

Croatia's Accession to the Eurozone and Schengen Area

Potential Impact on South East Europe

Predrag Jureković and Sandro Knezović (Eds.)

Study Group Information



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Croatia's Accession to the Eurozone and Schengen Area

Potential Impact on South East Europe

**45th Workshop of the PfP Consortium Study Group
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Table of Contents

Foreword	
<i>Predrag Jureković and Sandro Knežović</i>	5
Abstract.....	9
PART I: Croatia’s Membership in the Eurozone: Opportunities and Challenges Ahead.....	11
Croatia’s Road to Eurozone Membership: Navigating Opportunities and Challenges <i>Marina Tkalec</i>	13
Managing the Obstacles and Maximising the Benefits That Come with Croatia’s Participation in Euro-Atlantic Integrations <i>Mario Holžner</i>	35
PART II: Croatia’s Membership in the Schengen Area: Opportunities and Challenges Ahead.....	41
The Schengen Borders and the Western Balkans: An Unclear Future <i>Vladimir Petronijević</i>	43
PART III: Croatian Transitional Experience and Challenges Faced by Individual South East European States	51
Croatia’s EU Integration and Its Effects on the Accession Process of Montenegro <i>Milena Bešić</i>	53
Between Ethnocracy and Integration: Croatia’s Influence on Bosnia and Herzegovina <i>Sead Turčalo</i>	65
As Croatia Cruises, Can Its Neighbors Speed Up? Some Lessons for Kosovo from Croatia’s Euro-Atlantic Integration Experience <i>Qëndrim Gashi</i>	79

How is Croatia Assisting the Western Balkans and Albania in Joining the EU? <i>Noela Mahmutaj</i>	87
Croatia’s Support for Macedonia’s EU Integration: Between Opportunities and Expectations <i>Rade Rajkovchovski and Aleksandar Pavleski</i>	95
PART IV: Policy Recommendations	117
Policy Recommendations <i>Regional Stability in South East Europe Study Group</i>	119
List of Abbreviations.....	127
List of Authors and Editors	129

Foreword

Predrag Jureković and Sandro Knezović

This volume is composed of articles from the 45th workshop of the Study Group “Regional Stability in South East Europe”. The workshop was conducted in Split, Croatia, from 14 to 17 September, 2023. Under the overarching title “Croatia’s Accession to the Eurozone and Schengen Area – Potential Impact on South East Europe” experts from the South East European region and other parts of Europe, international organizations and major stakeholder nations met under the umbrella of the PfP Consortium of Defense Academies and Security Studies Institutes and the Austrian Ministry of Defence, represented through its National Defence Academy and the Directorate General for Defence Policy. The workshop was conducted in cooperation with the Croatian partner Institute for Development and International Relations from Zagreb.

On 1st of January 2023 Croatia joined the Euro-Zone and Schengen Area, thus finishing the process of European integration in all its segments. Hence, over the course of last 20 years, Croatia gained extensive experience in various aspects of democratic transition and European integration. This could be a very useful asset both for its foreign policy calibration in regional and wider European context and for transformational processes in other countries in Southeast Europe.

Against the background of the current serious geostrategic situation determined with Russian aggression in Ukraine and its multi-layer European and global consequences, Southeast Europe is still struggling with deep-seated structural problems in its long-term transition to democratic societies. Thus, democratic deficits of political elites, inter and intra-state tensions in the region, unfinished state-building processes, concerning levels of organized crime and corruption, as well as growing influence of different assertive players are threatening the consolidation of Southeast Europe. After 25 years of continued assistance to processes of political and economic transformation, the EU cannot afford the backsliding in its own backyard. Therefore, the

nearest EU member-states such as Croatia with more sensitivity for South-east European democratic transition could have particularly an important role in advocating the EU integration process of countries from the region at the Brussels corridors.

In any case, there is a great symbolism in Croatia's finalization of the EU integration process that brings the entire European project, together with its potential positive spill-over effects at the borders of Croatia's Western Balkan neighbours. On the other hand, there are voices that argue exactly the opposite, claiming that firm control and strict regulations at the new Schengen border create a new artificial barrier between the EU and third countries.

In this geopolitical and regional context, the following questions seem to be of particular relevance:

- What could be the regional impact of Croatia's finalization of the EU integration process (Eurozone and Schengen Area)?
- What policies could Croatia employ in the region to support its political and economic consolidation that should lead to acquiring criteria for EU membership?
- What are country-specific challenges that could determine the future of the EU accession process in the region and how could Croatia's experience and position be utilized to foster transformational processes in the single countries?
- What contribution can the EU, the OSCE, NATO, as well as other international actors make to strengthen transformational process in Southeast Europe?

These are some of the key questions that the authors of this Study Group Information address in their contributions. The first part of this publication deals with the financial and economic impact of Croatia's membership in the Eurozone. This is followed in the second part by a reflection on the consequences for the Western Balkan neighbours of Croatia's accession to

Schengen. The articles in part III work out the links between Croatia's transitional experiences and those of Bosnia and Herzegovina, Montenegro, Kosovo, Albania and North Macedonia. The policy recommendations of the Study Group members are summarized at the end of this publication, in part IV.

The editors would like to express their thanks to all authors who contributed papers to this volume of the Study Group Information. They are pleased to present the valued readers the analyses and recommendations and would appreciate if this Study Group Information could contribute to generate positive ideas for supporting the still challenging processes of consolidating peace in South East Europe.

Special thanks go to Sara Milena Schachinger, who supported this publication as facilitating editor.

Abstract

Croatia's full integration into the EU was a long journey that took over 17 years. This process began with the start of EU accession negotiations in October 2005. An important intermediate step was Croatia's accession as a full member of the European Union on July 1, 2013, following the conclusion of negotiations. The completion of European integration for Croatia meant joining the EU-Schengen area and the Eurozone on January 1, 2023. During this long phase, Croatia has gained a lot of experience in the legal, political, administrative, economic and financial transformation process. Without a national strategic consensus that was given in Croatia to actually implement the reforms necessary for EU integration, this process would not have been completed positively.

