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Croatia's Odyssey: The Path and Prospects of a new EU Member

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On the 1st of July 2013, Croatia is set to become the 28th member of the EU after the successful closure of a prolonged process of accession negotiations, which started back in March 2005. Two decades after the end of the Yugoslav wars, and during a time when many in Western Europe grumble about the “reckless” EU enlargement that goes on autopilot, Croatia is believed to have implemented all of its commitments that would secure entry pass into the European community. In fact, Croatia has gone through an often bumpy and exceptionally demanding road in order to adopt standard institutional and administrative reforms, and settled a number of *non-acquis* issues raised by the European Council, such as full cooperation with the ICTY over the prosecution, and later acquittal, of indicted with war crimes fugitive general Ante Gotovina and special police force commander Mladen Markac. Furthermore, Croatia was pressed to overcome a long-standing maritime border dispute with Slovenia in the Gulf of Piran, which in December 2008 resulted in a temporary stalling of entry negotiations due to the Slovenian blockade.

In a sudden turn of events, the European Commission's October 2012 progress report raised additional concerns over the readiness of Croatia to enter the EU, and requested further efforts to be made in ten policy areas.¹ Also, the European Commission had recently succumbed to grievances by the German Bundestag, which raised a few additional, though minor points for Croatia to accomplish swiftly before its accession in July. Previous issues over Romania and Bulgaria's accession process created a worrying precedent for Europe's cohesion, which in turn raised concerns over Croatia's EU entry to alarming levels. In an effort to minimize post-accession turbulence, the Commission urged the Croatian government to undertake imminent action to improve the efficiency, transparency, and accountability of the judicial system. The Commission pinpointed the necessity to strengthen the pursuit of cases related to war-crimes, to ensure the effective prosecution of those involved with cases related to organized crime and to reinforce legislative measures in the fight against corruption. Furthermore, the Commission highlighted a series of outstanding political matters that required additional reform, including the protection of minorities, the safe return of refugees, and the protection of human rights.² In the end, Croatia has ultimately succeeded in making these changes and to pass through this process of constant adjustment and review, obtaining a final accession date.

“A Dalmatian Tiger”?

Despite the post-war economic collapse, which resulted in damage inflicted by war on infrastructure, human displacement, and the disruption of economic ties with several countries, Croatia entered the new millennium with 4.5% GDP annual growth rate that was about to last until 2009.³ Today, Croatia projects a €49.1 billion GDP (63.3% of the EU average), boasting the fourth largest economy in the Balkans aside from Greece, Romania and Slovenia. With a GDP per capita at around €10.950 for 2011, higher than that of Bulgaria and Romania, Croatia ranks fourth in Eastern Europe following Slovenia, the Czech Republic, and Slovakia.⁴ Between 2000 and 2007, development led by a rebound

¹ Commission's Staff Working Document, Comprehensive Monitoring Report on Croatia's state of preparedness for EU membership, The European Commission, Brussels, 10.10.2012

See: http://ec.europa.eu/enlargement/pdf/key_documents/2012/package/hr_analytical_2012_en.pdf

² Ibid.

³ UNDP Statistical Annex, World Economic Situation and Prospects 2013, Development Policy and Analysis Division. See: http://www.un.org/en/development/desa/policy/wesp/wesp_archive/2010annex.pdf

⁴ Quandl: Financial, Economic and Social Datasets, GDP per capita All Countries. See: <http://www.quandl.com/economics/gdp-per-capita-all-countries>

