

**WESTERN BALKANS  
IN THE PROCESS OF EUROINTEGRATION  
- Economic Networking and the Region's Development -\***

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**Abstract.** *Joining the Eurointegrations, above all the European Union, has been the common goal of the Western Balkan countries for almost two decades. Since theirs are small economies, at a low level of economic development, it is necessary for them to act together through various forms of regional networking and integration. The historical legacy, of both far and recent past, often represents an enormous obstacle to the development of mutual cooperation of this group of countries; hence, it also constrains the use of the existing opportunities for their faster economic growth. The integration of the Western Balkan countries with the aim of liberalizing interregional trade represents a chance for improving their mutual cooperation and it provides the basis for a more intensive trade with the European Union countries. The membership in the European Union represents, for all the countries in the region, a good motive to correct the existing shortcomings and to actively undertake the building of a better future.*

**Key Words:** *economic development, European Union, integration, Western Balkan countries, trade liberalization*

1. INTRODUCTION

The process of integration of the Southeastern European countries into the European Union as well as the concrete actions made in this sense from 2000 till the present day have brought about the retailoring of the political and economic map of the Balkans. A set of the remaining Balkan states, which have not adapted their legal and political system to the established norms of the Western Europe and which, as such, often find themselves

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carefully scrutinized by analysts from various spheres of social sciences, is called "the Western Balkans". The countries making up this region include Albania and all the countries of former Yugoslavia except Slovenia, namely, Croatia, Bosnia and Herzegovina, Serbia, Montenegro and Macedonia. The developments that marked the nineties of the twentieth century in this region have left a profound trace and nowadays they represent an obstacle to potential enhancement of the political consciousness as well as to the opportunities offered in the domain of recovery of their ruined economies. A long and uncertain pathway of the Western Balkan countries toward Eurointegrations (in addition to unfavorable macroeconomic performances, compared to their neighbors) has imposed the need to create a new regional policy. For the sake of a much firmer interconnection of these countries, there has been much insistence upon reaching a particular degree of liberalization of their trade relations. The liberalization of trade of the Western Balkan countries, whose guidelines are defined by the CEFTA agreement, primarily aims at defining the regime under which interregional trade is going to take place and then to open up a way to a more intensive interregional trade. By member states' signing the CEFTA agreement, the Western Balkan region has become a zone of free flow of goods, capital and people. Before January 1<sup>st</sup>, 2007, and the joining of the European Union by Romania and Bulgaria, the Balkan region was spoken about as a market with 55 million consumers. Once a new geopolitical context of the Balkan region was created, only a reduced market with 25 million people remained. The unresolved status of Kosovo makes it difficult to get to the exact number of the states which this number of consumers can be divided into; besides, it also threatens the possibility of stabilization and progress of the postconflict Balkans. The developments that will in the near future affect the defining of the Kosovo status will, to a greater extent, determine the guidelines of the further political and economic development of the Western Balkans.

The fact is that a low degree of economic development of the countries in the region conditions the non-competitiveness of their export offer on the world market. Likewise, as a consequence of political instability, this region also marks a negative trend of export-oriented foreign direct investments. The closest neighbors to the Western Balkans (Austria, Italy, Greece, Slovenia, Hungary, Bulgaria and Romania) exhibit a greater interest in business investments in the region than other members of the European Union. However, a negative trend of the political and economic developments on the Western Balkans territory can qualitatively reduce the achieved positions of the European Union in the international economic relations. In view of all this, it is perfectly clear why the Union shows an interest in the development of this part of Europe and why it takes, not rarely, an active part in solving debatable political issues and aids the member countries in finding a common interest for much firmer economic connection and cooperation.

## 2. DETERMINANTS OF THE WESTERN BALKAN REGION DEVELOPMENT

In the last decade of the twentieth century, the synonyms for the Western Balkan countries were: ethnic conflicts, problems of minorities and dislodged persons, secessionist aspirations and violation of territorial integrity. Besides, political instability, underdeveloped civil societies, lack of the rule of law and destroyed economic systems represented a poor basis for economic development; hence, they hindered the progress in the region.

