# EUROPEAN INTEGRATION AND SOUTHEASTERN ENLARGEMENT

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**Undergraduate thesis / Završni rad**

**2020**

*Degree Grantor / Ustanova koja je dodijelila akademski / stručni stupanj:* **University of Zagreb, Faculty of Economics and Business / Sveučilište u Zagrebu, Ekonomski fakultet**

*Permanent link / Trajna poveznica:* https://urn.nsk.hr/urn:nbn:hr:148:396031

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*Download date / Datum preuzimanja:* **2024-03-29**



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**UNIVERSITY OF ZAGREB**

**FACULTY OF ECONOMICS AND BUSINESS**

# EUROPEAN INTEGRATION AND SOUTHEASTERN ENLARGEMENT

UNDERGRADUATE THESIS

**Leonardo Artuković**

**Zagreb, February 2020.**

**UNIVERSITY OF ZAGREB**

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# EUROPEAN INTEGRATION AND SOUTHEASTERN ENLARGEMENT

UNDERGRADUATE THESIS

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Student:

In Zagreb, _____ _____

(date) (signature)

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# 1. Introduction

## 1.1 Subject and purpose of the paper

European integration and southeastern enlargement is a very wide topic that can be discussed from various different angles but since this is just a paper it will try to stay within understanding lines so the object and purpose reach their full peak. When the object is in question it is possible to say that object of this paper is to show and analyze in detail European integration and how does that European integration impacts other segments like southeastern enlargement. That is where the purpose also lies because through explanation of European integration this paper will in detail show all aspects of that integration which will open a huge set of information and tools that can be purposely used to examine southeastern enlargement and overall development of countries from southeastern region.

## 1.2 Research methodology and data collection

For the purpose of creating this paper various different sources will be used, from academic researches to different web sources that are credible to discuss this papers title. All sources will be transparently referenced and shown at the end of this paper under the title "Literature" along with all visual content like images, graphs, charts etc. Data collection will primarily be used in such a way that all the data is first collected and then disassembled, analyzed and used to create this academic paper.

## 1.3 Content and structure of the paper

As it was already said, content of this paper will be based on real and credible information which will be structured in a way that it builds this paper from bottom up. Building the paper from bottom up means that this paper will first show all simple components that will be needed to understand the rest of the paper what will in the end lead to the full and meaningful conclusion of the whole story of European integration and southeastern enlargement.

Before this paper continues with the further headings it is important to set some goals that will be evaluated in the conclusion of this paper so to start with the first heading after the introduction and that is the heading that should cover types and effects of forming regional

economic integrations. The goal of this chapter will be to first explain what regional economic integrations are and what are their objectives, give some example and explain them briefly also it is important to show the stages of the economic integrations. The third chapter will talk more about foundation and creation of European union, so the goal of this chapter will be to deep dive into the history and the reasons why and how did EU actually came to life. Fourth chapter will have the main goal to explore in more detail expansion of the European Union and give some examples of countries that would be perfect candidates. In the end as it was already said conclusion will create a short summary of the goals that were set here in the introduction to give an overview of how was this subject processed and displayed in a form of paper.

# 2. Types and effects of forming regional economic integrations

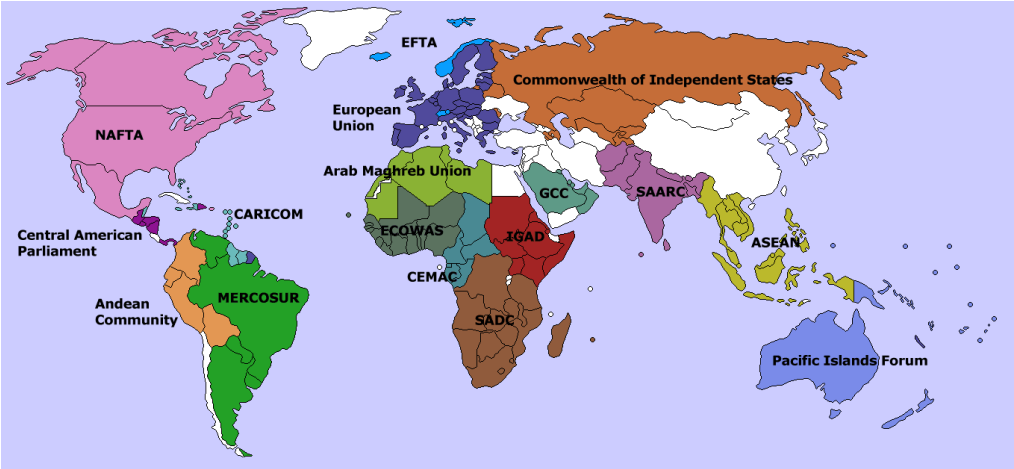
First part of the paper intends to introduce the reader to the purpose and direction of this paper so that being said what better part to start than showing the types and effects of formation of European economic integration. This chapter will be split into couple of subheadings that will have the goal of connecting all major points which will build towards creating a whole. Firstly, this paper will go through conceptual explanation of economic integrations where the paper will more deeply explore economic integrations and why do they actually exist. Objective of regional economic integration is the second subheading which will set the main objective and smaller objectives that are connected with economic integrations, after that this paper will present the stages of regional economic integration which means this subheading will have its own subheadings that will show what that is really about. In the end to better reflect on this heading this paper will present effects of regional economic integration and European union as one of the biggest if not the biggest example of regional economic integrations.

## 2.1 Conceptual explanation of economic integrations

Conceptual explanation gives a definition of the subject that is in question, this time that subject are economic integrations. So, it is possible to say that economic integration is an agreement among countries in a geographic region to reduce and ultimately remove, tariff and non-tariff barriers to the free flow of goods or services and factors of production among each other; any type of arrangement in which countries agree to coordinate their trade, fiscal, and/or monetary policies are referred to as economic integration. Obviously, there are many different stages of integration (Calculemus, 2019). For now, this paper will split those stages into two stages and those are: integration as an outcome which means that integration is described as something static which means that integration can be achieved when certain criteria are fulfilled.

The second stage is integration as a process which means that integration can be described as a dynamic process that is represented by stages of integration going from FTA to political integration. Economic integration can be defined as a process and as a state of affairs, it is regarded as a process because it encompasses measures designed to abolish discrimination between economic units belonging to different national states, viewed as a state of affairs, it can be represented by the national states, viewed as a state of affairs, it can be represented by the absence of various forms of discrimination between national economies (Balassa, 1962).

Image 1. World regional economic integrations




Source: Slide share, https://www.slideshare.net/viveksangwan007/international-marketing-environmenttrade-barriers-regional-blockscountry-risk-analysis, visited 16th May 2019.

Image 1 above shows world's most prominent economic integrations that are still in existence. It is also possible to see that currently Africa has the most economic integrations by any continent but that doesn't mean that Africa has the strongest integrations in the world. Integrations that are worth mentioning are NAFTA, European Union, Commonwealth of Independent states, ASEAN, EFTA etc. Some of those mentioned integrations are the oldest integrations in the world and are usually used as examples when talking about economic integrations. The same will be done here where this paper will just briefly describe NAFTA, EFTA, ASEAN and European union on which there will be more talk in the extension of this paper. So, let's start with EFTA, what is actually EFTA and how does EFTA classifies as an economic integration?

The European Free Trade Association (EFTA) is an intergovernmental organization, established in 1960 by the EFTA Convention for the promotion of free trade and economic

integration between its Member States (today Iceland, Liechtenstein, Norway and Switzerland), within Europe and globally. EFTA does not envisage political integration.

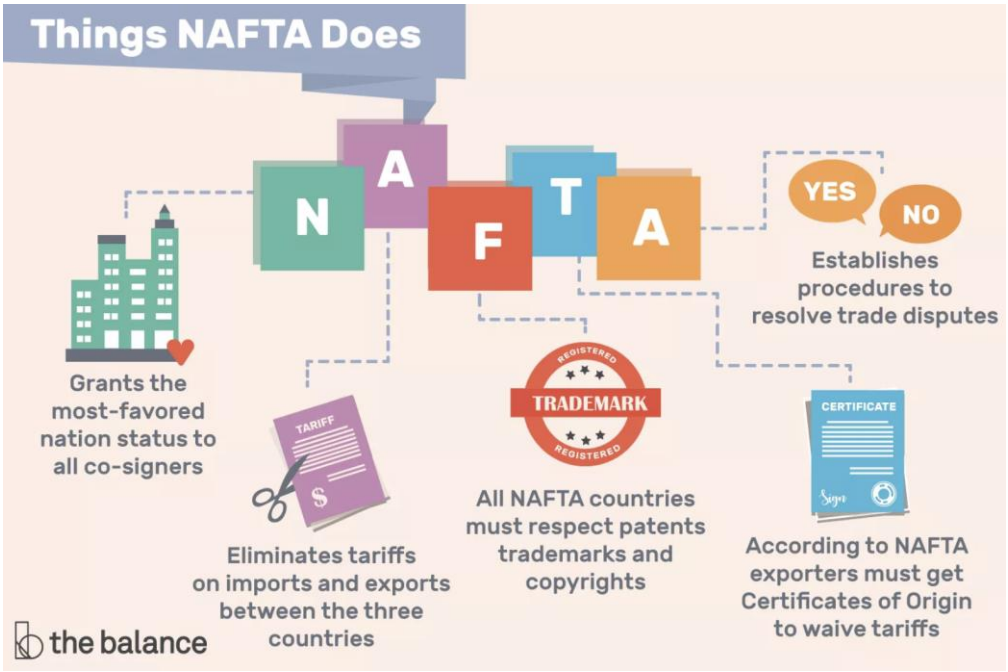
It does not issue legislation, nor does it establish a customs union. EFTA's first objective was to liberalize trade between its Member States. In 1972, each EFTA State negotiated bilateral free trade agreements (FTAs) with the EEC. Currently, the EFTA States have 29 FTAs in force or awaiting ratification covering 40 partner countries worldwide (outside Europe) (Omarsson, 2019). As it is possible to see EFTA is an economic integration that contains some of the richest countries in the world like Liechtenstein, Switzerland, Norway and Iceland. Except creating wealth EFTA allows member countries to assist country in EFTA if the help is needed when.

On the other side NAFTA (North American Free Trade Agreement) is a treaty between Canada, Mexico and the United States. That makes NAFTA the world's largest free trade agreement. The gross domestic product of its three members is more than $20 trillion. NAFTA is the first time two developed nations signed a trade agreement with an emerging market country. The three signatories agreed to remove trade barriers between them. By eliminating tariffs, NAFTA increases investment opportunities. The NAFTA agreement is 2,000 pages, with eight sections and 22 chapters. On September 30, 2018, the United States, Mexico, and Canada renegotiated the North American Free Trade Agreement. The new deal is called the United States-Mexico-Canada Agreement. It must be ratified by each country's legislature. As a result, it wouldn't go into effect before 2020 (Amadeo, 2018). NAFTA is usually used as one of the most important examples because it is such a significant organization in the world and because there is so much information on NAFTA.