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in tourism, growth in the service sector, and credit-driven consumer spending, produced a moderate but steady GDP growth rates between 4 -6%. Nonetheless, Croatia's economic performance never managed to reach impressive levels (more than 6-7% consistent growth), due in large part to the chronic insecurities that stem from its surrounding environment (Bosnia and Serbia), the sluggishness of its reform process, and the pressures of global recession on the country's exports, tourist industry and capital inflows. Yet Croatia's 1,777 km-long coastline which faces the spectacular Dalmatian archipelago, and complemented by a rich cultural heritage, offers the pleasures of the Adriatic "without Italian prices", yields a comparative advantage for Croatia. Croatia has successfully entered the tourist industry map as an easily accessible destination that offers credible and high-quality services at relatively low-cost prices. Its geographic proximity to Italy, Austria, Germany, and Eastern Europe (Hungary, Romania Czech Republic) render Croatia a country with the potential to yield significant investment opportunities for both European and non-European entrepreneurs. Moreover, Croatia's shipbuilding industry, which accounts for some 15% of the country's exports and 3% of GDP, is currently being restructured and rejuvenated through privatization. Commercial port terminals demonstrate a considerable potential for investment and expansion, given the proximity of ports such as Rijeka and Sibenik to Central Europe, but it cost the Croatian state an unaffordable public drain of funds.⁵ However, appeasing popular reactions against potential labour layoffs following privatization remains a challenge. Largely, the government will have to devise comprehensive solutions to reduce public expenditures, upgrade port technology, reinsert labour force in productive sectors, and compensate for job losses. Finally, Croatia is hailed as a major wine-producing force. Following its accession into the EU, it is estimated that the removal of external trade barriers (US), will open up big market-exporting challenges for Croatian wine-makers.

Though still one of the wealthiest of the former Yugoslav republics and with a considerable growth potential, Croatia's economy has suffered badly due to the 2009 global recession (-6.9% GDP growth), and recently saw its credit-capacity ratings downgraded drastically by international credit-rating evaluators.⁶ Unemployment remains high at a 20.4%, while youth unemployment has reached a staggering 31.5% (2012 est.).⁷ The country's budget deficit remains low, at 3.1% of economic output, partly due to spending-cuts on social programmes, but external debt is at 66.3% of the country's real GDP, while industrial production is down by -4.4%.⁸ Croatia is yet expected to project a mild economic recovery and growth at about 1.3% from 2013 onwards.⁹ Returning to sustainable growth would therefore require, according to Bloomberg reports, more efficient restructuring of the public sector and further privatization.¹⁰ The IMF has recently suggested that Croatia must continue with fiscal consolidation, reform pension systems, rationalize the healthcare system, and **ease barriers to investments** by speeding up the privatization process.¹¹ The key prerequisite is to combine indispensable austerity measures that reduce government spending while at the same time sustaining purchase power through private economic investments. Croatia's well-trained pool of experts in engineering, shipbuilding and constructions, and its competitive markets such as tourism are extremely important assets that will allow Croatia to carry on with reforms without too many negative consequences.

Accession in Recession?

The European Union is currently struggling through a period of severe economic recession and Eurozone members are consumed by efforts to rescue the debt-ridden European south (Spain, Italy, Greece, and recently Cyprus).

⁵ <http://blogs.ft.com/beyond-brics/2012/05/02/croatias-shipyards-clock-is-ticking/#axzz2ORsz8Ffs>

⁶ "Croatia Debt rate cut to junk by S&P", Bloomberg, Dec. 14, 2012. See: <http://www.bloomberg.com/news/2012-12-14/croatia-debt-rating-cut-to-junk-by-s-p-on-lack-of-fiscal-resolve.html>

"Croatia Cut to Junk by Moody's on Fiscal External Risks", Bloomberg, Feb. 1, 2013

See: <http://www.bloomberg.com/news/2013-02-01/croatia-cut-to-junk-by-moody-s-on-fiscal-weakness-external-risk.html>

⁷ "Crisis ridden Croatian Government Lacks direction", *Oxford Analytica*, Monday-January 7 2013

⁸ Croatia 2013 Budget Draft Sees Wider Deficit on Debt Repayments, Nov. 19. 2012

<http://www.bloomberg.com/news/2012-11-19/croatia-2013-budget-draft-sees-wider-deficit-on-debt-repayments.html>

