

Montenegro's Integration Perspective in a Time of Crisis

Djurovic Gordana and Jacimovic Danijela

Abstract - The fifth enlargement (10+2) was a milestone in the unification of Europe, fifteen years after the Cold War was over. It has brought greater economic prosperity for all the citizens in the EU, and it made Europe a stronger player in the global economy, by deepening of economic integration and encouraging of competitiveness. Having in mind economic and political achievements of the fifth enlargement, countries in the Region, that are knocking on the door of joint European home, including Montenegro, have defined accession process to the EU as their strategic priority, „Europeanization“ as an engine of all reform processes and positive changes in the society, expecting, at the same time, that future Brussels enlargement policy will be equally encouraging and open for new Member States.

Index Terms: *EU enlargement, Western Balkans, integration, negotiations.*

I. INTRODUCTION

In the process of European Integration, Montenegro primarily focused on fight for re-gaining of statehood and independence, as precondition for dynamic process of European and Euro-Atlantic integration. Battle for Montenegrin European „track“ had to be conducted in parallel and synchronized in both country and at the international scene. With financial crisis that becoming more and more euro crisis, there is increasing concern in Western Balkan countries about dynamic, form and funds for the next enlargement [1]

II. THE PROCESS OF EUROPEAN INTEGRATION IN MONTENEGRO

In period until the spring 2010, Montenegro has achieved integration results in such extent that nobody in European institutions and expert services could not even assumed. Stabilization and Association Agreement was signed and fully ratified, Interim Agreement is being implementing for three

years with respect to all contracting obligations, as well as monitoring of implementation through established joint structures and own coordination structures for monitoring of SAA implementation.

The Parliament of Montenegro adopted significant number of declarations and resolutions and thereby confirmed its commitment of all political parties to integration process. Public opinion polls show stable support for integration process, varying between 72-76%. Furthermore, the Communication Strategy for informing the public on integration process (2004, innovated in 2010) has been defined, and civil society structures that follow integration process and encourage inter-Montenegrin dialogue have been gradually strengthened.

Coordination structures needed for European Integration were established. Those structures were the basis for successful realization of the project „Questionnaire“, in period July-November 2009, which represented the hugest achievement of Montenegrin administration so far. Qualitative answers to the questions from the Questionnaire were delivered to the EC, with active consideration on next phases in integration and parallel strengthening of established administrative structures. In addition, it is very important to emphasize that process of European integration of Montenegro was never blocked by the EU part. On the contrary, the process was conducted pursuant to maximum of own available integration capacities [2].

The Questionnaire of the European Commission was delivered to the Government of Montenegro on 22 July 2009, containing 2,178 questions – and answers on questions should contain information provided by the Government to the European Commission in order to prepare opinion on the Application of Montenegro for full membership in the European Union. The answers were delivered by Montenegro on 9 December 2009, in Brussels. Following analysis of delivered answers, European Commission delivered additional questions in January, so Montenegro answered to 22 additional questions in late February 2010. In early March 2010 (1 March), additional 673 questions were delivered, and answers to them were provided on 12 April 2010.

Answering to the Questionnaire was quite comprehensive and demanding task, which was successfully completed. A high level of decentralization in responsibility was reached; process was followed by information support (Ministry for European Integration and Ministry for Information Society, focal points in all line ministries). Translation Center was

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established within the Ministry for European Integration and open 24h a day for translators, with on-duty staff from MEI.

Procedure of answering on the Questionnaire was a very complex process. Basic set of answers contained 4,433 pages of answers and app 9,000 pages of annexes (264 different types of documents – laws, strategies, bylaws, information, bilateral agreements, and other documents). It was presented to the Commission in December 2010. The second set of answers contained 1,325 pages of answers and 2,913 pages of annexes. The total of 2,851 answers was provided, which were delivered on 5,738 pages with 11,913 pages of annexes [3].

