



**International Relations
Multidisciplinary
Doctoral Program**

THESIS SUMMARY

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The economic integration maturity of Western Balkans

Ph.D. dissertation

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Budapest, 2013

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1. Introduction and hypotheses

1.1. Research background and relevance of the topic

During its history, the European Union has been expanded by accepting new members, or has deepened the integration and made its operation more effective. The literature is divided whether the deepening and enlarging are controversial or not. According to the European Union the two processes can be combined, but to do that candidate countries are expected to be ready to access in order to comply with the EU's rules and introduce reforms successfully. In the recent years the Western Balkan¹ countries have become more important to the European Union and the EU expresses its willingness to accept these countries as Member States. The European Council confirmed this willing in June 2003 at Thessaloniki Summit and re-confirmed its existing commitments in June 2005. By nowadays (July of 2013) these countries are either candidate countries (the Former Yugoslav Republic of Macedonia, Montenegro and Serbia) or potential candidate countries (Albania, Bosnia and Herzegovina and Kosovo under the UN mandate pursuing to Resolution 1244 of the UN Security Council). On the other hand the Western Balkans includes very different states in associated with development and capability. We can observe significant economic, political and social differences among them, so they cannot be uniformly assessed. Croatia has already joined the European Union on 1st July 2013. However, the European Union has not started yet the official and efficient negotiations with the other countries – excluding Montenegro, who only recently, from 29th June 2012, has started accession negotiations with the European Union. The intention of the European Union is clear, the question is how the Western Balkan countries are ready to join European Union or these countries just impede deepening.

The economic and political accession requirements, which are set by the European Union, do not reflect readiness of candidate countries to enter the Union. Overall, these requirements are not coherent, clearly structured and well composed. So it is necessary to introduce the concept and theory of integration maturity and examine whether these countries are mature to access or not.

Through accession the European Union tries to solve the region's problem (which was surfaced in the Balkan war from 1991 to 1995) and to reduce the possibility of recrudescence of religious and ethnic conflicts. This is a vital interest of the EU because it would like to avoid conflicts in its neighbour. On the other hand, accession of Western Balkan countries

¹ The Western Balkans term was created by the European Union, including a group of countries such as Croatia, the former Yugoslav Republic of Macedonia, Albania, Bosnia and Herzegovina, Montenegro, Serbia and Kosovo (under the UN mandate pursuing to Resolution 1244 of the UN Security Council).

makes the EU face serious challenges in several ways. This research aims to present these countries' economic integration maturity, because if these states joined the European Union without being well prepared and introducing necessary reforms, these accessions could cause relevant problems in the EU's operation, and could hamper the deepening processes.

The observation unit is a country group, which includes the six of Western Balkans namely Croatia, the Former Yugoslav Republic of Macedonia, Montenegro, Albania, Bosnia and Herzegovina and Serbia. I cannot examine integration maturity of Kosovo because Kosovo is a young country, its recognition is controversial and debated (although there is no doubt that more and more states and international organisations recognise it as a sovereign country and keep diplomatic relations with Kosovo). The European Union has noted the declaration of independence, but has not recognised it yet – and probably five Member States (Spain, Cyprus, Greece, Romania and Slovakia) will never do it. Moreover, there are only few available data about Kosovo, so I cannot examine its integration maturity in long term and with comparative measures. Finally, the country is at the beginning of building up its public administration, economic relations with other countries, it has recently adopted its constitution so it is obvious that Kosovo is not a functioning market economy and has not mature rule of law.

The examination of six Western Balkan countries in my study is essentially cross-sectional, because I test hypotheses whether these countries are economically mature to join at a given time (July of 2013). In addition, my analysis is also quasi-longitudinal, because I examine economic aspects of integration maturity between 2002 and 2011 and determine the Western Balkan countries' progress in economic dimension. I have chosen 2002 as a starting date because the European Union announced its willingness of absorbing these countries in 2003, so I can examine its impact on Western Balkan countries' economic development. The final date was chosen by availability of relevant data. If I find updated data, I use them in my dissertation.

