Policy Analysis

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North Macedonia: Politics versus Policy of EU Integration

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Abstract: The accession of North Macedonia to the European Union (EU) has been at an impasse for 27 years due to the political dispute with Greece. In 2018, its resolution fuelled hopes that North Macedonia would finally start negotiations with the EU. Unfortunately, there was a new obstacle, as Bulgaria vetoed the talks in December 2020. Implicit to the latest political backlog, the efforts for further EU integration should be focused on the available policy instruments. The Stabilisation and Association Agreement (SAA) is a legally binding document which has already enabled trade liberalisation between the parties, stipulates the national treatment of business entities on the basis of reciprocity, aims for full liberalisation of capital and financial flows, and also provides other opportunities for integration. Placing the SAA in the spotlight of the mutual relations between the parties, based on proactivity from North Macedonia, could provide the impetus for more substantial EU integration of the country, despite the political stagnation of the process.

Keywords: EU integration, North Macedonia, Stabilisation and Association Agreement (SAA)

Introduction

North Macedonia has been striving to start negotiations on accession to the European Union (EU) since 2009, when the European Commission (EC) first recommended talks to be started. Despite the consistently positive assessment of the EC that the country is ready to start the negotiations, the Council of the EU has refrained from making the decision, insisting first on the resolution of the dispute with Greece over the country’s name. Although the political dispute was in fact

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solved in 2018, it still did not result in the start of negotiations. This paper comprises a discussion on the politics of the process of the EU integration of North Macedonia, the threat of further impasses, as well as policy options for moving accession forward.

The Politics of the Process of EU Integration of North Macedonia

The EU integration of North Macedonia has been ongoing for over two decades, and still there has been no real advancement of the process. The protracted political dispute with Greece over the country’s name lasted 27 years (1991–2018) and has been the key stumbling block to Macedonian1 accession to the EU. With the aim of finally overcoming the hurdle, the Prespa Agreement was signed between the Macedonian and Greek parties in June 2018, endorsing the country’s new name—North Macedonia (Prespa Agreement, 17 Jun 2018). Although this was a bitter political decision for many, the new name was perceived as a rational solution and was supported by the majority of those who voted on the name change in the national referendum.

The question put to the voters at the referendum was about approval/acceptance of the Prespa Agreement regarding the country’s membership of the EU and the North Atlantic Treaty Organization (NATO).2 Hopes that the name change with the Prespa Agreement would be a “game changer” were largely fuelled by the international community, as some of the most prominent leaders of the EU member states had visited the country prior to the conclusion of the Agreement. The signing of the Prespa Agreement was not only perceived as a pledge by the two parties directly involved to build good relations in the future, but also as a promise by the EU that the process of EU integration would finally move forward for North Macedonia. Unfortunately, the enthusiasm over the solution of the long-term dispute proved to be groundless, as the start of negotiations on the accession of North Macedonia to the EU has been further delayed.

With the aim of providing a more comprehensive overview of the political dimension of the process of EU integration of North Macedonia, it is worth mentioning the milestones:

– In December 1995, the two parties established diplomatic relations. This is considered as a first step to EU integration of the Macedonian party, based on a

1 The term “Macedonian” in this article has been used in accordance to the stipulations in Prespa Agreement (Article 1f and Article 7) and represents adjectival reference to North Macedonia.
2 The question at the referendum was: “Are you in favour of European Union and NATO membership by accepting the agreement between the Republic of Macedonia and the Republic of Greece?”. 
broad consensus in the country that EU membership should be the ultimate goal of mutual cooperation;

- In April 1997, a Cooperation Agreement was concluded between the parties, covering trade, transport, and financial protocols (Council Decision, 27 Nov 1997);

- In April 2001, a Stabilisation and Association Agreement (SAA) was signed, outlining the principles and objectives of political dialogue, regional cooperation, and collaboration between the Parties in many policy areas. The SAA came into force in April 2004 (Stabilisation and Association Agreement, 20 Mar 2004);

- In March 2004, the Macedonian party submitted an application for membership of the EU;

- In December 2005, the country was granted EU candidate country status, based on the decision of the Council of EU (Conclusions of the Council of the EU, 15–16 Dec 2005), endorsed by the European Council. Candidate status was awarded on the recommendation of the EC, following its assessment of the country’s application.