This lesson for Croatia from the transition process is also of central importance for its neighbours in the Western Balkans. Against a much more conflict-ridden geopolitical backdrop than was the case with the Croatian integration process, open conflict issues in the region itself and partial setbacks in the democratization process, the Western Balkan states are also striving, at least officially, towards the EU.

Therefore, the Croatian experience in the reform process can also be helpful for individual Western Balkan countries, as several authors of this volume emphasize. The Croatian government appears to be prepared to provide such proactive support. Overall, Croatia's accession to the Schengen system and the Eurozone is also of great symbolic importance for the Western Balkan states, as it has demonstrated that reform efforts are paying off. In practical terms, Croatia's Schengen accession in particular will present the immediate neighbouring countries with the challenge of working even more closely with Croatia, especially on the issue of migration.

PART I: Croatia's Membership in the Eurozone: Opportunities and Challenges Ahead

Croatia's Road to Eurozone Membership: Navigating Opportunities and Challenges

Marina Tkalec

Introduction

This text provides a short overview on a range of topics, including the history of money in Croatia, the country's current economic and monetary conditions, and the potential benefits and drawbacks of joining the Eurozone. It also explores the potential implications of Croatia's accession on regional cooperation, security, and political influence. Overall, it provides an analysis of the complex economic and political considerations involved in Croatia's accession to the Eurozone, and its potential impact on the wider region.

Croatia's membership in the Eurozone offers compelling opportunities. Embracing the euro can enhance price stability, fostering a more predictable economic environment. It mitigates currency exchange risks, attracting foreign investments, and spurring economic growth. Joining the Eurozone can facilitate trade integration with neighbouring Eurozone countries, boosting exports and economic resilience. It also signals Croatia's commitment to European economic and monetary integration, reinforcing its geopolitical positioning. Ultimately, adopting the euro holds the potential to strengthen economic stability and international investor confidence, contributing to Croatia's long-term economic prosperity within the Eurozone framework.

Croatia's path to Eurozone membership was not without its challenges. It demanded rigorous economic convergence, including meeting stringent fiscal criteria and structural reforms. Loss of monetary autonomy may limit the ability to independently manage economic shocks. Fiscal policy flexibility may be constrained, posing challenges during economic downturns. Additionally, adapting to the euro required adjustments across various sectors, causing short-term disruptions. Croatia's path toward Eurozone membership underscores the complex task of aligning with the euro, necessitating careful planning and strategic management of economic and financial challenges.

Background of Monetary Policy in Croatia

History of Money in Croatia

The history of money in Croatia is a fascinating journey through time, reflecting the region's rich economic and political past. Before the middle of the 16th century, Croatia experienced a multitude of currencies circulating within its borders. This plethora of currencies not only made trade difficult but also indicated that the area was a hub for tradesmen and military personnel, showcasing its strategic significance (Kolar-Dimitrijević, 2013).

One significant turning point in the history of Croatian currency was the stabilization brought about by the introduction of the kuna during the Austro-Hungarian Empire. This currency provided a sense of financial stability and uniformity within the region. However, the aftermath of World War I and the formation of the Kingdom of Serbs, Croats, and Slovenians in 1918 saw the depreciation of the kuna. This devaluation had adverse effects on kuna holders, making them poorer compared to those using other currencies. This period also witnessed the introduction of the dinar, which suffered from a lower initial value (Kolar-Dimitrijević, 2013).

During World War II, Croatia briefly had its own currency, the Croatian kuna, but it was short-lived. The Yugoslavian dinar dominated the region until 1991 when the transitional Hrvatski dinar was introduced, paving the way for the eventual adoption of the Croatian kuna in 1994.

In 2023, Croatia made another significant currency transition by adopting the Euro. This move symbolically and pragmatically brought Croatia back into the European currency arena, aligning it with the continent's economic and financial systems, as it had been over a century ago. This historical journey through various currencies reflects Croatia's dynamic economic and political landscape and its enduring connection to Europe's monetary framework.

Joining the EMU

Croatia's entry into the Economic and Monetary Union (EMU) on January 1, 2023, marked a significant milestone in the country's economic progress.

However, since its accession, a series of global economic and geopolitical shifts have substantially influenced the dynamics of common monetary policy within the euro area. One notable factor has been the evolving global economic landscape, characterized by rising interest rates and an economic slowdown in many EMU member countries. These trends have posed challenges to the European Central Bank (ECB) and the EMU's overall monetary policy strategy, impacting Croatia as a new member.

Remarkably, Croatia has been synchronizing its economic conditions with the changing trends in the euro area. This harmonization is crucial for maintaining the stability and competitiveness of its economy within the EMU. By adapting to the prevailing economic circumstances in the Eurozone, Croatia can better navigate the challenges and opportunities presented by its membership. In this context, Croatia's alignment with the evolving common monetary policy framework reflects the nation's commitment to being an integral part of the EMU and its dedication to ensuring economic resilience and stability in an ever-changing global economic landscape.

Monetary Background

Croatia's deep-rooted connections with the countries of the Eurozone extend beyond just cultural and political ties; they also encompass economic integration. This integration has had profound implications for Croatia's monetary policy and financial stability. One notable consequence of these strong ties is the high unofficial euroization observed in Croatia. This phenomenon, characterized by a widespread use of the euro in daily transactions and savings, has brought both advantages and risks. On the positive side, it has provided a sense of stability and convenience for the public. However, it has also introduced vulnerabilities, particularly in terms of exchange rate and default risk in the event of significant exchange rate fluctuations.

