



**9<sup>TH</sup> INTERNATIONAL ASECUCONFERENCE ON  
“SYSTEMIC ECONOMIC CRISIS: CURRENT ISSUES AND PERSPECTIVES”**

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**PERSPECTIVES OF INTEGRATION OF THE WESTERN  
BALKANS AS A REGION IN THE EUROPEAN UNION**

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**Abstract**

*The European Union's historic expansion has been an economic and political success, but the current economic crisis poses a challenge to the future of the enlargement process. Economically, enlargement has led to increased living standards in the new member states, while simultaneously creating export and investment opportunities for the old ones. Politically it helped the European Union (EU) to preserve its own goals by becoming the biggest economic player on the world scene.*

*The current crisis is putting the substantial benefits gained from the enlargement at risk, and suggests that the Western Balkan region could face some serious challenges regarding the EU enlargement. Taking this fact into consideration, the paper analyzes the EU's enlargement strategy concerning the integration of the Western Balkans. The conclusion suggests that the enlargement will continue, because EU's expansion is a key factor of economic competitiveness and strengthening of the political and economic stability of the Union. That for sure depends only on the will of the powerful member-states of the Union to intensify the Western Balkans' EU integration process and their political will to sustain the concept of the EU.*

**Key words:** *enlargement, economic crisis, European Union, macroeconomic imbalances, Western Balkans.*

**JEL classification:** F15, F62



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### 1. Introduction

Since the beginnings of the European Union (1957), when the European Economic Community initially comprised only six member states, there have been six rounds of enlargement. The historical enlargements of the European Union have contributed for the Union to become the biggest economic player on the world scene, with the largest share of 25,08% in the world GDP (annual growth rate for the period 1990-2011, The World Bank Database). Furthermore, European Union is the world's leading exporter of goods and the second largest importer. Enlargement has strengthened the Union's role in the world affairs - in foreign and security policy, trade policy and other fields of global governance.

The enlargements of the EU brought increased and improved trade and investment opportunities and EU continues to pursue trade liberalization through multilateral, regional, and bilateral initiatives and continues to promote open trade. By exercising leadership through its trade and enlargement policy, the EU can reap the benefits of a stronger and more united continent, also demonstrating its continued capacity as a global actor (European Commission, 2012).

However, the current crisis is putting at risk the substantial benefits gained from the enlargement. Additionally, it identified serious problems of the functioning of the EU. As a result of the unprecedented public spending, the internal balance of the EU was imperiled. Together with bad allocation of resources and higher growth of nominal wages compared to real productivity, it has influenced the lower competitiveness of the Union and the creation of trade deficit, i.e. it created external imbalance. Macroeconomic imbalances and competitiveness divergences have been results of the economic choices of the member states of EU over the past decade. It seems that the crisis has revealed many weaknesses of the functioning of the EU institutions and the decision making process. Solving the macroeconomic imbalance of the Union will be a condition for its sustainability in the future and the process of new enlargements.

At the very beginning of the crisis in the EU, the Union did not have a clear perspective about its policy, how to deal with the consequences of the crisis. National governments acted in separate ways by financing banks with liquidity problems. What deprived the Union from successful dealing with the consequences of the financial crisis were the following (European Parliament, 2011, pp.9):

- Delayed decisions of the official authorities ;
- Lack of financial resources;
- Lack of legal instruments to adequately deal with the financial crisis in the Union.

In the absence of appropriate measures of the European Commission, Member States dominated in taking responsibility, i.e. the European Council, led by Germany, the financially most powerful member. European Council became a leading authority in taking steps to tackle the crisis. Moreover, the assistance by the International Monetary Fund (IMF) is considered as a loss of prestige of the Union, which indicates the failure of the Union to manage the national economic policies of the countries. The European Central Bank was the only EU institution that emerged from the crisis with greater



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power. Such situation indicates the need to strengthen the joint influence of the Commission and the Member States in the long term, in order to get out of the crisis.

