

# **The Accession of Croatia to the European Union: can a success Balkan case be exported to its neighborhood**

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Universidade da Beira Interior, Covilhã 6 /10 /2022

*Hilma Lopes*

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*Aos meus pais e abuelita.*

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## **Resumo**

A investigação realizada apresenta até que ponto a adesão da Croácia à União Europeia pode, ou não, ser um modelo a seguir para os seus países vizinhos. A Croácia é considerada um caso de sucesso na sua integração na UE, destacando-se dos países vizinhos que ainda se encontram numa fase inicial de negociações. O principal objetivo desta investigação é analisar de que forma a Croácia pode influenciar os seus pares, uma matéria pouco estudada na literatura existente. Para esse efeito, analiso os aspetos em que a Croácia difere do resto dos Balcãs. Com base em fontes primárias e secundárias, espera-se que a adesão da Croácia à UE conduza ao crescimento económico e à consolidação política e social. A metodologia centra-se, portanto, num estudo de caso, ainda que o discutindo em perspetiva comparada, analisando a estrutura do país num contexto extensivo e de discussão comparativa dos Balcãs Ocidentais, com o objetivo de explicar as causas e efeitos da adesão da Croácia à União Europeia. As conclusões revelam que a adesão da Croácia foi um sucesso em algumas áreas, como a estabilidade a longo prazo, tanto na democracia como na economia de mercado, uma parca melhoria em outras, mantendo altos níveis de perceção da corrupção e baixa confiança da sociedade no sistema judicial e nas instituições políticas, e até à estagnação em áreas como o desenvolvimento de diferentes setores económicos e a diferenciação regional do país. Este último deve-se à situação que a Croácia enfrenta no contexto da própria retração da União Europeia. Portanto, apesar do aparente sucesso da Croácia, esta investigação oferece alguma compreensão para os países vizinhos, e de que forma poderá ser vista como um modelo para os mesmos.

## **Palavras-chave**

Croácia; União Europeia; Política de alargamento; Balcãs Ocidentais; desenvolvimento político e socioeconómico.

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# **Abstract**

This dissertation analyzes the extent to which Croatia's accession to the European Union may, or may not, be a modeling process for its neighboring countries. Croatia has been considered a case of success in its integration into the EU, standing out from its neighboring countries that are still very early stage of negotiations. The main purpose is to analyze in which ways can Croatia influence its peers, an unstudied topic in the extant literature. Seeking to fulfil this gap, I analyze the aspects to which Croatia differed from the rest of the Balkans. Building on primary and secondary sources between 1989 and 2020, it is expected that Croatia's accession to the EU lead to economic growth and social and political consolidation. Research design entails a case study method, even though put in its respective context and in a comparative discussion within the Western Balkans countries, with the aim to explain the causes and consequences of Croatia's accession into the European Union. Findings unpack that Croatia's accession has been a success in some areas like the long-term stability both as a democracy and market economy, a small improvement in others like perceived corruption as well as little trust from society in the judicial system and political institutions, and even stagnation in areas such as development of different economic sectors and the regional differentiation in the country. The latter is due to the situation that Croatia faces in the context of the European Union's own retraction. Therefore, despite Croatia's apparent success, this research offers some understanding for neighboring countries and can be seen as a modeling process.

# **Keywords**

Croatia;European Union;Enlargement policy;Western Balkans;socioeconomic and political development.

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# Table of Contents

|  |             |
|--|-------------|
| <b>ACKNOWLEDGMENTS</b>   | <b>VII</b>  |
| <b>RESUMO</b>  | <b>IX</b>   |
| <b>ABSTRACT</b>  | <b>XI</b>   |
| <b>TABLE LIST</b>  | <b>XV</b>   |
| <b>ACRONYMS LIST</b>   | <b>XVII</b> |
| <b>INTRODUCTION</b>  | <b>1</b>    |
| <b>CHAPTER 1 – CROATIA’S HISTORICAL BACKGROUND</b>   | <b>4</b>    |
| <b>1.1. END OF YUGOSLAVIA AND THE REBIRTH OF CROATIA</b>   | <b>4</b>    |
| <b>1.2. PATH OF CROATIA TO EUROPEAN UNION</b>  | <b>10</b>   |
| 1.2.1. EU ENLARGEMENT POLICY   | 11          |
| 1.2.2. CROATIA CASE  | 12          |
| <b>CHAPTER 2 – CROATIA’S SOCIOECONOMIC AND POLITICAL DEVELOPMENT (2003-2021)</b>                 | <b>24</b>   |
| <b>2.1. POLITICAL SITUATION</b>  | <b>25</b>   |
| <b>2.2. ECONOMIC ENVIRONMENT</b>   | <b>26</b>   |
| <b>2.3. THE EMPLOYMENT AND SOCIAL CONDITION IN CROATIA</b>                                       | <b>33</b>   |
| <b>CHAPTER 3 – CROATIA’S ROLE AS AN EU MEMBER-STATE AND WHAT IT MEANS TO THE WESTERN BALKANS</b> | <b>40</b>   |
| <b>3.1. PROJECTIONS ON CROATIA’S EUROZONE ENTRY</b>  | <b>40</b>   |
| <b>3.2. CROATIA’S LACK OF FOREIGN POLICY</b>   | <b>42</b>   |
| <b>3.3. COMPREHENSIVE COMPARISON OF THE WESTERN BALKAN COUNTRIES</b>                             | <b>45</b>   |
| <b>CONCLUSION</b>  | <b>51</b>   |
| <b>BIBLIOGRAPHY</b>  | <b>54</b>   |

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## Table List

|  |    |
|--|----|
| Table 1 - The Integration of the Western Balkans into the EU .....                                     | 12 |
| Table 2 - IPA components.....  | 15 |
| Table 3 - Comparative elements of CARDS and IPA.....   | 17 |
| Table 4 - Croatia's SAP status, accession status, past EU assistance and IPA .....                     | 18 |
| Table 5 - Legislative and institutional changes in the Croatian Public Administration (2001-2009)..... | 18 |
| Table 6 - Croatia's country Framework.....   | 27 |
| Table 7 - Croatia's selected Economic and Social Indicators (2014-2020) .....                          | 28 |
| Table 8 - Employment situation in Croatia.....   | 37 |
| Table 9 - Sociodemographic characteristics of Western Balkan countries (1992-2021).....                | 45 |
| Table 10 - Western Balkans economic performance (1992-2021) .....                                      | 47 |
| Table 11 - State of democracy in the Western Balkans in 2020 .....                                     | 49 |

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# Acronyms List

- BiH – Bosnia and Herzegovina
- CARDS – Community Assistance for Reconstruction Development and Stabilization
- CBS – Croatian Bureau of Statistics
- CEEC – Central and Eastern European Countries
- CES – Croatian Employment Service
- EAPC – Parliamentary Stabilization and Association Committee
- EQI – European Quality of Governance Index
- ERM – Exchange Rate Mechanism
- ESC – Economic and Social Council
- ESCB – European System of Central Banks
- ESF – European Social Fund
- EU – European Union
- EUR – Euro
- GDP – Gross Domestic Product
- GNI – Gross National Income
- HDZ – Croatian Democratic Union
- HNS – Croatian People’s Party
- HRK – Kuna
- ICM – Labor Cost Index
- ICTY – International Criminal Tribunal for the former Yugoslavia
- IPA – Pre-accession Instrument
- IT – Information Technology
- JNA – Jugoslavenska narodna armija (Yugoslav People's Army)
- LGBT+ - Lesbian, Gay, Bisexual, and Transgender
- MS – Member States
- NATO – North Atlantic Treaty Organization
- SAA – Stabilization and Association Agreements
- SAP – Stabilization and Association Process
- SCD – Systematic Country Diagnosis
- SCG – Srbija I Crna Gora (Serbian: Serbia and Montenegro)
- SDP – Social Democratic Party
- SDS – Democratic Serb Party
- SOEs – State Owned Enterprises
- TUE – Treaty on the European Union

WB – Western Balkan  
WB – World Bank

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# Introduction

This dissertation focuses on the causes and consequences of the European Union's (EU) enlargement through a case study of Croatia's accession. The integration of the Balkans into the EU has different trends not only between countries, but also between the Western and the Eastern side of the peninsula (Ferrinho Lopes & Bondarenko, 2022). Among the Western Balkans, Croatia has been considered a case of success in its integration into the EU, managing to rapidly fulfill the Copenhagen criteria, standing out from its neighboring countries that are still very early stage of negotiations.

However, little is known regarding whether Croatia's example may, or may not, influence its peers (see, e.g., Sabic 2004; Cipek, 2020; Ferrinho Lopes & Bondarenko, 2022). Although this is a relatively unstudied topic, it is still important since this country became an exception to the rule in terms of the Western Balkans enlargement policy, passing from the exacerbated nationalism and isolation within the framework of the Republic of Yugoslavia to a modern European state within in the patterns and norms of the EU. Building on such premise, we intend to investigate the extent to which Croatia's accession to the EU may, or may not, be a modeling process for its neighboring countries.

The main goal is to understand the importance of Croatia's success in its integration into the EU, explaining what differentiates it from its neighboring countries. In doing so, this investigation aims to bring a new perspective for potential candidates and candidates from this region that reveals how it turned out possible to move away from an era of conflicts and to be able to fulfill the Copenhagen criteria while achieving socio-political and economic development. In other words, we aim to answer the following question: what differentiates Croatia, economic, social and political wise, in comparison with the rest of the Western Balkans? Does its entry to the Union has an impact in the neighboring countries? In order to answer this main question, derivative questions were also formulated that help to consolidate the research roadmap: will the religion, cultural, political and identity homogeneity of Croatia be a unique case in the Balkans? Has Croatia seen further development after joining the EU, at what is the extent to which it is visible? Could Croatia's accession serve as a catalyst for further enlargement of the Balkans?

In order to fully examine the development potential while controlling for rival explanations such as the COVID-19 crisis, for strengthening the argument we intend to highlight, in the end of this research, the aspects in which Croatia differed from the rest of the countries from the Balkans region from the downfall of the former Republic of

Yugoslavia (coincident with the fall of the Berlin wall and the Soviet Union) until the beginning of the COVID-19 pandemic crisis. That is, from 1989 to 2021.

The methodology elected for this investigation is the case study method (Gerring, 2004) having chosen Croatia for this purpose, although we also resort to the comparative method, specifically the most similar systems design (see below). An analysis of the country framework will be carried out in a descriptive and exploratory perspective, which places the country in a broad context of comparative discussion with the other countries of the Western Balkans, aiming for a better understanding of the main differences that allowed Croatia to enter the Union, when the rest are still so far from accession. We'll base this investigation on research, exploratory reading and interpretation of political, economic and social indicators, that will allow us to better understand the national situation that preceded and succeeded Croatia's entry into the EU. Therefore, despite the research being more focused on the chronological period after 2013, the date of Croatia's accession to the EU, we necessarily had to analyze the period that preceded this accession to assess the changes that were felt in this more recent European member state. Therefore, we must emphasize the chronological fluidity resulting from the comprehensive approach. Regarding the sources, they were mainly used primary sources, such as official documents published by the European Union, as well as a descriptive analysis from secondary sources, namely the Croatian Bureau of Statistics, World Bank and Macro Trends databases, as well as publications by academic experts on the subject.

The dissertation is organized into three chapters, which constitute a mapping of the research path. The first chapter addresses the historical-political background of Croatia's accession to the EU. This includes the European Union's enlargement policy, the situation in Croatia that preceded enlargement, as well as the accession negotiations between 1989 and 2013, with the intention of presenting Croatia's legal acts and policies developments in a pre-accession status. The second chapter focuses on the assessment, in a broader way, of the political, economic and social impact of Croatia's accession to the EU, building on a social and economic evaluation. The third chapter examines whether Croatia has succeeded or failed in the wider context of the Balkan's enlargement policy. In this chapter, we resort to the comparative method (see Lijphart, 1971), parallel to the case study method that runs through the entire research to establish the difference between our case study and the rest of the Western Balkans. By using a most similar systems design (see Przeworski & Teune, 1971; Ferrinho Lopes & Heyne, *forthcoming*), we are able to compare systems that are similar in most characteristics (former Yugoslav, from the same region, with a close historical background) but differ in the propriety of interest (having become, or not, a member state of the EU). It permits to contrast their levels of democracy, territory, population, religious cleavages, and socioeconomic growth to

address what explains Croatia's accession into the EU. In doing so, we might perceive which countries are closer to Croatia's characteristics, therefore expecting that EU's future enlargement in the Balkan region relies in them. Finally, we present the conclusions and suggest pathways for future research.

# Chapter 1 – Croatia’s Historical Background

The Balkans region is characterized by a great mix of cultures and nationalities, having a long history of ancient traditions and coexistence between peoples. Hoesch characterizes it as “a meeting place for peoples and cultures where the western, oriental and Asiatic worlds, and central European and Mediterranean peoples have all intermingled” (quoted 1972, pp. 22-23 apud Gallagher, 2001, p. 19). Demarcated by the direct influence of the difficult relationship between the West and Russia, it is the center of disputes over the strategic interests of foreign powers, and it can be said that the Balkans have found themselves in the middle of a competition between political systems and imperial ambitions, being, at times, based on religious issues.

Thus, Jelavich (1983) describes the Balkans as a ‘test site’ for alternative political systems, with a collision between multinational traditions and the rise of nationalism, making this the most dangerous area in Europe that served as a justification for intervention by others in the regional affairs. Whereas “it is not surprising that intransigent expressions of political nationalism periodically flared up as a response to outside interference” (Gallagher, 2001, p. 3). However, representative of international community Ashdown<sup>1</sup> and Gallagher (2001) argue that the Balkan states were only able to live in a climate of peace because they were under the control of powers that managed to guarantee their stability and balance.

Although the scope of our research is not to assess the history of this region, it is unavoidable to elucidate the main events in the context of the post-cold war and the dissolution of the Soviet Union, which also catalyzes the disbandment of the former Yugoslavia, of which Croatia was part.

In order to better understand the escalation of the armed conflict in the 90s, it is significant to present the events that provided it.

## 1.1. End of Yugoslavia and the rebirth of Croatia

The 80s and the beginning of the 90s were a time of deep political and economic crisis in Yugoslavia, contributing to the weakening of its government, while, at the same time, the growth of nationalist military sentiment was taking place. Political leaders

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<sup>1</sup> United Nations International Criminal Tribunal for the former Yugoslavia. – Paddy Ashdown retrieved from <https://www.icty.org/en/content/paddy-ashdown> accessed on 18th December, 2021.



started contributing for the rise of the nationalist sentiment of the population, erasing the common Yugoslav identity that had been created in 1918 (Zejnnullahi, 2014).

In 1989, with the end of the Cold War, the collapse of the Soviet Union directly contributed to the break-up of Yugoslavia in the early 1990s. Its disintegration ended up resulting in successive wars in search of independence, which provoked the need for diplomatic and military intervention by Western powers (and also NATO), a conflict that lasted more than a decade. By then, it is seen a pluralist reconstitution and the democratization of the state with the first free elections in the constituent republics of Yugoslavia, which would eventually mean its end. The triumph of the nationalist parties makes it evident that the result of these elections was a response to the aggressive nationalism coming from Serbia, which considered itself superior to the other republics (Kopac & Groselj, 2004, p.61). The wars that took place at the time of Yugoslavia's dismemberment were, therefore, incited by national and ethnic groups with claims of territories that generated conflicts between the former Yugoslav republics, raising the question of who really would have the right to self-determination between the republics of the former Yugoslavia and the nations that composed them (Vejvoda, 2004, p. 70).