To mitigate these risks, Croatia has adopted a managed float exchange rate regime, characterized by a tight margin. This approach allows some flexibility while still curbing excessive fluctuations, thereby contributing to economic stability. Another crucial aspect of Croatia's monetary policy has been the need to manage the import component of inflation. Given the country's high dependency on imports, maintaining exchange rate stability has been vital to preserving price stability and preventing inflationary pressures.

Unlike some countries, Croatia has not employed interest rate targeting as a primary monetary policy tool. Instead, exchange rate intervention has played a central role. Additionally, Croatian banks often obtain loans from their parent banks in the euro area, resulting in a high correlation between domestic interbank interest rates and Euribor rates.

In essence, Croatia has closely mirrored the monetary policy of the ECB, aligning its strategies with those of the Eurozone. This alignment has limited Croatia's monetary sovereignty but has also helped maintain financial stability and foster economic integration. Croatia's unique position, with its strong connections to the Eurozone, underscores the complex interplay between cultural, economic, and political factors in shaping a nation's monetary policies and financial resilience.

The Process of Adopting the Euro

Introducing the euro is a multifaceted challenge that demands careful navigation of economic, political, and administrative complexities. Croatia's path to Eurozone membership is a testament to the intricacies involved in this process. Croatia's delayed entry into the European Union (EU) in 2013, missing the waves of EU enlargements in 2004 and 2007, set the stage for a unique journey towards the Eurozone. This late and lone entry into the EU presented Croatia with both advantages and challenges.

One of Croatia's key strategies for gaining acceptance in the EU, Eurozone, and Schengen was its steadfast adherence to common rules and principles. By consistently demonstrating commitment to EU standards, Croatia was able to build a reputation for reliability and garnered support from its European counterparts. However, EU entry exposed certain fiscal and macroeconomic imbalances within Croatia. In response, the European Commission initiated the Excessive Deficit Procedure (EDP) in 2014, highlighting the need for fiscal consolidation and economic adjustments. Croatia responded with a vigorous effort toward fiscal consolidation, resulting in a prolonged recession from 2009 to 2015. This period of economic difficulty was characterized by austerity measures and structural reforms, aimed at aligning Croatia's economic practices with EU norms. The arduous journey through this process ultimately led to Croatia's exit from both the EDP and the Macroeconomic Imbalance Procedure (MIP).

In conclusion, Croatia’s late entry into the EU, coupled with its dedication to adhering to EU standards, paved the way for Eurozone membership. While this process was not without its challenges, it underscored the importance of prudent fiscal policies and economic adjustments when transitioning to the euro. Croatia’s successful exit from EDP and MIP, along with its continued commitment to European integration, exemplifies the complexities and rewards associated with introducing the euro.

Croatia’s journey toward joining the European Monetary Union (EMU) was a process that spanned several years, marked by various milestones and regulatory measures. This intricate process underscores the meticulous preparation and commitment required for a country to transition into the euro area. Croatia’s successful entry into the EMU reflects its dedication to meeting the stringent economic and regulatory criteria set by the EU and the ECB. Figure 1 presents the timeline of events that preceded EMU entry.

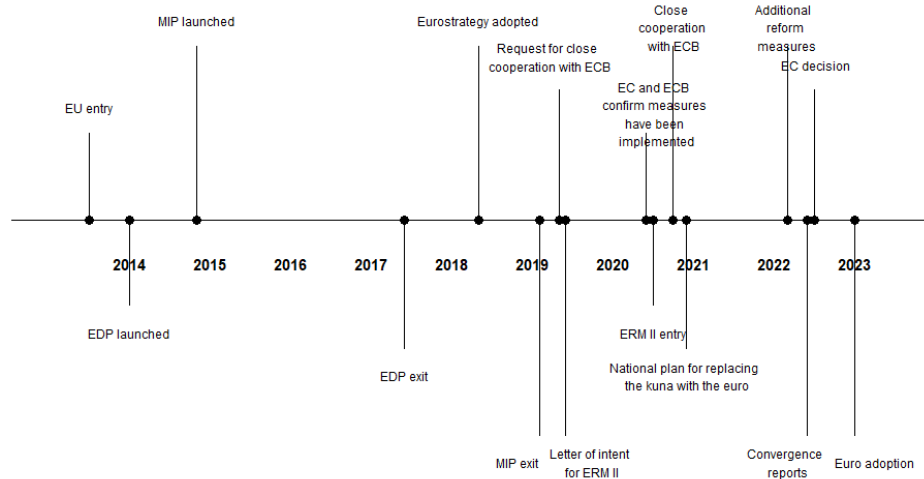


Figure 1. Timeline of the euro adoption process in Croatia¹

On July 2013, Croatia officially became a member of the EU, setting the stage for euro adoption. Almost immediately after entering, in January 2014, the Excessive Deficit Procedure was launched, focusing on Croatia’s fiscal performance and debt levels. By the end of the same year, in November

¹ Source for events and dates: Croatian national bank.

2014, the Macroeconomic Imbalance Procedure was launched to assess and address potential economic imbalances within Croatia. After more than three years, in June 2017 Croatia successfully exited the EDP after improving its fiscal situation.

After the correcting deficit procedures have been cleared, in May 2018 Croatia adopted its Eurostrategy, outlining the roadmap for euro adoption. The country's efforts to address economic imbalances were confirmed with the MIP exit in February 2019. In May 2019 Croatia expressed its intention to work closely with the ECB to prepare for euro adoption, and in June 2019 Croatia submitted a Letter of Intent to join the Exchange Rate Mechanism II (ERM II), a prerequisite for euro adoption. After one year time, the European Commission (EC) and ECB verified that Croatia had implemented necessary measures for euro accession so that in July 2020 Croatia officially joined ERM II, marking a crucial step toward euro adoption.

