

European Neighbourhood Watch

Issue 95 • July 2013



Thinking ahead for Europe

CEPS European Neighbourhood Watch monthly newsletter focuses on the EU's relations with its geographical neighbours: those in its midst, those included in the enlargement process, countries covered by the European Neighbourhood Policy and Russia. Each month the newsletter offers a round-up of the previous month's major developments with links to the full text of each corresponding news item, analysis or official document. These links are presented in chronological order. This overview is complemented by an editorial note that focuses on a current development or a more long-term trend pertaining to the EU's relations with its neighbours.

Table of Contents

Editorial: "Croatia and the EU: The Catch- Up Issue"

General

Eastern Partnership

Russia

Southern Neighbourhood

Enlargement

Index of European Neighbourhood Watch Editorials

Editorial

Croatia and the EU: The Catch-Up Issue

Croatia today is a long way from the hazardous days of having to establish a state, fight a war and start its transition towards normality and modernity. The country's prospects of joining the EU were previously hampered, not only by the blinkered policies of the then president and his party, but also by the high price it had to pay for the war. In the early 1990s Croatia spent five times as much of its GDP on defence as Slovenia. That spending has since fallen to the EU average, but the various moral and political failings that are in part a legacy of the war have not disappeared.

Had the situation been different in the 1990s, with the country in a position to start the EU accession process along with Slovenia and the other countries that joined in 2004 and 2007, Croatia might well have expected to see a transfer of European values by now, such as openness, democracy, the rule of law and respect for individual rights, both during the process and in the years since accession. During that time the country would have achieved greater transparency, accountability and citizen participation, with increased trust in the government, parliament, political parties and the judiciary. There might have been less tax evasion, corruption and unofficial economy, where an improved public sector would have promoted competitiveness, investment, employment and the overall welfare of citizens. The country would have become more open, liberal, meritocratic and economically more prosperous than it is today. Unfortunately, things did not turn out that way, and today, as Croatia is finally joining EU, it finds itself with a lot of catching up to do. Although the EU might seem less appealing now than it once was, for Croatia it is still a Union worth joining.

Challenges

Since 2000, all Croatian governments have – at least on paper – been dedicated to reform. But due to the lack of long-term strategies and generally poor coordination, changes to satisfy the EU pre-accession process were often made without analysis of their need or impact, resulting in superficial reforms without real content and new laws that have been poorly implemented and enforced. Consequently, nine months before the accession, the European Commission* still had several requirements regarding legislative alignment, implementation and administrative capacity, particularly with respect to competition, the judiciary and fundamental rights and justice, freedom and security. Three months before the accession the European Commission* stated that Croatia was generally meeting commitments and requirements and had demonstrated the ability to fulfil all remaining commitments. However, the Commission was still counting on membership being an additional incentive to the country to continue reforms to the rule of law, notably in the fight against corruption.

Although the last 'Progress Report' rightly emphasises investigation, prosecution, court rulings and prevention mechanisms, this author's view is that Croatia should singlehandedly focus on systemic changes to prevent corruption. Ledeneva* diagnosed Russia as being in need of a fundamental change in morals, social norms and individual incentives. The same applies to Croatia.

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According to Karklins* the worst kind of corruption is systemic, in which official authority in public institutions and among politicians is used for personal or party gain. This leads to citizens becoming resigned, apathetic and ready to take part in corruption themselves; citizens are both the victims of and participants in corruption at the same time. State capture results in immoral behaviour in institutions: political parties – particularly within coalition governments – fight to place their own people in positions of power to manipulate decision-making and set new rules of the game. Corruption then flourishes because political elites control the economic destiny of citizens and businesses. As long as public company management and supervisory boards are appointed on political criteria only, and as long as Croatia shows a poor ranking in the World Bank's 'Ease of Doing Business' index*, for example, it will be difficult to do away with the culture of state capture.

