the European Union, do you think that other businesses in the country will have more opportunities to export goods to EU countries or not? Please, provide more details.

#### **5.3.4. Validity and Reliability of the Research**

For the importance and the accuracy of the research study, during the realization of the research, the main focus was given to the validity and the reliability. In this case, it was very important that all participants included, to be clearly informed and properly understand the purpose of the research. From the researcher's perspective, a high level of attention was given to the proper functioning of the interviews, and the findings from the research to be in the same line with the purpose of the research. Additionally, different participants were included in the process of the research in order to have a bigger range of findings that will affect the accuracy of the research in a positive way. Also, a detailed review was done between the researcher and the participants in order to avoid a possible misunderstanding and misconception that can affect the research findings.

The realization of the interviews happened in North Macedonia during the period between August and September 2022. The participants in the research were informed beforehand about the content of the interview questions. The interviews with the

participant companies were conducted in two forms: in physical presence with four companies and by e-mail with the other five companies.

#### **5.4. Research Findings and Analysis**

The research included nine companies from different industries. In three companies the participant was the owner, in four companies the participant was in a high managerial position, in one company the participant was director and member of the board of the directors, and in one company the participant was in a position of expert for the respective field. Companies included in the research were from industries such as: textile, steel, household manufacturing, water supply, baking, coffee production, digital printing, export-import, and in one case we have a company included in three areas granite, marble, and wood. The ownerships of the companies were of three types: family business, privately owned, and joint venture. Most of the companies were founded between 1990s and in 2000s, except in two cases, where we had companies with a very long tradition which were founded in 1946, and 1974, and in one case we have a new company which was founded in 2019, but already exporting in the international market. Regarding the size, all three categories are included: small, medium, and big companies.

The participant companies in the research are all exporting in the EU market, some of them started exporting in 2000s, others in 2010s, and in one case, the company started exporting at the beginning of 2022. Seven of the companies are exporting up to 10 products in the EU market, and two of the companies included are exporting all their range of products varying from the demand. The relations between the clients and the participant companies in the research, is created in most cases by participating in different fairs. Also, we have few cases when the participant companies were selected by the clients based on the price and quality of the products. All nine participant companies in the research, all together in total, export to seventeen out of twenty-seven countries that are members of the EU. The countries included are Italy, Germany, the Netherlands, Belgium, France, Denmark, Greece, Bulgaria, Croatia, Slovenia, Romania, Austria, Hungary, Poland, the Czech Republic, Slovakia, and Sweden.

The findings of the research show that the participant companies in the research face different types of challenges while exporting in the EU market. The most common

challenges that the companies are facing are of a bureaucratic nature; a lot of documents are needed for exporting inside the EU market. However, this is not all, there are also challenges with the customs procedures, which are affecting the efficiency and effectiveness of the companies in transport and delivery timing, both in cases of export and if there is a need of importing the raw materials from the EU countries for the production of the goods. All these issues mentioned, including the certificates needed in accordance with the EU regulations, which often is a long and expensive procedure that affects the companies, puts the companies in a position to be unable to provide exemplary performance to their clients. Another burden that affected the companies during the last years, were the issues with the Covid Pandemic, and the war between Russia and Ukraine, which became a reason for complications on delivery and increase of operating costs including the gas, fuel, and electricity prices.

Despite all the challenges mentioned above, participant companies included in the research, consider that there are going to be a lot of improvements and opportunities as a result of the economic integration with the EU, if North Macedonia as a candidate country and as a country that opened the accession talks with the European Union, becomes a member state and officially part of the EU. Domestic companies included, are stating that the impact of the economic integration with the EU is going to be obvious, because of the removal of many bureaucratic and customs procedures. The companies can benefit from the different financial supports that EU is providing for companies inside the EU territory for increasement of competitiveness, production, and retraining of the workforce. Also, the predictability of fiscal and monetary policies is of great benefit for the well-functioning of the company. The most important is the access in the EU market without all the challenges mentioned above, from which both, already exporting companies and the companies that are going to enter the EU market can benefit. If North Macedonia officially becomes a member country of the EU, the impact on domestic companies and in the Macedonian economy is inevitable, with the many opportunities that come together with the economic integration within the EU.

Furthermore, a SWOT Analysis will be demonstrated in the research, in order for the findings to be presented from different viewpoints and perspectives.

### **5.4.1. SWOT Analysis**

For the purpose of the study, a SWOT Analysis was selected as the appropriate framework methodology to present the findings of the research. In order to have a clearer view of the impact that the economic integration with the EU can have on the domestic companies in North Macedonia we are going to be able to see the internal and external factors. As we move forward, we are going to present strengths, weaknesses, opportunities, and threats separately. According to the findings, we are going to see the strengths and weaknesses of the domestic companies and the opportunities and threats that the membership and the economic integration of North Macedonia with the EU could bring.