The topic can be considered new, because the current available literature examines these countries' accession readiness regarding the membership criteria set by the European Union. In addition, according to my knowledge there are no studies in the domestic or in the international literature which examine the Western Balkans' economic integration maturity deeply and overall. The methodology of integration maturity can provide a deeper examination possibility than an examination of membership criteria to assess the candidate countries' readiness of accession.

The importance and relevance of this topic can be justified by the accession of Croatia and by the fact that this region will give the new member states of the EU in the future (because all of the region's states are candidate or potential candidate countries).

Nevertheless, it is very important that when and with what level of economic development they will join the European Union, because as I mentioned, an early accession can impede deepening and introducing necessary reforms. This is a current question because of the crisis of the euro zone. From the above, this research is deductive in nature.

1.2. Hypotheses of dissertation

Within the country group Croatia's economy is prominent: Croatia closed the last negotiation chapter on 30th June 2011 and on 1st July 2013 entered the European Union firstly from the Western Balkan countries. So my first main hypothesis is that *Croatia fulfils all the criteria of economic integration maturity, it can be considered as an economically mature country who are ready to join and benefit from the integration (H1)*. I assume on the basis of this statement and the methodology of integration maturity (methodology see next chapter) that the country achieved the stage of functioning market economy (H1.1.); it has sustainable macro-economic indicators (H1.2); Croatia and its companies would able to compete against the other Member States and its companies (H1.3). Moreover, Croatia do not fall behind the Central and Eastern Europe countries in the field of convergence, so its accession would not impose high burdens and costs on the European Union (H1.4). Finally, the country can be financed (H1.5) and has close economic relations with European Union (H1.6). Overall, Croatia will be able to exploit the benefits of membership and minimise its drawbacks. My second main hypothesis is that the exception of Croatia, *the Western Balkan countries due to economic shortages are not economically mature to join the European Union (H2)*. I assume that the accession negotiations progress slowly because of serious economic shortages instead of political interests. So, in these countries (the Former Yugoslav Republic of Macedonia, Albania, Bosnia-Herzegovina, Montenegro and Serbia) the market economies are not functioning well (H2.1.). In addition, in these countries macroeconomic stability cannot be observed (H2.2), these countries and its companies cannot compete against the other Member States and its companies (H2.3). In the field of convergence these five states are laggards (H2.4) and cannot be financed (H2.5). Finally, these countries are expected to strengthen its economic relations with the European Union (H2.6). According to my opinion, the latter states overall are not ready to enter the European Union, there are lots of problems which must be solved before accession (e.g. high unemployment and corruption, structural problems).

This analysis can be particularly interesting in case of Macedonia because the country has been officially candidate country since 2005. In spite of this, the negotiations have not begun yet, mainly due to its debate with Greece in accordance with its official name. It is interesting

to examine that behind this whether there are economic problems or just political interests. The methodology of integration maturity gives an opportunity to analyse this, because it depicts an objective picture of countries' economic performances. From these reasons, my conclusion might be that the European Union are supposed to deepen the integration in spite of widening it. It can be confirmed by the fact that the European Union has recently enlarged: in 2004 and 2007 the EU almost doubled the number of its Member States from 15 to 27. And nowadays the main objective of the integration is to make these countries catch-up. Furthermore, the EU is in crisis, which needs introduction of new reforms and deepening. The dependent variables of my analysis in both cases are Croatia's and Western Balkans' economic integration maturities, the independent variables are its descriptive indicators (see chapter Methodology; e.g. GDP per capita in PPS, inflation rate).