Croatia managed to avoid the post-accession monitoring instruments concerning corruption, organised crime and the judiciary imposed by the EU on Bulgaria and Romania. One could argue that Croatia escaped this monitoring because it did a better job than these countries or because of awareness within the EU of the questionable effects of the Cooperation and Verification Mechanism. Either way, to become a prosperous country devoid of institutional preconditions for corruption, Croatia will have to define its own goals, persevere in reaching them and introduce some sort of internal monitoring.

True political will, democratisation, government accountability and appropriate policies are crucial, particularly for the institutions and mechanisms that monitor government accountability and citizen participation. One can only reiterate the Commission's hope that membership will prove to be an additional incentive to Croatia's politicians to change their behaviour and start addressing state capture in the country.

Croatia and the EU

If Croatia's and EU-27 averages are compared, Croatia still has a lot of catching up to do in terms of press freedom, corruption perception, democracy, fundamental rights and European standards of doing business.

It is no wonder that Croatia's GDP per capita is only 61% of the EU average when one compares the indicators for unemployment, employment and productivity and the data for education and investment in R&D. Consequently, the distribution of income and the risk of poverty and social exclusion indicators show that Croatia is a society more unequal than the EU average. Croatia is a long way from reaching the Europe 2020* goals regarding employment, education, productivity and the well-being of its citizens.

The benefits of EU membership for Croatia will clearly depend on its own visions and strategies and its active participation in European institutions. European citizens are on average older and demand more from their governments than citizens of emerging economies on other continents. These demographics are particularly pronounced in Croatia; an issue that should be dealt with at both country and EU level.

The hesitance and incompetence of EU leaders who have been unable to make timely and bold decisions since the start of the economic crisis should be a lesson to Croatian leaders. While EU leaders might be forgiven for the institutional and procedural

deficiencies of EU bodies, Croatian leaders cannot. They have a mandate and a parliamentary majority and they have to deliver structural reforms and fiscal retrenchment as soon as possible. In the long term they could improve the country's competitiveness, employment and levels of debt.

The lack of vision, transparency and accountability in Croatia could prove to be more worrying than the destiny of the eurozone or even that of the EU. The Croatian government should keep in mind the maxim "To have it all, we have to do it all". Otherwise, Croatia might end up among those countries that Joao Rodrigues* identifies as becoming trapped in stagnation followed by emigration and a brain-drain that will only worsen the situation.

Given the different cultures and customs, huge democratic deficits and lack of vision both in EU bodies and the Croatian government, it is difficult to say whether one should wish for a United States of Europe with centralised fiscal regimes, less national autonomy and imminently more intervention. But only an economically stable, well-informed and active Croatia can benefit from the EU, irrespective of any possible changes to it.

The economist and philosopher F. A. Hayek* once wrote that economists appear to be hopelessly out of step with their time, giving impractical advice to an audience that is not disposed to listen and having no influence on contemporary events. However, if politicians, the public and economists were to agree on the ends to be achieved, we might all be able to come to an agreement on the means. Not only in Croatia, but also in the EU.

Katarina Ott

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1 European Commission, "Monitoring Report on Croatia's State Preparedness for EU Membership", 10 October 2012 (http://ec.europa.eu/enlargement/pdf/key_documents/2012/package/hr_rapport_2012_en.pdf).

2 European Commission, "Monitoring Report on Croatia's accession preparations", posted 24 March 2013 (http://ec.europa.eu/commission_2010-2014/fule/docs/news/20130326_report_final.pdf).

3 Ledeneva, A.V. (2013), *Can Russia Modernise? Sistema, Power Networks and Informal Governance*, Cambridge: Cambridge University Press.

4 Karklins, R. (2005), *System made me do it: corruption in post-communist societies*, Armonk: M.E. Sharpe.

5 International Bank for Reconstruction and Development/The World Bank, "Doing Business" (<http://www.doingbusiness.org/rankings>).

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8 Bartley, W.W. III and S. Kresge (eds) (1991), *The trend of economic thinking: essays on political economists and economic history: the collected works of F. A. Hayek*, New York: Routledge (<http://www.libertarianismo.org/livros/fahttet.pdf>).

