

## Policy Paper

### ***“EU and NATO Membership – Way Forward For Croatia”***

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#### **Executive summary**

By joining the EU and NATO, Croatia has undoubtedly fulfilled its two main foreign policy goals. The debate about reaching the point where it is today has lasted for a lengthy period of time. It reflected the complexity of the process itself and efforts undertaken to achieve the aforementioned goals. However, it seems that there were very few attempts to think further ahead and pragmatically assess the country’s policies in a new environment and period to come. What are the ways forward for a new member of EU and NATO in a specific Southeast European environment? What are the perspectives of Croatia as a small state in this new environment? How to best benefit from the achievements made, using them to improve Croatia’s capacities in various fields, economy and foreign policy in particular. These topics have been in focus of interest of the Institute for Development and International Relations and Office of Hanns Seidel Foundation in Zagreb when they decided to organise a series of round-table discussions in 2014 entitled *‘Perspectives of Small States in Post-Transition Period – A view from Croatia’*. Round tables have gathered renowned participants from Croatia, the region and beyond, which has ensured a substantial debate and wide range of well-grounded arguments from different perspectives (academia, NGO’s, state administration, international organisations). The summary of main arguments we heard at our three round tables is presented in the paper in front of you. Of course, in order to make them more useful and policy-relevant, they were organised in three topical units – creating three main chapters in the body of the text – and are followed by concrete conclusions and recommendations.

## 1. Introduction

The process of accession to euroatlantic structures of Croatia was a lengthy and multidimensional process that required structural reforms, adoption of values, norms and extensive set of regulations, providing for increased capacity of the country to assume the responsibilities of EU membership in the appropriate manner, but also substantially benefit from it in political, economic, societal, cultural and any other way. The aforementioned was a great challenge for all post-socialist states that joined EU and NATO during last 10-15 years, due to all adaptations they had to make. This was even a greater challenge for Croatia, as a first both post-socialist and post-conflict state joining euroatlantic structures.

Given the fact that both EU and NATO represent ‘a moving target’, being themselves forced to adapt to constantly changing world, it would be rather irresponsible to assume that by joining the membership of the two would mean an end of changes and adaptation for Croatia. *Au contraire*, it would require increased capacity of the country to respond to contemporary challenges and ‘interoperability in decision-making’ on the European and euroatlantic level. Being a small member state, Croatia would obviously have to learn how to defend its national interests, but also grow its capacity to conceptualise ‘common interests’ beyond national borders, using the mechanisms and procedures of consensual decision-making on supra-national level.

While big states dominated the IR<sup>1</sup> discourse during the history, the process of decolonisation and dissolution of great empires, as well as creation of international organisations that promoted cooperative behaviour at the expense of politics of power, created an environment in which small states – especially within wider alliances or integrations – can articulate their positions and interest to the extent reasonable, and hence be treated as subjects at the international arena. In this context the new role of Croatia should be understood, providing a possibility to conceptualise new policies that would help the country to position itself in the new environment and benefit from the achievements made. This publication, based on conclusions from three conducted round tables on different aspects of given topic, represents an attempt from the Institute for Development and International Relations and Hanns Seidel Foundation to modestly contribute to the subject matter.

The core of the publication itself is divided into three chapters that represent topical units of the subject that were detected as the most important during our round-table discussions. So, according to our argument, the three main focal fields for Croatia’s policy in the period to come – regional engagement, active membership and the economy – will be determinant for the overall success of Croatian membership in the EU and NATO in mid-term period. Therefore, wishing to foster the process and offer some assistance to the policy-makers, hereby we provide some concrete recommendations for the period to come.

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<sup>1</sup> International relations.

## 2. Regional engagement

Transition process in Croatia, as well as in any other post-socialist and post-conflict state in particular, has always been related to the political reality that surrounds it and to a certain extent determines its shape, if not the substance as well. Regional dimension has been a part of the process of Croatian accession to euroatlantic structures and has an unavoidable importance in the post-accession phase as well, albeit in a different sense.

