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Croatia's EU Accession – When and how?

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1. On 21 June 2003, in parallel with the Thessaloniki Summit, the EU-Western Balkan Summit was held in the Greek city. The most important sentence of the declaration of this summit is that *the future of the Western Balkan is in the European Union*. It means a future membership for these countries - Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Serbia and Montenegro – and the Union assured them to help further the European integration process. The Summit declared that the Stabilization and Accession process (SAP) will remain the framework for the relation between the EU and the Western Balkan, but it will enrich some new elements.

2. The countries listed above are on different development level, the most developed is Croatia in the Western Balkan region (excluding Slovenia which access to the EU in the ongoing enlargement round). Croatia produces nearly the half of the GDP of Western Balkan countries (excluding Slovenia), almost EUR 23 billion out of EUR 50 billion, however, its population is less than one fifth of the total Western Balkan population. Per capita income in Croatia is approximately EUR 5.300, while the average of the remaining countries is about EUR 1.350. Undoubtedly, Croatia is closer to the Central and Eastern European countries than to the former Yugoslav underdeveloped states, considering the per capita GDP figures.

3. On 21 February 2003, Croatia submitted an application for EU membership. After Slovenia, Croatia was the second country from the Western Balkan that applied for the membership. Two questions aroused immediately: *when and how can Croatia join the EU?* This opinion tries to examine these two important questions related to Croatia's EU accession.

4. It is easier to answer the "how" question. Behind this question I mean the criteria that Croatia has to fulfill for the accession. The conditions were laid down in the 1993 European Council at Copenhagen (the Copenhagen criteria). The Central and Eastern European candidates' target was the achievement of these objectives. The main requirements of the EU membership are that the candidate country need to construct functioning democracy and market economy and be able to take on the obligations of membership. In addition, the candidate starts negotiations for the harmonization of its economy to the EU members. It is the adoption process of the *acquis communautaire* which meant 31 closed chapters for the ten new members. The Stabilization and Accession Agreement gave another condition for Croatia's EU accession, the regional cooperation. It means cooperation with EU-25 countries and the other Western Balkan countries participated in the SAA.

5. Now the accession process of Croatia has just started. The Council asked the European Commission to create a preliminary opinion on the question when the accession negotiations could be started. The Commission sent a comprehensive, wide-ranging questionnaire which contains over 2,500 questions on the political, economic and administrative situation in the country that Croatia has to respond.

The answers will form the basis for the Commission's opinion on the starting of accession negotiations. Thus, the Commission has not prepared its official opinion yet, but Romano Prodi the President of the European Commission made a speech in the Croatian Parliament on 10 July. He welcomed the membership application and emphasized its importance in the history of Croatia. President Prodi repeated that the Western Balkan countries' future was in the European Union. However, his speech included two interesting points: firstly, he emphasized that the pace of integration would be set by Croatia; secondly, Croatia will not have to wait for the other Balkan countries, all countries will be judged on its own merits and capacities (however, he stated that the integration of the whole Balkan is the ultimate objective). One thing is easily noticeable, President Prodi has not mentioned any date when Croatia could join the EU. I think the official opinion will not include the date of Croatia's EU accession too.

6. Some say that the next enlargement round will be in 2007 (with Romania and Bulgaria), but Croatia (and of course the other mentioned Western Balkan countries) will be excluded from this round. They expect that Croatia can be an EU member in 2010. I cannot agree with this view because of two features. Firstly, 2007 seems too close for another enlargement date, only 3 years will have passed since the accession of the Central and Eastern European countries. In my point of view, the EU-25 will require more time to cope with the problems which come from the new circumstance. Furthermore, the enlargement process in the EU was usually followed by a deepening/transformation process which was the result of the enlargement process. It is possible that this progress will not start until the next enlargement round as it was mentioned by President of the European Parliament Pet Cox: *"With the entry of ten countries in 2004 and possible accession of Bulgaria, Romania and Croatia in 2007, the EU will probably need to stop the enlargement process for several years to consolidate."* The EU officially set 2007 for the date of the next enlargement round (with Bulgaria and Romania), but examining the case of the Central and Eastern European countries, the EU manages flexibly the enlargement dates. Furthermore, the official documents contents 2007 as the *objective* date, thus, it is easily imaginable that this date will be revised.

7. Secondly, there is no economic reason for Croatia's later accession. There is time for the Balkan country to catch up in the accession process. It is true that Romania and Bulgaria have started their negotiation process for some time (Bulgaria closed 26 chapters out of 31), but Slovakia is a good example how it is possible to reach the countries which were in more favorable position. Croatia will need tough work in negotiation process, but if the political will remains the chapters will be closed and Croatia can be in among the next new members. By all means, Pet Cox stated that Croatia can be among the probable EU members in 2007. It is an important sign that Croatia's hopes for the EU accession in 2007 are not without base. Now the Croatian

government's target is the accession in 2007 (or rather in the next enlargement round) so the political will seems to be settled.

