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**ATINER's Conference Paper Series
TRA2019-2694**

**Transport Policy to Create a Western Balkans
Market: How to Mirror the EU's Experience**

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This paper should be cited as follows:

Temjanovski, R. and Arsova M. (2019). "Transport Policy to Create a Western Balkans Market: How to Mirror the EU's Experience", Athens: ATINER'S Conference Paper Series, No: TRA2019-2694.

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www.atiner.gr
URL Conference Papers Series: www.atiner.gr/papers.htm
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ISSN: 2241-2891
29/01/2020

Transport Policy to Create a Western Balkans Market: How to Mirror the EU's Experience

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Abstract

The creation of a United Europe continues to evolve. For the complete mosaic image called European Union (EU), the part of the Western Balkans still remains to be assembled. Last but not so simple step to attain final stage. This region is characterized as historically vulnerable, sensitive, mixed with many nationalities, similar but still different. Economically underdeveloped and vulnerable, socially unstable and politically aroused, the Western Balkans are still far from a stable European core. Gross domestic product (GDP) per capita in the Western Balkans, adjusted for purchasing power parity, is half that of eastern European EU countries, one-third that of southern EU members and a mere quarter of the richest EU members in western Europe. The question that imposes itself is: how to overcome those differences among Balkans countries, to complete the historical vision and final mosaic puzzle of European Union? We should look for the solution historically for several decades back when creating the United Europe model. Prosperous and contemporizing Europe began its vision with the creation of a common market. And the market gives its benefits only with its physical ties i.e. transport and communication links. Transport links between the countries of the Western Balkans, with all accompanying economic, political and administrative adjustments, can contribute to realizing the single market as crucial phase of development of a United Europe. Future hopes and views are focused on finalizing Pan-European transport corridors in the Western Balkan countries, through which the trade peaks will be strengthened, overcoming the decades-long problems and conflicts in this part of Europe, and to achieve the long-awaited model for a Common European Union. But we must be realistic enough to see that transport infrastructure is not some miraculous tool with which to solve a society's development problems. It is only one part of the story. Transport must work in union with national development programmes, physical planning, investment, economic and monetary policy, custom and legal regulations. But we must acknowledge that, in many respects, the quality and success of life of Balkan's citizens depends on the vitality and responsibility of implementation many structural changes. One of the crucial factors is still transport infrastructure.

Keywords: Western Balkan, Regional cooperation, Common market, Transport policy, Transport corridor.

Introduction

More than half a century the contours of a united Europe are drawn. It seems that the last race of the countries to be formed by the unified European Union is taking place. There are six more countries left that are politically determined to unite their flags of the common European mast. Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro and Serbia are all actively working towards the ultimate goal of EU membership. Deep propelled by their desire to join the European Union (EU) and through the efforts of the Central European Free Trade Agreement (CEFTA), Western Balkan countries have been tearing down trade barriers for the past decades. All six have a formal contractual arrangement with the EU through Stabilisation and Association Agreements which are all now in force.

Western Balkan countries are the last and weakest link of the European Economic Core. For decades economically underdeveloped and vulnerable, socially unstable and politically aroused, the Western Balkans are still far from a stable European core.

But recent years we have witnessed some positive trends in the economic, political and social fields. Western Balkans countries have already achieved strong growth and poverty reduction. Since the global financial crisis of 2008, countries in the region have taken action to reform their economies and it's paying off with growth averaging 2.4% through 2015. This year the World Bank is projecting regional growth of 3.6%. In addition, 230 thousand jobs were created across the region between June 2016 and June 2017.

While Western Balkans leaders are making strong progress, World Bank prognosis shows at current growth rates it will take another six decades for income levels in the Western Balkans to catch up with the European Union. However, with the right reforms and macroeconomic stability, it is estimates average annual growth rates could hit 5 percent and parity with EU income levels could be achieved in just two decades.

To achieve higher economic growth will take stronger economic integration within the region and further business climate improvements to boost private sector investment and create private sector jobs. Undoubtedly, it is important for Western Balkans leaders to come together to advance economic cooperation across borders, in transport, trade, and connectivity, which will promote business growth.

But despite the numerous differences between the Western Balkan countries, the countries of this part of Europe have shown in the past decades of common interest the business and the need for common economic prosperity. And it is precisely here that the solution for the united Balkan market is found. The experience from the creation of the European Economic Community has shown that this model could be realized only if there is a physical infrastructure that will enable uninterrupted flow and free movement of people, goods, services and capital.

Creation of the European Economic Community as a Historical Example

The question of a united Europe is not something new. The question of a united Europe was going on earlier in various forms. Its roots are to be found in the history of the European continent, which has had times of imperial unity (Greek civilisation, Roman Empire, Charlemagne, Charles V, Napoleon) and cultural unity (Christianity in the Middle Ages, the Republic of Letters). The origins can also be found in the violence of the divisions of Europe, in particular the horror of the Second World War, which brought European civilisation to the brink of annihilation: the refusal of such divisions fed its unceasing quest for unity. The European model has taken on new dimensions with the Community edifice, which has produced ever-closer "de facto solidarity" (Strauss-Kahn 2004).

The European Coal and Steel Community - ECSC (founding members: France, West Germany, Italy, the Netherlands, Belgium and Luxembourg) was the first of a series of supranational European institutions that would ultimately become today's "European Union". The way to do this, the first European supranational community, was officially established by the Treaty of Paris (1951), signed not only by France and West Germany, but also from Italy and the three countries of Benelux. The European Coal and Steel Community of the ECSC was first proposed by French Foreign Minister Robert Schuman on May 9, 1950, as a way to prevent a further war between France and Germany. His goal and commitment was "to make the war not only inconceivable but also materially impossible."

According the Schuman Declaration – 9 May 1950 (Schuman 1950), Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity. The coming together of the nations of Europe requires the elimination of the age-old opposition of France and Germany. Any action taken must in the first place concern these two countries. With this aim in view, the French Government proposes that action be taken immediately on one limited but decisive point.

It proposes that Franco-German production of coal and steel as a whole be placed under a common High Authority, within the framework of an organization open to the participation of the other countries of Europe. The pooling of coal and steel production should immediately provide for the setting up of common foundations for economic development as a first step in the federation of Europe, and will change the destinies of those regions which have long been devoted to the manufacture of munitions of war, of which they have been the most constant victims.

On the 18th of April 1951 - Schuman aspiration becomes reality by laying the foundation stone of the community edifice: six European countries – France, Western Germany, Italy, the Netherlands, Belgium and Luxembourg – sign the treaty establishing the ECSC, the European Coal and Steel Community, with the aim of introducing the free movement of coal and steel and ensure free access to the sources of production. The supranational and independent High Authority is established in Luxembourg with the task of enforcing common rules set for production and trade. On the 25th of March 1957, following the success of the

European Coal and Steel Community, the treaties establishing the European Economic Community (EEC) and the European Atomic Energy Community (Euratom) are signed in Rome. The so-called Treaties of Rome enter into force on the first January of the following year. ECC and Euratom Commissions are based in Brussels.

After the ambitious plan for a European community, the question "what now" was posed? In this situation, the governments of the Benelux countries submitted proposals for further integration steps, which were concentrated in the economic field. The main objectives of this organization were the construction of a common market based on a customs union, i.e. solving all economic barriers, coordinating economic policy and raising the standard of living within the Community.

The ECSC was the first international organization based on supra-national principles and, through the introduction of a common market for coal and steel, it aimed to develop economies, increase employment, and raise the standard of living within the community. The market should also allow a gradual rationalization of the prevalence of high-quality production, while ensuring greater stability and employment. In the forefront, the goal was the creation of a common market, that is, for the complete elimination of trade ramparts among the participating countries.

