

## Chapter 1

# **CROATIAN ACCESSION TO THE EUROPEAN UNION: THE CHALLENGES OF PARTICIPATION**

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## **ABSTRACT**

This chapter summarizes the findings of the project of monitoring Croatian accession to the European Union. It draws particular attention to the challenges entailed in participation in the accession process and in relations with European countries, irrespective of Croatia's membership status. It tries to answer questions about: the place of Croatia in Europe; the problems of its economy; the nature of its political elite and the views of its citizens, and institutions' capacities to adapt to requirements of modern and open societies. Among the findings one could highlight: First, irrespective of the membership status, there are possibilities for Croatia to participate and even to try to act as leader in some fields (e.g. Adriatic Sea protection) and Croatian experts could participate in and contribute to the discussions of EU-relevant topics (e.g. European citizenship or communicating Europe). Second, high and stable distrust in the EU, rising unwillingness to join the EU and views concerning the EU that are more based on impressions than on utilitarian considerations might lead to a Croatian "no" to the EU in the final moment of decision. However, if the benefits of reforms are reaped even without joining the EU, this does not have to be a disaster for the country, although it could be a serious setback for the political elite. Third, adaptation of the capabilities of Croatian institutions is despite many improvements still the weakest spot. The progress of re-

forms has been limited and characterized by partiality, lack of strategies and still under strong political influences. The key words missing in almost all investigated fields are implementation, enforcement and action plans. As the end of negotiations will more depend on the implementation than on the mere adoption of EU requirements, Croatia should turn to an “as soon as ready” instead of an “as soon as possible” policy.

**Key words:**

European Union, Croatia, accession, reforms, administrative capacity, legal enforcement

## INTRODUCTION

This chapter summarises the findings of the project of monitoring Croatian accession to the EU. It draws particular emphasis to the challenges entailed in participation in the EU accession process and in relations with European countries, irrespective of Croatia’s membership status. It identifies the ideas of the project, gives a brief chronology of the relationship between the EU and Croatia, presents changes in Croatia in last couple of years, details the challenges of participation and ends with some conclusions and recommendations.

The idea of the 2006 project was to try to answer questions for Croatia similar to those that citizens of France asked themselves before the EU constitution referendum: about the place of the country in Europe, particularly vis-à-vis the EU and vis-à-vis the West Balkan; about the problems of the economy, particularly in its efforts to create more jobs, and about the nature of the political elite. To these three questions we added one about the capabilities of Croatian institutions to adapt to the requirements of modern and open societies.

Several or almost all the chapters try to answer the question about the place of Croatia in Europe, comparing its data, policies and institutions with those of EU members, other candidates and West Balkan countries. The results are diverse from high rankings in measurements of perceptions of wellbeing and happiness to huge differences in state aid as a share of GDP. Probably the most obvious problem encountered in almost all the investigated fields is the lack of reliable statistical data. This indicates the necessity of developing a system of collecting and monitoring qualitative and quantitative indicators to enable reliable comparisons with other countries. Comparing the Croa-

tian speed of entry into the EU and the experiences of new members one could conclude that capacity to meet the tight timetable and to draft qualitative reform could lead to poor quality of legislation, insufficient policy analysis, government overload and counterproductive results. However, the chapter on the needs for regional cooperation in protecting the Adriatic Sea shows how Croatia could also act as a leader in proposing joint actions for several EU member and non-member countries. The chapter on European citizenship and the chapter about communicating Europe in which authors from Croatia, not yet the member of the EU, approach topics relevant for the development of EU concepts and practices show that Croatian authors could also contribute to EU discussions.

The problems of the economy are dealt with in a chapter on the Lisbon Strategy, state aid reform and health care policy and reform. Topics posing problems for the most developed countries are even more pronounced in Croatia. Goals are difficult to achieve, but could be used as benchmarks and for learning from the best performers. The main economic problems lie in the slow reforms and privatization processes with high involvement of the state in the economy, inadequate education, administrative and managerial capabilities. Problems can be easily observed in high foreign and public debt, slow results in increasing employment and poor results in decreasing public expenditures.

Instead of dealing with the nature of the political elite, which is partly dealt with in the chapter on lobbying and interest groups and that on negotiation experience, authors were more oriented to the attitudes of the ordinary citizen. One can find them in chapters on quality of life, life satisfaction and happiness; euroscepticism, and the determinants of the support of citizens for the EU. The results show a rather high and stable distrust of the EU, rising unwillingness to join the EU, views toward the EU that are formed more on the basis of impressions than of utilitarian considerations, and dissatisfaction with the standard of living and social conditions. The political elite should be aware of the attitudes of population to avoid unpleasant surprises at the moment of the final decision on joining the EU. If the benefits of reforms can be reaped even without joining the EU, a Croatian “no” for the EU does not have to be a disaster for the country, but it could be a serious setback for the political elite. The findings of the authors, particularly concerning the dissatisfaction with the standard of living and with social conditions, are also connected with economic problems. Implementation of structural reforms aimed at increasing the competitiveness of the economy,

restructuring of social services and improving governance will be necessary to create the conditions for utilitarian assessments.

The capabilities of institutions to adapt to the requirements of modern and open societies – probably dealt with in almost all chapters – are, despite many developments in good directions, still the weakest spot. Almost all authors engaged in this project emphasize the limited progress of reforms, which continue to be made only partially, without strategies and under strong political influences. Normative versus real conformity with EU requirements, poor implementation and enforcement, lack of action plans or implementation instruments with clear obligations, deadlines and reporting systems, poor administrative and managerial capacities, poor leadership qualities, high politicization... One can hardly stop enumerating the problems. As it is obvious that the end of negotiations will depend more on the implementation than on mere adoption of EU requirements, as was the case in the last enlargement, one of the authors simply concluded that Croatia should try to turn to an “as soon as ready” instead of an “as soon as possible” policy.