Croatia continued its close cooperation with the ECB in preparation for euro adoption during 2020, and in the last month of the year, Croatia developed a comprehensive national plan for the orderly replacement of the kuna with the euro. Croatia implemented additional reform measures to meet convergence criteria in March 2022. In June 2022, Convergence reports were prepared, assessing Croatia's readiness for euro adoption, which were followed by the EC Decision on Croatia's readiness to adopt the euro in July 2022. Finally, in January 2023 Croatia officially adopted the euro as its currency, becoming a full-fledged member of the EMU.

Costs and Benefits of Joining the EMU

Research on the EMU has highlighted various negative aspects associated with joining the union, shedding light on potential challenges and limitations that member countries may face. One of the significant concerns expressed in research papers, as highlighted by Eudey (1998), is the loss of an autonomous counter-cyclical monetary policy. This loss can be seen as a long-lasting cost of euro adoption. In the EMU, member countries relinquish their control over monetary policy, including the ability to independently adjust interest rates to counter economic downturns. This can limit a nation's flexibility in addressing economic challenges. A related issue is the determination of the European interest rate by the larger economies within the Eurozone. As

a result, smaller countries within the EU have limited influence over the interest rate, making it challenging for them to lower interest rates during recessions. This lack of control over interest rates can hinder their ability to stimulate their own economies when needed.

Furthermore, fiscal policy options are constrained within the EMU. Each member country is subject to a maximum deficit limit of 3 percent of Gross Domestic Product (GDP). This restriction on stimulative fiscal policy during recessions can be seen as a potential drawback, as it limits a country's ability to use deficit spending to boost economic growth during challenging times.

Negative aspects of euro adoption can be summarized to the loss of an autonomous counter-cyclical monetary policy, limited influence over interest rates, and constraints on fiscal policy options. These findings underscore the importance of carefully weighing the pros and cons of joining the EMU and the need for effective economic policy coordination among member countries to address potential challenges.

Numerous research papers have also explored the potential benefits of joining the EMU, shedding light on the positive aspects that membership in the union can bring to a country's economy. A study conducted by Croatian National Bank (CNB) researchers (Bukovšak et al., 2018), delves into the effects of EMU membership on various economic aspects, including goods trade, foreign direct investment (FDI), and tourism.

One of the prominent advantages highlighted in their review paper is the positive impact on goods trade. EMU membership facilitates lower transaction costs and enhances price comparability among member countries. These factors contribute to a reduction in exchange rate risk, making trade more predictable and cost-effective. In the context of Croatia, these benefits can lead to an increase in both the export and import of goods, thereby promoting economic growth and stability.

Furthermore, the study emphasizes the potential positive effects of EMU membership on foreign direct investment. A stable and predictable economic environment, as provided by the euro, is often seen as attractive to foreign investors. This can result in increased FDI inflows into Croatia, leading to job creation, technological transfer, and economic development.

Another significant area of positive impact lies in the tourism sector. Croatia's beautiful coastline and cultural attractions make it a popular tourist destination. By adopting the euro, the country can benefit from enhanced price comparability, reduced exchange rate risk for tourists, and simplified financial transactions. These factors can boost tourism and related industries, contributing to economic growth and employment opportunities.

When Croatia considered joining the EMU, it undertook a comprehensive communication strategy to inform the public about the benefits and costs associated with this pivotal decision. There are four main benefits of joining the EMU. The first is foreign exchange (FX) risk elimination. Croatian authorities stressed the significant advantage of eliminating FX risk. The country had a high level of euroization, with a substantial portion of total debt denominated in foreign currency. By adopting the euro, Croatia aimed to reduce this risk, ensuring more stable debt servicing. The second benefit is lower transaction costs. Joining the EMU was presented as a means to lower transaction costs in cross-border trade and financial transactions. The elimination of currency conversion expenses and exchange rate uncertainty would streamline economic activities. EMU membership also provides the potential for lower borrowing costs, as it would benefit from the Eurozone's lower interest rates. This could translate into reduced public debt financing expenses, ultimately contributing to fiscal sustainability. And finally, higher crisis response capacity. Euro adoption was portrayed as a way to enhance Croatia's capacity to respond to economic crises. Access to the European Stability Mechanism (ESM) and other support mechanisms would provide additional safeguards during turbulent times.

There are three most important costs associated with the common currency. The primary cost emphasized was the loss of monetary autonomy. Joining the EMU meant surrendering control over monetary policy, including setting interest rates and currency devaluation. Croatia would rely on the European Central Bank's decisions, which may not always align perfectly with its economic needs. One would expect also to have one-off changeover costs. Croatia acknowledged the transitional challenges and costs associated with introducing the euro, including printing new currency, updating financial systems, and educating the public about the new currency. Taking into consideration experiences in previous EMU member states, an increase in consumer prices is also a possible cost. There was a possibility of a short-term

increase in consumer prices due to rounding effects and perceived rounding up of prices during the transition to the euro. In conclusion, the communication strategy in Croatia aimed to provide a comprehensive picture of the benefits and costs of EMU membership, allowing the public to make an informed decision about this critical economic transition.

The loss of monetary autonomy is a significant cost associated with joining the EMU. This cost is particularly pronounced for small EU Member States, including Croatia, which have limited room for autonomous monetary policy due to their economic size and integration within the euro area.

Up to January 1, 2023, the euro area consisted of 19 countries with a combined population of 345.4 million, 3.4 times the population of non-euro area member states. Croatia's share of the EU population was a mere 0.9 percent, underscoring its relatively small economic footprint within the union. The ability of small Member States like Croatia to run their own monetary policy depends on two crucial factors: the effectiveness of autonomous monetary policy and the synchronization of business cycles with the euro area.