- In October 2009, the EC concluded the country’s Progress Report with the recommendation that negotiations for EU membership be started. However, the European Council (December 2009) did not decide to launch the accession talks. In the years that followed, the Commission has continuously recommended opening accession negotiations, while the Council has consistently postponed the decision.

- In June 2018, following the signing of the Prespa Agreement with Greece, the Council of the EU (General Affairs) adopted the conclusions that the member states set out the path towards accession negotiations with North Macedonia (and Albania) in June 2019 (Conclusions of the Council of the EU, 26 Jun 2018). Therefore, in the absence of an actual decision by the Council, the date when the decision would be made was scheduled.

- In June 2019, despite the previous year’s pledge, the Council of the EU did not make a decision regarding the start of negotiations for EU membership of North Macedonia. Instead, it decided, no later than October 2019, to go back to the issue of opening accession negotiations with the country, with a view to reaching a clear and substantive decision (Conclusions of the Council of the EU, 18 Jun 2019).

- In October 2019, the European Council failed to make the decision to start negotiations with North Macedonia (Conclusions of the European Council meeting, 17–18 Oct 2019), due to calls from France for a revision of the accession process.
In February 2020, the EC proposed revisions to the EU enlargement policy towards the Western Balkans. The document “Enhancing the Accession Process — A Credible EU Perspective for the Western Balkans” (Enhancing the Accession Process, 1 Sept 2021), included new methodology for accession, with the aim of making the process more structured and effective.

On 25 March 2020, the Council of the EU adopted the document (methodology) and adopted a decision for the EU to open accession negotiations with North Macedonia (Conclusions of the Council of the EU, 25 Mar 2020). The decision was endorsed by European Council on 26 March 2020. No specific date was stipulated in the decision, which only noted that the negotiations would start at the first Intergovernmental Conference between the parties.

In December 2020, the European Council failed to set a date for the first Intergovernmental Conference, following Bulgaria setting new conditions for starting accession talks with North Macedonia.

If the milestones of the process of EU accession of North Macedonia are analysed, it is clear that the country has been “on political hold” since 2009, when the first EC recommendation for the start of the negotiations was given. The October 2019 summit of the European Council was expected to be the turning point in the process of EU integration. North Macedonia has delivered what was set by the EU as a crucial benchmark for the start of the negotiations, that being the resolution of the political dispute with Greece. Based on the strong promises of the EU leaders, it was anticipated that the EU would also deliver on those promises and adopt a decision to start negotiations. Instead, the French president Macron blocked the decision (EU Blocks Albania and North Macedonia Membership Bids, BBC, 18 Oct 2019), with the vague justification that the EU should first revise its enlargement policy, along with the note that Albania has not fulfilled the criteria for starting negotiations. Prior to the October 2019 summit, it was clear from EU enlargement policy that each candidate country would be assessed individually, in accordance with its accomplishments.

The French veto, supported by a handful of other EU members, caused enormous disappointment in North Macedonia and the Western Balkans, as it undermined their faith in the EU’s merit-based accession process (North Macedonia’s Post-Macron Melancholy, Politico, 12 Nov 2019). At the same time, the majority of EU member states and the international community have openly criticised France for damaging the credibility of the EU (France under Fire For ‘Historic Error’ of Blocking Balkan EU Hopefuls, Reuters, 17 Oct 2019). Macron stood his ground, however, which translated as further delay for North Macedonia. Formally, the Conclusions of the EU Summit included neither a decision, nor any clarification about the lack thereof (Conclusions of the
European Council Meeting, Oct 2019). This was a gesture that certainly was not appreciated by the candidate countries.

In response to Macron’s views on the need for the EU to revise its policy on the enlargement process, the EC elaborated a new approach which it called “Enhancing the Accession Process — A Credible EU Perspective for the Western Balkans” (Enhancing the Accession Process, 1 Sept 2021), including a new methodology for accession. The new approach was promoted as delivering an enhanced accession process for the Western Balkans; opening negotiations with North Macedonia and Albania, as well as launching the Economic and Development Plan for the Western Balkans.