General

Foreign Affairs Council conclusions
Luxembourg, 24 June 2013. [Link](#)

Remarks by High Representative Catherine Ashton following the Foreign Affairs Council
Luxembourg, 24 June 2013. [Link](#)

Remarks by EU High Representative Catherine Ashton at the AFET Committee, European Parliament
Brussels, 27 June 2013. [Link](#)

Eastern Partnership

Eastern Partnership Integrated Border Management Training project ends, paving way to sustained cooperation in the region
Kiev, 27 June 2013. [Link](#)

Armenia

Europe Day in Armenia 2013 Overnight Performance
Yerevan, 27 June 2013. [Link](#)

Azerbaijan

Joint statement by the spokespersons of High Representative/Vice-President Catherine Ashton and Commissioner Štefan Füle on amendments to the Criminal Code in Azerbaijan
Brussels, 6 June 2013. [Link](#)

Remarks by President of the European Council Herman Van Rompuy after his meeting with President of Azerbaijan Ilham Aliyev
Brussels, 21 June 2013. [Link](#)

EU Commission welcomes decision on gas pipeline: Door opener for direct link to Caspian Sea
Brussels, 28 June 2013. [Link](#)

Belarus

Statement by the spokespersons of EU High Representative Catherine Ashton and Commissioner Štefan Füle on the adoption by the Human Rights Council of a resolution on human rights in Belarus
Brussels, 14 June 2013. [Link](#)

Council eases diplomatic contacts between EU and Belarus
Luxembourg, 24 June 2013. [Link](#)

Georgia

First Eastern Partnership Ministerial Conference on Culture taking off in Tbilisi
Tbilisi, 27-28 June 2013. [Link](#)

Moldova

EU and Moldova conclude Deep and Comprehensive Free Trade Area
Brussels, 12 June 2013. [Link](#)

Statement following the meeting between President Barroso and the Prime Minister of Moldova, Iurie Leanca
Brussels, 14 June 2013. [Link](#)

Press points by Commissioner Štefan Füle following his meeting with Iurie Leancă Prime Minister of the Republic of Moldova
Brussels, 14 June 2013. [Link](#)

Moldova: First visit of the new Speaker of Parliament to Brussels
Brussels, 20 June 2013. [Link](#)

Statement by EU High Representative Catherine Ashton on the Transnistrian so-called legal act on the border
Brussels, 21 June 2013. [Link](#)

Remarks of Commissioner Štefan Füle following the 15th EU-Moldova Cooperation Council

Luxembourg, 25 June 2013. [Link](#)

Moldova's PM Leanca signs a loan for upgrading road infrastructure while visiting EIB

Luxembourg/Chisinau, 25 June 2013. [Link](#)

Ukraine

Council on EU-Ukraine: Good progress but still more to be done

Luxembourg, 24 June 2013. [Link](#)

EU-Ukraine Cooperation Council takes stock of Ukraine's progress ahead of Eastern Partnership summit

Brussels, 25 June 2013. [Link](#)

Russia

Remarks by President of the European Council Herman Van Rompuy following the 31st EU-Russia Summit

Yekaterinburg, 4 June 2013. [Link](#)

Enhancing business ties with Russia through regulatory, business and tourism cooperation

Brussels, 14 June 2013. [Link](#)

EIB continues to support projects of SMEs and Mid-Caps in Russia

Luxembourg/St. Petersburg, 20 June 2013. [Link](#)

Southern Neighbourhood

EIB reinforces its commitment to the private equity industry in the southern Mediterranean

Luxembourg, 10 June 2013. [Link](#)

UfM: new support for facilitating trade with the South Mediterranean

Brussels, 17 June 2013. [Link](#)

High Representative Catherine Ashton visits: Jordan, Iraq, Lebanon, Egypt, Israel and Palestine

Brussels, 17 June 2013. [Link](#)

President Barroso meets the Secretary General of the Organisation of Islamic Cooperation (OIC), Mr Ekmeleddin Ihsanoglu