For the European Union to succeed in the long run, what is necessary is a higher level of solidarity including fiscal consolidation between governments and people. Current developments within the Union raised serious questions about the coordination of the Union's institutions, and the relationships between powerful countries, like Germany and France, and smaller, economically weaker countries within the Eurozone. This means that the process of decision making and the influence of Germany and France must be more balanced and in the interest of the Union. Without it, the legitimacy and the functioning of the Union will be seriously impaired, as much as the citizens' trust in the Union.

The crisis of the Euro and the challenges it poses to the EU's cohesion and leadership, raise concerns about the EU's ability to keep an eye on the enlargement process at the same time. It is not easy to promote openness and generosity when the economy is in crisis and the politics of accountancy prevails (Rupnik, 2011, pp. 20). Except the undetermined view of the EU about the enlargement process, the Union is also uncertain about the outcome. In the following sections we will elaborate the relations of the EU with the Western Balkans and therefore present our personal opinion on the prospects of this region of becoming part of the Union.

### **2. European Union relations with the Western Balkans**

Albania, Kosovo, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Montenegro, Romania and Serbia are countries which are part of the South East Europe region (SEE), according to the classification of the international financial institutions and EU. In some classifications Moldova is also part of this region (Anali, 2005). The transition of the countries of SEE has been characterized by significant political conflicts and tensions due to the disintegration of Yugoslavia.

The SEE region is divided between Western and Eastern Balkans. The Eastern Balkans (Bulgaria and Romania) has already become part of the EU and its political and economic situation is quite different from the Western Balkans (Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia, Montenegro and Kosovo). Therefore, Western Balkans is considered as “black hole” (Tiri and Donila, 2009) or “black sheep” (Marinkovic, 2012) of Europe in economic and political context. Economically, the whole region lags behind the economic growth and development of the Western European countries. Politically, the reform process towards modernization and democratization of their society is moving slowly. Also, this region is characterized by ethnic conflicts, lack of the rule of law, violation of territorial integrity and economic systems that constitute poor bases for further economic development.

While the cooperation between the countries from the Central and Eastern Europe (Bulgaria, Czechoslovakia - until its dissolution into the Czech Republic and Slovakia on 1 January 1993, Poland, Romania and Hungary- CEE 5) was accomplished with European Association Agreements in 1991 and 1992, the relations between the EU and the Western Balkans were minimal in the first half of the 90s.



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Even after the Bosnian war in 1995, the European Union started to see the Balkans more as a part of Europe rather than a region far from its doors. The Kosovo crisis and the NATO interventions in 1999 were another warning, urging the EU to pay more attention and create bigger possibility to introduce a more comprehensive approach into the entire region (Tiri and Donila, 2009). The relations were strengthened further on at the Feira European Council on June 2000 and Zagreb Summit of November 2000.

Stability in this post-conflict area was crucial, as the EU needed to secure its external borders. At the same time however the EU was not ready to promise anything close to membership as an incentive for these countries to reform and achieve the needed political and economic capacity to ensure stability. As a result it coined the term “privileged partnership” to describe its plans for cooperation with the Western Balkans. Before committing to any form of enhanced relations with these countries, the EU would ensure they fulfill strict political conditionality ensuring political stability, respect for democracy, rule of law, human rights and regional cooperation. The EU committed to assisting these countries, both financially and politically, in meeting these benchmarks (Mihaila, 2012, p.14).

The European Union defined the policy of membership and cooperation with the countries from Western Balkans with the Stabilization and Association Process (SAP), combined with the Stabilization and Association Agreements (SAA) and an assistance program (CARDS). The cooperation consisted of: establishment of political dialogue, increase of the economic cooperation and cooperation in other areas such as industry, technology, education, and environment.