This new approach, including the revised methodology for negotiations, was adopted by the Council of the EU on 25 March 2020. It was endorsed by the European Council on 26 March 2020. The core of the new methodology was presented as (re)structuring 33 negotiation chapters into six clusters with the aim of ensuring that the reforms were interlinked and of enhancing their sustainability. Furthermore, the methodology stresses the significance of the political dimension of the accession process, implying that new instruments would be introduced to provide political guidance for the reforms, envisaged to be jointly managed by both parties (the EU and the candidate countries), with the aim of speeding up the process.

The latest revision of the accession process was the fourth since the Copenhagen (1992) and Madrid (1995) criteria were adopted. The EU had formally introduced new rules of accession in 1998, then in 2005 (benchmarks related to Croatian accession), in 2019 (strengthening the benchmarks approach and focusing on the rule of law related to negotiations with Montenegro and Serbia), with the latest revision taking the form of the new methodology of accession in 2020. Three of these changes are related to the accession of the Western Balkan countries. Each revision implies further demands on these countries, making the process more complex and requiring additional effort.

While it is understandable that EU politicians strive to improve its enlargement policy, taking into consideration “lessons learnt”, this should not come at the price of the motivation of the candidate countries. Failing to recognise the accomplishments of North Macedonia in October 2019, the EU’s (non-)decision reflected a one-sided political perspective of the stronger party (France), therefore carrying a high risk of completely devolving the process of EU enlargement. Macron’s opinion that the accession process should be put on hold due to the internal unreadiness of the EU was expressed at a time when North Macedonia was not only showing readiness, but remarkable (pro)activity when it came to getting closer to the EU. It must be noted that it was the “start of negotiations” that was at stake, not actual EU accession. As there is a period of time between the start of
negotiations and becoming an EU member, EU member states would have many opportunities to insist on the necessary reforms of the candidate country.

Finally, after the adoption of the new methodology, a decision regarding the start of negotiations between the EU and North Macedonia was made in March 2020 (Conclusions of the Council of the EU, 25 Mar 2020). The decision stated that the negotiations would start at the first Intergovernmental Conference between the parties, without specifying a date. The Conference was expected to be held during the course of 2020. Unfortunately, the realisation of this decision was blocked by Bulgaria (Could North Macedonia Be the Graveyard of the EU’s Ideals? Euronews, 20 Jul 2021). In December 2020, Bulgarian officials claimed that the history, the identity, and the language of the Macedonian people should be seen solely from their (Bulgarian) perspective, and, as such, be embraced by North Macedonia. This is the latest benchmark that Bulgaria is striving to incorporate in the criteria for the start of EU negotiations with North Macedonia.

The majority of the EU member states have not welcomed Bulgaria’s demands as they are not seen as being in the spirit of the EU’s fundamental values (The EU Values). However, the consensus-based decision-making mechanism of the Union with regard to enlargement enables Sofia to take the arguably absurd action of imposing how people in the neighbouring country of North Macedonia should feel, talk, and think. Bulgaria’s demands are deeply rooted in the substance of the country’s identity, making the problem more difficult than the dispute with Greece, where the main symbols of identity (nationality and language) were preserved. Against this backdrop, the process of EU enlargement of North Macedonia has once again entered into a political vacuum.

Before negotiations even begin, North Macedonia has become a classic example of the flaws of EU enlargement politics. The latest political decisions shows that the process of enlargement has been understood by some EU member states as an arena for the pursuit of individual rather than common interests of the EU. This begs the question of whether the Union’s decision-making mechanisms are adequate to handle the level of political maturity and democratic capacity of all 27 members of the EU? Hungary and Poland’s actions contradicting some of the fundamental EU values have heated up the discussion within the EU about the need to revise the mechanisms of EU decision-making and the implementation and monitoring of policies (Portugal to Proceed Against Poland, Hungary for Violation of European Values, Euroactiv, 18 May 2021).