Scholars come to the conclusion that the project to unify the populations and territories of the Slavic peoples of the South was an impossible task to achieve due to the non-democratic political dynamics that characterized the creation of Yugoslavia (e.g. Perovic, 1993; Vejevoda, 2004; Zejnnullahi, 2014) that can be summarized by being a monarchy in 1918 and, in 1945, and later governed by a Communist regime considered to be a tyranny (Vejvoda, 2004, p. 65). To the same author:

Yugoslavia is a historically temporary creation. It is a phenomenon and result of the imperialist epoch and the ensuing constellation of international relations in that epoch. With the development of worlds integrational processes and the withering away of the imperialist epoch its peoples will be able to go and join new associations and integrations following civilisational and spiritual affinities, and Yugoslavia will thus inevitably be recomposed as a state (2004, p. 67).

This reinforces the idea of an identity crisis was present in the constituent population of Yugoslavia. Josip Tito's death in 1980 aggravated this situation as they lost one of the great symbols of the territory's unification. In this decade the aggravating factor is evidenced by the lack of capacity of the State to solve this situation as soon as it appeared, having neither the capacity nor the ability to reform the system and contain the general discontent. The current social and economic crisis in the Balkans region, added to the government's severe lack of response, led to a growing feeling of dissatisfaction and fear of what might be triggered (Vejvoda, 2004, p. 68). The rise of Slobodan Milosevic

further deteriorated relations between Serbia and the rest of Yugoslavia's constituent republics. There is a “provok(ing) resistance and strengthen(ing) [of] the aspirations for independence of other peoples of Yugoslavia” (Perovic, 1993, p. 63).

In 1991, Slovenia and Croatia blamed Serbia for having unfair dominance over Yugoslavia's government, army and finances, accusing it of imposing its political interests on all measures adopted. The wording of the Memorandum of the Academy of Sciences and Arts of Serbia<sup>2</sup>, highlights that Serbia was not on the same level as the rest of the republics, since it exerts great influences in the region of Kosovo and Vojvodina, both supposedly autonomous. Subsequently, the Serbian regime adopted an aggressive policy towards these regions, resulting in their loss of independence. Reinforcing that Serbian ambitions would be a threat to the rest of the republics (Zejnnullahi, 2014, p. 266).

Oppressive actions against Kosovo Albanians were taken as a model for possible future behaviour by Serbia as a leader against other republics (Vejvoda, 2004, p. 70). Milosevic adopted a nationalist speech that, as Hitler would have done before World War II with the Jews, blamed the Albanians for the crisis this region was going through, supporting a series of violent demonstrations against citizens of this ethnicity in the territories of Kosovo, Vojvodina and Montenegro. These regions then began to support a reform of the Yugoslavia Federation structure where the socialist elite would be replaced by a new centralized regime in Serbia. The result was that “the autonomy of Kosovo and Vojvodina was practically abolished by the Serbian Assembly and new representatives from the two provinces played the role of Milosevic’s marionettes in the federal bodies” (Kopac & Groselj, 2004, p. 56), demonstrating the clear demand for power on the part of the Serbian leader.

In this regard, Veton Zejnnullahi (2014) states that the main causes of dissolution of the Yugoslav federation were: dealing with the deep economic crisis, the big interethnic hate of its peoples, nationalism and international circumstances. An important fact is the role of leaders ranging from Josip Broz Tito to the last leaders who definitely destroyed Yugoslavia.

The Croatian War was followed by its declaration of independence, having started in 1991, the conflict escalated between a Croatian defence army and the Yugoslav People's Army that opposed the declaration. Subsequent conflict took place between independent Croatia and the Serbian minority rebel movement that ended up proclaiming the Serbian Republic of Krajina, with the support of Yugoslavia.

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<sup>2</sup> Memorandum of the Academy of Science and Arts of Serbia published in 1986, the President of SANU at this time was Dobrica Cosic. Retrieved from <https://chnm.gmu.edu/1989/files/download/1491/fullsize> accessed on 24th June, 2022.

The justification used by the Croatians for the War of Independence was based on the idea that they had been victims of Serbian imperialism, as well as expansionist powers throughout history, highlighting how dangerous it was for Serbia to maintain current policies, additionally the fact that it considers itself the main State of the Federation, retaining the greatest power contributed to this feeling. “By clearly presenting themselves to the outsider world as victims of Serbian genocide, Croatians hoped to court Western recognition and aid, both of which would prove vital for their self-defense” (MacDonald, 2003, p. 105).

In 1995 the conflicts became more violent, and Croatia started Operation Storm which resulted in an ethnic cleansing of Serbs. This operation was one of the factors that ensured the victory of the Croatian army, having managed to recover the region that had been proclaimed as the Serbian Republic of Krajina (Bjelajac & Žunec, 2013, pp. 255-258). The war resulted in the death of more than 22,000 people, with 15,000 believed to be Croatians and 7,000 Serbs, with serious outcomes for both sides, a large number of Croats having been decimated and the Serbian minority saw the relevance of its role in Croatian society diminishing considerably (Bjelajac & Žunec, 2013, pp. 265-266).

The "Homeland War" as Tudjman's supporters insisted on calling the conflicts of the early 1990s in Croatia – which became the preferred narrative in the construction of the political identity of the post-1990 state of Croatia - was characterized by being “Built up into a new myth, the official interpretation of the ‘Homeland War’ contained all important aspects of historical Croatian myths, which were re-interpreted in the contemporary context. Criticism of the ‘Homeland War’, and especially court indictments of its main ‘heroes’, were presented as an attack on the very essence of Croatian independence” (Jovic, 2009, p. 2).

It is also difficult to understand how and why Croatian writers have devoted so much effort to myths of differentiation between Croats and Serbs, at cultural, sociological, geographical, psychological, racial and linguistic levels. Greater Serbia for Croats was tantamount to genocide – Serbian expansion implied *ipso facto* a reduction of Croatian territory, ethnic cleansing, and the death of Croatian civilians (MacDonald, 2003, p. 106).

A very influential point in the political and social situation in Croatia during the decade of the 90s, was the lack of recognition of its independence, which, despite having been recognized as an independent state in 1992, by a large part of the international community, Croatian sovereignty (both internal and external) remained almost purely symbolic during this period. Even when it managed to reintegrate the entire territory under its legal sovereignty, continued to remain subject to constant observation and inspection, which ended up contributing to the hurt pride of nationalists who did not agree with this constant supervision by international entities.

Contrary to what happened in Serbia, the rise of nationalism in Croatia was not due to reactionary phenomena to events in the country itself, but

Was born of a sense of cultural submergence and political domination within Yugoslavia, and a perceived threat to Croatian language, culture, and religion. Nationalism came to the forefront in Yugoslavia during a period of decentralisation and liberalisation in the 1960s, when Tito was forced to tone down his hardline policies on nationalism in return for Western loans (MacDonald, 2003, p. 99).

This event provided an opening for the creation of a new generation of communist Croatians, who began to pressure the government for greater independence/autonomy from the centralized power of the Federation. This phenomenon was called *maspok*, where activists demanded an increase in national rights within the Federation. This was due to several reasons, the main ones, as mentioned above, being the lack of representation that the Croatian people considered existed within their own Republic, where Serbs, who only represented less than 13% of the population in the Croatian territory, occupied 40% of the partisan posts, occupying an even greater percentage of posts in the police, secret police and the JNA. Added to these factors is the alleged reason given by the Croats (MacDonald, 2003) at the time of an economic exploitation of the territory, the status of ethnic Croatians in Bosnia and Herzegovina, as well as the state of subordination to which the Croatian language was increasingly subject.

During 1971 and 1972, the fear of installing a war as would have happened in 1941 increased, which led Tito to take an attitude against the nationalist-oriented Communists, removing reformists from places of power. It is estimated that around 1600 Croatian communists were subjected to “political measures”, including expulsions from the parties to which they belonged, even imprisonment in the most extreme cases. However, attempts to control this movement did not have the expected results, eventually it gains a new leader, Franjo Tudjman, former Yugoslav communist general, having also served as political commissar for Tito. After his “conversion” in the 1960s, he was arrested in the Croatian Spring of 1971 and again in 1980 for his political ideologies. The fact that he was imprisoned had enormous repercussions on Croatian history, as it led him to create a narrative in which he was seen as a martyr, suffering for the cause he defended, exacerbating his egocentrism and highlighting his messiah complex.

In practical matters, Tudjman's denunciation of Communism and the adoption of Croatian nationalism made him extremely popular with the Diaspora communities (displaced people as well as those forced to leave the country), which provided him with the collection of thousands of euros, a situation that later positively influenced his rise to power in 1990. In fact, his election strategy was similar to that of Milosevic, who focused on the annexation of Kosovo and Vojvodina, with the difference that, in this case, the

intention would be to annex the territory of Bosnia, which he considered to be something essential since he judged the geographical boundaries of Croatia to be clearly “unnatural”, something that goes back to the present day, since the territory of Bosnia is something that, currently, is still on the agenda of the international system. (MacDonald, 2003)

“Whether it was Tudjman’s ‘Tudjmannism’ or Milosevic’s ‘Antibureaucratic Revolution’, the myth of popular mobilization against colonial (or in this case Communist) oppression was integral to the success of nationalism” (MacDonald, 2003, pp. 100-101). However, it is important to differentiate the positions of the two leaders since, unlike Milosevic, who was an opportunist, Tudjman really believed in the nationalist cause, having contributed to the creation of many myths used before and during the war of the 1990s. The truth is that Tudjman played an important role in the deterioration of relations between Croatia and Serbia, largely due to the constant adoption of provocative policies for the leaders and population of the neighboring country, who later felt obliged to fight back, taking as an example the Vukovar area which, to this day, is a cause of disagreement.

Tudjman behavior suggests that if he was not Serbophobic, he was apparently “Balkanophobic”. For this nationalist, as for many Croatians, the idea of Croatia as belonging to the Balkans was against all traditions and values of its historical past, going so far as to address it on the State of the Nation at the Joint Session of Both Chambers of the Croatian National<sup>3</sup> stating that “based on its geopolitical position, its fourteen-centuries- long history, civilization and culture, Croatia belongs to the central European and Mediterranean circle in Europe. Our political links with the Balkans between 1918 and 1990 were just a short episode in the Croatian history and we are determined not to repeat that episode ever again”(MacDonald, 2003, 118), confirming his idea that Croatia has always been part of Central Europe, being, culturally, part of this region, which adds to the fact that this is a mainly Catholic territory, which sets it even further apart from the other countries that belonged to Yugoslavia. It was then considered that any attempt to establish a relationship between Croatia and the eastern or Asian world was a historical anomaly, given its “clear” approximations and similarities with the western world, possibly this was due to this first association being seen as pejorative to the Occidentalism in which we live, “This idea of East versus West proved to be of fundamental importance in defining Croatian self-identity” (MacDonald, 2003, p. 118).

Huntington’s concluded that “[p]olitical boundaries increasingly are redrawn to coincide with cultural ones; ethnic, religious and civilisational’ certainly worked to the advantage of Croatian writers, who argued that Yugoslavia was an artificial joining of different civilisations, a project surely doomed to failure. (...) Theories, both old and new, of the naturalness of a civilisational divide played well into the hands of Croatian secessionists,

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<sup>3</sup> On the 20th of January 1997.

attempting to justify pulling Croatia out of a union with the Serbs that had been more or less peaceful since 1945 (MacDonald, 2003, p.119).

## **1.2. Path of Croatia to European Union**

Croatia's most recent history necessarily crosses the European pathway, so it is essential to understand not only this drive, but also the limitations imposed by the EU to give the key to the door of accession.

In order to understand Croatia's accession process to the EU, it is necessary to evaluate the framework and the specificity of the EU in the international relations, such as the process of accession of new members and Enlargement Policy. This contextualization of the Union and its enlargement process is needed to better comprehend the difficulties that candidates and potential candidates face while trying to join it.

The European Union<sup>4</sup> is a political and economic union with unique characteristics, consisting of 27 countries, covering much of the European continent. Initially purely economic, the European Economic Community had only six countries as members: Germany, Belgium, France, Italy, Luxembourg, and the Netherlands. Its creation took place in a post-World War II context, with the purpose of increasing the degree of dependency between States, thus reducing the risk of conflicts.

The values defended by the European Union are common to all its member states, marking a society characterized by inclusion, tolerance, justice, solidarity and non-discrimination.<sup>5</sup> This defense involves protecting the dignity of the human being, guaranteeing freedom, equality and democracy, since being a European citizen also means having political rights. The EU is also based on the rule of law, with all its objectives and values set out in the Lisbon Treaty and the EU Charter of Fundamental Rights.

The Union's institutions themselves are characterized by being democratic and transparent, and their main objective is to promote these same values.<sup>6</sup> That's why, the European Union's enlargement policy is characterized by the constant promotion of its values. The protection of democracy is seen as a justification for possible enlargement in

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<sup>4</sup> We are currently observing its development in an organization with varied fields of intervention, presenting itself as mainly political, based on a set of principles by which it is governed, strongly linked to the promotion of Democracy and Human Rights (Sdelmeier, 2003 p. 11). In 1993, the EEC changed its name to the European Union, reflecting this evolution.

<sup>5</sup> The main objectives of the European Union are: the promotion of peace, its values and the well-being of its citizens, the guarantee of freedom, security and justice without internal borders, the support of sustainable development, based on balanced economic growth, the combating social exclusion and discrimination, promoting scientific and technological progress, strengthening economic, social and territorial cohesion, as well as solidarity between its member countries, respect for cultural and linguistic diversity.

<sup>6</sup> This regional organization is governed from the principle of representative democracy, with citizens represented directly in the European Parliament, and the Member States in the European Council and the Council of the EU.

Eastern Europe and western Balkans, and respect for democracy and human rights is a prerequisite for membership, with all these specific values in the treaties binding on all Member States of the Union. The Copenhagen Declaration of the European Council of June 1993 determined the political conditions to be possible to become a candidate for the EU, with obligations related to the behavior implicated in the identity of the EU (Sdelmeier, 2003, p. 1). The sharing of ideology has become a basic condition for the establishment of bilateral relations with the Union, conditioning its provision of assistance on the part of the Union, trade negotiations and the possible integration of new candidates.

The main driver of the European economy is its single market, which allows the majority of people, goods, services and capital to move freely across its Member States.

### **1.2.1. EU enlargement policy**

Integration in the European Union is characterized by being a highly complex process that involves the creation and implementation of reforms in several areas. The Treaty on European Union (TUE) defines the conditions and principles (article 49 and 6, paragraph 1 respectively) that countries must fulfill if intending to join the Union. In order to be accepted, countries have to fulfill the Copenhagen criteria first formulated by the European Council in 1993 and foremost reinforced by the Madrid European Council in 1995. Such criteria comprise by the stability of the institutions that guarantee democracy, the rule of rights, human rights and respect for minorities and their protection, a necessary criterion for negotiations on accession to the Union to start with a country. A functioning market economy and the ability to cope with competitive pressure and EU market forces. The capacity to assume the obligations arising from membership, including the ability to effectively apply the rules, standards and policies that make up the legislative body and adherence to the objectives of political, economic and monetary union.<sup>7</sup>

A country's accession negotiations<sup>8</sup> only begin when the EU's member states have unanimously agreed on the potential candidate. The negotiations take place at intergovernmental conferences between the governments of the EU countries and the government of the candidate country. They are intended to support candidate countries in

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<sup>7</sup> European Commission retrieved from [https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key\\_documents/2011/package/hr\\_rapport\\_2011\\_en.pdf](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key_documents/2011/package/hr_rapport_2011_en.pdf). Accessed on 24<sup>th</sup> of November, 2021

<sup>8</sup> EUR-Lex – Accession negotiations. Retrieved from [https://eur-lex.europa.eu/summary/glossary/accesion\\_negotiations.html](https://eur-lex.europa.eu/summary/glossary/accesion_negotiations.html). Accessed on 24<sup>th</sup> of November, 2021.

their preparation for EU membership and allow the EU to prepare for enlargement in terms of absorption capacity.