Stabilization and Association Agreements had the aim of creating free trade zone between the Western Balkans and the EU. In 2000 it was introduced autonomous liberalization of exports from these Western Balkans countries to the EU without tariffs and quantitative restrictions. The exception were some products using quotas such as wine, sugar, beef and fish products, which were under regime of gradual liberalisation. The countries which first signed the Stabilization and Association agreement were Macedonia and Croatia in 2001, Albania in 2006, Montenegro in 2007, and Bosnia and Herzegovina and Serbia in 2008 (Beloni, 2009). From all the Western Balkan countries, Croatia is the anchor country in the region. Croatia is about to conclude the entry negotiations and is set to join the EU in July 2013. Macedonia, Serbia and Montenegro have been accepted as official candidates but the Commission found them not ready to open accession negotiations. Bosnia and Herzegovina and Kosovo remain for all practical purposes two European semi-protectorates. Albania is still potential candidate.

The official statement of the EU for the Western Balkans countries was brought in 2003 at the Thessaloniki European Council held in June 2003 regarded as Thessaloniki Strategy for the Western Balkans countries. This agenda is of historic importance because in some way it ultimately sets strategic goals for the admission period of the Western Balkans. At the summit in Brussels in March 2003, the President of the European Commission Romano Prodi said that the future of the Western Balkans is in the European Union, and that the unification of Europe will not be complete until such time as these countries do not join European Union (Isak, 2007, p.9).



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But, the events that followed were not in favor of further enlargements. In 2005 the rejection of the EU Constitutional Treaty by French and Dutch voters indirectly meant rejection of further enlargement. In the absence of constitutional reform, they considered that further enlargement could dangerously strain the existing modus operandi and potentially paralyse future EU decision-making. At the EU-Balkan meeting in Salzburg in March 2006 EU foreign ministers confirmed their more stringent approach. They watered down previous commitments with reference to the EU’s “absorption capacity” and to an “internal European debate” on the future of enlargement as potential barriers to accession (Joint Press Statement, 2006).

European Commission President Barroso acknowledged the growing “enlargement fatigue” by announcing that the accession of Romania and Bulgaria (which joined on 1 January 2007) was the last enlargement – at least in the absence of an institutional reform capable of streamlining the decisionmaking process of a much larger EU. The newly altered position of the EU was confirmed in 2008, when the Irish dismissed the Lisbon Treaty and put the issue of enlargement aside (McTaggart, 2006). The beginning of the economic crisis in 2008, “frozen” the positions of the Union regarding the future enlargements.

The fact that the performance of aspiring EU members is measured only in terms of fulfilling the requirements for membership and the reform basically fails to address key domestic questions which are unique to this region - in particular the need to develop the state and regional institutions, accession-oriented instruments such as the SAP might not be entirely appropriate for tackling the region’s specific problems (Calic, 2003). Although long-term mechanisms such as the SAP are indispensable, and represent an important step forward from the earlier crisis-prone approach at intervention, these mechanisms are more likely to be effective if they are grounded on domestic political processes and provide enough incentives for domestic actors to embrace them (Beloni, 2009).

Today the EU must reconcile the diverse situations and relationships it has established with individual countries of the region with the need to deal with state-building issues such as borders and minorities, as well as single market issues such as trade and communications, which require a regional approach. There are two ways of assessing the situation in the region. One is to adopt the perspective of the EU Commission in its progress reports and to establish, in true regatta spirit, a ranking of the Western Balkans countries in their onwards march towards EU membership. The other is to combine a broader regional picture with the view from the Balkan states themselves, which shows the limits of individual, country – by-country approaches to the shared problems and remaining contentious issues and to EU integration (Rupik, 2011).

