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MISSION REPORT*

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Macedonia

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1. After many years of maintaining an active candidacy for NATO membership, the Republic of North Macedonia is now on the road to full membership following the resolution of the name dispute with Greece. Seven NATO member parliaments have ratified the accession treaty since the protocols were signed at NATO headquarters in February 2019, and others are expected to do so over the coming months. The prospect of membership has not only helped consolidate the Republic of North Macedonia's democratic transition and deepen the sense of security in the Western Balkans, it has also galvanised foreign investment and reinvigorated momentum for deeper reform, and it could therefore represent a launching point for the country's candidacy for European Union membership.
2. Members of a delegation of national parliamentarians visiting Skopje under the auspices of the NATO Parliamentary Assembly discussed these and other issues with senior government officials including Zoran Zaev, the Prime Minister; Talat Xhaferi, the President of the Assembly; Nikola Dimitrov, the Minister of Foreign Affairs; Kreshnik Bekteshi, the Minister of Economy; Radmila Shekerinska, the Defense Minister; NATO member ambassadors; and parliamentarians and policy experts during a two-day fact-finding mission to Skopje on 14-15 March.
3. Speakers from the country and from the diplomatic community stressed that the Prespa Agreement had required enormous courage and that leaders in Skopje and Athens had provided hope to a region which has long been plagued by national, ethnic, and sectarian tensions. The Republic of North Macedonia's Foreign Minister Nikola Dimitrov, told members that after the upheaval of 2015-2016, his country had decided that it had to assume responsibility for a range of problems and that signing the Prespa Agreement was an essential step in doing so.
4. Prime Minister Zoran Zaev told the delegation that the accession of his country will have a very positive impact and will help consolidate security there. He said this will help the international community focus more attention on the region's more enduring conflicts, including ongoing tensions between Pristina and Belgrade and the political stalemate and institutional crisis in Bosnia and Herzegovina.
5. The benefits of following this bold and politically risky course of action are already apparent. Not only did the treaty signed with Greece immediately put the Republic of North Macedonia on a path to NATO membership, it has also generated economic benefits. Kreshnik Bekteshi, the Minister of Economy, told the delegation that economic growth is now on the rise, and there has been an important influx of foreign direct investment (FDI) into the country since the Prespa Agreement's signing. Last year, he noted, the country attracted EUR 624.6 million in foreign investments. That figure, he added, is expected to rise to more than a billion euro this year.
6. The Republic of North Macedonia, however, continues to face daunting transition challenges. The name issue had long blocked the path to NATO and EU membership, and this, in turn, dulled the reformist impulse and even led to democratic backsliding and renewed interethnic tensions. This was particularly evident during the political crisis of 2015-2016, when democracy itself was clearly put at risk. But there are other enduring problems, including persistent corruption, a poor education system, a large informal sector, a steady exodus of young educated people to EU countries, and shortcomings in the judicial and legal systems. Experts at the Center for Research and Policy Making told the delegation that North Macedonia scores very poorly in the PISA education rankings. High school students have a very low capacity to apply knowledge to real world situations and science skills are clearly insufficient. This is a serious problem that has to be rectified by more effective reform.

7. Political leaders in Skopje believe that the realistic prospect of Euro-Atlantic integration will make it possible for the country to embark on broader and deeper reforms that will address these problems. This process is already underway with the creation of a special parliamentary commission on corruption and an important reform of the security sector, which will make it far more difficult for security forces to engage in lawless domestic spying—a problem that became very evident in 2015. According to experts at the Center for Research and Policy Making, corruption problems are serious and persistent. Transparency International's Corruption Perception Index ranks the country 93 out of 180 and points to an important gap between anti-corruption laws and actual implementation of those laws. Political corruption is manifested through abuse of power, conflict of interest, and dubious practices of financing political parties and elections.

8. The 2015 wiretapping scandal, in which a counter intelligence agency illegally tapped 20,000 thousand phones, demonstrated the need for a thorough reform of the counter-intelligence service. Now wiretapping can only be conducted after courts have sanctioned the operation. Related reforms are under way, and counter-intelligence will be stripped out of the Ministry of Interior and subject to civilian and parliamentary control. The case has also triggered indictment of several former high-level officials. Former Prime Minister Nikola Gruevski himself was sentenced to two years on corruption charges, but he has been granted political asylum in Hungary.

9. That 80% of citizens support the country's Euro-Atlantic aspirations should help build support for further reforms, particularly if the country is accorded candidate status at the upcoming EU ministerial in June. The courage of the political leaders in Skopje and Athens was cited a number of times by analysts who met the delegation. They said their determination to resolve old tensions had advanced the case for North Macedonia's integration into NATO and eventually the EU. NATO heads of government will make an important decision about its EU candidacy at the upcoming Council meeting in June.

