CHARLES UNIVERSITY IN PRAGUE

FACULTY OF SOCIAL SCIENCES

INTERNATIONAL ECONOMIC
AND
POLITICAL STUDIES

MASTER'S THESIS

Effects of the Integration of Balkan Countries with the EU

2014 **Sait ÖZTÜRK**

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Subject: **IEPS**
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Supervisor: **Prof. Oldrich Dedek**
Date Submitted: **14th May 2008**

DECLARATION:

I hereby declare that this thesis is my own work, based on the sources and literature listed in the appended bibliography. The thesis as submitted is 103,413

keystrokes long (including spaces), i.e 88 manuscript pages.

Sait Öztürk 12/5/2014

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Table of Contents:

1. Methodology:

The methodology of this academic work would be based on use of statistical data, analyze of different research and comparison studies and countries development reports. Macroeconomic indicators will be indicated in order to show the reader the difference between countries which will be discussed in the paper. Analytical and empirical researches will be looked at in order to show how Balkan countries after they are accepted to the EU slowly stop being well motivated to implement necessary changes into the system. (Obviously as these countries' economies are significantly small, their impact to the EU economies would be also small, but still as the paper focus on these countries, it is worth and reasonable to investigate it). The unstable economic position of Balkan countries due to lack of strong institutions will be indicated as a comparative study from academic journals as well as from statistical data. The positive effect of the EU to these Balkan countries economic development will be shown from countries development reports and EU development reports. To show the recent position of Balkan economies, research papers and other investigation concerning Balkan economies will be shown to prove what kind of effects they are actually.

2. Introduction:

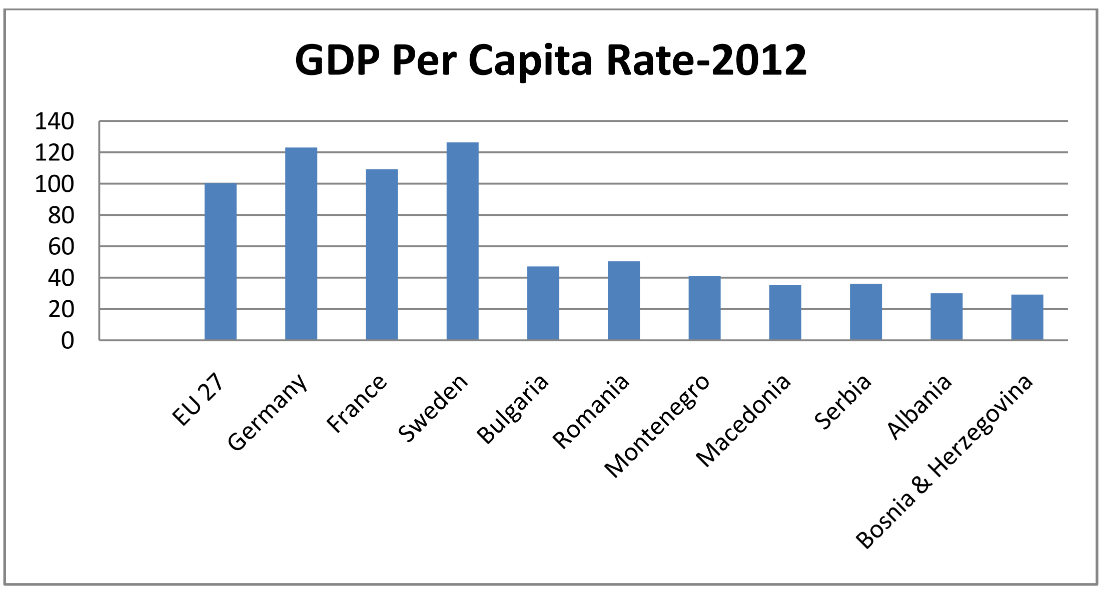
`Balkans` is a region which is located in the eastern part of Europe. The location of Balkans is strategically important for World geopolitics. This region surrounds a big area of southeast of Europe and its countries are ; Albania, Bosnia & Herzegovina, Bulgaria, Croatia, Greece, Kosovo, Macedonia, Montenegro, Moldova, Romania, Serbia, and Slovenia (has joined to the European Union (EU) in 2004, therefore is not taken into consideration in this reserach. Collapse of Yugoslavia in 1992 created an environment in which many different nations came to birth. Obviously, these countries are quite young and fresh compare to existing western European countries and there are political problems among these countries. Even though these countries share the same history and have almost a common culture, because of ethnic and religious diversity and with the collapse of Yugoslavia, they had serious political problems among each other. Due to these political discrepancies, they could not have a strong regional cooperation. Details of these arguments will be provided in this paper.

After the collapse of Yugoslavia, political problems did not let these countries trade as much with each other so they could have a chance to develop. After many years, in fact until these countries started to make some developments in order to be part of the EU, they had not so much FDI in their countries, and the economy relied most on import and export. Balkan countries generally seen as producer of agricultural products, but not like other European countries producing high technology products or industrial goods. So the accession hope to EU motivated some of these countries, they demonstrated how willingly they want to be part of this Union like Romania, Bulgaria, and like the new member Croatia. Others have still lower macroeconomic indicators, high corruptions, development of institutions are not done yet and last but not least political instability threatens the economy on daily basis.

The paper is aimed to show the relationship between the EU and Balkan countries. Balkan countries will be divided into two categories; Romania, Bulgaria and potential EU candidate Balkan countries (`Macedonia, Serbia, Montenegro and Albania`, Moldova and Bosnia& Herzegovina are not included in this paper, as it is difficult to find reliable statistics and data about these countries, but they are only included from time to time if some reliable statistics were found about them). Croatia is a recent member and the statistical data would not be efficient to evaluate the impact of the membership to the country, therefore it is not included in this paper. Romania and Bulgaria will be mentioned in same chapter, where potential EU Balkan countries will be taken all of them as once without going into details of each of these countries. Countries of Balkan countries are slow developing. Political unanimity is a barrier to economic development. Weak institutions are in all countries. So in this paper there will be three main chapters; 1. Positive impact of the EU to Existing EU Members Balkan countries, 2. Positive impact of the EU to non-EU Western Balkan (WB) Countries, and 3. Negative impact of Bulgaria, Romania and Other Western Balkan countries to the EU. Hypotheses which are given in the thesis proposal section will be proved by the statistical data and other data gathered either from Eurostat, IMF, WorldBank or country related research papers. Hypotheses will be proved explicitly in different sections of the paper.

3. Positive impact of the EU to Existing EU Members Balkan countries

The EU is a union which is composed of wealthy and poor member states. While western part of the EU like Germany, UK and France represents rich countries, after 2004 enlargement, Czech Republic, Hungary and Poland represented poor regions. Bulgaria and Romania were low quality countries compare to 2004 enlargement countries and compare to the western European countries. So anyone would ask for the main reason why eventually the EU accepted such poor countries to the EU? If one will compare the GDP per capita in PPS rate of these countries can eventually see that these countries are poor. One of the indicators to observe this argument will be GDP per capita rate. The graph given below shows results for 2012.



Source: Eurostat, 2012.

According to 2012 results of EUROSTAT the GDP per capita rate were for EU 27=100, Germany has 123, France has 109 and Sweden has 126, while Bulgaria has 47, Romania has 50 and for the potential candidate countries it is even worst; Montenegro has 41, (Former Yugoslav Republic of Macedonia) Macedonia has 35, Serbia has 36, Albania has 30 and Bosnia& Herzegovina has 29. That is signal that basically what the EU tries to integrate into the EU are quite poor countries compare to rest of the EU. But their improvements in economic terms are important for the EU total development and for achievement of sustainable common economy.

Bulgaria and Romania were neither economically nor politically ready to be part of the EU, anyone can understand how badly they were affected by the last financial crisis, and without the help of the union, they would not be able to restore. They are not really helping the EU but are rather a cost for the EU currently, like the case of Greece. These countries with integration to the EU benefited in terms of politics and economics. Political aspect would be increasing the quality of institutions and economical impact would be to have a `safe` economic environment and also productivity. These two let each member state to invest into education, to deal with poverty problems and also to open new places where unemployed people would able to work.

The EU accession of Romania and Bulgaria and their economic integration with the EU was more in the favor of Balkan countries rather than vice versa, as Breuss (2009, p.31) described "Bulgaria and Romania gain much more from EU accession than the incumbents by the proportion of 20:1….The incumbent EU member states will profit only slightly from this last step of EU enlargement. Due to more intensive trade relations, Austria will gain somewhat more (+0.05%) than the average of EU15 (+0.02%) and the 10 new EU member states (+0.01%) which joined the EU in 2004". Actually it is not even logical to include these countries in terms of economic reasons, because their contribution to the EU is less than the loss generated by their membership.

Besides than these economical reasons, in short, some important political reasons can be mentioned as well in order to show why for example it is important to include Bulgaria and Romania in the European Union. The Eastern Enlargement strategically is very important for the EU. The prosperity, social and political stability of all European countries is the core mission of the EU. All standards and reforms (political and economical) are created for this purpose. But as the EU is still composed of many different member states, the outcome of the system might not be same for everyone. How much each member state benefits from being in the EU depends on the existing economic and political structure of the country. In this section positive effect of the EU to Bulgaria and Romania will be analyzed in terms of economy. Afterwards negative sides of Bulgaria, Romania and other WB countries will be explained.

Romania joined to the EU in 2007, with fulfilling all the four main criteria of the EU; Political, Economical, Legislative and Administrative. But being accepted to the EU did not precisely mean that Romania was a very developed country and had strong institutions and transparent economy. Even the country was accepted to the

EU, the political and economical integration is still in progress. Necessary reforms has to be implemented to the system, besides implementation of these policies, there should be supervisory bodies to check the system. As political, social and cultural integration is not the core focus of this paper, more or less the arguments that will be provided will based on economic analyzes and researches. One of the main problems as in many other WB countries is that the poorly designed and structured institutions. Standardized institutions by the level of EU standards are crucial for any country that aims to accede to the EU. But the cost of these standardization is high for the EU (the cost in this context should be understand as monetary cost). The way how any country would implement this standardization process differs for various sectors. For example while the implementation of these standardization can be achieved in institutions through change of rules with different reforms, changes in sectors like farming, production and etc. can be achieved (in the case of WB countries) with the fund/aid provided by the EU. It is true that it is not only the EU that contribute for these developments, but if anyone will look at the proportion of funding, mostly EU's contributions represent around 70% while the member state contributes around %30. Lack of strong institution and having a high level of corruption created an environment in which funds provided by the EU to Romania were misused. That is a cost for the EU which was not foreseen by the EU institutions. Nowadays according to rules of the agreement, in case of misuse of funds, the EU can ask for reimbursement of the fund, which has been already asked by the EU. Eventually both sides are negatively affected. In the first look; this case seems to be not bad for Romania, but for further funding/aids; Romania will not have easy access to these funds anymore, for sure. The EU will supervise strictly where the money is spent and how it is spent, and will not wait until the last second, but will take some actions once it will sense the risk.

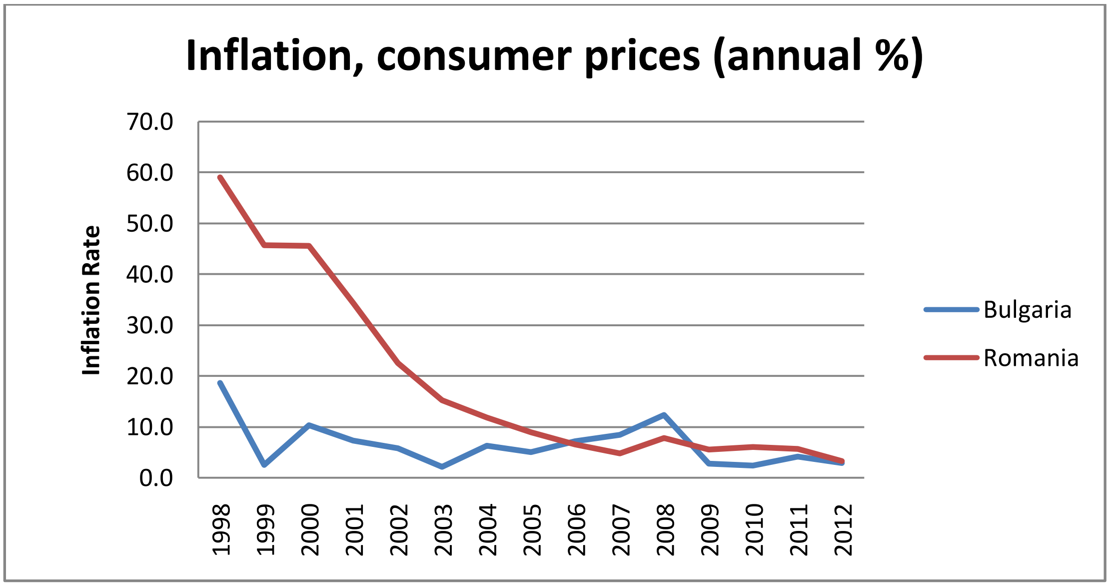
Romania due to its less developed institutions and unstable politics poses some negative impact to the EU while the EU membership has positive impact on Romania. According to work of Ciupagea, Jula, Marinas, Turlea, Unguru and Gheorghiu, there are three main benefits for Romania being accessed to the EU; (2004, p.81) “Supplementation and diversification of the financial resources”, basically the access to the structural and cohesion funds. (2004, p.84) “Benefits resulting from the member status”, being able to be part of a strong single market and maybe even part of the economic and monetary union. (2004, p.84) “Acceleration of reforms and support for the transition through the provision of fundamental elements for the definition of the national economic policies”, the support of the EU in order to improve the economic structure of the country.

In the following section the membership positive impact to Bulgaria and Romania economies will be discussed. In order to demonstrate these positive impacts, as first macroeconomic indicators will be analyzed, as second the FDI results with previous years will be compared, as third CAP advantage in both member states will demonstrated and as last advantage of Single Market and Customs Union will be mentioned.

a. Impact on Macroeconomic Indicators

Inflation

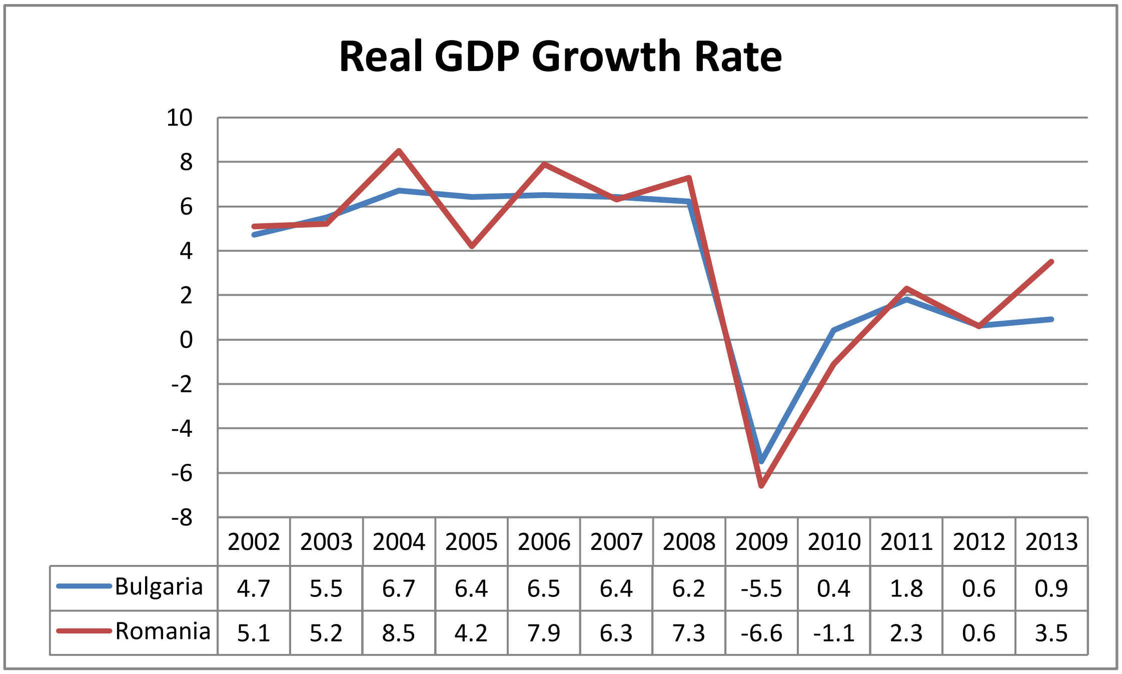
As it will be explained in `Exchange Rate Regimes in Balkan Countries` section in details, to be a member of (European Monetary Union) EMU, the independency of NCB (National Central Bank), the price stability and a moderate inflation rate is a necessity. The details of independent NCBs and their policies are explained in details in the `Exchange Rate Regimes` section, therefore inflation will be covered here only briefly. Bulgaria`s inflation reached prior to crisis in 2007; 8.4% and in 2008 it went up to 12.3%. But then it decreased again to %3.0 in 2012. Despite the fact that Bulgaria is also effected from financial crisis, suprisingly (Bertelsmann Stiftung's Transformation Index, 2014, p. 9-10) ``The global economic crisis had a positive impact on Bulgaria's current deficit. The current account came to balance after years of large deficits. The 2008 balance was $12.0 billion; in 2009 the deficit fell to -$4.3 billion and in 2010, the current account balanced with a negligible deficit of 0.6 billion (IMF data)``.