#### **Box 1 Brief overview of European Union Monitoring Project**

It all started in 2002 at the initiative and with the financial support of Friedrich Ebert Stiftung office in Zagreb. The first book (Ott, 2003) dealt with economic and legal challenges. Major problems found were related to education, public administration, normative vs. real conformity with the EU, building of efficient institutions and a society that respects laws and individual rights.

Awareness of such problems led to the second book (Ott, 2004) dealing with institutional challenges. We stressed that dealing with institutions was not only fashionable, but also important for both the economy and the society, as institutions could influence development, growth and democratization. We said that adjustments were often just normative, bureaucracy was flourishing and laws were often poorly harmonized and deficient. The key issues with or without the accession would be: better and faster application of rules and institutions; quality and depoliticisation of the public administration, particularly the judiciary and institutions for deregulation and liberalization of markets.

As we believed that we were nearing the negotiations, our third book (Ott, 2005) dealt with the challenges of negotiations. We stressed that Croatia’s future could depend on overall preparedness and credibility not only regarding the sole person missing as it see-

med then; developments in Bulgaria and/or Romania; EU attitudes towards Turkey and fatigue of the EU with the last enlargement. We suggested that accession should be used as the process of transformation of the country. We said that a kind of real integration of Croatia in the European space already existed even without the formal accession and that it should be further deepened through the building of institutions and harmonization with modern, democratic societies. We also warned that despite the declarative dedication of Croatian government to join the EU as soon as possible, and despite the encouraging signals from the EU, hesitations in structural and institutional reforms could hamper not only the success of negotiations and delay the accession, but also hamper the transformation of the country into a modern, efficient and democratic state. Unfortunately, some of the views proved to be correct before we even managed to publish the book, when the EU postponed the start of negotiations.

Before planning this fourth book (Ott, 2006) we somehow started hoping that the future EU could probably go more in the direction of a looser, less federalist and more decentralized club than an ever-tighter Union. We also started hoping that the current members would opt for a stronger subsidiarity principle. Member countries would in that case be able to take different approaches towards the issues that would not substantially harm the principles of the free flow of services, goods, labour and capital. If this were so, such an EU could seem more appealing to a small country like Croatia, which could certainly benefit from participating in a common market, but could hardly substantially participate in governing the Union.

## **CHRONOLOGY OF THE RELATIONSHIP BETWEEN CROATIA AND EUROPEAN UNION**

Due to the war Croatia experienced in the early 1990s and its political, institutional and economic consequences in the following years, country lagged behind other Central and Eastern European (CEE) countries in its relationship with the EU. The Stabilization and Association Agreement (SAA) was signed in 2001, Croatia applied for EU membership in 2003 and after numerous ups and downs in the relationship, mostly caused by the clumsy cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY), accession negotiations

and the screening stage of the accession negotiations started in October 2005. Less than a year after that, Croatian negotiators were busy and quite advanced with chapters on science and research and on education and culture, which were opened and provisionally closed. All other chapters also went through various stages of multilateral and bilateral screening to fulfilling the requirements for opening the chapters according to the report from the Commission. The most difficult ones were chapters on regional policy and coordination of structural instruments, judiciary and fundamental rights, foreign security and defence policy and finally finance and budgetary provisions that did not even start the first explanatory stage of the screening.

It is true that some chapters are more complicated than others. It is also true that Croatia's intentions are to close the chapters faster than any of the previous candidates. This intention is fuelled first by the high expectations of the population and second by the logical conclusion that country could learn from the experiences of the previous candidates. However, as things in Croatia are changing rather slowly, we could remind ourselves of the conclusions of the Progress Report of the European Commission (2005). After praising the positive achievement of Croatia in the previous period, Commission stated that "fiscal consolidation needs to be further strengthened and effectively backed by structural measures, in particular in the area of subsidies and social transfers... there are complex rules and deficiencies in public administration and courts as well as slow market entry and exit procedures. The enforcement of property and creditor rights continues to be undermined by an inefficient judiciary. State interventions in the economy remain significant and little progress has been made with respect to the restructuring of large state-owned enterprises in particular in the shipbuilding, steel and energy sector. The strengthening of financial discipline of state-owned enterprises remains a particular policy challenge... Croatia needs to address the identified weaknesses and problems with determination".

These statements could be seen as guidelines for the majority of the authors engaged in this project, leading them to approaches they deemed particularly important and interesting.

## **CHANGES IN CROATIA IN THE LAST COUPLE OF YEARS<sup>i</sup>**

### **Economic sustainability**

The briefest facts about the developments in the Croatian economy could be summarized in following way:

- Economic growth is favourable (a 3.8% rise of GDP in 2004, 4.3% in 2005 and 6.0% in 2006/Q1) with predictions of 4.4% for 2006 and 4.5% for 2007.
- Inflation is accelerating from 2.1% in 2004 to 3.6% in 2006/Jan-Jul. and is expected to stay at similar levels in 2006 and 2007.
- The current account deficit is growing (4.9% GDP in 2004, 6.3% in 2005 and 6.5% in 2006/Q1) with unfavourable predictions (around 6% in 2006 and 2007).
- Foreign debt is increasing (80.2% GDP in 2004, 82.5% in 2005 and 87.9% in 2006/Q1) although it is expected to decrease to 81.5% in 2006.
- Total public debt is slightly increasing (46.4% GDP in 2004, 47.4% in 2005 and 47.8% in 2006/Q1) although expected to decrease to around 44% in 2006 and 2007.
- General government budget deficit is showing better results (4.6% GDP in 2004, 3.4% in 2005 and 2.9% in 2006/Q1) although expected to be around 3.5% in 2006 and 2007.
- Tax burden (41.4% in 2004) is slightly but constantly decreasing and coming closer to EU averages, although the structure of taxation substantially differs (indirect taxes are over 50% of total tax revenues in Croatia vs. less than 40% in the EU-25 average).
- Employment growth continues (around 1% per year), and the unemployment rate fell to under 13%.