**Table 1** General economic indicators of the Balkan countries in transition 2005  
(in EUR and in %)

	GDP <i>per capita</i> (in EUR)	GDP growth rate (in %)	Annual inflation rate (in %)	Annual unemployment rate (in %)	Gross external debt stock
Albania	1.891	5.5	2.0	14.2	1,039.0*
Bosnia and Herzegovina	2.095	7.4	4.1	31.3	2.192.0*
Croatia	6.972	4.3	3.3	12.7	26.2**
Macedonia	2.277	4.1	0.5	37.3	1,324.7***
Montenegro	2.638	4.1	1.9	17.0	–
Serbia	2.730	6.5	17.7	21.6	12.28**

Note: \* in mln EUR, \*\* in bln EUR, \*\*\* in mln USD

Sources: Southeastern Europe Investment Guide, sixth edition, 2007,  
Published by: *Bulgaria Economic Forum 2007*, <http://www.seeuropa.net>

The data about the achieved level of GNP *per capita* of the Western Balkan countries confirms the fact that the economy of the whole region is still in the process of belated transition; yet, it also points to the fact that, if certain guidelines are respected, each of these countries has a chance for a more intensive economic development in the future. Regarding the achieved GNP *per capita*, Croatia is far above its neighbors in the region. Regarding the achieved rate of GNP growth, the leading positions are taken by Bosnia and Herzegovina and Serbia. The lowest rate of inflation in 2005 was recorded in Macedonia (0.5%) while the highest was in Serbia (as high as 17.7%). Macedonia and Bosnia and Herzegovina are the states which face a serious problem of unemployment regarding enormously high annual rates of growth (37.3% and 31.3%, respectively). On the other hand, Croatia and Albania have the lowest rates of unemployment in the region; yet, comparing to some more recent members of the European Union, the situation regarding the creation of the possibilities for employment could be better.

A special problem for the group of countries of the Western Balkans is the amount of the foreign loan. Globally speaking, a degree of foreign loan is high while the presented data does not support any idea of an excessively indebted region. Out of the above-listed countries, the most indebted are Croatia and Serbia.<sup>1</sup> The increase of the foreign loan is partly financed by incomes from foreign direct investments attained in the process of privatization and from other sources, mainly from abroad. Since the gains from privatization do not represent any means of servicing the loans that could be counted on in the long run, the issue of sustaining the existing dynamics of paying off the Serbian foreign loan

<sup>1</sup> The rhythm of loan, so far, leads Croatia into a loan crisis. Croatian foreign loan reached, in 2005, 26.2 billion euros, that is, 84.6% of its GNP. The rapidity of growth of the Croatian foreign loan is one of the main economic problems of this state in view of the fact that, in the period from 1999 to 2005, the indebtedness grew averagely by about 16% per year; due to this Croatia, regarding the relation of its loan to the GNP, moved from the group of mid-indebted countries to that of highly-indebted countries. (More details in the daily paper *Danas*, Belgrade, April 17, 2006, p. 12)

might be brought into question.<sup>2</sup> A similar situation is in Bosnia and Herzegovina where an obscure situation regarding accumulated internal unpaid loans represents a considerable threat to public finances. In this country the foreign loan was, in 2005, 27.2% of GNP while in Albania it was only 15.5%. An inflow of foreign direct investments, especially greenfield investments, would considerably affect the reduction of the foreign loan and, in due time, ensure the conditions for a more intensive economic development of the region.

**Table 2** GNI *per capita* Atlas method (in current USD)

	2001	2002	2003	2004	2005
Albania	1,350	1,400	1,660	2,090	2,580
Bosnia and Herzegovina	1,310	1,370	1,610	2,050	2,440
Croatia	4,390	4,620	5,370	6,820	8,060
Macedonia	1,710	1,730	1,990	2,440	2,830
Serbia and Montenegro	1,290	1,430	1,930	2,700	3,280

Source: Internet: <http://ddp-ext.worldbank.org>

According to the systematization done by the World Bank in July 2006, the economies of the Western Balkans belong to a group of countries with lower middle income. The exception is Croatia where GNI *per capita* for 2005 was 8,060 USD; in that respect, it is classified among the countries with upper middle income.<sup>3</sup>

The fact is that, with the integration of Bulgaria and Romania into the European Union, the balance of power in Europe has changed considerably; in some countries of the Western Balkans there is a fear that in the following period, regarding their economic development, they will keep on lagging behind their advanced neighbors. The doubt that the Western Balkans will preserve, for a long period of time, its current position on the margins of the new integrated Europe is also justified by an article of the Treaty of Rome by which the European Union is defined as an integration of 27 member countries as well as by "indisposition" of some members of the Union regarding further expansion to the east. On the other hand, at the summit of the European Union about the Western Balkans which was held in Thessaloniki in 2003, there was unambiguously confirmed support to the European perspective of the Western Balkans.<sup>4</sup> The summit members likewise sup-