At a practical level, the EU’s legislative body (the *acquis*) is divided into 35 chapters (per policy). The Council unanimously decides on the opening of each of the chapters. After negotiations on all chapters are closed, the conditions (including possible safeguard clauses and transition regimes) are incorporated into an accession treaty. This treaty requires the approval of the European Parliament and the unanimous approval of the Council. All Contracting States then ratify the treaty in accordance with their own constitutional rules.<sup>9</sup>

One of the main priorities of the European Partnerships Action Plan is related to the need to create conditions for investment, trade, employment and economic growth for the benefit of all communities in these countries.

**1.2.2. Croatia case**

Integration into the EU has unequal trends in the Western Balkans, which we can see in table 1.

Table 1. The Integration of the Western Balkans into the EU

| Western Balkans | Membership Application | Official candidates | Adherent Candidates | International Agreements - SAA |
|-----------------|------------------------|---------------------|---------------------|--------------------------------|
| Albania         | 2009                   | 2014                | -                   | 2009                           |
| BiH             | 2016                   | -                   | -                   | 2015                           |
| Croatia         | 2003                   | 2004                | 2013                | 2005                           |
| Kosovo          | 2015(a)                | -                   | -                   | 2016                           |
| North Macedonia | 2004                   | 2005                | -                   | 2004                           |
| Montenegro      | 2008                   | 2010                | -                   | 2010                           |
| Serbia          | 2009                   | 2012                | -                   | 2013                           |

Source: adapted from Ferrinho Lopes & Bondarenko (2022).

Croatia has managed to rapidly fulfill the requirements, while others, such as Serbia, Bosnia and Herzegovina and Kosovo<sup>10</sup> face difficulties in improving their own regimes and political systems (Ferrinho Lopes & Bondarenko, 2022, p. 140). Since we’ll only be analyzing the successful Western Balkans that joined the EU in this section, we’re going to use the only case, Croatia, and its integration into European institutions.

<sup>9</sup> European Commission retrieved from [https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/st20004\\_05\\_hr\\_framedoc\\_en.pdf](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/st20004_05_hr_framedoc_en.pdf). Accessed on 24<sup>th</sup> of November, 2021.  
<sup>10</sup> European Commission retrieved from [https://ec.europa.eu/neighbourhood-enlargement/countries/check-current-status\\_en](https://ec.europa.eu/neighbourhood-enlargement/countries/check-current-status_en) accessed on 25<sup>th</sup> of November, 2021.



During the 1990s, Croatia's official position on the European Union integration project was somewhat inconsistent. Jovic (2009) explains that on the one hand we have Tudjman's supporters who argue that Croatia has always belonged to Europe for historical reasons and should move away from the Western Balkans group and "return to Europe". "However, Tudjman was also a severe critic of the EU, both for ideological and pragmatic reasons" (Jovic, 2009, p.21). Disapproving of the idea that multicultural societies might be able to function in the long term, saying that the lesson of the collapse of Yugoslavia should have taught Brussels something.

In addition, the European Union project, mainly in its post-Maastricht period, was viewed with considerable skepticism and suspicion, given that, for Croatian nationalists, it was difficult to accept the possibility of living without frontiers with Serbia or with BiH, without these being strongly protected, not willingly accepting the path that the EU would be taking with its continuous enlargements. Still, those who were more moderate managed to realize that the transformation into a truly sovereign state could be ensured with the country's complete integration into the EU, which facilitated their cooperation.

It is important to realize that these criticisms are also due to the lack of support that Croatia feels it received from the EU during the most difficult times of the conflict. This situation caused the Croatia-EU relationship to enter a complicated phase, mainly from 1995 to 2000. This only changed when the Tudjman party (HDZ) lost the parliamentary elections held in 2000 (Stubbs & Zrinščak, 2009, p.126).

Rapidly seizing the opportunity, in November of that year the EU held the summit in Zagreb and adopted the Stabilization and Association Process signed by Croatia in 2001. With the marginalization of Tudjman supporters since 2003, the main obstacles on the road to the EU have disappeared. In fact, the two most prominent parties (HDZ and SDP) agreed to create an informal "Pact for Europe", committing themselves to supporting each other on this journey. With the transformation of the Croatian Democratic Union (HDZ), all parliamentary parties in the country adopted the inclusion of the intention to join the Union as one of the main political objectives. In June 2006, the EU finally started negotiations with Croatia, which were delayed due to the decision of the Protected Ecological Fishery Zone that would be introduced on 1 February 2008 and, later, due to the on the part of Slovenia due to territorial issues, as well as the existing problems with collaboration with the court in The Hague and, in particular, the Justice Chapter (Caratan, 2009, p. 173).

However, the lack of cooperation with the ICTY again delayed this accession process, which made Croatia lose the opportunity not only to be part of the 2004 enlargement, but also in 2007, which also postponed the ratification of the SAA. The country only managed to overcome this impediment in 2005, with the arrest of General

Gotovina in December of that year. This was then a very relevant condition for Croatia's integration into the European Union.

It was only when the ICTY confirmed that Croatia had really improved cooperation and was assisting the efforts to identify, arrest and extradite the war crime suspects, that the EU approved further steps in talks between EU and Croatia. This policy was successful. Not only did co-ordinated pressure from Brussels and The Hague secure Croatia's full commitment to working with the ICTY, but it also strengthened moderate and pro-European forces domestically. The ICTY indictments removed some of the main protagonists of extreme nationalism from the Croatian public scene (Jovic, 2009, pp. 9-10).

At the same time, Croatia changed its policy towards its neighboring countries, since 2003 there was awareness that, in order to achieve its European integration goals, it would be necessary to guarantee stability and security in the Western Balkans. As a result of having become a condition of accession to the EU, Croatia was forced to improve bilateral relations with both BiH and Serbia, and in 2005 it joined the Southeast European Cooperation Process (9 years after it was created).<sup>11</sup>

This new policy improved regional cooperation in all areas, including in security and defense. This in turn enhanced co-ordination of actions against organised crime, as well as addressing the remaining issues of war crimes and crimes committed during the conflict of the 1990s (Jovic, 2009, p. 9).

Something that had been impossible during Franjo Tudjman's government due to his constant fear of the resurgence in the implementation of a new Yugoslavia. The defeat of Slobodan Milosevic in Serbia and the consequent transformation of the Federal Republic of Yugoslavia into the State Union of Serbia and Montenegro (SCG) in 2002, Croatia ceased to feel the constant fear that Belgrade would succeed in creating a "new" Yugoslavia, which contributed to a Croatia open to cooperation with Serbia, something supported by business elites who saw this as an investment opportunity in the Serbian market.

All of these events uphold the visible transformation of this country's internal policy, which moved away from the exacerbated isolationism and nationalism that it had suffered until then. In such a way that, the political changes suffered in the Western Balkans after the end of the governments of Tudjman, in Croatia, and Milosevic, in Serbia, opened space for the opportunity for this region to approach the possibility of accession to

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<sup>11</sup> European Commission – European Neighbourhood Policy and Enlargement Negotiations retrieved from [https://ec.europa.eu/neighbourhood-enlargement/countries/detailed-country-information/croatia\\_en](https://ec.europa.eu/neighbourhood-enlargement/countries/detailed-country-information/croatia_en) accessed in 20th of January, 2022.

the EU, however, while not neglecting the need to first undertake serious reforms and develop mutual cooperation within the region.

At the meeting of 19 and 20 June 2003 in Thessaloniki, the European Council confirmed its determination to support the European perspective of the countries of the Western Balkans.<sup>12</sup> In addition, in December 2006, at the European Council meeting, EU leaders confirmed that the future of the countries in this region is in the EU.<sup>13</sup>

The IPA<sup>14</sup> (pre-accession instrument) 2007-2013, adopted in 2006 and which expired on December 31, 2013, was created to assist and support the development of countries belonging to the Western Balkans that present themselves as candidates to join the EU and Turkey, with 5 major components as we can see specified in table 2. This was due to the need for the beneficiary countries of these funds to create conditions and institutions with the capacity to absorb them, in order to subsequently be able to make good use of them (Ferrari & Khan, 2010, p. 14).

Assistance for candidate countries as well as for potential candidate countries should continue to support them in their efforts to strengthen democratic institutions and the rule of law, reform public administration, carry out economic reforms, respect human as well as minority rights, promote gender equality, support the development of civil society and advance regional cooperation as well as reconciliation and reconstruction, and contribute to sustainable development and poverty reduction in these countries, and it should therefore be targeted at supporting a wide range of institution-building measures (Ferrari & Khan, 2010, p. 14).

Table 2 - IPA components

|   |   |
|---|---|
| <b>Transition Assistance and Institution Building</b> | <b>Focuses on building and strengthening of the institutional framework related to the adoption and implementation of the EU's acquis Communautaire</b> |
| <b>Cross-Border Cooperation</b>                       | Among beneficiary countries as well as with member states   |
| <b>Regional Development</b>                           | In the area of environmental protection and transport, as well as for the promotion of competitiveness and regional development                         |

<sup>12</sup> European Commission – Thessaloniki European Council 19 and 20 June, 2003 Presidency conclusions retrieved from [https://ec.europa.eu/commission/presscorner/detail/en/DOC\\_03\\_3](https://ec.europa.eu/commission/presscorner/detail/en/DOC_03_3) accessed on 2nd of February, 2022.

<sup>13</sup> European Commission – 2770<sup>th</sup> Council Meeting General Affairs and External Relations GENERAL AFFAIRS (Brussels, 11 December 2006) retrieved from [https://ec.europa.eu/commission/presscorner/detail/en/PRES\\_06\\_352](https://ec.europa.eu/commission/presscorner/detail/en/PRES_06_352). Accessed on 2<sup>nd</sup> of February, 2022.

<sup>14</sup> Source: [https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/overview-instrument-pre-accession-assistance\\_en](https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/overview-instrument-pre-accession-assistance_en) accessed on 28th of November, 2021.

|                                    |   |
|------------------------------------|---|
| <b>Human Resources Development</b> | Focusing on employment, education, and training, as well as social inclusion and – in preparation for accession to the European Social Fund (ESF) – social cohesion |
| <b>Rural Development</b>           | Preparing for participation in the common agricultural policy and rural development   |

Source: adapted from Ferrari & Khan (2010).

It is important to add that before IPA there was a programme called Community Assistance for Reconstruction Development and Stabilisation (CARDS), that was, between 2000 to 2006, the main instrument for financial assistance from the Union to the Western Balkans. However, although having two distinctive instruments we can observe the pursuing of similar objectives and focusing on the same areas. Both being categorized under the collective term of pre-accession assistance, despite the fact that this is less substantial in CARDS, since, in the beginning, CARDS served the immediate goal of reconstruction after the war, but later it took a turn and shifted its focus to capacity-building, home and judicial affairs (Antonopoulos, 2013, pp. 100-101).

We can see the main differences and similarities of both instruments in Table 3.

Table 3 - Comparative elements of CARDS and IPA

|   | CARDS   | IPA   |
|---|---|---|
| <b>Period</b>                           | 2000-2006   | 2007-2013   |
| <b>Money</b>                            | €4.65 (and €210 million decided in Thessaloniki)  | €11.468 billion   |
| <b>Main aim</b>                         | To support participation by the recipient countries in the Stabilisation and Association Process (SAP)  | To assist candidate and potential candidate countries in their progressive alignment with the standards and policies of the EU, including where appropriate the <i>acquis</i> , with a view to membership   |
| <b>Objectives</b>                       | <p>→ reconstruction, aid for the return of refugees and displaced persons, and stabilisation of the region;</p> <p>→ the creation of an institutional and legislative framework to underpin democracy, the rule of law and minority rights, reconciliation and the consolidation of civil society, the independence of the media and the strengthening of legality and of measures to combat organized crime;</p> <p>→ sustainable economic development and market-economy-orientated reform;</p> <p>→ social development with particular reference to poverty reduction, gender equality, education, teaching and training, and environmental rehabilitation;</p> <p>→ the development of closer relations among recipient countries, between them and the EU and between them and countries that are candidates for accession to the EU, in coordination with other instruments for cross-border, transnational and regional trans- boundary cooperation with non- member countries;</p> <p>→ fostering regional, transnational, cross-border and interregional cooperation among the recipient countries, between them and the EU and between the recipient countries and other countries of the region.</p> | <p>→ strengthening democratic institutions as well as the rule of law including its enforcement;</p> <p>→ the promotion and the protection of human rights and fundamental freedoms and enhanced respect for minority rights, the promotion of gender equality and non-discrimination;</p> <p>→ public administration reform, including the establishment of a system enabling decentralisation of assistance management to the beneficiary country in accordance with the rules laid down in Regulation (EC, Euratom) No 1605/2002;</p> <p>→ economic reform;</p> <p>→ the development of civil society;</p> <p>→ social inclusion;</p> <p>→ reconciliation confidence-building measures and reconstruction;</p> <p>→ regional and cross-border cooperation. Particularly for the candidate countries:</p> <p>→ the adoption and implementation of the <i>acquis</i>;</p> <p>→ support for policy development as well as preparation for the implementation and management of the Community's common agricultural and cohesion policies. Particularly for potential candidates:</p> <p>→ progressive alignment with the <i>acquis</i>;</p> <p>→ social, economic and territorial development including, inter alia, infrastructure and investment-related activities, in particular in the areas of regional, human resources and rural development.</p> |
| <b>Focus on administrative capacity</b> | <p>Priorities:</p> <ol style="list-style-type: none"> <li>1. Democratic stabilisation;</li> <li>2. Economic and social development;</li> <li>3. Justice and home affairs;</li> <li>4. Administrative capacity-building;</li> <li>5. Environment and natural resources.</li> </ol> <p>And a regional component consisting of 10% of total funding.</p>   | <p>Components:</p> <ol style="list-style-type: none"> <li>1. Transition assistance and institution-building;</li> <li>2. Cross-border cooperation;</li> <li>3. Regional development;</li> <li>4. Human resources development;</li> <li>5. Rural development.</li> </ol>   |

Source: adapted from Ferrari & Khan (2010).

In Table 4 it's possible to see a timeline on the process and assistance to Croatia's accession to the European Union.

Table 4 - Croatia's European integration and funding

| SAP  | EU ACCESSION  | EU ASSISTANCE  | IPA   |
|--|---|--|---|
| Signed on 29 October 2001. Entered into force on 1 February 2005. In the meantime, from 1 March 2002 to 2005, Interim Agreement on trade and trade-related measures was applied. | Application: 21 February 2003. Candidate status: 18 June 2004. Opening of negotiations: 3 October 2005. Accession: 1 July 2013. | Fully eligible for CARDS until 2005 (€278.8 million allocated 2000-2004) but since then only the regional component due to pre-accession (2005-6 €245 million from PHARE, ISPA, SAPARD). | MIPD 2007-9 adopted in June 2007. MIFF 2008-10: €451.4 million. |

Source: adapted from Ferrari & Khan (2010).