The EU’s need for self-revision is becoming increasingly obvious and should primarily focus on the real issues within the Union. The EU should find a way of making the enlargement process more functional, i.e., increasing awareness that the EU should be seen primarily as a senior partner (not a judge) to the candidate
countries. In this context, rewarding the candidate countries’ accomplishments is crucial for enlargement to maintain its substance.

The SAA as a Policy Core of the Process of EU Integration of North Macedonia

The context of EU enlargement policy has been defined as follows:

During the enlargement process, the Commission helps countries wishing to join the EU to meet the necessary criteria for membership, and supports them in implementing the related economic and democratic reforms. Results of reforms must be solid, sustainable and irreversible (EU Enlargement Policy).

Despite the fact that political developments surrounding the EU integration of North Macedonia after the signing of the Prespa Agreement have not been encouraging, there is a policy dimension that might prevent the process from collapsing completely. Relations between the parties (EU and North Macedonia) have been regulated on a partnership basis in accordance with the SAA, signed in 2001 and entering into force in 2004 (Stabilisation and Association Agreement, 20 Mar 2004). The SAA has been the main instrument of the EU enlargement policy for the Western Balkans and it provides a foundation for substantial integration in many areas.

The SAA between North Macedonia and EU is a legally binding document that laid down the general principles of mutual relations between the parties. It sets out the framework for political dialogue and regional cooperation; enables genuine integration between the two parties with regard to free movement of goods, workers, services, and capital; stipulates an approximation of laws and law enforcement; regulates cooperation in the field of justice and home affairs and other policy fields; and refers to financial cooperation and institutional issues (Stabilisation and Association Agreement, 20 Mar 2004). The SAA incorporates an Interim Trade Agreement which entered into force in 2001 and aims to immediately initiate a process of trade liberalisation between the parties.

The SAA was signed with the expectation that a very dynamic process of association would ensue, which would be completed within 10 years. Article 5 of the SAA stipulates that

the Association shall be fully realised over a transitional period of a maximum of 10 years divided into two successive stages, i.e., four years after the entry into force of this Agreement, the Stabilisation and Association Council shall evaluate the progress made and decide about the passage into the second phase and its duration (Stabilisation and Association Agreement, 20 Mar 2004).
Due to the political deadlock of the Macedonian process of EU integration, as discussed above, the Stabilisation and Association Council made a decision regarding the transition into the second phase of the SAA on 4 December 2018 (Decision of Stabilisation and Association Council, 21 Jan 2019). With regards to economic integration, the first phase of implementation of the SAA resulted in the liberalisation of the movement of goods (quotas and other restrictions were applied to a small number of products), and some activities were undertaken with regard to the movement of services, capital, and labour. The SAA stipulates further advancement of economic integration between the two parties in the second phase.

Although the SAA was primarily set to a timespan of 10 years, provided that the main objective (association) has not been yet accomplished, the SAA remains in force until North Macedonia becomes a member of the EU. Given the numerous policy fields it covers, the SAA should be seen as an opportunity to move the process of EU integration of the North Macedonia forward, despite the political impasse. In this context, the economic integration between the two parties, in terms of free movement of goods, services, capital, and labour, has been very significant.

### Trade

The first phase of the SAA provided substantial results in terms of trade integration between the two parties. The SAA provided immediate free access to the EU market for most Macedonian products as of June 2001, when the Interim Trade Agreement entered into force. The SAA stipulated an asymmetrical trade regime in favour of the Macedonian party, envisaged for period of 10 years. Liberalisation was more gradual for the EU, with the aim of enabling the Macedonian economy’s competitiveness to increase. Since June 2011, both parties have enjoyed liberal trade, with the exception of certain sensitive goods, as agreed into the SAA.