ASEAN is the association of Southeast Asian Nations that is established as an intergovernmental organization aimed primary at prominent economic growth and regional stability among its members. ASEAN was founded half a century ago in 1967 by the five Southeast Asian nations of Indonesia, Malaysia, Philippines, Singapore and Thailand. This was during the polarized atmosphere of the Cold War, and the alliance aimed to promote stability in the region. Over time, the group expanded to include its current 10 members. Regional cooperation was further extended with the creation of the ASEAN Plus Three forum in 1997, which included China, South Korea and Japan. And then the East Asia Summit, which began taking place in 2005 and has expanded to include India, Australia, New Zealand, Russia and the

United States (Wood, 2017). On the second image in this paper it is possible to see everything NAFTA does like granting the most favored nation status to al signatures

Image 2. Things NAFTA does

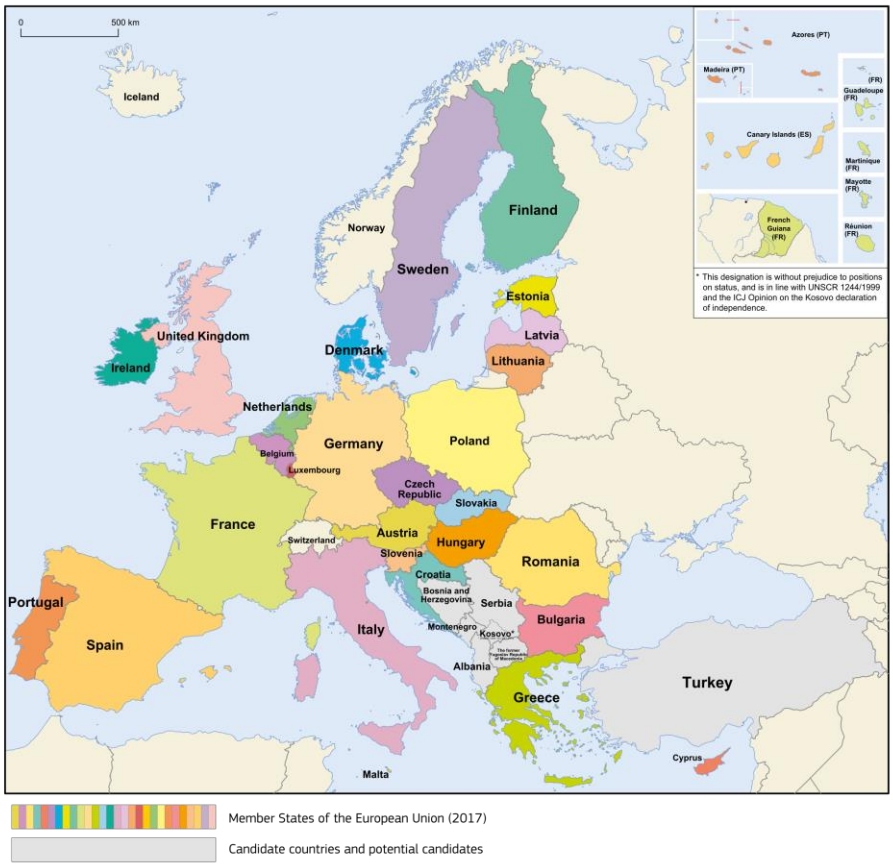



Source: The Balance, https://www.thebalance.com/nafta-definition-north-american-free-trade-agreement-3306147, visited 16th May, 2019.

Last integration that will be mentioned in this subheading is European Union which got the least attention in this part since there will be a lot of attention on it in the rest of this paper. The European Union is a unique economic and political union between 28 EU countries that together cover much of the continent.

The predecessor of the EU was created in the aftermath of the Second World War. The first steps were to foster economic cooperation: the idea being that countries that trade with one another become economically interdependent and so more likely to avoid conflict. The result was the European Economic Community (EEC), created in 1958, and initially increasing economic cooperation between six countries: Belgium, Germany, France, Italy, Luxembourg and the Netherlands. Since then, 22 other members joined and a huge single market (also known as the 'internal' market) has been created and continues to develop towards its full potential.

Image 3. Member states of European Union




Source: Europa, https://europa.eu/european-union/about-eu/eu-in-brief_en, visited 17th May, 2019.

As it was already explained in the previous text European union members are shown in the above image. Members that are shown are members that were in EU in 2017. So, that doesn't mean that today all the members are still there or still will be there (example United Kingdom) also some new members can be included in the following years because other countries are always trying to get included since EU has a lot of benefits that could improve their level of living.

## 2.2 Motives for regional economic integrating

There is a lot of objectives when it comes to the objective of regional economic integrations but always one main objective and that is improving economic situation in the region where member countries exist. The best example for this is NAFTA that is one of the most important regional economic integrations created in the perfect place (North America) where countries like United States, Mexico and Canada can thrive together and create a lot of positive things for all countries in the world.

At the most basic level, economic integration is an agreement between countries, which aims to reduce costs for both producers and consumers. Its end goal is to remove barriers to the free flow of goods and services so that member countries can share a common market and harmonize their fiscal policies. For example, the EU aims to establish an economic and monetary union that uses the euro as its primary currency. It also strives to enhance solidarity among member countries, promote technological progress and achieve balanced economic growth. According to its economic integration policy, freedom, security and justice should have no internal borders (Picincu, 2018).

Objectives of regional economic integrations will best be shown in the next chapter that will in more detail explore stages of regional economic integration where the paper will outline almost every angle that lies in regional economic integrations and why do they actually exist today. Some of the objectives can be for example establishment of the free trade area which means that there is a lower tax, free movement in the area that includes integration etc. One of the objectives could also be development of a common market which would mean more trade, less monopoly in the market and more customers for almost every area of industry.

Economic union could also be one of the drivers of regional economic integrations because economic union means uniform monetary taxation and governmental policies. This is especially important to the countries that are on the weaker side of integration like for example Mexico in NAFTA because Canada and especially United States are such big forces not just in integration but in the whole world.

A mutual reduction of tariffs or other trade barriers with economic rents which accrue domestically leads to the well-known trade-creating and trade-diverting effects. This distinction, which was introduced by Viner, 3 is based on the fact that tariff reductions in the partner countries (let us say A and B) lead to lower prices for imports from the partner country and thus to an increase in the consumption of these goods and a fall in domestic production. Trade expands. On the other hand, it is possible that, due to the tariff discrimination against imports from the rest of the world (C), lower-cost goods from C are replaced by goods imported from the respective partner country. Although the goods from the respective partner country are produced at higher cost, customs exemption makes them cheaper for domestic consumers than the goods from country C (Moser, 1997).

Now as far as European Union goes all law is currently treaty based, and the three primary procedures for enacting new European Union laws are called co-decision, consultation, and assent. Of these three procedures, the co-decision procedure is the most common procedure for passing European Union legislation, and it places the European parliament and the Council on an equal footing so that the laws they pass are in fact joint acts of the Council and Parliament. Under the consultation procedure Parliament merely gives its opinion. The European Commission chooses which procedure to follow when it proposes a new law, and this choice is dependent on which treaty-article the proposal is based.

## 2.3 Stages of regional economic integrations

Regional integrations are one of rising trends in the World and almost all countries in that same World are part of some regional integration and some of them are members of more than one. Generally, it is considered that countries in development tend to lean more towards regional integrations because they need open “road” to various different outside markets. Goals and motives of creating regional integrations can vary but all of them have same thing in common and that is reducing the barriers in trade between members of regional integration and creating discrimination of trade with other countries that are not members of the regional integration (Grgić and Bilas, 2008). So it is possible to see that regional integrations basically all have the same goal which means that it is not hard to understand why a lot of countries are trying to integrate themselves also.

Image 4. Expanded graphic of stages of integration




Source: Economicsonline, https://www.economicsonline.co.uk/Global_economics/Economic_integration.html, visited 19th May 2019.

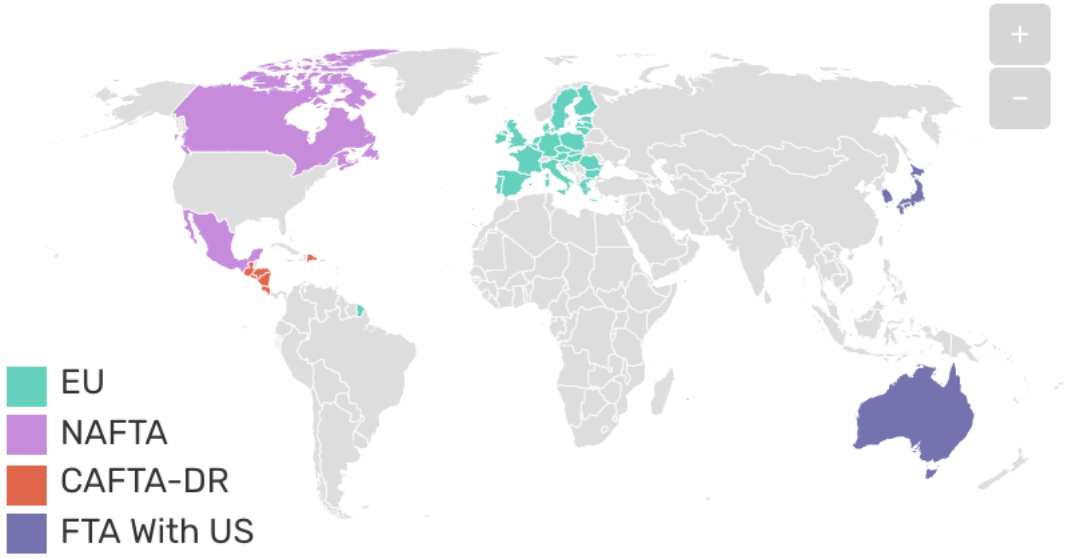
When it comes to stages of regional economic integration it is important to understand what stages actually mean. There are several stages in the process of economic integration, from a very loose association of countries in a preferential trade area, to complete economic integration, where the economies of member countries are completely integrated. A regional trading bloc is a group of countries within a geographical region that protect themselves from imports from non-members in other geographical regions, and who look to trade more with each other. Regional trading blocs increasingly shape the pattern of world trade - a phenomenon often referred to as regionalism (Economics online, 2019).

### 2.3.1 Free trade area

What is actually a free trade area? Well, free trade area or short FTA usually refers to a specific region where in a group of countries within that region sign an agreement that seals the cooperation among them. The FTA's main aims are to bring down barriers in trading, specifically tariffs and import quotas and encourage the free trade of goods and services among its member countries. All trade agreements affect international trade. When free trade areas are mentioned two things will be mentioned the most and those are imports and exports.

Import inside free trade area are goods and services produced in a foreign country and bought by domestic residents. That includes anything shipped into the country even if its by the foreign subsidiary of a domestic firm. On the other side exports are goods and services that are made in a country and sold outside its borders. That includes anything shipped from a domestic company to its foreign affiliate or branch (Amadeo, 2019).

Image 5. Largest free trade agreements in the world




Source: Census, https://www.census.gov/foreign-trade/Press-Release/current_press_release/ft900.pdf, visited, visited June 2nd 2019.

On the map above it is possible to see four of the biggest free trade agreements in the world that are European Union, North American Free Trade Agreement, Central American Free Trade Agreement – Dominican Republic, Free Trade Agreement with US. As far as types of free trade agreement go it is possible to designate three types and those are unilateral trade agreement, bilateral trade agreements and multilateral trade agreements. Unilateral trade agreement occurs when a country imposes trade restrictions and no other country reciprocates, best example of country that does this is United states that do it as a type of foreign aid. Bilateral trade agreements are trade agreements between two countries. Both countries agree to loosen trade restrictions to expand business opportunities between them (Amadeo, 2019). United States for example has fourteen bilateral agreements and in last administration that was led by president Obama they negotiated the world's largest bilateral agreement which is Translantic Trade and Investment

Partnership with European Union. Last but not least are multilateral trade agreements that are toughest to negotiate, these are among three countries or more, the greater the number of participants the more difficult the negotiations are. The largest multilateral agreement is the North American Free Trade Agreement that was negotiated between United States, Canada and Mexico. Their combined economic output is 20 trillion dollars. But this wasn't always the biggest multilateral free trade agreement because Trump in 2017 withdrew the United States from Trans-Pacific Partnership that was the biggest free trade agreement ever negotiated. Advantages of free trade are can be explained through increased efficiency, specialization of countries, no monopoly, lowered prices and increased variety. On the other side disadvantages of free trade agreement can be shown in threats to intellectual property, unhealthy working conditions and less tax revenue. So it is possible to see why free trade agreements are so popular because there is so much more upside than downside.

### 2.3.2 Customs union

To continue the analysis of the economic integration it will now be explained what are customs unions. Usually customs union involves the removal of tariff barriers between members, together with the acceptance of a common (unified) external tariff against non-members. That is also the main unique thing about customs unions, they are agreements that will create a opportunity rich area that will only be available inside that agreement area, but for all other external countries that would like to do business with that area they impose special tariff. Countries that export to the customs union only need to make a single payment, once the goods have passed through the border. When the goods are inside the union area they can move freely without additional tariffs which is a great benefit considering that those tariffs impose a big issue when there is no customs union created. Tariff revenue is then shared between members, with the country that collects the duty retaining a small share.