Source: WorldBank

Inflation of Romania was 4.8% in 2007 just before the crisis, and it increased to 7.8% in 2008 and abruptly it decreased to 3.3% in 2012. That is well due to changes in NCB policies of Romania because of ECB rules. Romania had a very high inflation in 1999; 45.8% and by 2006 this rate was 6.6%. Therefore the success of Romania with its fight against inflation cannot be underestimated.

Real Growth Rate:



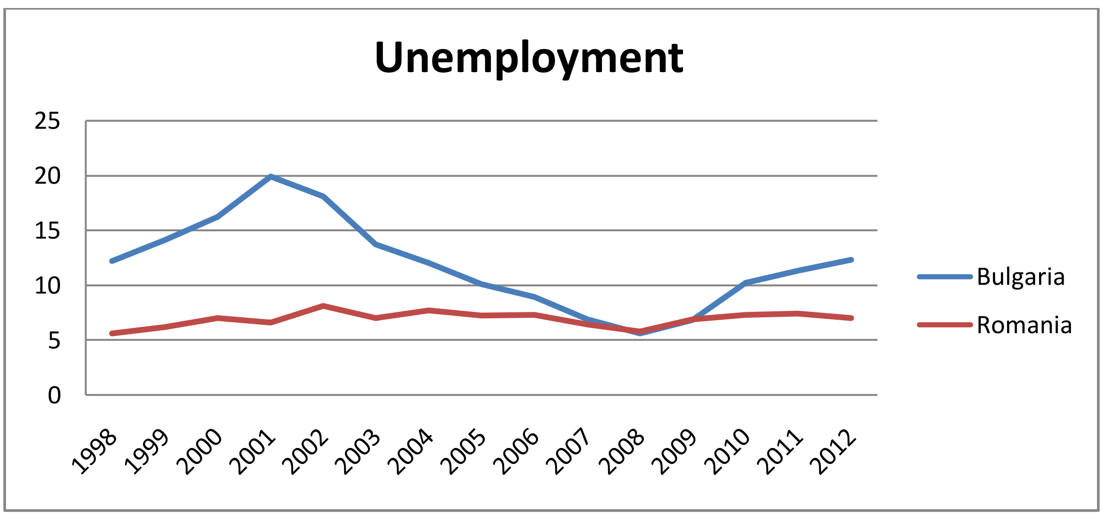
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Bulgaria	4.7	5.5	6.7	6.4	6.5	6.4	6.2	-5.5	0.4	1.8	0.6	0.9
Romania	5.1	5.2	8.5	4.2	7.9	6.3	7.3	-6.6	-1.1	2.3	0.6	3.5

Source: WorldBank

The table and graph given above demonstrates the real GDP growth rate since 2002 in both of these member countries. The actual outcome is that both of them resulted almost same, but there were few differences in years of 2004, 2005 and 2013. Compare to other WB countries, they slightly performed positive growth rate in 2013.

Unemployment:

The table given below demonstrates the unemployment rate since 1998 in both of these member states. As it is visible, Bulgaria`s unemployment rate decreased almost by 14% from 2001 to 2008. The impact of the EU integration cannot be belittled. Especially the new investments via FDI, and the trust to the economic environment in the country let the employment rate to increase. Besides investment and economic changes, there were also official/legal changes which motivated people to be employed in their home country industry. In case of Bulgaria as Beleva (p.6) noted `` The implementation of the legal opportunities as listed …``(some of these legal opportunities are as follows: `` the law regulates contracts for indefinite periods and fixed-term employment contracts (Article 67); employment contracts for a trial period (Article 70); contracts for work on particular days of the month (Article 114) for access to employment finds its common application in the level of employment.[3] The statistics data show a dynamic increase of employment levels in Bulgaria throughout the period 2000-2008, which in 2008 topped 63,5% (60,6% EU-27)[4] ``.



Source: WorldBank

On the other hand the unemployment rate of Romania did not change so much from 1998 records, even it decreased from 2001 to 2007, it started to increase after financial crisis. But of course it is unfair to compare it with Bulgaria, as the 1998 unemployment rate of Romania could be achieved only in 2008 by Bulgaria.

In short it is possible to summarize that hence both of these countries were under the coverage of the EU as they were supported for the EU membership by the EU, their inflation, real GDP growth and unemployment rate were positively affected, with economic policies of the EU. Other WB countries were also positively effected in this sense, details of these countries will be covered later. While there is positive impact of the EU to these two countries, on the contrary as one of hypotheses of this paper claimed ` Overall impact of Bulgaria and Romania to the EU is not high on the contrary very low.` This is true, especially if the growth rate is taken into consideration , Bulgaria and Romania had following results for given periods respectively, in 2005; 6.4% and 4.3%, in 2008; 6.2% and 7.9% and in 2012; 0.8% and 0.4%`. Besides then that these countries until 2007 absorbed EU funds and they still continue to this, in order to develop their countries economic and politic situation. But their contribution both in political and economical sense is very low.

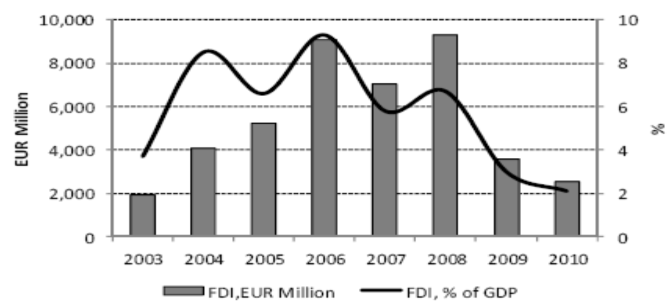
b. Impact on Foreign Direct Investment

Foreign Direct Investment (FDI) increased in both of these countries considerably thanks to the EU. As first the Romania FDI history will be mentioned and Bulgaria FDI history will be mentioned afterwards. Romania`s wealth and capital has increased with its membership to the EU, as stated (Lungu, 2011, p.2). "Romania EU membership yielded quite a few benefits as deeper integration of product, labor and money markets led to increased wealth and capital accumulation". But it is a mere fact that each EU country actually starts to benefit from the EU before the accession, with Pre-Accession-Aid and other funds provided by EU with purpose to help each country to develop both in economical, political and social terms. Basically all these reforms which were implemented by Romania in order to be part of the EU were eventually in the favor of the EU. But they slowed down in most EU countries after the accession to the EU, which will be described in another section of this paper. (Lungu, 2011, p.1) "The first four years of Romania's membership conformed that the accession to the EU had, overall, positive effects on the economy. Although the pace of structural reforms had slowed down after 2007, they picked up again after financial crisis, at the end of 2008."

As noted (Lungu, 2011, p.4). "in Romania, however, average wage in the economy rose at pace much faster than justified by inflation and productivity developments both during the pre-accession and the membership period". So in both cases Romania had to develop and this development has to be shown to the EU, so the wages was one of the main benefits of the Romanian population. It is known that , investors would like to have the guarantee against any seizure and etc. Being a member of the EU, makes the EU at the end responsible for any investors if the member states either would discriminate or approach certain investor differently. Due to guarantor position of the EU (Lungu, 2011, p.6) "investment rates actually rose during the membership period, averaging 28.3% of GDP, a large part of these was directed towards non-productive areas such as residential sector construction."

Also during the pre accession time, as discussed above with the developments with respect to the EU standards, investors found the country as a safe place to invest and FDI was in a rise every year but after 2008 (the year of financial crisis) FDI as in most countries started to decrease as well.

Graph 4: FDI in Romania over the 2003-2010 Period



Source: Author's calculation using NBR data

Source: Lungu, p.8.

(Lungu, 2011 p.8) "However in nominal terms, over the four years, annual average FDI was slightly higher after Romania gained EU membership, EUR 5.6 Bn. Versus EUR 5.1 Bn. during the pre-accession period; this is spite of the fact that the privatization receipts were overall lower after 2007". By virtue of the EU, macroeconomic indicators started to show positive development (more details about macroeconomic indicators were covered in section given above), as with the EU accession opportunity, there were some gain as Zhelev and Tzanov (2012, p. 108) pointed out "macroeconomic stabilization, trade openness, increased flow of foreign direct investment, improved legal and institutional framework that have been key drivers of economic success of the New member states of the EU during the last decade".

Bulgaria decided to be part of the EU in 1995. Since that time necessary changes has been implemented in order to be part of the EU successfully. With these changes in 2000, negotiations were opened. As final stage on 17th December 2004 the European Council agreed upon the accession of Bulgaria to the EU from January 2007. But there was a long pre-accession term. At that stage EU was assisting Bulgaria in economic terms. There are three different instruments which EU provides as assistance to its members (potential candidates); the Phare programme, Instrument for Structural Policies for Pre-Accession-(ISPA) and the pre-accession aid which provided to the Bulgaria since 1992.

These funds provided by the EU helped Bulgaria to develop its economy. Another advantage of the EU to Bulgaria was even before accession, during the pre accession period. Because the country was on the way to be part of the EU, it became a safe place to invest in perspective of investors. This positive side of the EU accession for candidate countries is crucial. To understand this impact clearly it is necessary to look at the table below which shows FDI flow percentage between 1995-2000. The year of application to the EU was given as 1995 above. So from this table any one can immediately see that since the country started to make changes in the alignment with EU rules and standards, the FDI flow percentage increased very fast. While it was 0.95 % in 1995, it was 4.22% in 1998 and 7.95 in 2000.

Table 1. FDI in percentage of GDP during 1995-2000

		1995	1996	1997	1998	1999	2000
Bulgaria	Flow	0,69	1,10	4,87	4,22	6,32	7,95
	Stock	3,40	5,60	10,22	12,54	16,86	21,46
Czech Republic	Flow	4,64	2,30	2,28	6,01	10,51	8,79
	Stock	13,30	13,82	16,16	23,24	29,16	38,16
Hungary	Flow	11,12	7,11	8,87	6,90	6,71	5,76
	Stock	24,64	28,63	38,26	42,91	47,14	47,70
Poland	Flow	2,63	2,87	3,12	3,68	4,33	5,45
	Stock	5,64	7,32	9,28	12,99	15,54	19,98
Romania	Flow	1,17	0,74	3,42	4,82	2,89	2,85
	Stock	2,30	3,09	6,80	10,75	15,37	18,78
Slovakia	Flow	13,12	1,73	1,07	3,23	2,08	9,45
	Stock	6,58	9,57	9,75	13,02	15,48	23,21
Slovenia	Flow	0,73	0,84	1,67	1,01	0,49	0,70
	Stock	12,73	13,16	11,04	13,04	12,28	14,76
Spain	Flow	1,35	1,55	1,56	2,36	3,03	6,82
	Stock	17,52	19,24	18,39	20,98	20,29	26,93

Source: UNCTAD, FDI database

Source: (Radulescu and Druica, 2011, p.171).

In the next table the FDI rate for between 2001-2010 is provided.

Table 2. FDI in percentage of GDP during 2001-2010

Country		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Bulgaria	Flow	5.98	5.8	10.49	14.01	14.43	24.35	29.4	19.02	6.88	4.53
	Stock	21.66	26.12	31.88	41.01	50.95	74.06	90.08	84.89	100.95	100.2 2
Czech Republic	Flow	9.12	11.28	2.21	4.55	9.3	3.82	5.99	2.99	1.54	3.53
	Stock	43.81	51.37	49.57	52.28	48.64	55.83	64.52	52.37	66.15	67.64
Hungary	Flow	7.38	4.49	2.53	4.41	6.97	6.67	2.87	4.75	1.59	1.84
	Stock	51.42	54.37	57.25	61.25	56.08	72.7	69.23	56.95	76.7	71.02
Poland	Flow	3.00	2.08	2.25	5.05	3.37	5.75	5.54	2.8	3.18	2.07
	Stock	21.66	24.38	26.68	34.27	29.86	36.84	41.97	31.04	43.22	41.22
Romania	Flow	2.88	2.49	3.69	8.52	6.55	9.27	5.82	6.81	3.01	2.24
	Stock	20.75	17.12	20.51	27.13	26.10	37.06	36.9	33.23	44.69	43.94
Slovakia	Flow	7.5	16.89	6.55	7.21	5.12	8.52	4.77	4.96	-0.06	0.6
	Stock	26.45	34.78	44.2	52.07	49.88	61.01	56.86	54	60.1	58.09
Slovenia	Flow	1.83	7.14	1.07	2.49	1.67	1.69	3.2	3.56	-1.18	1.75
	Stock	12.87	18.24	22.29	22.87	20.6	23.52	30.38	28.62	30.77	31.47
Spain	Flow	4.66	5.72	2.92	2.37	2.21	3.00	4.46	4.83	0.62	1.75
	Stock	29.1	37.46	38.44	39.02	34.04	37.43	40.63	36.95	43.37	43.68

Source: UNCTAD, FDI database.

Source: (Radulescu and Druica, 2011, p.174).

In the table given above, the FDI flow between 2001 and 2010 is provided. It is still the Pre-Accession Period 2001-2007, and the increase in the FDI flow is obvious. Bulgaria was still the safe investment environment due to EU accession, the

FDI rate was (29.4%) until 2007, but as Greece-financial crisis affected the whole world financial system, the Bulgarian economy was thrilled by the crisis as well and the FDI rate suddenly started to decrease.

As Nenovsky and Turcu (2012, p. 14) points out even good improvements and developments were not enough for development of the country as " Bulgaria`s EU integration has not accelerated country`s technological catch-up: unexpected export growth is registered in traditional industries as Bulgaria overwhelmingly remains steadily anchored in low value-added competition on international markets". This is more or less in the hand of the EU; with economic and political sanctions it can change it.

It is true that Bulgaria and Romania slowed their interest to economic and political reforms hence they are member of the EU. But it is not fair to claim that their plan was this genuinely. For example in the case of Bulgaria as Velichkova (2011, p. 71) notes`` the passive attitude of Bulgaria and the decline of reforms have advantages for certain elites in the country, which do not want to show the sources of their domestic power. They are not in favor of the democratic reforms and the establishment of accountability and transparency. Researchers on the topic say that the initial stages of post communist transition toward democracy and EU integration often create groups of winners-who have interest in delaying reforms``. So even the government would favor to speed up implementation of reforms, certain elites have influence power to slow these reforms.

c. Impact of Common Agricultural Policy

CAP is the abbreviation for `Common Agriculture Policy` of the EU. It includes financial subsidies and other programs for agriculture industry. It was first introduced in 1962, hence it was modified, changed and edited based on necessities of the agriculture sector of the respected year. According to the European Commision work on CAP (2012, p. 6) ``With 10 new member states joining in 2004 and two more in 2007, the number of EU farmers nearly doubled to around 14 million``.