EU pre-accession funds function as an investment in both the future of the candidate countries and the organization. These funds make it possible to carry out political and economic reforms, thus preparing these countries for the rights and obligations that come with becoming SM, also providing opportunities for their citizens as well as facilitating the development of standards equal to those that the citizens of the Union enjoy. In Table 5 we can see legal act and policy development timeline in Croatia's case.

Table 5 - Legislative and institutional changes in the Croatian Public Administration (2001-2009).

| Year        | Legal act/policy development   |
|-------------|--|
| <b>2001</b> | Law on Civil Servants and Civil Service Employees<br>Law on Local and Regional Self-Government   |
| <b>2002</b> | Public procurement law in force (January 2002)<br>Decree on publications and registry for public procurement (February)<br>Decree on the procedure of procuring goods, services and works of minor value (February)<br>Criminal procedure code amended (June)<br>Law of the Office for Suppression of Corruption and Organised Crime<br>Law on the execution of the state budget |
| <b>2003</b> | Civil Service training centre established  |
| <b>2005</b> | Law on the Organisation and Scope of the Ministries and State Administrative Organisation<br>Law on Civil Service adopted  |
| <b>2006</b> | Civil Service Law entered in force   |

|             |   |
|-------------|---|
|             | <p>The CSOA begins work on a Public Administration Reform Strategy</p> <p>New Independent Civil Service Council to deal with complaints set up</p> <p>Policy paper commits the government to draft a revised General Administrative Procedures Act by 2007</p> <p>New Law on direct election of municipal and city mayors as well as country prefects</p> |
| <b>2007</b> | <p>Policy paper covering underlying principles for the planned new Law on General Administrative Procedures (GAPA)</p> <p>Hitrorez project to simplify or remove some regulatory procedures</p>   |
| <b>2008</b> | <p>Public Administration Reform Strategy 2008-2011 adopted Further implementing legislation for the law on civil service adopted</p> <p>Civil service training plan adopted</p> <p>New Administrative Inspection Act<br/>Number of employees at CSOA increased from 114 to 120</p> <p>Proposal for a revised General Administrative Procedures Act</p>    |
| <b>2009</b> | <p>Ministry of Administration created (formerly the Central State Office for Administration)</p> <p>Amendments to the Civil Service Code of Ethics</p> <p>National Training Strategy for Officials and Servants in Local and Regional Self-Government Units 2009-2013</p>   |

Source: adapted from Ferrari & Khan (2010).

The experience of the countries of central Europe made it possible to perceive that the success in the use of technical and financial assistance is directly related to the success of the countries that are moving towards integration in the Union, as well as being able to achieve sustainable development, creating capacities to deal with the competitive pressure within the European Union.

There is a need to develop and strengthen the administrative dimensions of the institutions to be able to deal with the integration process in the Union and this can be achieved by reducing the inefficiency of highly bureaucratic and centralized governments, reforming the building of human capital that best corresponds to European standards. The stability of central governments and the adoption of policies that in the long term will have positive effects in terms of creating absorption capacities and handling financial assistance. Making these procedures transparent will reduce the opportunity to trigger corruption.

The Western Balkans are yet to establish a partnership with the European Commission in order to be able to establish competent local authorities. Not only "get the job done" but also to transfer knowledge and experience to countries that aspire to become members of the European Union.

The process of integration in the EU should be seen as directly related to the development of a country, taking into account that the main objectives of this process are to facilitate the process and prepare countries to deal with competitive pressures once they become Member States due to the lack of cooperation between the Balkan countries, the intensification of regional cooperation by the international community is welcomed as it will help these countries to achieve sustainable economic development.

The Stabilization and Association Process (SAP), launched in 1999,<sup>15</sup> constitutes the strategic framework to support the progressive approximation of the countries of the Western Balkans to the EU, which is based on bilateral contractual relations, financial assistance, political dialogue, trade relations and the promotion of regional cooperation. Presenting itself as the first plan that uses the promotion of regional cooperation as a strategy to not only consolidate peace, but also to prevent future crises.

In all post-communist countries, political and economic transitions and acceptance of the rules and conditions relating to their accession to the EU were virtually overlapping processes. All with the ultimate objective of adopting the requirements and regulations of the EU by the countries interested in joining the Union. In this specific case,

In the countries that have emerged from the former Yugoslavia, because of their war legacy and implications of the disintegration of the multinational federation, the European Union itself has imposed a third set of requirements: political stabilisation. For the Western Balkans, the EU has devised a new type of accession treaty: Stabilisation and Association Agreements (SAAs), which stipulate only the possibility of acquiring the status of a full EU member. (...) the EU has added new policy areas: home affairs, justice, the Schengen area, a common foreign and security policy, and a common currency (Caratan, 2009, pp. 171-172).

The Stabilization and Association Agreements (SAA) provide for political and economic cooperation, as well as the creation of free trade areas with countries interested in establishing them. The Stabilization and Association Council, which meets at ministerial level every year, supervises the application and implementation of the agreement in question. It is assisted by the Stabilization and Association Committee. Finally, a Parliamentary Stabilization and Association Committee (EAPC) guarantees cooperation between the parliaments of the countries of the Western Balkans and the European Parliament. This type of agreement made it possible to solve some of the problems in the region, as well as providing space to develop good relations with

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<sup>15</sup> EUR-Lex – Stabilisation and Association Process Retrieved from <https://eur-lex.europa.eu/EN/legal-content/glossary/stabilisation-and-association-process.html>. Accessed on 2nd of February, 2022.



neighboring countries, thus creating good relations that are used as instruments to develop prosperity, security based on respect for human rights, democracy and a rule of law. However, Bosnia-Herzegovina and Kosovo are still at the application stage and facing deep transformations (Ferrinho Lopes & Bondarenko, 2022, p.142).

It first compromises the 1993 criterion, which includes the stability of institutions, guaranteeing democracy, rule of law, the protection of human rights, as well as the protection of existing minorities in the region, and a functional and competitive market economy within the parameters of the European Union. The criteria adopted in Madrid in 1995 added new conditions for those aspiring to become members of the Union, with the need now for candidates to demonstrate the administrative and legal capacity to implement and respect the *acquis communautaire* (Caratan, 2009).

EU-imposed membership conditions may be debatable as they impose the obligation of adjustment continues to be requested from economically less developed countries, burdened with countless difficulties in their transition and development, presenting not only obstacles economic, as well as social and political. And while at the 2003 European Council in Thessaloniki the EU committed itself to the gradual integration of the Western Balkans, there was no time limit set for actually doing so (Caratan, 2009, p. 172).

Integration into the EU implies apparent benefits for its new members, becoming a member of the Union means ensuring the expansion of economic markets, as well as legal certainty, minimizing the risk for potential investors, which consequently generates an inflow of capital and the growth of the least developed countries. These stand out as some of the reasons in favor of the possible early admission of Southeast European countries. This idea is strongly defended by the authors Bideleux and Jeffries (2007), who suggest that the admission of this group of countries in transition should be complete as soon as possible “without waiting for them fully to ‘put their own houses in order’ before entry”. This is reinforced by the fact that “deadening” and postponing the admission of new members until the countries of the region have, without exception, managed to meet all the criteria, will end up only marginalizing non-member states, thus causing negative results and adverse effects that could bring disadvantages not only to themselves, but also to the rest of the continent.

Most importantly for Croatia, the changes it needs to make to comply with EU regulations include reforming and modernizing the legal system. Without this judicial reform, the functioning of the market economy would not be possible. This reform would be time-consuming and problematic if there were no requirements to accept the

entire EU legal legacy. “The EU is in fact a supranational legal order negotiated between the member states. Essentially, the EU “is the rule of law – nothing more, nothing less” (Caratan, 2009, p.174).

It could be said today regarding the South-Eastern European region that the Europeanization of the Balkans provides the best protection against the Balkanization of Europe. Here the term “Balkanization” does not mean the fragmentation of nation-states, but the entanglement of South-Eastern European countries in retrograde processes and unsolved problems (Caratan, 2009, p. 174).

The member states of the Union should be particularly concerned with the definitive pacification of the former Yugoslavia region, standardized and integrated into the EU, in order to prevent it from continuing to be a permanent source of economic, political and security problems, with latent ethnic conflicts, and sometimes tense interstate relations and porous borders for organized crime. It is important to emphasize that Croatia continues to have problems with the inclusion of minorities, being the most concerning cases the absence of representation of Serbs in the political sphere and the discrimination of Roma people, which leads to the lack of opportunity of getting good jobs, affecting their living conditions, which are already bad considering there is no integration of these people in the society (MRG, 2003), worsening with the development of relations with the newly formed states that appeared with the dissolution of Yugoslavia. Entering the EU, like the accession process itself, facilitates regional collaboration, removes obstacles in the normalization of relations and economic cooperation, however, progress at this level can be achieved much more easily among EU members than among those still in the process of joining the EU (Caratan, 2009).

However, despite the deficits in some sectors, it is important to note that there are also some advantages in the region, which facilitate its integration into the Union. Before the 1990s, the former Yugoslav federation had a limited market economy, and the economic development and living standards were, in fact, higher than those of Central and Eastern European countries, which formerly belonged to the Soviet Bloc. In this region, Croatia and Slovenia were economically and institutionally the most developed units of the federation, something that clearly proved to be an advantage for them in their approach to the EU.

There is little discussion of the fact that some of the new members found themselves on the fast track to EU membership because of international political issues, particularly those belonging to Eastern Europe, which EU’s integration would help in the isolating the area against Russia. This fact, as well as the estimate that some of the new members performed worse than Croatia, not only in terms of economic indicators, led to the feeling that the country had waited unjustifiably to be admitted to

the EU, reinforced Euroscepticism, which supported nationalist arguments about the Union actually posing a threat to sovereignty, giving rise to the growth of political extremism by right- and left-wing radicals who opposed European integration, democratic and market reforms, as well as opening their respective countries to global and regional collaboration (Caratan, 2009, p. 176). All this could contribute to a slowdown in the economic transition, thus threatening democratic consolidation. The key point here is not only that domestic opposition to reforms will become increasingly difficult to overcome, but also the fact that this could have greater consequences, such as discouraging foreign investment. The delay in obtaining membership also leads to additional problems, as over time, EU regulations, the *acquis communautaire*, which must be adopted and implemented will probably tend to become more and more extensive.

Briefly, there are two possible options with regard to the admission of post-communist countries to the EU, the first of which requires accession candidates to be able to make the necessary changes to comply with the requirements and conditions imposed by the Union, completing their economic and political transition before their admission, in accordance with European principles and, in particular, changes relevant to the credibility of the Union's institutions. The second is the idea that the best way to proceed would be to complete their transition and consolidate democracy, after joining the EU, taking place as soon as possible. This argument advocates admitting candidates as full members as soon as possible. It should, however, be underlined that,

There is no denying the fact that there are indeed some risks involved in the premature admission of the countries that have not fully met the criteria for joining the EU and solved their old problems or carried out all necessary economic and political reforms. However, these costs and risks will be higher if the states are left to boil in their own sauce until they have fully met the admission criteria (Caratan, 2009, p. 177).

## **Chapter 2 – Croatia’s socioeconomic and political development (2003-2021)**

For the development of this chapter, we will base it on the political, economic and social dimension of Croatia, in the period between 2003 and 2021, analyzing data from pre- and post-accession to the EU. For this purpose, it will be explained how the way in which the Croatian government influences society and the development of the economy.

The main problems that stand out, that the government still need to address, are the insufficiency of reforms, namely of the health system and public administration, a slow privatization by the State, as well as the need to reform the judicial system, according to the BTI 2022 Country report on Croatia:

According to Eurobarometer polling data from 2016 to 2020, Croatia had the lowest public confidence in courts and judges, with only 25% of respondents claiming that the independence of the judiciary was very good or fairly good. Among Croatian companies, less than 20% believed that the judiciary was independent of interference from political or private interests (p.10).

As well as supporting and backing on the development of tourism, which made the economy susceptible to external situations, like it happened with the COVID-19 pandemic, being this situation combined with an allocation of funds on the coast, creating even more regional inequalities compared to the interior of the country (BTI, 2022).

The growth of the extreme right in the Croatian party system, supported by the Catholic Church, an institution that has a great weight in society, contributed to the marginalization of already marginalized communities, with the main groups being the Roma people, the ethnic Serbs and the LGBT+<sup>16</sup>, this movement being associated with conservative ideas and also being supported by war veterans, who still live in the 90’s war narrative.

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<sup>16</sup> House of Freedom (2021) Retrieved from <https://freedomhouse.org/country/croatia/freedom-world/2021> accessed on 25th of September, 2022.

## 2.1. Political Situation

Croatia is a Parliamentary Republic with free and regular elections, having the political and civil rights of its citizens, in general, respected. The 151-member parliamentary chamber, called Hrvatski Sabor, are elected every four years. In the July 2020 elections, the party, currently in power, HDZ won 66 seats, which led it to create a government coalition with the Croatian People's Party (HNS), the Reformists and eight minority-representative members of parliament, ensuring the plurality in parliament.<sup>17</sup> The opposition party, SDP, won 41 seats, followed by the Homeland Movement Party, an extreme-right party, which won 16, while the new left party won 8 seats, with another 8 reserved for ethnic minorities, despite this, it continues to be considered that the political interests of already marginalized communities continue to be “underrepresented”. Although the elections were free and fair, ethnic Serb candidates suffered harassment during the campaign period. The treatment of this ethnic Serb community has deteriorated in the country in recent years, which can be evidenced by the incident that occurred in September 2018, when the leader of the Independent Democratic Serb Party (SDS), Milorad Pupovac, was attacked with food on the public road. These types of events are considered to reflect the growth of the extreme right in the country, as well as nationalist movements. Incidents of this nature were repeated in 2019, and, as mentioned above, in the 2020 campaign.<sup>18</sup>

According to data from the World Bank, in recent years, Croatia's political environment has remained relatively stable. However there has been limited scope for implementing ambitious reforms. The Croatian Democratic Union party has had a coalition government since October 2016. Although the need for consensus has limited its ability to successfully pursue a comprehensive reform agenda, the government has been successful in implementing policies to improve the country's macro-fiscal situation.

Regarding the representation of women in the political sphere, it is observed that they do have it, with the country having a woman as head of government, from 2015 to 2019. However, it is important to note that the number of women in parliament has declined in 2016 after the Constitutional Court overturned a law that required 40% of a party's candidates must be female. In the 2020 legislative elections, 35 women won a seat in parliament, representing different parties. In the case of the LGBT+

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<sup>17</sup> Economist Intelligence (EIU) Retrieved from <https://country.eiu.com/croatia> accessed on 25th of September, 2022.

<sup>18</sup> House of Freedom (2021) Retrieved from <https://freedomhouse.org/country/croatia/freedom-world/2021> accessed on 25th of September, 2022.

community, there is societal discrimination that visibly discourages this minority from taking an active role in politics, and when they do, they are victims of discriminatory attitudes by the political institutions.

In 2019 we see a change in the Croatian political body, in January, the former prime minister, Zoran Milanovic, leader of the Social Democratic Party (SDP), beat Kolinda Grabar-Kitarovic, supported by the ruling party (HDZ), in the second round of the presidential election, winning with 51.7% of the votes (BTI, 2022).

The current Prime Minister, Andrej Plenkovic, leader of the Croatian Democratic Union (HDZ) called for early elections, taking place in July instead of December 2020, which critics saw as a technique to harness society's positive perception in the right way, regarding how his party managed to deal with the pandemic situation that affected the country since the beginning of the year, something that is supported by opposition parties who consider that the party wanted to take advantage of its reelection chances before the consequences of the pandemic are felt in the country, safeguarding itself (BTI, 2022, p.8). Andrej Plenkovic therefore remains Prime Minister of Croatia today.

