

Croatia: Political Evolution and Relations with the EU

Panorama

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210

Apart from negotiating its EU membership and being the frontrunner in South-Eastern Europe, Croatia has been a full member of the Union for the Mediterranean (UfM) since 2008. Its geographical position affords it possibilities to play a “bridging” role between Central, Eastern and South-Eastern Europe and the Mediterranean. Croatia welcomed the different components of the reformed Barcelona Process, particularly the opening up towards all coastal Mediterranean countries, including those on the Adriatic, the strengthening of the political relationship, the stronger “ownership” of the process, the cooperation on equal footing and the greater visibility of the relationship through major regional and sub-regional projects. The pooling of efforts and resources will hopefully contribute to dealing with common problems and challenges in the Mediterranean region. In March 2009, the Croatian Parliament expressed its intention to join the Euro-Mediterranean Parliamentary Assembly (EMPA). Croatia already benefits from EU funds for transport, the environment and civil protection in the Mediterranean. The Croatian network for Euro-Mediterranean cooperation, coordinated by the National Foundation for Civil Society Development, is one of the fastest growing national networks in the Anna Lindh Foundation. Croatian academic society took part in developing the joint strategy “Mediterranean 2020.”

The year 2009 was supposed to be a crucial one for concluding Croatia’s negotiations on EU membership. However, it was a year of internal political transformations, characterised by unexpected changes in the government, the impact of the economic recession, the fight against corruption, the continuation of negotiations with the EU and presidential elections.

Europeanisation of Governance Practice

In Croatia the year 2009 was strongly marked by changes in the government. Croatia’s Prime Minister Ivo Sanader, the former leader of the Croatian Democratic Union (HDZ), unexpectedly resigned on 1 July in the middle of his second term. He was first elected in 2003 and was re-elected in November 2007. Sanader’s resignation came as a total surprise for the country and international observers, and he left questions about the reasons for his decision completely open. His work had previously been well-regarded in the EU, where he had a good reputation, but in the final months of his political career, and particularly after his resignation, his name was linked to several corruption scandals in the country. The timing of his resignation was extremely bad – the economic situation in the country was unfavourable with clearly visible spill-over effects from the global crisis, while the negotiations with the EU were blocked. Having once been a political winner (his government began the accession negotiations with the EU in 2005 and led the country into NATO in early 2009), he became a political loser overnight.

Sanader was succeeded as Prime Minister on 6 July by his former deputy Jadranka Kosor, also from the HDZ party. The new Prime Minister soon proved to be a strong leader, determined to maintain Croatia’s commitment to EU accession and efficiently tackling corruption, the economic recession, relations with Slovenia and the ongoing negotiations with the EU. Kosor has deepened a series of reforms and launched investigations into state-owned firms. Sanader’s resignation does not seem to have marked a definitive intention to withdraw from active politics. On the contrary, his come-back bid in early 2010, seen as an attempt to interfere with the government and leading party activities, resulted in his exclusion from the party, where he had held the

position of honorary president since his resignation in July.

The new Prime Minister Kosor has given impetus to the Europeanisation of governance practice, showing strong political will and support for the fight against corruption and organised crime. Investigations on high-level corruption have been initiated, and several highly positioned managers and officials have been detained. The Deputy Prime Minister in charge of economic policy has resigned, and the immunity of certain former politicians has been lifted. The total number of corruption cases investigated so far has increased and the legislative framework has been improved. Several cases with state-owned companies in particular, including Podravka, Croatian Motorways, INA (the national oil company) and others, could be mentioned as examples. However, much remains to be done to foster a culture of political accountability for corruption at all levels.

It should be mentioned, by way of example, that according to the *Global Corruption Report 2009* published by Transparency International, Croatia ranked 62 out of 180 countries, with a score of 4.1. The scores, ranging from 0 (totally corrupt) to 10 (no corruption), show how a country compares to others in the index and indicate the perceived level of public-sector corruption in a country. In 2009, Croatia scored lower than in 2008 (4.4), meaning there is a need for more efficient implementation of reforms in public administration (where public procurement remains the main source of actual and potential corruption) and the judiciary.

In late autumn Croatia was the scene of hard-fought presidential campaigns. The highly-educated, pro-Europe, Social Democrat law professor and classical music composer Ivo Josipović won the Croatian presidential elections on 10 January 2010. Josipović campaigned under the slogan “Justice for Croatia,” focused on the fight against corruption and won with the support of over 60% of the voters. The newly elected President Josipović is expected to forge an efficient alliance for reform with the Prime Minister, which could help to achieve the critical mass between the two strongest parties required to bridge their different interests. While most of the executive power, especially on economic issues, lies with the Prime Minister, the President has control over the armed forces and co-creates foreign policy with the government. He is moreover responsible for the overall functioning of the state governance system through coordination and oversight of the work of state authorities.