<sup>2</sup> The entire amount of the foreign loan is also "burdened" by loan obligations in the amount of about 1.2 billion USD belonging to the users from the Kosovo and Metohia territory; the solution to this problem has yet to be found. Still, the share of the foreign loan in the GNP of Serbia, without Kosovo and Metohia, amounts to about 58% which is, as they claim in the National Bank of Serbia, far below the criteria of the World Bank for over-indebted countries, which is 80% of the GNP (*Ibidem*, p. 12)

<sup>3</sup> According to the World Bank classification from July 2006, and taking into consideration GNI *per capita* according to the Atlas Method in current USD, the countries with low income are those whose GNI *per capita* is less than 875 USD. Economies with lower middle income (including most of the Western Balkan countries) are those whose GNI *per capita* moves from 876 USD to 3,465 USD. Countries with upper middle income are those with GNI *per capita* between 3,466 USD and 10,725 USD while economies with high income are those where GNI *per capita* exceeds 10,725 USD (Details: Internet: <http://siteresources.worldbank.org>)

<sup>4</sup> "The map of the European Union will not be complete until the countries of the Western Balkans are included on it. What we are proposing shows that the EU will do all it can to help these countries prepare themselves,

ported the "Thessaloniki Agenda" containing actions of the pre-integration process and undertook the obligation to help the Western Balkan countries in their realization.<sup>5</sup>

In comparison with the early 21<sup>st</sup> century, the year of 2007 clearly defines the border between an economically advanced and modern Europe and the troublesome Western Balkans. Yet, the near future brings to the Western Balkan countries a set of challenges and possibilities to end the already started process of transition as fast and efficiently as possible. The realization of these possibilities depends, to a great extent, on the readiness on the part of the European Union to prevent, by means of financial help and support of the undertaken reforms, the possibility of further lagging of the Western Balkans behind the wider region. In selecting its strategy of help, the European Union has to keep in mind the experience it has had so far with other countries, by respecting the peculiarities of each of the Western Balkan countries as well as the existing differences regarding the achieved economic development and the distance from the European integration that all these countries find themselves at. The whole Balkans region is very heterogeneous not only concerning political, cultural and ethnic characteristics but also regarding economic development and problems that their economies are facing. A long stay of the Western Balkan countries on the margins of the developed Europe has made the contradictions and differences in the region even more prominent. Since the activities of the European Union itself are based on the principles of tolerance, respect for differences and different forms of freedom, it is real to expect that, in making decisions about giving help to the Western Balkan development, the Union appreciates the historical and the achieved heterogeneity of this part of Europe.

### 3. FOREIGN DIRECT INVESTMENTS IN THE WESTERN BALKANS

The political situation in the region of the Western Balkans, in the early transitional period, has had a very unfavorable effect on the general macroeconomic climate and, thus, for a while moved this region away from business plans of foreign investors. Starting from 2000, simultaneously with the reconstruction of the destroyed infrastructure in the region, there began a more intensive process of economic reforms in which foreign direct investments are on the rise. As soon as 2003, the inflow of foreign direct investments in the region achieved the amount of about 3 million euros and it was 2.5 times greater than at the beginning of the period observed. Most investments were in Croatia, even 57% of the overall amount of foreign direct investments in the region in that period.<sup>6</sup> There was a rise in the investment in Serbia and Montenegro; yet, the rise was a direct consequence of the more intensive process of privatization. For example, in Serbia, in its privatization, from 2002 to 2004, the investors from the European Union countries participated with the

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and that our wish to see them one day as fellow members is real." (Chris Patten, the EU's commissioner for external relations)

<sup>5</sup> In June 2005 the European Assembly confirmed its resolution to carry out the Thessaloniki Agenda by emphasizing that the advance of every country towards the Eurointegration depends on its attempts to satisfy the criteria from Copenhagen as well as the conditions set in the Process of stabilization and integration ((Internet: <http://www.dei.gov.ba>)

<sup>6</sup> Foreign direct investments in Croatia are the largest if investment per capita is taken into consideration. For instance, in 2003, the amount of foreign direct investment per citizen in Croatia was 440 euros while on average, in the Western Balkan region, it was only 159 euros (More details in the daily paper *Dnevnik*, Novi Sad, September 28, 2004, p. 8)

total of 755.8 million euros, the largest share of which was realized through selling companies on tenders.<sup>7</sup>