Candidate country status was awarded to Montenegro at the end of 2010 by the decision of the European council in a view to open accession negotiations in June 2012. Formal opening of accession negotiation with Montenegro was on June 26, 2012. The European Council endorsed updated EC assessment focusing of rule of law and fundamental rights that Montenegro has achieved the necessary degree of compliance with the membership criteria to start accession negotiations. The European Council has also tasked the European Commission to present a proposal for a framework for negotiations with Montenegro incorporating the new approach as regards chapters 23 and 24, covering respectively the judiciary and fundamental rights and justice, freedom and security. Moreover, it has asked the Commission to start the process of analytical examination of the EU legislation (screening) on the two above-mentioned negotiating chapters.

In order to achieve its EU integration goal, Montenegro intensively prepares itself for negotiating process with the Commission through preparation of its negotiating platform for every negotiating chapter individually. These preparations mean following:

1. Adoption of the National Program for Integration for period 2012-2016 (NPI) - NPI contains annexes on: legislation plan, human resources plan and financial plan of integration that means basis for preparation of the National Development Program. NPI is the European agenda of Montenegro – how to reach the EU membership, administrative capacities as horizontal theme of this plan, framework agenda of competitiveness, and operative plan for further reform of public administration and local self-government.
2. Intensive studying of European Acquis and preparation of creation of so-called Montenegrin Acquis.
3. Establishment of coordination mechanism for integration (negotiating structure¹), with good IT support, central translation coordination unit and continuous training program.

¹ To propose structure of the negotiating team, to appoint Head of Negotiating Team and to appoint Chief Negotiator, as well as their deputies (experiences showed that Negotiating team should have 15 members maximum, and that it includes, apart from the representatives of the Government, local experts, representatives of financial regulatory sector and business associations.

4. Establishment of negotiating team through seven groups for European integration and 35 sub-groups for negotiating chapters². These are, as follows:

1. Group for trade, industry, customs and taxation (Ministry of Economy will be responsible),
2. Group for agriculture and fisheries (Ministry of Agriculture)
3. Group for internal market and competition (Ministry of Economy),
4. Group for economic and financial issues and statistics (Ministry of Finance),
5. Group for transport, environment, energy and regional development (Ministry for spatial planning and environmental protection),
6. Group for innovations, technical development and social policy (Ministry of labor and social welfare),
7. Group for justice, freedom and security (Ministry of Interior and public administration).

Screening is the first phase of negotiations, analytical review and conformity assessment of national legislation harmonisation with the EU Acquis. Purpose of the screening is to identify the existing differences in each negotiation chapter between national legislation and the Acquis. National legislation needs to be harmonised until the accession. Based on identified differences, it should assess in this phase whether the candidate country could accept complete EU Acquis in individual negotiation chapters or should it request certain transitional periods for full harmonisation and implementation. Firstly, the explanatory screening is performed (detailed and systematic presentation and examination of EU Acquis by each individual chapter) followed by bilateral screening- assessment of the candidate's ability to adopt and implement Acquis in the country.

Screening is implemented individually for each negotiation chapter and its duration depends on the scope and quantity of the Acquis. Experience shows that screening may take one day or several weeks. Complete screening procedure usually takes a year. European Commission may submit to the candidate country a list of regulations in certain chapter governing the area the harmonisation of which is being assessed.

If the Commission finds the candidate country is not entirely ready for opening of negotiations, it may recommend the fulfillment of minimum benchmarks in that chapter which are the basis for initiation of negotiations in the area.

Firstly, the country meets the conditions for opening of negotiations which are assessed by the European Commission and adopted by the Council. Council Enlargement Working Group considers the EC Report on Screening and the Council decides on opening of chapters. Negotiations for individual

² By including all necessary institutions, not only state administration bodies, but also judiciary and the parliament, local governments where necessary, as well as the Central Bank of Montenegro, business associations, regulatory agencies, local experts, trade unions. National Parliament will play especially important role.

chapter/area are officially opened when both parties present negotiation positions.

Candidate countries must clearly define the procedure for adoption of negotiation position for each chapter. In parallel with preparation of screening list for a chapter, draft negotiation position is prepared. Set of EU regulations in that area is then accepted, readiness for adoption is defined as well as the implementation of the Acquis in that area for the period until the accession. At the same time, description of the country's situation in the area is provided, detailed plan for acceptance of EU regulations is drafted and sensitive and less sensitive areas are defined. Implementation of legislation may have significant, especially fiscal effect. This is why the plan of activities and proposal of measures, timelines and holders must be defined. At the end, negotiation team for the chapter is formed. A body within the Parliament in charge of negotiation process monitoring also must be defined because it provides the opinion, confirmation of certain negotiation chapter. Negotiation platform is submitted to the EU.