We could say that macroeconomic trends are generally favourable: above average GDP growth, rising employment, decreasing general government budget deficit, moderate growth of salaries, and slight appreciation of domestic currency. However, inflation, although not alarming, is accelerating. Current account deficit and foreign and public debt are growing, ranking Croatia among highly indebted countries. Policymakers should have in mind that countries like Croatia should aim for much lower public debt targets than those envisaged by the Maastricht criteria (20-40% instead of 60% GDP).

Thanks to the decreased budget deficit fiscal policy could be evaluated positively. However, one could still be puzzled about the pension debt payments bookkeeping and cautious because the positive signs are resulting from revenue increase without any serious results on the expenditure side of the budget. Slow dynamics, poor results and scandals in privatization process are certainly not contributing to the improvement of the fiscal position of the country.

Despite the still high levels of unemployment and despite the realistic expectations that the EU will ask for a transition period for workers from Croatia, the government could start thinking in advance and aiming for a liberalisation of the labour market. Free movement of workers benefits countries that have liberalized that market. It has helped to remedy labour market deficiencies, open new jobs, decrease unemployment and increase economic growth. Only two percent of the EU active population lives and works in other member states and the movement of workers is still slow. That is the reason why an additional number of old member states lately further liberalised their labour markets. The Croatian government approved 2,600 foreign workers in 2004 and only 1,037 in 2006 although the needs for foreign workers are substantially higher. The realistic number of them already working in Croatia could be over 10,000. They are mostly working in shipbuilding, construction and tourism and come from Bulgaria, Romania, Bosnia and Herzegovina, Slovakia and Ukraine. Liberalisation of the labour market could help to bring down the unofficial economy, corruption and criminal activities, give incentives to better quality growth of the economy, and remedy the mismatch of labour supply and demand at the same time as enabling more humane conditions for the increasing number of illegal foreign workers.

## **Administrative capacities**

Changes in the public administration in the last couple of years show limited progress in the application of reforms that continue to be made partially, without strategies and under strong political influences. While the European Commission in 2004 said that initial steps should be taken, in 2005 it required complete enforcement of reform measures. Although no results in administrative capacities building can be seen in the short run, changes of laws about government administration and changes in the number and scope of ministries and various offices and agencies would tend to suggest that they were not driven by ratio-

nalizations, the incentives being found rather in combining the available manpower resources in the most effective and politically rewarding ways. The way in which the public administration is formed, the transparency of its work and respect for access to information are crucial, particularly in the fight against corruption. However, we are still in want of definitions of bodies of the public administration, of a list of government officials and of the information that has to be accessible to the public. Strategy of the reform is still in preparation, which could go some way to explaining the partiality of reforms. The adopted Strategic Framework for 2006-13 (Vlada RH, 2006) defines some of the goals necessary for public administration reform and various new incentives are proposed, but it is difficult to expect the necessary political will for their implementation in the second part of the government term in office.

As a case study for administrative capacity building one could go deeper into the energy sector. The reform of that sector has not been efficient. Delays in enforcement and the necessity of further harmonisation with EU requirements are stated as formal reasons for passing new laws. Croatia accepted the obligations of the energy sector acquis and the parts related to market competition, state aid, environment protection and regional cooperation in that sector, but enforcement is still a challenge. Some improvements are visible, but among the numerous further requirements of the Commission in that field, one should again emphasize overall improvement of administrative capacity for enforcement of laws. New laws formally represent a step forward, but enforcement is still problematic because of the insufficient preparations, weak administrative structure, legal insecurity and strong lobbying. Deficiencies are visible in the unreliability of data, which shows up the weaknesses of the controlling ministry; in lack of funding for newly established administrative structures, which endangers their independence; and in frequent changes of laws raising expectations of further lobby-generated modifications.

The capability of Croatia to use EU regional policies funds shows similar weaknesses. Regional policy is segmented, regulated by various laws, without a strategy for regional development. Numerous proposals of laws and strategies exist, some important steps have been taken, but real documents for enforcement are lacking. All levels of government in Croatia should be aware that the EU can finance our projects but only if we also engage our funds and plan them in advance. That will be impossible without the enforcement of strategies, laws and regulations.

## **The situation in justice, welfare and civil society**

The relationship of Croatia and the EU is developing, and normative harmonization is in full gear. However, normative analyses of the preparedness of a country can not give a complete picture. Harmonisation should be looked upon together with basic requirements of rule of law like the division of power, democracy, political pluralism and independence of courts. Despite numerous achievements in satisfying EU legal requirements, problems still remain redefinition of SAA in the constitutional and legal system, including the possibility of direct application of its provisions by Croatian courts; poor definition of the legal standing of bodies like the Stability and Association Council, and particularly the poor definition and legal standing of decisions made by these bodies. The possibility of changing the constitution in connection with EU membership is still not on the agenda. Substantial changes in legal culture are needed because the constitutional court and the parliament still follow the authoritarian concept of unitary authority. This means that we need an interpretative change of course towards the values of pluralistic democracy.