Trans-European Transport Network - A Pillar of the Single European Market

The feeling of talking about a large European market, the freedom of movement of goods, people and services, regardless of the different economic development of regions and national networks, has imposed the need to connect the market with a modern and efficient infrastructure (Kenneth 1997). The first signs and forms of TETN were formulated in 1950, when the European Coal and Steel Community was modeled as the forerunner of the EEC. The idea of creating the Trans-European Transport Network (TETN) institutionally was established again back in 1957, when the European Economic Community adopted the vision of creating a common transport policy. In the early nineties, along with the thought of introducing a single European market, the role of transport as a central component in the single European market has grown.

The numerous scientific and expert assessments that have been made indicate that the common economic market is not alone capable of providing mobility in the various EU regions. Citizens in the EU and increased turnover could not be developed within national transport systems like those in the past. For these reasons, the EU made a big step and focused its activities on planning and creating a common infrastructure program in the field of transport, known as the Trans-European Transport Network.

In addition to economic development, the EU has also faced problems of economic imbalance. On the one hand, regions with a great centralization of population and economic activities (followed by high costs for overcoming traffic jams, pollution of the environment and transport costs due to increasing stretching through urban settlements) and depopulation regions on the other hand stretched.

A particular problem was communication to the peripheral regions and the islands. It was estimated that the model for the formation of a single transport system is essential for the economic development of the Union, and with its full realization it would enable greater benefit to the citizens and higher economic development at the regional and local level. With the developed transport network, the less developed regions would increase their attractiveness for investment, and on the other hand would facilitate business trips. It would be wrong to believe that investing in transportation isolated from other economic activities would reduce regional disparities. The main expectations were that the improvement of the transport sector would enable regional economies that are in an unfavorable situation to stimulate and develop their potential opportunities. There are many such examples in Europe, we will mention only Greece, Spain, Ireland and Portugal, where investment in the transport sector has allowed long-term positive effects by stimulating private investment and economic development in the regions (Jouen 2001).

In 1993, the Maastricht Treaty came into force, whereby Member States identified the need for the future development of TETM (Trans-European Transport Network for Transport, Energy and Telecommunications) as a common European objective.

According to Richardson (Richardson 1997) the Trans-European transport network is on the threshold of becoming one of the major practical initiatives of European integration. *"Nothing symbolizes or serves the integration of Europe better than the physical linking of transport systems and nothing is more important for the development of the applicant countries than the achievement of efficient infrastructures"* (Kinnock 1998). This idea was presented in the Treaty of the EU when it mentions the possible EU cooperation with third countries in promoting network infrastructure projects of mutual interest, in the Europe Agreements which foresee that a priority area for cooperation shall be construction and modernization of transport infrastructure and in the Agenda 2000 which treats the development of transport networks as one of the central challenges for the accession process.

Physical connectivity is a vital force for the further development of the single internal market and the strengthening of economic and social cohesion. Such aspects are key elements for developing national networks to a trans-European transport network. The goal was to offer high quality infrastructure, combined with all models of transport that will enable optimal use of existing facilities.

The structure of the trans-European transport network is composed of transport infrastructure, traffic management system and positioning and navigation systems. The vision also gains truly global dimensions: an integrated and spacious network of high-speed modern high-speed motorways and railways and other infrastructure that extends across the European continent, filling the missing links between the national transport system.

EU and its Western Balkans Neighbourhood Incentives

The European Union has during the 1990s shown a growing interest for these subregional undertakings. The subregional cooperation efforts fill an important function for the EU in that they constitute an additional interface for the Union to interact with its neighbours in Europe. Regional and subregional efforts may work in tandem to diffuse divisions between ‘ins’ and ‘outs’ and manage neighbourly relations, thus providing peace, stability, strengthen and harmonize regional competitiveness and wellbeing.

“European Neighbourhood Policy is founded on the premise that by helping our neighbours we help ourselves. It provides a new framework and new tools for promoting good government and economic development in the EU's neighbourhood and it utilises the valuable experience we have already gained of assisting countries in transition... a pragmatic response to the challenges Europe faces today” (Ferrero-Waldner 2005).

Developing closer political and economic links between the EU and its neighbours requires a sound underpinning through good physical inter-connections across the neighbourhood. ENP looks to link the EU and its neighbours by improving transport connections and ensuring the smooth flow e.g. of energy products. In this context the main engagement in the trans-European policy is to pursue the optimization of the interregional transport services at the European level through a multimodal approach and interoperability for each transport mode (Temjanovski 2013).

The current subregions can be described using three main characteristics (Johansson 2000):

- A multidimensional agenda.
- Low institutionalization.
- Great heterogeneity among participant countries.

First, the agenda pursued by many sub regional initiatives has been spanning many different forms of collaboration. Economic cooperation, designed to enhance the sub regions welfare, has been among the primary objectives, e.g. creating trade regimes, establishing steady energy supplies, promoting investment, attracting capital, as well as in some cases initiating large scale technical projects such as for example creating linking sub regional infrastructure. The practical cooperation undertaken in these areas intend to take advantage of economies of scale, enabling freer flow of goods across borders, creating larger markets and communication links to improve market access. Sub regional cooperation has also served to render low-key pragmatic assistance to solve the many problems of socioeconomic transition/economic development.

A general picture of the effects of such regional initiatives in the Balkans is that the achievements in this field were quite modest. The economic portfolio for the countries of the Western Balkans is really desperate.

Success in transition is relatively modest and luck of success in the region affects negatively the performance of individual countries in terms of trade

integration. Slow progress in macroeconomic stabilisation and market reforms has failed to create a favourable environment for business investment both domestic and foreign, which would have advanced the supply capacity, and hence it would have promoted both exports and the import absorption intensity of the countries in the region. A deeper and more consistent implementation of domestic reform programmes along industrial restructuring, technological upgrading, building of infrastructure, and accelerated investment activity present the necessary and sufficient condition for fostering sustainable growth in the region. All these require internal and external economies of scale. Most of the countries are small in terms of population and market size. Market fragmentation may give rise to non-competitive structures and inefficient solutions, which may have negative welfare effects; and it may also set a limit to the agglomeration economies, the potential of which is one of the most critical prerequisites for industrial restructuring and investment. In that respect the sufficient condition for sustainable growth would be the overcoming of the market fragmentation. Regional co-operation and integration could be the decisive factor towards unifying individual markets in the area (Kyrkilis and Nikolaidis 2003).

Regional and Sub-regional initiatives had only some limited results. As stabilisation and development are considered to be operatively determined by the intensification of regional integration, the implementation of the SAA is based on the gradual implementation of a free trade area and reforms designed to achieve the adoption of EU standards with the aim of moving closer to the EU. Regional cooperation, including other South East European countries, has been formulated as a precondition for the EU accession of the countries in the Western Balkans (Grupe and Kusic 2006).

To date, numerous regional initiatives and forms of multilateral cooperation did not succeed in Balkan countries to achieve a higher level of integration with the EU or changes in political, economic or social conditions in the region of more intense way.

The EU failed to create a single Balkan market, where a higher degree of liberalization and integration between countries would operate. Such situations of weak mutual cooperation between the Western Balkan countries can be seen through the prism of the economic and political situation in these countries. This region was considered as the least developed region in Europe, the consequences of which are reflected in the largest outflow of population and labor force in developed countries in the EU (Table 1).

Table 1. Main Statistical Data for Western Balkans Compared with Average Data EU 2016

	ALB	BIH	MKD	KOS	MNE	SRB	EU
Population (m)	2.9	3.5	2.1	1.8	0.6	7.1	511
GDP (€bn)	10.8	15	9.8	6	3.8	34.1	14800
Gross domestic product (in real terms, annual % change)	3.4	3.4	2.9	4.1	2.9	3.3	1.9
GDP per capita index	30	31	38	27	42	36	100
Public Debt (% GDP)	73.2	44.7	39	19.9	70	74.1	83.5
Energy Intensity 2015	223/ 61 _{st}	n/a	336.3	490.4	301.1	486.1	120
Environmental Performance Index	74.3/ 61 _{st}	63.2/120 _{th}	78.0/50 _{th}	n/a	78.8/47 _{th}	78.6/48 _{th}	n/a
Human Development Index	0.76/ 75 _{th}	0.75/81 _{st}	0.74/ 81 _{st}	0.73/89 _{th}	0.80/ 49 _{th}	0.77/66 _{th}	n/a

Source: Western Balkans Investment Framework: 2017 Annual Report. European Union, 2017, p. 20-25.