**Table 3** FDI by years - Annual FDI inflows (mil EUR)

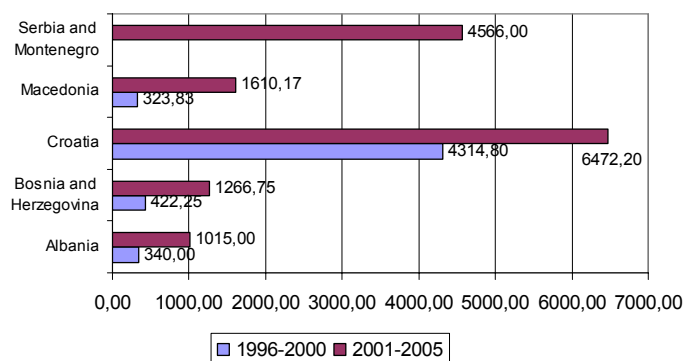
	2000	2001	2002	2003	2004	2005
Albania*	–	207.3	135.0	178.0	341.8	264.5
Bosnia and Herzegovina	158.5	140.2	308.9	169.1	618.3	242.7
Croatia	1,144.8	1,502.5	1,196.6	1,790.4	986.1	1,381.4
Macedonia*	178.5	445.1	81.0	97.5	163.2	112.5
Montenegro	175.5	225.6	182.9	213.6	111.1	382.8
Serbia	33.0	462.2	501.9	1,197.1	776.7	1,224.0

\*Data for Albania and Macedonia are given in mil USD

Sources: *Bank of Albania, Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, Croatian National Bank, National Bank of the Republic of Macedonia, Montenegrin Investment Promotion Agency and National Bank of Serbia*

The Western Balkan countries marked, even after 2003, to a greater or smaller extent, an advance in the process of reforming their market-oriented economies. Special results were achieved in the domain of privatization and liberalization of trade and, as a consequence, in the period from 2003 to 2005, there was a marked increase of foreign direct investments in the region. A more precise idea about the advancement of the reform processes in the Western Balkan region as well as an increase in the region's liability for business development can be obtained by analyzing the amount of investments in the period from the mid-nineties till 2000 as well as from 2001 to 2005.

**Total FDI inflows in the Balkan countries in transition**  
(mil EUR)



**Fig. 1** Total FDI Inflows in the Balkan countries in transition (mil EUR)

Source: Central Banks, IntelliNews, according to Southeastern Europe Investment Guide 2006, <http://www.seeurope.net>

<sup>7</sup> *Ibid*, p. 8

The given data clearly points to the fact that the Western Balkan countries made, in the period observed, a considerable move in the reform process just as they created a business environment fit for attracting foreign investments. In the period from 2001 to 2005, compared to the period from 1996 to 2000, the amount of foreign investments in the economies of Albania and Bosnia and Herzegovina rose almost three times while investments in the economy of Macedonia increased almost five times. The foreign investments in the development of Croatia and in, at that time, joint Serbian and Montenegrin economies, showed the tendency to rise in both of the observed periods. An increased interest of the foreign investors in investing in these countries was a consequence of the faster process of privatization which was carried out in these countries within all general economic-system reforms.

A special issue is the "quality" of these investments regarding the fact that the largest number of them has come through the sale of companies in public ownership and banks or by opening retailing gross market chains originated in the European Union countries (Germany, Slovenia, France and Greece) selling import goods. In the total amount of foreign direct investments, a very small share comprises export-oriented greenfield investments in the form of entirely new investments which represent a real chance for the economic revival of the Western Balkans. The opening up of new companies with the foreign capital as the majority one or branches of the transnational companies in the region of the Western Balkans would have an enormous importance for the economic development of each of the countries in the region. This importance is reflected in improving the structure of the national product, an increase of export opportunities, reduction of unemployment, greater possibilities for servicing foreign loans and the like. The creation of a good investment climate implies a far more important advance of the reforms in the domain of public administration and administration of public finances, establishment of the rule of law and a more serious struggle against corruption and crime. It is certain that there is some advancement in carrying out the reforms but the fact is that the countries in the region are facing more tasks and common problems, the fast and efficient solution of which is in the interest of all. The common actions of all the countries in the Western Balkans in solving these common problems represent a reliable way of obtaining some results as well as a solid base for starting the process of regional integration.