8. The Croatian government has achieved significant results since 2000. The business climate was improved and the privatization process was continued (the large state-owned fuel and gas company, the INA will be partially privatized in one or two months ultimately and it will add USD 505 million to the privatization revenues). The country has made important steps in joining Euro-Atlantic structures: it joined the NATO Partnership for Peace, became a member of WTO, fully integrated into Stability Pact and the Stabilization and Association process became the framework of the relationship with the European Union.

9. Among the now acceding countries Hungary and Slovenia have special interests to support Croatia's EU accession. Both countries are neighbors of Croatia and both of them have traditionally good relation with the Balkan country; the trade relation is significant between them. On the other hand, these countries target is the stabilization and integration (in the EU) of the region. That is the reason why Hungary and Slovenia will back Croatia's accession as EU members.

10. Comparing the three economies, Croatia makes better economic performance from several aspects than Bulgaria and Romania (see Table 1.). It is noticeable from the comparison of GDP/capita with Bulgaria and Romania that Croatia is on higher level of economic development. This data is rather similar to the now acceding Central and Eastern European economies (see Chart 1.).

Table 1.

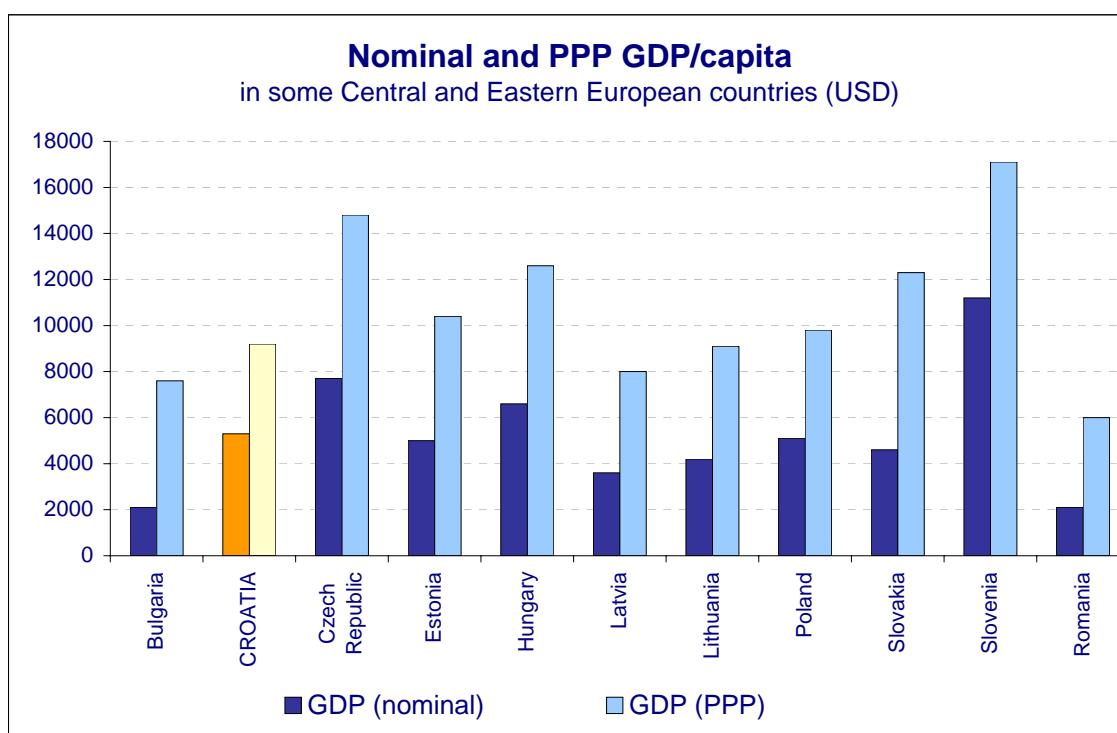
Main Macroeconomic Indicators in 2002			
	Croatia	Bulgaria	Romania
GDP/capita (USD, nom.)	5057	2016	2036
GDP/capita (USD, PPP)	8799	7298	5742
GDP growth (%)	5,2	4,8	4,9
Unemployment (% end of year)	21	16,8	8,1
Consumer Price Index (%)	2,3	5,8	22,5
Net Monthly Wages (USD)	476	132	118
FDI (mill. USD)	886	480	1100
General government deficit/GDP (%)	-6,2	-0,65	-2,9
Public Debt/GDP (%)	57,5	60,2	29,9
Current Account Balance/GDP (%)	-6,9	-3,4	-3,5
Trade Integration (EU-15), % of export	55*	57	64

**2001 data*

11. In 2002, the Croatian economic growth rate hit the 5% and the disinflation process continued. This high growth was driven by domestic demand - mainly by the grand public infrastructure program – and the favorable incomes of tourism. The reasons for the low price index were the stable exchange rate, the trade liberalization, the moderate wage increase, the improved productivity and the enhanced competition in the retail sector.