There have been few fundamental changes in social policy although a number of important initiatives, projects and studies appear likely to have a longer-term impact. The preparation of the Joint Inclusion Memorandum has increased the visibility and role of the EU in social policy in Croatia. The process has involved stakeholder dialogue but has drawn attention to the weakness of such a dialogue and has so far not facilitated inter-ministry or inter-agency cooperation as much as might have been hoped. It has also shown the urgent need for the development of comparable statistical bases. The EU has introduced a benchmark before the relevant chapter on employment and social policy can be formally opened for negotiations. Once again it indicates the need for an action plan to address the strengthening of administrative capacity. Besides the EU, important players in the social policy field in Croatia still are the World Bank and UNDP. That points to the necessity of a stronger role for relevant domestic players in development of the knowledge base and in setting social policy options.

Civil society complains that although some strategies (e.g. related to development of civil society or communication with and information of the public about the EU) do exist, enforcement is questionable, government is yet not ready for the dialogue, a national forum on accession functions is mostly on paper and inclusion of civil society

organizations representatives in negotiations is quite weak. The tight time-framework for negotiations explains the hesitations or unwillingness of government to include more civil society representatives, but the poor capacity of civil society organizations could also be a reason. Civil society faces a particular problem as Croatia is the only country with which the EU did not form a joint consultative committee to cooperate with the European Economic and Social Committee. The Croatian SAA simply lacks such a provision, which points again to our own incompetent approach in negotiations, for all other European Agreements do contain such provisions. Whatever the reason for poor participation of civil society in EU related activities, civil society should not expect the government to do its job, but should if capable, engage on its own and claim the information, the communication and participation possibilities.

## **THE CHALLENGES OF PARTICIPATION**

The following part of the chapter will try to summarize the most important findings of the 2006 project on monitoring the Croatian accession to the EU.

### **Negotiations, communication and lobbying**

Missing the 2004 enlargement process, Croatia is today in a position to learn the lessons of that accession: not only how to negotiate but also how to implement necessary reforms in the best possible way. Success in these endeavours will depend on communication of negotiations and involvement of stakeholders, not only because these concepts are trendy, but because they are important for obtaining better results. The chapters in this group re-examine the issues still questionable even within the EU: communication of the EU as still a developing category, lobbying as a controversial concept, rather undeveloped in Croatia and EU citizenship as one of the least elaborated and concrete EU terms. We could ask ourselves: Who are the citizens to whom the EU is communicated? Do they exist? Are they the citizens of the EU or the citizens of member states? Who is joining, communicating and lobbying?

*Tomislav Maršić* writes about the conflicts of integration speed, democratic control and stakeholder participation in negotiations, look-

ing for trade-offs among these contradictory goals. The Croatian negotiations are streamlined in order to be completed in record time. They concentrate one-dimensionally on executive expertise, reinforcing problems in domestic representation and legitimisation and failing to accommodate to new strategic developments like enlargement fatigue in the EU and eurofatigue in Croatia. Strategic changes in the domestic negotiation set up should be made in order to ensure better representation by the parliament and a less pressured approach to accession.

In contrast to the last enlargement the end of negotiations will depend more on the implementation and less on mere adoption of the EU requirements. Croatia will have to work more thoroughly and the EU will have wider leeway in rating the progress. Accession negotiations are asymmetric because of the overwhelming negotiating power of the EU, but also because of the weaknesses of candidate countries, and that is the fact a candidate should have in mind all the time. The foreseen timetable might depend on a tacit preference for ignoring the widespread euroscepticism within the country and the enlargement fatigue within the EU. Public concerns should be taken very seriously, considering the option of an accession treaty being rejected by the population. Yet the government seems to be pushing through negotiations as fast as possible. The lessons of the rejection of the EU Constitution should illustrate the danger of political elites ignoring adequate electorate representation and failing to generate the legitimacy necessary to engage in large scale reforms.

Focus on quick accession at any cost rests on the presumption that a slower tempo would endanger the transition process. On the contrary, small states lacking the capacity to meet the tight timetable and to draft qualitative reforms could especially risk poor quality of legislation and insufficient policy analysis, government overload and counterproductive results. The persisting need for speed collides with the goals of fostering democracy. The low degree of responsibility vested in parliamentary representatives in the negotiations will lead to temptations to abuse negotiation issues by politicisation instead of problem-focused discussion. The author therefore recommends turning from an “as soon as possible” to an “as soon as ready” policy. The present situation seems to overstrain both the citizens of Croatia and the EU.

It is not EU membership itself, but intense reforms enabled by the window of opportunity that should be used as a self-disciplining instrument. Shortening this period means less time available for designing, sequencing and implementing reforms in a socially bearable way.

It is also necessary to turn away from a top-down to a more bottom-up approach, as legitimacy requires substantive rather than symbolic control of citizens over political processes and their contents. EU issues should be looked upon as domestic issues, since the decisions made in Brussels will sometime override those made in Zagreb, which should become clear to the Croatian parliament. The government should also reconsider the necessity of its “tight grip” and work to render negotiations management more transparent and flexible improving conditions for negotiations at home and lessening rigid control of the process of coordination.

*Petra Leppee Fraize* looks at how the EU, its member states, candidate countries and Croatia communicate European issues to their publics, emphasizing that Europeanisation of communication should be taken into consideration as a way of filling the communication and democratic deficits and of rectifying the lack of the legitimacy of the EU. Communication should focus not only on teaching facts but also on raising popular interest, as an instrument for ensuring the future ability to justify and win support for the integration project. European integration was for a long time considered a project of the European political elite, while citizens showed little interest and were not involved in enlargements, treaties or policies. Consequently people feel remote from the EU and national institutions and the decision-making process. Despite a rather long process of integration, EU communication policy remains a young policy that has yet to be developed. EU communication in Croatia could be looked upon as a tool to acquire support for the final decision on accession but also for better grasp of the advantages of the EU and ways of coping with its disadvantages. Political elites in Croatia should be aware of public opinion and try to communicate better the rights and obligations stemming from membership and the effect of the eventual accession on economic development, everyday life and internal policies and sovereignty. The low support for the integration, both within the EU and in Croatia shows that the communication should be content-oriented and foster public debates. Citizens should be more active in looking for information and checking the performance of their national and EU governments. The EU should take a realistic approach in creating a common sphere for communicating Europe based on more decentralised modes suited to specific political contexts and to the diverse requirements of countries, regions and sectors. The success of communication will depend on the level of decentralisation and on bottom-up approaches. Whether it will in the end

result in greater or lesser support for the EU will depend on the EU results in delivering prosperity (economic growth), solidarity (social dimension, employment, ageing population) and security.