#### 4. LIBERALIZATION OF TRADE OF THE WESTERN BALKAN COUNTRIES SERVING THE FUNCTION OF THEIR REGIONAL NETWORKING

The current processes of globalization and regionalization of the world economy which insist upon global networking and liberalization of the flow of goods, capital and people have even deepened the gap between the rich and the poor countries. The fact is that these processes take place under the patronage of the world political and economic megapowers and that their positive effects often neglect small and economically underdeveloped countries. The end of the cold war in the eighties of the twentieth century affected the change of the global-political image of the world and encouraged the continuity of strengthening the common strategy of economic progress of the Western European countries. The new balance of power in the world economy and the world market imposed on the Western Balkan states a necessary option of regional networking. A special motive

for launching and intensifying this process was the insistence on the part of the European Union since it is upon its standards that the achieved degree of regionalization represents an important qualification for the admittance of new members.

The attitude of the European Union which assumes that the multilateral liberalization of trade can bring great advantages to the global economy has defined the basis upon which it is possible to build some form of economic integration in the region of the Western Balkans. Free trade brings more business opportunities, a more optimal distribution of resources and it contributes to further enlarging of the national product; this is exactly what the developing regions need in order to overcome the obstacles of transition. An initiative for creating a free trade zone in South Eastern Europe and, within it, the larger part of the Balkans, came from the Stabilization Pact for South Eastern Europe. Eight countries signed Memorandum of Understanding on Trade Liberalization and Facilitation in Brussels on June 21, 2001. Albania, Bulgaria, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Romania and former Yugoslavia obliged themselves, by this Memorandum, to sign, by the end of 2002, bilateral contracts about free trade.<sup>8</sup> This was the first concrete step towards liberalization of trade relations and towards achievement of a higher degree of economic cooperation of the Southeastern European countries.

Regarding the fact that the system of bilateral contracts has, in time, manifested certain shortcomings, the European Union has suggested the creation of the "Balkan zone of free trade" which would include the territory of the Western Balkans, Bulgaria and Romania. This idea has been rejected by the Croatian authorities who have seen it as an attempt to revive the type of integration similar to that in former Yugoslavia. The basic thesis of their rationale rests upon the opinion that the integration of Croatia with the countries that did not move far in the process of joining the European Union would slow down the negotiations that had already started and thus lessen the importance of the reached results for membership in the Union. As an alternative, it was proposed to enlarge the CEFTA agreement. The realization of this idea was done in late 2006 when, at the summit of the CEFTA in Bucharest, as many as ten countries signed their integration into the organization.<sup>9</sup> It is expected that the signing of this agreement would contribute to harmonization, transparency, stability and predictability of the conditions for economic activities in the Western Balkan region. In addition to the liberalization of trade in goods,

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<sup>8</sup> From 2002 to 2004, the countries in the region signed 32 bilateral contracts about trade. Though the implementation of these contracts was not done in the most ideal way, positive results in the sense of an increased trade volume on the Southeastern European territory were not missing. According to the data of the European Commission, in the period from 2001 to 2004, the trade volume increased for as many as 33%. The value of the realized trade among the countries in the region, in 2001, was 2,7 billion euros, while in 2004 it reached 3.5 billion euros. At the same time, the trade volume of the countries which signed the memorandum with the rest of the world increased for 21%, that is, from 30.2 billion euros in 2001 to 36.4 billion euros in 2004. (Internet: <http://www.setimes.com>)

<sup>9</sup> It is thought that a new, modernized and enlarged agreement CEFTA does not only represent an initiative for liberalization of trade relations in the world but also an instrument of political cooperation; it opens up the pathway for the Western Balkan countries to as recent as possible membership in the European Union. In addition to Bulgaria, Romania, Croatia and Macedonia the agreement was signed by the representatives of six new countries, namely, Albania, Bosnia and Herzegovina, Serbia, Montenegro, Moldova and Kosovo represented by the UNMIK. Bulgaria and Romania, as members of the European Union, withdrew from the agreement on January 1 2007.



the agreement also assumes more favorable conditions for trade cooperation in the fields of services, intellectual property, competition, investments and public purchase.<sup>10</sup>

It is doubtless that joining the CEFTA represents an important turning point in the inter-relations among the Western Balkan countries just as it opens up a set of opportunities for economic development. These opportunities are evident in opening up the ways for a more intensive inflow of foreign direct investments, diversification of trade in the region and the creation of the conditions for enlarging competition and employment. Besides, the activities taken within the economically motivated regional integrations, represent a key component for quickening the process of transition just as it simplifies the possibility of approaching the European Union. To what extent will the membership in this ambitious project really help the Western Balkan countries to become, apart from geographically, economically and politically parts of Europe, remains to be seen and estimated in the near future.