⁹ World Bank Projects mild recovery fro Croatia in 2013, DailyTPortal, 17.1 2013

¹⁰ "Croatia Yields Jump as IMF Help Ruled Out After Downgrade", De. 17 2012. See: <http://www.bloomberg.com/news/2012-12-17/croatia-yields-jump-as-imf-help-ruled-out-after-downgrade.html>

¹¹ Croatia 2013, Staff visiting Concluding Statement, IMF, Feb. 25, 2013. See: <http://www.imf.org/external/np/ms/2013/022513.htm>

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Unemployment rates hit new record highs across Europe, and growth has stalled. With the debt and credit crunch crises spilling over into the Eurozone, the Union's major net contributors were called to contain currency stability threats by pumping in large rescue loans into the ailing economies of the south, pressing for major structural reforms and public expenditure cuts. This situation is a key source of concern for Croatia, where 6 out of 10 people view joining the EU as an opportunity to work outside Croatia. On top of this, the exceptionally low turnout rate of registered voters (approx. 43%) in the January 2012 EU referendum, spurred reactions over the credibility of public approval for Croatia's EU accession.¹² Even more so, Croatian ultra-nationalists and neo-Yugoslav socialists, view the imminent accession as similar to entering the Titanic minutes before it sinks entirely into the depths of the ocean. Currently, the debate is whether Croatia will be joining a future federation of nation-states or a soon-to-be smoking hole in the ground?

On the one hand, when Croatia entered negotiation talks with the EU, it was not anticipated that the country's late accession would coincide with a burgeoning financial crisis. Conversely, no matter how important fiscal consolidation and discipline may be, joining the EU is not just about mere financial calculations, but it is primarily about developing and contributing to an evolving platform of synergies that would guarantee stability and exchange of assets by forging a sense of solidarity and togetherness. A recent opinion poll (conducted by Ipsos Puls), revealed that 38% of poll participants are against joining the EU, and there is an evident decline in support of accession (from 66% in 2012 to 53%). Despite the mounting fears and objections, the two major political parties (SDP/HDZ) are in steady favour of joining the EU.¹³ However, there is need to emphasize the short and long term benefits of membership. Firstly, once Croatia joins, it will receive a €10 million (20013-2020) structural fund, which if suitably handled, could propel the economy out of the crisis. Secondly, by joining the European Union, Croatia will be able to solidify investment security and facilitate the influx of capital investments from established partners such as Italy and Germany, and create new ones, like China. Once upgrades on Rijeka's Port terminal are complete (est. 2017), Croatia will be able to negotiate an investment plan that will provide the 'Visegrád Four' countries (Hungary, Slovakia, the Czech Republic, Poland) and Germany a faster and cheaper transfer of goods, through the shifting of shipping activity via Croatia to the Mediterranean.¹⁴ At the same time, while China eyes investment in the Port of Rijeka, through privatization, the EU creates the capacity for fighting corruption, simplifying bureaucratic processes, reforming the labour sector and increasing competitiveness.¹⁵ Thirdly, from July of 2013, Croatian exports will enter the internal European free economic zone which is expected to benefit export activity that penetrates external non-EU markets. Lastly, labour mobility and educational opportunities are naturally expected to increase. Bosnian-Croats with Croatian passports will also benefit from Croatia's accession, as they will be normally granted with equal labour and residence rights in the EU, bringing Bosnia-Herzegovina closer to further EU integration.

