



## TEPSA POLICY PAPER

# 'CROATIA'S FIRST YEAR OF EU MEMBERSHIP: HAVE THE EXPECTATIONS BEEN FULFILLED?'

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### 1. INTRODUCTION

The first anniversary of Croatia's membership in the European Union revealed the experiences of the first country from a new wave of EU enlargement which joined the Union in economically different circumstances and passed through a more demanding negotiation process. In contrast to the EU 2004/2007 enlargements, Croatia acceded to the EU as a single country and the accession did not cause stronger impact on the EU institutions or policies, due to the fact that Croatia is a small state with some 4.3 million citizens and some 56,600 square km land area.<sup>2</sup>

One year of the EU membership is too short period for a thorough evaluation of its impacts. Still this initial experience could be considered as a lessons learned for the political elites, citizens and the countries of the Western Balkan region who might be next in line for EU accession. These are the main issues covered by this paper.

### 2. PERCEPTION OF THE CITIZENS

Croatian citizens had mixed feelings after one year of EU membership because the achievements were overshadowed by the economic problems and slow reforms of the Government. The first anniversary of membership was not followed by big celebrations in the country which is passing through the sixth year of recession. There was no big enthusiasm of citizens regarding its impacts on their everyday life.<sup>3</sup> This is to a certain extent understandable, because the EU membership is a project for the generations and not all of its benefits could be seen in the short run. The most visible changes have been made during the accession process through which Croatia became a better society with improved institutions. While the political elites emphasized the progress made in different areas during the first year of membership,<sup>4</sup> citizens had expected a higher standard of living. The benefits from the freedom to work and travel to the EU, the participation on internal market and the right to study abroad did not meet their expectations.

Croatian citizens shared rather realistic attitude towards the EU in the time of accession, being aware that the crisis was not the best timing for joining the EU. In spring 2013, before

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<sup>2</sup> Eurostat: <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tps00001>.

<sup>3</sup> Hasselbach, Christoph. Opinion: Disillusionment on Croatia's first EU anniversary. Available at: <http://www.dw.de/opinion-disillusionment-on-croatias-first-eu-anniversary/a-17753326>.

<sup>4</sup> According to Croatian President Ivo Josipovic, the situation is not rosy, but it is not gloomy either. See: Round table held on effects of first year of Croatia's EU membership. Office of the President of Republic of Croatia. June 30, 2014. Available at: <http://dalje.com/en-croatia/round-table-held-on-effects-of-first-year-of-croatias-eu-membership/513545>.

the accession, some 46% citizens had positive perception of the EU.<sup>5</sup> In autumn, a few months after joining the EU, the situation did not change dramatically. The trust towards the EU institutions was moderate (European Parliament 44%, European Commission 43%), but it is important to mention that it was significantly higher than trust in national institutions (12% to 19% respectively).<sup>6</sup> In comparison with the other EU members the pattern of citizen's attitude is similar to the EU average, but the intensity differs.

Although there was no wider public opinion survey undertaken in Croatia after one year membership experience, the general impression was a lack of enthusiasm regarding its' impacts. One can question however, the level of knowledge and awareness of citizens about their rights. The Eurobarometer survey (October 2013) showed that only a small majority of Croatian citizens (58%) really felt citizen of the Union (which was close to the EU average of 59%).<sup>7</sup> The minority of Croatian citizens were aware of their rights being the citizens of the EU (42%), which was again very close to the EU average (43%).<sup>8</sup> However, a significant proportion of Croatian citizens declared that they would like to know more about their rights (64%) and it is important to stress that their proportion was to a certain extent higher than the EU average (59%).<sup>9</sup> This indicates that the dialogue within the Croatian society on EU issues needs to be strengthened.