### **3. Prospects for future enlargement of the EU regarding Western Balkans**

From all the Western Balkans countries, at the bottom of the list are Bosnia and Herzegovina and Kosovo, where divided policies and a dysfunctional institutional framework account, at least in part, for the inability to fight corruption and organised crime. The middle group comprises Macedonia, Montenegro and Serbia, with their shared concerns regarding the rule of law and good governance, but where some



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progress is being made in terms of economic reform and regional cooperation. Only Kosovo remains set apart in a ghetto. Candidate status has been postponed for Albania: it is not self-evident to invite a country whose June 2009 election results have not been recognised by the opposition yet. The extreme and violent political polarisation has brought parliamentary life to a halt and the country to the verge of its worst crisis (Rupnik, 2011).

The region of Western Balkans occupies an area of 196.047 km<sup>2</sup>, with population of about 22 million citizens (Kostadinov, 2008). That represents a market with large absorption capacity. Apart from that, most of the countries that are EU oriented were previously part of the larger federation, Yugoslavia, which testifies for the fact that these countries are still closely interdependent. The supply chains have already been established, the transportation and administrative costs are small, and the language barriers are also insignificant. The economies are small, and could benefit from the bigger regional integration. Therefore, the region is well-suited for regional integration.

The initial intention of the European Union had been to create a “Balkan Zone of Free Trade” or South East European Free Trade Agreement – SEEFTA (Barlette, 2008). The motive behind this idea was to intensify relations between countries, which would bring prospects to the whole region. A free trade zone would enable access of the companies from the transition countries to the competitive market and influence the increase of the volume growth of a regional trade. That way the countries could easily withstand the sudden and strong pressure of the competition on the European market. But, the realization of this idea was opposed by the Croatian authorities because they found similarities with the type of integration in the former Yugoslavia and their beliefs were that the remaining the Balkan countries would only negative influence the future prospects of Croatia in the EU. The problem is that the countries in the region did not see the need of joint cooperation in economic terms.

As an alternative, it was proposed to enlarge the CEFTA agreement.<sup>1</sup> After all of the countries of the original agreement had joined the European Union and left CEFTA, it was decided to extend CEFTA to cover the rest of the Balkan states. On December, 2006, Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia and the United Nations Interim Administration Mission in Kosovo (UNMIK) on behalf of Kosovo in accordance with United Nations Security Council Resolution 1244 signed an Agreement to amend and enlarge the Central European Free Trade – CEFTA 2006 (Agreement on Amendment of and Accession to the Central European Free Trade Agreement, 2006, p. 2).

Moving forward and strengthening the regional integration between the countries can boost competitiveness, attract investments and consequently increase the economic

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<sup>1</sup>On 21 December 1992 in Poland, Central European Free Trade Agreement - CEFTA was signed by Poland, Hungary and Czech and Slovak republics (at the time parts of the Czechoslovakia). It entered into force since July 1994 (Central European Free Trade Agreement, 1992, p. 2). Slovenia joined CEFTA in 1996, Romania in 1997, Bulgaria in 1999, Croatia in 2003 and Macedonia in 2006.



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strength of the region. Regional economic integration is a supporting means for a gradual increase of competitiveness of small open economies in transition such as these countries, because full membership in the European Union involves strong competitive pressure on new member countries. Most of all, this regional integration can bring economic and political stability for the region in order to mitigate the consequences of eventual failure of the European Integration. Otherwise, if the European perspective is lost, it is more likely that the region will be under the pressure of ethnic nationalism, which can cause tensions and jeopardize the political and economic stability of the region.

But, according to the official data for 2011 presented in table 1, the countries from the region are trading more with the countries from the EU, rather than between themselves. The EU trade accounts for more than half of the total foreign trade of each country from CEFTA - 2006. Right after signing the Stabilization and Association Agreement with the EU, the trade exchange of goods from the Western Balkans countries experienced a strong trade diversion effect towards the EU trade partners. The trade diversion effect, as well as the weak economic capacity of the countries, caused a sharp fall in the trade exchange of each individual country with the countries from the Western Balkan region (Kikerkova, 2009, p. 158).