Usually when customs union is mentioned then single market also comes in "play" and it is important to know how to differentiate between those two terms.

The single market and the customs union are two distinct but overlapping concepts. The customs union is largely concerned with tariffs (customs duties) whereas the single market is much broader. One element of the customs union is a precondition for the creation of the single market. For example, single market goes well beyond the removal of tariffs on goods traded within the EU, and relates to all the 'four freedoms' - for goods, persons, services and capital. Free movement of goods requires the elimination of both tariff and 'non- tariff ' barriers.

Customs union have as expected its advantages and disadvantages, advantages of customs union it that inside customs union without a unified external tariff, trade flows would become distorted. For example, if Germany imposes a 10% tariff on Japanese cars, while France imposes a 2% tariff, Japan would export its cars to French car dealers, and then sell them on to Germany, thereby avoiding 80% of the tariff. This is avoided if a common tariff is shared between Germany and France (and other members of the customs union).

A common external tariff effectively removes the possibility of arbitrage and, some would argue, is one of the fundamental building blocks of economic integration. As far as disadvantages go it is possible to say that members of customs union must negotiate collectively with non-members or organisations like the WTO as a single group of countries. While this is essential to maintain the customs union, it means that members are not free to negotiate individual trade deals.

For example, if a member wishes to protect a declining or infant industry it cannot do so through imposing its own tariffs. Equally, if it wishes to open up to complete free trade, it cannot do so if a common tariff exists. Some examples of customs union are: common market, full economic union, monetary union, fiscal union, economic and monetary union, complete economic integration.

### 2.3.3 Single market

Single market as expected has its own effects that will be in more detail explained through this chapter but let’s just touch the surface and explain the most obvious ones. First of all effects of single market arise when tariffs start going down and that causes exchange of more expensive local production with production in countries that are allies in regional integration (Grgić and Bilas, 2008). One of the best examples in the world is NAFTA where USA benefited the most with cheap production in Mexico that is one of the country partners in NAFTA agreement.

Now, first of all single market is a big step up to economic integration because as this paper has shown single market has a lot of in common with customs union but the big difference is that single market removes all barriers to the mobility of people, capital and other resources within the area in question as well as eliminating non-tariff barriers to trade such as regulatory treatment of product standards. It is also possible to say that single market is the most significant step towards full economic integration. Main feature of single market is its extension of free trade just tangible goods, to include all economic resources. This means that all barriers are eliminated to allow the free movement of goods, services, capital and labor. In addition, as well as removing tariffs, non-tariff barriers are also reduced and eliminated.

Also it is important to mention that for a single market to be successful there must also be a significant level of harmonization of micro-economic policies, and common rules regarding product standards, monopoly power and other anti-competitive practices. Some of the best example of a single market is European single market that is also called internal market and it is mostly known and significant of the world's existing single markets.

Except European single market there is a CARICOM single market which included twelve Caribbean nations, ASEAN Economic Community is also one single market that consists of ten members (Indonesia, Thailand, the Philippines, Malaysia, Singapore and Vietnam - along with Brunei, Laos, Myanmar, and Cambodia). So as all stages of regional economic integration single market also has its advantages and disadvantages, so here are some of them: advantages of single market – trade creation, exploitation of economies of scale by local firms as their market expand, lower production costs as a result of scale economies, lower prices as a result of scale economies, common production standards, which reduces information failure allowing consumers to make more rational choices., technology transfer as a result of increased investment flows between members, transfer of skills across the single market, increased labor mobility enabling wage costs to converge, and unemployment to be spread more evenly between members, increased capital mobility which increases its relative supply in each country, and enables businesses to grow and innovate, increased remittance flows between workers resident in one country and families remaining in another country, co-operation on common projects of mutual benefit, such as green energy research, enables jointly produced goods which members might not be able to fund on their own, such as Europe's Airbus consortium.

On the other had single market has its disadvantages and some of them are: trade diversion may result from single market membership, as more efficient non-members are crowded out of local markets, lower wages as migrant labor may drive down local wages, rising negative externalities associated with the free movement of people, including pressure on infrastructure and the insufficient supply of merit goods such as healthcare and education, trade rules may favor some members over others, and some industries and sectors over others, excessive bureaucracy may inhibit the ability of members to innovate, members may become inward looking and their industries fail to respond to changes in the global economy, lost opportunities to exploit closer relationships with non-members through free trade deals between individual members and non-members (which, at least in the European single market, are not allowed).

So it is possible to understand that single market is of course not ideal solution and as is it has its advantages and disadvantages just like any other solution. The thing that mostly connects all single markets is the desire to create a market in which members can trade freely with each other by having tariff-free and open access to each other's national markets.

### 2.3.4 Economic and monetary union

Since this is a two-part title this paper will treat the content under this title the same so firstly the paper will discuss economic union and then monetary union. So, economic union is considered one of the different types of trade blocs. It refers to an agreement between or among countries that allows products, services and workers to cross borders freely. Main goal of economic union is to eliminate internal barriers and adopt external barriers towards the free movement of resources. It is possible to say that economic union is in some way similar to customs union but in the same time they have their differences which will be shown in the further text. Now, as far as economic union goes it is possible to say that economic union requires the integration of monetary and fiscal policies so that member countries coordinate policies, taxation and government spending related to the agreement. They also use a common currency that comes with fixed exchange rates. Some of the best examples of economic union are:

- European Union (EU)
- CARICOM Single Market and Economy (CSME)
- Central American Common Market
- Eurasian Economic Union (EEU)

- Gulf Cooperation Council (GCC)

Some of these unions were  all mentioned in the paper before this part and that is because it is possible that they have some parts of economic integration that they cover. In the end of economic union discussion, it is possible to understand that economic union is different from a customs union since, in the latter, member countries are allowed to move goods across borders, but they do not share a currency. They are also not allowed to move workers across borders freely. An economic union is the last step in the process of economic integration, after free trade area, customs union, and common market.

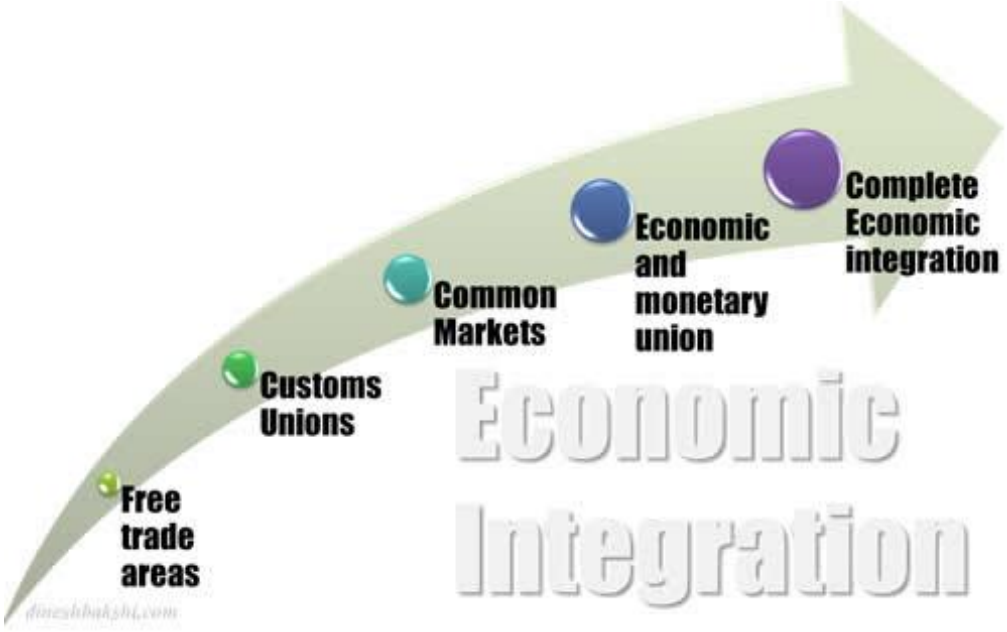
Now this paper will make a move on to the monetary union which can be described as a first major step towards macroeconomic integration that enables economies to converge even more closely. Monetary union involves scrapping individual currencies, and adopting a single, shared currency, such as the Euro for the Euro-17 countries, and the East Caribbean Dollar for 11 islands in the East Caribbean.

This means that there is a common exchange rate, a common monetary policy, including interest rates and the regulation of the quantity of money, and a single central bank, such as the European Central Bank or the East Caribbean Central Bank. Usually, a monetary union involves the introduction of common banknotes and coins. This function, however, might be split among the participating states. Either they may be granted the right to issue coins or banknotes on behalf of the common central banking system or the respective national currencies become denominations of an invisible common currency.

### 2.3.5 Complete integration

Final stage of regional economic integration is complete economic integration. After complete economic integration the integrated units have no or negligible control of economic policy, including full monetary union and complete or near complete fiscal policy harmonization.

Image 6. Economic integration visual




Source: Dineshhttps://www.dineshbakshi.com/images/stories/economics_diagrams/economic-integration-continum.jpg, visited June 2nd 2019.

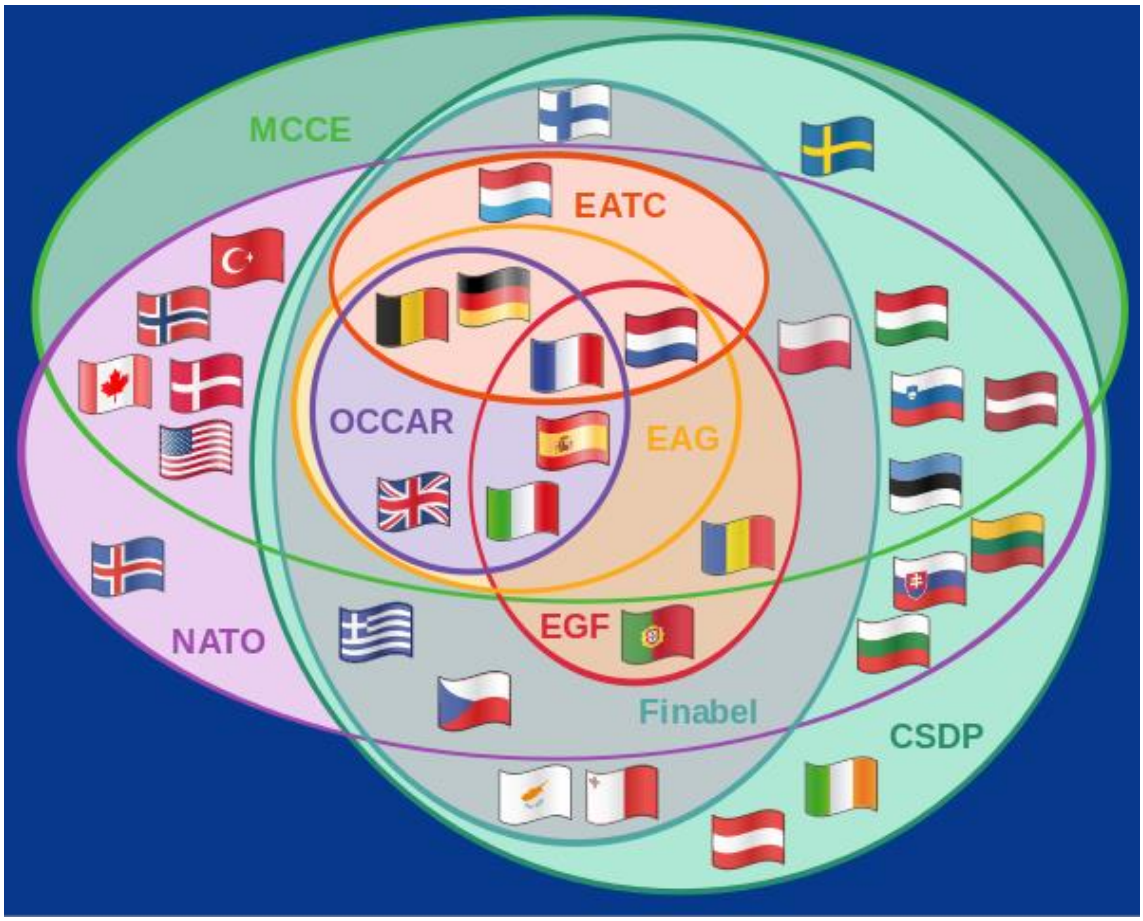
A good example of this is United States of America which can be viewed as a series of highly integrated quasi-autonomous nation states. In this example it is true that complete economic integration results in a federal list system of governance as it requires political union to function as in effect a single economy. So it is possible to say that complete economic integration involves a single economic market, a common trade policy, a single currency, a common monetary policy, together with a single fiscal policy, including common tax and benefit rates – in short, complete harmonization of all policies, rates, and economic trade rules.