It was not surprising that the interest of the wider public for EU issues was rather low during the campaign for the European Parliament elections held on 25th of May, 2014. The turnout of Croatian citizens was low (25.24%), but it was a slight improvement as compared to the EP elections specially held in Croatia in April 2013 (before its' EU accession) when it recorded 20.8% only. This could be explained by the length of the campaign and by the fact that one year experience of the EU membership resulted in higher visibility of the EU institutions. However, due to the economic problems the extreme floods in the country the debates were still primarily focused on national issues during the EP campaign.<sup>10</sup>

### 3. POLITICAL POSITIONING OF THE COUNTRY IN THE EU

It seems that Croatia managed to position itself better in the EU's political and institutional environment than could be expected based on its economic performance. The country made efforts to become recognised as a small country which could punch above its weight in certain EU policies. This is particularly the case for Croatia's policy towards the Western Balkans in which was recognised in Brussels as an important stabilising factor in the region.<sup>11</sup> It is one of the key foreign affairs priorities of the country.<sup>12</sup>

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<sup>5</sup> Survey on citizen's opinion on EU accession carried out by Ipsos Puls Agency for the EU Delegation in Croatia in the period 2-19 April 2013.

<sup>6</sup> Standard Eurobarometer 80, November, 2013, National Reports - Croatia. Available at: [http://ec.europa.eu/public\\_opinion/archives/eb/eb80/eb80\\_en.htm](http://ec.europa.eu/public_opinion/archives/eb/eb80/eb80_en.htm), pp. 5-6.

<sup>7</sup> Standard Eurobarometer 80, First results Autumn, 2013, p. 34 and 35. Available at: [http://ec.europa.eu/public\\_opinion/archives/eb/eb80/eb80\\_first\\_en.pdf](http://ec.europa.eu/public_opinion/archives/eb/eb80/eb80_first_en.pdf).

<sup>8</sup> Ibidem, pp. 35 and 36.

<sup>9</sup> Ibidem, pp. 36 and 37.

<sup>10</sup> EU-28 Watch. Croatia. See: <http://www.eu-28watch.org/?q=node/1212>.

<sup>11</sup> Vesna Pusic, Minister of Foreign and European Affairs at Round table on effects of first year of Croatia's EU membership. Office of the President of Republic of Croatia. June 30, 2014. <http://dalje.com/en-croatia/round-table-held-on-effects-of-first-year-of-croatias-eu-membership/513545>.

<sup>12</sup> The Programme of Republic of Croatia Government for the mandate 2011-2015. December 2011 underlines that *the advantages of the EU membership will not be complete until the remaining countries of the region do not join the EU*. p. 43.

Croatia continued with its pro-active policy towards the region, acting as a bridge between the EU and the Western Balkans and continued to promote regional cooperation, supporting particularly EU's enlargement. For example, Croatia made some concrete initiatives to develop more active instruments to speed up the process of EU accession in Bosnia and Herzegovina which is lagging behind the other countries of the region, without reducing conditionality. Being the first country which has completed negotiations on the EU accession based on the new methodology, Croatia is transferring this knowledge through a number of seminars, workshops and fora organised by the Council for Transition Process (Centre of Excellency) established within the Ministry of Foreign and European affairs (MFEA).<sup>13</sup>

During the period before the EU accession Croatia adjusted itself well to actively take part in the work of the EU institutions and in shaping EU policies.<sup>14</sup> During the first year of membership Croatia followed the national priorities to make the ground for joining the Schengen area and Eurozone after fulfilling the conditions as well as to be involved in the strategic cooperation within the EU goal of achieving economic growth and employment.

The first year of membership was also marked by the attempts to influence EU policies by entering into the *ad hoc* coalitions with the other likeminded member states on areas which are of particular interest of Croatia. The first example was the support for the cohesion policy.<sup>15</sup> Croatia joined the Friends of Cohesion Policy during the negotiations for the Multiannual Financial Framework (MFF) 2014-2020, while after joining the EU it supported the positions of net-recipients of the EU funds.<sup>16</sup> The country was actively involved in advocating in favour of the decision to prolong the use of EU accession funds.<sup>17</sup> The prolonged use of the funds is important for the country, but strengthening the capacities for better absorption of the EU Structural funds should become the main priority because the level of withdrawn funds was below expectations during the first year of membership. It should be mentioned that joining the EU six months before the finalisation of the MFF was another unfavourable moment, but still there were a lot of debates in the country regarding the readiness to efficiently use the EU funds.