The results of this analysis can define Western Balkan countries' readiness to join the European Union, can highlight those areas in which candidates need further efforts to make easier its accession and to exploit the benefits of membership and minimise its drawbacks in the future. If I can justify my first hypothesis, this indicates the EU that after the Croatian accession the Croatian convergence won't be problematic, and the country can be easily involved in institutions and operation of the European Union and can exploit opportunities from the integration. And if I can prove my second hypothesis, this indicates that after the Croatian accession, the EU must concentrate on deepening. It will take long time to make these countries catch-up to the European Union (or to Croatia also). The convergence, of course, must be continued in the Western Balkans, but not in the form of accession. The EU now cannot and do not want to make this catch-up alone, internal sources are needed, but the EU must give several opportunities of financial sources and technical co-operations.

2. Methodology

The definition and methodology of integration maturity was established by Tibor Palánkai and used it in the case of Central and Eastern Europe countries. 'The *integration maturity* is an ability to maximize benefits from the integration and to minimize its costs and drawbacks. It can be measured by the balance of costs and benefits. If membership is a positive sum game, overall the country can gain/profit from it; the country is mature to enter integration.' (Palánkai [2004], p. 378.). The concept should be distinguished from accession criteria, the former is a much broader concept, and thus it gives a more complete picture of readiness of accession. The accession or membership criteria define conditions and requirements of involvement in integration. These are usually stated by officially and formally, too. The accession criteria are narrower concept, refer to a concrete integration or form of integration,

and define only the conditions of membership. These must be performed from ‘outside’ before accession (Palánkai [2011], p. 357.). If these criteria do not be fulfilled by the candidates, these countries cannot join the integration. In connection with it, the membership criteria define requirements of desirable practices and actions and if these are not fulfilled from ‘inside’, the members can be penalised (Palánkai [2011], p. 357-358). These concepts are closely linked because accession and membership criteria (in the case of the EU Copenhagen criteria and *acquis communautaire*) try to express integration maturity. Accession criteria define the minimum of membership criteria, while maturity far beyond that and it examines the general criteria of successful and efficient integration (Palánkai [2006]).

Four dimensions of integration maturity can be distinguished: economic, political, institutional and social; in this analysis I focus on the first one. The reasons are the followings:

- 1) the four dimension cannot be fully separated from each other and the economic dimension includes relevant factors of the others (e.g. convergence is one of the main factors of economic integration and it includes essential elements of alignment);
- 2) the European Union is significant primarily from economic aspects, it works as an economic integration and now its objective is to strengthen these attributes;
- 3) the economic dimension is the most objective, tangible and quantifiable dimension, which can give relatively objective conclusions.
- 4) Finally, this dissertation does not allow examination of all dimensions because of its length limits.

According to Tibor Palánkai the economic integration maturity can be defined by the following basic criteria: *functioning market economy, competitiveness, macroeconomic stability, convergence and finance*. These are not entirely objective, obvious and clear concepts, its measurement is not easy. The functioning market economy can be measured by the ‘transition index’, which has been available since 1994 and has been created by the European Bank for Reconstruction and Development (EBRD). In accordance with macroeconomic stability I need to examine primarily real GDP growth, unemployment rate and inflation and have to determine if Western Balkan countries’ business cycles are in line with the European Union’s business cycle. The concept and measurement of competitiveness are very complex and problematic, many factors determine it. In spite of this in accordance with Tibor Palánkai I measure it with analyses and indicators established by International Institute for Management Development (IMD) and World Economic Forum (WEF). Moreover, I take into consideration few indicators of Lisbon Score Board, which are available (employment rate, R&D spending related to GDP). The measurement of convergence are complex too, its indicator are e.g. GDP per capita in PPS, infrastructural indicators (for

example population's internet access). Finally, the financing can be measured by examining funds that the countries can access (International Monetary Fund, USAID or the funds of the European Union: CARDS, ISPA and SAPARD) (Palánkai [2005]).

