

CROATIA ON THE WAY TO THE EUROPEAN UNION

- Or challenges of reunion of the one European family

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Abstract

Background: Drawing upon Croatia's past and present situation, this paper attempts to propose actions that need to be taken in adopting new economic, legal and political standards. Our approach shall include an overview of historical foundations of modern Europe. Accordingly, we shall conclude this paper with an assessment of future economic and societal directions of the European circle. Owing much to her geography and culture, Croatia has, in effect, belonged to the European community of nations throughout its thirteen-century long history. At the beginning of her historical route, having been a sovereign kingdom in the 10th century, Croatia had existed as a functional part of European civilization. In Thousand Years that ensued, Croatia came under a number of multiethnic political entities. First, it entered the union with Hungary, then Austria, followed by Austro-Hungarian Empire. In 20th century, it entered into the Kingdom of Serbs, Croats, and Slovenes, which later on was renamed the Kingdom of Yugoslavia. Following the end of WWII, Croatia entered Socialist Federative Yugoslavia, together with other South Slavic peoples. However, Croatia has only recently as the 1990s become an independent nation state, in a modern sense. In this way, Croatia can effectively fulfil her historical path by entering the European Union, therefore reverting to her historical roots. It is the challenges of this most recent era of Croatian history, that form the backbone of this paper. Several basic aspects of Croatian accession to the EU are put into perspective. First, we make certain assumptions regarding the integration, with respect to the shift from transition to transformation brought about by integration. Second, we bring to mind the procedure of European integration, both in form and content. Third, we talk about the effects of integration, from societal to economic achievements.

1. Basic preconditions: Croatia on the Path towards EU Accession

The essence of achieving the assumptions underlying Croatian Integration can be expressed as following: by introducing European standards into her social and economic system, Croatia effectively becomes a part of European Community. When we speak of dynamic process of Croatian Integration into EU, we must take into account the historical process of building what is known today as a community of European Nations. Also, we must bear in mind all the phases of Croatian integration into Europe, as well as societal and economic impacts brought about by complying with European Standards. We break down these concerns in three points: Successful transition of Croatian Society and Economy, Evaluation of existing ties with EU member states, especially in terms of cross-border cooperation and economic relations, and finally, Solving the problem of transformation by offering incentives to enter EU.

Croatia map Croatia in the heart of Europe

1.1. Successful Transition of the Society and the Economy

In the beginning of 1990s, Croatia entered into what could effectively named the Bermuda Triangle of struggling for sovereignty, establishment of multi-party system and creation of free-market economy on the rubbles of socialist planning. Croatia could have either lost herself in its whirl, or overcome these inaugural impediments, and effectively transforming them into what could be called a golden triangle of opportunities for the fate of the nation, the state and the economy. It is fortunately the latter outcome that happened: Croatia ultimately achieved its statehood, established parliamentary democracy, and paved the way for transition towards market-based economy. The Parliamentary System in Croatia entered into effect on 30 May 1990. On 25 June, she became an independent state, to be recognized by the European union on 15. May 1992 and enter the United Nations on 21 June

1992. Croatia successfully defended its independence in the Homeland War, where she saw liberation of temporarily occupied territory on 5. August 1995, as well as peaceful reintegration of occupied territory in Eastern Croatia on January 1 1998., which at the time of handover had been run by provisional UN authorities. At the same time, transition of the economy was under way. The Privatisation of Industries has been carried out, albeit slowly and with numerous difficulties. It can be said, however, that Croatia, by comparison to other former socialist countries, succeeded in reviving its economy, although her transformation was happening at a different pace and in different circumstances.

Following facts and numbers offer an overview of Country's society and Economy.

1.1.1 Political profile

Official name	Republic of Croatia (Republika Hrvatska)
Political system:	Parliamentary democracy
Official language and script	Croatian language and Latin script
Population	4,437,460 (2001 census) The majority of the population is Croat. National minorities include Serbs, Moslems, Slovenes, Italians, Hungarians, Czechs, Slovaks, and others
Capital city	Zagreb (population of 779,145 - 2001 census) the administrative, cultural, academic and communication centre of the country).
Religions	The majority of the population is Roman Catholic, and in addition there are a number of those of Orthodox faith, as well as Muslims, and Christians of other denominations.
Geographical position	Mediterranean, Middle European, South East European country extends from the foothills of the Julian Alps in the North-West and the Pannonian Plain in the east, over the Dinaric mountain range in its central region, to the Adriatic coast in the south.
Land area	56,542 km ²
Territorial sea area	31,067 km ² (total economic area 113,680 km ²)
Total length of coast	5,835 km (length mainland coast 1,777 km; length island coast 4,058 km)
Number of islands and islets	1,185 (67 inhabited islands)
Climate	Northern Croatia has a continental climate; Central Croatia has a semi-highland and highland climate, while the Croatian coast has a Mediterranean climate. Winter temperatures range from -11 to 30°C in the continental region, -5 to 0°C in the mountain region and 5 to 10°C in the coastal region. Summer temperatures range from 22 to 26°C in the continent, 15 to 20°C in the mountain region and 26 to 30°C in the coast.

Source: Croatian National Biro of Statistics, 2004.

The Republic of Croatia is a Presidential, multi-party parliamentary democracy with a population of 4.4 million inhabitants and an annual GDP of approximately €24 billion or €5,400 per capita. Ten years after the war (1991-1995) and 7 years after Croatia gained full sovereignty over its territory (1.1.1998), the country is a functioning and stable democracy. The main issues facing the country relate to the need for social and economic reforms, reform of the judiciary and the fight against organised crime and corruption.