Secondly, Croatia made steps to position itself as a junction point on the energy power map in Europe. It contributed in defining the regional energy policy, supporting regional projects aimed at opening the South gas corridor with a view of diversifying energy supply of

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<sup>13</sup> <http://www.mvep.hr/hr/posebni-projekti/centar-izvrnosti>. Additionally, two high level meetings with foreign affairs ministers and presidents were organised in Dubrovnik in July 2014. The first one was organised by the MFEA (the traditional Croatia Forum, organised each summer in Dubrovnik since 2004, took place on 10-12 July) and by the Office of Croatian President (Meeting of the Brdo-Brijuni Process, 14-15 July, as the continuation of the strategic dialogue between leaders from Southeast Europe launched a year ago) to continue the strategic dialogue on the future of Western Balkans in the EU.

<sup>14</sup> With its seven votes in the Council of ministers Croatia has good chances to effectively plead the interests of the country while the eleven MEPs represent Croatian citizens in the European Parliament, with similar proportion to Ireland and Lithuania. The principle of degressive proportionality gives the country the opportunity to have the stronger voice in the European Parliament.

<sup>15</sup> Goldner Lang, Iris. The Impact of Enlargement(s) on the EU Institution and Decision-Making. Special Focus: Croatia. Yearbook of European Law. Vol 31, No. 1 (2012).

<sup>16</sup> The „friends of cohesion policy” is a coalition of 16 EU countries which brings together the leaders of Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Slovenia and Spain. Its aim was to preserve the cohesion funds in the EU MFF 2014-2020. The opposed coalition was „friends of better spending” or a group of contributors, whose members are Austria, Germany, Finland, France, Italy, Netherlands and Sweden.

<sup>17</sup> Prolonged implementation of projects was made possible through the „N+3” rule instead of „N+2” which covers regular implementation period. See: [http://ec.europa.eu/regional\\_policy/sources/docoffic/working/doc/c\\_2002\\_1942\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/working/doc/c_2002_1942_en.pdf).

natural gas and increasing energy security of the region.<sup>18</sup> Thirdly, after the strong floods that affected Bosnia and Herzegovina, Croatia and Serbia in spring 2014, the country took the incentive for developing regional management mechanisms for crisis prevention and the coordination natural disasters (floods in particular). Last but not least, as the new EU member Croatia continued supporting cooperation within the EU macro-regional strategies. Besides its involvement in the Danube Strategy, the country actively supports the macro-regional strategy for the Adriatic and Ionian region which allows Croatia to further promote its own Mediterranean identity and, at the same time, to continue its support for the countries in its own neighbourhood in South-Eastern Europe.

Continuing reforms was particularly important for Croatia during the first year of accession. However, the progress was not equal in all the areas. It seems that Croatia proceeded with the reforms more successfully in some areas where the Commission continued monitoring until its formal accession, rather than in the economic area. The example of this is anti-corruption policy. The first Commission EU Anti-corruption report from 2014 included Croatia as a new member state.<sup>19</sup> In spite of the fact that Croatia was positioned among the six countries lagging behind the others in scores (together with the Czech Republic, Lithuania, Bulgaria, Romania and Greece), the country made to a certain extent more positive impression than the rest of the group<sup>20</sup> and was in general rather positively evaluated, even with some examples of good practice. Continued high-level investigations reflected strong political will to combat corruption, but still the corruption was estimated to be widespread and fight against it needs to be a continuous process. In the contrast to these more successful reforms, the continuation of economic reforms after entering the EU was much weaker and inefficient, which is discussed in the next chapter of this paper.