Indeed, the region and its political and symbolic relevance for Croatia obviously 'went through' different stages determined predominantly by the country's position in the accession process. The concept of Western Balkans (WB) was inaugurated together with the initiation of the Stabilisation and Association Process (SAP) at the Zagreb Summit of the EU and countries from the region that did not have any contractual relations with the EU at that time.<sup>2</sup> The unfavourable political framework, regarded as 'an attempt to cement the country in the regional package that should serve as an alternative to euroatlantic perspectives', instantly provoked strong negative reactions in Croatia. The regional co-operation at that time became one of the pillars of the EU's conditionality towards Croatia and hence an important part of its accession process. While regional cooperation represented an important condition for progress in the initial stage of the SAP process that was more concentrated on regional stabilisation, the mature stages of accession focused more on individual performance of each country (*Own merits*) which slightly changed the attitude towards that phenomenon in the country. However, only full-fledged membership in the EU and NATO removed entirely the reservation towards regional engagement and furthermore helped the recognition of concrete political and economic benefits of it.

While the pre-accession period's discourse was dominated with debates about potential benefits of membership for the candidate country, the one after acquiring it focuses more on the ways in which the new member state could contribute to the club. Having realistically assessed the limited capacities of a small country like Croatia, one would agree with the argument that it cannot significantly contribute to the EU's and NATO's endeavours of global significance – climate change, nuclear disarmament, relations with Russia, China etc. However, Croatia obviously has strategic interests, capacities and some substantial advantages in comparison to others who show interest to contribute to the long-term stabilisation of the region of Southeast Europe (SEE). Namely, the absence of a language barrier (*per exemple*, translation of Croatian *acquis* was understandable to almost everybody in the region), territorial proximity, common history and similarity of transitional processes significantly contribute to the overall relevance of the Croatian accession experience for the countries in the region.

Therefore, **the role of Croatia as 'a transitional mentor' in the region should be further strengthened.** The initial steps in that regard have been taken by the relevant state

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<sup>2</sup> It encompassed former Yugoslav republics (minus Slovenia, plus Albania). Other post-communist states from Central and Eastern Europe at that time have already signed so-called 'European Agreements' with the EU.

administration bodies – primarily, the Ministry of Foreign and European Affairs (MFEA). First of all, bilateral agreements between Croatia and several countries from the region about euroatlantic partnership have been signed, which provides a legal base for deepened co-operation/experience sharing. Awareness of importance of institutional capacity building for that purpose has been shown by creation of separate department within the MFEA – the Centre of Excellence – with the aim to facilitate the technical support to accession processes of the countries in the region and beyond (incl. countries of Eastern Partnership), but also to support the continuation of regional co-operation in the SEE after Croatian accession to the EU.

While the overview of activities from 2012 – when the Centre was formed – onwards show respectable amount of them, it seems obvious that **increasing financial capacities of the Centre would substantially contribute to its overall capacity to conduct more work.** Apart from that, **increased capacity would allow it to be a leading institution in more projects/activities organised in co-operation with regional or partners from elsewhere, which would definitively contribute to the visibility of its work throughout the region, but also to the visibility of Croatian regional policy.**

Apart from that, Croatia should **intensify its efforts/role in relevant regional activities, helping to minimize their overlapping and boost their capacity to acquire adequate level of regional/local ownership.** Namely, there are numerous regional activities with vaguely defined authorities and responsibilities and hence limited success and impact. Helping consolidate them would significantly **increase the visibility of Croatian policies on regional level,** supporting the long-term consolidation of the SEE and fortifying its position of ‘contributor to the SEE stability’.

**Harmonising these efforts with the ones that should be taken in Brussels, as an EU and NATO member** (see the details in the forthcoming chapter), would significantly **contribute to the overall synergy of Croatia’s policies towards the region and additionally promote it as an important player in the regional stability.**

### 3. Active membership

Croatian membership in NATO and EU in particular means everything but an end of the phase of dynamic activities and adaptation. This is not only owing to the fact that these two clubs represent a ‘moving target’ given that contemporary international relations are constantly requiring changes, but also due to *modus operandi* of EU and NATO themselves to which Croatia will have to adapt swiftly in order to be able to promote its national interests in sophisticated mechanisms of cooperative decision-making. There are various activities, skills and techniques that a small new member state has to acquire in order to be able to assume appropriately the responsibilities and competences of its changed position.

