

# European Neighbourhood Watch

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*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.*

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## 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*

*Director, Institute of Public Finance, Zagreb*

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](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](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>).

6 European Commission, "Europe 2020", last updated 20 June 2013 ([http://ec.europa.eu/europe2020/index\\_en.htm](http://ec.europa.eu/europe2020/index_en.htm)).

7 Joao Rodrigues, M. (2012), *Mapping Future Scenarios for the Eurozone*, Berlin: Friedrich Ebert Stiftung. Also available at <http://library.fes.de/pdf-files/id/ipa/09194.pdf>.

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>).

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*Foreign Affairs Council conclusions*  
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*Council eases diplomatic contacts between EU and Belarus*  
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*Moldova's PM Leanca signs a loan for upgrading road infrastructure while visiting EIB*

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