**Table 1. Trade of each individual member country of CEFTA - 2006 with their most important trading partners in 2011 (in percentage)**

|            | EXPORT |     |                   | IMPORT |     |                   |
|------------|--------|-----|-------------------|--------|-----|-------------------|
|            | CEFTA  | EU  | Rest of the world | CEFTA  | EU  | Rest of the world |
| Albania    | 12%    | 73% | 15%               | 9%     | 64% | 27%               |
| Bosnia     | 35%    | 56% | 9%                | 25%    | 45% | 30%               |
| Croatia    | 19%    | 60% | 21%               | 6%     | 62% | 32%               |
| Macedonia  | 27%    | 61% | 12%               | 12%    | 54% | 34%               |
| Moldova    | 0%     | 49% | 51%               | 0%     | 44% | 56%               |
| Montenegro | 10%    | 50% | 40%               | 45%    | 39% | 16%               |
| Serbia     | 29%    | 56% | 15%               | 8%     | 56% | 36%               |
| Kosovo     | 26%    | 43% | 31%               | 35%    | 38% | 27%               |

Source: CEFTA trade statistics, (2011), <http://www.cefta2006.com/>

Analytical aspects of the trade of the countries from CEFTA - 2006 is given in table 2. The largest exporter in the intra – trade is Serbia with 35.90%, followed by Croatia with 25.50% and Bosnia with 20.29%. Regarding the intra – import, the largest importer is Bosnia with 29.22% and Serbia with 18.10%. Concerning the trade of the CEFTA with the European Union, Croatia has the largest volume of trade i.e. 33.65% of the total amount of export from the CEFTA - 2006 counties to EU is from Croatia. Also, in the total amount of import from EU to the CEFTA - 2006 countries, the largest importer is Croatia. That is quite reasonable having in mind that Croatia is geographically one of the largest country in the region. Still the most important reason



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is the high level of trade integration with the EU (Serbia for instance is geographically the largest country in the region, but has lower volume of trade with EU than Croatia).

**Table 2. Intra - trade and external - trade of the CEFTA - 2006 countries with the EU in 2011 (in thousand Euros and in percentage)**

|            | Intra -trade in CEFTA |        |                 |        | External - trade with EU |        |                  |        |
|------------|-----------------------|--------|-----------------|--------|--------------------------|--------|------------------|--------|
|            | Export                | %      | Import          | %      | Export                   | %      | Import           | %      |
| Moldova    | 4,893                 | 0.07%  | 13,965          | 0.21%  | 779,141                  | 4.57%  | 1623,231         | 5.38%  |
| Macedonia  | 879,984               | 12.15% | 574,055         | 8.45%  | 1938,012                 | 11.37% | 2738,876         | 9.07%  |
| Croatia    | 1846,65               | 25.50% | 964,388         | 14.20% | 5735,036                 | 33.65% | 10063,56         | 33.32% |
| Bosnia     | 1469,386              | 20.29% | 1984,643        | 29.22% | 2345,137                 | 13.76% | 3602,427         | 11.93% |
| Albania    | 175,122               | 2.42%  | 334,908         | 4.93%  | 1018,489                 | 5.98%  | 2479,196         | 8.21%  |
| Kosovo     | 82,312                | 1.14%  | 872,056         | 12.84% | 135,303                  | 0.79%  | 941,933          | 3.12%  |
| Serbia     | 2599,472              | 35.90% | 1229,226        | 18.10% | 4866,569                 | 28.55% | 8034,772         | 26.61% |
| Montenegro | 183,59                | 2.54%  | 818,948         | 12.06% | 227,459                  | 1.33%  | 714,369          | 2.37%  |
|            | <b>7241,409</b>       |        | <b>6792,189</b> |        | <b>17045,146</b>         |        | <b>30198,364</b> |        |

Source: CEFTA trade statistics, (2011), <http://www.cefta2006.com/>

These facts indicate that the member countries of CEFTA - 2006 can not exploit the real economic potential of the region. This situation is due to the problems of their undeveloped economic structure. Additionally the economic crisis influenced negatively on the volume of trade (Kikerkova, 2010, pp.100-101). It is important to point out that each of the member states depends on trade exchange of goods only on one or two major trading partners from the region, while the cooperation with the rest of the member states is insignificant. Thus, for Bosnia and Herzegovina and Monte Negro the most important CEFTA-2006 trade partners are Serbia and Croatia; for Serbia - Bosnia and Herzegovina and Macedonia, for Croatia – Serbia and Bosnia and Herzegovina, and for Macedonia – Serbia, Croatia and Kosovo (Kikerkova, 2009, pp. 162-167).