At the same time, the European Commission drafts Joint Negotiation Platform of the EU, which is considered by the Council Enlargement Working Group; finally the Council adopts the EU Common Platform for initiation of chapters in Intergovernmental Conference.

During negotiations, the country fulfils benchmarks for closing negotiation in certain chapter, which are later assessed by the Commission and adopted by the Council. Negotiations are led under intergovernmental conferences and during the negotiations the country becomes essentially ready for the membership. At the intergovernmental conference one chapter after another is provisionally closed respecting the basic negotiation principle- nothing is agreed until everything is agreed.

Successful implementation of the Acquis creates conditions for conclusion of negotiations in each chapter and the results of negotiation are incorporated into provisions of draft Accession Agreement. Date of accession is defined and the candidate country becomes accession country. European Council must decide unanimously on adoption of Accession Agreement, with the consent of the European Parliament. Accession Agreement is signed by representatives of EU member states and the accession country. Accession Agreement is referred to ratification procedure in accordance with the constitutional provisions of every mentioned country. They submit to the European Parliament the ratification instruments. Finally, the decision on the country's membership to the EU is made [4].

III NEGOTIATION MEANS HARD TASK: FULL IMPLEMENTATION OF EU LEGISLATION

As a general term, Acquis Communautaire encompasses everything that European communities (now the EU) achieved in legal, political, economic and administrative plan with a view to realising set objective of integration. Different terms can be found in founding treaties for defining the degree of integration processes: harmonisation, approximation, coordination. These terms are also used for

referring to the aim of the provisions of the Acquis in individual areas.

Harmonisation of legislation is the EU policy with the aim of equalising the law in member countries to the extent necessary for establishment and functioning of common market and EU micro-systems as a whole. Harmonisation is neither simple formal procedure nor a goal per se. It is the instrument for realisation of wide spectrum of legally-technical, economic and political objectives. Quality of harmonisation process is proved by application of these regulations in the legal order [5].

Legal dimension usually implies everything that Community law encompasses. Legal Acquis contains judicial acquis through commitment of national courts to refer to the Court of Justice regarding the decisions on previous issues and thus actually accept the practice of the Court of Justice and its principles such as principle of direct application, direct effect and supremacy of community law.

Political part of the Acquis Communautaire encompassed not only political principles from founding treaties but also all declarations, resolutions, guidelines, principles and generally all positions taken by the European Council, Council of Ministers as well as joint agreements of member states concluded in order to strengthen the Union. This practically implies that candidate countries must fully accept and with no reserve the founding treaties and stated political goals as well as the measures adopted after the establishment of the Union. Apart from the founding treaties, new member states must accept complete community law as well as the «treaties establishing the Union» and measures adopted under common foreign and security policy and cooperation in the area of judiciary and internal affairs and under the cooperation of judiciary and police authorities in criminal matters.

In economic terms, Acquis Communautaire implies those commitments that need to be fulfilled in national economy in order to achieve appropriate results which are generally referred to as market economy able to cope with the competition in the EU internal market.

IV EU PRE-ACCESSION ASSISTANCE AND IMPACT OF CRISIS ON ACCESSION NEGOTIATIONS

Facilitating the financial burden of the application of the European legislation, EU allocates certain funds from the budget for pre-accession assistance - IPA programmes. Basic goal of the IPA programme is to support candidate countries and potential candidate countries, primarily in the area of strengthening of capacities for the adoption of European regulations and standards, the improvement of the business environment, building of democratic institutions, development of the civil society, improvement of the regional and cross-border cooperation, co-financing of infrastructural projects, as well as the support directed at the preparation for the use of structural funds. In the EU budget and the Financial Perspective 2007 - 2013 the support to the EU association process has been included into the priority budget line called "EU global player".