Monetary policy in small countries is often less effective for several reasons. Firstly, these nations are heavily reliant on imports from euro area countries, which means that potential pass-through effects from exchange rate changes can pose a significant threat to domestic inflation. Secondly, foreign banks are typically strongly present in these countries, offering access to cross-border financing that may circumvent national central banks. Lastly, high levels of unofficial euroization, where the euro is widely used in the domestic economy, make these countries vulnerable to exchange rate depreciation, as their economies are highly intertwined with the euro.

In light of these challenges, small EU Member States, including Croatia, must carefully consider the trade-offs between the benefits and costs of joining the EMU, especially the loss of monetary autonomy. While euro adoption can bring economic stability and lower borrowing costs, it also entails relinquishing control over monetary policy, which may limit their ability to respond to unique economic challenges.

Croatia’s business cycle synchronization with EMU countries plays a pivotal role in its economic stability. As a small and open economy, Croatia’s business cycles are significantly influenced by the broader euro area. Synchronized business cycles imply that Croatia’s economic fluctuations tend to align with those of EMU countries, which can be advantageous in terms of trade and financial stability. However, this also means that Croatia’s monetary policy effectiveness is reduced, as it cannot independently address economic shocks. Careful monitoring of business cycle synchronization is crucial for Croatia to navigate its economic policies within the context of the EMU.

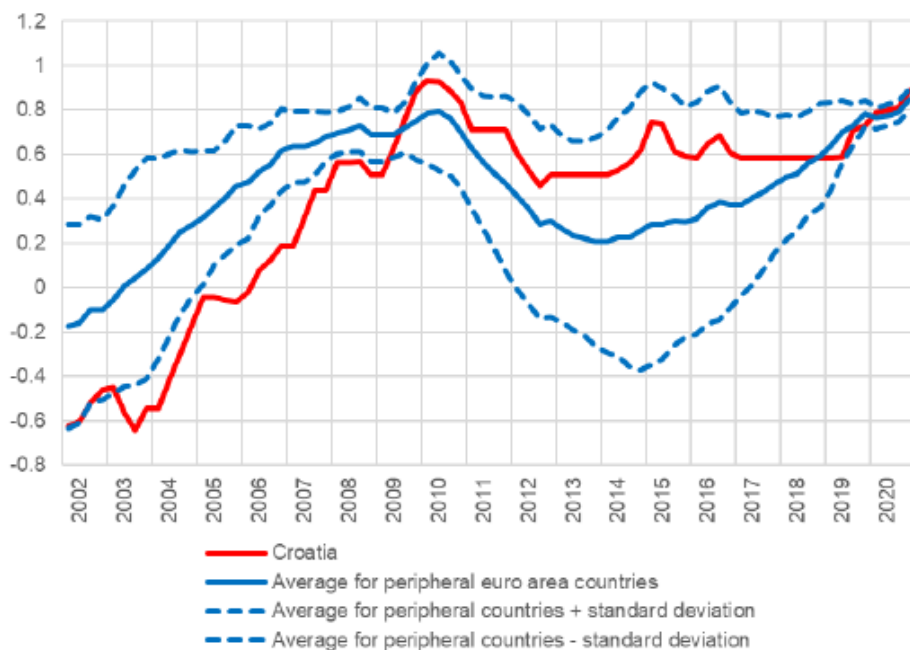


Figure 2. Phase synchronicity between Croatia and core euro area countries²

The red line in Figure 2 presents average phase synchronicity between Croatia and euro area core countries, while the blue line depicts cycle synchronicity between EU peripheral countries with the same set of core countries

² Note: The seven largest economies that together account for around 90 percent of euro area GDP (DE, FR, IT, ES, NL, BE and AT) are considered core countries. The remaining 12 smaller countries are considered peripheral countries. Source: Croatian national bank.

(Kotarac et al., 2017). One can notice that up to 2006 the cycle synchronicity for Croatia was below the average of other countries, but it quickly caught up and almost fully synchronized just before the global financial crisis and stayed high and above other peripheral countries all the way to 2018. During 2019, and especially in 2020, phase synchronicity of Croatia and other peripheral countries remained comparable suggesting that all three groups of countries were hit by the same shocks.

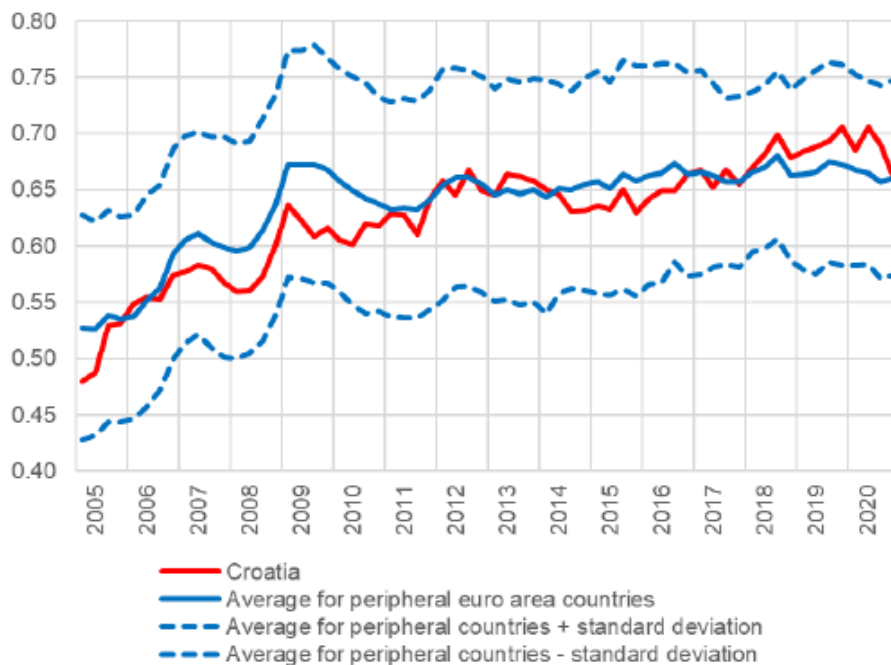


Figure 3. Contribution of symmetric shocks to GDP developments³

Figure 3 shows how much are symmetric shocks important for the dynamics of domestic GDP (red line for Croatia, and the blue line for other EU peripheral countries). As Kotarac et al. (2017) emphasize, contributions are steadily growing through time, and are very much in line with other periph-