It should not be forgotten that the first months of membership were marked by a dispute with the European Commission which endangered the credibility of Croatia as a new member state. The open issue was related to the implementation of the European Arrest Warrant (EAW). The problem was caused by the fact that Croatian legislation, previously harmonised with the *acquis*, was amended a few days before the EU accession and the law colloquially named "*Lex Perkovic*" was not in accordance with the EAW law.<sup>21</sup> Therefore Croatia was threatened with sanctions by the European Commission.<sup>22</sup> The dispute was solved within a few months after Croatia brought national extradition law line with the EAW and consequently Josip Perkovic, the former member of secret services, was extradited to Germany. Without entering into substance of this case, it is important to underline that the full respect the European legislation is the key issue for a credible functioning of the new EU member state and therefore Croatia should draw lessons from it.<sup>23</sup>

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<sup>18</sup> On the occasion of the Annual Meeting of the Brdo-Brijuni Process, in Dubrovnik (14-15 July, 2014), the commissioner Günther H. Oettinger sent message to Croatian Government that the EU supports speeding up of building the LNG terminal in Omisalj, Croatia. The IAP/TAP pipeline and the South Stream are in accordance with the EU energy policy.

<sup>19</sup> European Commission, 2014. *EU Anti-Corruption Report*. COM (2014) 38 final. Brussels, 3.2.2014

<sup>20</sup> The Czech Republic was also scored better than the remaining four countries.

<sup>21</sup> European Arrest Warrant is a mechanism used to ease the extradition of suspects from one EU state to another. The background of this specific dispute was the case of Croatian citizen Josip Perkovic, a former officer of the Yugoslav secret service who was sought in Germany for the murder.

<sup>22</sup> The EU Justice Commissioner Viviane Redding warned the Croatian Government regarding the „Lex Perkovic“(September 2013) and announced the possibility of sanctions through the suspension of the Schengen Facility funds.

<sup>23</sup> GONG. What has marked Croatia's first year in EU? <http://gong.hr/en/good-governance/european-union/what-has-markes-croatias-first-year-in-eu/>

#### 4. CRISIS AS A DIFFICULT TIMING FOR THE ACCESSION

Croatia's accession was to a great extent different from the previous two rounds because the country joined the EU in the period of the Eurozone crisis which was not favourable for the newcomers. Additionally, Croatia was passing through its own prolonged, “double-dip” recession. It was clear already in advance that it could not expect the same economic synergic effects to boost the national economy, as was the case in the 2004 enlargement. Croatia made a good job in harmonisation of legislation with the *acquis* and institution building, but the structural reforms remained unfinished. With 61% of EU27 average GDP per capita in 2013, Croatia was positioned below most of the member states, but still better performing than Bulgaria (47%) and Romania (54%) while the countries of Western Balkans were all significantly lagging behind (Montenegro 42%, FYR Macedonia 35%, Serbia 36%, Albania 30%, and Bosnia and Herzegovina 29%).<sup>24</sup> Today the economic prosperity of the country depends on its' own efforts to continue the structural reforms and fiscal consolidation, to restart the economic growth and strengthen competitiveness.

According to the autumn European Economic Forecast 2013,<sup>25</sup> Croatia's general government deficit was estimated to reach 6.5 % of GDP while the ratio of the public debt to GDP was expected to continue growing above 60% in 2014. Therefore, soon after joining the EU, Croatia was included in the Excessive Deficit Procedure (EDP) and has three years to bring the deficit to sustainable level. Entering the EDP was in Croatia seen as a good discipline instrument to help creating credible medium term budget and stabilise public debt dynamic. However, it will not be easy to implement the recovery measures and create the conditions for growth and employment in the same time. The overall economic convergence will be a process that will last another several years. The focus should be given to the economic governance, budget discipline, creating growth friendly measures, developing flexible labour market, developing positive investment climate for foreign and domestic investors, improving competitiveness through the quality of business environment and innovation and restructuring of industry.

Croatia was not successful to attract more FDI in the period after joining the EU, as it was expected. The level of the FDI was significantly lower in 2013 as compared to the previous year and improved business environment is needed to change the trend which continued in the first months of 2014.<sup>26</sup> On the other hand, some positive effects of the accession are visible for the entrepreneurs through the slow increase of trade to the EU market. Croatia's overall exports of goods increased in the first five months of 2014 for some 16% and it was mostly the result of increased trade with the EU countries.