## 2.4 European Union as a regional economic integration

European Union was already mentioned in the past text of this paper and it is an important subject when it comes to regional economic integrations because European Union is one of the biggest economic integrations in the world. Definition of European Union goes: EU is a group of

28 countries that operate as a cohesive economic and political block. Nineteen of the countries use the euro as their official currency. EU grew out of a desire to form a single European political entity to end the centuries of warfare among European countries that culminated with World War II and decimated much of the continent. The European Single Market was established by 12 countries in 1993 to ensure the so-called four freedoms: the movement of goods, services, people, and money. As per Europa page it is possible to understand that regional integration is the process of overcoming barriers that divide neighbor countries, by common accord, and of jointly managing shared resources and assets. Essentially, it is a process by which groups of countries liberalize trade, creating a common market for goods, people, capital and services. The European Union advocates regional integration as an effective means of achieving prosperity, peace and security.

Image 7. European integration




Source: Democratic union, http://www.democraticunion.eu/2014/09/europe-caught-napping-defence/ visited June 2nd 2019.

Successful creation of the euro area and further economic integration within Europe has gone hand in hand with integration of Europe within the global economy. As far se monetary policy goes, Europe can count on the European Central Bank and the Euro system to be faithful to their primary objective and solidly anchor inflation expectations in the euro area.

# 3. Foundation for creation of the European Union

In this chapter paper will discuss in more debt about why was EU created, how it was integrated, exactly what were the key reasons creation and what were the key leaders in execution of the integration and later guidance. Also this chapter will put perspective of Croatia as the EU member and explain Croatia's application and acceptance process, entrance and the present state that Croatia has inside EU.

## 3.1 Europe's history and foundation for creating European Union

Now before this paper show the idea behind creation and integration of EU it will first show some of the characteristics that Europe as such has. Book "Regional economic integrations in world" (Grgić, Bilas, Franc, 2012) says that Europe is a continent with long economic and cultural history and countries like France, Belgium, Netherlands and Great Britain are historically known as big and powerful colonial forces with colonies all across Africa, Asia and America. Europe is also by number of people third biggest continent in the world just under Asia and Africa. Number of people that live in Europe is around 740 million which is a tenth of whole world's population. With just this information in mind it is possible to see that Europe has huge economical, historical and continental position in the whole world and whatever integration happens here it will be of the most importance for all countries even if they aren't close to Europe or inside Europe.

Big political and economic turnaround for countries from European continent was a WW1 whose ending brought status of independence to a lot of those countries, also republics, monarchies etc. After the end of the WW2 Europe was split into two big political and economic blocks: communist countries of Eastern Europe and capitalist countries of Western Europe. This split ended in 1990. when communist regime fell down and ended one sides union of countries (Grgić, Bilas, Franc, 2012).

Europe is a continent that experienced a lot of regimes from communism, capitalism, all different kinds of utopian ideas that rulers before had. All of those regimes allowed Europe to become more experienced and become stronger and stronger through the years. Europe is probably the best example of the continent that flourished with success (European Union, EFTA, CEFTA) after all failed attempts to unite all those European countries under one flag.

This can probably be attributed to the way that European people think and act especially some strong countries that don't like to be under anyone's governance. Let's now begin the subject of EU with the goal of showing the idea behind EU and how did EU actually integrate in the state that it is today.

Just before European Union was created "Europe.eu" page separated the history into few years' spreads: Euro from 1945. till 1959. these fourteen years are called peaceful Europe and are marked as the beginnings of cooperation. European Union is set up with the aim of ending the frequent and bloody wars between neighbors, which culminated in the Second WW. As of 1950, the European Coal and Steel Community begins to unite European countries economically and politically in order to secure lasting peace. The six founding countries are Belgium, France, Germany, Italy, Luxembourg and the Netherlands. The 1950s are dominated by a cold war between east and west. Protests in Hungary against the Communist regime are put down by Soviet tanks in 1956. In 1957, the Treaty of Rome creates the European Economic Community (EEC), or 'Common Market' (Europe, 2019).

Next historical chapter that had a huge impact of later formation of EU is the chapter of economic growth that was spread between 1960. and 1969. As it was already mentioned that period was a good period for the economy, which was helped by the fact that EU countries stop charging custom duties when they trade with each other. They also agree joint control over food production, so that everybody now has enough to eat - and soon there is even surplus agricultural produce. May 1968 becomes famous for student riots in Paris, and many changes in society and behavior become associated with the so-called '68 generation' (Europe, 2019).

Period of economic growth allowed the community to become stronger which ultimately brought the growing community period that was also marked with the first enlargement. Denmark, Ireland and the United Kingdom join the European Union on 1 January 1973, raising the number of Member States to nine. The short, yet brutal, Arab-Israeli war of October 1973 results in an energy crisis and economic problems in Europe. The last right-wing dictatorships in Europe come to an end with the overthrow of the Salazar regime in Portugal in 1974 and the death of General Franco of Spain in 1975. The EU regional policy starts to transfer huge sums of money to create jobs and infrastructure in poorer areas. The European Parliament increases its influence in EU affairs and in 1979 all citizens can, for the first time, elect their members

directly. The fight against pollution intensifies in the 1970s. The EU adopts laws to protect the environment, introducing the notion of 'the polluter pays' for the first time (Europe, 2019).

Now the next nine years (1980 – 1989) were the years of Europe changing and were also marked with one big event that was the fall of the Berlin Wall. The Polish trade union, Solidarność, and its leader Lech Walesa, become household names across Europe and the world following the Gdansk shipyard strikes in the summer of 1980. In 1981, Greece becomes the 10th member of the EU, and Spain and Portugal follow five years later. In 1986 the Single European Act is signed. This is a treaty which provides the basis for a vast six-year program aimed at sorting out the problems with the free flow of trade across EU borders and thus creates the 'Single Market'. There is major political upheaval when, on 9 November 1989, the Berlin Wall is pulled down and the border between East and West Germany is opened for the first time in 28 years. This leads to the reunification of Germany, when both East and West Germany are united in October 1990 (Europe, 2019). This chapter won't go further with the history because one of the goals of the paper is to explain the modern history of Europe and to show how does it exist and function in today's world.

## 3.2 Reasons for creating the European Union

Now after short history lection let's move in explaining the reasons of creation of European union and what countries and people played a key role in that creation. Also this chapter will show the present state of the EU and try to "paint a picture" of what the future could hold for the EU and its members.

### 3.2.1 EU's goals and values

So, this paper already shown the brief history of the Europe which gives some kind of a perspective for the next thing it will talk about and that are the reasons for creation of the EU. When the reasons for creation of the EU are mentioned it is possible to get to them from two sides: one side is to go again through the history of Europe and get to the point where the need for EU began and pull the reasons for creation from there. Other side is to look at the current goals and values of EU and try to distinct for what does EU actually stands for and why it was

created in the first place. Since in the last chapter this paper already shown the history part we will go with the second option and show goals and values of EU.

Now, let's start with the goals of the EU: promotion of peace, its values and the wellbeing of its citizens, offering freedom, security and justice without internal borders, sustainable development based on balanced economic growth and price stability, a highly competitive market economy with full employment and social progress, and environmental protection, combat social exclusion and discrimination, promote scientific and technological progress, enhance economic, social and territorial cohesion and solidarity among EU countries, respect its rich cultural and linguistic diversity, establish an economic and monetary union whose currency is the euro (Europe, 2019). From these goals it is possible to see that EU was created to cherish the peace and improve all fields that will help further progress of all country members of EU.

Image 8. Peace and war years in Europe




Source: Europa, https://europa.eu/european-union/about-eu/eu-in-brief_en, visited June 14th, 2019.

As far as values go EU values are common to the EU countries in the society in which inclusion, tolerance, justice, solidarity and non-discrimination prevail. Basic values of EU are: human dignity, freedom, democracy, equality, rule of law and human rights.

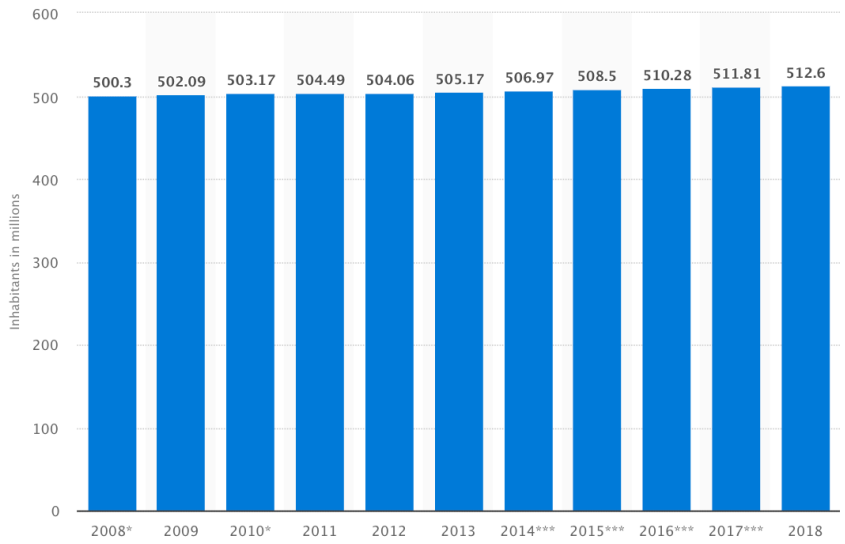
### 3.2.2 Key leaders in execution of the integration and later guidance

Around year 1950. George Marshall proposed a plan that had the intent of helping European countries in after part of WW2 which was later called "Marshalls plan". The product of the "Marshalls plan" was creation of OEEC (Organization for European Economic Cooperation) which was created for the purpose of better coordination and commercial connection of Western Europe. Just after creation of OEEC EPU (European Payment Union) was created, so basically it is possible to say that after creation of OEEC there was a chain of creation of various different organizations inside European continent. So, creation of the European Union is considered the creation of the European Coal and Steel Community that was started to prompt deeper economic and political cooperation and lastly the prevention of peace, and this all happened in 1957. First country member were France, Italy, Belgium, Netherlands and Luxemburg (Grgić, Bilas, Franc, 2012).

## 3.3 European Union macroeconomic situation

This subchapter will show some of the most basic information about EU through the numbers that will be coincide with GBP, budget, population, debt etc. Let's first show total population of EU from 2008 up until 2018.