There were many initiatives for free trade zones in this area, which remain unfulfilled and without practical implementation. In spite of the numerous meetings and initiatives for a higher degree of coordination, it is considered that specific instruments, mechanisms and contents that are much more effective and better coordinated are not yet identified. The SEECP countries face numerous difficulties, with no specific results in their ongoing efforts, from which we will mention the following:

- The existence of certain confrontations between part of the member states (territorial disputes between Greece and Turkey, around certain islands in the Aegean Sea and the Cyprus issue, problems between Albania, Kosovo and Serbia in particular for the future status of Kosovo, until recently the problem related to the name “Macedonia”, between Greece and North Macedonia (now successfully ended).
- The different status of the countries in the region in terms of EU integration processes (Greece, Bulgaria, Romania, Croatia are EU members, and candidate countries are Albania, North Macedonia, Serbia and Montenegro and Turkey, while potential candidates remain Bosnia and Herzegovina and Kosovo which have a clear prospect of joining the EU in the future but have not yet been granted candidate country status).

- Lack of serious regional interest in the progress of some countries in the Western Balkans, oriented primarily towards their own personal and independent ambitions for success).
- Absence of a "motor" (leading) country as the main carrier of the burden of a successful initiative, as is the case with certain interregional groupings.
- Fragments of political and administrative institutions, constitutional problems, or capacities in the Western Balkan countries that will take a more active part in organizing regional initiatives and solving certain problems.

Political and ethnic disagreements among the countries in the region remain an unsurpassable problem and a basic obstacle to the further development of the political and economic cooperation of the region. The disrupted political relations significantly hamper and minimize all forms of economic cooperation that are reflected in the trade exchange.

Despite the fact that the business community is interested in stronger economic relations among the actors themselves, the political structures did not invest enough political culture and flexibility to overcome such conditions. For this reason, international institutions and bodies, in addition to overcoming political problems, must also focus on improving regional infrastructure that will facilitate communication and transport, thus reducing transport costs and facilitating access to markets, improving the interregional trade component of international trade in the Western Balkans.

Economic Development and Competitiveness / Western Balkan Countries as Final Puzzles of European Union's Mosaic

GDP per capita in the Western Balkans, adjusted for purchasing power parity, is half that of eastern European EU countries, one-third that of southern EU members and a mere quarter of the richest EU members in western Europe. In the World Economic Forum's Global Competitiveness Index, the Western Balkans lag behind their EU neighbours, including the CEE countries (Table 2, Figure 1).

Table 2. Western Balkans - Candidate and Potential Candidate Countries: Summary Table

		2014	2015	2016	2017	2018
<i>Albania</i>	Gross domestic product (in real terms, annual % change)	1.8	2.2	3.4	3.8	4.1
<i>(ALB)</i>	Unemployment	17.9	17.5	15.6	14.1	12.7
	Inflation	1.6	1.9	1.3	2.0	2.1
	Direct investment (FDI, net)	8.7	8.7	8.8	7.8	
	Trade balance (% of GDP)	-	-	-	-	-
		21.5	21.6	23.4	23.9	21.3
<i>Bosnia and Herzegovina</i>	Gross domestic product (in real terms, annual % change)	0.6	4.1	3.4	3.4	
<i>(BIH)</i>	Unemployment	27.5	27.7	25.4	20.5	18.4
	Inflation	-0.9	-1.0	-1.1	1.2	
	Direct investment (FDI, net)	2.8	1.7	1.6	2.0	
	Trade balance (% of GDP)	-	-	-	-	
<i>Republic of North Macedonia</i>	Gross domestic product (in real terms, annual % change)	3.6	3.8	2.9	0.1	2.1
<i>(MKD)</i>	Unemployment	28.0	26.1	23.8	22.4	21.3
	Inflation	-0.3	-0.3	-0.3	1.4	1.5
	Direct investment (FDI, net - % of GDP)	2.3	2.2	3.6	2.3	
	Trade balance (% of GDP)	-	-	-	-	-
<i>Kosovo</i>	Gross domestic product (in real terms, annual % change)	1.2	4.1	4.1	4.2	
<i>(KOS)</i>	Unemployment	35.3	32.9	27.5	30.5	
	Inflation	0.4	-0.5	0.3	1.5	1.1
	Direct investment (FDI, net)	2.7	5.3	3.6	4.1	
	Trade balance (% of GDP)	-	-	-	-	
<i>Montenegro</i>	Gross domestic product (in real terms, annual % change)	1.8	3.4	2.9	4.7	3.9
<i>(MNE)</i>	Unemployment	18.2	17.8	18.0	16.4	15.5
	Inflation	-0.5	1.4	0.1	2.8	2.9
	Direct investment (FDI, net)	10.2	16.9	9.4	11.3	
	Trade balance (% of GDP)	-	-	-	-	-
		39.8	40.1	41.9	43.3	44.6
<i>Serbia</i>	Gross domestic product (in real terms, annual % change)	-1.6	1.8	3.3	2.0	4.4
<i>(SRB)</i>	Unemployment	19.2	17.7	15.3	13.5	13.1
	Inflation	2.1	1.4	1.1	3.1	2.0
	Direct investment (FDI, net)	3.7	5.1	5.2	6.2	
	Trade balance (% of GDP)	-	-	-9.9	-	-
		12.1	11.3		11.1	11.8
<i>EU</i>	Gross domestic product (in real terms, annual % change)	1.7	2.3	1.9	2.4	
	Unemployment	10.2	9.4	8.6	7.6	7.0
	Inflation	0.5	0.0	0.3	1.7	1.9
	Direct investment (FDI, net)	19.4	19.7	19.9	20.1	
	Trade balance (% of GDP)	1.4	2.0	2.0	2.1	

Source: <https://ec.europa.eu/eurostat/statistics> (European Union 2019).

Lately there was slight improvement in the competitiveness. The macroeconomic situation has been stable in recent years; these countries score reasonably well on cross-country indicators of health, education, and information and communications technology; and there is strong potential in trade, transport, energy, tourism and other sectors.

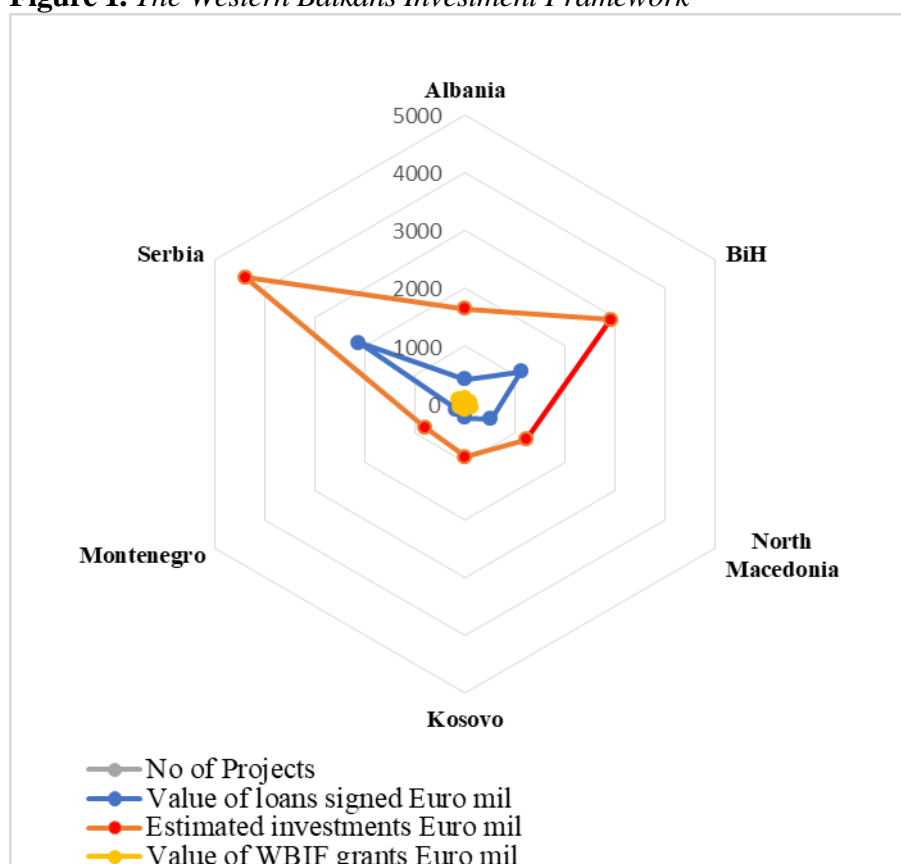
All countries in the region are aware of the need to expand regional co-operation, especially in the field of the economy, cross-border cooperation, especially trade and infrastructure connectivity.