CAP in Bulgaria:

The farming is quite important for Bulgaria`s society. The ministry of agriculture and food of Bulgaria (MAFOB) states in Agrarian Report for 2012 that (MAFOB, p.16) ``land for agricultural purposes in 2011 was 5486 572 ha, accounting for approximately 50% of the territory of the country``(p.16). In the same report the utilised agricultural area ``composed of arable, perennial crops, permanent grasslands, family gardens and greenhouse areas`` (p.16) accounted ``45.8% of the territory`` in 2011. According to data of MAFOB, registered farmers for 2012 were 67 614 people. Of course there are also unregistered farmers and each of these registered farmers has also families, thereof number of people who cover their expenses via farming could be four times higher than registered people. In that case quarter million of people are affected from agriculture policies of Bulgaria. So it is necessary to analyze the impact of the CAP to Bulgaria.

Table II.2. Agricultural producers registered under Ordinance № 3/1999

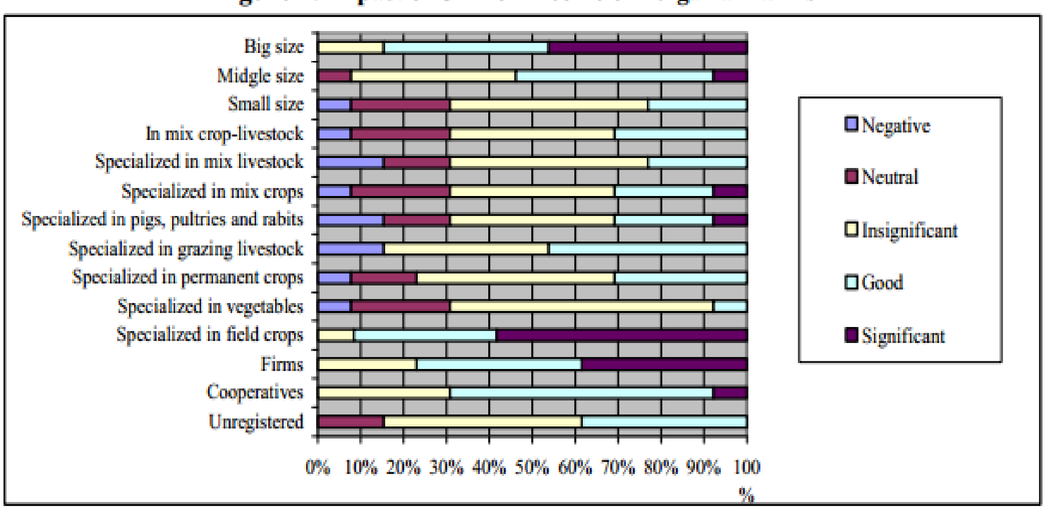
	2006	2007	2008	2009	2010	2011	2012 г.
Total number of registered agricultural producers	77 899	80 308	95 770	99 087	69 306	65 504	67 614

Source: *MAH, Agriculture and Land Tenure Directorate General*

Source: (MAFOB, 2012, p. 20)

Bachev (2011, p.3) in his research came up with an outcome which shows the impact of CAP on income of Bulgarian farmers and he stated that ``majority of experts estimate that CAP effect on income of cooperatives, firms, middle and large size farms, and farms specialized in field crops is good or significant (Figure 2). What is more, most experts evaluate CAP impact on middle sizes farms and cooperatives as good, while that on firms and big farms is significant``.

Figure 2. Impact of CAP on income of Bulgarian farms



Source: expertise with leading experts, 2011

Source: (Bachev, 2011, p. 4)

But while being the subsidy is beneficial for Bulgarian farm industry, as it will be indicated in case of farmers, the gain of this subsidy is not fairly distributed even though it is aimed so. As Bachev underlined in his paper (2010, p.4) `` less than 7% of beneficiaries get the lion share (more than 80%) of direct payments. Similarly, due to restrictive criteria, unattainable formal requirement, high costs for participation, and widespread mismanagement (and corruption) the new public support under NPARD is not effectively utilized and benefits a small portion of farms (Bachev, 2010)``.

However when applications for existing funds requests will be looked at from the below table, it can be observed that from all applications only %1 was not accepted. The rest received their funds. In the table on the left side there are `schemes`. These schemes represent all support-subsidy payments which are in connection with direct payments of the EU.

Table IV.4. Authorized funds for campaign `2011

Scheme	Proportional distribution of budget (%)			Number of filed applications	Number of applications with authorized payments	Authorized payments (BGN)*
	EAGF	EAFRD	National budget			
SAPS	100	-	-	87 795	87 747	723 167 647,6
NAAP	-	-	100	68 449	68 406	89 632 364,68
NAPA1	-	-	100	8 101	8 099	55 448 645.7
NAPA3	-	-	100	5 820	5 818	19 171 156.73
NAPCSCEP	-	-	100	2 428	2 428	4 696 495.9
NAPSCEP	-	-	100	153	131	340 899,57
NAPT	-	-	100	37 432	35 845	72 126 924,53
SR	100	-	-	231	230	339 726,35
NAPCSCM1	100	-	-	3 466	3 466	13 659 831.04
NAPCSCM2	100	-	-	1 483	1 482	8 122 371.12
NAPCSCM3	100	-	-	443	443	8 236 521,39
NAPCSCM4	100	-	-	807	806	596 368.48
NAPCSCM5	100	-	-	1 325	1 325	748 270,81
Measure 211 – HP1	-	82	18	29 210	28 708	42 446 578,35
Measure 212 – HP2	-	82	18	11 490	11 325	14 543 220,78
Measure 213 – Natura	-	82	18	2 427	2 392	4 629 039,46
Measure 214 – AEP	-	82	18	1 972	1 685	20 037 503,67
Total						**1 077 943 566.16**

Source: *SFA-PA*

**The payments were made in the period 1.12.2011 – 18.10.2012*

Source : (MAFOB, 2012, p.78)

Another statistics that could show whether the agriculture was positively or negatively impacted by the developments with CAP is given below. It is called Major Trends in Bulgaria in terms of Agriculture.

Major Trends Bulgaria (million EUR)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 *
Crop Output	1668.4	1628.6	1766.63	1629.54	1757.84	1565.84	2489.46	2016.76	2153.29	2542.04	2672.89	2339.25
Animal Output	1187.53	1018.6	1090.3	1130.92	1109.39	1246.5	1375.24	1162.05	1081.03	1235.85	1218.37	1069.51
Output of the Agricult	3650.31	3265.23	3471.38	3360.26	3471.28	3314.89	4494.1	3811.38	3821.89	4355.01	4423.62	3921.45
Gross Valued added o	1605.88	1532.08	1592.25	1546.23	1478.75	1227.16	1885.72	1296.07	1355.65	1609.36	1662.15	1461.35

Source: Eurostat, 2012.

There are some positive gains since Bulgaria accessed to the EU. Especially in Crop Output-, Output of the Agricultural Industry - and in Gross Value Added of the Agricultural Industry rate. The increase rate in each of them compare to the rate of 2007 are respectively are as follows; %66.93, %84.53 and %83.97%. In his detailed research Velikov (2013, p.43) explains more details regarding the crop out details as follows: ``Most notable was the increase in the output from cereals (almost 300%) and industrial crops (almost 260%); the output from more labour intensive subsectors, however, significantly decreased: vegetables output plummeted by -74%, fruits output by almost - 25%, animal products by almost - 6% and milk by - 12.5%``.

As it can be seen from above given statistics and expertise researches, there is a positive impact of CAP on Bulgaria`s Agriculture Industry. But of course it is not fair to judge the CAP only based on some expertise results which included certain number of farmers and not all of them. Besides then that even though the whole agriculture records increases, this does not mean that all registered/unregistered farmers benefited from CAP support. Because as like in the case of Romania which will be covered in details below, usually beneficiary of CAP is small proportion of farmers with holding huge land in their hands compare to small farmers. Therefore the CAP implementation should be re-designed again so small farmers can be effected positively as well. But still, the agriculture industry is effected positively by the CAP.

CAP in Romania:

Agriculture in Romania has significant importance for its citizens. Especially the employment share of agriculture among other economic sectors is great in

Romania. The distribution of employment rate among Agriculture, Industry and Service sectors are as follows; 25.5%, 30% and 44.4% respectively. On the other hand the average employment rate of the EU-27 is 4.6% in Agriculture, which means that Romania`s farmer population is almost 5.54 higher than the EU-27 Average. This fact signifies how the agriculture sector important for Romania is.

Fig.8. – Subsidies / area received in 2008, on categories of farms

	Payments recipients – 2008			
	No. of farms	Percentage of total farms (%)	Area in ha (subsidies paid per ha)	Percentage of total funds (%)
1-5 ha	912,245	81	2,234,984.79	23.59
5-10 ha	145,400	12.91	977,066.80	10.31
10-50 ha	51,547	4.58	995,337.22	10.50
50-100 ha	5,802	0.52	414,682.72	4.38
100-500 ha	8,704	0.77	1,957,369.76	20.66
500-1000 ha	1,718	0.15	1,189,953.39	12.56
1000-5000 ha	822	0.07	1,355,287.79	14.30
5000-10000 ha	23	0.002	179,334.15	1.89
over 10000 ha	8	0.001	172,114.63	1.82
Total	1,126,269.00		9,476,131.25	

Source: Agency for Payments and Intervention in Agriculture

Source: (Luca, 2009, p. 20)

In the table given above; the difference between small, medium and large farms shares in subsidies in Romanian agriculture can be seen. The interesting fact is that large farm holders (100-over 10000 ha)compare to the rest of the industry represent only approximately 1.3% of the owned agriculture land in the country and receives 30% of CAP funds. Eventually the beneficiaries of these funds are not people who are in need, but investors who would like to increase the quality and production capacity of their businesses. The rest 98%, especially the small farmers (1-10 ha) %93.91 receive only 33.9 % of CAP funds. In fact, supporting large farm holders economically gives additional advantage to larger farmers compare to small and medium farmers, and the chance for small and medium farmers to compete with larger famers disappears at the end.

Obviously the result is not win – win for everybody but more or less win-lose from the farmers perspective. But of course that is not only to say that the CAP is not fair, as Luca (2009, p.23) underlines ``given this background of underdevelopment of the Romanian agricultural sector, the Common Agricultural Policy cannot substitute for the lack of a national vision with regards to the role of agriculture in Romania's economic modernization``. Even before criticizing CAP, CAP should be understood correctly. CAP has 2 pillars, one which is direct subsidy to farmers and second one is the fund prepared for rural development. Generally Direct subsidy compare to rural development subsidy receives more funds. But as Luca included in his paper, it is the inverse for Romania. This in fact is a positive attitude (because almost only large farmers receive the support), with this approach the rural development of the country is supported which is more important and more beneficial as majority of farmers belongs to small farmers who will not receive any funds or will receive low amounts of funds. The benefit will not be directly to their business, but at least they will benefit from the rural development.

Total amount CAP for Romania 2007 – 2013 (billion Euro)	14,3	
of which		%
Pillar I (direct payments)	5,5	38%
Pilar II (rural development)	8	**55%**

Source: European Commission

Source: Luca, 22.

Luca underlines one fact very clearly in his research. The motivation of Romanian politicians to receive funds for any cost (at the cost of not designing the subsidies policies for Romanian small and medium sized farmers) is a very short-sighted planning which will be not efficient for general Farm industry at all. He states that (2009, p. 24) ``The obsession of some politicians to help only the very large farms would only aggravate the problem: there will be several thousands of large owners and a large population of peasants depending on the state, without any possibility of getting out of underdevelopment, following the South American model``.

As last, the major trends in agriculture will be looked at, in order to see how major trends were affected after joining the EU.

Major Trends Romania (million EUR)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 *
Crop Output	6954.38	8288.85	10145.46	6901.75	8651.77	8146.65	13714.56	9703.87	10256.96	12862.58	9475.87	12276.45
Animal Output	5052.7	4514.72	3738.46	3756.22	4097.01	4138.24	4705.76	4869.72	3611.89	3914.08	4200.05	4100.08
Output of the Agricult	12146.15	12923.51	14730.4	11488.41	13988.13	13528.82	20086.32	16273.39	15201.44	18163.59	15158.75	17996.12
Gross Valued added o	6250.59	6789.01	7759	5531.87	6833.08	5906.64	9232.5	7359.3	6548.43	8160.87	6523.09	7748.51

Source: Eurostat

The Crop Output (CO)-; Output of the Agriculture Industry (OAI)-, Gross Valued added of the agricultural industry rates has shown an increase tendency despite the global financial crisis. The fall was only in Animal Output. The increase of CO and OIA from 2002-2007 was %17.14 and %11.38 respectively. But same rates showed tremendous increase between 2007-2013 despite the financial crisis and the result for CO and OIA were %50.69 and 33.02% respectively.

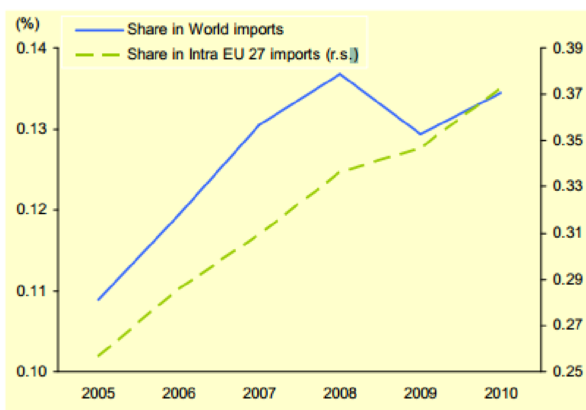
In short, it can be concluded that like in the case of Bulgarian, there is a general economic benefit of Romania from the CAP. But in reality, the aimed gain to farmers is not achieved as the CAP policies and internal subsidy policies do not let people to benefit from it equally. Therefore keeping the amount of fund constant maybe even more, the system should be re-designed so it can be subsidy system where majority of farmers can benefit, not only the minority.

One of the hypothesis of this paper is `Balkan countries are focused on agricultural products and industrial low value added products whereas to have a strong and sustainable economy, investment into technologies and other capital goods are necessary, which also require high FDI inflows. That way Balkans can favor rest of the EU in terms of economic integration`. Both Bulgaria and Romania have significant population in Agriculture as it was described above. In both of them there were some FDI, but not in technology. In other Balkan countries FDI increased gradually but not in technology sector, rather in service sector mostly through merger and acquisitions. Therefore investment into technologies and other capital goods should be taken as priority in these countries for further development.

d. Impact of Customs Union and Single Market

Three countries of WBs are already in the EU. Bulgaria and Romania joined to the EU in 2007 and Croatia joined recently in mid of 2013. As only once the country is officially part of the EU can participate in the Customs Union (CU), it is necessary to look at Bulgaria and Romania trade results (not for Croatia as it is quite new member state and its trade data would not display a reliable results) in order to see the difference between before and after being a member of CU, whether it had any positive or negative impact. According to the ` Bulgaria competitiveness review` of Ministry of Finance of Bulgaria (MFB), Bulgaria`s share in World and EU trade are as follows between 2005-2010:

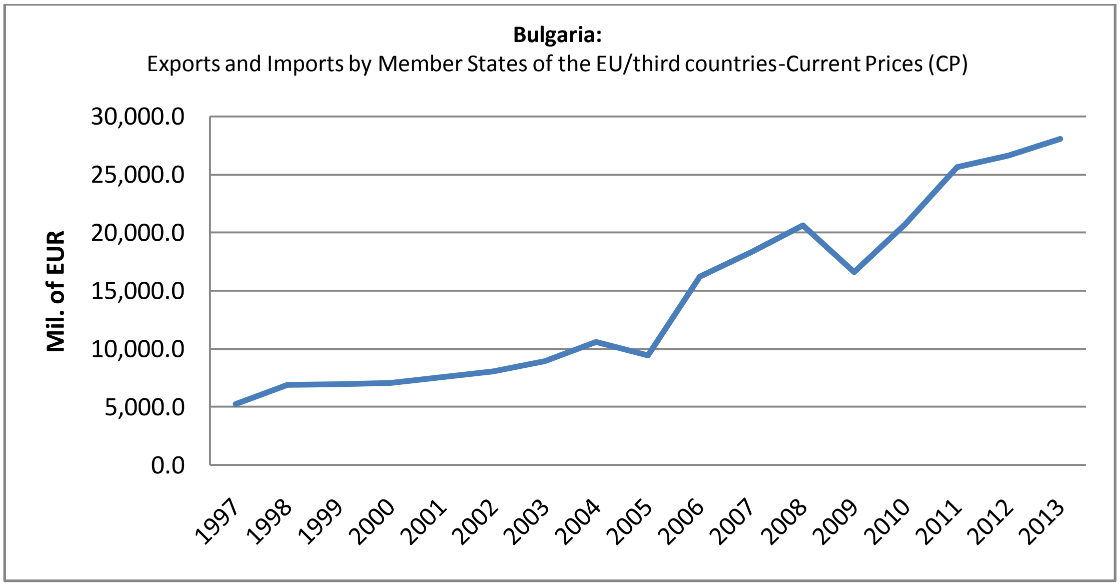
Figure 5: Bulgaria's Share in World and EU Trade