The EU is becoming involved in an increasing number of policy areas and citizens are more and more looking for channels of influence on its policies. *Igor Vidačak* explores the potential of the EU accession process for Europeanisation of domestic public policy shaping, the adoption of new and modern patterns of interest articulation, providing incentives for introduction of an adequate regulatory framework for lobbying and for legitimising the practice in Croatia. Europeanisation might bring not only new knowledge, autonomous sources of EU information and new ways of thinking, but also a reorganisation and redefinition of the role of interest groups in national policy processes, changing perception on good governance and good models of interaction between organised interests and the state. Interest representation and lobbying at EU level may prove to be a very important factor in the Europeanisation of the structures, processes and contents of political decision-making in Croatia and of accepting lobbying as a legitimate democratic practice.

*Snježana Vasiljević* claims that European citizenship needs to be understood as a developing concept that is consequently for Croatia a moving target. She explains the concept and the paradox of European citizenship, its implications on fundamental rights and particular problems for third country nationals. To this day no elaborate theory of European citizenship exists, its nature is limited and it could be looked upon as citizenship as nationality or citizenship as practice. Despite the influences of globalisation and multiculturalism it is still dependant on national approaches towards citizenship. The EU still seems more interested in regulating aspects related to free movement of persons (i.e. workers) than in encouraging social cohesion and placing human rights and anti-discrimination at the centre. For that to happen, the author suggests recognizing European citizenship to nationals of non-EU countries legally living in the EU. But, first of all the EU should clarify European citizenship, what it is and what it could be. Although not a member, Croatia is thanks to its close and rapidly increasing connections with the EU, one of the countries in which the developments of the European citizenship model should be closely observed. The domestic understanding of and involvement in that topic could affect the necessary significant legal and political changes and also the success of negotiations.

## Dealing with euroscepticism

As Croatian political elites have already opted for accession it would be pointless now to discuss whether we should or should not proceed. Croatia is already on the accession path so it should be used for promoting the best of the EU values and a better understanding of EU shortcomings. Improvement of information and communication should contribute to trust-building, both in national and EU institutions, but also to the re-questioning of EU institutions, their regulating powers, decision-making and requirements posed to national institutions. Key words are again information and communication. A reasonable reader must pose a question: What if thanks to better information and communication citizens form even worse views of both national and EU institutions? What if such views contribute to more scepticism and de-alienation of the citizen? This is why predictions of citizen opinion are very important. Political elites should be aware of the attitudes of the population, for after all the work done it might happen that after the EU says “yes”, the Croatian population says “no”. That could be a serious upset for the political elite, although it does not have to be disaster for a country. If acceptance by the EU meant that Croatia had transformed itself into a “by the book” society, the country would in that case reap the benefits of reforms even without joining the EU.

*Aleksandar Štulhofer* deals with the characteristics of popular euroscepticism in Croatia, defined as a combination of distrust in the EU and distaste for membership by the members of public, not by the political elites. While distrust in the EU is relatively stable, averaging 54% during 1995-2005, unwillingness to join the EU was until the end of 2003 below 20%, during 2004 it grew to about 40%, and since 2005 the number of those who are opposed is more or less the same as the number of those who are for joining the EU. Motives of euroscepticism seem to be heterogeneous like exclusive nationalism and its sociocultural, political and economic premises, while the impact of utilitarian motives turned out to be marginal. The lack of trust in the EU partially reflects distrust in national institutions. The usually stated reasons range from bruised national pride (relations with the ICTY), economic fears (the rise in the price of real estate, the import of cheaper agricultural products, the obliteration of indigenous products), to loss of trust in the EU after the problems with the EU Constitution. The author did not find any clear socio-demographic profile for eurosceptics in Croatia. The older and less-educated are more negatively inclined towards

joining, but the effect of both variables is weak. In the case of trust in the EU none of the demographic and socioeconomic indicators has proved significant. Popular euroscepticism is determined neither by human capital nor by personal success or lack of it during the transition. Irrespective of the relatively fluid structure of euroscepticism, symbolic reasons like exclusive nationalism play an important role. The correlation between trust in national institutions and trust in the EU confirms the proposition that citizens make their assessment on the basis of their experience with local or national institutions. It might be the consequence of the lack of information about EU institutions, but in countries with low levels of participation and with little or no belief that citizens can have any influence on the making of political decisions it might be a justification for apathy and opting-out. The author recommends better provision of information, increasing trust in national institutions and creating a counterbalance to exclusive nationalism. Citizen trust in national institutions is strongly correlated with the perception of corruption among civil servants. This means that government should promote increased professionalism, effectiveness and transparency, identifying responsibilities and entailing sanctions against those who break the laws. Counterbalancing exclusive nationalism and strengthening rational attitudes toward the EU is dependent on success in creating conditions for utilitarian assessment. That means regularly repeated recommendations to the government: implementation of structural reforms aimed at increasing competitiveness of the economy, restructuring social services and improving local and national governance.