Table 3. WBIF - Regional Projects and Beneficiaries

	No of projects	Value of loans signed Euro mil	Estimated investments Euro mil	Value of WBIF grants Euro mil
Albania	25	426	1652	103
BiH	25	1121	2910	88
North Macedonia	14	511	1218	113
Kosovo	19	232	910	106
Montenegro	14	178	808	93
Serbia	31	2120	4384	141

Source: The Western Balkans Investment Framework (WBIF): 2017 Annual report. European Union, 2017, p. 9.

Figure 1. The Western Balkans Investment Framework



To support the Connectivity Agenda, in 2015, EU set aside up to one billion Euro in EU grants until 2020 (Table 3). To date, including the eleven new projects presented in detail in this package, EU have already committed 70% of this one billion Euro, giving concrete grant support for 31 infrastructure projects in the region. Works have already started or are about to start on the ground in more than six locations. The EU's support is generating around EUR 2.4 billion in investments, creating around 25,000 jobs in the process.

Improving connectivity within the Western Balkans, as well as between the Western Balkans and the European Union, constitutes a key factor for sustainable growth in the region. The Western Balkans Six (WB6) have made the Connectivity Agenda one of their highest priorities, with a special emphasis on the preparation and financing of concrete regional infrastructure investment projects and on the implementation of technical standards and reform measures (e.g. aligning/simplifying border crossing procedures, railway reforms, information systems, road safety and maintenance schemes, unbundling and third-party access).

The WBIF implements this initiative through investment grants. Over the past three years, the WBIF has committed more than €347.5 million in co-financing grants to thirteen connectivity projects in the region with a cumulative investment value in excess of €979 million. Its partner Financial Institutions have extended €511 million in loans to support the investment costs, complementing national contributions (European Union 2017).

The competitiveness of the economies of the Western Balkans represents a strategic European interest. Well-functioning market economies, resistant to global competitive pressures, contribute to the political stabilisation of the Western Balkan region as well as to growth and jobs for Europe, which is the EU's main policy objective for the years to come.

With the Western Balkan region's low wages, knowledgeable local workforce, close proximity to EU markets and relatively high levels of productivity, it is clear why retailers and apparel buyers are increasingly sourcing apparel products from the region's manufacturers. Until now the region has depended on low wages to distinguish it as an attractive location to source clothing. As this advantage will gradually dissipate due to economic growth, which will inevitably lead to wage appreciation, the sector needs to capitalise on its geographic proximity to Western markets. This means that major improvements must be made in decreasing time to market and offering full-package sourcing services to buyers. To achieve this, both operational improvements and policy barriers need to be addressed (OECD 2009).

In this context, the European Bank for Reconstruction and Development (EBRD), an international financial institution that sees cross-border integration as one of its priorities, fully supports this goal. For the countries of the Western Balkans, EU approximation does not just mean reform and investment. It also represents a vision of lasting peace and prosperity – goals that the EU itself has achieved for its member countries.

The importance of the EU as an export market for the whole region has been constantly increasing since 1987. The trend became more potent from 1990

onwards, making the EU the main trading partner of the region. The fact is that the EU remains an important factor for the integration of the Western Balkan countries. For many of the involved parties, regional initiatives are the only instrument for inclusion in the European integration processes, allowing the whole region closer and radical changes in the existing geopolitical context (Figures 2-5).

Figure 2. *Western Balkan Countries Export and Import Shares with Main Partners - Map View*

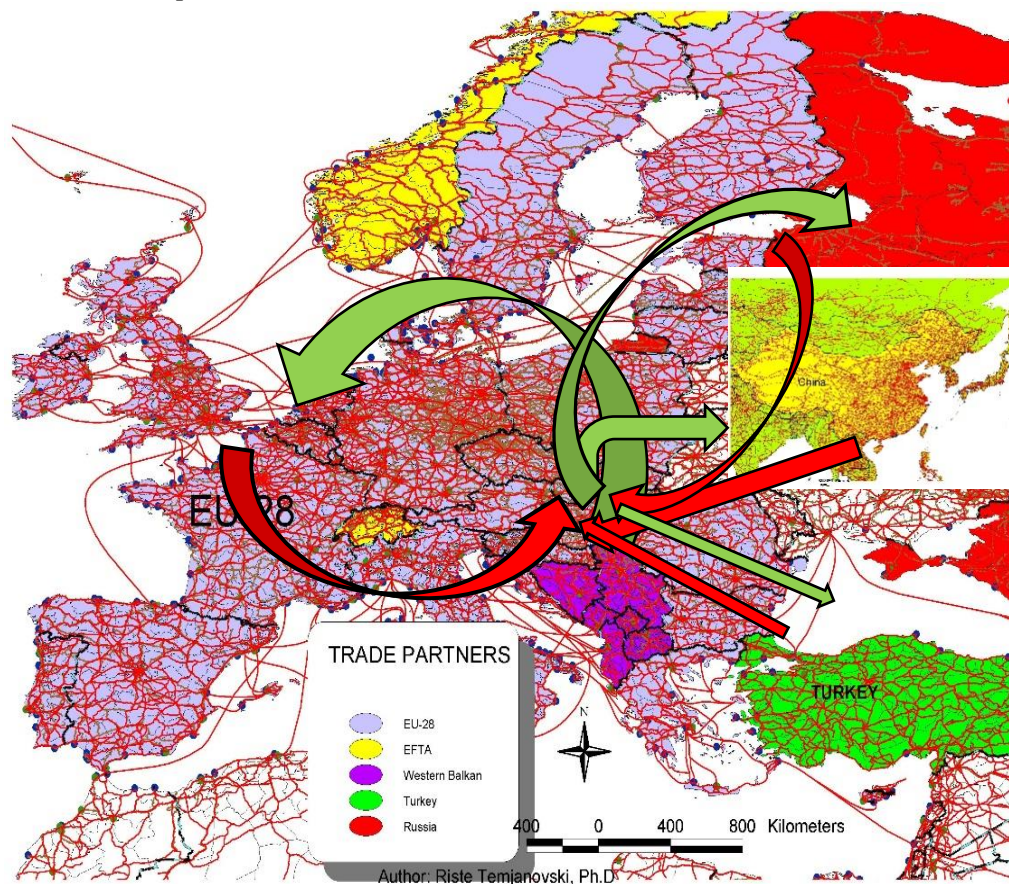
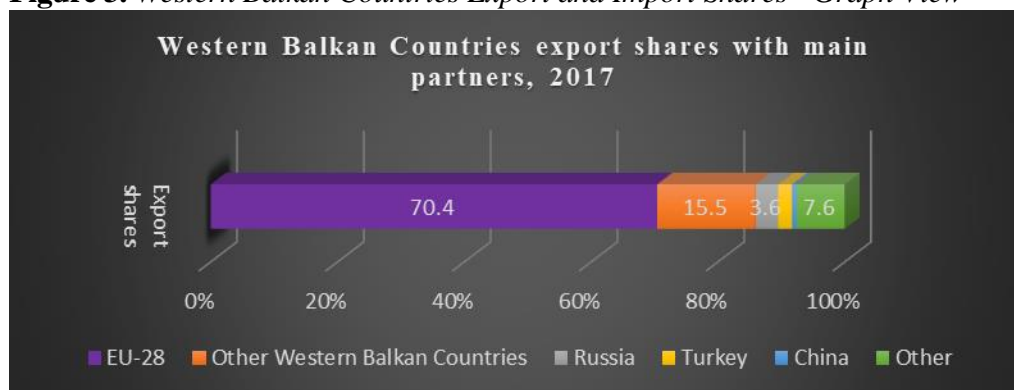
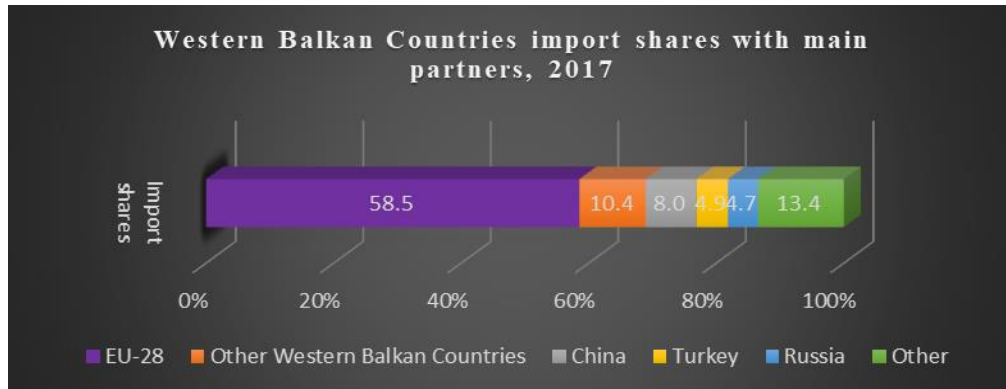