Brussels, 25 June 2013. [Link](#)

Algeria

Installation du groupe parlementaire d'amitié Algérie-UE ALGER

09 June 2013. [Link](#)

Egypt

EU Support for Governance in Egypt – “well-intentioned but ineffective”, say EU Auditors

Luxembourg, 18 June 2013. [Link](#)

Remarks by High Representative Catherine Ashton following her meeting with Egyptian Foreign Minister Mohamed Kamel Amr

Cairo, 19 June 2013. [Link](#)

Israel

Aviation: EU and Israel sign agreement

Brussels, 10 June 2013. [Link](#)

Remarks by EU High Representative Catherine Ashton before her meeting with Israeli PM Benjamin Netanyahu

Jerusalem, 20 June 2013. [Link](#)

Jordan

Statement by Commissioner Štefan Füle following his visit to the Zaatari refugee Camp after inaugurating a new school and signing agreement with UNICEF on financing educational projects for Syrian children

Amman, 4 June 2013. [Link](#)

EuroMed Youth Awards 2013 in Jordan

10 June 2013. [Link](#)

Lebanon

Statement by EU High Representative Catherine Ashton on violence in Lebanon

Brussels, 26 June 2013. [Link](#)

Morocco

Migration and mobility partnership signed between the EU and Morocco

Brussels, 7 June 2013. [Link](#)

Palestine

Remarks by EU High Representative Catherine Ashton following her meeting with Palestinian Prime Minister Rami Hamdallah

Ramallah, 19 June, 2013. [Link](#)

Syria

Statement by the spokesperson of the High Representative Catherine Ashton on the situation in Qusayr, Syria

Brussels, 1 June 2013. [Link](#)

Statement of President Barroso on Syria

Brussels, 6 June 2013. [Link](#)

Statement by Kristalina Georgieva, European Commissioner for International Cooperation, Humanitarian Aid and Crisis Response, on new EU funding for Syrian humanitarian crisis

Brussels, 6 June 2013. [Link](#)

Statement by EU High Representative Catherine Ashton on the US statement on Syrian Chemical Weapons Use

Brussels, 14 June 2013. [Link](#)

Declaration by the High Representative on behalf of the European Union on the alignment of certain third countries with Council Decision 2013/255/CFSP concerning restrictive measures against Syria

Brussels, 24 June 2013. [Link](#)

“Towards a comprehensive EU approach to the Syrian crisis”: an EU joint communication

Brussels, 24 June 2013. [Link](#)

Tunisia

Déclaration du Président Barroso à la suite de sa rencontre avec le Chef du Gouvernement tunisien, M. Ali Larayedh

Brussels, 25 June 2013. [Link](#)

Enlargement

3251st General Affairs Council meeting

Brussels, 25 June 2013. [Link](#)

Speak-Up!2: Loud wake-up call for improving media freedom in Western Balkans and Turkey

Brussels, 20 June 2013. [Link](#)

Remarks of Commissioner Štefan Füle at the press conference after the General Affairs Council's (GAC) meeting in Luxembourg

Luxembourg, 25 June 2013. [Link](#)

Albania

Statement by EU High Representative Catherine Ashton and Commissioner Štefan Füle on the parliamentary elections in Albania

Brussels, 25 June 2013. [Link](#)

Bosnia and Herzegovina

Croatia-Bosnia and Herzegovina: Agreements on border management signed

Brussels, 19 June 2013. [Link](#)

Croatia

Croatia's accession to the European Union
Brussels, 21 June 2013. [Link](#)

First Head of European Commission Representation in Croatia appointed
Brussels, 21 June 2013. [Link](#)

Council agrees EU funds for Croatia
Brussels, 26 June 2013. [Link](#)

Croatia becomes the 28th Member State of the European Union
Brussels, 28 June 2013. [Link](#)

Kosovo

European Investment Bank and Kosovo sign Framework Agreement
Luxembourg/Pristina, 7 June 2013. [Link](#)