Croatia took the Presidency of the Council of the European Union in January 2020, one of the government's great ambitions was to make the country a voice for EU enlargement, thus increasing its influence in the WB region, however this point is something that will be developed later in the third chapter. Where we will see that the government's objectives could not have been fulfilled, since it was during this time that the COVID-19 pandemic started (BTI, 2022, p.8).

## 2.2. Economic Environment

Croatia is characterized by having a small and open economy, being the most recent accession into the European Union. According to the World Bank report, Country Partnership Framework – for the republic of Croatia for the period FY19-FY24<sup>19</sup>, it is possible to observe that, despite being seriously affected by the global financial crisis, the Croatian economy has managed to recover, presenting an average growth of about 3% in the last four years. Public finances have improved significantly, fiscal imbalances have been reduced and the country's debt profile has improved significantly after showing very high initial levels. We can see the country's framework in

Table 6.

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<sup>19</sup> World Bank - Country Partnership Framework for the Republic of Croatia for the period FY19-FY24 (2019)

Retrieved from <https://documents1.worldbank.org/curated/en/501721557239562800/pdf/Croatia-Country-Partnership-Framework-for-the-Period-of-FY19-FY24.pdf> accessed on 15th October, 2021.

Table 6 - Croatia's GDP, life expectancy and population characteristics

|                                   | 2003    | 2013   | 2021    |
|-----------------------------------|---------|--------|---------|
| GDP per capita (growth annual %)  | 5.5     | -01    | 14.7    |
| Life expectancy (total)           | 75      | 77     | -       |
| Net migration per 1000 population | -0.117  | -1.799 | 1.064   |
| Net migration (annual change %)   | -93.340 | 17.210 | -21.130 |
| Population (millions)             | 4.304   | 4.256  | 3.899   |

Source: World Bank and Macro Trends.<sup>20</sup>

The country's natural resources and location continue to support a dynamic tourism industry, which serves as the main driver of growth. Its accession to the EU in mid-2013 helped boost exports, which rose from 40% of GDP in 2008 to over 50% in 2018. However, despite recent progress, the 2008 financial crisis revealed underlying vulnerabilities to shocks exogenous and has had a lasting impact on poverty and shared prosperity. Croatia suffered a six-year recession after it, which resulted in a 12% loss of economic output and one of the biggest increases in poverty among EU member states. The truth is that unemployment has soared and the emigration of young and skilled workers has increased. The share of poor and vulnerable families rose from ¼ to ⅓ of the population. While Croatia has a relatively high GNI per capita, the geographic distribution of income is clearly uneven, and the crisis has widened the gap between more prosperous cities and less developed regions.

After a long recession, the GDP was restored from 2015 onwards. However, the truth is that the country suffered one of the longest economic recessions in Europe. The economic recovery started in 2015 and was mainly due to a strong increase in external demand and a recovery in private consumption. The strong export performance was supported by high tourism seasons, although overall exports, at around 50% of GDP, remain low compared to other EU member states.

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<sup>20</sup> World Bank data retrieved from <https://data.worldbank.org/country/croatia>. Accessed on 16th September, 2022. Macro Trends data from <https://www.macrotrends.net/countries/HRV/croatia/net-migration>. Accessed on 28th of July, 2022.

Table 7 - Croatia's socioeconomic development (2015-2021)

|   | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|------|------|------|------|------|------|------|
| <b>Real GDP growth, at constant market prices</b> | 2.4  | 3.5  | 2.9  | 2.6  | 2.5  | 2.5  | 2.4  |
| Private Consumption                               | 1.1  | 3.5  | 3.6  | 3.5  | 3.6  | 3.4  | 3.2  |
| Government Consumption                            | -1.0 | 0.7  | 2.7  | 2.9  | 2.2  | 2.2  | 2.0  |
| Gross Fixes Capital Investment                    | 3.8  | 6.5  | 3.8  | 4.1  | 6.3  | 6.4  | 6.1  |
| Exports, Good and Services                        | 9.4  | 5.6  | 6.4  | 2.8  | 2.1  | 1.9  | 1.7  |
| Imports, Good and Services                        | 9.2  | 6.2  | 8.2  | 5.5  | 4.7  | 4.5  | 4.2  |
| <b>Real GDP growth, at constant factor prices</b> | 2.3  | 3.5  | 2.1  | 2.6  | 2.5  | 2.5  | 2.4  |
| Agriculture                                       | 3.8  | 7.3  | -2.1 | 2.1  | 2.0  | 2.0  | 2.0  |
| Industry  | 2.8  | 5.0  | 0.9  | 0.5  | 2.4  | 2.4  | 2.4  |
| Services  | 2.0  | 2.8  | 2.8  | 3.4  | 2.5  | 2.6  | 2.4  |
| <b>Inflation (Consumer Price Index)</b>           | -0.5 | -1.0 | 1.0  | 1.5  | 0.9  | 1.4  | 1.4  |
| <b>Current Account Balance (% of GDP)</b>         | 4.5  | 2.7  | 4.5  | 2.9  | 2.1  | 1.3  | 0.9  |
| <b>Financial and Capital Account (% of GDP)</b>   | -3.5 | -1.6 | -3.4 | -2.9 | -1.5 | -0.7 | -0.2 |
| Net foreign Direct Investment (% of GDP)          | 0.5  | 4.2  | 2.5  | 2.1  | 2.2  | 2.2  | 2.4  |
| <b>Fiscal Balance (% of GDP)</b>                  | -3.4 | -0.9 | 0.9  | 0.0  | 0.3  | 0.4  | 0.5  |
| <b>Debt (% of GDP)</b>                            | 83.7 | 80.2 | 77.5 | 74.0 | 70.7 | 67.3 | 63.9 |
| <b>Primary Balance (% of GDP)</b>                 | 0.0  | 2.1  | 3.5  | 4.4  | 2.5  | 2.4  | 2.6  |
| <b>Poverty rate (\$3.2/day, PPP terms)</b>        | 1.3  | 1.3  | 1.2  | 1.1  | 1.0  | 0.9  | 0.8  |
| <b>Poverty rate (\$5.5/day, PPP terms)</b>        | 5.5  | 4.9  | 4.6  | 4.2  | 3.9  | 3.5  | 3.2  |

Source: World Bank, Macroeconomics, Trade and Investment Global Practice and Poverty Global Practice.<sup>21</sup>

As we can see in Table 7 Private consumption increased due to an increase of income, moderate inflation, and improved consumer confidence. The recovery in private investment has been accompanied by significant business development, while public investment is positively affected by the use of EU funds. Nevertheless, exports (good and services) saw a decline, from 9.4 in 2015 to 1.7 in 2021, accompanied by a not so big drop in the imports (good and services), from 9.2 to 4.1, in the same time period.

Regarding the different economic sectors, agriculture numbers steady, having reached its highest in 2016, at 7.3. In the industry sector it's possible to see a big drop from 2016, where the numbers were rounding 5.0, to 0.9 in 2017 and 0.5 in 2018, growing and staying at 2.4 in the next three years. In the service sector the highest was in 2018, at 3.4, staying in 2.4 in 2021.

Concerning inflation, the number increased during this time span, from -0.5 in 2015 to 1.4 in 2021. Debt related we can see that there was a big drop, from 83.7% of

<sup>21</sup> World Bank, Macroeconomics, Trade and Investment Global Practice and Poverty Global Practice. Retrieved from <https://thedocs.worldbank.org/en/doc/d5f32ef28464d01f195827b7e020a3e8-0500022021/related/mpo-hrv.pdf> accessed on 10th of January, 2022.



GDP in 2015 to 63.9% in 2021. Nevertheless, as usual, current growth rates remain among the lowest in Central and Eastern European countries, with concerns that the composition of the economy does not support strong increases in overall productivity. Investment in manufacturing has been stagnant in recent years, while tourism has become one of the country's biggest drivers of economic growth, and while it has, in fact, helped drive the Croatian economy's recovery, the sector tends to be less innovative, contributing to the fact that the general gains in productivity may be more limited. The excessive dependence of this economy on tourism, whose performance is seasonal, creates obvious economic vulnerabilities. However, if better backward linkages are established, this sector can serve to promote other sectors, including successful international market penetration.

Truly, Croatian economy is heavily dependent on tourism, as mentioned earlier, makes the country extremely vulnerable to external adversities, as an example is the current pandemic crisis that affected countries on a global scale and ended up reflected in the contraction of Croatia's GDP in 2020, with values of -8.4%, one of the highest at the level of the European Union, the European continent, and the Central Asia region. With the aim of reversing this situation in the future, the EU has established a series of economic funds to which its member states will be able to compete, in order to provide a varied set of resources that encourage and help the restart of the economy in the countries most affected by the pandemic, providing the possibility to create tools that allow them to resist crises, which is a key element in the Union's support for the country's economic recovery.

Croatia will therefore need to make effective use of funds coming from the Union, taking into account, what the investment priorities are, while accelerating reforms related to long-standing structural problems. It is essential that these changes consider the importance of the country being based on a green economy, which helps in its digital transformation, which supports development and economic resilience.

Low total factor productivity (TFP) growth, population aging and rising levels of emigration limit growth prospects. Unlike most of its peers within the EU, where potential pre-crisis growth was largely driven by TFP increases, Croatia benefited mainly from capital accumulation related to public investments in infrastructure and real estate. Total factor productivity contributed negatively to growth from 2005 to 2014, with only a small positive contribution in 2015-17. This reflects, in part, over-allocation of less productive resources, low level of R&D spending by the public and private sectors, comparatively inferior quality of human capital, a complicated business environment, a relatively large and inefficient state sector, as well as weaknesses institutional and regulatory.

Growth is forecast to remain below 3% over the medium term. Expected improvements in the use of EU funds would boost future capital investment, but current investment levels (20%) are well below the pre-crisis investment level of around 27% of GDP. Adverse demographic trends are being exacerbated by emigration and it is expected that labor shortages, both in terms of availability and quality, will also end up constraining their growth in the coming period. The truth is that, without a significant increase in productivity, Croatia will not be able to achieve growth rates that allow the country to converge to the income levels that the other EU members present, much less for the most advanced economies in Western Europe.

A significant reduction in the government deficit allowed the unsustainable trajectory of public debt to be reversed, but fiscal vulnerabilities persisted. Over the course of three years, the government achieved a strong fiscal adjustment, and a budget surplus was recorded in 2017. As fiscal imbalances diminish and growth accelerates, public debt firmly appears to remain on a downward trajectory, decreasing, on average, by around 2.5 percentage points of GDP per year since 2015. However, at around 75% of GDP, general government debt remains high, and the country remains vulnerable to further worsening external financing conditions or changes in interest rates. In addition, with a relatively large share of foreign currency-denominated debt, Croatia is also exposed to exchange rate risk, although this situation is mitigated by the Central Bank's policy of a tightly managed exchange rate fluctuation of Kuna against the Euro. The downside risks to the debt reduction trend are due to lower GDP growth and the materialization of contingent liabilities, including those of state-owned companies.

Regarding the composition of the budget, the proportion of capital expenditure has decreased by more than half compared to the pre-crisis level and the remuneration of civil servants remains the highest in the EEC region (as a percentage of GDP).

Croatia has full access to international capital markets and financing conditions have significantly improved over the past three years. In 2012, the country lost its investment grade due to high fiscal deficits, rising levels of public debt and a prolonged recession which resulted in borrowing conditions worsening significantly.

However, Croatia remained present in the market with at least one international issue every year. As the economy recovered and fiscal sustainability improved, all rating agencies revised the country's rating, increasing it, with the 2019 targeting investment grade. The last international bond issue took place in June 2018, when the government raised EUR 750 million from a 10-year bond sale, with a yield of 2.898%. Investor demand was strong, and the issuance was oversupplied by almost five times.

There have been notable economic improvements in the areas of monetary, fiscal and debt policy, although certain vulnerabilities persist. It is important to note

that monetary policy has helped to provide macroeconomic stability in Croatia, and the banking sector remains well capitalized and profitable.

Since 2008, the value of public debt has doubled, the gross debt accumulated during the crisis was issued abroad or domestically, in euros, or indexed to it. While the government has made significant efforts to reduce fiscal imbalances, there are many points that need to be addressed in order to find a solution for them. The newly approved national fiscal framework will help ensure long-term sustainability, including fiscal activities (WorldBank, 2019, p. 21).

Croatia's institutional challenges are evident in the country's uneven pattern of development, which has not fully diversified its sources of growth and is heavily dependent on a source based on the country's natural resources – tourism – which more often than ever, as pandemic crisis revealed is vulnerable to the environment and external market, allied to the still large presence of the State in the productive sectors. Geographical and categorical disparities in funding and human capital indicate more challenges related to protecting the poor and the most vulnerable, making it difficult to create economic opportunities for all.

Positive economic trends, supported by government action in managing public finances, have created an environment where further reforms may need to be implemented. In 2017 (WorldBank, 2019, p. 7), Croatia reached its first fiscal surplus since gaining independence, however public finances continue to be managed very strictly. The European Commission Country Report for 2019 confirms that stocks of macroeconomic imbalances continue to be low in Croatia, largely due to being driven by a positive economic environment and prudent management of public finances. Due to this, we can observe the boost in the activity of the private sector and, as a result, unemployment has been decreasing and the demand for work has been increasing. Improved fiscal and economic prospects have helped the country regain investment grade status as of 6<sup>th</sup> of March, 2019. However, the country's demographic profile (which features an aging population and still increasing levels of emigration, especially by the younger population) and global trends (such as the pace of technological change and the changing nature of work) make it increasingly critical to prioritize actions to enhance a country's long-term growth potential.

While current conditions assume positive potential growth rates of around 2.5% in the medium term, a value that does not make it possible to relaunch, or even accelerate, the pace of convergence with other European Union countries.

The World Bank considers that Croatia, with the right set of policy actions, can manage to increase public investment returns – effectively using current EU-provided funds as well as its future funding – by attracting strategic private investment to create

new economic opportunities. With eurozone membership as part of its medium-term agenda, ambitious reforms are planned to be implemented, sophisticated enough to boost growth, while also allowing for the building of economic resilience, maximizing the benefits of membership. Critical areas that are in need of reform also include investment in managing human capital and natural resources to preserve and leverage their natural assets, the success of these reforms will ultimately depend on strengthening Croatia's institutions.

The Systematic Country Diagnosis (SCD) highlighted the quality of national institutions as a binding constraint to achieving more inclusive and resilient growth. Despite presenting a relatively high income, Croatia continues to lag behind other EU member states in aspects of governance, business environment and human capital indicators, which indicates certain weaknesses that urgently need to be addressed.

The SCD has identified three key priority areas that constrain productivity and limit the ability to achieve better social outcomes. Croatia has a large public sector, which in turn is underperforming on a number of indicators, highlighting the challenges and weaknesses that affect all sectors and limit growth prospects and the emergence of a dynamic private sector. Weak administrative capacity is one of the main reasons for the difficulties in programming and implementing the EU's Structural and Investment Funds. The main challenges to be faced include poor planning, lack of effective coordination and cooperation between ministries and levels of government, and a very weak public investment management process. Secondly, we should mention the lack of capacity to be able to provide quality services, which is reflected in the low human capital, more visible in the poorest regions of the country. Croatia's less developed regions are among the lowest rated in the European quality of governance index (EQI). To be able to develop improvements in the areas of inclusion, unemployment, and education, especially for the most vulnerable population, it will be necessary to reinforce “the ability of relevant institutions to provide services to those hardest to reach” (WorldBank, 2019, p. 9). And to keep in mind that “The institutional challenges include capacity gaps among national and local authorities, as high fragmentation of local decision-making authority raises costs and reduces the quality, effectiveness and sustainability of service delivery” (WorldBank, 2019, p. 9).