Source: MF staff calculations based on WTO and BNB data

Source: (MFB, 2011, p. 4)

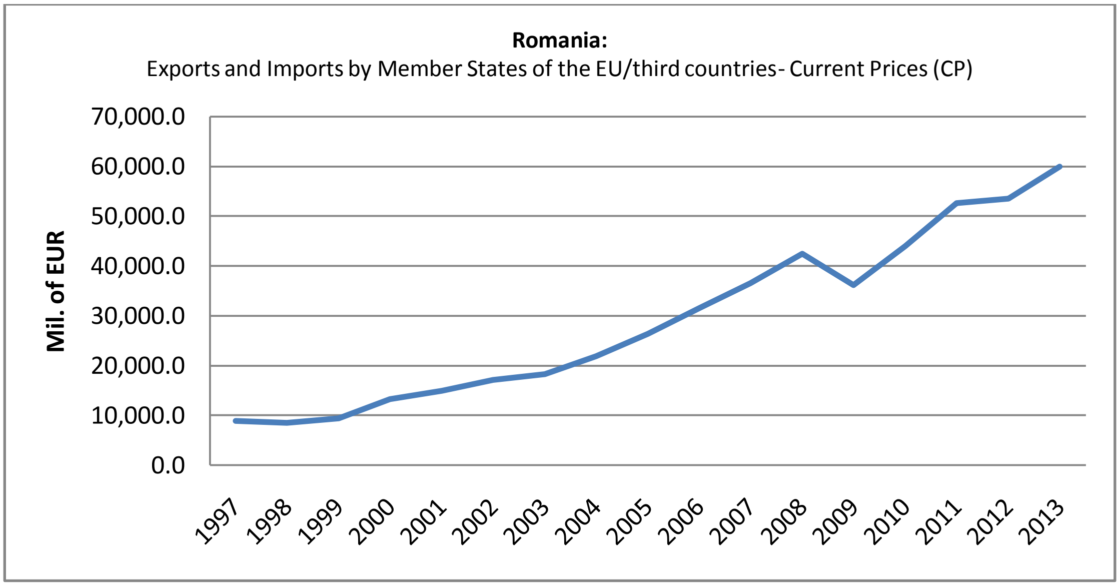
In another table which is given below the `exports and imports by members states of the EU/thirds countries-Current Prices` is shown.



Source: Eurostat

From above graph it is possible to observe that between 1997 and 2007, the Current Prices (CP) for export and import has increased about 15 million EU . There is a fall at the beginning of 2007 which lasted until the mid of 2008. But then with more freedom in trade and with advantages of being member of CU, the same rate increased in four years approximately for 10 million of EUR. Basically the proportion of increase for 1997-2007 period was 15 mil-in 10 years, while for 2008-2012 period 10 mil-in 4 years. The advantage of the single market and CU cannot be underestimated.

The same graph is computed for Romania as well. It also shows undoubtedly how actually this rate has increased after the country joined to the EU. Because while the increase in seven years between 2000-2007 was approximately 25 million EUR, the increase between 2009-2012 in 3 years was approximately 15 million EUR. Even though in the first look the increase seems to be not higher, the financial crisis of 2008 should not be belittled and results after this period should be analyzed with including the impact of financial crisis.



Source : Eurostat

As in the case of both Romania and Bulgaria, it can be concluded that the membership in CU had a positive impact which should have not been underestimated. When the WB countries will join to the EU and will be able to participate in CU, then they will also experience such growths in their trade volume, which will be a positive impact to their economy.

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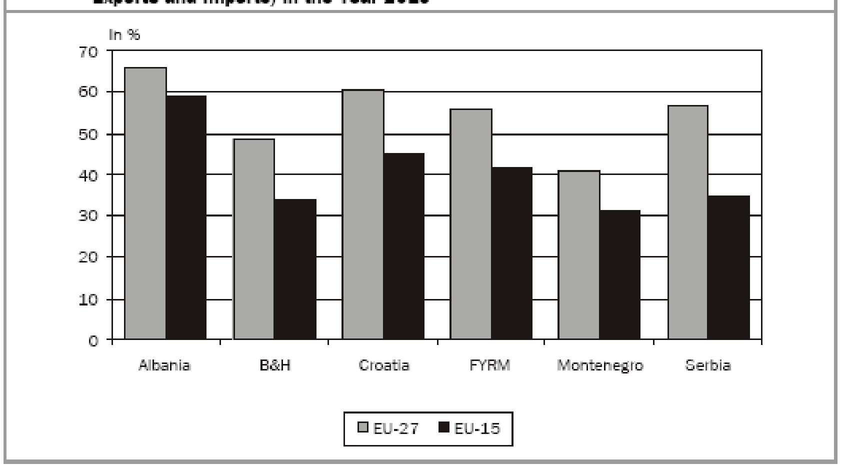
4. Positive impact of the EU to non-EU WB Countries:

The EU consists of 28 member states currently; the last member was Croatia who joined to the EU at the end June 2013. But there are still candidate countries which try to fulfill conditions in order to be part of the EU. \There are some other Balkan countries that try to be part of the EU. In this chapter, the research and comparison will focus on how these countries accession to the EU will affect the EU in general and how these countries will change through the EU standards and rules on the way for EU membership. As these countries are not in the EU, all arguments and supporting points will be either based on how these countries' economies are currently and based on estimation how it could be in future or how can the unemployment, poverty and immigration of that region might influence the EU.

Balkans is a region which has difficulties with integration to the EU and consists of least developed states compare to all other EU countries. But as stated (Alujevic, 2012, p. 21) "another problem is seen in the limited reserves of human capital, especially because the phenomenon of brain drains continuous even after the change of the parties in parties in power in the majority of Western Balkans states". It is well known that any country needs a high quality of education system which at the end will provide a generation which is highly knowledgeable from both scientific and social sciences. These generations due their knowledge will bring the right order to politics and productivity to the economy. The productivity will be achieved from development in both sciences. Social science graduates will bring high quality of low and social structure, while the science graduates will inspire new inventions and will boom the economy. So the fruit of the integration will be welcomed by both sides at the end.

As discussed above there are very important factors that (Qorray, 2010, p. 90) “pose a serious obstacle to regional co-operation, a good neighborhood, investment promotion and the European integration process. The level of economic development indicated that the Western Balkans is lagging behind in meeting the European criteria for a sustainable and competitive economy. A further serious challenge in these countries is the political commitments of the elites who govern the countries; in most cases they do not understand the importance of the process of EU integration and its complexity”.

Figure 1 **Share of the European Union in Western Balkans' International Trade (Goods Exports and Imports) in the Year 2010**



Source: WIIW Handbook of Statistics.

Source: Botric, 2010, p. 9

The significance of trade for WB with the EU is shown in the figure given above. For Albania, the EU represents around 67% of international trade, for B&H - 49%, for Croatia - 60%, for Macedonia - 56%, for Montenegro - 41% and for Serbia - 58%. These results actually confirm how the EU market is crucial for these countries.

Their economic integration is significant for their development. Except for Croatia which is already a member (recent), any of these countries will be a member of the EU soon. But if they will reform their economic policies and will structure their economies based on the EU standards and rules, then they will not only achieve sustainable economy, but also a chance to access to the EU and benefit more from its opportunities.

The integration with the EU will bring to these countries more FDI related to high technology. When 10 NMS successfully accessed to the EU in 2004, most of these countries had similar type of economies. Technology did not have big share from the pie of total industry in 10 NMS when they were in the pre-accession period. But with time as these countries could be part of the EU, they were seen as `safe` countries. Investors could invest without risks of government seizure, market discrimination and etc. in these countries to different sectors especially for service and technology sector because of cheap labor and potential market access to the rest of the EU. So one example from these countries would be Czech Republic, while keeping farm industry and other industries, technology sector and service sector started to gain power. In nowadays Czech Invest provides incentives for high technology investments. There are many service based global companies located in Prague, SAP, SIEMENS, ACCENTURE, ADP and many more. These facts are underlined in order to show that once WB countries will be accessed to the EU, after the integration period, their economical structure will change as they will be seen under the protection of the EU and not anymore as a single country by their self.

But to have sustainable and developed WB countries, it is even necessary to have them integrated with each other first. Therefore the EU initiated the `Regional Cooperation Program` (RCP) in order to expand the intra-regional trade volume and also the exchange of experiences with each other, in order to have a regional strong economy. Details of RCP will be described later in details.

There is a need to have FDI in the economy as was discussed before; eventually the need is for `Greenfield investment` rather than `M&A` in the country in order to have a growth in the economy. As it was described clearly in Botric (2010, p.8) paper " Kathurina et al. (2008), who focus their analysis on the group of five South East European Countries (Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Serbia and Montenegro), argue that since these countries are running large current account deficits, the most obvious reason for their low investment rates appears to be low domestic (private) savings. Therefore the need to attract foreign investors is evident, as without investment there could be no growth or catching up". Investment is necessary for further economic developments. One of another advantage of the EU membership possibility for these countries was (Botric, 2010, p.9) "as OECD (2010) reports, all the SEE countries have institutionalized aspirations toward attracting more foreign investment, by establishing investment promotion agencies". So basically with the EU rules and standards these countries become a `safe` region to invest.

Lack of desired institutions causes corruption which leads to misuse of EU funds, which at the end does not help the EU at all, it actually takes money away and distorts the EU economy, the money which could be used for good projects are lost money. The relationship between FDI and the corruption rate will be described later in this paper.

a. Regional cooperation in the Western Balkans

Post Yugoslavian countries fought with each other because of ethnical and political reasons for decades. Each of them remembers what happened in the near past. This unfriendly relationship between countries did not let them to work together for a long time. They did trade with each other but there was no such `tight cooperation` between each of them. So the EU come up with the idea of `Western Balkans Regional Cooperation`. The aim to achieve with this project was to bring peace to this region which will lead them to cooperate together in order to benefit both politically and economically at the end. Regional Cooperation was a pre-requisite by the EU for their accession. The hope for economic stability as well as for a working democracy was the aim of the EU. The first favor of the EU to Balkans was the implementation of Stabilization and Association Process in 1999. The purpose was to bring all Balkan countries together to work for regional cooperation. But there were some uncertainty for these countries as underlined by Mameli (2011, p.8) `` inconsistency between EU regional and bilateral approaches towards Western Balkans generated some uncertainty among the countries in the region, at least at the beginning, whether the EU integration was a real option or just a far mirage to compel them to cooperate among themselves[10], since EU integration was essentially a multi-speed process in the region[11]``.

The positive impact of this policy to WBs eventually forced these countries to leave aside what happened in the past and pushed them for a common future. Sharing of experiences and know-how was one of the quickest solutions which could help them for their EU integration. As the core aim of this paper is to discuss economical issues, the economic positive impact of regional cooperation will be shown below: (Mameli looked also into political points which lead WBs to cooperate in his paper, but in this paper only economic factors are taken into consideration. Mameli`s economic factors are shown in quotation marks.).

- ``CEFTA`` (Central European Free Trade Area) proposed by the EU in order to have closer economic relations between Balkan countries.
- ``Small and Medium Enterprise development`` – this is an Investment Com-

  pact for South East Europe, the aim of this is to check and evaluate investments in SEE, it works under cooperation of both OECD and EC.
- ``Infrastructure`` which is under the control of Regional Cooperation Council.
- ``Technology``; where many different agreements has been implemented such as `` the Memorandum of Understanding on the Development of the SEE Core Regional T ransport Network, signed in 2001… the South East Transport Observatory (SEETO);the Agreement on the establishment of a European Common Aviation Area (ECAA), the SEE Core Regional Transport Net-work`` and many others.

In order to see how actually the regional cooperation project helped WBs from economic point of view, it is necessary to look at the development of intra-regional trade statistics which will point out whether the implementation of CEFTA by the EU to Balkans had a positive, negative or neutral effect.

As first it is necessary to look at the period of 1996-2005. The intraregional trade between these countries with implementation of Regional Cooperation policies has increased. The table given below shows the intraregional trade from 1996-2005. But to observe whether there were some increase in the growth rate of intraregional trade; 1996-2005 periods and 2000-05 periods are considered separately. If the export intra trade results are taken into consideration, the growth rate average between 1996-2005 was %9.28, while in the next five years (2000-05) the same average went up to %18.16, therefore the result is a gain which means positive. If the import intra trade results are taken into consideration, the growth rate average between 1996-2005 was %12.02 while for 2000-05 it was %22.64, therefore the result is positive again.

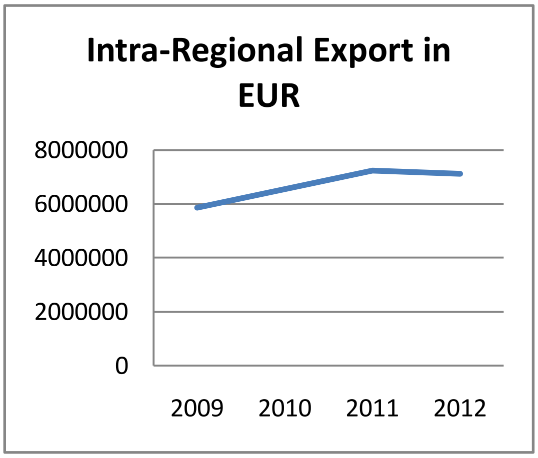
Table 2.5. Intraregional Merchandise Exports and Imports by SEE7 Country, 1996–2005

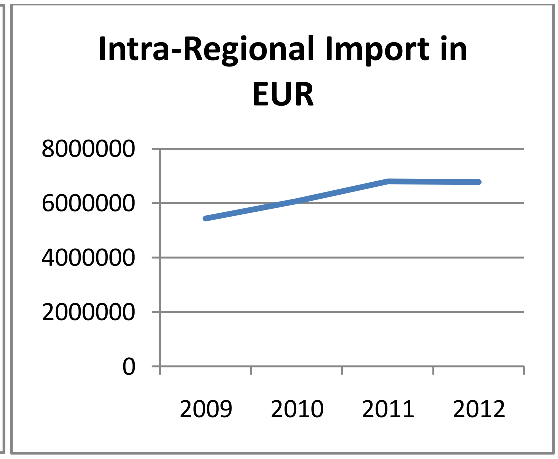
											Growth rate (%)	
Country	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*1996–2005*	*2000–05*
Intraregional exports ($ millions)												
Albania	11	10	5	8	11	16	12	14	12	22	8.6	8.2
Bosnia and Herzegovina	298	435	423	319	273	275	414	314	611	944	7.3	23.8
Bulgaria	514	329	289	370	612	494	526	717	961	1,144	12.2	15.5
Croatia	624	777	752	652	679	787	973	1,226	1,647	1,873	11.5	21.5
Macedonia, FYR	372	407	375	365	447	373	360	408	538	699	4.7	9.9
Romania	257	241	238	262	484	411	381	611	1,041	1,489	19.2	25.4
Serbia and Montenegro	725	814	939	533	530	521	675	428	1,123	1,488	3.3	20.0
Western Balkans	2,030	2,443	2,495	1,878	1,939	1,972	2,434	2,390	3,930	5,026	7.3	19.5
SEE	2,801	3,014	3,021	2,510	3,035	2,877	3,342	3,718	5,932	7,660	9.5	19.7
Intraregional imports ($ millions)												
Albania	97	35	43	66	77	77	107	102	122	177	12.1	15.7
Bosnia and Herzegovina	952	1,132	1,302	889	794	848	1,079	750	1,603	2,335	5.1	19.8
Bulgaria	163	124	140	113	285	216	221	352	561	901	19.6	26.0
Croatia	131	233	256	215	194	264	347	557	848	1,206	21.0	37.5
Macedonia, FYR	341	399	416	359	368	325	394	455	653	671	6.1	15.0
Romania	125	137	129	126	170	199	179	282	471	710	17.8	29.1
Serbia and Montenegro	799	824	682	584	817	723	773	969	1,401	1,828	8.3	17.8
Western Balkans	2,321	2,622	2,699	2,113	2,250	2,238	2,700	2,833	4,627	6,218	8.4	20.9
SEE	2,610	2,883	2,968	2,352	2,705	2,652	3,101	3,467	5,660	7,829	9.8	22.0

Source: World Bank

According to Tankosić, Carić and Jevtić (2011, p.27) ``Intraregional exports have increased substantially since 2003. All CEFTA economies doubled their intra-regional exports between 2004 and 2007, and this growth was slightly larger compared to the growth in exports to the EU``. As noted by these authors again, instead of comparative advantage theory the new theory has been intra industry trade which is described as (2011, p. 28) ``trade of similar products or products at different stages of production or exchange of goods within the same industry, that has been a key factor in trade growth in recent decades due to economies of scale, the fragmentation of production, and outsourcing. On the other hand, inter-industry trade is defined as exchange of goods from different industries``. Eventually the new intra industry theory is the key concept which let all these different countries to work as a regional one common industry.