1.1.2 Economic profile

GDP, bn USD	22.4
GDP per capita	5,569.1 USD; 5,400 euro per capita. or 35 % of the EU average
Economic growth	4% in 2002; 4.3% in 2003; 3.8% in 2004
Industrial production (%)	5.4
Inflation rate (%)	2.2
Exports, mil USD	4,898.7
Imports, mil USD	10,713.5
Trade with EU	Exports to the EU: 66.9% of the total Imports from the EU: 71% of the total
Current account balance, mil USD	-588.5
Central budget balance (% of GDP) estimate	-2.2
Average monthly gross wage, USD	682.4
CNB's foreign exchange rate reserves.	5,885.9 mil USD – end of period
Inflation rate	2.2% (twelve months average year-on-year)
Unemployment rate	Jan 2004 - Dec 2004: 18%
Monetary unit: Croatian Kuna – kn	1 Kuna or HRK = 100 Lipa
Currency	1 US\$ = 6 Kuna; 1 Euro = 7.56 Kuna(2004)
Government budget balance	2004 Budget Deficit: 6.3% of GDP
Current account balance	3rd quarter of 2004: - 6.6% of GDP
Foreign debt	51.7 % of GDP in 2003

Source: Croatian Bureau of Statistics , Croatian National Bank, Zagreb 2004.

Croatia is a small economy with a population of 4.4 million and a GDP at current prices of some EUR 23,760 million in 2002. The country's population is about 1.2% of that of the European Union, while its economy is about 0.26% in GDP terms. The GDP per capita is in the order of EUR 5,400 (2002). Since independence in 1992, Croatia has experienced a process of de-industrialisation albeit less severe than in other transition countries and only gradually after 1996: the importance of industry including construction declined to some 30% of total gross value added in 2001. The services sector, notably tourism, has grown from about 50% at the time of independence to correspond to roughly 60%. The share of agriculture in GDP declined slowly in the second half of the 1990s but still stands above 9% reflecting the move to agricultural self-employment of persons who lost their jobs in the manufacturing sector. The level of unemployment remains a problem with the average annual unemployment rate in 2004 likely to be just below 18%, compared to 19.5% in 2003.

1.1.3. Croatia's position among transitional countries of Central East Europe.

Croatia had an exceptionally favourable set of economic conditions in the early 1990s, when compared to countries that came out from Soviet, Czechoslovakian and Yugoslav socialist federations. Its ranking in the second part of the 1990s is shown on the following table¹:

Tab. 3: Transition Country Indicators 1997-2000

Country	Economic Development			Geography			Transition Progress		
	GNI/cap 2000 (US-\$)	GNI/cap 2000 (PPP)	GDP growth (average) 1990-99	Distance to Brussels (EU)	Distance to nearest W.F. capital	Nearest W.F. Capital	EBRD average Transition Indicator 1999	Cumulative Liberalization Index 1997	Average Index of Institutional Quality 1997-98
Belarus	2,990	7,550	-3.0	1,610	945	Berlin	1.5	2.54	-9.9
Bulgaria	1,510	5,530	-2.7	1,690	530	Athens	2.9	4.92	-0.8
Croatia	4,510	7,780	0.2	1,030	270	Vienna	3.0	6.54	-0.5
Czech Rep.	4,920	13,610	0.8	720	260	Vienna	3.4	6.40	8.0
Estonia	3,410	9,050	-1.3	1,600	90	Helsinki	3.5	5.72	7.0
Hungary	4,740	12,060	1.0	1,120	220	Vienna	3.7	6.84	9.7
Latvia	2,860	6,960	-4.8	1,440	350	Helsinki	3.1	5.00	2.7
Lithuania	2,900	6,960	-4.0	1,450	615	Helsinki	3.1	5.39	2.9
Moldova	400	2,240	-11.0	1,815	940	Vienna	2.8	3.80	-2.4
Poland	4,200	9,030	4.5	1,155	530	Berlin	3.5	6.81	8.1
Romania	1,670	6,380	-0.8	1,170	760	Athens	2.8	4.47	-1.2
Russian Fed.	1,660	8,030	-6.1	2,250	900	Helsinki	2.5	4.32	-6.2
Slovak Rep.	3,700	11,000	1.8	965	55	Vienna	3.3	6.05	2.6
Slovenia	10,070	17,390	2.4	910	270	Vienna	3.3	6.77	9.7
Ukraine	700	3,710	-10.7	1,835	1,045	Vienna	2.4	2.55	-7.6

Sources: IBRD, 2001 World Development Indicators (*economic development*); distances in km, as the crow flies, taken from Microsoft Encarta 99 (*geography*); IMF World Economic Outlook, October 2000 (*transition progress*). (Original data sources for transition indicators: EBRD, Transition Report 1999; M. de Melo, C. Denizer, A. Gelb (Patterns of Transition from Plan to Market" The World Bank Economic Review, Vol. 10, No. 3, pp. 397-424 (updated by the authors), B. Weder "Institutional Reform in transition Economies: How Far Have They Come?", unpublished, IMF, 2000). Higher indicator values indicate higher progress in economic transition. EBRD Average Transition Indicator ranges from 1 to 4+ (linearized to 4.3); Cumulative Liberalization Index 1997 from 0 to 9, and Average Index of Institutional Quality 1997-98 from 25 to +25, respectively.

Croatia has experienced one of the most significant shifts in regional trade patterns among the countries considered and fares quite well according to the indicators presented in table². This is especially true for Croatia, which after a change of government in 2000 and in the end of 2003 has made substantial

progress in developing its market economy institutions, stabilizing macroeconomic conditions, and fostering institutional economic integration. Several Free Trade treaties were concluded, and an EU Association agreement was negotiated within only five months. Increasingly catching up with the 1998 group in the economic transition process and intensifying integration with the Western European economies, Croatia seems to be a likely candidate for an EU application in the near future.

1.2. Evaluation of existing ties with the countries of European Union.

1.2.1. The role of cross-border cooperation in the development of European integrative processes.

Croatia is particularly active in the development of cross-border cooperation¹ and creation of favourable neighbour-relations in the Mediterranean, Central and South-East Europe, especially with respect to her maritime border with Italy and land border with Slovenia, Hungary, Bosnia-Herzegovina and Serbia-Montenegro.

Crossborder cooperation has been the decisive force in facilitating communitarianism of European nations. Ever since WWII, cooperation along internal, as well as external borders, has been growing stronger ever since, and today it represents one of the Union's greatest achievements, enabling the continued pursuit of freedom to movements of people, goods, services and capital.