#### **5.4.1.1. Strengths**

In the strengths section of the SWOT Analysis, we are showing the strong advantages and characteristics of the participant countries. The findings of the research show that the domestic participant countries are mostly selected based on the quality of the products and the cheap prices they have for the goods provided. This helps the participant companies also competing with the other companies that are already part of the EU.

Except these, the companies have various types of products from the respective industries, that they export in the EU, and this put them in a position of having the choice for many products in one place and to create long-term relations, which is another strength for them. Also, another strength worth mentioning is that all of the companies included in the research were certified according to the EU regulations which makes them a strong and proper competitor in their industries. It is worth mentioning that in some cases the raw materials that are being used for the production of the goods are known in the EU market, which makes clients attracted to work with the Macedonian companies.

#### **5.4.1.2. Weaknesses**

According to the findings from the research it is shown that the weak points of the Macedonian domestic companies competing in the EU market have to do with different issues such as: administrative and bureaucratic procedures, customs procedures,

delivery efficiency, labor wages, and in the operational costs due to the Covid pandemic and the war between Russia and Ukraine.

The administrative and bureaucratic procedures, also the customs procedures put the Macedonian domestic companies in a situation to struggle with the delivery of the goods. Clients from the EU market in many cases do not prefer to deal with a lot of bureaucratic procedures because it is not very effective. This puts the Macedonian companies in a situation to be hard to maintain the efficiency having under consideration that they also face different challenges with the transport charges and in some cases the overload of the borders, which affects the delivery timing. Potential membership in the European Union may put the domestic companies in a situation to face with challenges in areas of labor force. The reason that could bring the companies in this situation is the issue with the wages because even though the salaries have been increasing constantly during the last years, they are still not high enough to compete with other companies that come from other member countries in the EU. This can have severe effect in the well-functioning of the company because the production sector will be affected, and this will create challenges in meeting the demands from the clients.

Another issue that in few cases came to attention was the dependency of the Macedonian companies in the raw materials from outside the country, which affects the companies in many areas such as: production, price, and in delivery timing.

#### **5.4.1.3. Opportunities**

The findings of the research show that there are a lot of opportunities for the Macedonian domestic companies if North Macedonia becomes member country of the EU. The most important areas that are going to solve a lot of issues and challenges that preoccupies all the participant companies are the facilitation and reduction of the bureaucratic procedures. Removal of the customs procedures is of great importance, because it will positively affect the work of the companies in all areas. The companies that are importing the raw materials from the EU member countries will be able to get them with cheaper prices and no customs procedures which is going to help them in better production and selling cheaper end products.

Findings also are showing that there is a huge potential of trade, since the EU market is very big. The expectations among the participant companies are high and

realistic, since they are already functioning in the EU market and with the facilitation of the procedures they are automatically going to be in a better position to increase the production and to compete with other companies. This also opens the door for other domestic companies to have the chance to extend and increase their operations in the EU market.

During the realization of the research, among the participant companies' other benefits that are of great importance were mentioned. Those are: the legal certainty and predictability of fiscal and monetary policies, greater protection of the competition under the umbrella of the EU with other competitors from outside, capital and labor markets are fully liberalized, and financial support which includes different funds and non-refundable loans up to 60% for increase of the competitiveness, better production, retraining and keeping the workforce etc.

#### **5.4.1.4. Threats**

The main issues in the threats section of this SWOT Analysis have to do with the effects in the labor force, business functioning, and the EU standards. The participants consider that because of not very high wages in the domestic companies for many from the labor force it is possible to consider better opportunities in other countries, and this will put companies in a position to face lack of labor force, which is going to affect them in meeting the demands of the clients. Another issue is that because of different approaches and policies that some other member countries may have towards the companies, could be the reason that some of the domestic companies decide and move their work of business in another territory. Also, in order for the Macedonian domestic countries to start exporting in the EU market they need to function in the accordance with the EU standards and regulations. While for some companies this may not be an issue, for some others it may definitely be a challenge to step up and reorganize the structure of their companies.