Another important dimension debated during the first year of EU membership was the CEFTA issue. Namely, with the entry to EU membership Croatia had to adopt the EU trade regime and, consequently, to withdraw from the 2006 Central European Free Trade Agreement (CEFTA). It was the market with duty free access for Croatia where some 20% of exports was directed. Markets of neighbouring Serbia and Bosnia and Herzegovina are traditionally important. There was a fear that changed position towards CEFTA might endanger exports of some Croatian produced foodstuffs, tobacco and confectionary

<sup>24</sup> Eurostat, GDP per capita in PPS. <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00114>

<sup>25</sup> European Commission (2013). European Economic Forecast, Autumn 2013, *European Economy* 7/2013.

<sup>26</sup> According the National Bank of Croatia, the FDI inflow decreased significantly in 2013 (550.1 mil EUR) as compared the previous year (1,067 mil EUR). The increased FDI inflow was not recorded in the first quarter of 2014 either (204.4). See: <http://www.hnb.hr/statistika/hstatistika.htm>.

products. The new trade regime was subject to negotiations between the European Commission and CEFTA countries which are now concluded, except the one with Bosnia and Herzegovina. There are different assessments of the impact of leaving the CEFTA. Croatian exports decreased in 2013 but recorded growth in the first months of 2014,<sup>27</sup> so in general the situation does not seem to be as gloomy as expected. The general assessment is that the private sector needed to be better prepared for the loss of the preferential position on this market and, secondly, that competitiveness becomes a serious issue for Croatia in the new trade regime with the CEFTA market.<sup>28</sup>

## 5. WHAT ARE THE LESSONS LEARNED?

The experience of the first year of Croatia's membership in the EU sends some clear message to the political elites, citizens and the remaining countries of the region.

The EU membership is a long term project and requires continued transformation of political and economic system, as well as the society. Continuity in implementing reforms after the EU accession is crucial for acting as an active, credible member state on benefit to own citizens. It is a long-term process regarding the visibility of the impacts. Not all benefits are evident in the short run but deepest changes can already be noticed in the transformed society and institutions.

Croatia was not successful in utilising the advantages of EU membership to speed up reforms and to stimulate growth, investment and employment during the first year in the Union. However, the EU continues to be a big chance for the country and withdrawing the positive economic impacts remains the challenge for the coming years. This can only be achieved by strengthened own efforts and with strong political will to implement the remaining reforms. It is important to bear in mind that the EU membership is an anchor, but not a driver of the member state's economic development. The EU membership will not generate growth itself - economic progress depends on Croatia's own efficiency to carry on reforms.

Being the "front-runner" from the region, Croatia has the responsibility to demonstrate to the countries of the region that its citizens have benefitted from the EU project and that there are qualitative changes in their lives thanks to the (more efficient) implementation of the own reforms. It is important to discuss the EU issues with citizens in depth and enable them to understand the advantages of being European citizens. It is a strong motivation factor for the other countries to speed up the reforms.

To conclude, the success of EU membership highly depends on the key political priorities of the government, the professional level of national administration and the preparation of the public opinion. In other words, the "fully-fledged" integration needs a clear identification of national interests in a rapidly changing global environment, a long-term strategy and a high level of flexibility and confidence to overcome the gap between the small or medium country and its big counterparts.<sup>29</sup>

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<sup>27</sup> Croatian exports to CEFTA market higher for 17%. Jutarnji list (daily, in Croatian). July 14, 2014, p. 26.

<sup>28</sup> Regarding competitiveness, after Croatia's ranking in 2012 showed a downward trend, the "Global Competitiveness Report, 2013-2014 has registered a slight improvement and Croatia is now positioned in the middle of the scale of the 148 countries included in the report. See: World Economic Forum. Global Competitiveness Report 2013-2014.

<sup>29</sup> András Inotai. The future of EU enlargement. In: Euro Atlantic Quarterly. International Affairs, Security and Defence. Croatia: The New EU member. 3/2013.