Drawing upon historical lessons, both the period before, and the period following the outset of the process of European integration, are relevant and therefore outlined here.

Period before the start of the process of European unification: Peoples that inhabited the European Continent throughout the long history belonged to different political entities, only to form their own nation states in mid 19th

century - for most Western European countries - and at the end of 20th century, for most Central and Eastern European Countries. Notorious for bloody upheavals in its long history, Europe saw continual revisions of political borders on an otherwise geographically integral continent. Most disastrous of these conflicts, WWII, pinpointed perils of deep political divisions in such a sensitive area, which eventually spurred the rapid process of European Unification in the last half of the 20th century. Long-lasting process of creating states (particularly those of the former Soviet/Communist block) called for adequate models of creating borders, and then models for cooperating across these borders. It follows that after numerous bloody conflicts that were waged over, and resulted in, modifications of frontiers, there arrived an era of continued and ever increasing cooperation of both the states and the regions.

The Process of European Unification: It took only about 50 years of this dynamic process that most of European Countries became members of strong economic, monetary, and hopefully, political integration of the European Continent, transforming the nature of this integration, from weak economic communities to the European Union of today, which in the last 15 years has increased its membership from 12, 15, and then 25 states, with prospects of furthermore widening and eventually fulfilling De Gaul's dream of creating a unified Europe covering the area between Atlantic Ocean and Mountains of Ural. Present day EU includes 25 member states, with four more applicant countries. Among these applicant countries, two of them, namely Romania and Bulgaria, are earmarked for accession in 2007, while two other candidates, Croatia and Turkey still await commencement of accession talks. It is a defining quality of this process that it succeeded in bringing together historical foes, such as France and Germany, which has also translated in fruitful cross-border cooperation between these two countries. Once disputed, these regions became epicentres of cooperation. Neutral European countries have special importance in programmes of European integration. From the late 1980s, European Community has been setting aside substantial financial

means in implementing projects of cross-border cooperation, which were aiming at promotion of balanced economic and societal growth. In accordance, the breadth and strength of these projects increased correspondingly, which inevitably led to deepening European Union, strengthening economies, linking border population together, improving traffic links and contributing to solution of environmental problems.

Borders among states in modern Europe can be classified under three basic categories: internal borders among states, their external borders with other member states, and borders with other non-member states.

The first two categories are of uttermost importance. Special attention must be given to continued and coordinated work of all institutions of EU in regulating all internal and external border questions. Gradually, throughout the process of strengthening integration, internal borders have been all but erased in their traditional sense. Developments in cross-border cooperation contributed significantly to the liberalisation of border regime. External borders, on the other hand, could not have been managed in equally successful and coordinated manner. In the first phase of strengthening integration, EC had neighbours belonging to the former Communist block. After the fall of the Berlin Wall it became crucial to establish new border policy of the EU towards its neighbours.

Borders between European countries outside the EU: Member states of the European Union succeeded in solving most of important bordering issues, both on its internal, as well as on its external borders⁵. Owing considerably to harmonized legal systems of all member states, border regime standards have been put in place. However, there are several unsolved questions, such as a serious and long lasting dispute between Greece (EU Member State) and Turkey (non-member state, with prospects of joining in). In the case of other

European countries, there is a whole range of unsolved border issues, such as considerable limitations that appear in certain cases of cross-border

cooperation⁶. However, by exerting political pressure supported by substantial funding, EU hastens certain Member States to find solution to their border disputes. In that respect, most of the long-standing territorial disputes among numerous European countries have been solved successfully or at least to a considerable extent. There are, of course, some more difficult territorial disputes, for which no mutually acceptable solution appears to be in sight⁷.

After the break up of the Soviet Union, many of the border disputes among former Soviet Republics that previously had been suppressed are now impeding newly independent states to deepen their mutual relations. Baltic and Caspian states are a prime example of such a situation. On the other hand, Ukraine and Romania have, as a result of EU and NATO push, signed an agreement in 1997 on regulating their common border⁸. In the case of break-up of Yugoslavia, timed intervention of international legal committee, known as the Badinter Commission, laid down the conclusion, which recognised borders of the former Yugoslavia republics as internationally recognized borders of newly established states⁹. This stance has been accepted by the international community, so that upon cessation of all armed conflicts, all the borders remained unchanged. These efforts have also prevented any sort of serious disputes in peacetime as well, although some still remain. In the process of European enlargement, many of these questions will have to be solved more rapidly, bearing in mind the challenges that sometimes opposing notions of establishing borders and pursuing cross-border cooperation may bring.

Cross-border cooperation programmes in Europe: The European Union, by a virtue of her large funds, succeeded in harmonizing the development of border regions and solving majority of border issues, thus paving the way towards fruitful cross-border cooperation. When it comes to internal borders, almost all of them were solved. However, in the case of external border issues, some of them still remain unsolved. Management of cross-border cooperation among states outside EU depends mostly on situation in countries themselves, as well as in the particular region. Politics of

development of cross-border cooperation in the EU can be seen in the Cross-Border Cooperation Programme¹⁰. Particular attention has been given to those member states in the outer rim, as well as to new Member States and those that are applying for membership. This specially refers to programs of assistance, such as CBC Phare, INTERREG, CARDS and CADSES programmes.