On the downside, Croatia will have to cope with uneven competition in the technology and manufacturing sectors, accept unrestricted entry of non-levied European goods, grant equal rights to the European labour force, and allow property rights to non-Croatian citizens. Croatia will be also called to face three important security, political and macro-economic challenges. First, the government will need to continue efforts to strengthen the effectiveness of border control systems with non-EU member states to reduce and prevent illegal immigration. Second, it will need to

¹² "Referendum nije prošao?!", *Dulist.hr*, Jan. 24, 2012. See: <http://www.dulist.hr/clanak.php?id=17376> "Zahtjev za povlačenje odluke na referendumu na Ustavnom sudu", *Vecernji list*, Jan 25, 2012

<http://www.vecernji.hr/vijesti/zahtjev-povlacenje-odluke-referendumu-ustavnom-sudu-clanak-369978>

¹³ "Ipsos Puls: Potpora ulasku u EU među najvišim zabilježnim", *Dnevnik*, Sep. 13 2012. See:

<http://dnevnik.hr/vijesti/hrvatska/ipsos-puls-potpورا-ulasku-u-eu-medzu-najvisim-zabiljeznim.html>

¹⁴ "Italian-Croatia in consortium to build new Rijeka container terminal", *International Port Technology*, 18 Apr., 2012 See: http://www.porttechnology.org/news/italian_croatian_consortium_to_build_new_container_terminal_in_rijeka

¹⁵ "Cosco eyes investment in the Port of Rijeka", *World maritime News*, April 25 2012

<http://worldmaritimeneews.com/archives/53140/shipping-giant-cosco-eyes-investment-in-croatian-port-of-rijeka/> "Roesler: Croatia must become more attractive for investments", *DailyTportal.hr*, 12.3.2013

See: <http://daily.tportal.hr/248606/Roesler-Croatia-must-become-more-attractive-for-investments.html>

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tackle a possible rise in far-right extremism, and a likely bolstering of xenophobia, which will require prudent government responses to control and contain. Finally, better sooner than later, Croatia will have to develop a viable alternative to counter-weigh fluctuations in the tourist industry, especially if it considers joining the Euro any time soon, which would inevitably mean devising a strategic economic plan that caters to intense privatization and strategic partnerships. Joining the Euro would be probably expected to weaken competitiveness as a result of the Euro's rigidity but fears are primarily centred on the idea that recession-marred Croatia will have to abide by the suffocating fiscal discipline imposed by the European Commission and Germany, creating further social discontent. The idea of imposing a transition moratorium in labour mobility on Croatian labour outflows into the rest of Europe, along with ongoing austerity plans, could exaggerate an already strong dissatisfaction with Europe. Although Croatia's pro-European current is evidently stronger, for reasons outside Croatia i.e. Euro-zone crisis, austerity and unemployment, pro-Europeans find it particularly hard to make a truly convincing case for the expected benefits of joining the EU. With muted enthusiasm and reduced expectations, the dominant position seems to be one that considers in Croatia's best interest to struggle through the crisis as a member of the Euro-club, instead of remaining on the sidelines.

Anchoring the Balkans

The crisis-ridden European societies and their wary political elites may need to come up with a convincing political answer to their tax-burdened citizens in order to justify the decision to incorporate Croatia into the EU at this very moment. As Croatia is intended to function as a paradigm and inspiration for the remaining Balkan states wishing to integrate, it is crucial for Croatia and for Brussels alike to show that reforms and harmonization will ultimately pay off, despite the admittedly painful process. By projecting the benefits of integration, the EU hopes to discourage the strong nationalist sentiment in the region, prevent further territorial fragmentation, and reinvigorate "Europeanism" in neighbouring countries, including Serbia, Bosnia, Kosovo, and FYROM. Croatia will need to accept responsibility as a leader in the Balkans in order to create conditions that are conducive to further integration across the region. As one of the major participants in the Yugoslav Wars, Croatia retained a strong influence in the politics of Bosnia-Herzegovina, and hence it could potentially act as a regional stabilizer, a local mediator, or even a potential regional problem-solver. In 2009, Croatia agreed to take a long-pending maritime border dispute with Slovenia to the International Court of Justice, and she has reached a mutually acceptable solution with Slovenia over a long-standing bank dispute concerning the liquidation of the Slovenian-owned bank Ljubljanska in Croatia, which resulted in the loss of Croatian-held savings amounting to some €172 millions. Croatia agreed to withdraw lawsuits against Slovenia and took the bilateral matter to the Bank for International Settlements in Bern. These settlements of major bilateral disputes with neighbouring Slovenia have inaugurated a fresh cycle of friendly relations between the two countries. Similarly, Croatia has successfully managed to strike a deal with Bosnia-Herzegovina on the use of the Ploce Port, a major transit point for Bosnia's exported goods. Croatian Minister of Foreign Affairs Vesna Pusic, and her Bosnian counterpart Zlatko Lagumdžija, met in Brussels on February 22 and agreed to allow Bosnia access of the Adriatic port with the provision that Bosnia's animal products observe EU standards. The agreement ensures that the export and import of Bosnian industrial and agricultural products will continue unhindered even after Croatia joins the EU on July 1st.¹⁶ Furthermore, Croatia proposed to other EU countries to allow entry of Bosnian citizens with identity cards after July 1st, but Enlargement Commissioner Štefan Füle stated that this decision would need to be made by the European Council.