Thirdly, there are weak market institutions, which include barriers in the legislative and business environment that pose challenges to the performance of SOEs, remaining an old binding constraint in Croatia that limits the potential of private sector to thrive. The truth is that state dominance and intervention in many sectors of the Croatian economy stifle its growth. The main governmental institutions, especially with regard to the judiciary and public administration systems, perform below the EU

benchmark and even at a global level. More generally, the lack of competition in parts of the private sector, excessive regulation, and a large presence of relatively inefficient SOEs, pose institutional challenges that, if addressed, could create employment and investment opportunities, thereby enhancing private sector-led growth in long-term. The key points of change are the need to improve the capacity, transparency and predictability of the main market institutions, such as: justice, competition policy and regulatory environment and public administration, which are considered the main determinants of the 'reborn' of the private sector.

With figures like 65.2% of EU27 GDP per capita in 2019 (purchasing power parity (PPP)), Croatia still lags far behind the other EU member states. Strengthening long-term growth is key to accelerating income convergence. This will require diversifying the economy towards more knowledge-based sectors and addressing the structural issues of the economy, including public sector governance, education outcomes and judicial sector efficiency. As far as fiscal data are concerned, what the World Bank (WB) concludes is that the increase in public debt in 2020, which reflects the economic slowdown and a large fiscal stimulus package, requires considerable prudence from the government, as well as greater efforts to increase the effectiveness and efficiency of public spending during the years that follow.

### **2.3. The employment and social condition in Croatia**

In this subchapter we will present an overview of the main developments in the area of the Croatian economy, as well as relate them to the problems that society is facing, we will mention the relevant legislative and policy measures, as well as the role of the social partners and social dialogue, for this purpose we'll also address the use that the country makes of EU funds in the fight against unemployment in the country.

The Croatian economy has been recovering since 2015, however its market is still far from showing satisfactory values. Despite showing consolidated growth in recent years, the country continues to recover from a major recession that began more than a decade ago, since the 2008 economic crisis, with an accumulation of GDP decline of 12%. The truth is that this recession has mainly affected public finances and the job market.

From 2015 to 2018 there was a recovery, with a cumulative GDP growth of 11.5%, but real GDP continues to be lower than before 2008, this growth is mainly due to the increase in exports and private consumption, with investments only starting to have more weight in 2019. As for inflation, it took a long time (with deflation in 2016), while the exchange rate remained quite stable. Public finances stabilized from 2015

onwards, as the deficit-to-GDP ratio declined significantly and the first general government surplus in 20 years was recorded in 2017 (0.8% of GDP). The public debt-to-GDP ratio also started to decline due to stronger GDP growth. However, negative birth rates and emigration led to depopulation, which affects not only the evolution of the labor market, conditioning essential sectors for the development of the country's economy, but also the sustainability of the health and pension system.

In what regards unemployment, as we can see in Table 8, despite a visible improvement in the number of unemployed people, Croatia continues to have one of the highest figures in the EU, which is a cause for concern. The country's entry into the European Union resulted in the departure of workers from the country, which meant the loss of essential and central manpower needed for its development. Employability has shown moderate improvements in its growth after the recession, however its structure has undergone changes such as “the share of self-employment in total employment has fallen, while the share of temporary employment has risen” (WorldBank, 2019, p.8). It is important to mention that one of the obstacles they face at the national level is illegal work and discrimination against certain social groups, especially women, Roma people and members of the LGBT+ community, which could be related to the fact that the country is being governed by a clearly conservative party with right-wing ideologies. According to data from Eurostat, we can see that the condition offered to females, currently, continues to be much worse than what happens to males.

The activity rates, 66.1% in women and 75.9% in men, between 20-64 years of age would be active in 2018, the difference is considerably large, but still lower than in the EU -28. In the same year, 58.6% of women were inactive, the main reason being family responsibilities, compared to 13.1% of men. Additionally, female inactivity is largely due to compliance with social norms established by a patriarchal society developed from ideals based on tradition, where gender-roles are instituted. The employability rate in 2018 was also substantially lower for women (60.1%) than for men (70.3%), a slightly lower difference than the average for EU countries. However, the employability of women has been growing since 2012 while that of men has not followed this growth, which means that the gender gap is decreasing. Regarding the quality of employment, there are no data that suggest a difference between genders, at least not with regard to temporary or precarious jobs.

The gender pay gap was 11.9% in 2017 and it has increased since 2010, when it was 5.5%. A recent study by Boll and Lagemann (2018), based on the Structure of Earnings Survey 2014, shows that the unadjusted gender pay gap of 5.8 % in Croatia was not due to women's personal characteristics and characteristics of their employers

being inferior in comparison to men's, but rather due to women being compensated less than men.

According to a survey conducted by the Croatian Ombudsperson's Office (Ombudsperson's Office, 2017), the most discriminated social group would have been Roma people (20.2%), followed by LGBT+ community (11.0%), people with disabilities (8.4%), poor's (8.2%), Serbs (4.6%), among others. Just over half of respondents (52.9%) perceive discrimination to be widespread in the workplace and in hiring, which suggests that discrimination against Roma in the labor market is considered a widespread phenomenon. It is worrying, however, that the proportion of people who understand ethnicity/nationality, religious affiliation or sexual orientation as grounds for discrimination has increased significantly. It is important to mention that Croatia is among the EU countries with the greatest discrimination in the labor market based on their sexual orientation.<sup>22</sup>

The economic recovery has led to a rather slow increase in employment, with the employment rate only surpassing the pre-crisis level in 2018. The overall employment rate in Croatia remains one of the lowest in the EU: only 46.9% of the population over 15 years old and only 65.2% in the 20-64 age group were employed in 2019, lower values recorded only in Greece and Italy. To make matters worse, Croatia also faces a very low activity rate among the working-age population, and for those aged between 20 and 64, the activity rate was 71.0% in 2018, having not changed significantly in the last decade, being the second lowest in the EU, with the EU average 28 to stand at 78.4%. Nestic and Tomic (2018) argue that the low activity rate is the result of several associated factors, including early retirement in the mid-1990s (a result of the war), privatization and restructuring of formerly state-owned enterprises, the possibility of different reforms for special groups of the population, which included war veterans and people with disabilities, long-term education and family or care responsibilities, mainly targeted at women. This situation makes evident the great need that the country must boost employment, as it presents itself as the EU member state with the lowest potential workforce.

Since the beginning of the 2008 crisis, the migration balance has remained negative, mainly after joining the EU in 2013. Official data from CBS<sup>23</sup>, although considered underestimated, indicate that in the period 2009-2018 more than 230,000 people (almost 190,000 since 2013) emigrated, while just under 120,000 immigrated,

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<sup>22</sup> Ombudsperson Office (2017). *Survey on Attitudes and Levels of Awareness of Discrimination and Forms of Discrimination for 2016*. Retrieved from <https://www.ombudsman.hr/en/download/istrazivanje-o-stavovima-i-razini-svijesti-o-diskriminaciji-i-pojavnim-oblicima-diskriminacije-2016/>. Accessed on 27th March, 2022.

<sup>23</sup> Croatian Bureau of Statistics data retrieved from [https://web.dzs.hr/arhiva\\_e.htm](https://web.dzs.hr/arhiva_e.htm) accessed on 24th of February 2022.

resulting in a negative net migration of more than 115,000 people. The same data indicate that almost half of those who emigrated are in the 20-39 age group and 80% in the working age group, between 15 and 64 years, clearly threatening the labor market, especially in eastern Croatia (Draženović et al., 2018; Christiansen et al., 2019).

This emigration of the population of working age in the labor market caused a shortage of manpower, especially in accommodation and food activities, but also in the civil construction, medical and IT sectors. This eventually resulted in pressure for salary increases due to high demand, however, not enough to attract new workers. The government has tried to mitigate this problem, adopting measures to circumvent it, such as increasing the number of work permits for foreigners, mainly in construction and food activities, but the results are not what was expected, since it was not enough to meet the growing demand for labor in these areas.

Overall, the percentage of unemployed people has almost halved since its highest level, reached in 2013, from 17.3% to 8.5% in 2018, however it remains one of the highest within the EU, after Greece, Spain, Italy and France. A little over 40% of unemployed people are considered “long-term unemployed”. It is necessary to emphasize that, within the country, we observe great regional inequalities, with a discrepancy in the conditions of the labor market, as well as in the percentage of unemployed, with the eastern area of Croatia being the one with the most unfavorable situation (Christiansen et al., 2019).

According to Eurostat, the self-employment rate was 10.8% in Croatia in 2018, 5.7% less than in 2013 and almost 8% less than in 2008. The EU-28 average was 14.3% in 2018. The decrease in self-employment as part of total employment in Croatia was mainly the result of fewer self-employed or self-employed without employees. Data from the Croatian Bureau of Statistics (CBS) further indicate that in the period 2008-2018, the number of craft and self-employed activities dropped by 27%, which may be a large part of the reason for the drop in overall self-employment. On the other hand, the proportion of temporary employment in the total number of employees increased substantially in the same period: from 12.3% in 2008 to 14.5% in 2013 and 20.0% in 2018, while the EU-28 average was maintained at around 14%. Interestingly, more than a third of temporary contracts were for up to three months, while almost 80% were for up to one year. In fact, Croatia has had the highest rate of precarious work (“contracts of up to three months”) for some time, with 6.8% of the share of precarious jobs in 2018 (the EU average was 2.2%). mainly in agriculture, retail trade and catering activities. Given the importance of tourism to the Croatian economy and its seasonality, this is somewhat to be expected. However, other institutional (labor legislation),



technological (digitization, platform economy) and economic factors (employers' caution) may also have influenced the achievement of these values.

In order to combat the challenges of unemployment and the social situation in Croatia, the government introduced a series of legislative and policy measures, the main ones being the Labor Act, implemented in 2014, which resulted in a continuous liberalization of the market, where the related legislation with Croatian Employment Service (CES) responsibilities such as employment mediation, employment protection or ALMPs will all have been combined into one law, the Law on the Labor Market, the Minimum Wage Act in 2019 and the Guaranteed Minimum Benefit, which was quite inadequate and with little coverage, however the government had in its plans an improvement in the social benefits of the system for the period 2018-20 based mainly on the technical aspects of the functioning of the system, and not so much on the fight to improve its ability to reduce poverty. Perhaps the most important policy implemented was the change in the tax system, where there were three rounds of reforms, and is now on the way to the fourth. It is important to highlight that of the Pension System which, despite being quite comprehensive and ambitious, was not well accepted by the unions, which led to the government's decision to go back with the proposed changes to the retirement age, as well as the penalties suffered for those opting for early retirement.

Social dialogue is mainly established through the national tripartite body Economic and Social Council (ESC), with a number of sectoral tripartite and bipartite social councils, as well as county-level economic and social councils. Recently, there have been some serious disputes between the trade unions and the Government about the functioning of the ESC, but also related to its role in the pension reform, which resulted in trade unions' cancellation of their participation in the ESC (WorldBank, 2019, p.9).

As can be seen in table 8, almost 1/4 of the Croatian population is at risk of poverty or social exclusion, although the values presented indicate an improvement compared to the period related to the economic crisis, they remain, even so, too high. As is often the case, older people, the unemployed and those with no skills (lack of education or vocational training) are the most vulnerable groups of people, in addition to the fact that Croatia is one of the countries with the highest percentage of children at risk of poverty. The effectiveness of social transfers in reducing (the risk of) poverty is also relatively low and worsening over time. As we can see in Table 8 data, around 24.9% of the Croatian population is at risk of poverty or social exclusion, with older people representing the most vulnerable group.

Table 8 - Employment situation in Croatia

|   | 2013 | 2018 |
|---|------|------|
| Employment rate (% of aged 20-64)   | 57.2 | 65.2 |
| Youth unemployment (% of aged 15-24)  | 50   | 23.7 |
| People at risk of poverty or social exclusion (AROPE) (% of total population) | 29.9 | 24.9 |
| Impact of social transfers on poverty reduction (%)                           | 34.3 | 24.2 |

Source: Eurostat.

Table 8 shows that 24.9% of the Croatian population in 2018 was at risk of poverty or social exclusion (AROPE). In 2017, Croatia had the eighth highest AROPE rate (26.4%) in the EU, 4 pp higher than in EU-28. While children (under 18) and those aged 18-64 had an AROPE rate slightly below the figure for the total population, the population over 65 had a substantially higher AROPE rate, 32%, which indicates that the elderly are the most vulnerable group. This is mainly due to the low aggregate replacement rate of pensions: in 2017 it was 41%, substantially lower than in the EU-28 (58%). Other especially vulnerable groups are the unemployed (AROPE rate of 57.8%) and the low-skilled (the AROPE rate for those with less than primary, primary and lower secondary education was 47.2%).

Focusing only on people at risk of poverty (AROP) (i.e. without social exclusion), the AROP rate for the total population was 19.4% in 2018 and 20% in 2017, compared to 16.9% in the EU-28 (in 2017). The most vulnerable groups are largely the same as those in AROPE, namely the elderly, the unemployed and the low-skilled. Among employees, the least educated are the most disadvantaged, with the AROP at work rate of 14.9%, while for the most educated the percentage was just 1.1%. In general, the risk of in-work poverty is lower in Croatia than in the EU-28 as a whole. However, the persistence of poverty in Croatia is much higher than the EU average. In 2017, the persistent at-risk-of-poverty rate in Croatia was 15.2%, with the corresponding EU-28 figure of 10.8%. In addition, Stubbs et al. (2017) indicate that Croatia is among the countries with the highest persistence of poverty among children, with this persistence being higher than that of the general population.

As for wages, according to CBS, in the aftermath of the crisis (2016-2018), the average nominal gross wage increased by 3.5% on average per year or 10.6% cumulatively, totaling 8,447 HRK (1 EUR 139) in 2018. For comparison purposes, from 2009-2014, the average nominal gross salary increased cumulatively by 5.3%. Due to moderate inflation, real wages also grew, as did average wages. Salary increases in Croatia in the recent period mainly result from increases in public sector salaries, a reduction in the tax burden on (labour) income and labor shortages in specific sectors of the economy. Eurostat data suggest that while annual earnings in Croatia grew by more than 10% in the period 2015-2018 (the EU-28 average increased by around 2.5%),

in all other Central and Eastern European Member States, except Slovenia, increased much more (up to 30% in Lithuania). However, both gross and net profit in Croatia were around 35% of the EU-28 average in 2018, which is still higher than in countries such as Poland, Latvia, Lithuania, Romania and Bulgaria.

The increase in wages induced an increase in general labor costs: the labor cost index (ICM) increased by more than 10% in the period 2016-2018 (about 12% in the period 2010-2018), which is more than the double the EU average increase of 5.2% over the same period. However, all other Central and Eastern European countries (CEEC), except Slovenia, showed a greater increase in their labor costs. The level of total labor costs in Croatia was 40% of the EU-28 average level in 2018, higher than in Poland, Latvia, Hungary, Lithuania, Romania and Bulgaria. This indicates that, despite the Government's efforts to reduce the tax burden on labor income in an attempt to increase the competitiveness of the economy and the purchasing power of the population, labor costs can still represent an obstacle to economic growth and convergence with the more developed countries of the EU. However, wage growth was largely covered by productivity growth. In the period 2010-2017, real labor productivity per person increased by almost 10% (the average increase for the EU-28 was 5.7%) but was again the second lowest increase in the CEEC Member States. As total labor costs increased by slightly more than 6% in the period 2010-2017, nominal unit labor costs decreased over the same period.