Towards a Slow Economic Recovery

Initially, the country was not so strongly affected by the crisis, thanks to the wise policy of the Croatian National Bank, which aimed to curb loans and foreign debt. In March, the magazine *The Banker* named Governor Željko Rohatinski both Best Central Bank Governor in Europe and Best Central Bank Governor in the World in 2008. The measures undertaken by the National Bank helped the economy ride out the first wave of the crisis more easily. However, in the first nine months of 2009, the GDP dropped by almost 7%, as compared to the previous year when the Croatian economy grew at an annual rate of 5.5%. This came on the heels of seven years of continuous growth. The fall could partly be attributed to spill-over from the global crisis, but at the same time it was the result of economic weaknesses in the country accumulated in previous years. Public consumption and investment were down, in contrast to public spending, which remained high, accounting for some 48% of GDP. The country is heavily indebted, with an external debt of more than 80% of GDP. However, in spite of these negative trends, its macroeconomic stability has been preserved. Croatian political analysts forecast that a slow economic recovery may begin at the end of the year.

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The National Bank has warned that the recession will not be resolved if it is understood merely as a “temporary halt” to positive long-term trends in economic growth and development. On the contrary, it must primarily be regarded as a warning of the consequences of neglecting the sustainability of economic growth. Dealing with problems in an efficient and targeted way and speeding up reforms are seen as a much better solution than relying on the IMF (Ro-

CURRENT STATUS OF CROATIA'S ACCESSION NEGOTIATIONS (UPDATED 30 JUNE 2010)

Provisionally Closed Chapters

1. Free Movement of Goods (19 April 2010)
2. Free Movement of Workers (2 October 2009)
3. Right of Establishment and Freedom to Provide Services (21 December 2009)
5. Public Procurement / CB: 3 (19 December 2008)
6. Company Law (2 October 2009)
7. Intellectual Property Law (19 December 2008)
9. Financial Services (27 November 2009)
10. Information Society and Media (19 December 2008)
15. Energy (27 November 2009)
16. Taxation / CB:3 (2 October 2009)
17. Economic and Monetary Policy (19 December 2008)
18. Statistics (2 October 2009)
19. Social Policy and Employment (21 December 2009)
20. Enterprise and Industrial Policy (25 July 2008)
21. Trans-European Network (2 October 2009)
25. Science and Research (12 June 2006)
26. Education and Culture (11 December 2006)
28. Consumer and Health Protection (27 November 2009)
29. Customs Union (2 October 2009)
30. External Relations (30 December 2008)

Open Chapters

4. Free Movement of Capital / CB: 3 (2 October 2009)
11. Agriculture and Rural Development / CB: 3 (2 October 2009)
12. Food Safety, Veterinary and Phytosanitary Policy / CB: 3 (2 October 2009)
13. Fisheries (19 February 2010)
14. Transport Policy / CB: 4 (21 April 2008)
22. Regional Policy and Coordination of Structural Instruments / CB: 7 (2 October 2009)
24. Justice, Freedom and Security / CB: 4 (2 October 2009)
27. Environment (19 February 2010)
32. Financial Control / CB: 5 (26 June 2007)
33. Financial and Budgetary Provisions / CB: 1 (19 December 2007)

Chapters Still to Be Opened

Pending Confirmation by the EC and/or Council that Croatia Has Met the Opening Benchmarks	Chapters Blocked by Slovenia
8. Competition Policy / OB: 4 23. Judiciary and Fundamental Rights / OB: 3	31. Foreign, Security and Defence Policy

CB: Closing Benchmark, OB: Opening Benchmark

Chapter 34 concerns 'Institutions' and Chapter 35 deals with 'Other Issues'. They are not included in the table, as once Croatia has joined the EU, the necessary changes will be made to ensure its equal representation in EU institutions. As for Chapter 35, it will be dealt with at the end of the process should any miscellaneous issues arise.

Source: www.delhrv.ec.europa.eu/files/file/tablice%20pregovora/Negotiations%20-TABLICA_ENGL19.doc and www.eu-pregovori.hr/DOWNLOAD/2010/07/02/Progress-in-EU-Croatia-accession-negotiations-M.pdf

Panorama

Med.2010

212

hatinski, 2009). The government's first, highly unpopular response to the economic crisis was to cut public-sector wages. This was followed by three budget adjustments, which were too small to close the gap. Heavier budget cuts, increasing budgetary revenue and sound fiscal policy will be crucial in the coming period. The key challenges remain deeper and faster structural reforms that reduce state interventions in the economy, stimulate employment and remove administrative barriers from the economy. The problems seem to have evolved from "over-accelerated growth" to "hard lending." Key policy players are focussing on how to mitigate the effects of the spill-over from the global crisis on the country and reduce deficits and imbalances. However, the National Competitiveness Council has warned that decisiveness and speed in implementing structural reforms, further market liberalisation and developing a

business-friendly environment are crucial to increasing economic competitiveness. In this regard, Croatia's global competitiveness has stagnated or even fallen since 2006. In its *Global Competitiveness Report 2008-2009*, the World Economic Forum ranked Croatia 61 out of 134 countries (as compared to 57 in its previous report). Nevertheless, in spite of these economic problems, Croatia remains the best performing country from South-Eastern Europe engaged in the EU accession process and a regional success story, playing the role of anchor for political stability in the region.