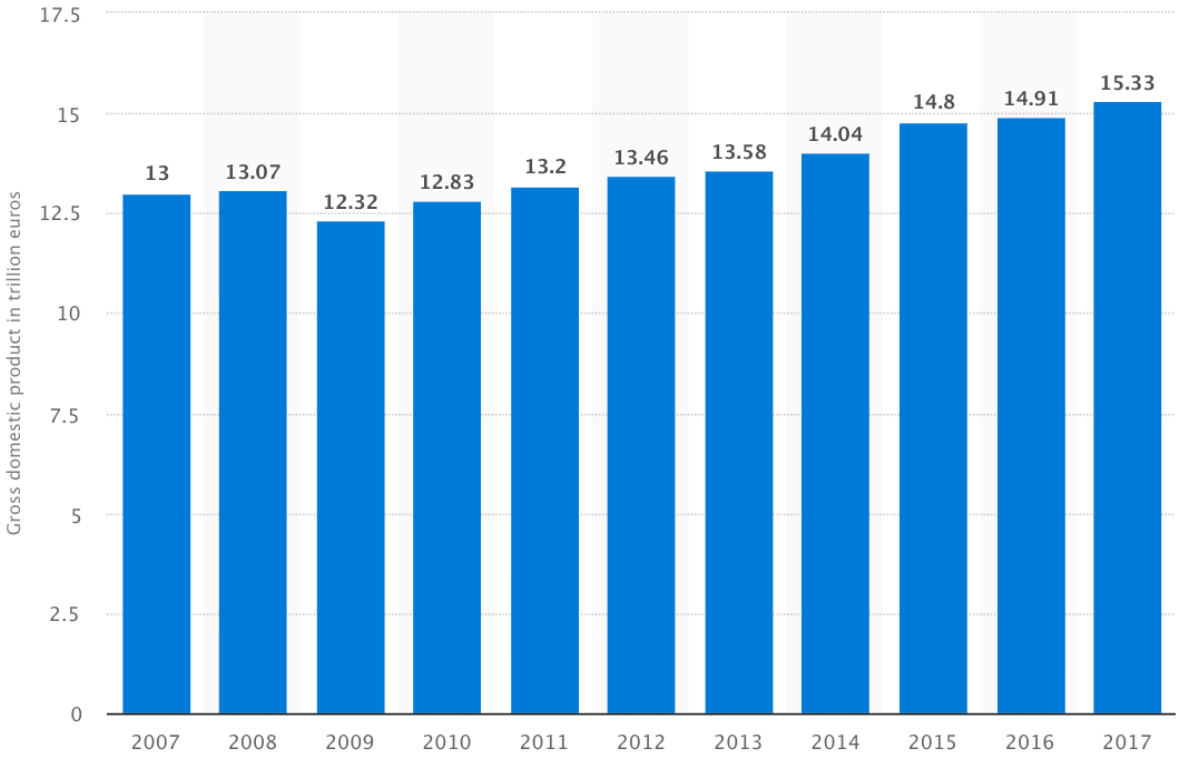
Graph 1. EU: total population from 2008 to 2018 (in millions)




Source: Statista, https://www.statista.com/statistics/253372/total-population-of-the-european-union-eu/, visited June 15th, 2019.

The population is based on data from the most recent census adjusted by the components of population change produced since the last census, or based on population registers. At the beginning of 2013, the total population of the European Union amounted to approximately 505.17 million inhabitants. The global population is rapidly increasing. Between 1990 and 2015, the global population has increased by around 2 billion people, and it is estimated to have increased by another 1 billion people by 2030.

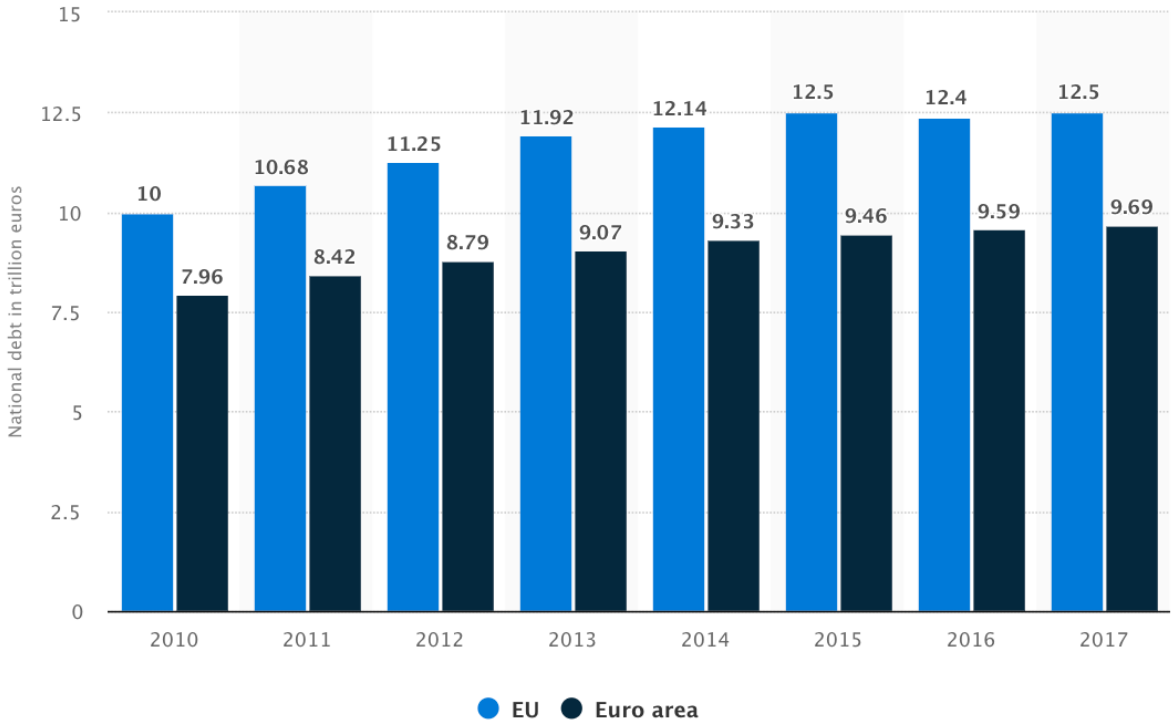
Graph 2. EU: Gross domestic product (GDP) current prices from 2007 to 2017 (in trillion euros)




Source: Statista, https://www.statista.com/statistics/279447/gross-domestic-product-gdp-in-the-european-union-eu/, visited June 16th, 2019.

The statistic shows the gross domestic product (GDP) in the European Union from 2007 to 2017. GDP is the total value of all goods and services produced in a country within a year. It is an important indicator of the economic strength of a country. In 2017, the GDP in the EU amounted to around 15.33 trillion euros.

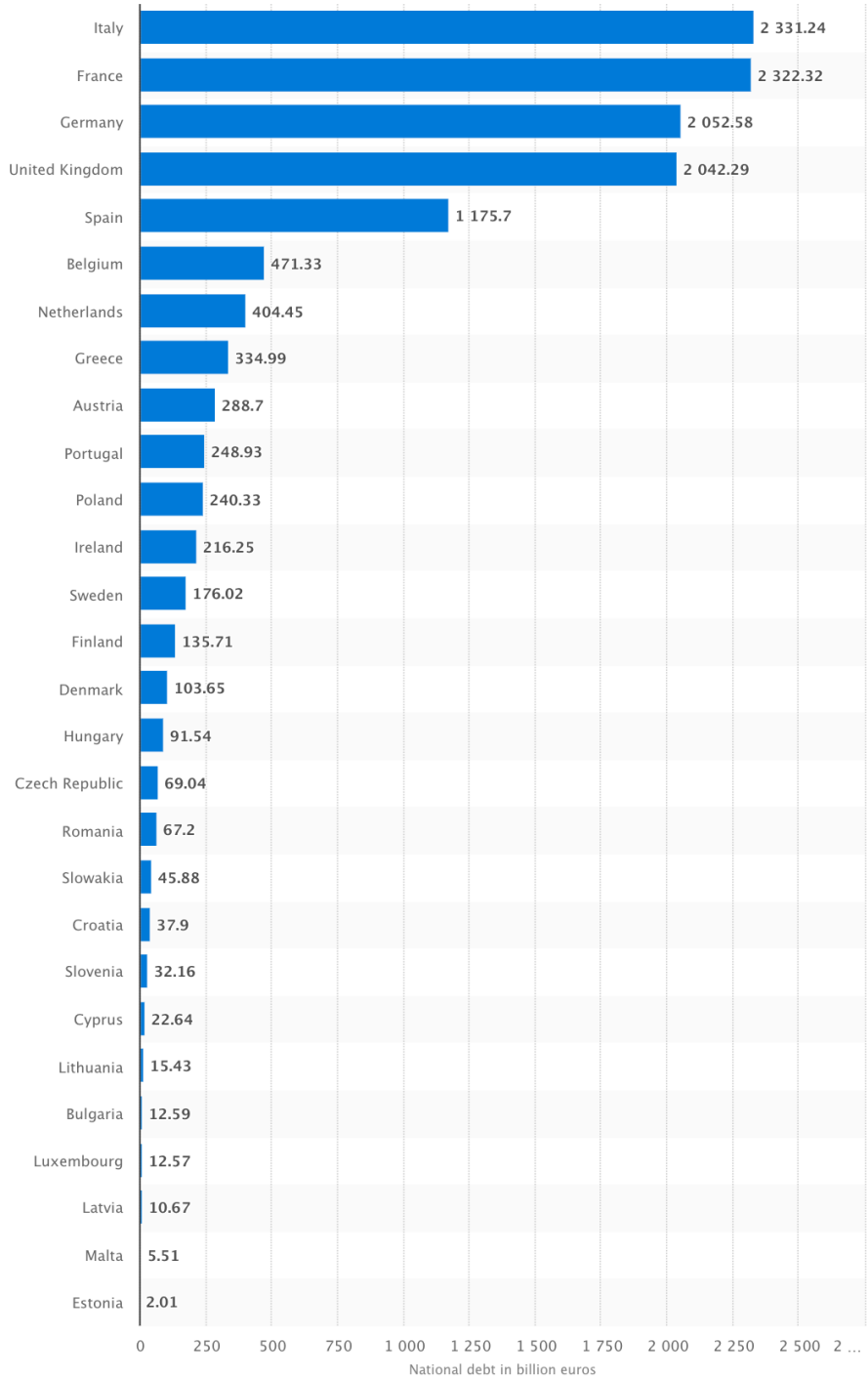
Graph 3. EU and euro area: general gross debt from 2010 to 2017 (in trillion euros)




Source: Statista, https://www.statista.com/statistics/253604/general-gross-debt-of-the-european-union-and-the-euro-area/, visited June 16th, 2019.

This statistic shows the general gross debt of the European Union and the euro area in trillion euros from 2010 to 2017. In 2017, the debt of the European Union amounted to approximately 12.5 trillion euros.

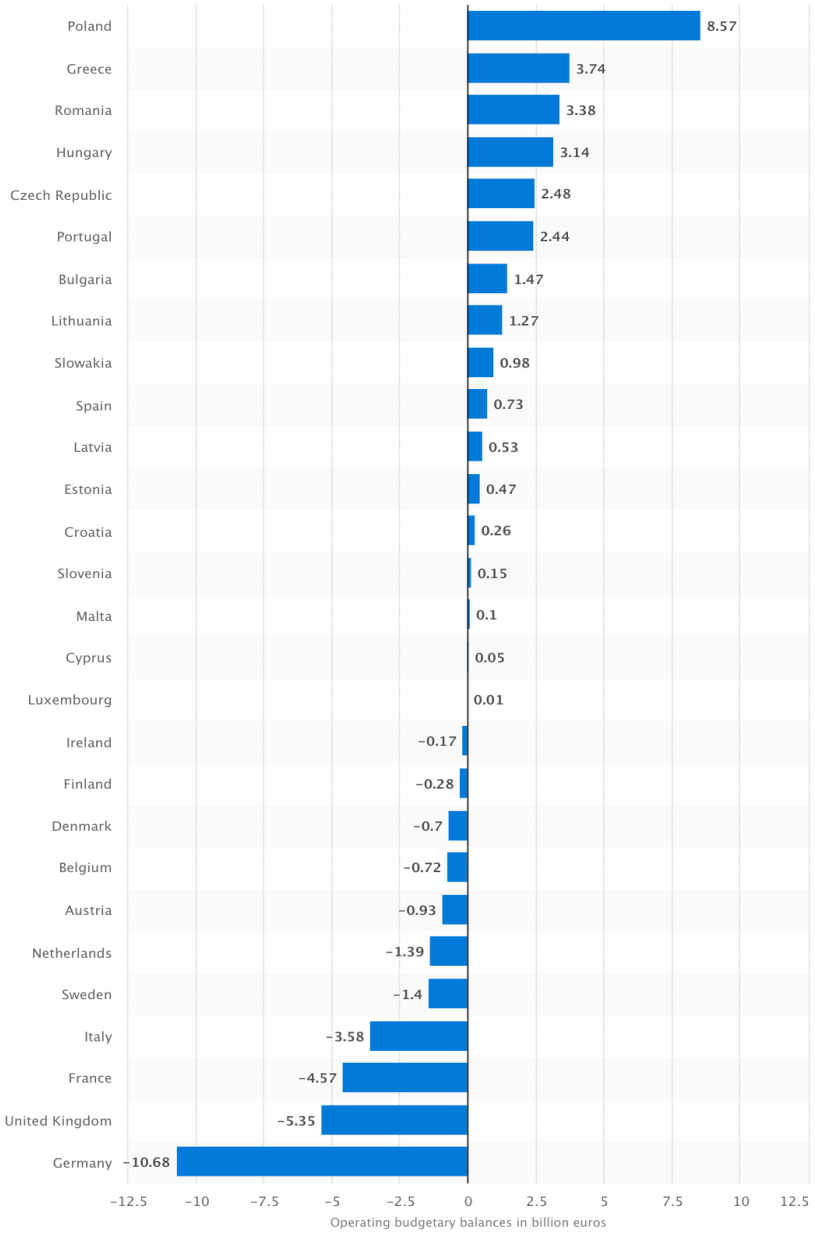
Graph 4. National debt in the member states of the EU in the 3rd quarter 2018 (in billion euros)




Source: Statista, https://www.statista.com/statistics/274179/national-debt-in-eu-countries/, visited June 16th, 2019.

