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**A Brief Profile of Croatia, In Light of its Accession to
the E.U. in July**

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A BRIEF PROFILE OF CROATIA, IN LIGHT OF ITS ACCESSION TO THE E.U. IN JULY

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HISTORICAL AND FINANCIAL ASPECTS OF CONTEMPORARY CROATIA

Croatia was a constituent part of the former Federal Yugoslavia since the end of WWII. The end of the Cold War and the conflict of the local nationalist movements brought the collapse of the biggest state in Balkans in early 1990's. Croatia followed the example of Slovenia and declared its independence in 1991. Until 1995, Croatian forces aided by NATO defeated the Serbian army and paramilitary organizations in a conflict that caused thousands of deaths and further aggravated the relations between the people of former Yugoslavia. Croatia, which had been one of the wealthiest parts of former Yugoslavia, suffered badly during 1991-1995. The loss in human lives and in the economic structures were serious enough to delay the evolution of the country after the war for more than a decade.¹

Croatia is a service-based economy (70% of GDP). Tourism is considered as the main economic activity, given its share in GDP and employment. Shipbuilding and chemical industry constitute about 25% of GDP and make an important contribution in exports.² Croatia faces major financial and social challenges in face of its entry into the E.U. The financial and debt crisis of the Eurozone aggravate the severe problems that already existed in the Croatian economy even more, such as a high unemployment rate (19% in 2012), a rising percentage of public debt (66%, in 2012) and also a high percentage of

¹Tanner, Marcus (2001), "Croatia: A nation forged in war", Yale University Press

²International Monetary Fund, *Republic of Croatia and the IMF*, 20-04-2012, available at:
<<http://www.imf.org/external/country/hrv/>>

population below the poverty line (21% in 2011). Croatia's economy has been in recession since 2008, thus lowering the level of GDP by more than 10%. This makes one of the greatest challenges that both the European and Croatian authorities have to face during and after accession.³

Standard and Poor's downgraded Croatia in December 2012 to the lowest investment status, known as "junk". The ex prime minister Z. Milanovic rebuffed suggestions that the country would need a bailout from the IMF.⁴ Moreover, Moody's downgraded Croatia's credit rating from Baa3 to Ba1, citing poor economic growth prospects and the government's lack of fiscal flexibility. The report stated that "the government's capacity to re-balance the economy toward exports is intrinsically limited. The country's expected forthcoming E.U. accession is a positive development... however, the European economic environment and the government's reform inertia are likely to limit the benefits expected to arise from E.U. accession".⁵

CHANGES IN THE EU POLICIES AND INSTITUTIONS CAUSED BY ACCESSION OF CROATIA

In the context of Cohesion Policy, the entry of Croatia will add two regions in the NUTS system, the region of Continental Croatia (64.1% of EU average GDP) and the region of Adriatic Croatia (62.1% of EU average GDP). Although the Croatian government had previously mooted plans to divide Croatia into five separate regions, including

³The report of the European Bank for Reconstruction underlines that "overall lack of competitiveness in the economy, accession may help to revive confidence and investment."

⁴ Bloomberg News, *Croatia Debt Rating Cut to Junk by S&P*, 14-12-2012, available at: <http://www.bloomberg.com/news/2012-12-14/croatia-debt-rating-cut-to-junk-by-s-p-on-lack-of-fiscal-resolve.html>

⁵ Reuters News, *Moody's Downgrades Croatia*, 31-01-2013, available at: <http://www.reuters.com/article/2013/02/01/ratings-croatia-idUSWNA000XJ20130201>

one which would encompass the capital city, the European Commission did not allow this specific way of dividing up regions.⁶

Regarding the financial means that will be in the disposal of the Croatian authorities after complete accession, in the second half of 2013, the total EU funds approved for Croatia will be 687,5 million euro. On the contrary, Croatia's payments to the EU budget in the same period of time are estimated to 267,7 million euro.