Recently, we have observed the adoption of a more active policy in relation to the minimum wage by Croatia. In both 2017 and 2018, the minimum wage increased by 5%, and in 2019 it increased by 9%, reaching 3,750 kunas (equivalent to 508 euros). This suggests that the minimum wage has increased more than the economy's average gross wage. In 2018, the gross minimum wage over average ratio reached 40.7%, while in net terms it would be 44.1%.

# **Chapter 3 – Croatia’s role as an EU Member-state and what it means to the Western Balkans**

## **3.1. Projections on Croatia’s Eurozone entry**

Agreed in 1991, in Maastricht, by EU Member States as part of preparations for the introduction of the euro, the convergence criteria form a set of five economic and legal indicators designed to ensure economic convergence between the countries concerned that have not yet adopted the euro and the euro area Member States. These criteria include price stability, the soundness and sustainability of public finances, long-term interest rates and exchange rate stability. The exchange rate stability criterion is respected if the Member State concerned has participated in the Exchange Rate Mechanism (ERM II) for at least two years and without serious tensions. In order to be able to adopt the euro, EU countries must comply with these legal conditions. Convergence reports are published every two years or when there is a specific request from a Member State to assess its ability to join the euro area.

On June 1<sup>st</sup> of 2022, the European Commission concluded<sup>24</sup> that Croatia will be ready to adopt the euro on the 1<sup>st</sup> of January 2023, this conclusion was defined in the 2022 Convergence Report, which assesses the progress of Bulgaria, Czechia, Croatia, Hungary, Poland, Romania and Sweden in terms of capacity to enter the euro zone. This report marks a pivotal moment in Croatia's journey to currency adoption.

The report's conclusions indicate that only Croatia and Sweden meet the price stability criterion, all member states under evaluation, except Romania, fulfill the criterion on public finances, Bulgaria and Croatia fulfill the Exchange rate criterion, Bulgaria, Croatia, Czechia and Sweden fulfill the long-term interest rate criterion.

The report concludes that Croatia complies with the four nominal convergence criteria and that its legislation is fully compatible with the requirements imposed by the Treaty, as well as with the Statute of the European System of Central Banks (ESCB).

This analysis aims to verify if the Member States under evaluation are well integrated economically and financially in the Union, allowing the European Commission to be aware of macroeconomic vulnerabilities, as well as challenges in the

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<sup>24</sup> European Commission Convergence Report – 1 June 2022 retrieved from [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_22\\_3312](https://ec.europa.eu/commission/presscorner/detail/en/IP_22_3312). Accessed on 15th of July, 2022.

business environment and institutional framework, which could pose risks to the sustainability of the EU if they enter the eurozone.

It is important to emphasize that, despite the pandemic crisis caused by COVID-19, and the consequent economic recovery to which the countries were subject in 2021, that had a great impact on this report, due to the access to little data, given that it is a recent conflict, when the report was created, we will not be able to grasp the impact that the current armed conflict between Russia and Ukraine will have on these countries' progress towards entry into the euro zone.

According to a press release, published on 12<sup>th</sup> of July 2022<sup>25</sup> the Council adopted the last three legal acts necessary to allow Croatia to introduce the euro on 1<sup>st</sup> of January 2023, this concludes the process in the Council that will allow Croatia to become a member of the euro area and benefit from the use of the EU's common currency, the euro, from next year. It is considered that joining the Euro has positive impacts on several sectors, one of which is the increase in foreign investment.

With Croatia's entry into the eurozone expected in 2023, we can conclude that it is one step closer on its path to full EU integration, since it is also making progress on its entry into the Schengen area. Croatia is not yet a member of the Schengen area, in recent years the Croatian government has implemented measures, recognizing the need for certain changes, such as increasing border controls, in order to meet the conditions imposed by the EU. Croatia will have already fulfilled 281 recommendations, referring to 8 different areas of the *acquis*, with 145 of these recommendations related to the control of external borders, the most challenging problem to be solved.

According to the report, developed during the Portuguese presidency, in 2021, the Schengen assessment for Croatia will be complete, however, there are still no prospects for when the date of entry of the country to the zone will be established. However, the Croatian Prime Minister is hopeful that his entry will be possible by 2024. (Butković, 2021). It will therefore be important to understand the impact of this integration in the EU, in terms of its regional relationship, as well as for the progress of its neighboring countries in the process of enlargement of the Union, being crucial to understand the relevance of the Croatian experience for the future enlargements of the European Union in the Western Balkans region.

It is not only relevant to understand how enlargement affects candidate countries and member states, but also how these countries influence EU enlargement

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<sup>25</sup> European Commission (2022). European Commission's Convergence Report 2022: Convergence Report reviews Member States' preparedness to join the euro area and paves the way for Croatia's euro adoption on 1 January 2023 retrieved from [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_22\\_3312](https://ec.europa.eu/commission/presscorner/detail/en/IP_22_3312). Accessed on 10<sup>th</sup> of January, 2022.

(Šabić, 2019, p. 171). According to the European Council, the continuation of the enlargement process is making the creation of union between countries possible and real, as well as a means of guaranteeing peace on the continent. However, there is great political weight in these decisions, and since not all member states share the same interests when analyzing a candidate or potential candidate, discussions for the integration of a new member can, and more often than not, take a long time to reach a decision.

At the 2003 Thessaloniki Summit, the EU proposed Stabilization and Association Agreements (SAAs) for the Western Balkans, as a guiding mechanism for these countries to have a Framework to implement the reforms and achieve the necessary conditions to become members of the Union. Croatia would then have been the first country, in a group of seven candidates and potential candidates, to join the EU. Negotiations between the Union and the countries of this group have been carried out on an individual basis, however due to the awareness of a turbulent historical past and the relatively recent and violent dissolution of Yugoslavia, the EU insisted that they demonstrate a high level of regional cooperation, being, therefore, obliged to set their differences aside and work together so that they can fulfill the EU conditions (Šabić, 2019, p. 173).

### **3.2. Croatia's lack of foreign policy**

Croatia presents itself as a country geopolitically in the same region, with cultural similarities, sharing the same historical legacy, and has started from a similar economic and political base as its neighbors, which was the first to become a member of the Union.

The European Commission, in this process, was forced to upgrade the *acquis communautaire* to include the most problematic areas of this region, justice and fundamental rights. However, social transformations take a long time, and require the inclusion and willingness of society to undergo them and agree with them, making it much more complex than the will of political entities in fulfilling the criterion, countries cannot change its history or identity due to technical negotiation process. It is necessary to realize that “Expectations of what can be achieved through the negotiations need to be lowered on part of the EU. Expectations also need to be lowered on the part of an accessing country because many fall into the trap of imagining that EU membership would solve all their problems” (Šabić, 2019, p. 175), it is necessary to abandon the narrative that joining the EU will miraculously solve all the structural problems of the country in question, these will continue to exist if the necessary reforms are not implemented.

During the negotiation process to become a member of the Union, the Croatian government failed to communicate with its citizens, with its historical past and the fear that joining the EU would take away sovereignty from the country, the emergence of conservative ideology should not be surprise, as well as the reappearance of Ustasha symbols, something that has always been present in society, based on authoritarianism, religiosity, ethnonationalism, gender inequality and intolerance of minorities (Šabić, 2019, p. 179).

Croatia's official position is that being a member of the EU allows it to pursue its national interests efficiently, while contributing to the strengthening of the Union. However, Jovic (2018) and Šabić (2019) consider that for this to become a reality, it would be necessary for the country to rethink its foreign policy, which, after joining the EU and NATO, became quite ambiguous, without being able to verify national objectives or a focus in its decisions. The truth us that after the coalition of liberal left parties won elections in 2000, the main objective of the country's political elites was to belong to the North Atlantic Treaty Organization (NATO) and the European Union. This was seen as the project that would definitely distance Croatia from the other countries of the Western Balkans, 'bringing it back to Europe', guaranteeing its security as well as its economic development after a decade of armed conflicts in region, which had drastically affected the society and economy of the country and the region (Cipek, 2020).

The attempt to have international influence and consider that it would have the capacity to intervene in important matters in order to show it to other EU members, only confirmed the lack of it, proven in 2016, when the Croatian Prime Minister, Andrej Plenković, suggested assisting in the peaceful reintegration of the occupied Ukrainian territories, which proved to be a failure, as well as when Croatian President Kolinda Grabar Kitarović and the “Three Seas Initiative”, which came to demonstrate both the lack of political power and operational resources to develop the initiative (Jovic, 2018).

Croatia was the first country to be exposed to a more advanced access criteria, subject to the imposition of new accession conditionalities (Šabić, 2019, p. 176) and claimed that its entry into the EU would mean moving away from the Western Balkans region, however, he now finds himself in a paradoxical situation, as he intends to show his influence in the area, which he claimed to have “abandoned”. The country is now trying to secure a role within the Union, trying to show itself as an expert in it. Acting as an example for the accession process of candidates and potential candidates, committing to support EU enlargement, not using the bilateral problems it has with its neighboring countries as a means of blocking or delaying negotiations.

Croatia claims to be a good channel of communication with BiH, trying to influence political decisions in the international sphere concerning this country. However, it only reinforced the idea that other EU members share, that it acts individually, with national interests as a priority and not the Union's, acting in favor of certain ethnic groups (Bosnian Croats), to the detriment of others being a behavior not accepted by its peers (Šabić, 2019, p. 182).

According to Jović (2018), Croatia's attitude towards the Western Balkans was much more cooperative before its entry into the EU, with Croatian policies leaving the idea of “Across the Balkans to Brussels”, which implied regional cooperation for the accession process, the country is now guided by “through Brussels to the Balkans”, which means that Croatia is taking advantage of being a member of the Union to achieve its goals in the region. “It is commendable that Croatia advocates further enlargements. However, Croatia’s neighbors and the EU frequently express strong reservations towards its activities” (Šabić, 2019, p. 183). Nonetheless, Croatia's influence in the enlargement to the Western Balkans is quite limited, not having a significant weight to change the position of the remaining MS. The enlargement process is much more influenced by weak democratic institutions, the high level of corruption in the countries, low standards of human rights and difficult economic problems these countries need to overcome.

According to the Croatian Constitution, the country's foreign policy is defined by the government and the country's president, which is supposed to work together to achieve a policy based on mutual agreement, however, this is not what happened, exceptionally, despite belonging to the same political party (HDZ), the Prime Minister (since 2016), Andrej Plenković, and the President (from 2015) Kolinda Grabar Kitarović, having the prime-minister and the head of state adopted quite different foreign policies (Cipek, 2020, pp. 557-558).

Due to a lack of coordination between the President and the Prime Minister, Croatia tends to opt for a policy of silence rather than non-antagonization. The situation changed when, in 2019, the former president lost to Zoran Milanović, who belongs to the Social Democratic Party, who promised to adopt a winning policy with the EU, having criticized the former's policies, including the Three Seas Initiative, as well as the foreign policy developed by Serbia and other neighboring countries (Jovic, 2018).

It seems that Milanović will pursue a policy of trying to find a niche in which Croatia could be affirmed as a capable member of the EU. (...) Both (the president and the prime-minister) think that the emphasis of Croatia’s foreign policy should be on work within the institutions of the EU. A chance to develop a policy that would show Croatia



affirming itself as an expert for the countries of the Western Balkan, and thus also for EU enlargement in the region, was provided by the Croatian Presidency of the EU (Cipek, 2020, p. 559).

### 3.3. Comprehensive comparison of the Western Balkan countries

While still part of the Western Balkans, Croatia was able to understand them, however, it was now that it 'abandoned' the region to join the European Union that it has found difficult to find the role to develop where it considered itself to belong – Europe Central and Mediterranean, the member states of the Visegrad Group, continue to have a cold attitude towards Croatia, having only occasionally shown intentions to allow a rapprochement, which proves the idea that Croatia has lost its own objective of defining foreign policy.

In line with Jovic (2018), Cipek argues that “Croatia lost a part of its influence in the Western Balkans precisely because it no longer belonged to this group of countries, and was thus forced to come up with a different strategy towards the region” (2020, p. 559).

Tables 9 and 10 depict the results of a most similar systems design (see Przeworski & Teune 1971) to compare the socioeconomic characteristics and development of the Western Balkans. The choice of this type of comparative method is explained as follows. By choosing countries with proprieties that are similar between them except for the one of interest, we are able to better isolate the explanatory factors of our propriety of interest (see Ferrinho Lopes & Heyne, *forthcoming*). Indeed, the below mentioned countries share a set of common characteristics are all former Yugoslav countries, from the western side of the Peninsula, with a close historical background, all intending to join the EU. The only exception here is Albania, which was not part of Yugoslavia, another big difference this country has is not sharing the same language, since the Western Balkans use a variation of Slavic, and in Albania they use Albanian, this also happens in Kosovo, where the two official languages are Serbian and Albanian. And yet, they differ on the propriety of interest: joining the EU. Only Croatia has been able to. Why?

Table 9 – Antecedents of joining the EU. Sociodemographic characteristics of Western Balkan countries (1992-2021)

| Western Balkans | Territory (km <sup>2</sup> ) | Population (ooo) |       |       |       |       | Religion (%) |       |
|-----------------|------------------------------|------------------|-------|-------|-------|-------|--------------|-------|
|                 |                              | 1992             | 2001  | 2010  | 2019  | 2021  | Christian    | Islam |
| Albania         | 28.748                       | 3.247            | 3.060 | 2.913 | 2.854 | 2.812 | 18           | 80.3  |
| BiH             | 51.197                       | 4.234            | 3.756 | 3.705 | 3.301 | 3.263 | 52.3         | 45.2  |
| Croatia         | 56.594                       | 4.576            | 4.300 | 4.295 | 4.065 | 3.899 | 93.4         | 1.4   |

|              |        |       |       |       |       |       |      |      |
|--------------|--------|-------|-------|-------|-------|-------|------|------|
| Kosovo       | 10.887 | 1.932 | 1.701 | 1.776 | 1.789 | 1.806 | 6.1  | 93.8 |
| Montenegro   | 13.812 | 609   | 607   | 619   | 622   | 620   | 78.1 | 18.7 |
| N. Macedonia | 25.333 | 1.989 | 2.043 | 2.071 | 2.083 | 2.065 | 59.3 | 39.1 |
| Serbia       | 88.407 | 7.646 | 7.503 | 7.291 | 6.945 | 6.844 | 92.6 | 4.1  |

Source: Adapted from Ferrinho Lopes & Bondarenko (2022) and World Bank.<sup>26</sup>

Table 9 not only allows us to have a comparative perspective between the countries belonging to the Western Balkans, but also the development of the population of each of them, since 1992, the beginning of the conflict that ended with the break-up of the former Yugoslavia, until 2021. It is, therefore, a practical way of observing the territorial, population and religious differences of these countries.

Serbia is the country with the most extensive territory, with 88,407 km<sup>2</sup>, and Kosovo is the smallest, with 10,887 km<sup>2</sup>, however, it is possible to see that the territory does not have a direct correlation with the number of people who inhabit it, since the least inhabited is Montenegro with 622 thousand people, while Kosovo has 1,8 million inhabitants, both data from 2021.