This statistic shows the national debt in the member states of the European Union in the third quarter of 2018. The data refer to the entire state and are comprised of the debts of central government, provinces, municipalities, local authorities and social security. In the third quarter of 2018, Greece's national debt amounted to about 334.99 billion euros.

Graph 5. EU: operating budgetary balances in 2017, by member states (in billion euros)




Source: Statista, https://www.statista.com/statistics/253712/eu-budget-expenditures-by-member-state/, visited June 16th, 2019.

This statistic shows the operating budgetary balances of the EU member states in 2017. A negative budgetary balance means that a country contributes more to the EU budget than it receives from it, a positive balance means the country contributes less than it receives. In 2017, Germany contributed the most with approximately 10.68 billion euros.

## 3.4 Croatia as the EU member

### 3.4.1 Application process

Croatia is one of the countries that applied right at the start of 2003 and it took almost one year when somewhere at the start of 2004 European Commission recommended making it official candidate. Officially candidate country status was granted to Croatia by European Council in middle of 2004 and once again it took more than one year to start the entry negotiations, to be exact entry negotiations started in October of 2005 (Europa, 2019).

The basis of negotiations were Croatia and the EU's negotiating positions, individually elaborated for each chapter based on the results of analytical overviews. Croatia closed the negotiations on 30 June 2011. Their results now make an integral part of the Treaty of Accession, signed by Croatia on 9 December 2011 in Brussels. The provisions of the Treaty stipulate that it will enter into force on 1 July 2013 subject to it being ratified by Croatia and all the EU Member States in conformity with their constitutional provisions. On 23 December 2011, the Croatian Parliament adopted the decision on calling a state referendum on the accession of the Republic of Croatia to the European Union. It was decided that the referendum would be held on 22 January 2012.

### 3.4.2 Acceptance process and entrance

Before that, on 19 January 2012, the Croatian Parliament adopted the Declaration on the Membership of the Republic of Croatia of the European Union as a Strategic Interest of the Republic of Croatia, by which it called all the citizens of Croatia to come out to cast their vote in the referendum, express their democratic will and thus contribute to the development of Croatia as a state of democratic, pluralistic and open society.

Image 9. State od EU just before Croatia joined




Source: Market watch, https://www.marketwatch.com/story/rushing-into-a-burning-house-croatia-joins-the-eu-2013-07-01, visited June 17th, 2019.

At the referendum held on 22 January 2012 the citizens of Croatia supported Croatia's membership of the European Union with 66.27% "for" votes. When the Accession Treaty entered into force on 1 July 2013, Croatia became the 28th Member State of the European Union (Sabor, 2019).

### 3.4.3 Current state of Croatia within the EU

As far as the position of Croatia inside the EU is considered all the data that will be provided is pretty concrete because this paper won't go too much into speculations and unconfirmed information that is spread in media. So it is possible to say that Croatia has 11 members inside of the European Parliament, the Council of the EU doesn't have a permanent, single-person president (like e.g. the Commission or Parliament).

Instead, its work is led by the country holding the Council presidency, which rotates every 6 months. During these 6 months, ministers from that country's government chair and help determine the agenda of Council meetings in each policy area, and facilitate dialogue with the other EU institutions. Dates of Croatian presidencies are from January to June 2020. The

Commissioner nominated by Croatia to the EC is Neven Mimica who is responsible for International Cooperation and Development (Europa, 2019).

As far as European economic and social committee goes Croatia has 9 representatives on the European Economic and Social Committee. This advisory body – representing employers, workers and other interest groups – is consulted on proposed laws, to get a better idea of the possible changes to work and social situations in member countries. Budget and funding is also very important subject when it comes to Croatia's position in EU. Here is a short breakdown of Croatia's finances with EU in 2017 (Europa, 2019):

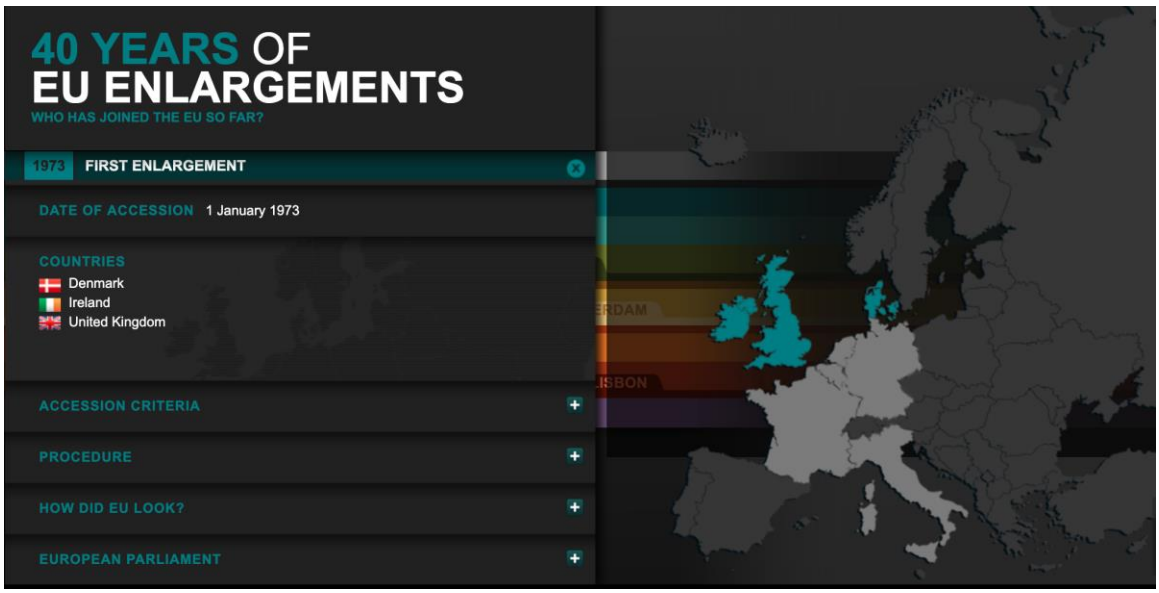
- Total EU spending in Croatia: 0.663 billion euros
- Total EU spending as % of Croatians gross national income (GNI): 1.41 %
- Total Croatian contribution to the EU budget: 0.359 billion euros
- Croatian contribution to the EU budget as % of its GNI: 0.76 % (Europe, 2019).

# 4. Southeastern enlargement and EU future perspectives

## 4.1 EU's history of enlargements

European Union enlargement started almost 40 years ago and started in 1958 when European Community was created, it took 15 years to get to the first enlargement that happened in 1973 when Denmark, Ireland and United Kingdom accessed the EU (1 January 1973). Accession criteria for those countries wat that any European country that complies with EC standards and rules can join.

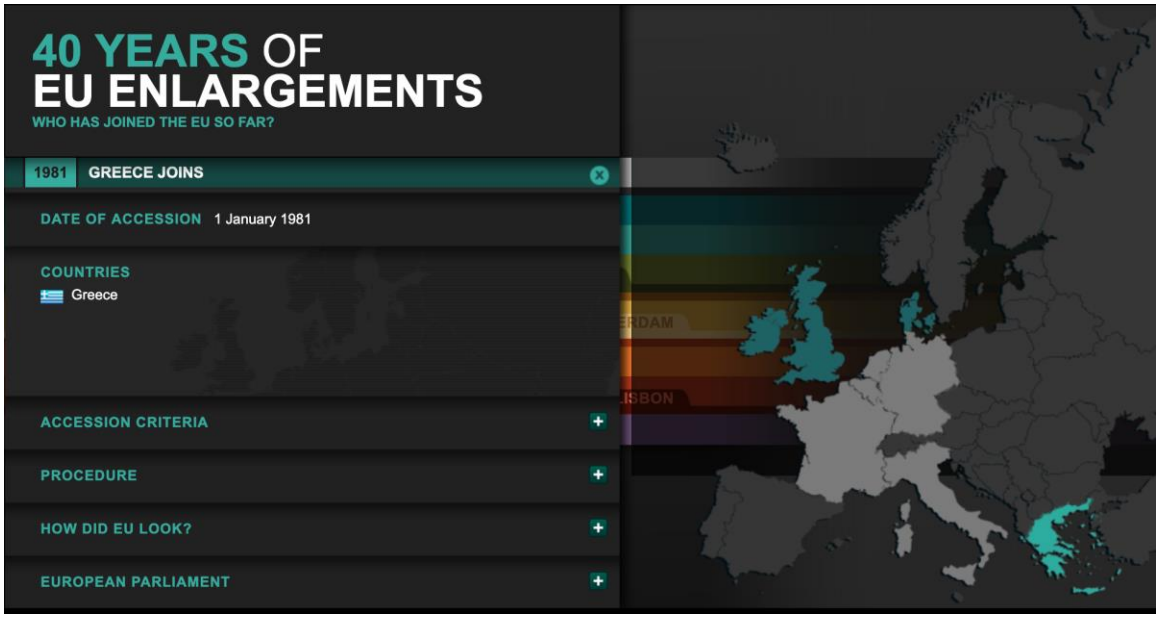
Image 10. First enlargement




Source: Europa, https://www.europarl.europa.eu/external/html/euenlargement, visited June 18th, 2019.

Procedure was that countries first needed to get council approval, consult with commission, get a green light from all member states and finally get a consent of national parliament or referendum in the applicant country. In that time EU was called European Community with priorities like customs union, single market and agriculture. European parliament was officially called Parliamentary Assembly and decisions were taken by the Council on a proposal from the Commission. EP was consulted only (Europa, 2019).

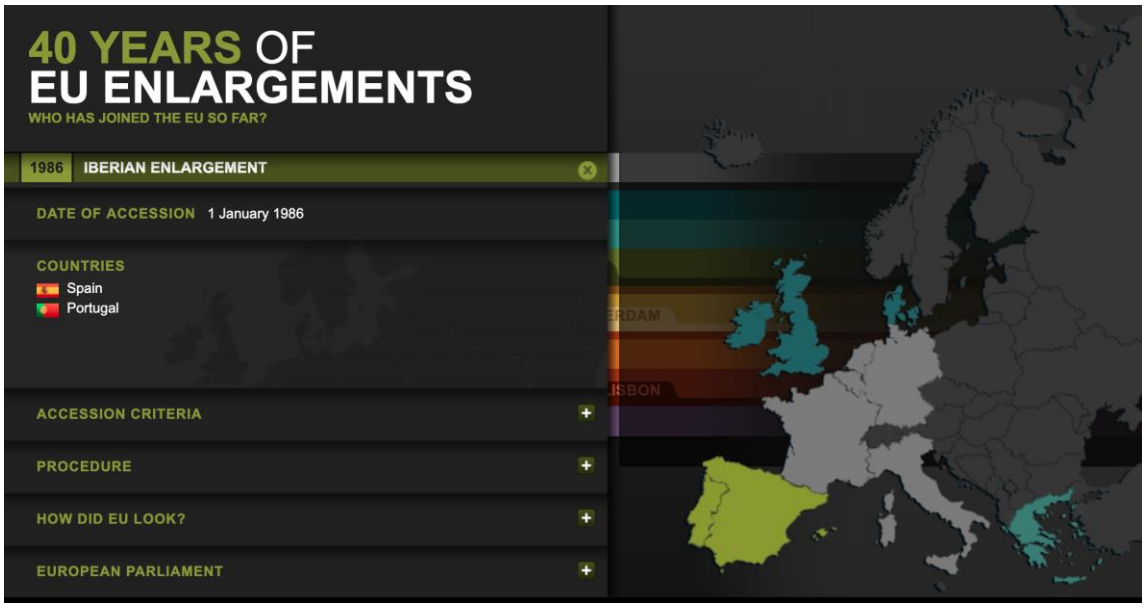
Image 11. Greece joins




Source: Europa, https://www.europarl.europa.eu/external/html/euenlargement, visited June 18th, 2019.