##### 5. TRADE STRUCTURE IN THE WESTERN BALKAN COUNTRIES AND CHANCES FOR ENHANCING EXPORT OPPORTUNITIES

The structure of foreign trade of a country or a region depends on the degree of its economic development and the position it has in the international economic relations. The economic cooperation among the Western Balkan countries has always been underdeveloped, even in the second half of the twentieth century, when the region faced its greatest prosperity. The political and military conflicts in the early nineties of the 20<sup>th</sup> century as well as the policy of disintegrating the Western Balkans affected the process of slowing down the transition in addition to their additional weakening effect on the already-poor economic relations among the countries concerned. A direct consequence of all this was the isolation of the region from the world economic developments whose dramatic effects contributed to the lagging behind of this group of Western Balkan countries; besides, all this meant questioning the possibility of making some form of integration. All the newly-created countries in the region are small in the geographic sense and, as such, they have at their disposal very modest development potentials. Their economic development, to a great extent, depends on international help, foreign trade and foreign direct investments. The lack effect of these factors in a certain period of time had a very negative influence on the possibility of implementing new technologies and knowledge without which it is impossible to increase productivity, competition and the standard of living of the population. The basic trait of the economies of the Western Balkan countries today is insufficiently diversified production which is dominated by labor-intensive products which are of a low degree of finalization. The problems of lagging behind and inadequacy of the supply-side structure of this group of countries most directly affect the lack of their competitive advantages on the world market just as they explain the failure of the development of their export potentials.

Regarding foreign trade in goods, there are essential differences among the countries of the Western Balkans. According to the data for 2005, the structure of export of Macedonia, Bosnia and Herzegovina and Montenegro are dominated by industrial products of a

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<sup>10</sup> Internet: <http://www2.dw-world.de>

lower degree of finalization. The share of such products, in the above-mentioned states, is 33.4%, 27% and 56%, respectively. In Albania's export, the most widely present are textile products and shoes (59%). In Serbia's export, the greatest share belongs to iron and steel (24.1%) while machines and means of transport, with their share of 29.6%, represent the main part of the Croatian export.<sup>11</sup> Investments in the recovery of production represent a reliable way of improving the export potentials and export structure of the Western Balkan countries for the sake of a greater share of industrial products. The fact is that, in the process of transition in the Western Balkans, many production companies faced bankruptcy, while a great number of them weakened in the process of privatization. The development and implementation of new technological achievements as well as foreign direct investments directed to the building of the new as well as the recovery of the existing production capacities would contribute to a much faster economic development of these countries and, in addition, increase the volume or advance qualitatively the export structure.

Opposite modest export potentials, on the market of the Western Balkan countries, there is an enormous import demand for products originating from the European Union. A drastic difference between import and export (to the advantage of import) creates a foreign trade deficit which represents an additional problem to the economic recovery of the given countries. A special problem is the import structure in which the most present are sophisticated industrial products, mineral fuels, natural and industrial gas or even agricultural products for human nutrition. Food, drinks and tobacco, with 18% in the overall import, make up the primary part of import in Albania. Bosnia and Herzegovina, Croatia and Montenegro mostly import machines and means of transport (26%, 32.9% and 22% of the total import). Industrial products make up 33.4% of the Macedonian import while in the import of Serbia the greatest share is that of oil and oil derivatives (26.9%).<sup>12</sup>

The final estimate of the foreign trade state implies, in addition to the analysis of the share of goods, the analysis of the share of services and transfers from abroad. Incomes from tourism represent a very important item of the monetary balance of Croatia, Montenegro and Albania. On the other hand, Serbia and Macedonia gain considerable income from traffic and communication. Private transfers from abroad (foreign currency money orders, pensions and other current transfers) are important for all the countries of the Western Balkans. Most of these incomes are consequences of a long tradition of emigration which, in turn, comes as a consequence of a number of years of unstable political and economic situation in the countries as well as the low standard of living of their inhabitants.