10. Prime Minister Zaev and the Ministers of Foreign Affairs and Defense all played instrumental roles in this regard, as did the current speaker of the Parliament. North Macedonia has now settled all open disputes with neighbours - a process that began with an agreement struck with Bulgaria two years ago. The country's relations with its neighbours have improved markedly over that period. But there have been other critical developments. The Parliament, for example, has adopted a law on languages in which it has confirmed Albanian as a second official language. This stems from the Ohrid agreement and goes far to advancing domestic stability and comity among the country's ethnic and religious groups. The country's largest opposition party is also in the midst of intensive and positive internal changes. This is critical, as North Macedonia's democracy needs a healthy and strong opposition in order to flourish.

11. North Macedonia is a small, very open economy. It has a limited market of 2 million consumers with a fairly low level of production. It is accordingly dependent on significant levels of imports, which are partly offset by transfers from Macedonians living abroad. The GDP per capita stands at roughly EUR 4,700. This is only 37% of the EU average. Over a third of the population lives in poverty. Unemployment stands at roughly 20%, but the pervasive shadow economy skews the statistics.

12. The interest of foreign investors in North Macedonia is rising although many potential investors want to see structural improvements before moving into the market. Because of past political turmoil and a lack of opportunity, there has been a high level of outward migration to Europe, and this has created a shortage of skilled young workers.

13. Germany is a key trading partner for North Macedonia but it is also expanding trade with some of its neighbours. Since the signing of the Prespa Agreement, trade with Greece has increased substantially, and there are expectations that commercial ties, tourism, transportation, and energy links between the two countries will be transformed as a result.

14. Three requirements for the country's economy as it moves forward will be improving the rule of law, cementing political stability and improving the way the government manages its support of national companies. Creating appropriate and deft support structures for everything from IT, agriculture, and textiles will be essential, as will basic infrastructure upgrades. The agricultural sector in North Macedonia has potential, but it is undercapitalised and traditional. There is also a serious problem of pollution and poisoned soils, and this contributes to an estimated 1,800 deaths a year according to the Center for Research and Policy Making in Skopje.

15. Improved vocational training is also needed, and countries such as Germany are supporting this effort. Further reform of the tax code will help generate essential revenues, minimise distortions, and encourage foreign investors.

16. North Macedonia's delayed entry into NATO represented a real setback for the country and, in many respects, these delays can be linked to serious problems in its transition. In 2008, Albania and Croatia were invited to join NATO and soon thereafter were admitted into the Alliance. Their membership helped galvanise economic and political transformation. North Macedonia was compelled to remain in "the waiting room" and suffered political instability as a result. It now has an opportunity to move more quickly on essential reforms, including restructuring its intelligence agencies, which have posed problems in recent years. There are no imminent parliamentary elections coming up and this gives the country's leaders a window of opportunity to address several difficult and enduring structural problems.

17. Full membership in NATO will help North Macedonia become a more confident player in the region. Until now, the country focused on national defense. The government will now have to adopt a broader strategy firmly premised on collective defense, and this concept will drive their defence planning. NATO Membership will also require real contributions, including the adoption of a readiness action plan, and serious contribution to NATO's force structure. Participation in ongoing operations will also be part of the package and the country will need partners for training and deployment to gain access to some services such as strategic transport.

18. That said, North Macedonia has garnered enormous experience working with NATO and in various operations. Its armed forces have undergone 18 Membership Action Plans and have thus learned how to work closely with NATO Allies. The country has contributed to many NATO programmes. The military is comfortable with NATO evaluations and has certain capabilities to contribute to NATO operations. The military has notably deployed troops to Iraq, Afghanistan, Libya, and Bosnia and Herzegovina.

19. On the economic front, there are concerns among some observers that the country's economic policy environment is not as agile as is often claimed. The World Bank ranks the country very highly in its Doing Business assessment, but this assessment ignores several crucial problems, most particularly corruption, which is pervasive, has a high cost, and discourages potential investors. One of the primary reasons that it is easy to do business in the country is that most commercial activities are concentrated in Skopje. But the absence of formal administrative burdens on foreign firms only partly counteracts persistent problems investors confront, like corruption. That said, there have been impressive reforms, such as easy one-stop processing for business licenses and a flat tax rate, which have been lauded by

the World Bank. Germany has substantial investment in the country, particularly in the car parts industry.

20. Investors ultimately seek a stable political environment and a reliable legal framework governing the commercial sector. But in North Macedonia, corruption and nepotism persist at many levels. The government is seeking to tackle this problem through institutional reform. It also confronts a problem of capacity, given that the population is only 1.8 million and there is a serious skills bottleneck which makes it difficult to find the appropriate personnel for critical oversight functions in the state. The migration of young people has exacerbated this problem.