According to the multiannual financial framework for the period 2014-2020, total funds earmarked for Croatia amount to 13.7 billion € approximately. Concerning the funds, the majority will be absorbed by projects on the improvement of the transport infrastructures (a critical sector for the economy of Croatia) and supporting the modernisation and competitiveness of small and medium enterprises (SMEs), which constitute the base of Croatian economy. The rest of the amount will be absorbed by the agricultural sector and green investments.⁷ The inflow of FDI particularly by the main economic partners such as Italy, Austria or Germany is one of the main expectations of the Croatian authorities by the partial accession of the country in the Single Market. Foreign direct investments declined since 2009, indicating an unfavorable investment environment in the country.

Regarding the entry into the Schengen Zone, the low performance of the country in the field of confrontation of illegal immigration and organized crime creates obstacles. Several member-states have set stricter criteria in relation to the previous round of Balkan enlargement (Bulgaria & Romania in 2007). It is estimated that Croatia would enter the Schengen Zone in 2015 if the country fulfills all the necessary criteria. Surveillance of the state's internal borders, surveillance of land, sea and air borders, issuing of visas,

⁶ EU Observer, available at: <euobserver.com/regions/1175989>

⁷ Position of the Commission Services on the development of Partnership Agreement and programmes in the republic of Croatia for the period 2014-2020, available at: <<http://bit.ly/YEORWH>>

police cooperation and protection of data are the aspects to be integrated into the Schengen information system.⁸

Regarding the participation in the European Parliament, after July 1, 2013 and the definite accession in the E.U., Croatia will participate with twelve deputy MPs. The elections for 12 members of the European Parliament were held in April 14, 2013 and were characterised by a low turnout of 20,74%. The opposition centre-right HDZ party won 6 MEP seats with 33,1% votes, whereas the ruling SDP came second with 31,5%, thus gaining 5 seats. The nationalist Labour Party obtained 5,7% of the votes and gained 1 seat.⁹ They will then lose their posts about a year later, with a new set of Croatian MEPs to be chosen as part of the general EU election in mid-2014. Regarding the participation of the new Balkan member-state in the European Council and in the Council of the European Union, Croatia will have seven votes. After definite accession, Croatia will also hold an additional seat in the European Commission. The European Commission announced the placement of Neven Mimica in the EU Consumer Protection portfolio. This placement means that the Health and Consumer Protection portfolio of Maltese Commissioner T. Borg will be split in two. The Croatian commissioner had been expected to take a “Tourism” portfolio because of the country's well-developed tourism sector. However such portfolio does not already exist and tourism falls under the Industry and Entrepreneurship portfolio.¹⁰

⁸ Croatian Times News, *Croatia Could be in Schengen by 2015*, 07-02-2011, available at: <http://croatiantimes.com/?id=16990>

⁹ EURACTIV, *Croatia's First European Election Marked by Low Turn-Out*, 15-04-2013, available at: <http://www.euractiv.com/elections/low-turnout-marks-croatia-europe-news-519099>

¹⁰ EURACTIV, *Croatia Handed EU Consumer Protection Portfolio*, 26-04-2013, available at: <http://www.euractiv.com/enlargement/croatia-commissioner-attributed-news-519388>



Map, The Two Regions of Croatia in the NUTS System

THE DEBATE ON CROATIAN ACCESSION

The accession of Croatia has been a topic of much debate, either domestically or internationally; it has been a so called “hot potato” – proof thereof being the numerous hard approaches put forward by prominent analysts and pro-expansionist countries, such as an article on the CNN entitled “*Did Croatia get lucky on EU-membership?*” In this article, a prominent British researcher is quoted, expressing the view that Croatia’s accession has been a case not only of luck, but also of the right “friends in the right places”.¹¹

The reasons for such skepticism, or even open opposition to the accession of Croatia, lay in numerous problematic spots and burdens of the -not so distant- Croatian past. For example, Srdoc and Samy-co-founders of the Adriatic Institute for Public Policy who specialize on Croatia and its economy- emphasize the need for extensive reforms, in