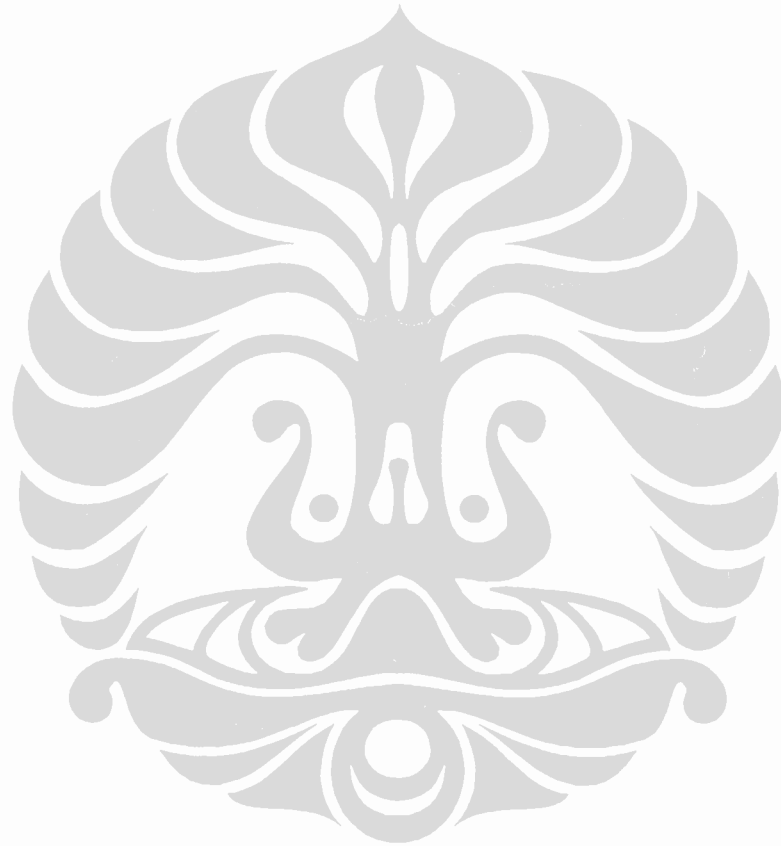
Economic and Societal impacts of this cross-border cooperation are noticeable. The main challenge is to build bridges of cooperation among neighbours, while at the same time allowing these states to retain sovereignty to a largest extent. Also, evaluation of state's own cultural and historical heritage, as well as activation of full economic potential is an important condition. Countries of European Union have all embraced the idea of cross-border cooperation, which, after numerous armed conflicts that have plagued the continent, became the only viable solution. Croatia, as a new sovereign country, followed suit, and coming out from a conflict in which her neighbours have endangered her territorial integrity, Croatia now embraces the policy of good neighbourly relations, which is best exemplified in her cross-border cooperation.

1.2.2. Economic cooperation

1.2.2. Cooperation of Croatian Economy with European Union

Croatia is also a very open economy: in 2002, the total trade-to-GDP ratio (goods and services) was at some 103% of GDP, up by some 15 percentage-points relative to 1998, of which external merchandise trade volume accounts for roughly two thirds (exports 22%, imports 46% of GDP). The main trading partners are traditionally in the EU, which accounts for more than half of both exports and imports, with Italy, Germany and Austria being the most prominent partners. EU-Croatia trade has doubled since the opening of the EU market under the Autonomous Trade Measures in 2000 and the trade provisions of the Stabilisation and Association Agreement in 2002 (from €6.8

billion in 2000 to €13.7 billion in 2004). Croatia has clearly been able to benefit from this, with Croatian exports to the EU increasing by 37% from 2000 to 2004. Croatia in recent years has run merchandise trade deficits, which were however partially offset by surpluses on the services balance. Although it is decreasing, the trade deficit denotes on the one hand post-war economic development and transition needs and, on the other, a lack of competitiveness of Croatian producers on the EU market.



Mutual Trade¹¹:

On basis of trade indicators between Croatia and EU, we may draw conclusions on the importance of economic partnership of national Economy and the Union.¹²

Commodity Exchange of the Republic of Croatia in 2003 and 2004

Group	Exports				Imports				Total Commodity Exchange			
	EUR millions			Indices	EUR millions			Indices	EUR millions			Indices
	2003	2004	%		2003	2004	%		2003	2004	%	
EU countries (EU 25)	3694.2	4171.0	64.63	112.9	9021.9	9286.6	69.54	102.9	12716.0	13457.5	67.94	105.8
EFTA countries	43.7	67.0	1.04	153.4	227.7	214.5	1.61	94.2	271.4	281.5	1.42	103.7
CEFTA countries	39.3	77.8	1.21	198.2	152.2	193.3	1.45	127.0	191.4	271.1	1.37	141.6
Other European countries	1207.3	1380.5	21.39	114.4	989.2	1537.3	11.51	155.4	2196.4	2917.8	14.73	132.8
Developed non-European countries	264.2	374.3	5.80	141.6	878.5	841.0	6.30	95.7	1142.7	1215.3	6.14	106.4
Developing non-European countries	215.7	383.2	5.94	177.6	1268.6	1281.7	9.60	101.0	1484.3	1664.9	8.41	112.2
Total Commodity Exchange	5464.4	6453.8	100.00	118.1	12538.0	13354.4	100.00	106.5	18002.3	19809.2	100.00	110.0

Top ten countries

Country	Exports				Imports				Total Commodity Exchange			
	EUR millions			Indices	EUR millions			Indices	EUR millions			Indices
	2003	2004	%		2003	2004	%		2003	2004	%	
1 Italy	1457.8	1479.8	22.93	101.5	2273.9	2272.5	17.02	99.9	3731.7	3752.3	18.94	100.6
2 Germany	648.5	721.3	11.18	111.2	1958.9	2067.0	15.48	105.5	2607.4	2788.3	14.08	106.9
3 Austria	423.7	608.5	9.43	143.6	827.4	910.7	6.82	110.1	1251.0	1519.3	7.67	121.4
4 Slovenia	451.2	482.4	7.47	106.9	927.8	950.9	7.12	102.5	1379.0	1433.3	7.34	103.9
5 Bosnia & Herzegovina	788.2	928.2	14.38	117.8	202.8	281.0	2.10	138.6	991.0	1209.2	6.10	122.0
6 Russian Federation	64.8	93.1	1.44	143.6	600.1	967.1	7.24	161.2	664.9	1060.2	5.35	159.4
7 France	154.8	147.9	2.29	95.5	663.6	589.9	4.42	88.9	818.5	727.8	3.72	90.1
8 China	3.8	5.8	0.09	154.1	358.0	311.0	3.83	142.7	361.7	516.8	2.61	142.9
9 Hungary	71.3	83.1	1.29	116.5	375.0	409.6	3.07	109.2	446.3	492.7	2.49	110.4
10 USA	145.4	169.8	2.63	116.8	323.1	288.3	2.16	89.2	468.5	458.2	2.31	97.8
Other countries	1254.8	1733.9	26.87	138.2	4027.3	4106.2	30.75	102.0	5282.1	5840.1	29.48	110.6
Total Commodity Exchange	5464.4	6453.8	100.00	118.1	12538.0	13354.4	100.00	106.5	18002.3	19808.2	100.00	110.0