The intra-regional trade for import and export for period of 2009-2012 is given below. The statistical data are gathered from CEFTA database. As for both export and import, there is an increase. While the intraregional trade volume for export was 5,847,831 EUR in 2009, it increased to 7,120,127 EUR in 2012. At the same time while the intraregional trade volume for import was 5,426,441 EUR in 2009, it jumped to 6,762,947 EUR in 2012.





Source: CEFTA statistics, it includes Albania, Bosnia & Herzegovina, Croatia, Macedonia, Moldova, Serbia and Kosova,

As to conclude after signing many agreement and agreeing on mutual trade, the trade volume between candidate countries increased since 1997 (trade liberalization). In the table provided above the total intraregional trade volume for WB countries is visible. The decrease in the trade rate was observed only in case of Bulgaria and Romania, and the reason for that was the movement of trade volume into direction of EU members rather than only to regional trade partners, because they were on the way to be a member of the EU in 2007. But results of four other Balkan countries (Albania, Bosnia & Herzegovina, Croatia and Macedonia) has showed stable increase each year, which is a positive impact to the Balkan economies, and it is one of another verification that regional cooperation project was worth to implement.

b. Other Economic Impact of EU to WB Countries

WB countries, so called potential candidates countries which are composed of; Albania, Bosnia & Herzegovina, Macedonia, Moldova, Montenegro, Kosovo and Serbia are supported by the EU since many years. The support to most of these countries was done via the Instrument for Pre-Accession Assistance (IPA). IPA is created with the aim to support these countries to be a successful member in the EU. The target is to implement both political and economical reforms, hence the citizen can benefit from changes first and the EU can welcome these candidates to the Union at the end. As noted by the European Commission `` For the period 2007-2013 IPA had a budget of some € 11.5 billion; its successor, IPA II, will build on the results already achieved by dedicating € 11.7 billion for the period 2014-2020.`` It was underlined before that these Balkan countries are not developed enough neither in economic nor in political terms. There is a link between democracy and economy. In order to have great outcome in the economy, it is necessary to implement political (institutional) reforms so the economy can also benefit. Therefore in order to see the economic impact of the EU to WBs it is necessary to analyze how these funds were provided and for which aim they were used. In this paper we will look at the IPA I supports to the potential candidate countries. There is also a division between potential candidate and candidate countries. In case of WBs; Macedonia, Croatia (is a recent member of the EU) and Montenegro are recognized as candidate countries since 2011, and Albania, Bosnia & Herzegovina, Serbia and Kosovo are seen as potential candidates. While all the five components which are given below are available to all candidate countries, the potential candidate countries can only benefit from the component I & II.

There were five components of IPA I:

Component I-Transition assistance & institution building

Component II- Cross border cooperation

Component III- Regional Development

Component IV-Human Resources development

Component V- Rural Development

It has been mentioned before those WB countries were hit from the global financial crisis. The unemployment rate started to increase, inflation went up and the uncertainty damaged especially the private sector. Therefore instantly, after the crisis hit these countries, in order to restore what has been lost, the EC focused on ``Private Sector Development`` sector which is one of the other seven sectors which EC took as a priority during the IPA period of 2011-2013. According to the EC for ``the private sector development between 2007-2010 123.90 million EUR has been funded while between 2011-2013 70 million EUR has been funded.(15)

According to the EC 2012 annual report on financial assistance for enlargement some of the outcomes of the IPA are as follows for some candidate countries:

- Croatia: (EC-a, 2012, p.7)`` Since 2007, nearly EUR 1 billion has been made available to Croatia through the Instrument for Pre-accession Assistance. In 2012, EUR 230,000 contributed to strengthening the Croatian Tax Administration and to raising efficiency in detecting and prosecuting corrupt practices``.

- Bosnia & Herzegovina : (EC-a, 2012, p.8)`` Within the implementation of IPA programmes and projects, Bosnia and Herzegovina has also modernised and improved its indirect taxation system, the Indirect Taxation Authority agency. The budget allocated for the implementation of mentioned twinning support for Bosnia and Herzegovina was EUR 2.4 million``.

- Montenegro: (EC-a, 2012, p.11)``With EUR 0.7 million of funding, the Gender Equality Programme contributed to the political and economic empowerment of women in Montenegro``.

- Macedonia: (EC-a, 2012, p.13)`` In the former Yugoslav Republic of Macedonia the EU provided support to the Food and Veterinary Agency amounting to EUR 2 million. This financial support was directed at improving inspection services, the control of animal diseases, animal waste disposal and an animal identification and registration system``.

Another benefit of the EU to WB countries was the implementation of Stabilization and Association Process in 1999 (Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia and Serbia and Montenegro (formerly FR Yugoslavia)). The aim of SAP was to bring economic prosperity, peace, stability and freedom to the region. The SAP gave right to these countries to freely access to the EU market. As Uvalic (2013, p.11) has pointed out ``as part of the process of SEE-EU trade liberalization, tariff barriers have been removed or lowered in trade between the SEE-5 and the EU, on both sides``.

It is significant to look at the trade statistics of Balkan countries with the EU in order to see how eventually these countries are dependent on the EU and how regional policies and the EU option increased the trade rate between Balkans and the EU. The table given below shows us how the export and import rate between the EU and Balkans has increased since almost trade liberalization took place.

Table 4. EU shares in total trade of the SEE-8 (in %), 1999-2003

EU shares in Exports						EU shares in Imports					
	1999	2000	2001	2002	2003		1999	2000	2001	2002	2003
Albania	93,64	93,34	90,96	92,14	93,35	**Albania**	80,18	74,81	74,70	70,72	68,22
B&H	46,70	53,06	56,82	51,42	57,17	**B&H**	38,62	39,99	39,00	37,75	36,42
Bulgaria	54,20	51,74	55,19	56,13	57,09	**Bulgaria**	50,01	44,93	49,77	50,53	49,82
Croatia	49,09	53,43	52,55	50,52	52,92	**Croatia**	56,49	55,76	55,47	55,54	56,00
Macedonia	44,72	42,58	48,75	42,99	48,93	**Macedonia**	40,14	38,13	42,74	54,76	51,60
Moldova	20,56	21,66	21,29	22,36	23,36	**Moldova**	26,65	29,10	27,42	26,41	28,38
Romania	65,48	63,95	67,95	67,29	67,90	**Romania**	60,49	56,68	57,42	58,65	57,86
S&M	36,40	36,80	41,46	39,12	41,28	**S&M**	41,50	36,89	36,88	37,26	40,62

Sources: Calculated on the basis of data of the IMF (2004), *Direction of Trade Statistics - Yearbook 2004*, supplemented in a few cases by national statistics of FR Yugoslavia, Croatia, and Bosnia and Herzegovina (see note 16). Data for Serbia and Montenegro do not include Kosovo.

Source: (Uvalic, 2013, p. 14)

EU shares in Imports:			
	2011	2012	2013*
Albania	64	62	65
B & H	45	47	48
Croatia	62	62	
Macedonia	54	58	59
Moldova	44	45	44
Serbia	56	58	60
Montenegro	39	38	36
*** first half of 2013**			

EU shares in Exports:			
	2011	2012	2013*
Albania	73	75	77
B & H	56	58	59
Croatia	60	58	
Macedonia	61	63	71
Moldova	49	47	46
Serbia	56	56	59
Montenegro	50	29	29
*** first half of 2013**			

Source: CEFTA statiscs for 2011,2012 and 2013.

In fact except for Albania`s export rate in the period of 2011-2013, all of other countries in both in export and in import had an increase. That is another positive signal which shows that these countries increased their volume of trade with the EU in last decade.

I. FDI, Corruption Rate and Macroeconomic Indicators

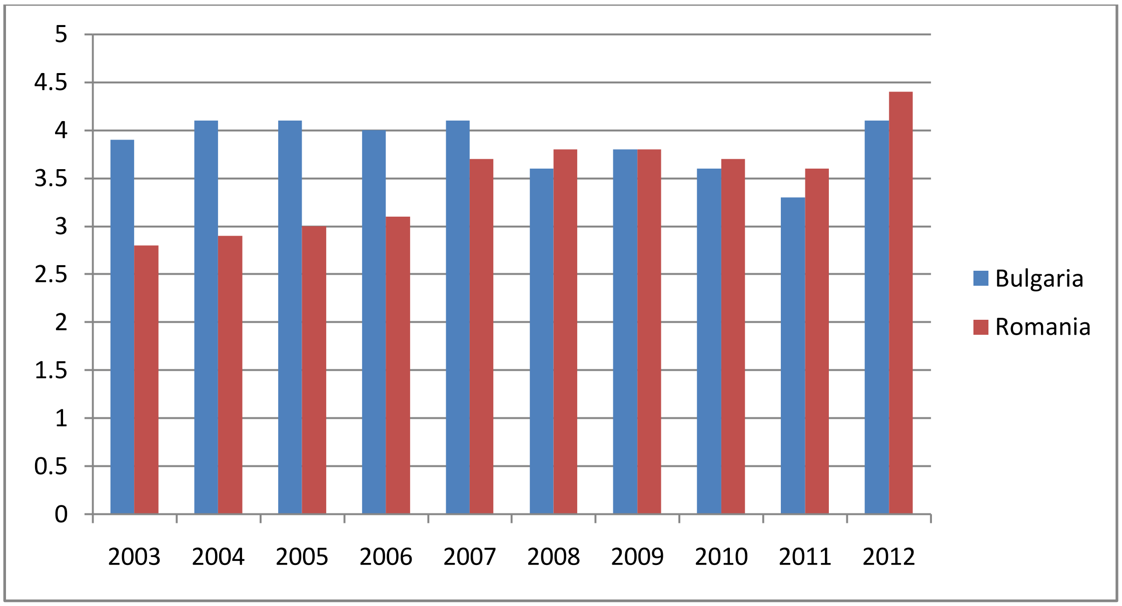
FDI is usually important for the development of any economy. But FDI does not happen like import or export but rather it searches for a reliable country where the money invested will have the least risk to be seized by the government or the least risk to have bankruptcy. Eventually there is a relationship between corruption rate and the amount FDI flow to any country. According to the research carried out by

Wei (Wright & Roland, 2011) "there is a negative association between corruption and FDI and that the reduction in FDI caused by corruption is greater than the negative impact of corruption on other types of capital inflows" (p. 6). Another supporting argument is as follows; (Wright & Roland, 2011, p.6) "Abed and Davoodi (2002) also applied cross-section and panel data methods to assess the impact that corruption has on per capita FDI inflows in transition economies. The evidence reveals that countries with a low level of corruption draw more per capita FDI. However, once the authors control for the structural reform factor, corruption is no longer significant, implying that structural reform is more critical at reducing the level of corruption in attracting FDI". So necessary steps in order to reduce corruption and increase the FDI is hidden in the reforms which EU asks for, but how any member states take care of these reforms is questionable. (Czech Republic, an EU member since 2004, still faces difficulties to fight against corruption).

In previous section of this paper FDI rates of Bulgaria, Romania and some of the WB countries rates were shown. But in this part corruption rate of these countries will be shown for before and after their EU accession and also how this corruption rates affected FDI will be desribed and as last impact of these problem to the general economy of the EU will be shown.

If one will compare the table of FDI stock and the rate of corruption can then easily observe the negative relationship between each other. In order to prove these the case of WBs will be looked at. For these reason there are two tables provided below. One is about the corruption rate (from transparency.org achieves) and other table is from the FDI table which is mentioned before.

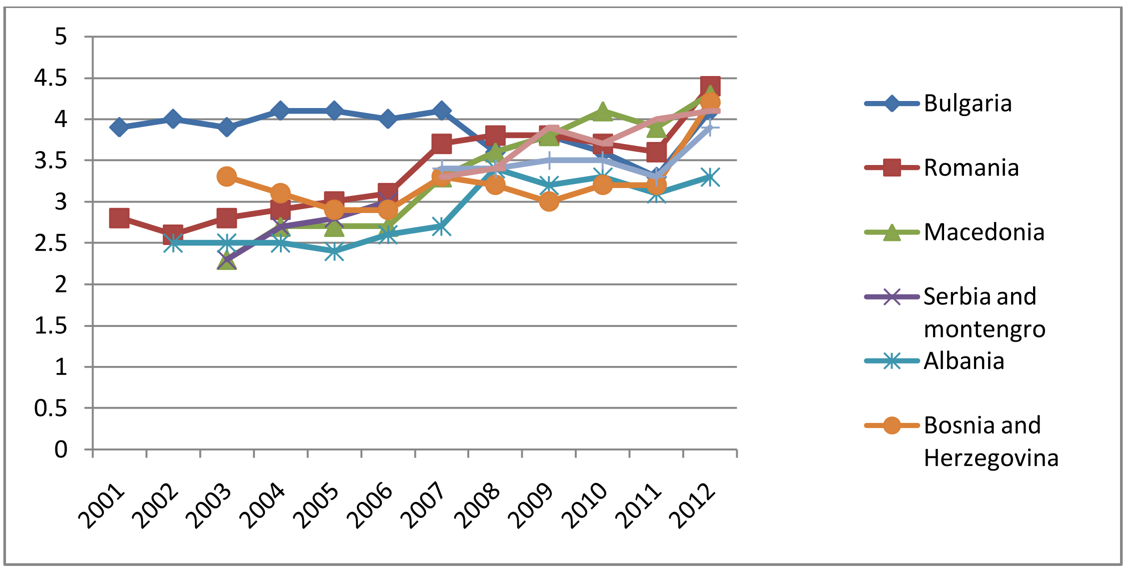
Corruption Rate Table:



Source: Transparency International

This table shows us that Bulgaria`s corruption rate started to reduce with their efforts and change in their institutional structure in order to be part of the EU. The country was quite successful achieving this until 2008. One year after the accession to the EU as before argued they respect to the rules and standards, but after being accepted, as like other members slowed down these improvements. But of course with expectations of the EU, Bulgaria again recovered and did it best to fight against corruption. Once the member state is in the EU, there is no really procedure that threatens any member state about being exiled from the EU. This guarantee makes countries to become idle while being a member of the EU. For example as Lungu (2011, p.11) mentioned "Prior to the EU accession, the obligation to fulfill the Maastricht criteria disciplined government spending….Even though fiscal policy was more disciplined prior to EU accessions, it lacked a clear long-term strategy which would address the fiscal imbalances built up over time".

In general the WB corruption rate looks as follows;



Source: Transparency International

So any country from WB is even not in the mid of the rate which is 5 in corruption rate. (10 is the best and 0 is the worst) It is very easy to observe that most of these countries which are given in the table more or less implemented partially successfully reforms in order to stop corruption by some percentage. But if the corruption rate for two different periods; 2001-2007 and 2007-2012 are observed, there are two different results for Romania and Bulgaria. Bulgaria did not even improve their corruption rate so much but its positive impact to the FDI was huge. Romania changed by approximately 1 rate in the period of 2001-2007, from approx. 2.8 to 3.8 and since 2007 to 2012 the change was not even 1 percentage and for certain period it has even decreased.