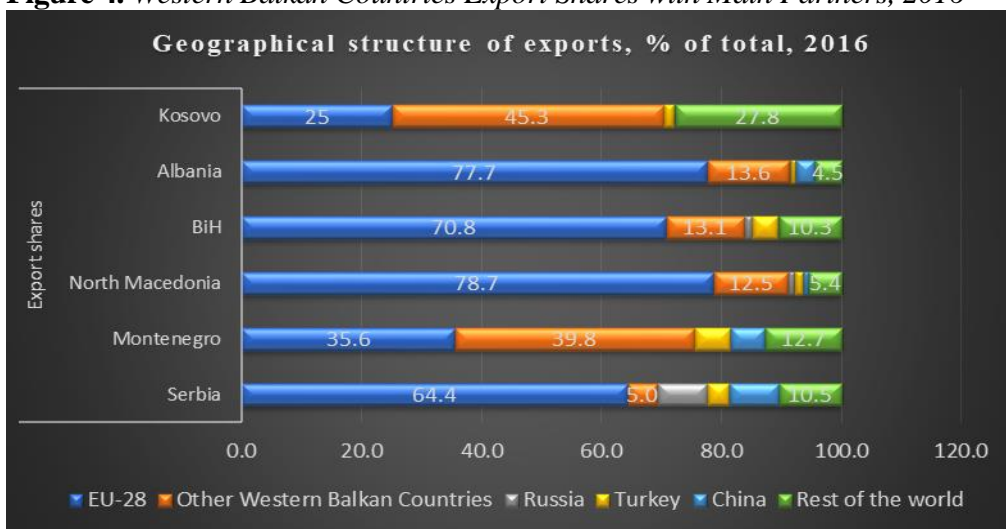
Figure 3. *Western Balkan Countries Export and Import Shares - Graph View*





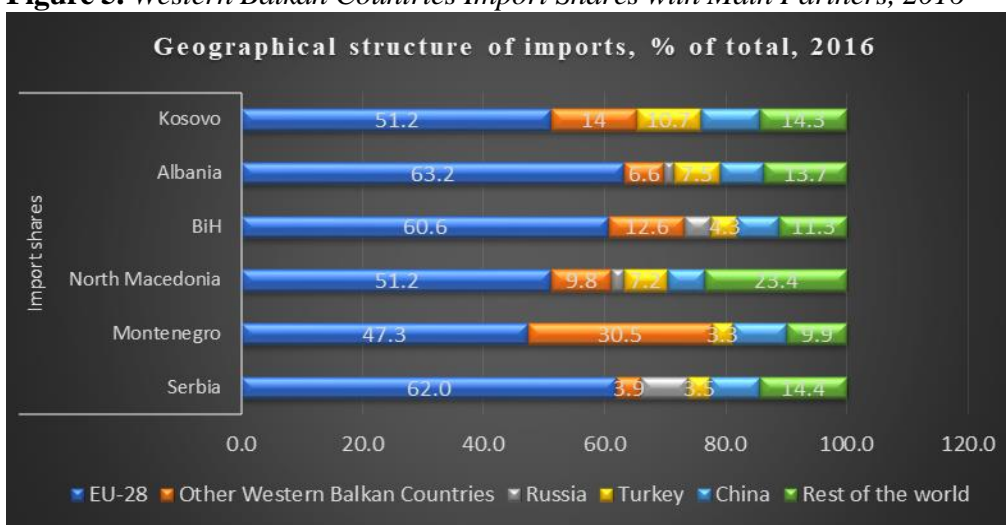
Source: Prepared by the author on the basis of data from the Eurostat.
<https://ec.europa.eu/eurostat/statistics>.

Figure 4. Western Balkan Countries Export Shares with Main Partners, 2016



Source: Eurostat.

Figure 5. Western Balkan Countries Import Shares with Main Partners, 2016



Source: Eurostat.

Undoubtedly, the EU was the main partner of the Western Balkan countries, both in terms of exports (70%) and imports (59%) in 2017. In 2017 manufactured goods made up 77% of EU exports and 80% of EU imports from the Western Balkan countries. Three Member States whose exports were over 5 billion euros could be singled out: Germany (EUR 9.1 billion), Italy (7.8 billion) and Slovenia (5.0 billion). For Germany (0.9%) and Italy (2.1%) these exports were only a small percentage of their total extra-EU exports but for Slovenia this was almost a third of their total exports. Croatia is the only Member State where this share was greater (45.7%, EUR 3.7 billion). Greece (13.1%, EUR 2.3 billion) and Bulgaria (12.0%, EUR 1.7 billion) were the only other Member States where the share was above 10%. As for the export of goods, again, for Germany (1.5%, EUR 9.0 billion) and for Italy (2.7%, EUR 7.0 billion) the shares in total extra-EU trade were small while for Slovenia (18.5%, EUR 3.2 billion) it was more substantial, although not as high as in exports. Croatia (29.1%, EUR 2.2 billion) was again the Member State with the highest share in extra-EU imports from the Western Balkan countries (<https://ec.europa.eu/eurostat/statistics>).

Transport Corridors as the Main Backbone of the Countries of Central and Eastern Europe with the European Common Market

It has been recognised that efficient planning of public investment in the transport sector necessitates the development of four main building blocks: the establishment of a Core Regional Transport Network as a jointly agreed reference for planning investment of regional relevance, a process to prioritise investments of regional importance and which are financially affordable and suitable for international financing, a commitment to policy reforms, notably to improve sector management and address cross border issues, and the establishment of an institutional framework to coordinate efficiently among the countries of the region. (EC/World Bank 2003) As Skayannis and Skyrgiannis noted (2002), the Balkans are trapped in a vicious cycle which has to be broken from the outside, not by warfare intervention but by drastic assistance. External support is required. As many development theories suggest, the leaps forward or the development take off presupposes direct investment in infrastructures, so as to create the necessary general condition of production as a basis for all modes of transport and the economy.