Generally the countries do not show incentives to intensify the trade relations between themselves. Data from table 2 indicated that Croatia is the second most important trade played in the intra – trade of CEFTA - 2006. Since the Croatia will exit from CEFTA - 2006 in July 2013 and become member of EU, it will cause negative consequences for its most important trade partners in the free trade zone, especially for Bosnia and Herzegovina. In the total intra –trade in CEFTA - 2006, Bosnia and Herzegovina exports 41.9% to Croatia and imports 57.4%. Therefore, it is quite understandable why the Western Balkans countries have already lost interest for further trade integration in CEFTA - 2006.

Having in perspective the different prospects of the countries, one may see the future of this region integrating in the Union only one – by-one approach (country – by - country) rather than the region as a whole. Additionally, the crisis put pressure on the EU



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and caused the EU to adopt a tougher stance on future enlargement. The fulfilment of specific criteria for admission will be monitored more closely, and the EU is likely to be less accommodating towards potential members.

As previously mentioned, the crisis showed the adequate macroeconomic policy and flaws in the process of decision making of the EU. The changes in the policies and new accepted anti-crisis measures could strengthen the criteria for the aspirants of the EU. For example, Germany, the Netherlands, France and a number of others insist on “moderation” when it comes to accepting new members.

Evidently, the EU is applying stricter conditionality in the negotiations with the Western Balkan aspirants than in any previous enlargement round. Furthermore, Member States make use of the enlargement process for their domestic objectives (for instance, the disputes between Athens and Skopje, Ljubljana and Zagreb, the Hague and Belgrade, Nicosia and Ankara, etc.). The outcome is a “creeping nationalization” of enlargement policy (Reljic, 2011). That discredits the EU’s commitments to aspirant states and undermines the transformative power of the enlargement process. That can make the future process of enlargement even more difficult and uncertain.

### 4. Conclusion

The current economic crisis poses a big challenge for the future of the Union. It influences the macroeconomic imbalance and causes serious problems in the internal functioning. The problems can be seen in the low capacity of the Union to deal with the consequences from the crisis and also not have single view on the problems. Therefore, the process of future enlargement faces significant limitations, or obstacles.

The effort of the European institutions to steer reform in the Western Balkans is hampered by the sheer number of European-led initiatives and the process of integration remains visibly top-down. The EU fails to address key domestic questions which are unique to this region. That would mean that the EU must give higher incentive for the Western Balkans in order to expect that the countries will respond. One of the solutions is to strengthen the capacity of the European institutions and to add more active approach towards the countries of the Western Balkans. Approaching the regional policy might give positive feedback. Strong positive signal might be in the form of an accelerated and coherent EU regional expansion policy in the Balkans. The European Union does not have the capacity to face the crisis, and therefore to come up with crucial decisions about enlargement in general and enlargement towards the Western Balkans. The European Union must overcome its hesitation about enlargement towards Western Balkans in order to gain higher credibility in the region as well as at international level. On the other hand, the European reform agenda must be followed by the countries from the Western Balkans and be accepted as the only way towards European Union, not just as something that is imposed from outside. Besides that, CEFTA 2006 never really exploit the real economic potential of the region which leaves no choice to the Western Balkans countries. The Western Balkans counties must persue further integration with the Union, as the onllyrational decision to avoid pessimistic scenarios for the region.



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