12. The high unemployment rate and the high twin (both current account and fiscal) deficit remained the two major problems of the Croatian economy. The high unemployment was a result of the transition, the importance of the industry sector declined since the independence in 1992 and the service sector was not able to fully compensate this factor. The unemployment rate was gradually decreasing in the last year (from 24% to 21% in 2001 and 2002 respectively) and it will continue in this slow pace. The current account deficit doubled in the last two years and it reached 5.5% of GDP. It was a result of the increased domestic demand came from the high economic growth, and on the other hand, the slower export growth which was caused by the weak demand of the main trade partner, the European Union. Thus, the import growth highly overpaced the export growth and the trade deficit was widened; it resulted the higher current account deficit. The general government deficit reached 6.2% which was largely due to the mentioned public infrastructure program. Thus, in the end of 2002 the general debt climbed to 57.5% of GDP and approached the 60% EMU criteria. Croatia still have time to accomplish this criterion but the trend shows that the fiscal deficit do not decrease in a sufficient pace, and this tendency is not sustainable in long term. The improvement of the budget balance would be desirable. The targeted budget deficit for 2003 is 5%. It seems a bit too ambitious and the government needs a quite strict fiscal policy to be able to reach that level. If the deficit is higher the general debt will increase further, that is the reason why the government aimed the 5% level.

Chart 1.



13. Beyond the mentioned vulnerable macroeconomic factors (high unemployment rate, current account and budget deficit), the government has another economic problem, the high level of public sector. It is much higher than in the now acceding countries, the public sector was approximately 40% of the GDP in 2001. This share was twice as much as the average share was in the Central and Eastern European countries. Thus, the Croatian government should speed up the privatization process.

14. In my point of view, the fulfillment of the economic part of the Copenhagen criteria will play less important role in the EU accession process than the political conditions. There are two major political problems that Croatia has to face. Firstly, the EU demands that Croatia should improve its cooperation with the International Criminal Tribunal for former Yugoslavia. The extradition of the war generals is a quite delicate problem. If the prime minister decides that he extradites the generals, it may cause the split of the ruling coalition, furthermore, the defeat in the next parliamentary election and the return of the Croatian Democratic Union, which governed Croatia with the lead of Franjo Tudjman. So far, the Croatian government maneuvered carefully and tried to satisfy the demands of the tribunal and the Croatian citizens, a few individual generals were extradited to the tribunal.

15. The second political problem is about the Serb refugees' return to their former homes. It seems more difficult question than the other. However, in December 2002 a new law on the rights of minorities has been adopted by the Parliament, unfortunately the minority representatives were excluded from the drafting work of the law. In case of the refugees the physical borders are eliminated but there are

some obstacles ahead them. The destroyed houses should be reconstructed by the government and the occupied houses should be repossessed by the refugees. These two components mean approximately 45.000 houses, according to the estimations of the government. The lack of economic opportunities is a further important factor that discourages the return of the refugees.

16. The regional cooperation, which is an additional condition for EU accession, seems to be realized in medium term. A good example is the Agreement on the Sava River Basin Cooperation which was signed by Croatia, Slovenia, Bosnia and Herzegovina, and Federation Republic of Yugoslavia. It established an international regime of navigation on the Sava River and aims at a sustainable water management. On the other hand, the relation with Slovenia is still burdened by the problem of the undefined land and sea borders. But this is not so tough problem, Croatia and Slovenia will be able to solve it.

17. Undoubtedly, the accession date will greatly depend on the pace of the accession negotiations between Croatia and the European Union. Examining the case of the Central and Eastern European countries, they negotiated about 3-4 years before the closure of all chapters. Bulgaria and Romania also started the official process in 1999 and their target is to close all chapters until the EU Summit in the end of 2004. It is obvious that Croatia can not close the negotiation process before that Summit, but it does not mean the exclusion from the next enlargement round. In my point of view, the negotiation process for Croatia would not last 3-4 years. In the case of CEE countries the negotiations speeded up only in 2001, thus, several years can be saved if both sides have the political will. It means that the negotiations might be finished in the middle of the decade (2005-2006) and Croatia can be among the next new member states. I estimate the next enlargement around 2008-2010 when Bulgaria, Croatia and Romania can join the European Union together.