Overview by groups of countries

- In 2004 the EU accounted for 70% of Croatia's external trade and is by far the first trade partner, with the 2nd partner being Bosnia-Herzegovina (5.6%). Croatia ranks 31st EU partner (0.7% of total EU trade), which places it by far as first EU trading partner in the Western Balkans. In 2004, the EU-imports from Croatia totaled 3,92 billion € while the EU exports to Croatia reached 9,76 billion €. Croatia's trade deficit with the EU therefore amounted to 5,84 billion €.
- EU imports in 2004 are primarily composed of industrial goods (76.6%), including principally machinery (18.4%), textiles products (13.5%), transport equipment (12.2%) and chemical products (8.9%). EU exports in 2004 are mainly industrial goods (80.3%) including machinery (23.1%), transport equipment (15.1%), of which 11.7% cars and trucks, chemical products (11.9%) and textiles products (6.3%). This trade structure, which is mostly concentrated on industrial goods, denotes the developed nature of the Croatian economy. Intra-industry trade in textiles is largely balanced with imports from Croatia for €530 million and EU exports to Croatia at €610 million in 2004 and has remained stable in the period 2000-2004. For transport equipment, Croatian exports have quadrupled in the period 2002-2004 (€111 million (2002) to €479 million (2004)) giving an indication for a developing intra-industry trade in this sector.

1.3. Solving for the problem of transformation incentives for EU integration

Individual countries, especially those that in the 1990s came out from a socialist system, had no means to engage in fast and effective transformation process. It is precisely in this area that EU assistance is invaluable. In this respect many projects, costing substantial amounts of money, have been developed in the last 15 years, for 15 countries that came out from socialism. It is on the extent and thoroughness of such assistance that individual country performance directly depends. Most of these countries have already become a Member State, while other countries have applied for membership.

ices
10.6
16.9
21.4
103.9
122.0
159.4
90.1
142.9
110.4
97.8
110.6
110.0

Solutions to main problems regarding social and economical transformation can be grouped in the following areas:

- establishment of fully functional democratic system (election procedures, parliamentary system, separation of legislative, executive and judiciary government)
- rule of law, and basic human rights and freedoms,
- reform of judiciary.
- establishment of open market economy, privatization and reform of the state-run sector,
- protection of private property, freedom of entrepreneurship, freedom to engage in market competition,
- transformation of public administration,
- improvements in health and welfare system,
- reform in education,
- investment in infrastructure,
- structural changes in most important sectors of the economy

2. Specific way: Croatian steps to achieve a membership of the European Union

2.1. Relations between Croatia and European Union

2.1.1. The development of European Integration

The history of EU (Chronology)¹³ in main six steps of integration process:

Main steps of European integration process :

First step Beginnings, war and peace: For centuries, Europe was the scene of frequent and bloody wars. In the period 1870 to 1945, France and Germany fought each other three times, with terrible loss of life. A number of European leaders became convinced that the only way to secure a lasting peace between their countries was to unite them economically and politically. So, in 1950, the French Foreign Minister Robert Schuman proposed integrating the coal and steel industries of Western Europe. A result, in 1951, the European Coal and Steel Community (ECSC) was set up, with six members: Belgium, West Germany, Luxembourg, France, Italy and the Netherlands. The power to take decisions about the coal and steel industry in these countries was placed in the hands of an independent, supranational body called the "High Authority". Jean Monnet was its first President.

Second step - From three communities to the European Union: The ECSC was such a success that, within a few years, these same six countries decided to go further and integrate other sectors of their economies. In 1957 they signed the Treaties of Rome, creating the European Atomic Energy Community (EURATOM) and the European Economic Community (EEC). The member states set about removing trade barriers between them and forming a "common market". In 1967 the institutions of the three European communities were merged. From this point on, there was a single Commission and a single Council of Ministers as well as the European Parliament. Originally, the members of the European Parliament were chosen by the

national parliaments but in 1979 the first direct elections were held, allowing the citizens of the member states to vote for the candidate of their choice. Since then, direct elections have been held every five years. The Treaty of Maastricht (1992) introduced new forms of co-operation between the member state governments - for example on defence, and in the area of "justice and home affairs". By adding this inter-governmental co-operation to the existing "Community" system, the Maastricht Treaty created the European Union (EU).

Third step - Integration means common policies: Economic and political integration between the member states of the European Union means that these countries have to take joint decisions on many matters. So they have developed common policies in a very wide range of fields - from agriculture to culture, from consumer affairs to competition, from the environment and energy to transport and trade. In the early days the focus was on a common commercial policy for coal and steel and a common agricultural policy. Other policies were added as time went by, and as the need arose. Some key policy aims have changed in the light of changing circumstances. For example, the aim of the agricultural policy is no longer to produce as much food as cheaply as possible but to support farming methods that produce healthy, high-quality food and protect the environment. The need for environmental protection is now taken into account across the whole range of EU policies. The European Union's relations with the rest of the world have also become important. The EU negotiates major trade and aid agreements with other countries and is developing a Common Foreign and Security Policy.

Fourth step - The Single Market: banning the barriers: It took some time for the Member States to remove all the barriers to trade between them and to turn their "common market" into a genuine single market in which goods, services, people and capital could move around freely. The Single Market was formally completed at the end of 1992, though there is still work to be done in some areas - for example, to create a genuinely single market in

financial services. During the 1990s it became increasingly easy for people to move around in Europe, as passport and customs checks were abolished at most of the EU's internal borders. One consequence is greater mobility for EU citizens. Since 1987, for example, more than a million young Europeans have taken study courses abroad, with support from the EU.