Illustrated in figures, Macedonian foreign trade surged from 3.4 billion USD in 2000 to 16.6 billion USD in 2019, while the EU’s share rose from 40% in 2000 to 70.5% in 2019 (MAKSTAT Database of the State Statistical Office of the Republic of North Macedonia). On the export side, the EU’s share of North Macedonia’s total exports reached 80.7% in 2019, while the EU’s share of the country’s imports was slightly lower—62.4% (MAKSTAT Database of the State Statistical Office of the Republic of North Macedonia). The figures show that the EU is a major trade partner of North Macedonia, implying that the SAA had a positive impact on cumulative foreign trade between the parties.
However, the increase in trade could not be mainly attributed to an expansion of the economic activities of the domestic companies. In fact, export and import grew mostly as a result of foreign direct investments (FDIs). From 2010 onwards, substantial greenfield FDI began to flow into the country’s manufacturing sector, especially the automotive industry, which resulted in a shift in the structure of exports and imports towards higher value added products. The SAA contributed significantly to the inflow of the FDI, as it provided open access to the EU market, which is considered crucial for any investor in North Macedonia. In addition, the SAA stipulated national treatment of companies on the basis of reciprocity, implying simplification of the flows of capital and key personnel related to FDIs.

**National Treatment of Companies**

The SAA (Article 48) stipulates the right to non-discrimination of the companies from one party when establishing business activities on the territory of the other party, i.e., they should receive no less favourable treatment than domestic companies. As noted above, the treatment is based on reciprocity, providing both parties with equal rights. For the companies from North Macedonia, this regulation enables them to open branches/subsidiaries or completely new business entities in any EU member state under the national legislation of that country. The same applies for EU companies conducting business activities in North Macedonia, i.e., they should be treated as domestic companies.

Implicit to the national treatment of the companies, the SAA stipulates free movement of management and key personnel (Article 53) from the home company to the new establishment (host country). Furthermore, the SAA enables the free flow of capital and long-term loans related to direct investment in the other party. The movement of labour and capital should take place in accordance with the national legislation of the country where the business entity is set up, and should be non-discriminatory.

The above mentioned right to national treatment should have been provided from the start of the implementation of the SAA. It applies to the companies operating in the manufacturing or trade sectors, while services are subject to specific regulations in the SAA. Also, the right to national treatment is not provided to the self-employed during the first phase of the SAA.

North Macedonia has completely fulfilled the obligations set out in Articles 48 and 53 of the SAA, while no systematised information is available on the extent to which the EU has done the same. In the case of the EU, each member state should individually operationalise granting the rights of non-discrimination to
Macedonian companies, as business legislation applies at the national level. Further online research into this subject has indicated that companies from North Macedonia were able to establish business entities in some of the EU member states in accordance with their national legislation (Germany, Czech Republic, Estonia, and Slovakia), while, in others, such as Austria, there are additional rules for foreign companies. More specifically, in Austria, the establishment of subsidiaries is conditional on the person intending to undertake such activity having a residence permit, when it should in fact be regulated based on the agreement on reciprocity between the parties (Invest in Austria 2018).

The lack of systematised information related to EU member states’ provision of national treatment to North Macedonia’s companies is a serious shortcoming in the process of monitoring the implementation of the SAA. This particularly refers to the Macedonian side, as the aforementioned lack of data also implies that the right of the business community from North Macedonia to national treatment in the EU member states is not promoted. Implicitly, no data is available about the Macedonian companies that have already established business entities in the EU.

The national treatment of companies is of the utmost importance for the advancement of economic integration between the parties. This right is granted with the SAA, i.e. North Macedonia’s companies could operate in the EU member states regardless of the political status of the process of EU integration of North Macedonia. This should be at the centre of further actions taken by the authorities of North Macedonia in relation to EU integration, both in EU and at home. The dialogue with the EU institutions should focus on how to create new economic links between the parties, while at home, companies should be widely informed that they could operate in the EU without restrictions or specific conditions. Of course, the status of the fulfilment of this obligation by all EU member states must be checked first. Data gathering could be done through North Macedonia’s diplomatic network, or this issue could be put on the agenda of the Stabilisation and Association Council. It is important for North Macedonia to show proactivity.