Next country that joined EU was Greece and that happened in 1981 (1 January 1981). Accession criteria stayed the same as in 1973 just like the procedure. EU had the same priorities and was still called European community. Only thing that change since the last enlargement was that members were directly elected in European Parliament and Parliament had the right to reject the EC budget (IFO).

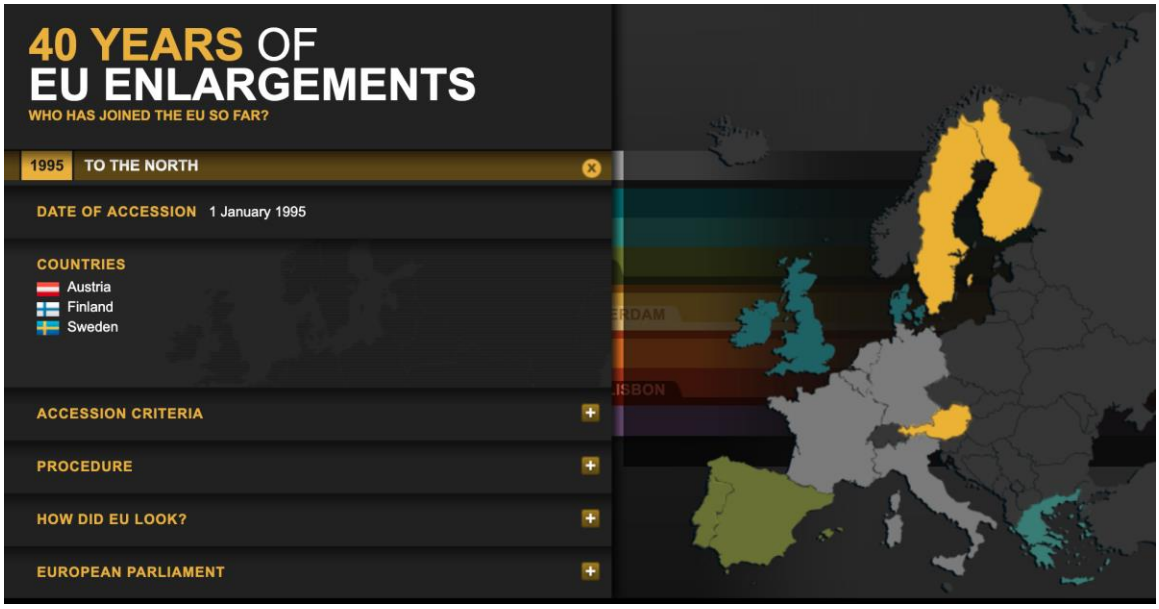
Image 12. Iberian enlargement




Source: Europa, https://www.europarl.europa.eu/external/html/euenlargement, visited June 18th, 2019.

Five years after the Greece joined Spain and Portugal followed Greece's example and on 1 January 1986 joined EU. Accession rights again stayed the same, just like the procedure and the look of the EU. On the other side EP changed just like the last time and this time that change meant that directly elected EP could reject the EC budget but was only consulted on other issues (Europa, 2019).

Image 13. The Northern enlargement



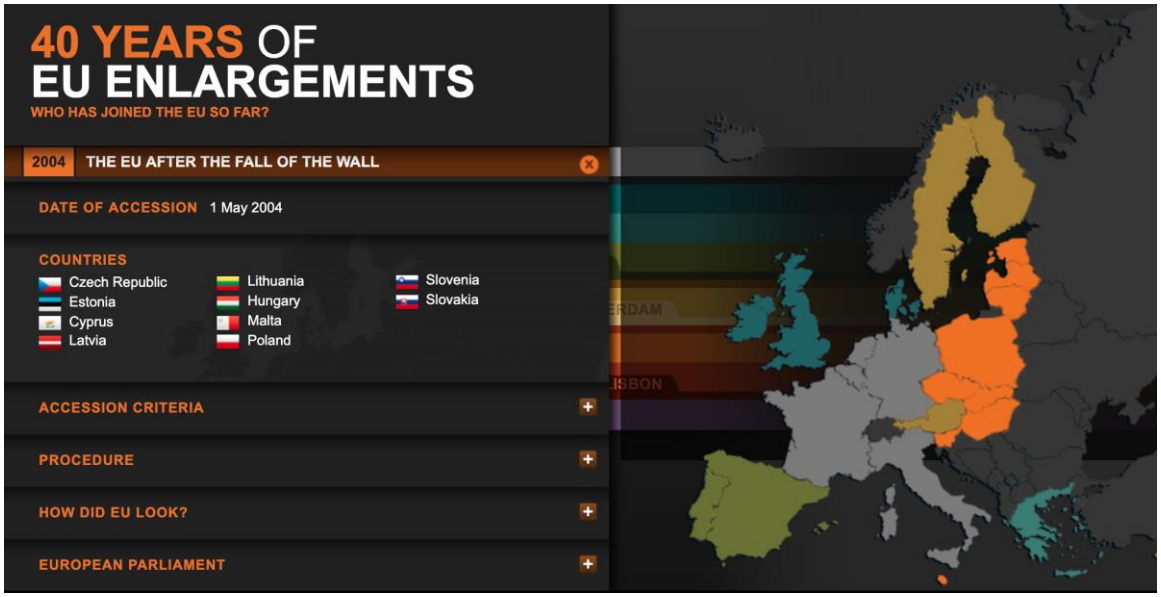

Source: Europa, https://www.europarl.europa.eu/external/html/euenlargement, visited June 18th, 2019.

Now in year 1995 Austria, Finland and Sweden joined the EU (1 January 1995). Accession criteria changed a bit and now EU required that any European country complying with EU standards and rules and Copenhagen criteria which states: stability of institutions guaranteeing democracy, the rule of law, human rights, a functioning market economy and ability and willingness to fulfill membership obligations (IFO). Procedure stayed the same but the look of EU changed and after Maastricht treaty EU created its three pillars:

- European Community (Supranational)
- Common Foreign and Security policy (Intergovernmental)
- Justice and Home Affairs (Intergovernmental)

Plus: political integration, European Citizenship, EMU and social protocol. European Parliament now has co-decision that puts it on equal footing with Council (Europa, 2019).

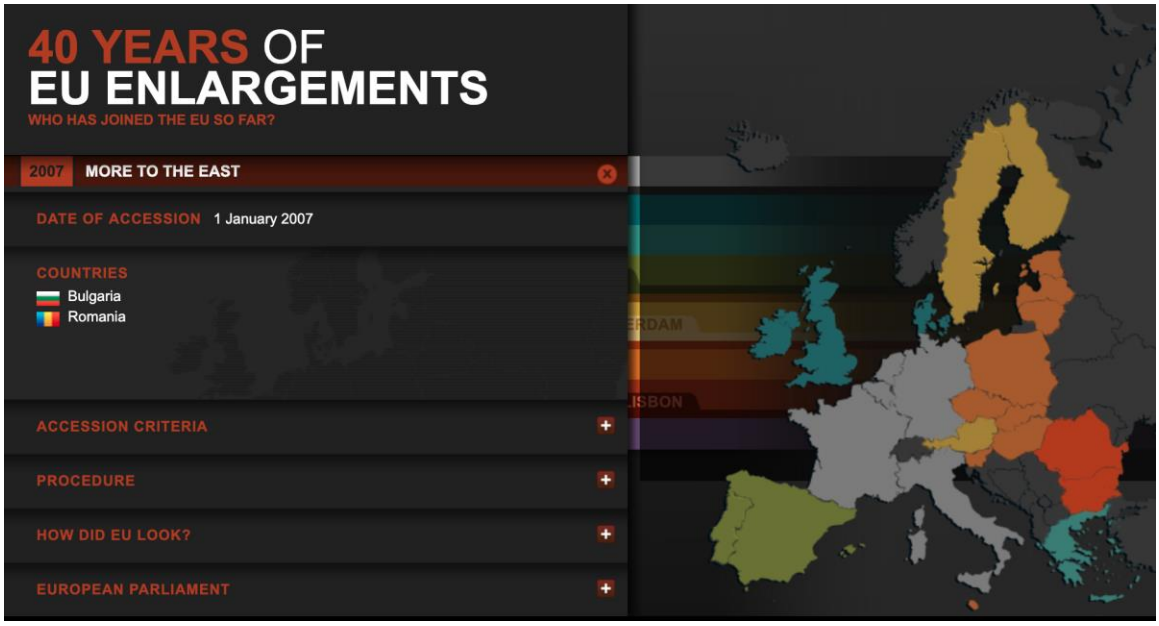
Image 14. The EU after the fall of the wall




Source: Europa, https://www.europarl.europa.eu/external/html/euenlargement, visited June 18th, 2019.

The so called "EU after the fall of the wall" where ten countries joined (Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia). Accession criteria stayed the same except that now countries that wanted to join needed to respect democratic values (principles of liberty, democracy, respect for human rights and fundamental freedoms and the rule of the law). Procedure was the same but the look of EU changed again and now after the Amsterdam treaty EU incorporated Schengen into EU law. EU institutions have more power on asylum and immigration policy. Introduction of High Representative of the Common Foreign and Security Policy Enhanced cooperation. EP now has the right to approve the Commission President and has more legislative and supervisory powers (IFO).

Image 15. Eastern enlargement

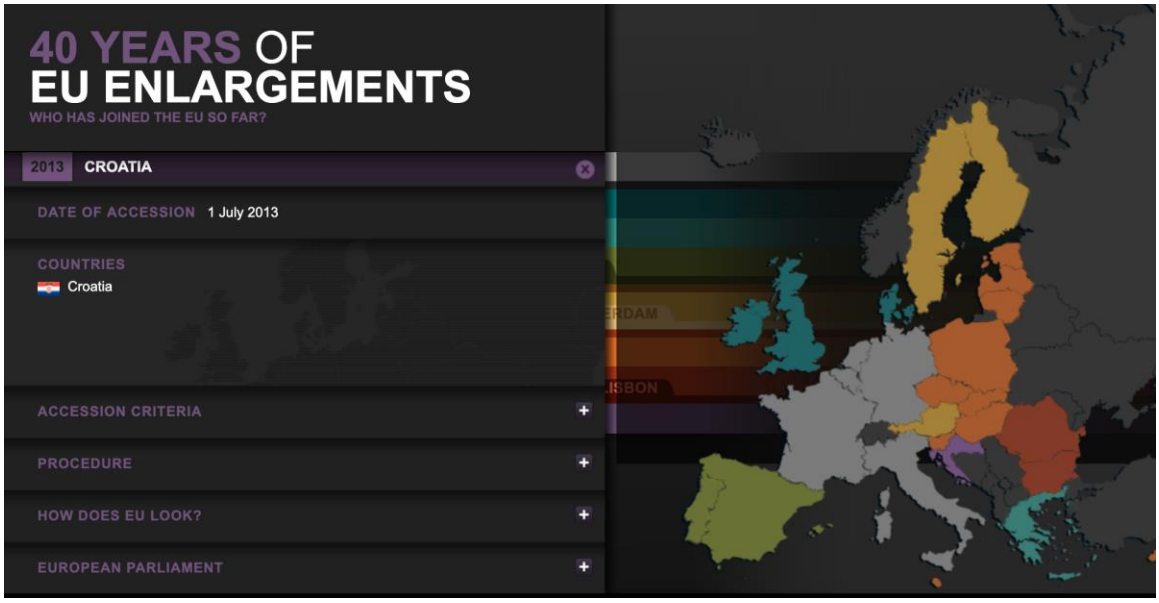



Source: Europa, https://www.europarl.europa.eu/external/html/euenlargement, visited June 18th, 2019.