¹¹ CNN News, *Did Croatia Get Lucky on EU Membership?*, 21-01-2013, available at: <http://edition.cnn.com/2013/01/10/business/croatia-eu-accession>

order to rid the country of ill-mentalities of the past, involving the corruption of high-ranking state officials and politicians and the embezzlement of huge amounts of money.¹² The latter derived from various illegal activities, such as the illegal sale of passports, the smuggling of weapons, women and drugs through the nefarious “Balkan Route” (from Afghanistan-Pakistan through Iran and towards Europe), bribing of officials or tax evasion. In light of these problems and the accompanying high levels of criminality and corruption, the writers suggest that the EU rethinks its policy of financial aid towards Croatia and call for its association with the much needed reforms, starting from the judiciary system. The intensity of the problem of human trafficking is further illustrated by concerns of the British MPs, expressed during a debate in parliament on British ratification of Croatia’s entry treaty, in November 2012.¹³ The main topic of concern was the over-expansion of Community borders which weakens border controls – a problem that is further aggravated by the unreliability of the Croatian police force, and potentially leads to the inflow of illegal immigrants. In support of Croatian accession, deputy foreign minister David Liddington stressed out the fact that Croatia has no intentions of joining the Schengen area before 2015 – until then the British government will be able to impose its restrictions on the number of Croatian workers to work in the UK, whereas the EU has reserved the ability for itself to suspend the full-membership of a country, in case that it fails to comply with the fundamental standards of human rights and democratic values stated in the Community acquis.

Even in pro-European countries, however, further enlargement does not come without skepticism. For example, in a rather surprising statement in October 2012, just a few months before the declared date of accession, the Bundestag leader, Norbert Lammert, said that

¹² EU Observer, *EU Should Stop Funding Croatia’s Corrupt Networks*, 17-01-2013, available at: <<http://euobserver.com/opinion/118760>>

¹³ EU Observer, *British MPs Question Croatia’s EU Credentials*, 07-11-2012, available at: <<http://euobserver.com/enlargement/118118>>

Croatia was not yet ready to join the EU.¹⁴ In his view, the enlargement of the EU should freeze until consolidation and stabilization have been achieved among the already existing members. Although this statement was made on a personal rather than national level, the official position of the German government was not without reservation concerning some “remaining deficiencies” which should be tackled “within the stated timeframe”.

On their side, Croatians are equally skeptical -but at the same time enthusiastic- about the prospect of inflowing Community funds. Among many concerns, the director of S&B regional development agency, Stejpan Ribic, stresses the differences in the development of the resulting two NUTSII regions of Croatia, namely Continental and Adriatic Croatia.¹⁵ The disparities within regions themselves, along with their unequal economic dynamics, forebode their consequent unequal access to EU aid money. Prominent Ivo Josipovi, president of Croatia, has explained how Croatians view the EU: “as highly developed, where everyday life is easier and more successful than in other countries.” This makes the EU an attractive dream, whereas he views the crisis as the only setback for a similar approach in the future.¹⁶ After all, the referendum of January 2012 revealed that the two thirds of Croatians are in favor of the accession, although the turnout of the voters was low (43,67% of a total 1,955,326 voters), thus reaffirming the tendency of low involvement of the citizens with European affairs. Vice President of Croatian government Domagoj Ivan Milošević expressed his conviction that the country’s participation in the free market will boost investments. In the same spirit, Croatian businessmen appear optimistic and stress potential benefits for

¹⁴ Euractiv, *German Skepticism on EU Enlargement Hits at Croatia*, 15-10-2012, available at: <<http://www.euractiv.com/enlargement/german-enlargement-skepticism-hi-news-515410>>

¹⁵ EU Observer, *Miffed Croatian Region Fears Unequal Access to EU Money*, 15-10-2012, available at: <<http://euobserver.com/regions/117598>>

¹⁶ Euractiv, *Europe? An Opera With a Happy Ending, Says Croatian President*, 06-06-2012, available at: <<http://www.euractiv.com/enlargement/europe-opera-happy-croatian-pres-news-513133>>

tourism and other sectors, while underpinning the various accompanying benefits from EU funding.