**Supply of Services**

The SAA foresees this obligation as being implemented in the second phase of the SAA. The Agreement (Article 55) outlines that both parties should undertake actions for advancement of the supply of services, providing a general framework rather than a precise definition of the services that should be liberalised. This is inherent in the complexity of services as an economic activity, provided that services also incorporate the regulated professions (subject to license).
Therefore, liberalisation of the supply of certain services is conditional on the professional recognition of qualifications between the parties. In addition, some services are subject to specific regulations (such as health, social, financial, and other services), which do not allow simple creation of a liberal business environment. In this context, both parties are expected to move gradually towards granting the right to supply services to the other party, based on reciprocity. As supply of services is related to movement of labour, which proved to be the most challenging area of integration during the previous waves of enlargement of the Union, it is likely that liberalisation of the supply of services between the EU and North Macedonia would be a slow process. However, proactivity should be shown by both, and particularly North Macedonia, with the aim of moving integration forward.

**Liberalisation of Capital and Financial Flows**

The first phase of the SAA entailed the liberalisation of the flow of capital and long-term loans related to investment in both parties, as discussed above. The second phase of the SAA foresees the liberalisation of portfolio investments, financial loans, and credits, with a maturity shorter than a year, as well granting rights to Macedonian legal and natural persons to acquire real estate in EU member states. The right to acquire real estate on the territory of North Macedonia was already granted to EU citizens in the first phase of the SAA (with the exception of agricultural land).

Both parties—the EU and North Macedonia—have good legislation with regards to the free movement of capital and finances, so the obligations related to investment flows are fulfilled. There is one restriction with regards to the personal financial flows of Macedonian citizens with residence in North Macedonia, as domestic legislation does not allow them to open bank accounts abroad, with some exceptions. This self-restriction cannot be seen as a threat to the implementation of the SAA, given that there is no violation of the rights of the other party. However, the full liberalisation of capital flows implies providing everyone the same rights, including domestic natural persons.

As most of the rights related to capital and financial flows, including the acquisition of real estate, are relatively recent for North Macedonia (granted in the second phase of implementation of the SAA), there is no systematised information as to the extent these rights have been enjoyed by citizens of EU and North Macedonia. This is an important area of integration, which should not be realised without providing Macedonian citizens with adequate policy guidance, as the political impasse of the process of EU integration of North Macedonia could
result in decisions leading to economically non-effective outflows of capital. In this context, all the possibilities provided by the SAA should be considered as interdependent elements that could reinforce the economic integration of North Macedonia with EU.

Conclusion

Over the last two decades, the process of EU integration of North Macedonia has largely been determined by the politics rather than the policy of EU enlargement. The political dimension of the process is very important, as moving to the next phase of EU integration is conditioned by political decisions. In this context, the country has been on hold since 2009, when the EC made its first recommendation for the start of negotiations. As the Council of the EU insisted on the resolution of the political dispute with Greece over the country’s name, it was expected that the negotiations would follow immediately after the Prespa Agreement was concluded in 2018. Instead, France’s political views on EU self-revision with regards to its enlargement policy in October 2019, followed by Bulgarian demands related to Macedonian identity, language, and history in December 2020, have hindered the start of the negotiations. Political setbacks are nothing new to North Macedonia, but the major difference with the latest developments is that the EU’s merit-based system failed to reward the country’s accomplishments. This does indeed indicate the need for revision within the EU, but leaves North Macedonia with a problem as to how to preserve at least some of the enthusiasm towards EU integration.

In a situation of a serious political impasse, efforts should be focused on available policy instruments for EU integration. In this context, the SAA is the most important one of these mechanisms. It has already enabled trade liberalisation between the parties, resulting in significant trade exchange, which could be further increased if other SAA opportunities are used. This particularly refers to the national treatment of companies, free movement of major personnel, and liberalisation of financial and capital flows. The SAA has the potential to move EU integration forward and its role as a driving force should therefore be further promoted, regardless of the political developments. Of course, politics remains key when it comes to formally unlocking the process of EU integration for North Macedonia. However, the provisions of the SAA are not prone to changes (unlike political decisions), implying that this document, if implemented properly, could provide for a steady and stable process and sustainable results.
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