Fifth step - The Single Currency, the euro in your pocket: In 1992 the EU decided to go for economic and monetary union (EMU), involving the introduction of a single European currency managed by a European Central Bank. The single currency - the euro - became a reality on 1 January 2002, when euro notes and coins replaced national currencies in twelve of the 15 countries of the European Union (Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland).

Sixth step -The growing family: The EU has grown in size with successive waves of accessions. Denmark, Ireland and the United Kingdom joined in 1973 followed by Greece in 1981, Spain and Portugal in 1986 and Austria, Finland and Sweden in 1995. The European Union welcomed ten new countries in 2004: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. Bulgaria and Romania expect to follow in 2007; Croatia and Turkey are beginning membership negotiations in 2005. To ensure that the enlarged EU can continue functioning efficiently; it needs a more streamlined system for taking decisions. That is why the Treaty of Nice lays down new rules governing the size of the EU institutions and the way they work. It came into force on 1 February 2003. It will be replaced, in 2006, by the new EU Constitution - if all EU countries approve this.

Chronologically, the said steps have been realized in about 50 years time, and are likely to continue until one day, hopefully, De Gaul's vision is fulfilled. Some time along the way, European Union shall become a complete community of all European States, together with Romania, Bulgaria, Croatia

and other countries of South Eastern Europe, alongside Turkey, Moldova, and hopefully, Ukraine, Belarus, and perhaps even Russian Federation.

2.1.2. Croatian steps towards European Union: Chronology

The chronology of relations between Croatia and EU, starting with EU recognizing Croatia as an independent and sovereign state started on 15 January 1992. Here is the overview of most important milestones in the last six years:

- **1999.** European Commission suggests creating Stability and Association Agreement (SAA) for Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia and ex Yugoslavia; The Stability Pact, a political document with strategic aim to stabilize South-East Europe through bringing countries in the region closer to Euro-Atlantic structures and strengthening mutual cooperation.
- **2000.** Common Croatia EU Consultative Working Group has been established; European Commission introduces CARDS a program of financial and technical aid for countries of South-East Europe 2000-2006.; EC announces positive Report on feasibility of starting negotiations for SAA; Council of EU ministers approves Feasibility study, which means that Croatia has all conditions for opening negotiations on adopting SAA; Croatia becomes a full member of EUREKA, a program that promotes scientific cooperation; Members for the negotiations team for SAA are appointed; Croatia and EU start negotiating over SAA at the Zagreb Summit; Croatian Government drafts directives for running negotiations and signing SAA; EU Council lays down Regulation 2666/2000 on the program for rebuilding, development and stabilization CARDS; first cycle of negotiations for SAA are held.

- **2001.** Committee for European integration in Croatian parliament is established; Second round of negotiations for SAA is being held; SAA approved in Brussels; Council of ministries adopts Report on the Review on Process of Stabilization and Association. Interim agreement, which contains a part of SAA concerning trade and traffic issues between Croatia and EU, is signed in Luxembourg; Croatian parliament approves Interim Agreement, and then SAA.
- **2002.** Interim agreement is launched; Euro is put into circulation; Council of Ministries confirms Interim Agreement; European Commission announces first annual report on Croatia; Croatian parliament confirms General Agreement on Croatia's participation in EU assistance programs; EU CARDS committee approves annual budget plan for year 2002; EU and Croatia signed Agreement on priorities of Multi-annual Indicative Program for CARDS in 2002-2004; Austria, Ireland, Denmark, Germany and Spain ratified SSA; Croatian parliament accepted Resolution on Croatian accession to the EU.
- **2003.** Croatia submits a request for EU accession; Council of ministers awards mandate to the European Commission to prepare Opinion on the Croatian request for EU membership. The Commission submits a questionnaire with 4560 questions to Croatia's institutions to respond, which they eventually do; Sweden, France, Luxembourg, Greece, Portugal, Belgium and Finland ratify Stabilisation and Association Agreement for Croatia.
- **2004.** Croatia successfully completes first round of talks with the European Commission on an Annex Protocol 7 of the SAA; European Parliament dismantles delegation for South East Europe; Special Committee of the European Parliament is set up to deal with Croatia; Croatia becomes a full-fledged member of the CADSES program; Protocol 7 of the SAA, regarding trade with the EU is ratified; European

Commission submits positive opinion (*avis*) on Croatia's request for full membership in the EU; Netherlands ratifies Stabilization and Association Agreement; Croatia receives a status of a candidate country for EU membership; European Commission reveals Pre-accession Strategy for Croatia; European Council stipulates the date to start talks with Croatia.

- **2005:** Croatian Parliament adopts the following documents for the European Union: Declaration on Common Position of the Executive Government and the Parliament, Declaration on Basic Principles in Negotiations; Decision to form National Committee to Follow in the Negotiations; Stabilization and Association Agreement is enforced; EU Council adopts Negotiation Framework for Croatia, however it fails to reach an agreement on opening accession talks.

Key events Most important steps in Croatia's approach to the EU are as follows:

- **November 2000:** Zagreb Summit launches the Stabilization and Association Process
- **29 October 2001:** Stabilization and Association Agreement signed
- **21 February 2003:** Croatia applies for EU membership
- **June 2003:** Thessalonica summit confirms accession perspective of Western Balkans countries, including Croatia
- **April 2004:** European Commission issues positive opinion on Croatia's application for EU membership application
- **June 2004:** European Council confirms Croatia as candidate country
- **December 2004:** European Council sets 17 March 2005 as start date for negotiations conditional upon full cooperation with the International Criminal Tribunal for the former Yugoslavia

- **1 February 2005:** Stabilization and Association Agreement enters into force
- **16 March 2005:** EU postpones start of accession negotiations but adopts framework for negotiations with Croatia
- **26 April 2005:** first meeting of Stabilization and Association Council; meeting of extended “EU troika” on Croatia's cooperation with the International Criminal Tribunal for the former Yugoslavia

2.2. Agreements between Croatia and the EU signed en route towards full integration

2.2.1. Agreements signed up to date

Basic documents and steps to Croatia accession to the European Union:

- *the international recognition of the Republic of Croatia* on 15 January 1992 marked the beginning of the development of relations between Croatia and the European Union;
- the intensification of these relations towards the end of 1999 and particularly from the beginning of 2000 led to the signing of *the Stabilization and Association Agreement (SAA)* in 2001 that represented the first formal contractual step in institutionalizing the relationship of Croatia with EU;
- since the signing of the SAA, institutional relations between Croatia and the EU continued to develop rapidly and this process was confirmed with two significant events in 2004 - *the positive Opinion (Avis)* of the European Commission on the Application of Croatia for Membership in the EU from April 2004 and *the Decision of the European Council* adopted on 18 June 2004, pursuant to which Croatia became a candidate country for a full-fledged membership in the EU;
- the process towards the opening of accession negotiations was further complemented with the European Partnership and *the Pre-accession*

Strategy for Croatia adopted by the EU Council of Ministers in September and October 2004 respectively as well as with the Presidency conclusions of 16-17 December 2004;

- on 17 March 2005, the European Council adopted *the Negotiation Framework for negotiations with the Republic of Croatia*, but did not reach agreement on the opening of accession negotiations.
- The Croatian Parliament with its working bodies the European Integrations Committee and the National Committee as well as through the Croatia-EU Joint Parliamentary Committee, participates in the preparations of the Republic of Croatia for the EU membership through¹⁴:
- the Resolution on the Accession of the Republic of Croatia to the European Union adopted in December 2002, the Croatian Parliament affirmed that the membership of Croatia in the European Union was a strategic national objective which would be fully and permanently supported by the Parliament;
- the general consensus of all parliamentary political parties regarding membership in the European Union was confirmed in the Joint Statement of all Political Parties on the beginning of Negotiations between Croatia and the EU from December 2004;
- and further strengthened in January 2005 through the parliamentary Declaration on the Fundamental Principles of Negotiations on Full Membership of the Republic of Croatia in the European Union;
- the Statement of the Croatian Parliament and the Government of the Republic of Croatia on Joint Actions in the Process of Negotiation on Membership of the European Union and the Decision on Establishment of a National Committee for monitoring of the negotiations.

Croatia was the second country to sign a **Stabilisation and Association Agreement** with the EU on 29 October 2001. This agreement

entered into force on 1 February 2005. The SAA is an essential element of the EU's Stabilisation and Association Process with the Western Balkans. From January 2002 until the entry into force of the SAA, an Interim Agreement on trade and trade-related matters was applied. The SAA is the first comprehensive agreement between the Communities and the Member States, of the one part, and Croatia, of the other part. Similar to the "Europe Agreements" with previous candidate countries, the SAA provides the contractual framework for relations between the EU and Croatia until the accession of the latter to the EU. It covers areas such as:

- political dialogue;
- regional co-operation;
- the four freedoms, with the creation of a free trade area by 2007 for industrial products and most agricultural products;
- approximation of the legislation of Croatia to the EU acquis, including precise rules in the fields such as competition, intellectual property rights and public procurement;
- wide-ranging co-operation in all areas of EU policies, including in the area of justice, freedom and security.

The trade provisions of the SAA are asymmetrically in favour of Croatia. This means that the EU has granted the country unlimited duty free access to the market of the enlarged Union for virtually all products. This is important for Croatian exporters as about 70% of Croatia's trade is with the EU. The only exceptions are baby-beef, fisheries products and wine, for which tariff quotas remain. Croatia will gradually phase out its customs duties for industrial products from the EU by 2007. Also tariffs for agricultural and processed agricultural products and fisheries products are reduced but remain for a number of sensitive items. The full implementation of the SAA will help Croatia in its preparations for EU-membership. Conversely, progress as

regards EU integration will also be dependent on Croatia's fulfilment of its commitments under the SAA. The Commission will continue to help Croatia in the implementation of the Agreement with technical advice and financial assistance. A set of joint bodies has been established, at ministerial level (Stabilisation and Association Council); at high official's level (Stabilisation and Association Committee) and at technical level (Subcommittees). There is also a Joint Parliamentary Committee. The first Stabilisation and Association Council meeting took place in Luxembourg on 26 April 2005 and the first Stabilisation and Association Committee took place in Brussels on 14 July 2005. The first Joint Parliamentary Committee took place in Zagreb on 3-4 March 2004.

Other key documents between Croatia and European Union:

- Country Strategy Paper 2002-2006, Croatia, June 2003
- CARDS Regional Strategy Paper 2002-2006, Croatia, October 2001
- Stabilization and Association Reports (First Annual Report, April 2002 ; Second Annual Report, March 2003; Third Annual Report, March 2004)
- Croatia receives candidate status on the Accession Process
- COUNCIL DECISION on the principles, priorities and conditions contained in the European Partnership with Croatia, March 2004

2.2.2. The road ahead

Enlargement is one of the EU's most successful policies and a powerful foreign policy tool¹⁵. From 6 to 25 Member States the EU has progressively extended its zone of peace and democracy across the European continent. Candidate and Potential Candidate Countries in process of enlargement of the European Union¹⁶:

- Accessing Countries, the countries which have applied to become members

of the European Union and have been granted candidate country status are (1) Bulgaria and (2) Romania;

- Candidate Countries, the countries which are waiting for beginning of process of negotiation to access to EU: (1) Croatia and (2) Turkey;
- Potential Candidate Countries, the countries of the Western Balkans which have the prospect of future membership of the European Union¹⁷: (1) Albania, (2) Bosnia and Herzegovina, (3) Former Yugoslav Republic of Macedonia, (4) Serbia and Montenegro; (5) Kosovo under UN Security Council Resolution 1244

Development of basic conditions for Croatian access to the European Union has significant latest circumnstances¹⁸: Croatia was scheduled to open accession talks in 2005 but the negotiations have been on hold pending Zagreb's full co-operation with the International Criminal Tribunal for former Yugoslavia (ICTY). Croatia's Foreign Minister Kolinda Grabar-Kitarovic told the European Parliament's Foreign Affairs Committee that in Zagreb "all government parties support the policy of co-operation with the ICTY", which she added was an issue of "paramount" importance.