**Table 4.2. SWOT Analysis**

	Strengths	Weaknesses
Internal	<ul style="list-style-type: none"> <li>• Cheap price</li> <li>• Product quality</li> <li>• Variety of products</li> <li>• Serious &amp; long-term relations</li> <li>• Internationally Certified</li> </ul>	<ul style="list-style-type: none"> <li>• Administrative and bureaucratic procedures</li> <li>• Customs procedures</li> <li>• Transport &amp; Delivery</li> <li>• Low wages</li> <li>• Operational costs</li> <li>• Raw materials dependency from outside the country</li> </ul>
	Opportunities	Threats
Internal / External	<ul style="list-style-type: none"> <li>• Facilitation of the bureaucratic and administrative procedures</li> <li>• Customs clearance</li> <li>• Huge trade potential</li> <li>• Cheaper raw materials</li> <li>• Legal certainty and predictability</li> <li>• Stable fiscal and monetary policies</li> <li>• Liberalized capital and labor market</li> <li>• Greater protection of the competition</li> <li>• Financial support</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of labor force</li> <li>• Movement of the business</li> <li>• Challenges with the EU standards &amp; regulations</li> </ul>

Table 4.2. shows in short notes the results of the SWOT Analysis for the impact that the economic integration with the EU could have in the Macedonian domestic companies.

## CONCLUSIONS AND SUGGESTIONS

The aim of the research study was to examine and analyze the economic integration of North Macedonia with the European Union. In the studies the following issues were treated: the economic situation of North Macedonia as a developing candidate country, the economic power of the European Union, the relations between North Macedonia and the European Union, and the impact that the economic integration with the EU could have on Macedonian domestic companies, since North Macedonia has already opened the accession talks to be a member country in the European Union. The research was realized through the qualitative method approach and the findings draw out conclusions related to the hypothesis and the objectives of the study.

According to the results of the findings we can conclude that the impact of the economic integration on Macedonian domestic companies is inevitable and there are many economic benefits for North Macedonia in case of possible membership in the European Union. Based on the results from the research it can be concluded that the Macedonian domestic companies are facing different challenges in the EU market, including the administrative and bureaucratic procedures, customs procedures, transport delivery, also long and expensive procedures of certification. Due to the Covid pandemic and the latest war conflict between Russia and Ukraine the harmonization and functioning are even more affected, because of the increasement of the operational costs including the prices of gas, fuel, and electricity that are becoming unmanageable and unbearable.

Conclusions can be given also to the many opportunities that the economic integration in the EU could bring to Macedonian domestic companies which are: easier administrative and bureaucratic procedures, customs clearance, access to a huge market, different financial supports etc. In the case of factor endowment theory of international trade findings also show that North Macedonia has a comparative advantage. Analysis of the data provided forecast that economic integration that comes up with the membership in the European Union in many cases is a solution for a country's economy.

The SWOT Analysis of the results from the findings in the research demonstrated that Macedonian domestic companies have the needed potential to compete in the EU market, since in many cases they were selected based on the quality of products, the cheap price, and the variety of products in their respective industries, which gives them the needed instruments compared to their competition in the EU market. Most of the weaknesses in the case of Macedonian domestic companies can be easily improved and upgraded through the economic integration in the EU. This is going to put companies in better position and situation to compete and increase the production. Regarding the opportunities and the threats that the economic integration in the EU could bring to the Macedonian domestic companies it can be easily concluded that there are more opportunities than threats. Administrative and bureaucratic facilitation, customs clearance, huge potential of trade, financial support could be of great positive impact for the Macedonian domestic companies. Possible challenges with the EU standards and regulations, and lack of labor force maintains serious threats to the Macedonian domestic companies, but possible increase of operation in bigger market could potentially provide possible solutions for these issues.

The conclusions of the research create the space for different suggestions in both the public and the private sector. From the institutional perspective it can be suggested that the institutions of North Macedonia should avoid stagnation in the accession process as it happened with the opening of the negotiations. For this to be avoided a constructive preparation is needed and an approach in order to foreseen beneficial solutions and finishing of the accession process in effective way. Further stalling and stagnation with the administrative and bureaucratic processes in accordance to the EU laws and system structure is going to keep depriving firstly, the citizens, and also the Macedonian domestic companies from the economic benefits that the membership and the economic integration in the EU could bring to the country. In the bigger perspective this also affect the country's economy. On the other hand, the suggestions regarding the private sector are of the nature of precaution and preparation, in advance in accordance to the European Union standards and regulations, since North Macedonia has already opened the accession talks with the EU and it is expected in the upcoming few years to be officially part of the European Union.

This study can be used as a contribution to the studies regarding the relations between North Macedonia and the European Union, examination, and analysis of the export procedures with the EU and the possible economic benefits for the Macedonian domestic companies through the economic integration in the European Union. Even though the specifics of the topic are not very generalized, but it has to do mostly with North Macedonia, Macedonian domestic companies and the relations with the EU, since there were almost no studies regarding this topic, it can be recommended that in the future studies can be treated from different research methodologies or studies can be done in other areas in order to be able to reveal different findings that can be useful for the bigger purpose. This study can be useful and helpful also for other researchers that are treating similar topics about similar countries like North Macedonia that may have or work in similar relations with the European Union.

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