*Dragan Bagić* and *Ante Šalinović* conclude that on the basis of a utilitarian explanation of support it is possible only relatively poorly to predict viewpoints concerning joining the EU. Principled expectations of benefits and costs are in good part an expression of general impressions about the EU, (dis)trust in the political elite and political views of citizens, and to a lesser extent realistic rational calculations of harms and benefits. One could discuss whether distrust in national institutions might have led those in favour of the accession to expectations that EU institutions might perform their functions in better way than national and that hope was channelled towards the EU? Or has the (dis)trust in national influenced (dis)trust in EU institutions? Whatever the reason for EU euphoria at the beginning and EU scepticism lately, the governing elite should learn the lesson. Views are formed at a relatively superficial level without any great amount of information and more according to impulse than as the outcome of rational evaluation. This might be the result of the low number and low quality of public debates about

the consequences and significance of entry into the EU. The value and political connotations of such a huge social decision should be formed in the process of public debate, but it seems that here we are more in arrears than we are with respect to knowledge of facts about the EU. Unfortunately, it also seems that too much emphasis is placed on historical rather than economic aspects. The authors mention the very important perceptions of the attitude of the EU towards Croatia – treatment of the war, war-crimes, cooperation with the ICTY, relations with other countries of former Yugoslavia – that influence the views of Croatian citizens towards the EU. The popular decision about the accession, much more than a cold and rational decision based on analyzing losses and gains, should be seen as a very complex social and political phenomenon through which various aspects of the social, political and economic reality are refracted.

*Ljiljana Kaliterna Lipovčan* and *Zvezdana Prizmić-Larsen* compare quality of life, life satisfaction and happiness in Croatia and in European countries. Analyses show that Croatian citizen subjective well-being rates fit at the bottom of the EU-15 or at the top of the EU-13. Happiness ratings in Croatia are rather high and constantly going up. Satisfaction with personal life domains shows that the standard of living is the least satisfying, while relationships with family and friends were the most satisfying. Among national domains citizens are the most satisfied with national security and the environment and the least satisfied with social conditions in the country. As it is considered that happiness is correlated with the progress in transition, the fact that happiness in Croatia is higher than in most of the transition countries seems both intriguing and encouraging. Well-being and happiness indicators might also help in evaluating attitudes towards the national and EU institutions, particularly if we have in mind the “delivery factor” of the EU as the influential one for the euroscepticism. Dissatisfaction with standard of living and with social conditions, irrespective of how factually based they are, might indicate that utilitarian factors will become more important in forming the views towards the EU in the course of time.

## **Confronting the difficulties of the Lisbon agenda, state aid and health care reforms**

The problems posed by the Lisbon agenda, state aid and health care reforms are tough even for the most developed countries. As these

problems are even more pronounced in Croatia, any improvement along the suggested lines would mean a move in the right direction. Lisbon goals are difficult to achieve, but they could be used as directions about where to go and how to learn from the best performers.

*Ana-Maria Boromisa* and *Višnja Samardžija* claim that since the timeframe for implementation of the Lisbon agenda and Croatia's expected accession are almost the same, approaching the Lisbon goals is extremely important for the country. Although they do not constitute additional criteria or economic goals, Lisbon objectives are relevant as they will soon be reflected in EU policies and they should be taken into account in our reform programs and action plans. It is necessary to prioritize and sequence these goals bearing in mind the specific situation, starting position and real possibilities of implementation. The agenda aims to sustain economic growth with more and better jobs and greater social cohesion to respond to global competition with better policies, modernisation of the social model, environmental protection and boosting research and innovation.

The Lisbon goals should also be the goals of Croatia, but the threats faced by Lisbon are also the threats faced by Croatia. The authors single out the disappointing delivery of Lisbon due to goals defined too widely, overloaded agenda, poor coordination and conflicting priorities. Weaknesses are particularly evident in labour markets, showing up as poor creation of jobs, regional imbalances, long-term unemployment and unfavourable demographic trends. Key challenges include increasing employment and labour market performance, sustainability and quality of public finances, improving research, development and innovation, strengthening business environment and increasing skills.

Croatia should have in mind that it will be required to align with more *acquis* than countries that joined previously, that would-be members have to comply more strictly than members and that sequencing will be particularly important, especially when the time horizon for full membership is not known. Although Croatia introduced some of the Lisbon aims and objectives into various strategic documents (regarding science, research, knowledge society, competitiveness, social cohesion and welfare), implementation instruments are missing. There is an urgent need to develop action plans and other implementation instruments with clear obligations, deadlines and reporting system. It is particularly important to develop the system of collecting and monitoring qualitative and quantitative indicators, following EUROSTAT indica-

tors that would enable comparisons with member countries and other candidates. Accelerating the process of privatization and restructuring of state and local public enterprises plus improvements in education would also mean steps in the right direction.

*Ivana Jović* and *Marina Kesner-Škreb* claim that state aid deviates sharply from that in the EU and that Croatia will have to make great efforts to harmonize it. The EU advocates less and better-targeted state aid, which has the least distorting effect on competition, i.e. horizontal aid which helps establishing a level playing field for all undertakings. The state-aid-to-GDP ratio is four times higher in Croatia than in the EU, with the aid being mainly targeted on particular industries. Croatia will have to reform thoroughly or reduce its sectoral aid to the shipbuilding, transport (especially railways) and steel industries, as well as aid for rescuing and restructuring firms in difficulties. It will also have to increase aid to horizontal objectives, improve significantly the transparency of state aid allocation and avoid ad hoc authorizations of aid to rescue certain enterprises. The Government is committed to reducing state subsidies, but greater efforts will be needed first of all in implementing short-term measures to improve transparency, strengthening the administrative capacity of the relevant agency and most importantly the restructuring and privatization of the economy. The shipbuilding and steel sectors are the burning issues, requiring prompt measures. One should again emphasize problems of administrative capacity building, privatization of the economy and decreasing the role of the state in the economy.