European Commission's opinion on Croatia's application for EU membership¹⁹ April 2004.

Croatia presented its application for EU membership on 21 February 2003 and in April 2003 the Council asked the Commission to prepare an opinion on this application. In this Opinion, the Commission concluded that:

- Croatia was a functioning democracy, with stable institutions guaranteeing the rule of law and no major problems regarding the respect of fundamental rights. It was also concluded that Croatia's cooperation with ICTY had improved significantly in the past months. Nevertheless, it was concluded that Croatia needed to make additional efforts in the field of minority rights, refugee returns, judiciary reform, regional co-operation and the

fight against corruption and that Croatia needed to maintain full cooperation with ICTY and take all necessary steps to ensure that the remaining indictee was located and transferred to The Hague.

- Croatia could be regarded as a functioning market economy which should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it continues implementing its reform programme to remove remaining weaknesses.

As regards the other obligations of membership, the Commission concluded that :

- If it continued its efforts, Croatia should not have major difficulties in applying the *acquis* in the medium term in the following fields: Economic and Monetary Union; Statistics; Industrial policy; Small and medium-sized enterprises; Science and research; Education and training; Culture and audio-visual policy; External relations; Common foreign and security policy; Financial and budgetary provisions.
- Croatia would have to make further efforts to align its legislation with the *acquis* and to effectively implement and enforce it in the medium term in the following fields: Free movement of capital; Company law; Fisheries; Transport; Energy; Consumer and health protection; Customs union; Financial control.
- Croatia would have to make considerable and sustained efforts to align its legislation with the *acquis* and to effectively implement and enforce it in the medium term in the following fields: Free movement of goods; Free movement of persons; Freedom to provide services; Competition; Agriculture; Taxation; Social policy and employment; Telecommunications and information technologies; Regional policy; Justice and home affairs.
- For the environment, very significant efforts would be needed, including

substantial investment and strengthening of administrative capacity for the enforcement of legislation. Full compliance with the *acquis* could be achieved only in the long term and would necessitate increased levels of investment.

In the light of these considerations, the Commission recommended that negotiations for accession to the European Union should be opened with Croatia and the European Council of 17 and 18 June 2004 subsequently decided that Croatia was a candidate country.

3. Interdependent effects: Social and economical benefits for Croatia and EU

3.1. Impacts for Croatia

By integrating Croatia into the EU, many of the positive societal and economic effects shall take place. Only when fully integrated into Europe, Croatia shall be able to fully grasp the benefits of her favourable geographical position, by means of connecting all parts of Europe in air, maritime, and especially land transport. Economic progress shall be made in the following basic activities²⁰:

- **Agriculture, Fishing, Forestry and the Food Industries:** Croatia can be divided into three geographic and climatic zones: the lowland zone in the north of the country, which has a continental climate, the Mediterranean coastal zone in the south, and the mountainous zone stretching across the central part of the country. Various types of climate, relief and soil are favourable for the production of a wide range of agricultural products, from field and industrial crops to vineyards, continental and Mediterranean fruits and vegetables. Wines made of indigenous grape varieties are becoming increasingly popular on the European and world markets. Cattle-raising has always played an important role in this region. Fishing and fish processing have traditionally been the most important activities along the coastal part of Croatia and on the islands.

- **Industrial Production:** Within the industry the largest total income comes from the production of food and beverages, followed by petroleum, chemicals, electrical manufacturing, paper, printing and publishing, and shipbuilding. Regarding exports shipbuilding, food and beverages lead the way followed by the metal and electrical industries. The future of Croatian industry lies in the area of accessing new markets, introducing modern technologies and new products, as well as forming joint ventures and strategic partnerships with foreign companies. A skilled labour force and highly educated experts in engineering and computer technology supported through technology centres at the technical schools represent a good foundation for foreign investments in advanced technologies.
- **Tourism:** As one of the most important tourist destinations on the Mediterranean, Croatia boasts a long tradition in tourism and favourable developmental opportunities. The advantages of the Croatian tourism offer are primarily a well-preserved natural environment, cultural and historic heritage, a mild Mediterranean climate, safety and its vicinity to European markets. Due to a mild climate, the Croatian coast is attractive for tourists throughout the entire year. Croatia offers diverse forms of tourism, including summer and winter tourism, nautical tourism, congress tourism, ecology tourism, health tourism, hunting and fishing, or tourism related to family farms and pleasure cruising. The Adriatic Sea spans from the Balkan to the Apennine peninsula. This is a unique area in Europe for cruising with motor boats, speedboats, or sailboats, but also for enjoying the underwater world. The Adriatic Sea has always been an important maritime route between East and West.

- **Building and Construction:** Croatian building and construction, an important national industry. The know-how and international experience of Croatian civil engineers in the construction of industrial and power generating facilities, roads, tunnels and bridges guarantees the ability of domestic civil engineers to tackle complex projects on both domestic and foreign markets.

3.2. Impacts for the EU

It is without doubt that Croatia's entry into the EU brings forth many benefits to the candidate country herself. However, at least from the geopolitical standpoint, however, it is also evident that European Union shall in a way complete itself with Croatia's entry. With Croatia's entry, the EU comes yet closer to her goals of economic and social integrity of the whole Continent, especially in the following points:

- Achieving integrity of the European territory,
- Avoiding discontinuity in basic European traffic and communication links²¹,

Trans-European Transport Network

- Inclusion of the new national economy in integral economic system of the region,
- Enabling the free flow of products, services, people and capital,
- Achieving regional security and stability.

Instead of conclusion:

This paper has presented Croatia as one of EU's important missing links, still needed to pursue the Union's goal of becoming an integral community of European nations. What is more, her geographical position is

essential in accomplishing the integrity of the Mediterranean, Central and South-East Europe. Croatia shall undoubtedly enjoy positive impacts in terms of her social and economic development, reflected in increased competition that further reduction of tariff and non-tariff barriers brings, harmonization of her legal system, etc. Therefore, there is an interdependence of interests to both parties.