In that situation, any given country has to change its self-perception and take activities to stimulate international partners and new allies to do the same. In case of Croatia, let us not forget that it was torn by war, with significant part of its territory under military occupation and presence of international peace-keeping troops. At that time, obviously, the country was more of an object than a subject of international relations, as well as a security consumer.

Managing to liberate its territory and starting the process of democratic reforms and accession to the euroatlantic communities, it began its long path not only to membership in two clubs but also to its general international affirmation. Technically speaking, its candidate status in 2004 brought it closer to decision-making processes in the EU, its status of acceding state in 2011 allowed its participation as an observant in all high-level EU bodies, but only full membership in 2013 gave it equal competences and responsibilities to all other members.

So, the change of position of Croatia in international relations in general, and EU and NATO in particular, is more than evident. This should be followed by **adequate change of self-perception and perception of others** (both within EU and NATO and beyond). First of all, on Croatian side, passive approach to international and European issues – and regional in particular – should be replaced with **active attitude and timely policy development in relevant fields**, of course in accordance with rational estimation of interests and capacities. **The reactive character of policies**, which is frequently typical for small states in integrations or alliances, especially for post-conflict ones<sup>3</sup> such as Croatia, **should be replaced with rationally calculated proactive stance**. While it would be unrealistic to expect that small states can ‘cover’ all relevant policies of the club individually, there are two ‘key words’ that could help to organise themselves appropriately in that environment: specialisation and coalitions.

**Specialisation** connotes focusing of the small state on one or few specific issues, based on possession of certain resources, knowledge, comparative advantages to others as well as salient national interests. In that regard, for a country like Croatia, Southeast Europe represents a natural region of specialisation for the reason of both specific resources and interests. So, its **active engagement in actualisation of topics related to SEE in EU and**

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<sup>3</sup> Namely, majority of post-conflict states have had an experience with mediation or direct influence of foreign power in resolution of conflict or consolidation of its direct consequences. Especially the small ones with limited resources import this sense of inferiority and ‘patronage’ from abroad into nature of functioning of their foreign policies and find it very difficult to change the *modus operandi* once they acquire different international status.

**NATO (further enlargement in particular)**, despite current unfavourable climate (enlargement fatigue and other challenges to both clubs), is more than important and recommended.

Building the **coalitions**<sup>4</sup> and joining existing ones for that purpose is also more than important and recommended, due to the fact that realistic estimation of limited Croatian capacities can foresee unlikelihood for the country to be able to push these issues on the EU and NATO agenda individually.

**Taking the lead** in that sense would additionally contribute to visibility of Croatia as a regional promoter and active member within the EU borders and beyond. That may visibly contribute to country's overall leverage in the euroatlantic community. For that purpose, the country has **to develop capacities for timely actions** (more flexible and knowledgeable foreign service with higher negotiating and lobbying skills, its analytical and anticipative capacity in particular, better networking with international partners within the euroatlantic space and beyond).

While geographic location/orientation to a large extent – again primarily due to limited resources – determines activities of small states within larger clubs, there are examples where countries use their salient resources in order to calibre themselves as a promoter in the field which is not necessarily geographically defined. For example, Sweden is well known promoter of conflict-prevention and humanitarian diplomacy. Since Croatia is the first post-conflict member state of the euroatlantic community, with respectable experience in **post-conflict state building and democratisation**, the country should perhaps consider profiling itself in that direction as well beyond geographic line of determination (the SEE region)<sup>5</sup>, of course respectful of resources at its disposal. With this endeavour – promoting consolidation, democratisation and the rule of law - it would gain a lot in the field of **normative power**, which is important for all member states, small ones in particular.