The End of Negotiations with the EU in Sight

The accession negotiations with the EU, which started in 2004, fell behind schedule in 2009 when

they were blocked by neighbouring Slovenia for nine months beginning in December 2008. The reason for this was a bilateral border dispute regarding Piran Bay. The European Commission's indicative Road Map for concluding the technical negotiations by the end of 2009 therefore could not be met, and its attempts to find a solution bore few results. The two countries were expected to find their own way out. The Croatian view that bilateral issues should be dealt with separately from the negotiations was not accepted. Bilateral negotiations between the Prime Ministers of Croatia and Slovenia (Kosor and Pahor) led to an agreement on 11 September 2009 on the means for resolving the bilateral border dispute. The Croatian-Slovenian arbitration agreement, signed on 4 November, laid the foundations for fully resolving the border dispute once the ratification procedure had been completed by both countries' Parliaments. This marked the re-opening of the negotiations on Croatia's EU membership.

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By the end of 2009, Croatia had opened 28 of the 35 negotiating chapters, and 17 of them had been provisionally closed. The five remaining chapters are competition policy, fisheries, judiciary and fundamental rights, the environment and Common Foreign and Security Policy (CFSP). Three of these are still being blocked by Slovenia. The most difficult chapter seems to be that on judiciary and fundamental rights, including the fight against corruption and organised crime. The promotion of minority rights, including refugee return, the holding of war crime trials and the provision of access to documents for use by the International Criminal Tribunal for the former Yugoslavia (ICTY) are high on the agenda. Another important issue is public administration reform, which means strengthening the procedures and administrative capacities of relevant institutions, strengthening the civil service and depoliticising the public administration. Competition

policy is likewise an important area, where the restructuring and privatisation of shipyards is slowly approaching the final stage.

The financial package for Croatia's first two years of EU membership was adopted in December, based on the "working hypothesis" that Croatia will join the EU in January 2012. Similar packages were prepared for the countries that joined the EU in its fifth enlargement. The package covers the first two years of eventual EU membership, namely 2012 and 2013, which are also the last two years of the current seven-year EU Financial Perspective. Around €3.5 billion of EU budgetary funds will be allocated to Croatia. This is significantly higher than the current level of pre-accession support, and the absorption capacity in public administration should thus be raised. Croatia will be able to access most of the resources through the Cohesion and Structural Funds, as well as through direct payments to farmers and funds for rural development and fisheries. Finally, according to Commission estimates, Croatia is expected to pay €609 million into the EU budget in its first year of EU membership and €647 million in 2013. The work on drafting the Accession Treaty began in December 2009.

The recession seems not to have strongly affected the attractiveness of EU membership in Croatia, bearing in mind that support for accession was never very high even before it hit. Support for membership among Croatian citizens is rather low and varies according to different public opinion surveys. The Autumn 2009 Eurobarometer Survey showed only 24% of Croatian citizens supporting EU membership. Lower support was found only in some of the new EU Member States most strongly hit by the crisis (e.g., Latvia 23%). Some Croatian public opinion polls have shown a more optimistic attitude towards EU membership, albeit still not much higher than 50%. However, the government will have to make an additional effort to communicate with citizens regarding EU accession and focus on elaborating the benefits of future EU membership. According to current provisions of the Croatian Constitution (Article 141), accession to the EU must be confirmed in a referendum by a majority of the total number of electors in the country, which would be very difficult to achieve in current circumstances. Together with other necessary amendments to be made to the Constitution due to the requirements of different negotiation chapters, this issue is also being debated in the country. The work on Constitutional

amendments began in October 2009, and the result is expected to establish similar requirements regarding the referendum on EU membership to those found in other acceding countries.

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In 2009, public attention was focused on two key issues affecting Croatian accession to the EU. The first was the EU's ability (or inability) to act as a soft power in finding solutions to bilateral disputes between EU Member States and acceding countries that hamper the negotiation process (such as Croatia and Slovenia, Turkey and Cyprus, or Macedonia and Greece). The second was EU institutional transformation and ratification of the Lisbon Treaty. The Treaty's entry into force paved the way for Croatia's and other accessions to the EU. Being the first country in the queue for EU membership, Croatia followed the ratification process pri-

marily from the vantage point of its potential impact on enlargement.

The forecasts regarding the conclusion of negotiations with the EU are optimistic. Croatia may be able to conclude all the chapters by the end of 2010, if the speed of the reform process allows it to meet all the remaining benchmarks. How fast the Accession Treaty is ratified will be another key factor in defining the date of accession, which is unlikely to be earlier than 2012 or early 2013. However, the success of the accession process will ultimately depend on how effectively Croatia implements the reforms.

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