³ Note: The seven largest economies that together account for around 90 percent of euro area GDP (DE, FR, IT, ES, NL, BE and AT) are considered core countries. The remaining 12 smaller countries are considered peripheral countries. Source: Croatian national bank.

eral countries. From both Figures 2 and 3 we can deduce that losing autonomous monetary policy should not pose a huge cost for Croatia since, at least historically, synchronicity of business cycles between Croatia and the EMU was sufficient.

Research on monetary policy synchronization in Croatia sheds light on the country's economic relationship with the EMU and its readiness to adopt the euro. Deskar-Škrbić et al. (2020) provide valuable insights into this matter. Their rigorous analysis of optimal currency areas revealed a significant finding: external shocks in the past have contributed significantly to inflation in Croatia, accounting for approximately 65 percent of the inflationary pressures. This indicates that even before Croatia's potential adoption of the euro, the monetary policy of the European Central Bank already played a substantial role in shaping the country's economic conditions. Furthermore, the study suggests that Croatia's entry into the euro area should not pose a significant cost. The expansionary monetary policies pursued by the ECB, including interest rate reductions and quantitative easing, have had a similar impact in Croatia as they did in the Eurozone. This alignment minimizes the economic costs associated with abandoning the kuna. Importantly, historical data indicates that the ECB's common monetary policy is compatible with the Croatian economy, suggesting that it can effectively address economic challenges and maintain stability within Croatia.

In conclusion, the research underscores Croatia's economic integration with the EMU even before formally adopting the euro. The extensive influence of external shocks on Croatian inflation and the alignment of the ECB's policies with Croatia's economic needs indicate that the transition to the euro may be relatively smooth and economically feasible, further supporting Croatia's potential entry into the euro area.

The experience of changeover-related inflation in previous EMU member countries offers valuable insights into the potential impact of adopting the euro, shedding light on Croatia's own journey toward euro adoption. Changeover-related inflation, as observed in past EMU transitions, has indeed been a possibility. However, historical data indicates that this inflation has consistently been quite low, typically ranging from 0.1 to 0.4 percent. Moreover, it has generally been a temporary phenomenon, which means that it tends to be short-lived. Interestingly, perceived inflation, has been more

pronounced than actual recorded inflation. This discrepancy is attributed to consumers perceiving price increases, particularly in daily consumables, during the transition phase.

A recent study by Falagiarda et al. (2023), using data up to February 2023, found that the impact of adopting the euro on consumer prices in Croatia has been relatively small and comparable to previous experiences in other EMU countries. While some inflation in services was noted, it remained within the expected range. Additionally, Falagiarda et al. (2023) revealed that interest rates began to decrease after the EU Council's decision to adopt the euro. This suggests that the economic transition toward euro adoption is accompanied by favourable adjustments in financial conditions, which can further mitigate the potential negative impacts of changeover-related inflation.

To sum up, Croatia's experience with changeover-related inflation aligns with the historical patterns observed in other EMU member countries. While some inflationary pressures may arise during the transition, they tend to be minimal and temporary. The perceived inflation effect may be more noticeable to consumers. Overall, the impact on consumer prices in Croatia appears to be manageable, and the associated benefits, such as reduced interest rates, contribute to the overall economic stability and readiness for euro adoption.

Recent Monetary Trends in the EMU

Key interest rates determined by central banks play a pivotal role in shaping their respective economies. The euro area, represented by the ECB, influences its monetary policy through the refinancing rate, guiding borrowing costs. Meanwhile, EU member states such as Czechia, Hungary, Poland, and Romania have their central banks setting interest rates, impacting inflation, investment, and economic stability. These rates serve as a critical tool for policymakers to control lending and borrowing, fostering economic growth while containing inflationary pressures. Monitoring and adjusting these rates remain essential for maintaining financial stability and fostering sustainable economic development in these countries.