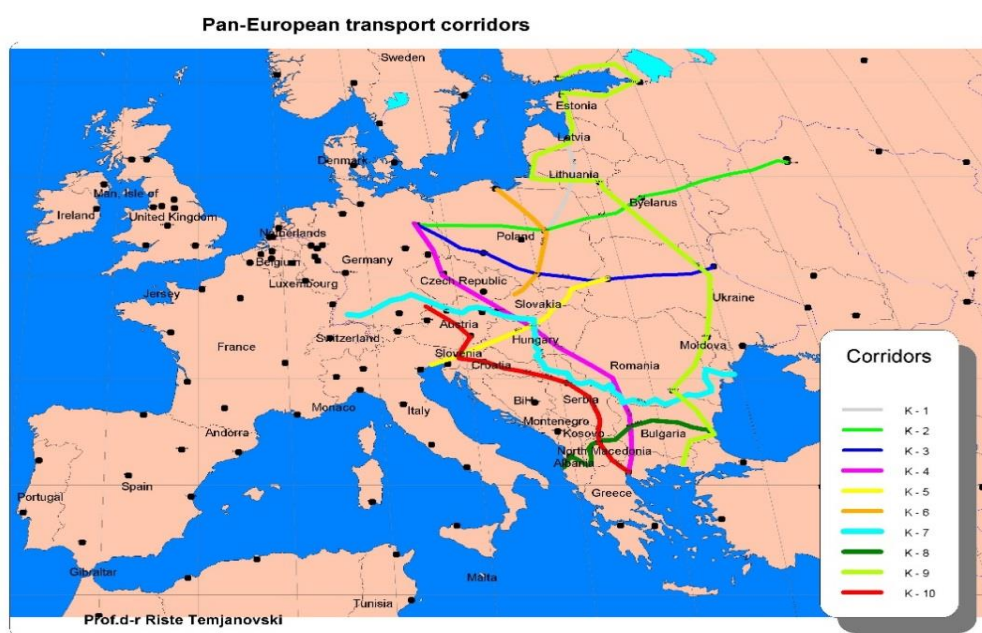
Enarsson (2006) mentions that dependency on infrastructure is basic for all modes of transport and with an emphasis on the infrastructure the following aspects can be stated in an overall perspective:

- The infrastructure makes conditions and possibilities.
- There must be co-ordination between the different modes of transport.
- The infrastructure must be built on national perspective with international adaptation.
- The limited resources demand concentrated directives and hard priorities.
- The demand from the industry is of greater importance.

Transport networks and services are as other infrastructure networks are the arteries of the economy. If, as in the case of the Balkans, these lag behind, drastic moves have to be made in order to stimulate development. However, improvements should be made both at the inward- and outward looking part of the Balkan networks, as well as the distant linkages, because market development and integration presuppose unobstructed flows. Transport is an ideal field in which the Balkans can exploit and take advantage of their favourable geographic position and its geopolitical importance (Skayannis and Skyrgiannis 2002).

The development of regional and international mobility is largely conditioned by the transport infrastructure, which is a key element for stimulating the economic development of the different regions, balancing the level of development and interregional cooperation. In order to stimulate trade and other economic and social ties with partner countries in Eastern and Southeastern Europe, the EU supports the development of physical communications and transport networks as a vertebral column to form pan-European transport corridors (road, rail, waterway) at pan-European transport conferences in Crete and Helsinki (Figure 6).

Figure 6. *Pan-European Transport Corridors*



These ten corridors also represent connections of the trans-European transport network of the EU with the countries of eastern and southeastern Europe.

Transport policy is an important segment for regional integration of EU member states with other countries aspiring to join the EU family. Such a policy is also present among the countries of the Balkan region through their interregional and integration links with some EU Member States.

Having in mind the geographical location, we must emphasize that of the 6 countries that belong to the Western Balkans, three of them are without sea access (Serbia, Kosovo and North Macedonia), and Bosnia and Herzegovina has only one narrow belt. These three countries must conduct their transport policy carefully,

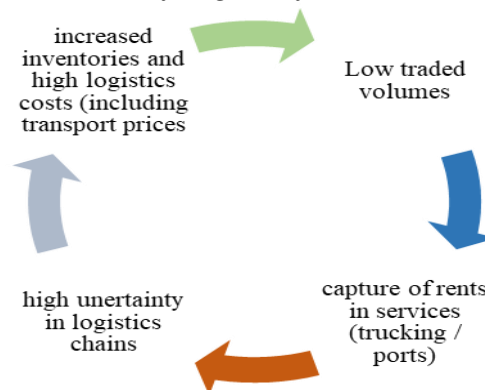
planning and organizational, to streamline their strategic interests in order to minimize the negative aspects of their continental position. According the Radelet and Sachs (1998) landlocked countries tend to face enormous cost disadvantages. They must pay the high costs of overland transport from the neighboring ports.

These costs are increased by the bureaucratic and often political costs of crossing at least one additional international border. Infrastructure linking the inland economy with the port may be very poor, since there is a need for coordinating infrastructure investments in roads, customs houses, and so forth, between the landlocked country and the port country. The roads linking the landlocked country with the port may be poorly policed and maintained.

Often the coastal economy has no interest in supporting economic development in the landlocked country (and may even have an interest in hindering development), for geo-strategic reasons. All of these risks probably add to insurance costs, as well as to basic shipment costs. The only alternative for landlocked countries is to ship by air, which is prohibitively expensive for most goods other than those with the very highest value per unit weight.

On the basis of extensive data collection and research in several regions of the world, According to Arvis et al. (2010) (Figure 7), the result to derive conclusions that: (1) exporters and importers in LLDCs do face high logistics costs, which are highly detrimental to their competitiveness in world markets; (2) contrary to the most prevalent ideas, high logistics costs usually do not result from poor road infrastructure since transport prices depend mainly on trucking market structure and organization; (3) high logistics costs depend on low logistics reliability and predictability; (4) and low logistics reliability and predictability stem mostly from rent-seeking and governance issues (which are prone to proliferate in low-volume trading environments), which increase uncertainty along logistics chains.

Figure 7. *The Vicious Circle of Logistics for Landlocked Countries*



Source: Arvis J.F., Raballand G., Marteau J.F. (2010): The Cost of Being Landlocked: Logistics, Costs, and Supply Chain Reliability. World Bank: International trade department, p. 6.

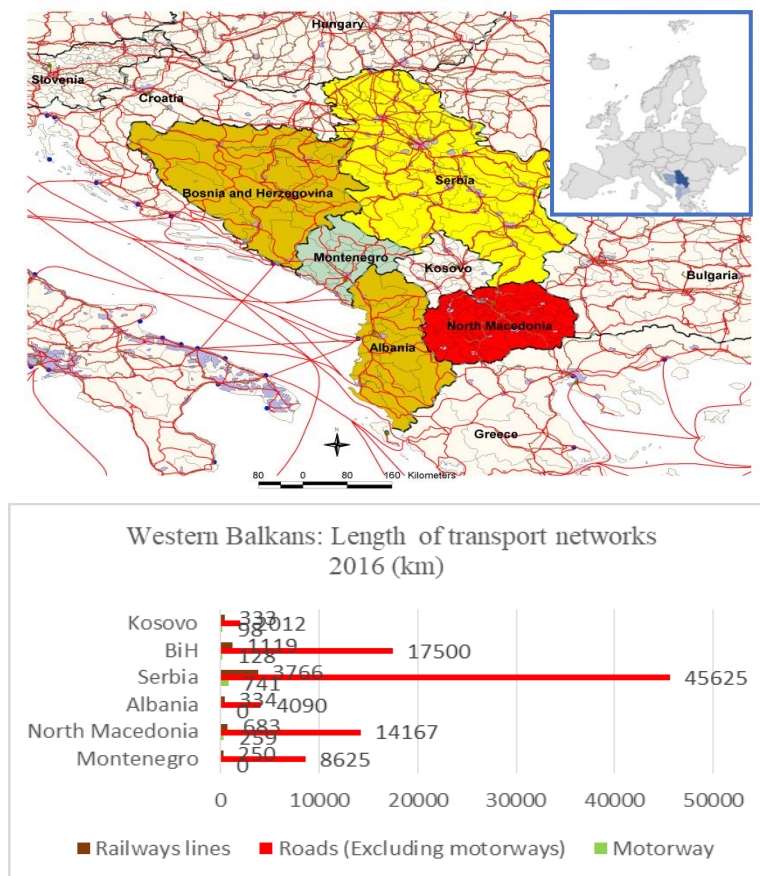
Therefore, transport corridors will function in the true sense of the word if certain institutional preconditions for their functioning are also provided. It is necessary to fully provide political, commercial, financial and technological-normative benefits. Transport corridors will be able to function with full acceptance and application of international and state regulations.