Kosovo is also the country with the higher religious homogeneity, a super-majority of Muslims (93.8%). In effect, Croatia is close to Kosovo (with 93.4% of Christians) and Serbia (92.6% of Christians), even though the last two have different majorities when comparing subtypes of Christians: in the first, the majority are Catholic Christians and the second are Orthodox Christians. We can, therefore, say that there is, in fact, a visible “religious cleavage” in this geopolitical zone (Ferrinho Lopes & Bondarenko, 2022, p. 138). This answers to part of the thesis research question and is the main reason why Croatia joined the EU, while the others did not. But why did not Kosovo and Serbia joined the EU? Because of their disagreements that impair the recognition of Kosovo as an independent State by Serbia and other countries. If Serbia joins the EU, Kosovo will never be a member since Serbia would exert its veto power in the European Council.

Bosnia and Herzegovina is the one with the greatest difference in data regarding the practiced creed, with 52.3% Christians and 45.2% Muslims, “several cities have the territory divided between Christian and Arabic areas” (Ferrinho Lopes & Bondarenko, 2022, p. 138), this is due to how the country is politically organized, representing three different ethnicities, with different religious practices.

Also, we aim at unpacking consequences of joining the EU. Table 10 allows us to see how Croatia separates itself from its neighboring countries, before and after joining the EU. Table 10 allows us to understand the economic development of the Western

<sup>26</sup> <https://data.worldbank.org/indicator/SP.POP.TOTL?locations=HR-AL-RS-ME-BA-MK-XK>. Accessed on 14<sup>th</sup> of September, 2022.

Balkan countries, using the time span from 1992 to 2021 and the indicators of GDP annual growth (%), unemployment (labor force %) and inflation, annual GDP deflator (%).

Table 10 – Consequences of joining the EU. Western Balkans’ economic performance (1992-2021)

| Western Balkans   | GDP per capita growth (annual %) |      |      |      |      | Unemployment (% Labor force) |      |      |      |      | Inflation, GDP deflator (annual %) |      |      |      |      |
|-------------------|----------------------------------|------|------|------|------|------------------------------|------|------|------|------|------------------------------------|------|------|------|------|
|                   | 1992                             | 2001 | 2010 | 2019 | 2021 | 1992                         | 2001 | 2010 | 2019 | 2021 | 1992                               | 2001 | 2010 | 2019 | 2021 |
| <b>Albania</b>    | -6.6                             | 9.3  | 4.2  | 2.5  | 9.6  | 26.5                         | 16.4 | 14.1 | 11.5 | -    | 233                                | 3.8  | 4.5  | 1.3  | 5.9  |
| <b>BiH</b>        | -                                | 2.3  | 1.7  | 3.5  | 7.7  | -                            | 16.1 | 27.3 | 15.7 | 14.9 | -                                  | 4.7  | 1.4  | 2.6  | 1.7  |
| <b>Croatia</b>    | -                                | 7.1  | -1.0 | 4.1  | 14.7 | -                            | 15.8 | 11.6 | 6.6  | 7.6  | -                                  | 4.2  | 0.9  | 1.9  | 3.2  |
| <b>Kosovo</b>     | -                                | -    | 4.1  | 5.2  | 8.2  | -                            | 57.0 | -    | 25.1 | -    | -                                  | -    | 6.4  | 1    | 3.1  |
| <b>Montenegro</b> | -                                | 0.7  | 2.5  | 4.1  | 12.6 | -                            | -    | 19.6 | 15.1 | -    | -                                  | 20.2 | 1.6  | 2    | 4.4  |
| <b>Macedonia</b>  | -6.3                             | -3.5 | 3.1  | 3.9  | 4.3  | 26.3                         | 30.5 | 32   | 17.3 | 15.8 | -                                  | 5.2  | 1.51 | 0.77 | -    |
| <b>Serbia</b>     | -                                | 7.1  | 1.1  | 4.9  | 8.3  | -                            | 12.8 | 19.2 | 10.4 | 10.1 | -                                  | 86.8 | 5.7  | 2.4  | 6.1  |

Source: Adapted from Ferrinho Lopes & Bondarenko (2022) and World Bank.<sup>27</sup>

The first conclusion we can reach is the confirmation of the lack of data for the countries, mainly during the year 1992.

Regarding GDP, Croatia is the country with the lowest values in 2010, of -0.1 (pre-entry into the EU), however, this may be possible due to negative influences on the country's economy, caused by the 2008 crisis. North Macedonia and Montenegro were the only ones that, in 2010, did not have lower GDP values compared to 2001. In 2021 Croatia was the country that showed the highest value, 14.7%, followed by Montenegro, currently in negotiations with the EU, at 12.6%.

Concerning unemployment, we observed a great improvement in Kosovo that, although we only got 2001 and 2019 figures, the difference would have been a 31.9% decrease. Croatia in this indicator also presents the most favorable value in 2021, of 7.6%, a slight increase since 2019, when it registered 6.6%, being the only one that suffered an increase in this period of time. Comparing this data with the pre-entry period in the EU, we see a 5% drop in the unemployed population. Overall, we see much lower values than at the beginning of the war, in 1992.

Regarding inflation, the lowest value recorded in 2021 was in Bosnia and Herzegovina, at -1.7%, with the highest value this year being recorded in Serbia with 6.1%. There is a visible increase in Croatia, from 1.9% in 2019 to 3.2% in 2021, and an even greater increase can be expected in the following years due to the consequences of the military conflict between Russia and Ukraine. Clearly, we see big differences here

<sup>27</sup> <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=HR-AL-RS-ME-BA-MK-XK>. Accessed on 14th September, 2022.

since 1992, and, despite being the only available figure, in Albania inflation would be 233% in that year, having, in 2021, dropped to 5.9%. The lowest value recorded was in Serbia, in 2019, of 0.77%.

Overall we can see that Croatia has better outcomes than its neighboring countries, but the truth is that, in what regards these chosen indicators, the difference after joining the EU, in comparison with the other countries, is not that big.

The question that arises is whether Croatia will be able to assume the role in the European Union as a specialist in the Balkan region, as well as a relevant role in the enlargement to this region. According to Cipek (2020) after the distance it created, on purpose, with these countries, due to its conviction that it is a Central European country and not similar to the rest of the Balkans, this could be something quite difficult to achieve.

According to the theory proposed by Hill (2003), regarding foreign policy, small countries have one of the following options: 1) foreign policy focused on the country's survival; 2) multilateralism; 3) foreign policy focused on a niche; 4) foreign policy of silence. Bearing this theory in mind, Croatia would have decided to adopt option number 4 until relatively recently, having now chosen to try to find the niche to focus on and have a chance to assert itself. Parties of the center-right and left are "disposed to pro-European policies and the development of regional cooperation, while the radical-right has built its politics on fomenting conflict in the region, particularly with Serbia" (Cipek, 2020, p. 560).

The new System of International Relations is reflected in the situation of the region, which is not only under the influence of the USA and the EU, but also of Russia, China and Turkey. What came to influence Croatia's interest in the region, as "Croatia has decided to stand firmly behind the enlargement process, leading to trying to find its niche as a country that understands the circumstances in the region" (Cipek, 2020, p. 561).

The priorities established for the Croatian Presidency of the Council of the European Union<sup>28</sup> were called into question due to the pandemic crisis that immediately marked its beginning, making it impossible to achieve most of the objectives established for this stage. "This turned out to be a mere recital of all the challenges facing the EU today without any particularly original contribution from Croatia" (Cipek, 2020, p. 561).

The Croatian government has planned a summit in Zagreb in May 2020 to highlight the importance of the Western Balkan countries, especially North Macedonia

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<sup>28</sup> Euronavigator – Western Balkans summit (2020). Retrieved from <https://euronavigator.be/2020/05/07/western-balkans-summit/>. Accessed on 24<sup>th</sup> of July, 2022.

and Albania, becoming members of the Union. However, the conclusions were disappointing, considering that the 2000 EU summit was much more motivating for the intention to expand to this region than this one, twenty years later. In addition to the hesitation and reluctance on the part of France and the Netherlands to open the accession talks held in 2019, another obstacle is the level of democracy, which we can see in Table 11, that these countries present, “(...) unlike the previous situations when the process of negotiating and meeting conditions for joining the EU also brought the development of democracy in member states, the Western Balkans went through a reverse process. (...) the level of democracy in the Western Balkans even regressed” (Cipek, 2020, p. 562).

Table 11 - State of democracy in the Western Balkans (2020)

| Country                | Democracy (score, %) | Democracy score |
|------------------------|----------------------|-----------------|
| Albania                | 47.02                | 3.82            |
| Bosnia and Herzegovina | 38.69                | 3.32            |
| Kosovo                 | 36.31                | 3.18            |
| Montenegro             | 47.62                | 3.86            |
| North Macedonia        | 45.83                | 3.75            |
| Serbia                 | 49.40                | 3.96            |
| Croatia                | 54.17                | 4.25            |

Source: adapted from Cipek (2020).

It should be noted that transitional/hybrid regimes have a democracy score between 3.01 and 4.00 on the Freedom House scale. Countries with this score are electoral democracies, but their democratic institutions are fragile and there are significant challenges in protecting political rights and civil liberties (Cipek, 2020, p. 563).

The Croatian presidency was passed almost as unnoticed due to the pandemic situation we were subject to, which put the world on pause, however it is possible to say that it was at this moment that the country decided to establish its niche regarding its focus and objective in foreign policy, choosing to focus on the area of which it was previously a part. Furthermore, the opening of accession talks with North Macedonia and Albania in March 2020 was considered a great success for Croatian diplomacy and its presidency.

The European Union is based on the conviction that a free market economy (capitalism) and liberal democracy are intrinsically connected, and the fact that China presents a communist regime, with a free economy in exponential growth, emerging as ever-growing competitor with the EU, proves exactly that this foundation is not entirely correct. This type of circumstances, combined with the emergence of new international

actors with great weight in the sphere of international relations, as well as the 2008 crisis that called into question the efficiency of institutions and the armed conflict between Ukraine and Russia, adding to the fact that as we observe the growth of parties with far-right conservative ideologies within the EU, it represents new challenges for the Union and for its objectives that are based on the principles of Enlightenment and liberal democracy (Cipek, 2020, p. 566).

“Croatia has unambiguously decided to support the EU enlargement process to the Western Balkans. It has thus demonstrated that it has accepted its geopolitical position, as well as its political and economic interests, Croatian prime minister Andrej Plenković has strongly supported the idea of EU enlargement to the Western Balkans, and thus opened an opportunity for Croatia to find its foreign policy niche in which it can affirm itself as a successful player of European politics in the region” (Cipek, 2020, p. 567)

## Conclusion

This thesis research aims to answer, through a case study analysis, the question: what differentiates Croatia, economic, social and political wise, in comparison to the rest of the Western Balkans? Which we can see that after a long and difficult process of accession to the European Union, Croatia has exhibited the ability to achieve a level of stability in democracy and in its economic market. This second aspect will be assured with the prospect of joining the eurozone in 2023, which will allow the country to increase its competitiveness in the international sphere, as well as its exports, combined with lower costs and interest rates for entrepreneurs and consumers (BTI, 2022, p. 38).

Although 30 years have passed since Croatia began its transition to democracy, citizens still maintain skeptical about the country's political system (BTI, 2022). It is ultimately shown by the low turnout in national and European elections. Clearly, this has an impact on the future quality of democracy, increasing the vulnerability for society to be deceived by, for example, populist discourses that appeal to the masses with appealing ideas of possible major changes in short periods of time.

Another problem facing the country is the path ahead to guarantee a completely independent and quality judicial system, in order to gain the trust of citizens in this sector, which is concerned with corruption and ability of the system to protect their rights. "A sincere reform of both the judiciary and public administration, with clear benchmarks and ethical protocols of behavior and a system of oversight and control, will be needed in the near future if the country is to unlock its development potential and stop state capture by special interests" (BTI, 2022, p. 38).

The pandemic, that severely affected Croatia in the period 2020-2021, confirmed the mistake of basing a country's economy solely on the tourism sector, however, currently the national development agenda is very close with the efforts of the EU. in energy transformation and the new green deal, so we will now see a need to adapt this sector to these commitments, with the need to take long-term sustainability into account.

According to the same report, we can see that the post-pandemic EU Recovery Plan revealed the country's excessive dependence on EU funds, which will demonstrate its lack of independence in being able to act without access to them. It would be relevant for Croatia in the future to develop the capacity to achieve significant economic change with these funds, not just using them as budget support.

Regarding the problem with emigration that the country is facing, we have already confirmed the impact that it will be having on Croatian society and economy in the development of this dissertation, and it would be important to stress again the need to introduce proactive demographic policies oriented to families with children, as well as attractive policies that encourage Croatian citizens to return from abroad, and it is also important to develop a simplified and accessible policy as a means of attracting immigrants to the country.

In economic terms, we conclude that the Croatian economy is still quite dependent on tourism, something that becomes unstable when faced with unforeseen events, taking as an example the pandemic, the economic crisis of 2008 or the earthquakes of March and December of 2020. This instability and weak development of other sectors are one of the reasons why young people have intentions of looking for jobs abroad, reducing the capable workforce, and further jeopardizing the development of the country, which is dependent on them for innovation. The fact that the economy is so based on just one sector also accentuates the regional differences between the coast and the interior, where we see an uneven development, with the coastal areas being much richer, since they are the main tourist destination, with the need for constant investment.

Croatian society is characterized by living much in the past, 'sticking' to the nationalist feelings that grew with the break-up of Yugoslavia, which are now more visible with the emergence of right-wing movements in the EU. A conservative society, based on the Catholic religion, which clearly has a long way to go to fight gender discrimination and homophobia. Something visible with the discrimination of the Roma community, as well as in the difference in the labor market for men and women, with the conservative idea that the role of women continues to be that of staying at home and taking care of the children, and that of the man the provider. We observe a very conservative, patriarchal and ethnonationalist society, which ends up leading to conflicting relations with its neighboring countries.

“Orientation toward policy innovation, learning and evaluation should create a framework for developing policy priorities and a national reform agenda, which will unlock possibilities for stronger economic growth and enable Croatia to catch up with other EU member states” (BTI, 2022, p. 38).

In conclusion, we can say that Croatia still needs to implement some reforms that will be crucial for its economic development, social and territorial cohesion, and full accomplish European Union patterns of integration. The fact that it presented an ambiguous foreign policy after its entry into NATO and the EU, losing real objectives,



meant that it is now at a stage of finding its place both within the EU and in its geopolitical zone in the Western Balkans.

Regarding the question: Does its entry to the Union has an impact in the neighboring countries?, we can talk about Croatia's intention to move away from the countries with which it previously belonged in Yugoslavia, caused to lose a large part of its political and economic influence in the region, which was no longer saw as a member, and now seeing itself lost in the international sphere , discovering that a small country will not have a major impact in the EU matters, found the intention to make this same area its main objective, wanting to guarantee its important role in the EU's enlargement policy, as well as an influence on the development of these countries, which are still in the very early stages of negotiations with the Union.

However, we could say that the all-inclusive process of Croatia's accession to the EU can be seen as an example to its peers, being able to verify the aspects in which it has succeeded, and those in which it has failed, being able to develop its approach to dealing with these questions in order to obtain a more positive outcome, mainly on issues such as corruption.

Last but not least, this dissertation did not intend to put an end to all the dilemmatic tensions facing Croatia history and regarding its more recent past within the European Union, nor the export model to neighboring states in its ambitions of belonging to the European group. The enormous current fragmentation and volatility of the international system also raised new questions that will necessarily have to be accommodated in future investigations, both in the geopolitical context and in terms of the three dimensions analyzed here (Croatia's political, economic and social environment). Therefore, some questions remain open, namely: how does the Ukrainian War affect the inter-institutional political relationship in Croatia? Will the war be a catalyst for the accession of the remaining states of the Western Balkans that already had candidate status and benefited from the IPA? What is Croatia's performance after joining the Euro?

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