My assessment of Western Balkan countries' integration maturity is primarily based on this methodology, but these countries differ from Central and Eastern European countries in many aspects, so the methodology must be modified and completed, which can be adapted to these countries' specifics. More serious attention should be paid on these countries' economic convergence, catch-up, since these countries (except Croatia) are less developed than Member States or even than earlier joined Central and Eastern European Countries. The experiences of earlier accessions can justify it. In addition, the Yugoslav war from 1991 to 1995 caused serious damage, set back its economic development. Within measurement of competitiveness corruption needs special attention, because corruption affects significantly competitiveness and ability of attracting foreign investments (latter has significant importance in the field of convergence). It should be noted that similarly to competitiveness, corruption is hardly measured. In the field of convergence in addition I examine the following indicators and criteria in associated with Western Balkans: GDP per capita compared with EU15 and EU27 and convergence criteria set by the EU: Copenhagen criteria and Maastricht criteria. Copenhagen criteria are important because Western Balkan countries have different values, standards which are coming from its history and traditions. For example these countries have different opinion of democracy and functioning market economy than the Western countries have. Moreover, I examine other indicators, too: e.g. labour productivity, economic structures, internet access, and life expectancy in the field of convergence.

In the field of finance I take into consideration the inflow and stock data of foreign direct investments because the European Union is not capable and will not finance these countries' catch-up, so they need other financial resources too. I also examine the composition of FDI and whether the countries can use its potentials to attract FDI. Foreign Direct Investments had and will have a significant role of catch-up and strengthening competition in Central and Eastern Europe before and after accession.

In addition, because of region's differences it is necessary to examine the labour market (e.g. unemployment rate of youth and women) and the demography. Finally, accession assumes strong bilateral relations between the candidate country and the European Union, so it is necessary to analyse trade relations between them.

During applying this methodology, I try to compare the candidate countries with each other and with earlier joined Central and Eastern European Countries. I assume that the EU 10+2 countries were ready to join European Union in associated with integration maturity (except Romania and Bulgaria in the field of convergence). Most of criteria I set up are based

on this. I consider a country ready, if the basic criteria and its indicators approach the level of the European Union or the level of earlier joined Central and European countries.

3. Results of the thesis

3.1. Main results by countries

The European Union's attention directed towards the area relatively late, after a severe outbreak of war. Since then, the role of the Western Balkan region has appreciated because by now these countries are neighbours of the EU and its stability is essential to the Union. And after the former enlargements they have become relevant trade and investment partners, too. In addition these countries are in transition, so they can easily become targets of foreign investors. As a result of increasing the role of the region, the accession processes have begun and moved forward (although very slowly).

After the application of methodology of economic integration maturity I can conclude the followings:

The economy of *Croatia* overall was ready to join the European Union. On the other hand Croatia has to face several problems and challenges, which became apparent mainly due to the economic crisis. For example among these challenges I can highlight the sustainability of the state budget, improvement of business environment or the deficit of trade balance, which reflects structural problems. Croatia has a well-functioning market economy and its trade relations are tight with the European Union. In spite of these, the other hypotheses can be accepted only with conditions. In the field of competitiveness I observed serious shortages, mainly associated with administrative and judicial reforms, corruption and business environment. Moreover, it is necessary to improve the labour market regulations and to increase the amounts of R&D spending and the employment rate. The country was stable in macroeconomic view till the economic crisis, nowadays the country is still struggling with recovery. In the field of convergence Croatia is mature overall, although it is necessary to modernize its economy, and future fulfilment of the Maastricht criteria will depend on the economic recovery. Finally, in the field of finance the country is also mature, but has to face the improvement of business climate and is supposed to improve the efficiency of usage of EU funds.