21. Russia's role in North Macedonia was another topic of discussion during the visit. Although the Kremlin has clear interests in the broader region, Russia's engagement with North Macedonia has been less intense than it has been elsewhere. That said, the Russians look for opportunities to disrupt and they have played this role in the country. Thus, during the 2016 elections, Russia began to meddle in highly volatile domestic politics with tweets and press releases. It subsequently attacked the Prespa Agreement and claimed that the West had imposed this agreement on the country. The Kremlin also argued incorrectly that the UN Security Council would have to approve the name change. Although there are genuine pro-Russian political forces in Serbia and Montenegro, this is not the case in North Macedonia, although the Russians have supported a tiny pro-Russian party that has no representatives in the Parliament.

22. North Macedonia is very reliant on carbon-intensive energy and imports gas from Russia. It uses substantial amounts of coal, which is an important source of pollution because of a lack of infrastructure to move other energy sources to where these are needed. The country's cities still lack critical energy infrastructure, and this will have to change if it is to become more energy secure while lowering its carbon use.

23. One theme of several discussions was that North Macedonia has suffered setbacks, in part because it was in "NATO's waiting room" for so long. As it moves to full membership, it and Europe's next challenge will be to hold out a genuine prospect for EU membership. This will take time. For the moment, the country is seeking a green light from the European Council to begin negotiating the accession chapters. The only way to sustain reform will be to make sure that the country has a realistic membership prospect. There are several EU members that seem hesitant about extending this invitation now. But all understand that it will take a number of years to move through the accession chapters. This is a complex process and it will also demand substantial reform.

24. The Head of the North Macedonian delegation to the NATO PA, Ilija Dimovski, told members that many of the opposition parties had voted against the Prespa Agreement and objected to it as a matter of identity and culture. He said that these votes were not anti-NATO as such, and that the entire Parliament supports NATO membership and looks forward to starting EU accession talks. This is a position shared by government and opposition, he added.

25. The parliament is now taking up the problem of corruption in a more systematic way. It recently established an oversight committee of seven members to address the corruption problem. It has passed laws to deal with white collar and even legislative corruption. The new committee has the power to check the bank accounts of elected officials.

26. Foreign Affairs Minister Nikola Dimitrov told the delegation that he hopes his country will take part in the December NATO summit as a full-fledged member. He said that Europe is consumed by strategic uncertainty today and that North Macedonians are striving to achieve a degree of certainty in order to lay the foundations for stability and prosperity. NATO membership represents an important step in that direction. He said that Presidential elections

this year will be free and fair, and there will be teams of international election observers to verify this. Optimism surrounding the country's improved political and security situation, he noted, has had a very positive economic impact, and growth is now accelerating. Foreign direct investment in 2017 rose to EUR 624 million.

27. Mr Dimitrov noted that Russia had strongly opposed North Macedonia's accession to NATO even though it does not have a major political or economic footprint in the country. The Kremlin has been very vocal at press conferences on the Prespa Agreement, but Russian authorities seem to recognise that this is now water under the bridge. As a result, they may seek to develop a more positive relationship.

28. Mr Dimitrov suggested that there is a struggle between meritocracy and clientelism in North Macedonia and this represents the country's primary challenge. It will be imperative to build institutions that are stronger than any individual leader. The country has learned a hard lesson regarding the costs of weak institutions and strong man politics, while the public has unambiguously rejected this particular model of governance. This logic, he added, informed the decision to create an anticorruption committee in Parliament. He said that too much time has been spent discussing history and not enough political energy has been expended on the future. The government now needs to take on critical structural and institutional challenges like the rule of law, health care, and jobs. He concluded by noting that the Economist's Democracy Index places North Macedonia in that small group of countries that have made noticeable improvements in areas such as freedom of the media and independence of the judiciary. He suggested that it is high time for Europe to recognise these accomplishments and to help the country build upon them.

29. The Minister of Economy, Kreshnik Bekteshi, told the delegation that North Macedonia is currently undergoing an important screening process with the EU. He too mentioned the significant upsurge in FDI, which could rise above EUR 1 billion in 2019. Although the country competes with other emerging markets in Asia, it has some geographical advantages that could encourage digital firms currently operating in Asia to move some operations to the Western Balkans, which are closer to core markets. The government is working with the World Bank and other institutions to improve the climate for start-up firms and is providing support for educational change to help make the educational system more relevant to the requirements of the market.

30. Unemployment officially stands at 20% and has fallen from 30% over the last ten years. But youth unemployment hovers around 40%. This has led to an exodus of young people. Macroeconomic conditions are solid. One problem is the country's large informal sector where some of the officially unemployed are working. This distorts government statistics, obviously deprives the state of revenue, and undermines its authority. It is a problem that will have to be addressed. But unemployment is also linked to the mismatch between the actual skills of workers and the skills the market demands. This is why school reform is seen as so essential to economic revitalisation.