Table 1: FDI inflows by countries and total amount for the region (in millions of euro)

Country/Year	2001	2002	2003	2004	2005	2006	2007	2008	2009
Bosnia Herzegovina	-	-	-	565	492	610	1517	726	**452**
Serbia	41,6	343	948	652	1180	3375	1431	1687	**1377**
Croatia	1467	1137	1762	949	1467	2764	3678	4195	**2096**
Monte Negro	-0,5	76,3	39	50,5	381	466	672	625,5	**944**
Macedonia	-	-	-	260	77,21	344	505	400	**181**
Albania	-	-	-	278	213	259	481	675	**706**
Total	-	-	104,4	2756	3810	7818	8284	8308	**5756**

Source: countries' national (central) banks

Source: (Tesic, p. 100)

One of the advantages of trade liberalization in WBs was the increase in FDI inflows. By virtue of WB Countries changes in their economic and political system, they started to receive investment from foreign investors, because of the foreseen stable investment climate. As Redžepagić and Richet (2008, p.48) underlined ``the transformation of these economies into market economies could not have taken place without the assistance of the foreign capital. The companies with foreign capital contribute in a very significant way to employment, the investment, exports and the new specialization of these economies``. Looking to the table given above, which is created by Tesic, shows us FDI rate of these countries prior to Global financial crisis.

Almost in all WB countries there was a steady growth. As underlined by Tešić (p.101) ``According to the last issue of the World Investment Report 2009, released by the United Nations conference on Trade and Development, in 2009 the inflow of FDI around the world was 39% lower as compared to the previous year due to the global economic crisis``. In order to understand the FDI outlook of today WBs, it is also necessary to give a look to 2003-2011 period, as underlined by Estrin and Uvalic (2013, p. 33) ``During the2003-11 period, the ratio of FDI to gross fixed capital formation has been, on average, 32 percent for the whole SEE region, but it has been particularly high in Serbia (over 30 percent), Bulgaria (over 50 percent) and especially Montenegro (over 70 percent) (see Figure 13). Because of lower national savings and investment in SEE, FDI has played a much more important role in the Balkan region than in the CEE and Baltic states, where annual FDI inflows over the same period represented on Average 17 percent of gross fixed capital formation (only in Estonia was the ratio over 30 percent)``. Eventually results are positive and WBs benefit from the EU in this concept.

In fact if the FDI would have been used correctly and properly the employment rate in each of these candidate countries could increase rapidly. What is meant with that is, there are two types of investments when FDI takes place. One of them is Merger & Acquisition and the other one is Greenfield investment. While the Merger & Acquisitions strengthen existing businesses with Foreign Capitals, the Greenfield investment is an investment where the new job opportunities are created. As underlined by Sauvant, Maschek and McAllister (p,16) ``Interestingly, in terms of entry mode, while greenfield investments are considered economically more desirable and less politically risky in developed countries, emerging market MNEs consider them more risky in other emerging markets since “the presence of a domestic partner tends to reduce risk perceptions”(Chapter 12, 228)``.

There are of course some divisions between potential candidate countries about what they have received as foreign investment in their country. As underlined by Estrin and Uvalic (2013, p.8) ``By 2010, the services sector accounted for most inward FDI stock in all SEE countries, on average 69.8 percent of total,[7] but with substantial variations among countries. The services sector represented just over 60 percent of total inward FDI stock in Bosnia and Herzegovina, Macedonia and Romania, butmore than 75 percent in Croatia and Serbia and as much as 81 percent in Bulgaria``. Other than that they also looked at the FDI amounts which were used for manufacturing sector and came with the outcome as follows (2013, p.22)`` …amount of FDI in manufacturing are Bosnia and Herzegovina (35 percent of total), Macedonia (31 percent) and Romania (32 percent), which is in contrast to the lower shares in the other countries - 16 percent in Albania, 17 percent in Bulgaria, 19 percent in Serbia and 21 percent in Croatia``.

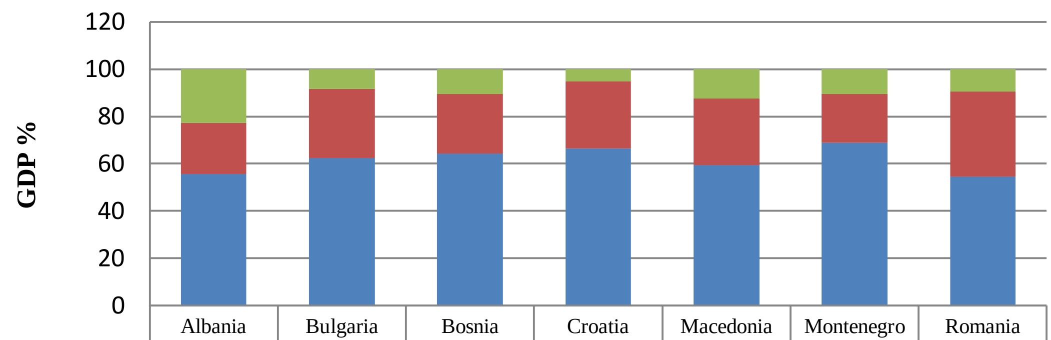
Uvalic (2013, p.76) indicates that ``by 2011, there were no longer large differences in various areas of economic reforms between the ‘early’ reformers (Albania, Croatia and FYROM) and the‘late’ reformers (Bosnia and Herzegovina, Montenegro and Serbia), as was the case in 2001 [Bartlett, 2008] (see Table 1). Reforms in the area of price liberalisation, trade and foreign exchange systems and small-scale privatisation have been practically completed, while progress has been slower regarding governance and firm restructuring and competition policy``. Another visible impact of the EU to the economy of WB countries can be seen by looking at the table below which shows the GDP growth rate in each of these countries. It is necessary to look at the growth rate until 2008, because the rate which is given until 2008 are the fruits of sustainable development in the economy and the reflection of this development to the general economy. But the sharp decrease since 2009 is explained before in details due to global financial crisis. In order to see the GDP growth rate compared to 2005 rates there is additional column added (%inc= percentage increase from 2005-2008). Except for Bulgaria and Croatia, results for other countries are quite high, especially Montenegro and Romania have higher results, %64 and %83 respectively.

GDP Growth	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**%inc**
Albania	5.5	5.0	5.9	7.7	3.3	3.5	3.0	1.6	0.4
Bulgaria	6.4	6.5	6.4	6.2	-5.5	0.4	1.8	0.8	-0
Bosnia & Herzegovina	5.0	6.2	6.8	5.4	-2.9	0.7	1.3	-0.7	0.08
Croatia	4.3	4.9	5.1	2.1	-6.9	-1.4	-0.9	-2.0	-0.5
Macedonia	4.4	5.0	6.1	5.0	-0.9	2.9	2.8	-0.3	0.14
Montenegro	4.2	8.6	10.7	6.9	-5.7	2.5	3.2	-0.5	0.64
Romania	4.3	8.7	6.3	7.9	-6.8	-0.9	2.3	0.4	0.83

Source: WorldBank

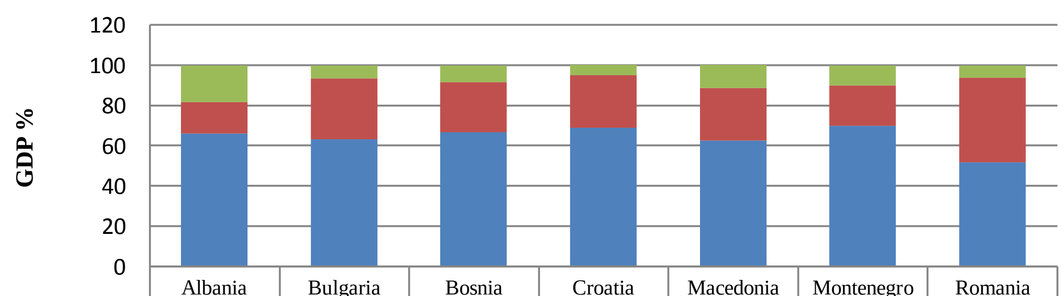
Besides then the GDP growth rate, it is also important to look at the sectoral composition of GDP in each of these WB countries. Hence the FDI entered WBs and hence the investment type started to change in WBs also the composition of GDP per sector has changed as well. In order to demonstrate the changes, three main sectors will be taken into consideration, these are; industry, services and agriculture.

GDP Composition by Sector-2005



	Albania	Bulgaria	Bosnia	Croatia	Macedonia	Montenegro	Romania
Agriculture	22.8	8.5	10.5	5	12.3	10.5	9.5
Industry	21.5	29.2	25.1	28.5	28.2	20.7	35.9
Service	55.7	62.3	64.4	66.4	59.5	68.8	54.6

GDP Composition by Sector-2012

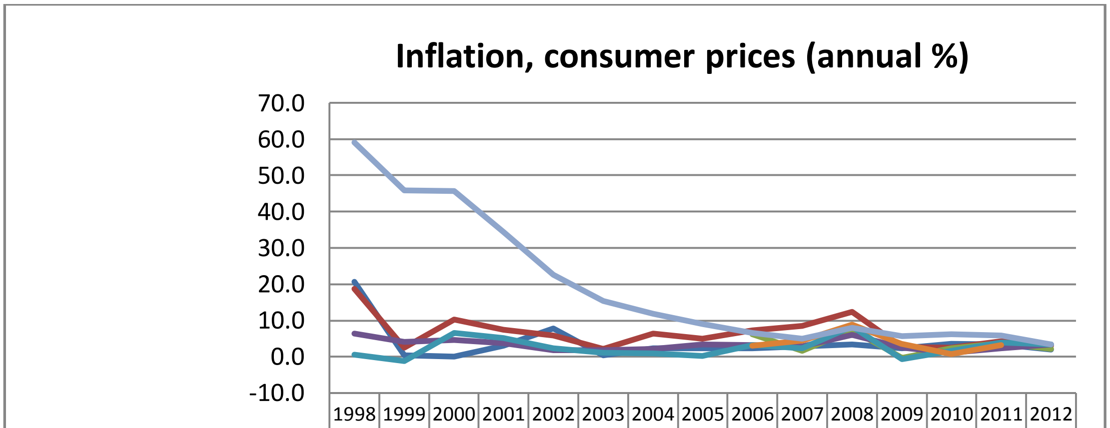


	Albania	Bulgaria	Bosnia	Croatia	Macedonia	Montenegro	Romania
Agriculture	18.3	6.4	8.4	5	11.5	10.1	6
Industry	15.6	30.4	24.8	26.3	26	20.1	42.3
Service	66.1	63.2	66.8	68.8	62.6	69.8	51.6

Source: Both tables data gathered from WorldBank. (Each of them from corresponding sector separately).

From both of these tables and graphs, the conclusion is that, if the rates of 2005 and 2012 are compared, it can be seen that a decrease tendency in the GDP composition of both Industry and Agriculture sector. (Increase in industry sector are only in Bulgaria and Romania, the rate of increase is %1.2 and 6.4% respectively. Increase in Agriculture sector is observed in none of them, only Croatia stood at the same rate.) On the contrary there is an increase in Service composition in all of these countries, except Romania, where the rate was -%3.

Another important indicator of the economy is the inflation rate, the table given below shows the inflation rate of all WB countries since 1998. There is a positive trend in the inflation rate outlook, as in all of these countries the inflation rate decreased steadily. Especially in Romania it decreased from 59.1% to 3.3%. The reason for the decrease of the inflation rate will be explained in the next part where the `Exchange Rate Regimes of WB` will be explained in details.



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Albania	20.6	0.4	0.1	3.1	7.8	0.5	2.3	2.4	2.4	2.9	3.4	2.3	3.6	3.5	2.0
Bulgaria	18.7	2.6	10.3	7.4	5.8	2.2	6.3	5.0	7.3	8.4	12.3	2.8	2.4	4.2	3.0
Bosnia and Herzegovina									6.1	1.5	7.4	-0.4	2.2	3.7	2.0
Croatia	6.4	4.0	4.6	3.8	1.7	1.8	2.0	3.3	3.2	2.9	6.1	2.4	1.0	2.3	3.4
Macedonia, FYR	0.5	-1.3	6.6	5.2	2.3	1.1	0.9	0.2	3.2	2.3	8.3	-0.7	1.5	3.9	3.3
Montenegro									2.9	4.3	8.8	3.5	0.7	3.2	
Romania	59.1	45.8	45.7	34.5	22.5	15.3	11.9	9.0	6.6	4.8	7.8	5.6	6.1	5.8	3.3

Source: WorldBank

There are also some other contribution of the EU to Balkans, these are not visible as economic benefit in the first stage, but in fact they are contributing indirectly to the economy of the potential candidate country, these are mainly social aids given for health system and education system of each of these countries, but as social policies are not taken into consideration in this paper, they are not included.

II. Exchange Rate Regimes in Balkan Countries:

WB states would like to join to the EU one day. For this aim the low inflation rate is not a necessity, a country can join to the EU with even two digit inflation rate. But to be ready for European Monetary Union (EMU) and to be a desired member, it is necessary to decrease the inflation rate. The decrease in the inflation rate in WB countries already happened with the independence of National Central Banks (NCBs) and other regulatory changes of WB countries.

Balkan countries had to respect the Maastricht Treaty Article 107 which clearly states that (European Council, 1992, p.17) ``when exercising the powers and carrying out the tasks and duties conferred upon them by this Treaty and the Statute of the ESCB, neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Community institutions or bodies, from any government of a Member State or from any other body. The Community institutions and bodies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the ECB or of the national central banks in the performance of their tasks`` . As underlined by ECB, the independence of ECB and NCBs are quite important. As to be not effected by political powers ECB has strict rules for NCBs executive Board and these are as follows according to ECB (2011, p.14):

- ``a minimum term of office for NCB governors of five years;
- a non-renewable term of office of eight years for members of the Executive Board of the ECB;
- removal of the Members of the Executive Board from office only in the event of incapacity or serious misconduct; in this respect the Court of Justice of the European Communities is competent to settle any disputes``.

In order to achieve the price stability, to lower the inflation rate is a necessity. As shown in the table of Vlahović & Cerović (2005, p. 22) all of these NCB of Balkans changed their Legal monetary policy objectives and almost in all of them the price stability is the main objective.

Legal monetary policy objectives of central banks in countries of the Western Balkans

Central bank	Main objective
Bank of Albania	"...to achieve and maintain price stability." (Article 3.1.)
Central Bank of Bosnia and Herzegovina	"... be to achieve and maintain the stability of the domestic currency (Convertible Mark) by issuing it according to the rule known as a currency board." (Article 2.1.)
Bulgarian National Bank	"...maintenance of the stability of the national currency..." (Article 2.1.)
Central Bank of Montenegro	"...solely responsible for monetary policy, establishing and maintaining a sound banking system, and efficient payment system in the Republic." (Article 1)
Croatian National Bank	"...to achieve and to maintain price stability." (Article 3.1.) "Without prejudice to its primary objective, the Croatian National Bank shall support the economic policy of the Republic of Croatia, thereby acting in accordance with the principles of an open market economy and free competition." (Article 3.2.)
National bank of the Republic of Macedonia	"...to maintain price stability." (Article 3) "...support the economic policy of the country and financial stability without jeopardizing the achievement of the main objective, and adhering to the principles of the market economy." (Article 3)
National Bank of Romania	"...to ensure and maintain price stability." (Article 2.1.) "Without prejudice to its primary objective… the National Bank of Romania shall support the general economic policy of the State." (Article 2.3)
National Bank of Serbia	"...achieving and maintaining price stability." (Article 3) "...in addition to its primary objective, the NBS shall also strive for maintaining financial stability." (Article 3) "Without prejudice to its primary objective, the NBS shall support the pursuance of economic policy by the Government of the Republic of Serbia, operating in accordance with the principles of a market economy." (Article 3)

Source: Laws on the respective central banks

Source: Vlahovic and Cerovic, 2005, p. 22.