Serbia's economy is still far from becoming a member state of the European Union. I found evidences for all of my hypotheses: neither in the field of functioning market economy, nor competitiveness, macroeconomic stability, convergence, finance, trade relations is mature to join the European Union. The country is expected to solve several problems – e.g. by

establishing a well-functioning market economy, reducing high inflation and unemployment rate, counterweighing the increasing budget deficit and public debt and introducing structural reforms. On the other hand it is promising that Serbia has been committed to accession for several years and with little steps moves forward to the goal of desired membership. The economy of Serbia almost entirely depends on the rest of the world (primarily on the EU) and efficient transition from internal force is almost impossible. So the stabilisation and association process and foundation of the context of economic transition (e.g. by EU funds) can have a decisive influence on economic processes in the coming years. The advantage of membership can be the possibility that Serbia improves economic relations with the European Union (moreover, nowadays Serbia trades mainly with member states of the European Union and most of investments come from there also). The country should be finally committed itself to the Western values, establish the institution of functioning economy, improve its business environment, restructure economic structure and companies, produce and export higher value-added products. This is probably will take a long time.

The Former Yugoslav Republic of Macedonia has built up strong economic relations with the European Union, however cannot be considered mature/ready to join the EU regarding the necessary requirements. In the field of functioning market economy the country does not fulfil the established criteria (does not reach the average of 3.4, some of examined indicator do not reach the minimum level of 3 and one step back can be observed). On the other hand the introduced reforms in the recent years lead the country to a good way and can fulfil the criteria within a few years. The economy of Macedonia is stable but among the Western Balkan countries has the highest unemployment rate and it hardly could be decreased in the last years. Moreover, the employment rate is very low and black or grey economy has a significant role in economy. In spite of these the inflation rate is low due to a fixed peg exchange rate (a de facto near-peg to the euro), but it determines the country's economic policy and makes the latter to face challenges. In the field of competitiveness the country performs well due to favourable business climate and recent reforms, but also needs more reforms to be able to compete against member states and its companies. The fight against corruption will be essential in the future. In the field of convergence there are serious shortages: the GDP per capita is extremely low – the lowest in the region and the catch-up to the EU-level is very slow, which is also indicated by the low life expectancy. On the other hand, in associated with Copenhagen criteria and labour productivity the country performs quite well, but it is necessary to modernize agriculture and industry and to increase its competitiveness. To achieve this and to recover the country must attract more FDI, but the country's potential is limited and its finance significantly depends on EU funds and financial aids of international organisations. In case of former, the financial sources are limited due to

current crisis. This situation can be improved significantly if the country can resolve its name deputy with Greece, because the country could attract more FDI.

Results in case of *Montenegro* are ambivalent. The country has not established a well-functioning market economy yet, reforms are very slow and Montenegro is one of the worst performing countries. In spite of this, the country has reached macroeconomic stability, its business cycle is line with the EU's. The unemployment rate is quite high, but decreasing and it is lower than in some member states. In the field of competitiveness the country is ready to join, among examined countries Montenegro's performance is the best; it has favourable business environment and spends high amounts on R&D. On the other hand, the employment rate is quite low and the black or grey economy is relevant in spite of fighting against them. Overall, in the case of convergence the country is not mature, in spite of its GDP per capita level reaches the 2007 level of Romania and Bulgaria – it is very low. Moreover, the labour productivity lags behind the Union's average and its economic structure should be modernized. Despite these shortcomings, Montenegro is developing slowly and tries to fulfil Copenhagen criteria. In addition in the fields of internet users and life expectancy does not lag behind significantly the EU. From the viewpoint of finance Montenegro is not ready to join: serious deficiencies can be noticed in the case of Instrument for Pre-accession assistance and significantly depends on foreign investors' mood (primarily in tourism) and on implementation of further structural reforms. This can be explained by the impacts of crisis: budget deficit and public debt skyrocketed and it is necessary to reduce them. Finally, in the field of trade the country is also not mature: performance of trade highly depends on the fluctuations of commodity prices; the country exports mainly lower value-added products; and it is necessary to strengthen its trading relations with the European Union.