Since 2007 the IPA fund has replaced a certain number of EU programmes and mechanisms of the financial assistance for candidate countries and potential candidate countries such as PHARE, PHARE CBC, ISPA, SAPARD, CARDS as well as the financial support for Turkey. This measure is intended for the EU candidate countries including Croatia, Turkey and Macedonia as well as for the potential candidates from the Western Balkans: Albania, Bosnia and Herzegovina, Montenegro, Serbia and Kosovo.

Regarding the candidate countries IPA covers the financial assistance for the transition and institutional reforms, cross-border cooperation, including the relations with other EU Member States and other countries included into IPA programme; for the regional development including transport, environment and economic development; for strengthening of human resources and the fight against the social exclusion and finally, for the rural development initiatives. Candidate countries are obliged to introduce the decentralised system for the IPA funds management, whereas for the potential candidate countries the assistance is provided in a centralised manner.

The IPA fund consists of five different components: support for the transition and institutional building, cross-border and regional cooperation, regional development, human recourse development and rural development. As a potential candidate for the EU membership, Montenegro uses the first and the second component of IPA. With candidate status Montenegro will be able to apply for more than two components, but there is pending request in front of our administration to gain necessary knowledge to be able to apply and use the EU funds.

Montenegro's population makes only 0.66% of the population of IPA countries, but receives 2.4% of IPA fund for 2007-2013 Financial perspective. As the smallest country, Montenegro has the most favorable IPA/pc indicator because it needs the greatest support for strengthening of the necessary administrative capacities for the process of integration and planned reforms. The total amount of funds allocated to Montenegro in mentioned period is 235 million €. The table below shows the gradual growth of IPA fund for Montenegro and proportion in GDP. An average annual share of IPA in Montenegrin GDP for the first four years is at a level of 1.11%.

TABLE 1: EU PRE-ACCESSION ASSISTANCE FOR MONTENEGRO AS % OF GDP

	2007	2008	2009	2010	2011
Total IPA for MNE	31.4	32.6	33.3	33.6	34.1
GDP of MNE (mil)	2.681	3.085	2.981	3.104	3.171
IPA as % of GDP	1,17%	1,06%	1,12%	1,08%	1,08%

Source: EC, Montenegrin Ministry of Finance, 2011

Transposing and implementation of European regulations is an intensive process in both technical and financial dimension for a small state such as Montenegro. Therefore, using funds from the IPA programme is important for the acceleration of this process. Besides the great importance of IPA funds in the accession process, Montenegro and other countries in the region can expect bigger and more significant

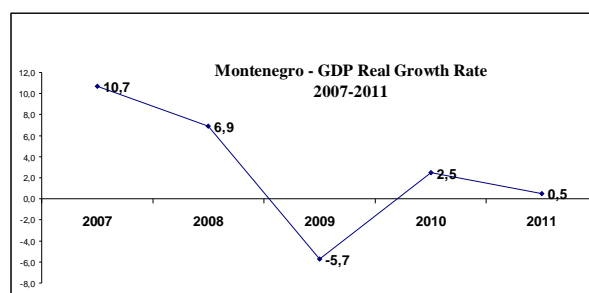
funds with new and more demanding phases of the integration, as it was common practice of EU in past years. [6].

A period of investment boom after Montenegrin referendum for independence (May 2006), followed by the average growth rate of 9% per year, employment growth and entry into the zone of the budget surplus, marked the first three years of independence with the completion of the legal system and the establishment of the necessary set of institutions on Montenegrin path to the European Union.

In the period of economic crisis mentioned valuable EU technical assistance starts to be even more important for the country. Economic crisis which was "imported" in an overheated economy, with privatized banking sector, uncompetitive metal industry, and high import dependence, has found fertile ground, escalated in 2009 and continued through 2010. Economy of Montenegro, in period of global economic and financial crisis was (and it still is) exposed to strong negative influences from the global market.

The highest values of economic growth was in 2007 (10,7%). Effects of global financial and economic crisis in Montenegro started to be felt, mainly, in the last quarter of 2008. In 2009, consequences of global economic crisis on Montenegrin economy were tangible, presented in negative GDP growth rate of 5.7%. This result caused fall of activity in construction, transport, tourism, trade and production in industry. Gradually Montenegro recorded growth reduction with strong decline in 2009 and gradual recovery on 2,5% in 2010. Estimated real growth in 2011 was only 0,5. [Figure 1]. Industrial production, tourism and forestry were key drivers of the recovery in 2010 but industrial production in 2011 was reduced for 10% and influenced both expected growth rate and export of goods. Unemployment rate increased almost to 20% in 2011.