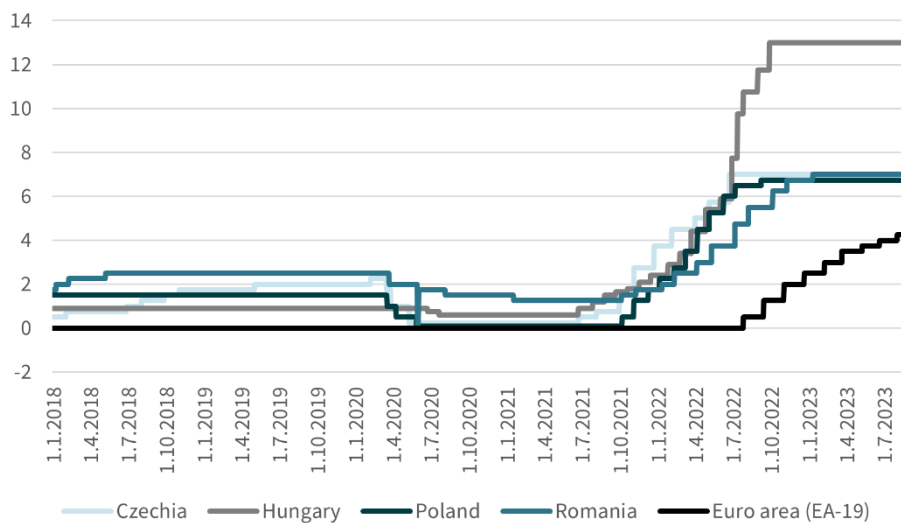


Figure 4. Key interest rates⁴

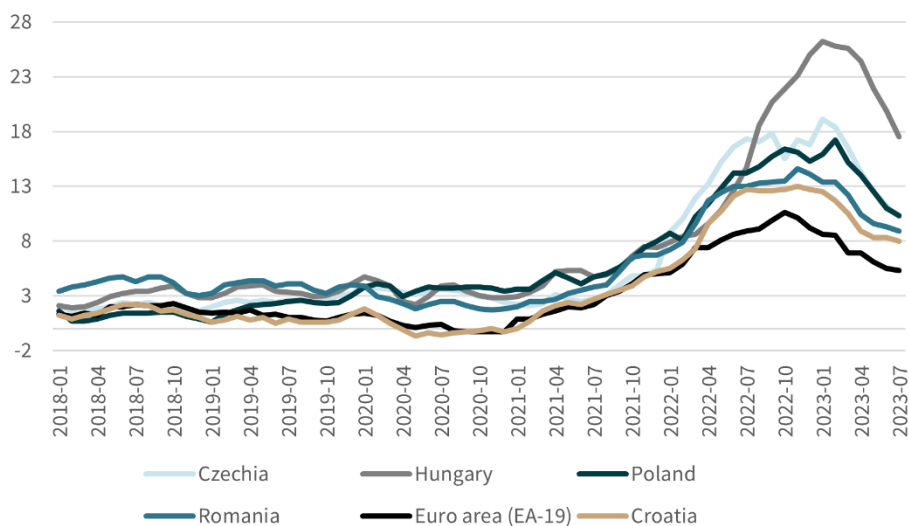


Figure 5. Inflation rates⁵

⁴ Note: Data points are percentages. Sources: Bank for international settlements, Eurostat, and national central banks.

⁵ Note: Data points are percentages. Source: Eurostat.

Figure 4 present key interest rates developments in the euro area and four non-EMU EU member states for the period from January 2018 to August 2023. We can clearly see that rates have been low for a long time, and that inflation in 2021 made some central banks jump on the brake and hike their interest rates. The first to do that was the central bank of Hungary which hiked its rate in June 2021, and the last one was the ECB in July 2022. None of the areas explored here have not started to decrease their rates yet as inflation remained high. Figure 5 shows inflation rates for these areas with the addition of Croatia. Although all these countries experienced higher inflation when compared to the euro area, the shape of their inflation curve is much the same as for the euro area. Inflation is slowing down, but the rates are still uncomfortably high.

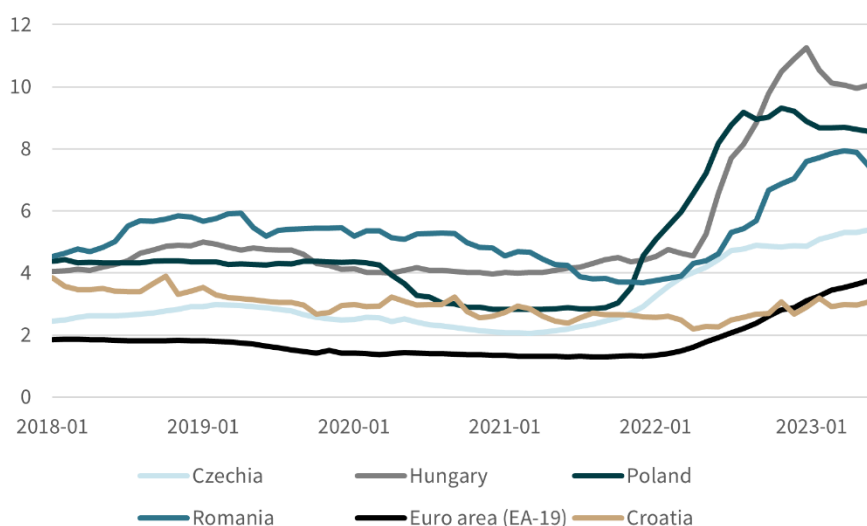


Figure 6. Financing conditions for households⁶

Financing conditions for households and firms are profoundly influenced by bank interest rates on loans for house purchase and on loans to corporations. Lower interest rates on loans for households promote homeownership, stimulate construction, and bolster economic growth. Simultaneously, reduced bank interest rates on loans to corporations encourage capital investments, innovation, and job creation within the corporate sector, spurring economic

⁶ Note: Data points are percentages. Source: European central bank.

development. These rates serve as monetary policy tools, carefully calibrated by central banks to strike a balance between encouraging borrowing for productive purposes and controlling inflationary pressures, thereby shaping the financial landscape, and determining the pace of economic expansion. These rates are obviously a reflection of developments in key interest rates, so one would expect that when the key interest rate is going up, loans to households and corporations will follow.