The next question why is price stability so important? Price stability in short means either to have a low inflation rate or stable inflation rate. As given in the website of ECB it has some more reasons to exist and these are: (ECB, WEB)`` improving the transparency of the price mechanism. Under price stability people can recognize changes in relative prices (i.e. prices between different goods), without being confused by changes in the overall price level; reducing inflation risk premia in interest rates; reducing distortions of inflation or deflation, which can exacerbate the distortionary impact on economic behaviour of tax and social security systems)``. Another factor why price stability is important is described by ECB (2011, p.20) as follows ``Article 2 of the Treaty on European Union states that the European Union aims to promote "economic and social progress and a high level of employment and to achieve balanced and sustainable development". The Eurosystem contributes to these objectives by maintaining price stability`` .Therefore NCBs should pay attention to price stability, but in order to achieve that inflation rate should be decreased.

The necessity for a bank to be independent is crucial for the economy of any country. Because if the CB influenced by political powers, then the CB policies could be short-sighted as the existing political power will use means of CB for its own will, such as for to be re-elected. The use of public goods and public policies for own purpose rather than for the stability of macroeconomic system, would harm the economy of the country at the end. Price stability is one of the key objectives of any CB in long-term, but in countries where CB is directly controlled by political powers, it is hard to achieve it. Because it has been seen in many different countries by different governments that prior to elections the interest rate and unemployment rate decreases and after elections, after couple of months both of these indicators shows increase tendency. On the other hand if the CB is fully controlled by the government, they can use the financial source to supply their demand in terms of money. Because if the money lender and money owner are the same person or institution, it is not easy to find the mistake in the system, especially the person/institution will never find the mistake of him. In the case of CB, the money creator and money spender should definitely not to be the same in order to inhibit spending of money for short-sighted monetary policies. Eventually independent money creator could contribute positively to the system as being not the body that needs to spend money for certain purposes, so they can come up with more objective results for monetary policy.

There have been many researches about independent central bank and low inflation rate. Balkans represents a good example of this case. As it will be shown, the inflation rate decreased quite in all of them. But opponents of independence argued whether the lower inflation lowers the economic growth. Frazer B. (1994, p.5) answers this as `` increasing the independence of the central bank delivers lower inflation which, in the long run, is not at the expense of lower economic growth``.

The research made by Vlahovic and Cerovic (2005, p.18) shows the relationship between central banks and governments. According to articles stated in NCB of Balkan countries, it can be concluded that even the method is different; all of them agrees upon and states clearly in their articles that the NCB should be independent from anybody. This is another positive impact of the EU to WB countries.

Central Bank	**Definition of cooperation with the Government**
Bank of Albania	’’...shall be entirely independent from any other authority in the pursuit of its objectives and the performance of its tasks…, and no person shall seek improperly to influence any member of a decision making body of the Bank of Albania in the discharge of his duties towards the Bank of Albania or interfere in the activities of the Bank of Albania.” (Article 1.3.)
Central Bank of Bosnia and Herzegovina	’’..., the Central Bank shall be entirely independent from the Federation of Bosnia and Herzegovina, the Republika Srpska, any public agency and any other authority in the pursuit of its objective and the performance of its tasks…The independence of the Central Bank shall be respected and no person shall seek improperly to influence any member of a decision making body of the Central Bank in the discharge of his duties towards the Central Bank, or interfere in the activities of the Central Bank.” (Article 3)
Bulgarian National Bank	’’...shall be independent from any instructions from the Council of Ministers and from any other state body in carrying out its tasks and duties.” (Article 44)
Central Bank of Montenegro	’’The Central Bank is an independent institutions of the Republic of Montenegro (hereinafter: the Republic) and it is solely responsible for monetary policy, establishing and maintaining a sound banking system, and efficient payment system in the Republic.” (Article 1)
Croatian National Bank	’’... shall be independent in making decisions based on this Law and in their implementation shall neither seek nor take the instructions from the Republic of Croatia or the European Union or from any other body.” (Article 2.10.)

National Bank of the Republic of Macedonia	’’The National Bank is independent in performing the functions entrusted by this and other laws.When performing its functions, the National Bank and the members of the decision-making bodies shall neither require nor get instructions from the central government and the administrative bodies” (Article 4)
National Bank of Romania	’’...the National Bank of Romania and the members of its decision-making bodies shall not seek nor take instructions from public authorities or from any other institutions or authority.” (Article 3.1)

Source: Table 2, Relationships of Western Balkan central banks with third parties - governments Vlahovic and Cerovic, 2005, p.18.

As conclusion, it necessary to mention following remarks. The EU aims to achieve sustainable economy and thereof created standards and rules which need to be implemented in the possible member countries, which have general positive effect to the applicant country. As indicated by Vuković and Zdravković (2005, p.39) ``It is essential for these countries (Balkan-5) to achieve and preserve macroeconomic stability during the accession to the EU. Without a stable macroeconomic environment it is not only impossible to fulfill the conditions required for the European integration, but it is also impossible to achieve a faster economic growth. The foundation of macroeconomic stability is seen, above all, in stable prices and exchange rates[4]``. Eventually the step by step development is observable where the NCB become more independent, the price stability is achieved and the inflation rate decreased. In sum, the benefit is for both sides, while WB countries improve their economy, the EU will have applicant states which will have faster economic growth, and at the end these countries will be able to contribute to the common EU economy.

One of hypotheses of this dissertation was `Strong institutions, especially strong Central Banks. Prudent government spending and low corruption, which should align fully with ECB rules, is necessity for to have sustainable economy`. It was demonstrated above how ECB rules are important for NCB, especially to be independent. Independent NCB is a necessity to avoid corruption. This was achieved via ECB policies in WBs. Therefore this hypothesis was proved.

III. Possible Positive Impact of EU customs union to Western Balkans:

As it has been discussed before the WBs already benefited from the EU in economic dimension from the following programmes, `Pre-Accesion Aid Programme, SAP implementation, Regional Development and many others…` but none of them could integrate WBs with other countries as expected.

These were all positive impacts which has been discussed in this paper, but as the trade results has showed, the level of economic integration is not reached yet. The final and the last step would be actually the accession of these countries into the Customs Union of the EU. The reason why CU would be more beneficial will be explained below.

As first we should look at Balkans of nowadays, they do have FTA (Free Trade Agreement) signed bilaterally with each other. But FTA is not same as CU. As Guerin (2010, p.101) has underlined ``The difference between a customs union and a preferential agreement (e.g. FTA) is that the movement of goods within customs unions is not based on their originating status but on the fact that they comply with provisions on free circulation.[3] This means that any good that is wholly produced or imported from a third party once they are granted free circulation can move freely within the community…``. That would basically enable any product to travel freely within the borders of any member state of the EU. As there will be no need to provide different documents for each country, the cost of transportation will be reduced, hence the attractiveness of WBs will increase for investors.

There will be very clear positive result once the CU will accept these countries. In order to see how actually we can forecast the future, it is better to look at the past, as the proverb says `History is compromised from repeating itself`. As Emerson (2008, p. 3) underlined in his paper the single market programme and afterwards would be compared for WBs in terms of ``Parts and Components`` which is given below. It can be seen that the export and import rates increased tremendously. Export of P & C in amounts of $ millions increased by 31%, and the same for import increased by 34%. On the other hand in terms of P&C as manufactured product export increased by 2.8% and import increased 0.4%. These are results for between 1996-2005, for 9 years.

Table 1. Trends in Trade in Parts and Components in the Western Balkans and new EU member states, 1996-2005

	year	Exports of P & C, $ millions	Imports of P & C, $ millions	P & C as % manufact. Exports	P & C as % manufact. imports
Western Balkans	1996	416	945	7.9	8.9
	2005	1,322	2,725	10.7	9.3
Slovenia	1996	954	890	12.7	12.4
	2005	2,782	2,099	16.4	13.8
Slovakia	1996	659	836	11.0	12.7
	2005	3,679	5,481	13.7	21.3
EU new 8	1996	7,702	11,277	12.2	13.8
	2005	49,520	48,566	19.8	19.3

Source: World Bank op. cit., pp. 43-44.

Source: Emerson, 2008, p. 3.

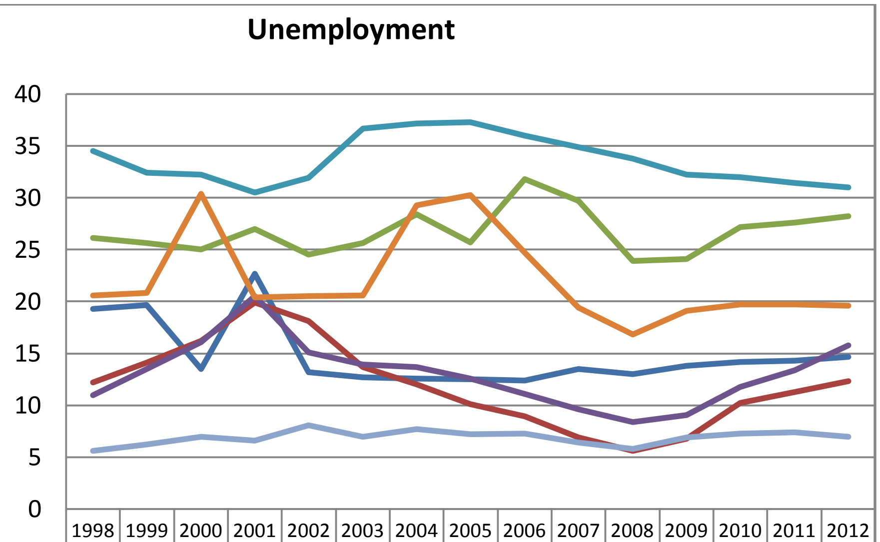
Therefore it is necessary for WBs to stay with EU standards, rules, policies and reforms so they can be part of the CU soon. As World Bank (2008, p.67) underlines ``Benefits from EU and regional integration would be maximized by creating a 'shadow customs union' with the EU for industrial products. Currently CEFTA countries' tariffs are higher and more dispersed than those of the EU, providing scope for trade diversion…. It is therefore suggested that all CEFTA countries (who are simultaneously adopting CEFTA and the trade components of their Stabilisation and Association Agreements) adopt EU MFN tariffs for industrial products. [3]This would amount to creating a virtual customs union encompassing the SEE5 countries and the EU, and would reduce the extent of trade diversion`. In order to see the positive impact of CU and as well single market, it is necessary to give a look to the chapter where the Bulgarian and Romanian perspective of being a member of CU and SM is analyzed in details. But in short to say, both Bulgaria and Romania benefited positively as it was shown before, and the trade volume of WB countries will increase once they will be part of the EU. The possible positive impact of that would be for both sides.

As to conclude, as the hypotheses claimed ` Balkan countries are positively affected by EU rules and standards, while their contribution to the EU is less than their gain`. Because it was shown how `Regional Cooperation Programme` helped in both economical and political sense to WBs. Other than that positive attribution to FDI was also shown. The obtainment of independent NCB and thereof achieved price stability and low inflation was another positive advantage. On the contrary the economic and political level of WB countries is not at the stage to contribute to the EU. Therefore the hypotheses `Balkan countries are positively affected by EU rules and standards, while their contribution to the EU is less than their gain`. is true.

5. Negative impact of Bulgaria, Romania and Other Western Balkan countries to the EU:

a. Unemployment in Balkans:

One of the drawbacks of WBs is the increasing unemployment rate. In last World Bank, `World Development Report` about the `Jobs` of 2013, it can be seen that the WBs unemployment rate is located between countries who has the highest unemployment rate in the world. This is actually no surprise for a region that had regional war for a decade and a transition period which still continues. As underlined by (IMF) Kovtun, Cirkel, Murgasova, Smith and Tambunlertchai (2014, p. 4) `` …the average ratio of employed persons to the working-age population in these countries was 46 percent in 2012, compared with 64 percent in the euro area and 63 percent among the new member states of the European Union (NMS) (Figure 1).2 These rates reflect low activity rates, and high unemployment rates.``



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Albania	19.3	19.7	13.5	22.7	13.2	12.7	12.6	12.5	12.4	13.5	13	13.8	14.2	14.3	14.7
Bulgaria	12.2	14.1	16.2	19.9	18.1	13.7	12	10.1	8.9	6.9	5.6	6.8	10.2	11.3	12.3
Bosnia and Herzegovina	26.1	25.6	25	27	24.5	25.6	28.4	25.7	31.8	29.7	23.9	24.1	27.2	27.6	28.2
Croatia	11	13.5	16.1	20.5	15.1	13.9	13.7	12.6	11.1	9.6	8.4	9.1	11.8	13.4	15.8
Macedonia, FYR	34.5	32.4	32.2	30.5	31.9	36.7	37.2	37.3	36	34.9	33.8	32.2	32	31.4	31
Montenegro	20.6	20.8	30.4	20.4	20.5	20.6	29.3	30.3	24.7	19.4	16.8	19.1	19.7	19.7	19.6
Romania	5.6	6.2	7	6.6	8.1	7	7.7	7.2	7.3	6.4	5.8	6.9	7.3	7.4	7

Source: WorldBank

Unemployment in WB did not decrease so much since 1998. Except for Romania, Montenegro and Albania there is no decrease in the unemployment rate. But the impact of 2008 financial crisis should not be underestimated for results after 2007. Because if 2007 is compared to 1998, only Romania, Macedonia, Bosnia and Herzegovina showed higher unemployment rate. But the reality is that, even the average unemployment rate of these countries are %18.37 for 2012 , the unemployment rate for (EC) for EU-15 was 10.7% and for EU-27 was 10.6.

If we look at the WBs economic situation, it is necessary to separate it as before and after 2008 global economic crisis. Because (WBIF, 2012, p.4) ``although the period before the 2008 economic crisis can be qualified as rather successful in terms of stable and robust growth in the Western Balkans - GDP grew on average by 5% annually in real terms between 2000 and 2008 and GDP per capita almost doubled in the period - these favourable economic trends did not translate into higher employment. They did bring about higher wages and improved living standards, but the economic growth was largely jobless, and in some instances, like in Serbia, was even accompanied by a net loss of jobs''. Eventually the economic development was not enough to support new employment opportunities. Another reason for the existing unemployment in Balkans is because of (WBIF, 2012, p.7) ``structural changes that occurred during the transition have led to high rates of structural unemployment and a mismatch between the skills supplied in the labour market and the ones demanded by the emerging sectors (Bartlett, 2007; 2012 EC Progress Reports)``. This skill mismatch as discussed in the immigration part of this paper, happened because of the investor interest into the service sector via Mergers & Acquisitions rather than Greenfield investment where actually the unemployment rate could be decreased in a structured way. The unemployment of Balkans will have a negative impact to the EU. For example in the research of WBIF (2012, p. 6) ``In Kosovo, almost every second person active on the labour market is unemployed, while the same holds for every third individual in the Former Yugoslav Republic of Macedonia and BiH (Figure 4,bottom panel). Albania and Croatia have the lowest unemployment rates in the region at about 14%``.

Another drawback of the employment system of WBs is the existing informal sector. The existence of this type of employment is visible in this region, as indicated by WBIF (2012, p.8) ``The incidence of informal employment in the region is large, with levels estimated to be between %30 and 40% (Arandarenko and Vukojevic, 2008)[10] ``. As also indicated by the WBIF (2012, p. 9) ``The ILO (2008) estimated that about 44% of young workers in the Western Balkans are engaged in informal employment. These workers are less likely to face decent work and prosperous employment and do not enjoy basic rights at work. In this regard, reducing the size of the informal employment (and economy) is a great challenge for the Western Balkan countries.`` Basically if all these reasons are summed together, the result for many unemployed people are either the short term or long term immigration to the West, where salaries are higher and legally they have more rights.

b. Poverty from Balkans to Europe

As mentioned above WB as a region has the highest unemployment rate in Europe. With no surprise the poverty in this region compare to Western Europe is also higher.