FIGURE 1: GDP GROWTH RATES FOR MONTENEGRO 2007-2011.



Source: Montenegrin Ministry of Finance, 2012

On the other side, the International Monetary Fund and the European Commission estimated Montenegrin economic growth in the period 2011-2013 ranged from 0.2% to 2.8%. [Table2].

TABLE 2: ESTIMATION OF GDP REAL GROWTH FOR MONTENEGRO

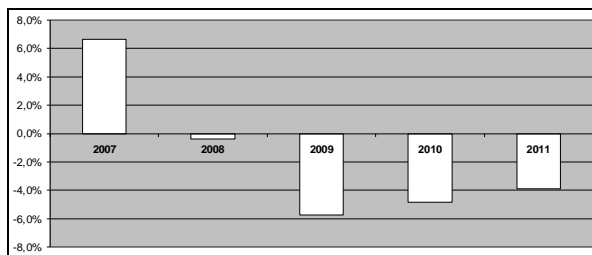
	2011	2012	2013
IMF	2,5	0,2	1,5
The European Commission	2,8	0,4	2

Source: IMF, EC, 2011

The example of the Montenegrin economy shows that significantly higher rates of economic growth during the expansion imply a deep decline during the recession. The degree of openness of the Montenegrin economy and retail market, are further limiting factors for possibly faster recovery.

Indicators of public finances also reveal the weaknesses of the Montenegrin model of economic development. In particular, it recognizes both during and after the crisis period (the first wave). In 2007 Montenegro has achieved a budget surplus amounting to 6.65% of GDP but also budget deficit of 5,7%, 4,9% and 3,9% of GDP in 2009, 2010 and 2011 respectively, as shown in Figure 2.

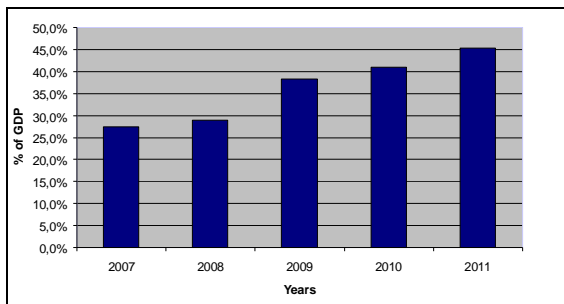
FIGURE 2: GENERAL GOVERNMENT BALANCE OF MONTENEGRO 2007-2011



Source: Montenegrin Ministry of Finance, 2011

Public debt in the period 2007-2011 shows an increasing trend as shown in Figure 3. In 2007 public debt was only 737 million or 28% of GDP. At the end of the period there has been a public debt amounting to €1.483,5 million, or almost 46% of GDP.

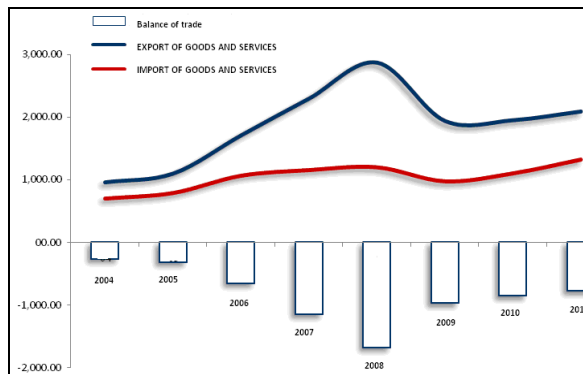
FIGURE 3: PUBLIC DEBT OF MONTENEGRO 2007-2011



Source: Montenegrin Ministry of Finance, 2011

Steady growth in imports was evident in the period before the crisis in Montenegro. The export value was gradually increased until 2008, but much less than the value of imports. The 2008 value of imports of goods and services was the highest, amounting to 2.530 million € and exports of goods and services was 416 million €. Balance of trade throughout the mentioned period (Figure 4) shows a negative value.