Macedonia

Official Launch of the IPA Cross-Border Cooperation Programme Greece – the former Yugoslav Republic of Macedonia
Brussels, 26 June 2013. [Link](#)

Montenegro

Fourth meeting of the Stabilisation and Association Council between the European Union and Montenegro
Brussels, 26 June 2013. [Link](#)

Remarks of Commissioner Štefan Füle following the EU-Montenegro Stabilisation and Association Council
Brussels, 26 June 2013. [Link](#)

Serbia

High Representative Catherine Ashton appoints new Heads of EU Delegations to Peru and Serbia
Brussels, 7 June 2013. [Link](#)

Statement by President Barroso following his meeting with the Prime Minister of Serbia, Mr Ivica Dačić
Brussels, 26 June 2013. [Link](#)

Remarks by EU High Representative Catherine Ashton following her meeting with Prime Minister of Serbia Ivica Dačić
Brussels, 26 June 2013. [Link](#)

Turkey

Statement by the Spokesperson of High Representative Catherine Ashton on riots in Turkey
Brussels, 2 June, 2013. [Link](#)

Unrest in Turkey: Turkish democracy needs compromise and tolerance, say MEPs, Committee on Foreign Affairs
Brussels, 6 June 2013. [Link](#)

Speech by Štefan Füle: EU-Turkey bound together
Istanbul, 7 June 2013. [Link](#)

Statement by EU High Representative Catherine Ashton on the situation in Turkey
Brussels, 09 June 2013. [Link](#)

Outcome of proceedings on Turkey
Luxembourg, 25 June 2013. [Link](#)

Index of European Neighbourhood Watch Editorials

Issue n. 94, June 2013

Too cold to handle: EU accession talks with Iceland

Issue n. 93, May 2013

Facilitated dialogue in the Balkans vindicates the EEAS

Issue n. 92, April 2013

Enlargement Agenda - Special focus on Macedonia, Serbia and Kosovo

Issue n. 91, March 2013

Tunisia in turmoil: how should the EU react

Issue n. 90, February 2013

Strengthening the strategic choice offered to the EU's southern Mediterranean neighbours

Issue n. 89, January 2013

The EU's External Action towards the Middle East: Resolution required

Issue n. 88, December 2012

Towards a Eurasian Economic Union: Integration and cooperation

Issue n. 87, November 2012

A Nobel Peace Prize to revive the EU enlargement process

Issue n. 86, October 2012

Free and fair? A challenge for the EU as Georgia and Ukraine gear up for elections

Issue n. 85, September 2012

The EEAS and the Eastern Partnership: Let the blame game stop

Issue n. 84, August 2012

Preparing for a post-Assad Syria: What role for the European Union?

Issue n. 83, June 2012

History does not move in straight lines

Issue n. 82, May 2012

Implications of the Eurozone crisis for EU foreign policy - costs and opportunities

Issue n. 81, April 2012

Do the BRICS make a Bloc?

Issue n. 80, March 2012

The Ukraine Question

Issue n. 79, February 2012

Some European comments Putin's foreign and security policy

Issue n. 78, January 2012

Putin's faltering return

Issue n. 77, December 2011

The Arab Spring – Is it a Revolution?

Issue n. 76, November 2011

The Responsibility to Protect and Regime Change

Issue n. 75, October 2011

East goes right, South goes left

Issue n. 74, August-September 2011

The political and legal logic for Palestinian statehood

Issue n. 73, July 2011

The Timoshenko case and the rule of law in Ukraine

Issue n. 72, June 2011

The Arab Regatta – a half year report card

Issue n. 71, May 2011

Review of the Review – of the European Neighbourhood Policy

Issue n. 70, April 2011

Bringing Democracy Support onto the Front-burner

Issue n. 69, March 2011

Interculturalism between the twin hazards of multiculturalism and assimilation

Issue n. 68, February 2011

Time for change: EU trade policy towards the Eastern Partners – The case of Georgia

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