For these reasons, the transport corridors will have to meet certain norms to fully effect the transport operations (Temjanovski 2005):

- Unique technology for the regulation of border crossing points (technical, customs), for entry and exit.
- Unique technology of the customs services for faster traffic.
- Duty free circulation between the countries of Transport Corridors.

The identification and the development of the Core Network will therefore facilitate the integration the economies of the region among themselves as well as their integration to the enlarged European Union, in line with the overarching goals of the Stabilisation and Association process. It will also help to improve the transport links between Greece and the other members of the European Union. The Core Network should connect all capitals in the region and capitals of neighbouring countries, plus selected cities of major regional importance. The Core Network also should concentrate on a limited number of ports and airports with the aim of guaranteeing adequate services and land access.

Figure 8. *Western Balkans: Length of Transport Networks 2016 (km)*



Source: Prepared by the authors on the basis of data from the Eurostat.

The Core Regional Network includes some 4,300 km of railway lines and 6,000 km of roads (Figure 8), fulfilling the condition to connect all capitals and cities of regional importance among themselves and with the capitals of neighbouring countries through the Pan- European transport corridors IV, V, VIII and X and other links. The Core Network includes 58 cross border points (road and rail) between the Western Balkan countries themselves and between them and their other European neighbours. It also includes the ports of Rijeka, Split, Dubrovnik, Ploce, Bar, Durres, Vlore and the airports in the capitals as well as of Banja Luka, Split, Dubrovnik, Nis, Pristina and Podgorica. Inland waterways include the Danube waterway systems (Pan-European Corridor VII) and the Sava River basin (EC/World Bank 2003).

It should be noted that the major single obstacle to the flow of traffic is the crossing of borders. For the full functioning of the transport system of these corridors, it is necessary to establish a permanent body whose activity would be the collection, processing and submission of information on possible transport problems. This permanent body must coordinate its norms, standards and staffing and monitor the experiences with similar EU institutions and organizations. The basic principles that follow the transport corridors in the EU are:

- Maximum efficient and quick passage of borders.
- Providing maximum conditions for safe traffic.

Although facilitating transport in the Western Balkans is always the focus of regional meetings and agendas, such situations differ significantly from the real picture of border crossings in the Western Balkan countries. An important part of this agenda is to lower operating costs and to reduce administrative duties and remove unnecessary regulation procedures. With this action Western Balkans countries can facilitate trade and to eliminate unnecessary administrative burdens for traders when moving goods across borders. According to administrative procedures they can simplify trade procedures and to use information technology to implement risk management systems to facilitate trade.

Quality infrastructure should also be accompanied by measures to facilitate or completely liberalize customs controls between these countries. Such an example is made at the border between the Northern Republic of Macedonia and the Republic of Serbia at the Tabanovce border crossing point. The establishment of a joint border management of Tabanovce-Presevo on the principle of "One stop shop" is an excellent first step in facilitating the flow of goods to companies. But what about the other border crossings between the countries in the region. For example, the average customs time for import at road border crossings is about 45 minutes, and import time is only 5 minutes. The time required for investigation of inspection bodies (phytosanitary, veterinary and radiological checks) at border crossings is approximately 2 hours on average. By simplifying the procedure, fully documenting the documents, increasing the number of employees and improving the infrastructure, the procedures and movement of vehicles at the border crossings in these countries will be significantly accelerated.

The functioning of these two corridors is expected to create a regional market which, on the one hand, will enable greater economic integration of the Balkan countries and, on the other hand, overcoming the isolator position of Greece from a geographical point of view within the EU. From a long-term perspective, through a solid infrastructure base, easier integration of this part into the single economic space will be facilitated and the impact of the concentration of economic activities and power in the existing central regions in the developed parts of Europe will be reduced. EU policy seeks to allow this southeastern part to create its own economic balance to the existing macro-regions in the EU (as well as the economic connection of Europe with the markets around the Mediterranean and the Black Sea basin.

But it is obviously that implementation of the Core Network will be a long-term programme and this requires a clear political interest and commitment from all stakeholders.

Transport Infrastructure as Factor to Better Harmonizing the Logistics Decisions

Western Balkan's companies in the regional and global context measure their performances using a mix of methods, which correspond with their understanding of business. Therefore, various sets of indicators can be found in practice interpreted different way. In particular, the same event can be measured in different ways, so that the relative performance is sometimes totally different.

Apart from the favorable geographical infrastructure, the efficiency, quality, competitiveness and maximum harmonized protocol of activities are required from all actors. The latest data on the Logistic Performance Index - LPI, shows the negative states in the countries in the region.

The World Bank's LPI analyzes countries in six components (Table 4):

- The efficiency of customs and border management clearance.
- The quality of trade and transport infrastructure.
- The ease of arranging competitively priced shipments.
- The competence and quality of logistics services.
- The ability to track and trace consignments.
- The frequency with which shipments reach consignees within scheduled or expected delivery times.

Table 4. LPI Ranking and Scores, 2016

	ALB	BIH	MKD	KOS	MNE	SRB
Logistics Performance Index 2016 - (rank/score)	117 / 2.41	97 / 2.60	106 / 2.51	n/a	123 / 2.38	76 / 2.76
Customs (rank/score)	121 / 2.23	67 / 2.69	127 / 2.21		125 / 2.22	87 / 2.50
Infrastructure - (rank/score)	148 / 1.98	77 / 2.61	79 / 2.58		138 / 2.07	85 / 2.49
International shipments (rank/score)	110 / 2.48	140 / 2.28	116 / 2.45		101 / 2.56	90 / 2.63
Logistics quality and competence - (rank/score)	102 / 2.48	99 / 2.52	120 / 2.36		127 / 2.31	69 / 2.79
Tracking and tracing (rank/score)	135 / 2.15	95 / 2.56	123 / 2.32		117 / 2.37	66 / 2.92
Timeliness - (rank/score)	94 / 3.05	103 / 2.94	89 / 3.13		131 / 2.69	79 / 3.23
& of Highest performer	43.8	49.5	46.8		42.8	54.6

Source: The World Bank (2016): Connecting to Compete, Trade Logistics in the Global Economy: The Logistics Performance Index and Its Indicators. 2016, p. X; 39-40.

The components have been chosen based on theoretical and empirical research and on the practical experience of logistics professionals involved in international freight forwarding. Logistics performance both in international trade and domestically is central to the economic growth and competitiveness of countries, and the logistics sector is now recognized as one of the core pillars of economic development. Policy makers not only in the best performing countries, but also in emerging economies, increasingly see the need to implement coherent and consistent policies to foster seamless and sustainable supply chain operations as an engine of growth. Efficient logistics connects firms to domestic and international markets through reliable supply chain networks (World Bank 2016).