Poverty in Europe Unity: %			
	Poverty rate at 40 % of median income	Poverty rate at 50 % of median income	Poverty rate at 60 % of median income
Czech Republic	2,9	5,2	9
Netherlands	2,8	4,9	10,3
Austria	2,3	6,2	12,1
Hungary	2	6	12,3
Sweden	3,7	7	12,9
Finland	2,4	5,5	13,1
Denmark	5	7,9	13,3
France	3,7	7,4	13,5
Belgium	4,1	7,9	14,6
Germany	4	9,2	15,6
United Kingdom	5,5	9,8	17,1
Poland	5,7	10,5	17,6
Portugal	6,3	11,3	17,9
Italy	6,9	11,6	18,2
Greece	7,3	12,4	20,1
Bulgaria	9,2	15,2	20,7
Spain	9,8	14,4	20,7
Romania	9,7	15	21,1
European Union	5,6	10	16,4
Source: Eurostat. Year of data : 2010			

Source: Inequalitywatch.EU

According to the table provided above anyone can observe how poverty rate with respect to the median income are different for EU countries. In order make a comparison of poverty in the EU, wealthy and poor countries will be compared. Or in other words major western EU countries will be compared against 2007 enlargement countries (Romania and Bulgaria). Germany and France can be taken as good example to represent the west. While Germany has 4% and France has 3.7%, Bulgaria has 9.2% and Romania 9.7% in poverty rate at 40% of median income. But the same gap is viable for poverty rate at 50% of median income and also for the poverty rate at 60% of median income. The huge difference is an evidence how these two sides are different from each other. But here the issue that should be taken into consideration is the negative effect of this poverty to existing EU-25 countries. Because except Spain no other country has the percentage closed to 9%. That means even their poverty rate would affect the EU in a bad way, despite the fact that Bulgaria and Romania are part of the EU. Romania and Bulgaria accession to the EU had huge costs and this cost is still in progress, there is an implicit cost and explicit cost. Explicit cost can be seen easily from macroeconomic and other indicators. But implicit costs are usually not foreseen (or not easy foreseen). Implicit cost is that once Romania and Bulgaria is not punished for what they have done, other potential Balkan candidates may behave in the same way once they accepted to the EU, and that can raise a conflict among western European countries and Balkan countries which can affect the political and economical stability of the EU at the end.

Last financial crisis was a proof that except some of the western European countries, the ten new member states and additional member states from Balkans was not ready in a position to stay strong against to the crisis. One of the main problem of Balkan countries was that they were not ready institutionally to handle economic crisis, but they become member of the EU.

c. Immigration from Balkans:

Immigration from Balkans is one of hot topics of today EU politics. As most historians claims ` the history repeats itself`. When the 10 Central Eastern European countries joined to the EU (Brücker, Nuremborg & Bonn, 2007, p.5) “only a minority of the EU-15 countries opened their labor markets to workers from the new member states” Therefore it was no surprise to see another blockage from the EU member states against Romanian and Bulgarian immigration.

Major powers of the EU, mainly Germany, France and the UK are curious with the possible impact of immigration both from Bulgaria and Romania, as both of these countries are entitled to reside in any of the EU Member state from their wish since Jan 1st 2014. This is not to say that until that time, there was no immigration. The immigration of educated people took place but not lower worker classes. The fear of major EU powers is related to the immigration of low worker classes and the social benefits which these EU members will have to provide to these people. In fact the fear is significant, according the Economist (2014) ``more than a third of Romanians and Bulgarians working in Germany are unskilled (compared with 11% of the general population) so they crowd native Germans out of low-skill jobs. Another justified worry is that those who neither work nor receive social benefits—many of them Roma—tend to settle in Duisburg, Dortmund, Berlin and a few other big cities. This creates tensions as they mainly live off the black market, begging and petty crime and live in slum-like conditions on the cities’ outskirts``.

Both Romania and Bulgaria joined the EU on 1st of January 2007, but due to rights provided in the accession treaties, other Members could apply transitional restrictions to both of these new members. The aim of this transitional restriction was to limit the free movement right of citizens of two new member states for seven years, but only with exceptions that as underlined(Parliament, 2013)``transitional restrictions cannot be applied against other categories of A2 national exercising free movement rights (such as ‘self-sufficient’ or ‘self-employed’ persons)`` . Especially UK rejected immigration from these countries and as a member state asked for restrictions for full seven year. As underlined by the UK Parliament (2013)``Bulgarians’ and Romanians’ opportunities to come to work in the UK have been limited to two schemes for highly skilled and skilled workers, and two quota-based schemes for low-skilled work in the agricultural and food processing sectors. With limited exceptions, Bulgarian and Romanian nationals have been required to obtain a ‘worker authorization document’ before beginning employment in the UK.`` Whether UK acted properly or not is still a debate question.

However statistics and other findings from different institutions show that neither Romanian nor Bulgarian immigration poses a huge risk to the labor economy of UK. According to Open Society Institute-Sofia (Lesenski & Angelov, 2013, p. 1):

- ``Despite greater integration and abolition of travel restrictions to the EU in the last decade, emigration has in fact decreased despite the removal of travel restrictions
- The potential job-seekers will not threaten the jobs of old member states citizens as they would

  seek employment in sectors that local residents shy from
- There is already a confirmed trend of returning of migrants back to Bulgaria, which offsets to an extent the outgoing flow``

Immigration of Top Receivers						
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Belgium	110410	113857	112060	117236	132810	137699
Germany	879217	842543	768975	780175	707352	661855
Spain	414772	483260	672266	684561	719284	840844
Italy	208252	222801	470491	444566	325673	297640
Netherlands	133404	121250	104514	94019	92297	101150
Austria	89928	108125	111869	122547	114465	98535
United Kingdom	372206	385901	431487	518097	496470	529008
Switzerland	122494	126080	119783	120188	118270	127586
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Belgium	146409	164152	(N/A)	135281	144698	147387
Germany	680766	682146	346216	404055	489422	(N/A)
Spain	958266	599075	392962	360705	371331	304053
Italy	558019	534712	442940	458856	385793	350772
Netherlands	116819	143516	122917	126776	130118	124566
Austria	72862	73772	69295	70978	82230	91557
United Kingdom	526714	590242	566514	590950	566044	498040
Switzerland	165634	184297	160623	161778	148799	149051

Source: Eurostat

One of the main reasons for the immigration is high level of unemployment in these countries, which has been shown in the `unemployment` section. If one will look at the statistics of Eurostat which have been shown before can see that the unemployment rate used to decrease in Balkans until 2008. However after the global financial crisis, unemployment rate started to increase. While the unemployment rate for Bulgaria was 5.6% in 2008, it jumped in 2012 to 12.3%. As it was indicated before the EU-27 average for unemployment was 10.6%, and in 2012 only Romania recorded less then average rate, which was 7%. The average unemployment rate of other countries, whose unemployment rates were above 10%, was calculated as %20.26. That explains why eventually the immigration is a possible solution for these unemployed people.

In order to see the outcome of immigration, the outcome of CEE 2004 countries immigration impact to the EU can be looked at. Brücker, Nuremborg & Bonn (2007, p.23) made a research about labour mobility in the enlarged EU. They came up with important points. One of them was about the benefit of immigrant receiving country `` Thus, as long as receiving countries are able to integrate immigrants successfully into their labor market, there are substantial fiscal gains from migration which can be regarded as an implicit tax on immigrants. It is therefore likely that countries such as the UK and Ireland benefit substantially from east-west migration``. That is eventually the matter why UK should not worry about immigration as of since Jan 1st 2014, the borders are fully opened without any limitations for immigration. Another crucial point they came up with is that at the end, the immigrants are the main beneficiary. They send substantial part of their income to their homeland, to their families; therefore actually it is not only the immigrant who benefits, but also other people who live in home country. As because of that (Brücker, Nuremborg & Bonn, 2007, p.21) `` the inequality in the income distribution in the enlarged EU declines since the poor in the low-income countries benefit from migration.``.

Additional immigration should be expected from WB countries as well. The unemployment rates of these countries were shown above. As because of the lack of investment which creates employment opportunities and as well because of skillmatch problems, the rate of unemployment is not decreasing very fast in these days. Especially after last global financial crisis the chance to decrease the unemployment rate for WB countries was not easier. Therefore the immigration for these people would be only solution. Whether their immigration would be short term or long term is another question.

Indeed restriction is not a good solution. What major powers of the EU should do is, to help financially to these countries (actually if possible also to the possible candidate countries). Financial help should be made specifically to train low skilled labor in order to be able to gain them again in the market of their home country. It was mentioned before that in these countries because the investor focus has changed from manufacturing sector to the service sector, it is necessary to have still stable manufacturing sector in these countries so people can be employed again. This suggestion will of course not diminish unemployment rate to 0 but at least it will reduce the rate of immigration which is seen as a reason for long term or infinite settlement of these people in immigrated countries or the immigration is claimed to cause economical problem to the immigrant receiver country.

d. Before and after accession: how countries are less motivated after accession

One of the aims of this paper is also to show the negative change in the behavior of some member states once they are accepted to the EU. It was told that member states after the accession slows down their efforts to implement necessary standards and rules. Main reason for that usually candidate countries tries their best by hard in order to be part of the EU at the beginning so they can benefit more from other funds and other benefits related to their politics and social life. As well known EU cannot easily kick out one member state once it is accepted to it. One of the great example for that would be Greece. Germany by supporting the Greece does not implicitly tell that they like Greece, but once they will leave one member state from the union, that would weaken the outlook of the Union and especially the prestige of the union will be contused. Therefore any candidate country to the EU (the potential WB countries as well) will do their best at the first stage in order to be a member of the union, but once they are part of the union, they will take the slower process of implementing rules and standards. As Nenovsky and Turcu (2012, p.13) points out "once the countries join the EU – as it was the case of Romania and Bulgaria – the initial discipline effect created by the EU integration diminishes and therefore countries may become unable to enhance a strong institutional building and remain dependent on EU funds and assistance" . Additionally indicated by Levitz and Pop-

Eleches (2010, p.465) ``it does appear that, like in other new EU member states, governance reforms did slow down after accession, and this deceleration is arguably more problematic in Bulgaria and Romania due to their worse overall governance records at the time when they joined the EU``. Same Authors in their research made a survey where they asked Bulgarian citizens face to face (1200 interviews) regarding whether reforms of certain issues continued or not. These issues were: democracy, minority rights, fighting corruption and rule of law. The results can be seen in the table given below:

TABLE 3
CITIZEN PERCEPTIONS OF POST-ACCESSION POLITICAL REFORMS

	Democracy	*Minority rights*	*Fighting corruption*	*Rule of law*
Reforms have been reversed	5%	3%	15%	12%
Reforms have stopped	20%	11%	21%	24%
Reforms have continued at a slower pace	34%	26%	30%	28%
Reforms have continued at the same pace	32%	35%	22%	26%
Reforms have continued at a faster pace	9%	24%	13%	11%

Source: Public opinion survey in Bulgaria commissioned by authors and carried out by Alpha Research in July 2008 among a nationally representative sample of 1,200 adult Bulgarian citizens.

Source: Levitz and Pop-Eleches, 2010, p. 468

Basically the proportion of ` reforms have been reversed,..Stopped and continued at a slower pace` in each category overweight people who think `reforms have continued at the same pace or …faster pace`.

Accession of Romania and Bulgaria to the EU gave a motivation to other Balkan countries for EU accession. But once they see and observe how these countries behaved before and after EU accession, their sincerity for EU rules and standards changes as well. They will also stop their efforts and slow down their efforts after being accepted to the EU, and will feel secure under the umbrella of strong union. But that has a huge cost on the EU financially. As they will rely on the EU as their predecessors, like Romania and Bulgaria, will either stop their reforms or will misuse funds and aids provided by the EU to them. For example in the case of Romania, (Lungu, 2011, p.6) "ever since Romania acquired the statues of a functioning market economy, prior to 2007, the pace of structural reforms slowed down visibly. This, in turn, weakened considerably the economy`s ability to build productive capacities able to compete internationally". Eventually the reforms should not even slow down while a country joins the union, it should grow by a faster pace, not as Romania did at that time. But the core issue in this concept is whether any kind of EU reforms could continue as fast as before joining the EU. In Tsachevsky (2010, p.35) paper it is stated that `` In the first two years of Bulgaria's EU membership the reforms regarding the judiciary and the fight against corruption and organized crime actually came to a halt``.

On the other hand the cost of slow reforms and less interest to the EU reforms has negative impact for both parties. As underlined by Tsachevsky (2010, p.36) ``The slow progress of reforms, the high level of corruption and organized crime and the very low share of utilization of the EU funds gave rise to widespread criticism in the EU, that Bulgaria and Romania have been disappointing as an example of new EU member states``. But the most engrossing idea is stated by Levitz and Pop -Eleches

(2010, p.477) ``For current candidates, the post-accession slowdown in the reform of governance emphasises the need for effective administrative capacity-building before membership, and suggests that applicants should not be granted membership for reasons other than their readiness to take on its obligations``.

So the EU should change or create their institutions which supervise when the country is acceptable to the EU. Once the member state slows down the reforms then these member states should be punished in one of these ways; `exiled`, `suspension of membership for certain years` or `punishment` option in order to make these countries to continue to develop in a correct and continuous way.

But is that the only one reason why these countries use this way in order to benefit in short term. It is actually also the EU that makes the conditions difficult to achieve. The EU usually sets the rules for any candidate country and these rules are usually harsh and need very disciplinary policies. “This incentive-based governance model, however, gives a rather pessimistic outlook for compliance with EU law in a post accession setting. (Trauner, 2009, p. 3) “ The absence of these incentives should significantly slow down or even halt the implementation process “ (Schimmelfenning and Sedelmeier 2005, 226). Similarly, Steunenberg and Dimitrova showed that EU conditionality loses its effectiveness once the accession date for an applicant state is set”.

In short, there are three negative impact of Balkan countries to the EU; unemployment, poverty and immigration. They are all connected with each other and these facts prove the hypotheses which claimed that `Possible WB countries integration would make the economic quality of the EU uncertain. Bulgarian and Romanian low impact can be taken as evidence to forecast the possible future impact of other possible candidate countries. ` On the other hand as the hypotheses claimed `Fully Economic integration of Balkan Countries with the EU (Bulgaria and Romania) eventually makes them EU dependent, and being supported under the umbrella of the EU funds and subsidies makes countries idle, and less motivated to develop.` As proven above, the acceleration of reforms slower after the accession.

6. Conclusion

Based on results of the research, a general positive impact of the EU integration to Bulgaria, Romania and to rest of WBs was observed. A common finding was that, once a country is announced to be a candidate country of the EU, these countries started to benefit both in economic and political dimension. Their macroeconomic indicators gradually changed in positive way. The reliability of the EU support to any country motivates investors to invest in these countries. Hence the FDI rate gradually increased in this region. The EU institutions have certain rules and standards which need to be respected and obeyed by candidate countries (as well as by member states). In order to obey these rules, significant policy changes has been implemented in WBs. One of another positive impact of the EU to WB was `Regional Cooperation Program` which strengthen the intra-regional economical as well as political relations. The benefit of the EU to Bulgaria and Romania in economic sense included the gain from CAP, Single Market and CU. Other WB countries hopefully will enjoy these policies once they will be part of the EU.

However, there is general negative impact of Balkan countries (including Bulgaria and Romania) to the EU. The vast majority of Balkan population is unemployed. The gradual increase in FDI rate do not help to solve this problem, as investors choose the `Merger & Acquisition` option of investment, rather than `Greenfield` option. Hence the poverty in this region is considerably high compare to other EU countries. Both high unemployment rate and poverty rate force these people to immigrate. Mostly the immigration route is the Western Europe. On the other hand Western European countries restrain the immigration with implementation of barrier policies. Besides then that, the WB countries are not at the level where they could contribute to the EU both in economical and political dimension, even though they gain in both dimensions from the EU. The inclusion of WB to the EU would not have a positive impact to the EU. The current case of Bulgaria and Romania is an example for that. The integration process should be carefully observed and none of WB countries should be let into the EU easily as Bulgaria and Romania. As inclusion of low quality countries have higher cost for the EU in long term.

7. Abstract:

The EU and Balkans are approaching each other every coming year. The borders of the EU would like to welcome the rest of Balkans as it welcomed Romania and Bulgaria in 2007 and Croatia in 2013. Their accession to the EU was an interesting research topic for many academicians. In nowadays Bulgaria and Romania have certain problems with the EU. The aim of this paper is to indicate the economic effect of the EU membership for Western Balkan countries. In order to demonstrate this effect, EU member states of Western Balkans and other potential candidate countries of Western Balkans are observed in two different chapters. The advantage of the EU membership and EU integration period for Western Balkan countries were shown with various statistics, cross country analyzes and country reports. On the other side the negative side of the current Western Balkan`s economies is pointed out using similar sources. As last it was shown that the sign of being protected under the EU umbrella makes member states idle after one two years of their accession and that has a huge long term cost for the Union.

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