## 6. CONCLUSION

The new balance of power on the world economic and political stage, defined in the late eighties of the twentieth century found the region of the Western Balkans quite unready to face the challenges of the transition process. Ethnic conflicts and mutual violations of the territorial integrity of the countries in the region gave rise to an increasing

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<sup>11</sup> All data about export: *Investment Guide for Southeastern Europe 2006* (Internet: <http://www.seeurope.net>)

<sup>12</sup> All data about import: *Investment Guide for Southeastern Europe 2006* (Internet: <http://www.seeurope.net>)

political instability and additional destruction of the already-weakened economic systems. Such a state had a negative effect on the development potentials of the whole region in addition to creating obstacles to the political and economic cooperation. The beginning of the new century meant, for most of the Western Balkan countries, awakening of the pro-European consciousness and more intensive efforts to meet the conditions and tasks set by the European Union. In addition to establishing certain standards that are valid in each individual state (such as the building of a functional political community, economy and infrastructure), the Union insists on the regional cooperation among the states and resolving their internal conflicts. Though the Treaty of Roma defines the European Union as integration of 27 member states, the European Council stressed, in Thessaloniki in 2003, that it saw the Western Balkan countries as potential candidates for membership in the Union. In order to achieve full-fledged political and economic integration of the Western Balkans into the European structures, it is necessary for these countries to act together in developing market economies, democracy and the rule of law. The fact is that in this region there is a set of problems which are common for all the states: return of dislodged persons, building of economic infrastructure, fight against corruption and organized crime, etc. The common actions on the part of these states on solving these problems represent a sure way of achieving some results as well as a solid base for the start of the regional integration process.

The positive attitude of the European Union to the Western Balkan integration in its structure is reflected in its continual participation in the process of stabilization and integration. For the efforts on enlarging European integrations to give desired results, it is also necessary to promote a much faster economic development of the Western Balkans. By consistent carrying out of the reforms and tasks posed by the transition process, there is efficient transformation from the planned to the functional market economies. In order to realize this goal, of great importance is the adoption of legal norms which aim at improving the general business climate, creation of a favorable macroeconomic ambience for further growth of foreign direct investments and setting-up of the basis for a stable economic development.

The future of the Western Balkan countries is, undoubtedly, within the European Union. When they will become a part of it, depends on the way and quality of their commitment to political and economic reforms as well as on properly-used chances for mutual political dialogue and cooperation.

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## **ZAPADNI BALKAN U PROCESU EVROINTEGRACIJE - ekonomsko povezivanje i razvoj regiona -**

**Ivana Božić - Miljković**

*Priključenje evrointegracijama, pre svega Evropskoj uniji, već skoro dve decenije predstavlja zajednički cilj zemalja zapadnog Balkana. S obzirom da se radi o malim privredama, na niskom stepenu ekonomskog razvoja, neophodno je njihovo zajedničko delovanje kroz razne oblike regionalnog povezivanja i integrisanja. Istorijsko nasleđe dalje i bliže prošlosti, često predstavlja ogromnu prepreku razvoju međusobne saradnje ove grupe zemalja i ograničava iskorišćavanje postojećih mogućnosti za njihov brži ekonomski razvoj. Integrisanje zemalja zapadnog Balkana sa ciljem liberalizacije interregionalne trgovine, predstavlja šansu za poboljšanje njihove međusobne saradnje i obezbeđuje osnov za intenzivniju trgovinu sa zemljama Evropske unije. Pretpostavka uspešnoj trgovini, naročito na strani izvoza, jeste konkurentnost domaće robe na inostranom tržištu. To je problem sa kojim se suočavaju sve zemlje zapadnog Balkana zbog razorenih privrednih sistema i niskog nivoa ulaganja u njihovo ozdravljenje. Poboljšanje makroekonomskih performansi zahteva ulaganja u proizvodnju roba i usluga, a u situaciji u kojoj se zemlje zapadnog Balkana nalaze, najpoželjnija ulaganja su u obliku stranih direktnih investicija. Međutim, zbog nepostojanja vladavine prava, neadekvatnog sistema zakonodavstva i nerešenog statusa Kosova, investiciona klima većine zemalja zapadnog Balkana se ocenjuje kao nepovoljna. Članstvo u Evropskoj uniji, predstavlja svim zemljama regiona dobar motiv da koriguju postojeće nedostatke i aktivno pristupe izgradnji bolje budućnosti.*

Ključne reči: *ekonomski razvoj, evropska unija, integracija, zemlje zapadnog Balkana, liberalizacija trgovine*