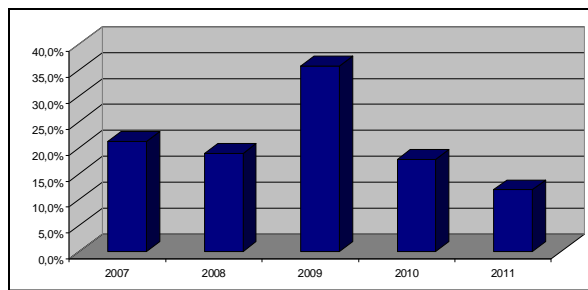
FIGURE 4 – BALANCE OF GOODS AND SERVICES OF MONTENEGRO 2004-2011



Source: Statistical office of Montenegro, 2011

The balance of payments data indicate that the current account deficit was improved in 2010. This development of the current account deficit was mostly affected by developments at the commodities account, i.e., the external deficit decline, as well as positive balance at the services subaccount, mostly recorded in tourism and current transfers that mitigated the commodities sub-account deficit. Still, it is early to speak of any significant recovery and improved competitiveness, since the lower current account deficit was mostly the result of the crisis adjustment. Total foreign trade of Montenegro in 2011, amounted to 2.278 million € which indicates a growth of 14.6%. Export of goods and services was 454 million € and import was 1.823 mil €. The coverage of import by export was only 24.9%.

FIGURE 5 – NET FDI AS % OF GDP: MONTENEGRO 2007-2011



Source: IMF (WEO data base), 2011

Net FDI inflows amounted to €390 million in 2011 which is 30% less than in 2010 (or only 37% of net FDI level in 2009). Net FDI inflow in 2009 was significantly high as the result of two reasons: inflow from privatization and recapitalization of Electricity company of Montenegro amounting 436 million € and the amount of debt transferred into capital, accumulated in the previous period, amounting to some 150 million €. There are no significant FDI inflows in 2010 and 2011 but Montenegro is still the leader in the Western Balkans region for its net FDI inflow per capita [7].

V. INSTEAD OF CONCLUSION

Following the fifth EU enlargement experiences (so-called “Golden enlargement period” of EU-10), Western Balkans European integration process in the format of economic crisis

creates much more challenges than it was the case with countries in '90s. Majority of countries in the Region, with same political and economic heritage, represents complex structure of seven small countries, divided and different, with six official languages and more than 5,000 km of new state borders, including several unsolved border issues, ethnic issues and sovereignty issues. On the other hand, support for the accession process is not followed by the same level of interest, as it was case in previous enlargement, especially in case of old Member States, for example – only 8% Lithuanians in comparison to 70% of Austrians were against accession of Bulgaria [8]

In crisis time, all mentioned very important FDI factors have negative trends or impacts, and the region is facing with downsizing FDI flows, that have created a lot of difficulties in countries' economic systems. Having in mind the current crisis and more and more challenges the developed markets are faced and still unresolved EU monetary union questions (European sovereign debt crisis), it becomes very unrealistic to base economic development on FDI, in medium term.

It becomes more obvious that short term development and the growth incentives can be found in both regional cooperation and non-European countries cooperation, focusing more on export oriented production and export increase, more relying on internal than to external strength, where possible necessary inflow of foreign capital could come from EU accession funds. All these will contribute to recovering statistically significant macro determinants to attract new wave of post crisis FDI flows.

Though it was strongly expected that effects of the European economic integration would have positive impact on democratic reforms in the country, experiences from the last enlargement speaks otherwise on direct links of reform processes. Countries that joined the EU in the last enlargement established formal democratic standards and criteria, but they still faces the problems in rule of law, administrative inefficiency, as well as with problems in fight against organized crime and corruption caused by judicial inefficiency. Following accession, results in changes differ from country to country. [9] Post-accession period confirmed that crucial political changes come from inside, and they cannot be imported. This experience affected importance of the political accession criteria. [10] It is recommended for the countries in the accession negotiations to harmonize themselves with the Acquis (EU legislation) before accession, which makes adoption and implementation of the Acquis the crucial part of next phases of integration, without calculations with post-accession monitoring mechanism as the guarantee that „all transposed will be respected“.

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