Problems facing health care in Croatia according to *Dubravko Mihaljek* are not new or unique. A key factor for the success of health care reform will be the authorities' ability to manage the political economy aspects of the reform. But the technical complexity of health care policy and reform should not be underestimated either. Unfortunately Croatia lacks health care experts capable of making a much more substantive contribution to the reform than has been the case so far and it also lacks the management skills in the health sector to implement the reform. The present model of health care financing will have to be changed in the direction that a significantly greater portion of funding should come from general tax revenue from central and local budgets than from the payroll contributions. Social benefits and costs of the current system of sick and maternity leave allowances should be re-examined and simplified administrative procedures for part-time work introduced. To ensure more effective use of public funds, the introduc-

tion of more competition into health care markets is needed. Public financing does not have to mean a public provision of health care and as in many other countries the health care sector could function as a mixture of public and private providers. For that to happen authorities have to elaborate a consistent framework for private sector involvement in health care. Also a consistent institutional, regulatory and market framework in which private health insurance companies are expected to function and incentives for their developments should be elaborated. Having people participate in bearing the costs of health care is the first step toward a true health care reform. Briefly, health sector is confronted with problems similar to other sectors – the need for privatization, administrative and managerial capabilities, institutional setting building for new procedures and selling reforms to population.

## **The environment: challenges and possibilities**

Environment poses challenges of coping with demanding and expensive EU requirements that are at the same time essential for the future of the country. In the same time the field offers possibilities for Croatia, a country with a long Adriatic Sea coastline connecting a number of countries, to achieve a position as leader in the area of sea protection and induce activities on regional and international levels. In both aspects institutional and administrative capacities will be crucial – from decision making to the final implementation, from strategic thinking to costly, competent, long-time work in numerous aspects of comprehensive environmental field that covers almost all aspects of citizen life.

*Ivana Vlašić and Mirna Vlašić Feketija* claim that transposition of the *acquis*, ensuring its adequate implementation and absorbing the pre-accession funds constitute an enormous task particularly for a small country. The lack of financing strategies and carefully planned timetables for implementation of the obligations sends a clear message that decisions should be made and actions taken immediately. While Vlašić and Vlašić Feketija are worried about the state of the environment Kalliterna-Lipovčan and Prizmić-Larsen state that citizens were the most satisfied with national security and the state of environment. While satisfaction with national security might be understandable for a post-war country, the high satisfaction with the state of the environment might be the result of unawareness of the real state and problems not only in

the country but also on the global scale. Despite the existing strategies and plans, Croatia still lacks applicable documents, specific steps to the fulfilment of what has been envisaged, efficient monitoring and guidance on the management of the possible financial sources. A particular problem is the lack of a well-trained and experienced administration to cope with time-consuming tasks, stringent and rigid EU procedures. EU offers various possibilities of funding, the majority of which will go into water protection and waste disposal. These possibilities should be seen as instruments to improve the environment and to endorse specific economic activities that could be considered a comparative advantage for the country. The overall administrative capacity at national, regional and local levels will determine the level of the absorption of available EU funds. Appropriate staffing policy will be a key to successful institutional-capacity strengthening, which requires a careful development of long term-plans to recruit and train staff. Additional dedication of the decision-making level in the administration to set the priorities as well to the operational level to successfully manage the programmes is needed. At decision-maker level, resolution is required in setting priorities, while at implementation level the same resolution must be applied to the successful management of the necessary programmes. It all revolves around the insufficient administrative capacities and scarce financial resources. As in all other fields, administrative-capacities building seems a more serious problem than financial scarcity.

*Davor Vidas* discusses the need for the designation of the Adriatic Sea as a Particularly Sensitive Sea Area (PSSA) and the Croatian initiative towards regional cooperation in that direction.<sup>ii</sup> The rationale for this inheres in the special features of the Adriatic Sea while the policy context was set by the trends within the EU and by the evolving EU Marine Strategy. The PSSA status could provide a significant regional cooperative framework, in line with EU policy and highlight the awareness of the vulnerability of the Adriatic Sea. Although that sea connects six countries the lengths of their coasts vary, from Croatia stretching over 75% to Slovenia only 0.5% of that coast. The Italian share of the coast is only 15%, but it annually receives 75% of the total commercial ship traffic and 80% of cargo. Italy accordingly accounts for over 75% of ballast water introduction in the Adriatic ports. Although all Adriatic countries certainly should be interested in protection of their own and the common sea, the above figures speak enough about the particular need of Croatia to strive for achieving the best possible protective measures. It is particularly important because of the reliance on and orien-

tation towards tourism, fishing, agriculture and preserving life on numerous islands already facing depopulation. Numerous ideas and plans worked out together with some of the Adriatic countries already exist, but Croatia should take a step further with a concrete proposal for designating the Adriatic Sea a PSSA. Croatian and Norwegian institutions already work on a cooperative project and if everything goes as planned a joint Adriatic PSSA proposal might work out in 2007. This example shows that even without membership status, Croatia could navigate through EU possibilities. EU Marine Strategy Directive is directly applicable only to the EU members and waters covered by their sovereignty or jurisdictions, but member states are required within each marine region or sub-region to make every effort to coordinate their actions with third countries. In this case two members, one candidate and three aspirants might benefit from that requirement and Croatia might make a position for itself as a competent regional player. Of course, it all just might happen, but only with determination, competency and hard work of Croatian government.