Yet the road towards further EU-Balkan integration is a rugged one, marred with old wounds and long-standing grievances. Many Bosnian-Croat citizens have dual passports and the possibility that Bosnian Croats would take

¹⁶ "Croatia solves challenges with Bosnia, readying for EU", Press TV, Feb 22 2013. See: <http://www.presstv.ir/detail/2013/02/22/290242/croatia-solves-challenges-with-bosnia-readying-for-eu/>

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advantage of their Croatian citizenship to try out European labour market opportunities is becoming a distinct reality. The EU needs to take into account the delicate political balances within Bosnia, and consider ways in which the potential strengthening of the mobility, role and influence of the Bosnian Croats will not affect the neighbouring country's fragile ethnic composition. The key task is to project the tangible benefits of Croatia's accession into the EU as an inspiration that accelerates the pace of reforms in Bosnia. Nevertheless, without ignoring the inherent post-conflict legacies in the Balkans and the potency of existing divisions, it now seems that including the Balkans into Europe will no longer be a Herculean task. In reality, the question seems to be whether Europe is willing and capable to commit itself to a fresh round of Balkan enlargement.

Furthermore, Croatia's forthcoming accession into the EU creates the opportunity to redefine the nature of Serbo-Croatian relations within a collaborative European context. Croatia's firm commitment to facilitate regional integration without posing hindrances related to outstanding bilateral issues between neighbouring states highlights the essential spirit of this attitude. Moving towards a mutual withdrawal of genocide lawsuits to the International Court of Justice is a constructive move to this direction, as it helps to depoliticise the process of refugee repatriation, missing persons and cultural heritage, and prevents further victimization or vengeance in the eyes of the international community. Developing mutual stability stakes in the region and strengthening the nexus of security interdependencies is crucial to achieving further integration. The objective is to shift away from the 'politics of conflict' to the 'politics of profit', substituting parochial nationalism with more rights and opportunities for both the Serbian and the Croatian citizens alike.

At the Edges of South Eastern Europe

In view of the 2014 Greek EU Presidency, Croatia and Greece will need to undertake a leading role in re-energizing the process of EU enlargement for the remaining countries in South Eastern Europe. Croatia's conduct through a difficult though successful accession route into the European community and Greece's efforts to overcome a terrible economic crisis, produce paradigms of endurance and determination. We should hopefully expect that the forthcoming Greek EU Presidency will help revive and inspire regional EU processes of democratization and economic reform. In his recent visit in Zagreb, Greek Foreign Minister Dimitris Avramopoulos met with Croatian Foreign Minister Vesna Pusic and both expressed their will to solidify bilateral relations, form partnerships in the energy sector, tourism and culture, and assist the remaining Balkan countries to join the EU. Greek-Croat relations reveal a sheer potential for deeper cooperation and improvement on a set of similar economic objectives including the further development of shipping and maritime ties, tourism (Adriatic-Ionian), and wine-making and agricultural production, inducing thus a flourishing sense of convergence that will ideally reach out to the heart of the Balkan Peninsula.

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