31. North Macedonia currently enjoys relatively low inflation, hovering near 2%, while the budget deficit is also below 2%. Growth has oscillated between 2.5 to 3% per year, which is rather low given the country's need to converge with Europe.

32. On the export front, North Macedonia is performing well and has seen important improvements over the past decade. The European Union remains its primary trading partner. In total, 80% of Macedonian exports go to EU members, and 70% of all of its overall trade is with the EU. Similarly, 70% of investment comes from the EU, and 80% of foreign aid is from the EU. More than 80% of the population sees its future in Europe and do not discern an

alternative. The Stabilization and Association agreement with the EU has helped open European markets to North Macedonian producers, and the country's trade deficit with the EU is now shrinking. North Macedonia enjoys a trade surplus with Germany largely due to the important role it plays in manufacturing parts for the German automobile industry.

33. The EU currently provides EUR 100 million a year of support to North Macedonia. Much of this is to underwrite environmental projects, including the construction of wastewater plants and other waste management facilities needed by the country to meet basic European environmental standards. Transportation infrastructure (including an important highway to Greece and a rail line to Bulgaria), flood control, and school building are other important EU spending priorities. It has also provided support to help the country deal with the migration crisis and to bolster border controls.

34. From the perspective of many Western officials, North Macedonia is a genuine regional success story. Its people have embraced reform and Euro-Atlantic integration, and they intuit the essential links between the two. The country has solved problems with neighbours and made its Euro-Atlantic vocation possible. The June 2019 European summit meeting will be critical as it will provide an opportunity for Europe to endorse what has been achieved and encourage further reform and deeper integration. The European Commission will prepare a country report to be presented in May 2019 which will provide a road map for reform priorities. Members states will then decide whether to extend an invitation to North Macedonia to begin the long and arduous process of accession negotiations.

35. On energy, North Macedonia is a member of the energy community treaty between the EU and a number of candidate member states. In that sense, it is fully committed to the principle of the internal market in terms of energy and competition and third-party access to pipelines. This is not the case for all the states in the region. Currently North Macedonia is highly dependent on brown coal lignite and will need to transition to far greater use of renewable energy. It has some hydroelectric power capacity as well, and there is a potential to develop the country's solar power industry. Much can be done to improve energy efficiency as many buildings continue to waste energy.

36. The Prime Minister of North Macedonia, Zoran Zaev, noted the important role that NATO members parliaments are now playing in ratifying the accession treaty and told members that he hoped that this process could be completed by the time of the London Summit. He said that the country is working to align intelligence services on NATO standards and has adopted new reform laws governing the judiciary and the fight against corruption. It has also passed a media law to help ensure greater media independence from political parties. These changes are informed by an ongoing dialogue with civil society. Mr Zaev linked the surge in economic growth to the prospect of NATO membership, which will help ensure the country's stability and provide a strong foundation for further reform. North Macedonia, he explained, has become a model for those countries in the region that are still struggling with their transition and their place in the European and international order.

37. He also discussed the problem of outward migration which has created a skills shortage in the country. The government is determined to find ways to keep talented young people in the country. Encouraging more foreign investment will help in this regard and special commercial zones have been established to draw in these investors. Education reform is also important in this regard. He said that the judiciary must also be reformed, both to stabilise the democratic order and to create a climate of trust which is critical to economic development.

38. The delegation concluded the mission by meeting Defense Minister Radmila Shekerinska. She told the delegation that the military has gone through 18

Membership Action Plans and participated in numerous NATO missions. This has helped prepare the country's armed forces and its political leaders for NATO membership. She stressed that once the Republic of North Macedonia becomes a full-fledged member of the Alliance, it will be a provider of security, and that it takes this commitment very seriously. She noted that her country would host a very large NATO military exercise this summer and plans to reach the 2% of GDP defense spending target by 2024. Minister Shekerinska urged members of the delegation to bring these messages back to their parliaments as they consider ratifying the accession treaty.

39. She argued that the Russian government has claimed that North Macedonia's accession to NATO would represent an act of hostility. She denied this and noted that her country's eastern neighbour is already a member, so North Macedonia's accession is not about NATO moving east as Russia has claimed. She said that the large military exercise the country will host in June will engage US forces. This important event will illustrate the important contributions North Macedonia can make to collective security. She said that the MoD is working hard to achieve a high level of interoperability with NATO, in part by participating very actively in the defense planning process. The Ministry is also striving to develop several niche military skills to make its contribution to NATO both unique and valued. For example, it stands ready to help in the area of biological warfare training and has established a center of excellence on public relations. An effort will be made to broaden the scope of that centre so that it can also focus on hybrid threats and challenges. She finally noted that today, women make up only 10% of the armed forces, but added that the numbers are rising. The MoD recently organised a conference on women in the army, and the expectation is that women's role in the national military will increase substantially in the coming years.