## CONCLUSIONS

It is not difficult to imagine the main EU principles such as liberty, democracy and respect for human rights, fundamental freedoms and the rule of law, as well as fundamental social rights and values like pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men as objectives for Croatia. These values at least on paper are recognized by all societies, but it does not harm to repeat them as often as possible. In that sense the EU should be a role model for Croatia. The increasingly frequently recognized motto of the EU "Unity in Diversity" could also be appealing both for joining the EU and for its application within the country. Of course the threats of the EU because of its bureaucratization and overregulation should also not be overlooked.

Fulfilment of Copenhagen political, economic and legal-institutional criteria, at least to the level that would satisfy the EU, would mean that Croatia had reached the goals of a modern, capable and open society, irrespective of the potential EU capability to absorb the 28<sup>th</sup> member. As there exists a kind of consensus that in a long run the EU has achieved more in the economic than in the political sense, as long as the EU delivers economic benefits it will be attractive for current

and would-be members and the economic stance will affect the stance towards further enlargements. It is of course questionable what “delivery” might mean for the EU as a whole and for its members. Any economic slow-downs within the EU certainly would not be propitious for further enlargements. As the institutional structure of the EU has been envisaged for 27 members, Croatia – potentially the 28<sup>th</sup> member – faces a particular problem often overlooked within the country. It seems that in Croatia more emphasis is often put on the decision of France that it will hold a referendum on any new accession *after* Bulgaria, Romania and Croatia. That fact might be comforting, but also the previous institutional constraint (although remediable) should not be overlooked. One should also have in mind various ideas like “modular integrations” or “part-memberships” that could also be envisaged even for Croatia, not only for countries like Belarus or Ukraine. Such inventive EU solutions do not have to be perceived as a tragic outcome for Croatia.

Implications of the findings of this work might be summarized in a following way:

- Comparisons with other countries show different results from high rankings in measurements of well being and happiness perceptions to big differences in state aid as a proportion of GDP. The most important problem encountered is *lack of reliable data bases*, which results in the necessity of collecting and monitoring qualitative and quantitative indicators to enable reliable comparisons with other countries.
- *The economic situation is burdened with the slowness of reforms and privatization, and high involvement of the state*, resulting with high foreign and public debt, dilatory results in increasing employment and poor results in decreasing public expenditures.
- Irrespective of membership when particularly interested and capable, *Croatia could try to give initiatives and use the opportunities available in the EU*, as in the protection of Adriatic Sea.
- Even without membership status, *Croatian experts could contribute to the discussions of EU topics* like communicating the EU or European citizenship models.
- Popular views might become more important than the views of political elites and they should be carefully observed. For that reason *communication, interest representation and citizen participation should be promoted and developed*.
- *Capabilities of Croatian institutions are still the weakest spot*. This means that administrative and managerial capacity building and improving local and national governance will be crucial and even more important than the eventually insufficient financial sources.

- *Croatia needs accelerated privatisation and restructuring* of state and local public enterprises, decreasing state intervention in the economy, restructuring social services, deregulation of markets, particularly of services and more flexible and open labour markets, all aiming at increasing competitiveness of the economy.
- *Improvements in education and training* not necessarily heading to increased expenditures but reforms oriented towards enabling conditions for the long-term modernization of curricula and diminishing the mismatch of labour force demand and supply will be crucial.
- Key words mentioned as lacking in almost all chapters of the book are *implementation, enforcement and action plans*.
- *Depoliticization and political determination, competency and will to undertake substantial reforms and changes* will be crucial, particularly in circumstances when political elites are dominant and citizens apathetic and alienated. This is necessarily connected to a capacity to develop a public administration capable of mastering new procedures and selling reforms to the citizens. Success will depend on leadership that does not produce only plans, agendas and proclamations but visible results in the form of economic growth, a functioning market economy and the capacity to withstand competition on the one hand and a functioning administration that will protect and enhance the values of democracy and the rule of law on the other.

Reforms are always painful and one could expect that for example public sector employees who are extremely protected in comparison with the majority of those employed in the private sector will obstruct changes. They will think twice whether to support changes that might benefit the unemployed or young. The willingness of all citizens – trade unions, employers, pensioners or patients – who will besides their own interests have to have in mind the interests of their children and grandchildren, particularly those already looking for employment and those that will be joining this group in future, their ability to obtain loans and buy apartments, will be crucial. Of course, the courage of politicians to undertake the risk of losing at the next elections will be important too. Without liberalization, diminishing the role of the state in the economy, changed role of the government, redirection of state aid from vertical to horizontal purposes, better education, accepting modern technologies and entrepreneurship in a world characterized by globalization and liberalization of capital and labour markets, Croatia could encounter problems coping with more competitive countries. Briefly said, we need *readiness of citizens to support changes and willingness of politi-*

*cians to undertake the risk, plus a public administration capable of reforming first itself, then the whole public sector.* Faster privatisation not only of big systems like the postal bank or oil industry, but also of numerous state owned shares on all levels of government could accelerate the process. Real emphasis on an efficient judiciary, the fight against corruption and transparency of the public sector, briefly, a *real depolitization of all aspects of the society*, is needed.

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- i *This part of the text benefited from inputs of colleagues who closely monitor their fields of interest and expertise and I would like to thank them in alphabetical order: Ana-Maria Boromisa, Mirta Kapural, Ines Kersan-Škabić, Danijela Kuliš, Dubravko Mihaljek, Siniša Rodin, Paul Stubbs, Igor Vidačak and Siniša Zrinščak.*
- ii *As defined by Vidas, PSSA is an area that needs special protection through action by the International Maritime Organization because of its significance for ecological, socio-economic or scientific reasons, and because it may be vulnerable to damage by international shipping activities.*

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