Three years after Bulgaria and Romania got the green light to join the EU (1 January 2007). Accession criteria was the same just like in 2003, procedure didn't change and EU looked the same except it added two new members. EP stayed the same which means that the structure didn't change and EP's tasks stayed the same. The European Parliament has three main tasks.

Together with the Council it passes laws. Even though it does not have very much power there are some areas in which the Council must ask Parliament for approval. A new country, for example, cannot become a member of the European Union without Parliament's approval. It oversees the work of the other EU organs especially the Commission. It decides and monitors how the EU spends money. (Kumar and Kandžija, 2004).

Image 16. Croatia's membership

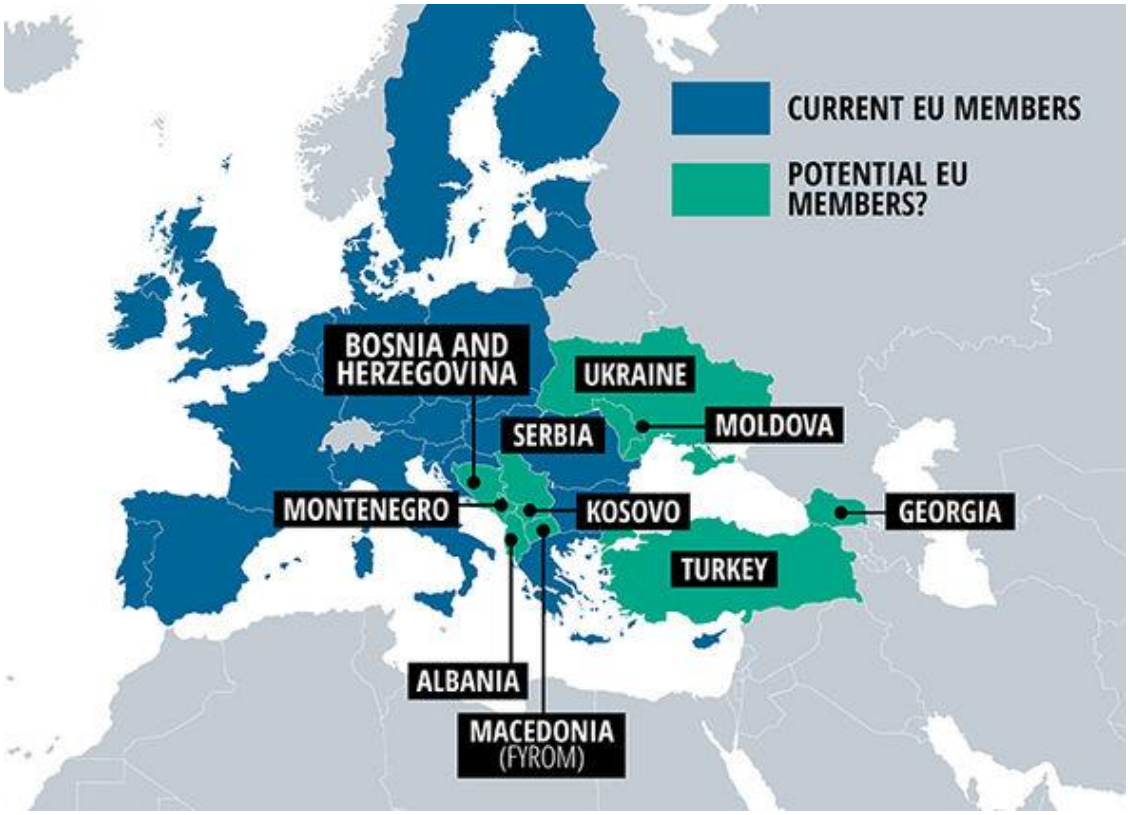



Source: Europa, https://www.europarl.europa.eu/external/html/euenlargement, visited June 18th, 2019.

Finally, in 2013 Croatia joined the EU (1 July 2013) which is actually the last country to access EU in last six years. Accession criteria was the same just like in 2004 and 2007, although procedure changed just a bit because now National Parliament in all member states needs to be notified of the application. Look of EU changed totally and now EU is a legal entity. Old pillar structure is replaced with classification of 3 types of competence (exclusive, shared and supporting). EU has more power in more policy areas, introduction of European citizen's initiative. In this period members have option of leaving the EU also EC from start of this period has permanent president. Also High Representative for Foreign Affairs and Security Policy from this period have the role of Commission Vice-President. Introduction of European External Action Service.

## 4.2 EU's plans for further enlargement and potential candidates

Image 17. Potential EU members




Source: Express, https://www.express.co.uk/news/world/877160/EU-nations-members-map-Brexit-UK-Turkey-European-Union-Macedonia-Montenegro-Serbia-Ukraine, visited June 19th, 2019.

EU has plans for the next enlargement and that enlargement has some countries very interested and some of them are Albania, Bosnia, Kosovo, Macedonia, Montenegro and Serbia that all hope to join the EU but have seen their membership chances fade in recent years as the blocs politicians are faced with rising eurosceptism at home, the 2009-2013 eurozone crisis and Britain's vote to leave the bloc, appeared to lose interest. But rising Russian influence, a migration crisis that straddles the region, Turkey's drift toward authoritarian rule and a desire to strengthen European integration after Britain leaves in 2019 have presented the Balkans with an opportunity (Emmott, 2018).

Current expectations are that Serbia and Montenegro will join before 2025. North Macedonia and Albania are expected to start the talks by the end of 2019 and could also join by the same 2025. The EU has made a commitment to accept the countries of the Western Balkans as full EU members.

## 4.3 Poland and Croatia as Southeastern leaders for future potential members

Poland and Croatia should be looked as the leaders or at least examples of the countries for entering the EU because both of those countries went through the longing process of entering the EU, especially Croatia that took almost 9 years to finalize all the paperwork and talks before in 2013 got the green light. As far as Poland goes, Poland was an earlier member than Croatia but Poland should be a leader because that is one of the up and coming members that is starting to grow in various field which makes it an attractive example.

Poland is a parliamentary republic with a head of government - the prime minister - and a head of state - the president. The government structure is centered on the council of ministers. The country is divided into 16 provinces, largely based on the country's historic regions. Administrative authority at provincial level is shared between a government-appointed governor, an elected regional assembly and an executive elected by the regional assembly (Europa, 2019).

The most important sectors of Poland's economy in 2016 were Industry (26.5 %), wholesale and retail trade, transport, accommodation and food services (26.2 %), and public administration, defense, education, human health and social work activities (14.7 %) (IFO, 2019).

Intra-EU trade accounts for 80% of Poland's exports (Germany 27%, United Kingdom and Czechia both 7%), while outside the EU 3% go to Russia and 2% from the United States.

In terms of imports, 72% come from EU countries (Germany 28%, the Netherlands 6% and Italy 5%), while outside the EU 8% come from China and 6% from Russia (Europa, 2019).

Important fact is that Poland has 51 members in the EP. Member countries' financial contributions to the EU budget are shared fairly, according to means. The larger your country's economy, the more it pays – and vice versa. The EU budget doesn't aim to redistribute wealth, but rather to focus on the needs of all Europeans as a whole.

Breakdown of Poland's finances with the EU in 2017 (Statista, 2019)

- Total EU spending in Poland: € 11.921 billion
- Total EU spending as % of Polish gross national income (GNI): 2.67 %
- Total Polish contribution to the EU budget: € 3.048 billion
- Polish contribution to the EU budget as % of its GNI: 0.68 %

The money paid into the EU budget by Poland helps fund programs and projects in all EU countries - like building roads, subsiding researchers and protecting the environment which is also one of the biggest reasons why Poland is the selected country to lead by example for all countries that wish to enter EU from Southeastern region.

On 26 February 1996, the EU adopted a Regional Approach to the countries of South Eastern Europe. That was the first comprehensive strategy of the EU towards the troubled part of the South East Europe with which the European Community has not yet adopted directives for the negotiation of association agreements or, more precisely, towards Federal Republic of Yugoslavia, Republic of Macedonia and Republic of Croatia (Grgić, 2019).

Success of EU integration and continuous improvement will always come with problems and those problems might arise with soft-law or the compromise culture of the EU. The examples of such behavior include Poland regarding the EU energy policy (and relations with Russia), or Slovenia regarding the Ecological and Fisheries Protection Zone, thus making accession negotiations slower. On the other hand, such behavior can be regarded as steps towards taking an

active role in shaping community-level policy, comparable with role of Poland and Lithuania in shaping the EU's relations with Ukraine.. It can be argued that the success of integration might be evaluated not merely as adherence to the EU norms and reducing the differences between the old and new countries, but also as active participation in policy making, which to a certain (albeit limited) extent might diverge from a compromise culture. Thus, successful integration would mean convergence with the EU norms at the level comparable with Member States, old and new ones (Boromisa and Knežević, 2008)

Croatia continues to improve through various different EU supported projects like E-Schools project that intends to increase ICT use in Croatia's education system. The project's greatest achievement to date was a public call for schools to formally express their interest in participating in a pilot: 150 schools are now actively involved in the project. The selected schools are evenly distributed across the country to ensure that the impact is felt in all regions (Europa, 2017).

Application of innovative techniques in bioactive compounds: isolation from organic waste in wine – extracting value – added ingredients from wine waste. It seems that wine is not just great for drinking: bioactive compounds created during production can be turned into valuable ingredients for a whole range of sectors. Now scientists at the University of Zagreb's Faculty of Food Technology and Biotechnology have developed novel ways of extracting these compounds, which can be used either as raw materials or semi-finished products in further processing, such as in functional foods, as well as pharmaceuticals and cosmetics.

A key project goal has been to strengthen the bond between Croatia's scientific and business sectors – combining cooperation, research, innovation, economic benefits, environmentally friendly elements and wine – what could be better.

Some other projects are: sour cherry as an ingredient for functional food – harnessing the potential of Croatia's world – famous indigenous cherry, water supply and sewerage system with wastewater plant for Slavonski Brod, robotic innovation that gives Croatian neurological surgeons a helping hand (Europa, 2017).

# 5. Conclusion

The goal of this paper was to analyze the subject of economic integration and show some of the best examples, one of the being European Union. When the economic integration comes to mind the most important thing that comes to mind is explanation of motives and goals of creating the economic integrations. One of the goals was analyzing the types and effects of formation of the regional economic integration where this paper talked in more detail about economic integration and why it comes to it, also the paper explained the objectives of the economic integration but also showed those objectives through the talk about stages of economic integration, on the other side a couple of real examples were given through the regional economic integrations like NAFTA, ASEAN, EFTA and European Union. Next thing that this paper discussed was objectives of regional economic integration, here the paper show not just what general objectives are but also examples of the objectives from real world. Stages of regional economic integration were also an important piece of the puzzle, so this paper goes into more detail and discusses all stages: free trade areas, customs union, common markets, economic and monetary union and complete economic integration which complete the goal of explaining the motives and whole idea how integrations are created. Paper proceeded to talk about creation of the EU and the reasons for creation, also the main goals and values are shown in the sense so they are connected with the reasons for creation. Here leader countries that basically started the whole process are shown and elaborated into more detail also the whole process that continued to evolve was explained. Croatia's entrance into the EU and todays state of country was also one of the most important things to mention and show because Croatia's entrance was the last entrance of some country and that brings some weight when talking about importance. Lastly this paper shows all the enlargements that have occurred since the EU was created also here paper talks about potential members that could join EU in the next enlargement and what those countries have to do to get the green light. In the end Poland and Croatia are "painted" as the countries that should be followed as the good example on how to overcome all difficulties that will occur on the road to joining the EU.

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