Developing the capacities necessary to meet some of aforementioned recommendations – in particular the change of self-perception and perception of others, active attitude and timely developed policies, specialisation, coalitions, leadership, normative power - would significantly improve the overall change of image of Croatia into the one of relatively successful and well integrated state with recognisable leverage to the extent possible. Of course, **all these ambitions have to be rationally measured against realistically estimated capacities and interests**.

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<sup>4</sup> A good example of that would be V4 co-operation (Poland, Czech Republic, Slovakia and Hungary) that was initiated in their pre-accession period. It not only survived the accession, but also worked really well in promoting the idea of special EU's policy towards countries at its eastern borders (Eastern Partnership).

<sup>5</sup> The amount of respect Croatian military receives at the international level as a consequence of its high interoperability (ISAF and other missions) based on operative experience from a military conflict (Homeland War) is an excellent show-case of this argument.

#### 4. The economy

While the transition processes and painful reforms they encompass were intended to end in acquiring membership in the EU and NATO, the aforementioned memberships themselves obviously should have a purpose for Croatia and its citizens. The accession to EU and NATO does not ‘end in itself’ and is about to bring long-term prosperity and stability to all members of the transatlantic community, Croatia included. Admittedly, there are numerous positive aspects/implications of it, ranging from political, cultural, societal and others. However, taking into account the momentum of Croatia’s accession to the EU and general situation within the country itself, it is obvious that there is one that is outstanding among others, and that is the economic. Hence, **the impact of membership on the national economy and standard of living of its citizens is something that deserves to be defined as a priority.**

When it comes to macroeconomic facts and figures and existing trends in Croatia, they are obviously a reason for a serious concern. Namely, for the last five years the country is in a constant economic decline, with negative trends in the field of export of goods and services (share of GDP) and increasing foreign (104.7% of GDP in 2013) and public debt (66.7% of GDP in 2013). Hence, for obvious reasons, there is very limited or zero confidence in macroeconomic stability of Croatia in general.

Obviously, **Croatia is struggling with the development of the appropriate business environment and investment climate.** First of all, according to ‘Doing Business Index’ of the World Bank, which estimates **complexity of doing business** in any given country, Croatia is ranked 27<sup>th</sup> out of 28 EU members states. With only Greece falling behind, it is obvious that Croatia has to use all means necessary to improve in this specific field. Furthermore, according to the report of the World Economic Forum on global competitiveness, there is a trend of constant decline of Croatia’s competitiveness for more than ten years, which of course has a direct impact on overall performance of the economy. While leaving CEFTA clearly represented a challenge for Croatian economy, the lengthy process of accession to the EU was not adequately used for preparation for the competition at the EU single market of more than 500 million consumers. Therefore, it is clear that **Croatia has to ensure steady growth of its competitiveness.** Also, according to Heritage Foundation’s Index of Economic Freedoms, Croatia is ranked last of 28 EU member states. Its overall score is lower than last year, with deteriorations in six of the 10 economic freedoms including the control of government spending, fiscal freedom, monetary freedom, and business freedom. Croatia continues to fall behind other emerging economies in the region, and its overall score remains below the regional average. Hence, **Croatia clearly needs improvements in the field of economic freedoms.**

While parameters mentioned above are relevant for the process in which the economy attempts to generate competitiveness and better investment climate, the main indicator of the outcome/general economic result is so-called foreign direct investment (FDI). The FDI itself had reached its peak in the 2008 and has been in decline ever since, with slight upward trends in 2011 which unfortunately did not remain in place. While it is clear **that FDI growth in**

**Croatia is needed**, there are some practical obstacles that are preventing it to happen and should be tackled. Primarily, **Croatia has to increase the transparency of the business legal framework, remove asymmetric market structures (monopoles and quasi-monopoles), simplify bureaucratic procedures and increase the predictability of entire business cycle (ability to predict the costs of a business endeavour)**. Apart from that, there are local business/political networks with fairly non-transparent ‘code of conduct’, which are rather detrimental to FDI potentials on the local level. Therefore, it is clear that country has to invest additional efforts into **increasing the transparency of business environment in local communities**.