On the other side lay the economists who retain their objections and doubts, such as Zoran Aralica of the Institute of Economics of Zagreb, who point out the numerous risks arising from participation in the free market. Croatian enterprises lack the technical knowledge and capabilities to carry out transactions with the new regional markets of Europe, whereas SMEs are particularly exposed, as they could find themselves in disadvantage in their attempt to penetrate into an expanded market; their lack of competitiveness could have such negative effects as losing the already existing markets they operate in. Like many others, the economist concludes by stressing the importance of potential inflows of Community funds, which have to be secured through increased government readiness to draw complete, mature and feasible plans eligible for funding.¹⁷ In relation to political theory, this thesis seems to be in line with the findings of Bourantonis et al., who suggest that financial transfers concerning regional policy affect in the long-run the acceptance of European integration by the citizens of the member-states.¹⁸

The process of ratification by national parliaments is still pending, as a number of countries have expressed their intention to wait until the publication of the latest progress report of the European Commission, which is expected to verify whether Croatia has remained faithful to its ten remaining commitments, as they were specified in the previous report of October. By this time, the parliaments of Slovenia, Germany and Denmark have not ratified the Accession Treaty yet.¹⁹

¹⁷ Southeastern Times, *Η Ένταξη της Κροατίας στην ΕΕ και η Οικονομία*, 05-08-2011, available at: <<http://www.setimes.com/cocoon/setimes/xhtml/el/features/setimes/features/2011/08/05/feature-05>>

¹⁸ Buradonis, D. & Kalyvitis, S. & Tsoustoplides C. (1998) "The European Union and Greece: Political Acceptability and Financial Transfers", στο *Politics*, Vol. 18, No. 2, May 1998: pp. 89-99.

¹⁹ EUROPA, *Treaty of Croatia's Accession to the E.U.-Ratification Process*, available at: <<http://www.delhrv.ec.europa.eu/?lang=en&content=3935>>

THE PROCESS OF NEGOTIATION: POINTS OF FRICTION

One major issue that hampered the process of negotiation has been the border dispute between Croatia and Slovenia, the latter demanding that the issue was settled before the accession. As a result, the negotiating process was frozen for 10 months, until April 2010 when Slovenia decided to vote in favor and without prejudice of the international mediation in the border dispute.²⁰ The dispute dates back to 1991, when the two countries became independent from the Yugoslav state. Slovenia's main concern has been a possible inhibition of its access to the sea, due to its restricted coastline.

The next major issue was the referral of numerous Croatian citizens to the International Criminal Tribunal for the Former Yugoslavia (ICTY), for war crimes they had committed during the war of 1995. After all, the insistence of the EU on the rule of law and respect for human rights is indicative of its requirements, not only of its member-states but also of its partner-countries, with which it maintains commercial relations (the case of Russia is such an example, as it is one of the major energy suppliers of the EU, whereas it has often been blamed for infringements of the human rights of its citizens). In the end, the Croatian government decided to fully cooperate with the Hague tribunal, acknowledging that the overseeing of Croatia's adaptation efforts by the EU bodies has been crucial for the implementation of necessary reforms.²¹

As already mentioned, a monitoring report on Croatia by the European Commission is expected to be published in March 2013, in order for the level of preparedness of Croatia to be defined. According to the Commission's previous report in last October, a number of

²⁰ BBC News, Slovenia Unblocks Croatian EU Bid, 11-09-2009, available at: <http://news.bbc.co.uk/2/hi/europe/8250441.stm>

²¹ EURACTIV, Croatia Sees Breakthrough in EU Talks, 15-06-2010, available at: <http://www.euractiv.com/enlargement/croatia-sees-breakthrough-eu-tal-news-495240>

obligations require further efforts by Croatia, so that it will be fully prepared by the declared date of accession, i.e. 1st of July. The issues under question are the following: signing of a privatization contract for the Brodotrogir shipyards; *implementation* of proposed measures for the better functioning of the judicial system; *adoption* of new enforcement legislation, in order to ensure better execution of court decisions; *establishment* of the Conflict of Interest Commission; *adoption* of a new law on the access of information; *adoption* of by-laws to ensure the implementation of police law; *construction* of border crossing points at the Neum corridor; *achievement* of recruitment targets for better border police controls; *completion* of migration strategy for the optimal integration of migrants; *full translation* of the Community acquis before accession (114,000 out of the 144,00 pages have been translated so far); *accreditation* of the agency for payments in agriculture.²²

²²Commission Staff Working Document, Comprehensive Monitoring Report on Croatia, 10-10-2012, available at:
<http://ec.europa.eu/enlargement/pdf/key_documents/2012/package/hr_analytical_2012_en.pdf>