Conversely, countries characterized by low logistics performance such as Western Balkans face high costs, not merely because of transportation costs but also because of unreliable supply chains, a major handicap in integrating and competing in global value chains. According to the last EU-Western Balkans summit took place in Sofia, Bulgaria, on 17 May 2018, the European Union provides maximum support to the entire region in improving the infrastructure, but also facilitating the procedure for faster and easier transportation of goods, as well as less spent time at the border crossings. Things about improvement of infrastructure have been talked for decades, but the deadlines for implementation are prolonged from year to year. Therefore, full harmonization of the regulations with the European Union and comprehensive investment in all spheres of the logistics system in the Western Balkan countries, a significant increase in the flow of goods is expected. Logistic operators in this region must improve and harmonize infrastructure protocols - personnel, organizational, information and so on to build competitive supply chain. Supply chains are complex, but their

performance is largely dependent on country characteristics, especially the soft and hard infrastructure and institutions that logistics requires to operate well, such as imports, regulations, procedures, and behaviors.

Businesses are seeking to reduce transshipment time between Europe, Asia and Middle East region, so there are a few projects considered. The significance of this region is again placed in the sphere of attention as part of the Chinese Silk Road. Construction activities on the railway section Belgrade-Budapest have been started. The World Bank is already investing to improve transportation connections and logistic procedures across the Balkans. As a very unfavorable situation, almost all countries in the Western Balkans are the procedure for export and import. It takes several hours as the duration of both border crossings and internal terminals. This includes the procedures for clearance of the goods, as well as the total time for inspection of the inspection services (phytosanitary, veterinary, radiological tests, etc.)

It is working to close some of the gaps along Corridors 8 in North Macedonia and 10 in Serbia. It is expected that improvements to Corridor 8 will cut travel time for trucks from Sofia to Skopje from 6 hours to three and a half hours. There are several initiatives for joint border crossings (Tabanovce-between Serbia and North Macedonia).

The European Bank for Reconstruction and Development (EBRD), as well as an international financial institution that sees cross-border integration as one of its priorities, fully supports this goal. For the countries of the Western Balkans, EU approximation does not just mean reform and investment. It also represents a vision of lasting peace and prosperity – goals that the EU itself has achieved for its member countries.

Summary and Recommendations for Future Directions

Today's global world is a mosaic of many cultural communities and the transport can facilitate and open the doors between the countries, but what about Western Balkans?

Western Balkan countries are the last and weakest link of the European Economic Core. For decades economically underdeveloped and vulnerable, socially unstable and politically aroused, the Western Balkans are still far from a stable European core. Regional and Sub-regional initiatives had only some limited results. Regional initiatives and forms of multilateral cooperation did not success the Western Balkan countries to provide a higher level of integration with the EU or changes in the political, economic or social conditions in the region in a more substantial way. Many of the participants in these regional initiatives emphasize that their participation in the regional framework is the only way for development, stability and prosperity of the region. In addition, EU has worked on connecting markets, economies, and people by giving support to the establishment of a Regional Economic Area.

For this reason, international institutions and bodies, in addition to overcoming political problems, must also focus on improving regional infrastructure that will

facilitate communication and transport, thus reducing transport costs and facilitating access to markets, improving the interregional trade component of international trade in the Western Balkans.

The Western Balkans economies are projected to continue to expand in the future period, but this stable outlook is vulnerable to risk. In order to stimulate trade and other economic and social ties with partner countries in Eastern and Southeastern Europe, the EU supports the development of physical communications and transport networks as vital artery to form pan-European transport corridors (road, rail and waterway). Transport policy is an important segment for regional integration of EU member states with other countries aspiring to join the EU family. The historical experience in creating a common market in the EU, relying on transport infrastructure, is a strong impetus for the Western Balkan. Physical connectivity is a vital force for the further development of the single internal market and the strengthening of economic and social cohesion. These aspects are key elements for developing national networks to a Trans-European transport network. The goal was to offer high quality infrastructure, combined with all models of transport that will enable optimal use of existing facilities.

It must be realistic enough to see that transport infrastructure is not some miraculous tool with which to solve a society's development problems. It is only one part of the story.

Therefore solving more decades problems (questions about minorities, decades of intolerance among the peoples of this area, poor educational education, skills and poor competitiveness of young people to cope with global challenges) and facilitating the integration of the Western Balkan countries must be thoroughly considered from three aspects: infrastructural, economic and political.

The first approach relates to the benefits of building of physical infrastructure, as well as roads, railways, ports.

The second approach is economically determined, including various economic, financial resources, and customs arrangements to facilitate the flow of goods between countries in the region.

Last but not least is the political environment of reconciliation, overcoming national intolerance and creating a climate of fulfillment for both of the aforementioned factors (infrastructure and economic). Concrete achievements in the infrastructural and economic sphere, the Western Balkan countries could only succeed exclusively if they overcome mutual confrontations (national, religious, political), using the benefits of the Common Europe, according to the visionary architecture of Robert Schuman. They must find a way and overcome "mutual multi-year turmoil", and according to the "cluster" model, to developing and building their economies. Until then, funds from the European Union will never be sufficient to move fast enough "Western Balkans" economic wheel.

Or briefly summarize, prosperous of Western Balkans countries will achieve its expectations if there is a political will for the prosperity of the peoples of this area, for joint economic programs and for running businesses, facilitating of quality transport infrastructure. We must acknowledge that, in many respects, the quality and success of life of Balkan's citizens depends on the vitality and

responsibility of implementation many structural changes. One of the crucial factors is still transport infrastructure.

The recommendations to be implemented by the Western Balkan countries cannot deliver the results overnight. But it must keep in mind that you need to have the will and determination for change and unity in all aspects: political, economic, social, demographic, educational, religious. Government institutions in these countries must change the "political vocabulary" of intolerance to their neighbors and the rationale for reconciliation and fostering common economic policies prevails. Transport infrastructure, as a physical link between countries, can facilitate the whole process, as economic, tourist and cultural exchange also requires trade, communication, starting joint businesses, according to the clustering model. Only in this way can the competitiveness of products, companies from the Western Balkans be strengthened through joint companies and products, thereby reducing the economic, political and social differences. Such a policy should create a form of economic "immunization" for Western Balkan companies to achieve adequate standardization and be able to cope with the competing challenges of the European and global markets.

In this regard, the business communities of these countries can make a significant contribution to overcoming certain regional obstacles. Business community associations through the Chamber of Commerce Investment Forum are constantly appealing for some relief in terms of joint border management, according to the "One-stop-shop" in Tabanovce-Presevo border.

Future transport facilities, in addition to the construction of transport infrastructure, should address the following measures:

- Establish common border management at all border crossings according to the model of "One stop shop".
- Complete abolition of non-tariff barriers.
- Eliminating or reducing customs measures to a minimum in the region.
- Eliminating all data requirements that do not comply with international recommendations and agreements, thereby reducing document processing time and waiting for vehicles at border crossings.
- Reducing the costs of securing them.
- Harmonizing the working hours of the authorities in both countries responsible for carrying out import-export procedures.

Despite the fact that the business community is interested in stronger economic relations among the actors themselves, the political structures did not invest enough political culture and flexibility to overcome such conditions. Political and ethnic disagreements among the countries in the region remain an unsurpassable problem and a basic obstacle to the further development of the political and economic cooperation of the region.

Government policies in the Western Balkans must focus especially on the young population. The high rate of young and employed people, in almost all Western Balkan countries, is forcing them to seek an exit to Western European countries. Skills, knowledge, entrepreneurship must be promoted to the point of

starting to think about joint projects within the framework of domestic conditions or cooperation with neighboring countries in the Western Balkans region. Transport links can only facilitate travel and enhance the cultural values of this area.

The famous maxima “Via Vita”, or “the road is life” as well as said the ancient Romans, best reflects the achievement of the “four freedoms” (the free movement of people, goods, services and capital) and crucial factor to the mixing of world cultures through different ethnicities, religions and nationalities. Finally, it is high time for the countries of the Western Balkans to learn this lesson and catch up with modern European trends.

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