For a potential investor, high tax burdens and unpredictable tax policies in general represent a significant challenge and have a rather de-stimulating effect. The one that is about to invest in Croatia has to be able to estimate the costs of doing business there (primarily the tax burden) and confident that the regulations related to that are not about to be modified in accordance with political priorities of any upcoming political nomenclature. Hence, **Croatia has to make sure that tax policies are stimulative for future investor and not the opposite**. Also, in general, a potential investor will be much more likely to invest in a stable and consolidated system with sustainable macroeconomic stability, which is obviously not the case in current Croatia. This is precisely why a long-term goal for the country would be **to ensure the sustainable macroeconomic system as a stable guarantee for any investment in the period to come**.

Croatian market of below 5 million consumers is fairly unattractive for substantial investors and on the other hand its production capacity in various fields fails to meet the needs of bigger attractive markets, especially in fast-growing big economies, like in BRIC countries<sup>6</sup> or others. Therefore, **Croatia has to use its improved political position at the international arena, fostering joint approach with other small EU member states to these markets, as well as with aspiring countries from the region, both for exports and investments**.

Membership in the EU carries along another potential benefit that is very relevant for the capacity to improve economic situation in a member state. Cohesion and structural funds of the EU offer an opportunity to finance very important projects in Croatia, helping the economy to revitalise itself. However, **to be able to withdraw adequate amount of EU funds and to ensure their better usage, additional efforts should be taken in order to improve institutional capacity (on every level of administrative system), technical capacities, co-operation of different actors within the society and dissemination of necessary know-how for that purposes**.

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<sup>6</sup> BRIC – Brasil, Russia, India and China.

## 5. Conclusions

Croatian membership in the EU and NATO, without any doubts, represents a historic step ahead for a country with very turbulent and painful road to independence, significant democratic deficits in the transition period and very demanding accession process. However, it does not definitively end in itself and the entire process has been conducted for a clear purpose and that is visible benefits of different kind for the state and its citizens. They range from political, and economic to cultural, societal and other types of benefits.

However, it is important to underline that membership in these two ‘clubs’ of euroatlantic community does not necessarily guarantee success and benefits in all aforementioned fields. It represents an outstanding opportunity for any new member state to capitalize on its improved international position. But it is only up to the state whether it will be able – and if yes, to what extent – to use this new environment for its development in the most appropriate manner. This is precisely the reason why we use this opportunity to once again underline the fact that the period of constant upgrade and adaptation has not ended for Croatia with accession to the EU and NATO. It has only been given a new and more complex and demanding dimension.

Therefore, the new environment obviously requires redefinition of existing policies in some specific fields, if not creation of new ones. For the purposes of this brief publication, in an attempt to make it more comprehensible for our readers, we have ‘compiled’ them in three broader groups that we define as priority areas of focus for Croatian policy-makers in the period to come. The necessity to consolidate the text and to group the recommendations into three sections does not necessarily mean that there are no other areas that are relevant for our debate or that we failed to recognise challenges in the forthcoming period in other fields as well. It actually reveals our intention to properly reflect the debates we had during our three round tables and to shape the publication before you on basis of them. In that way we made sure that we transferred major messages and concerns of our debates to the publication for those who were not able to participate at our round-tables.

So, principally, Croatia should invest additional efforts into consolidation and sophistication of its policies in the following three fields: regional engagement (to use existing capacities and to develop new ones to take the role of ‘regional transitional mentor’ or ‘main contributor to consolidation of SEE’), active membership (to promote active policies based on rational calculation of national interests and available capacities, projecting an image of sustainably developing and well-integrated member state) and the economy (use all opportunities and assets derived from advanced position at the international political arena to improve the overall national economy and quality of life and standard of its citizens). Firmly believing that EU and NATO membership is a historic achievement and a great opportunity for sustainable long-term development, but not something that is given and requires no additional efforts and activities, we recommend to intensify activities in these fields, which would assure sustainable positive impact of the accession and overall success of Croatian membership performance in the period to come.