Bosnia and Herzegovina cannot be considered mature at all. In the country the well-functioning market economy has not established yet, the employment rate is low, the unemployment rate is high. The competitiveness is hampered by high corruption and the significant role of state, which discourages investors and reduces the country's financing ability. In addition, in the field of convergence Bosnia is one of the worst-performers: there are serious shortages regarding the GDP per capita, Copenhagen criteria. Moreover, it is necessary to modernize its industry because it was significantly hit by the war. In the case of trade the country has significant trading relations with Western Balkan countries and primarily exports raw materials and low value-added industrial products. Migration to the European Union and remittances has an essential role in the country's life. This effects Bosnia's financing; furthermore the country got a loan from the IMF due to impacts of crisis. Moreover, the FDI inflows decreased in the last few years, which is already the lowest among the examined countries. In spite of these, political and economic orientation forward the

European Union has started: trading relationships between them has strengthened, more and more financial resources arrive to the country from the EU (although it falls due to impacts of crisis), remittances come from the member states, and the performance of Bosnian economy is highly dependent on the performance of the EU. The economic and business processes are not fully synchronised (e.g. in cases of inflation and real GDP changes), the intensity of trade should be increased and it is necessary to introduce reforms.

The last examined country is Albania, whose results are very controversial. In the field of functioning market economy reforms have advanced in the last few years and if this tendency is continuing, criteria will fulfil in medium term. In spite of this it is difficult to handle electricity blackouts. The country is not ready to join the European Union regarding competitiveness: with the exception of employment rate, indices show that Albania is one of the worst performers in the region although some improvements are achieved in the last few years in the rank of World Economic Forum. The corruption is widespread; among the examined countries this country has the highest level of it. Moreover, it is necessary to spend more on R&D. The macroeconomic stability is apparent: the high economic growth rate, low inflation and unemployment rates cover serious structural problems: low employment rate, the country is less integrated into division of labour and is highly dependent on energy imports. In the field of convergence Albania underperforms: the GDP per capita is low, the compliance with Copenhagen criteria is insufficient, the budget deficit and public debt is high; and the role of agriculture is the most significant among Western Balkan countries. However, the life expectancy is the highest and the country is not threatened by demographic transition. The discrimination of women in the labour market cannot be observed and youth unemployment is the lowest in the region (due to significant migration, too). In finance, Albania's performance is not bad, but struggles with capital shortages. In the field of trade, Albania has close relationship with the EU, but it is one-sided, so Albania cannot be considered mature to join.

3.2. Regional specifics, recommendations

In the field of establishing a well-functioning market economy all Western Balkan countries have shortcomings, except Croatia. In the first year of my examination Croatia almost fulfilled the criteria, has met requirements since 2007. The other countries lag behind significantly. Common problems are: underdeveloped infrastructure and competition policy; restructuring companies and governance are developing slowly and in the field of operation of securities markets and non-bank financial institutions the countries need further reforms. Some countries (especially Croatia, Montenegro and Albania) inject - decreasing but important amounts of - subsidies to its main companies, which is/was in the hand of state.

Finally, in all countries the necessary reforms has progressed slowly, especially since the outbreak of current economic and financial crisis.

In the case of competitiveness the results are different. In some countries (e.g. Macedonia, Montenegro) business climate is favourable, while in others (e.g. Serbia) it must be improved. It is a common feature that corruption is significant (in Croatia also), but its role is decreasing – in spite of these; countries should be more committed to fighting against corruption. In addition, the employment rate is extremely low and it is necessary to create new jobs, which is the most important objective and challenge in the region. The latter is reflected in the unemployment figures, too. The region is characterised by higher unemployment rate than in the EU. Moreover, in some countries (Macedonia, Bosnia and Herzegovina and Serbia) it is extremely high. In other countries (e.g. Croatia or Albania) the unemployment rates are lower than in some Member States (although the employment activity rates are also lower).

In the field of macroeconomic stability almost none of the examined economies are considered mature to join. Before the crisis Croatia fulfilled the criteria but since then its macroeconomic indicators have worsened and the country's stability depends on recovery. Serbia is immature due to high economic figures and inflation rates. Moreover, its business cycle is not in line with the European Union's. Macedonia is also immature due to its unemployment rate, which is three times higher than the Union's average and it is the highest among the examined countries. In addition, during the examined period it remained significant, could not be reduced. Furthermore, despite a fixed exchange rate, its inflation is unpredictable; do not follow the trends of the EU. In Albania the macroeconomic stability can only be regarded as illusory.

In the field of convergence drawbacks can be observed in all of the countries. In the region agriculture has an important role, almost everywhere employs the majority of population and has a buffer role. In Albania agriculture is quite important because of its history and traditions. In every country its weight is falling in GDP, but reforms and capitals are needed to modernize it. The latter is also true in case of industry. In addition – the exception of Croatia – both GDP per capita in PPS and labour productivity is much lower than the average of EU27 and has decreased due to impacts of crisis. Moreover, increases in real wages are higher than increases in labour productivities, which deteriorate these countries' competitiveness.

The current crisis has significant impacts on these countries' economies. Serbia and Bosnia-Herzegovina immediately, Macedonia in 2011 got a loan from the International Monetary Fund. Montenegro was in the edge in 2009 and 2011, finally the country did not get a loan, but it signs serious financial problems.

Overall, every country is dependent on foreign capitals, primarily on EU funds (whose withdrawal causes problems) and on trends of foreign investments. Nowadays, every country needs further capital injections, which are necessary to continue reforms and to develop infrastructure.

Every Western Balkan country has tight trade relationship with the European Union and has significant trade deficit against member states. Albania is the most related country, but its dependency is one-sided. In the case of Bosnia and Herzegovina and Montenegro the intraregional trade is very significant; these countries should improve its trade relations with the EU. In general, Bosnia-Herzegovina, Serbia, Montenegro and Macedonia are the most important intraregional traders, while trade between Croatia and Serbia is not being considered intensive. Moreover, another common feature is that all of the countries should focus on production of higher value-added products, but to achieve this it is necessary to improve its education systems.

Among the challenges of region demographic transition and its treatment should be emphasized. All of Western Balkan countries have affected by the demographic transition – although in different degrees. In every country the life expectancy is growing, while the population is decreasing; and the proportion of elderly people is rising. At least Albania and Montenegro is affected by this phenomenon. In parallel, all of the countries suffer from youth unemployment (the exception might be Albania – see above). This is due to partly the increasing role of higher education. The main cause is the lack of job opportunities and the role of agriculture, which employs most of the new workforce, but grey or black economy is very significant in this case. As a result, many young people go to abroad, mainly to Member States to try their luck, raise their standard of living. This can lead to serious consequences in the future; so it is very important to create new jobs and reduce unemployment rates.

In most of the examined Western Balkan countries economy is highly dependent on foreign investors, the rule of law has shortcomings, the judiciary is weak, the efficiency of public administration is low and the role of informal sector is significant. So it is necessary to carry out further reforms, to liberalise economies, to improve business climate, to fight against corruption – which can increase the FDI, which is indispensable for further improvements.

From the above it can be concluded that the developments of accession negotiations follow the developments of countries' economic situations. The only exception is the Former Yugoslav Republic of Macedonia, because its economic development suggests the opening of negotiations. Moreover, nowadays the process of negotiations is highly influenced by the fact that the European Union is in crisis and the EU primarily intends to solve its internal

problems. Despite this progress, the development of accession negotiations can boost reforms in the Western Balkan countries.

This topic has further research opportunities for the future. It would make sense to repeat this examine a few years later to examine possible improvements and progresses. In addition, this research can be extended to Kosovo in the medium term. Finally, it is worth examining Croatia separately; how its integration maturity will change in the future, what experiences can be observed, which might serve as an important lesson for other states in the region.

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