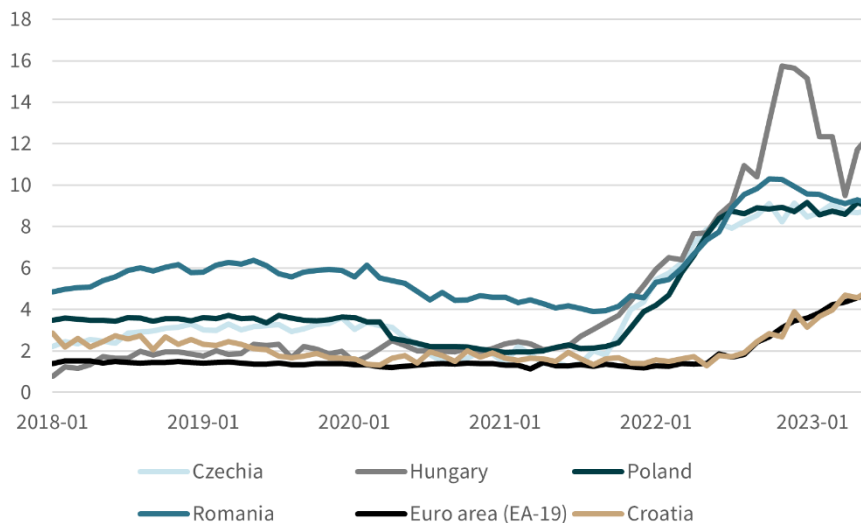


Figure 7. Financing conditions for firms⁷

Figures 6 and 7 depict bank interest rates on new loans to households for house purchase, and bank interest rates on new loans to corporations. The dynamics of these interest rates is quite predictable, as it follows the trail of key interest rates. But there is one notable exception of Croatia and its rates for households. When looking at the period before 2022, bank interest rates in Croatia were rather high and in line with other non-EMU countries. But although the rates in other countries started to increase already towards the end of 2021 (and in euro area in 2022), the interest rates in Croatia remained in place. During 2023, the rates even fell below the rates in euro area.⁸ The

⁷ Note: Data points are percentages. Source: European central bank.

⁸ Figure 7 suggests that the interest rates on loans to corporations followed euro area rates very closely.

main explanation for these dynamics refers to the lowering of the required reserve ratio Croatia was obliged to perform prior to entering EMU. This released large amounts of additional liquidity that in effect reduced the interest rates. Therefore, a direct consequence of EMU entry was a decrease in interest rates, despite the fact that the ECB was in a contractionary cycle of hiking up key interest rates.

Should Countries Join the EMU?

The decision to join the European Monetary Union is fundamentally a political one, influenced by a myriad of economic, political, legal, sociological, and even emotional factors. The choice to adopt the euro is a complex and far-reaching decision that extends beyond economic considerations.

Deskarić and Kunovac (2020) highlight the diversity of approaches taken by EU member states toward euro adoption. While some countries are obligated to introduce the euro, others, such as Sweden, Czechia, Hungary, and Poland, have chosen to indefinitely postpone this transition. These divergent decisions are influenced by a combination of factors unique to each nation. There is already a high correlation and alignment between key interest rates and euro area business cycles in non-EMU countries. This alignment implies that the business cycles in both groups of countries are predominantly driven by the same common shocks. As a result, common monetary sovereignty, exemplified by the use of the euro, is often considered a reasonable substitute for national countercyclical policies. This makes a strong economic argument in favour of EMU entry. However, these decisions extend beyond the realm of economics; they are political choices shaped by a complex interplay of national interests, sovereignty concerns, public sentiment, and historical experiences. While economists provide valuable input, the final decision to join the EMU is a reflection of the broader political will and aspirations of a nation. Several countries, including Sweden, Poland, Hungary, and Czechia, have taken distinct paths in their approach to euro adoption.

Sweden's stance on the euro has been characterized by consistently low public support. The country has not rushed into adopting the euro, reflecting a combination of economic stability under the Swedish krona and a lack of enthusiasm among its citizens for Eurozone membership. Poland's decision

to delay euro adoption stems from several factors. The timing of the Eurozone debt crisis was inopportune, as Poland did not manage to meet the nominal convergence criteria during this period. Additionally, the depreciation of the Polish zloty made it crucial for the country to retain control over its monetary policy as a tool for economic stability. Hungary, on the other hand, faced a significant economic shock during the global financial crisis (GFC), which had a profound impact on its currency policy. The abandonment of the 15 percent exchange rate band and the rise of the Eurosceptic Fidesz party since 2010 have influenced Hungary's reluctance to join the EMU. Czechia's stance towards euro adoption has also been influenced by external economic events and domestic politics. The GFC and the euro area debt crisis had an adverse effect on public perception, leading to scepticism about the benefits of adopting the euro. Eurosceptic politicians have further fuelled this sentiment. Additionally, Czechia views its exchange rate as a valuable policy instrument to navigate economic challenges.

Therefore, each country's decision on euro adoption is unique and reflects a complex interplay of economic circumstances, public sentiment, and political dynamics. The experiences of Sweden, Poland, Hungary, and Czechia demonstrate that the path to euro adoption or postponement is shaped by a combination of factors, each with its own set of challenges and considerations.

Conclusion

The readiness of Croatia to join the EMU has been a topic of considerable discussion. Assessing this readiness requires a comprehensive evaluation of economic, monetary, and structural factors.

Croatia's economic and monetary conditions have been such that it could be argued it had very limited monetary sovereignty even before considering EMU membership. The country had closely mirrored the monetary policies of the European Central Bank, aligning its strategies with those of the Eurozone. Therefore, the concept of losing monetary sovereignty in this context is less applicable. The country's readiness is contingent on its ability to ensure economic convergence, competitiveness, and resilience. Addressing challenges in the public sector, reducing burdens on businesses, and investing in infrastructure and labour productivity are pivotal steps to secure a strong foundation for euro adoption. Croatia's success as an EMU member will

depend on its ability to navigate these complex economic and structural considerations.

The prospect of rising interest rates in the EMU raises important questions about the potential impact on Croatia and its ability to respond effectively to economic challenges. One significant concern is whether the ECB, which formulates a single monetary policy for all member countries, may inadvertently exhibit bias towards larger EMU economies in the event of economic disparities. For instance, if Germany were to experience a recession while Croatia's economy was overheating, there could be concerns that the ECB might lean towards policies benefiting the larger member countries, potentially leading to lower interest rates. This could raise challenges for smaller members, including Croatia, as their specific economic needs may not align with the broader policies set by the ECB.

Indeed, one of the key consequences of joining the EMU is the loss of independent monetary policy. Croatia would no longer have the autonomy to conduct its own monetary policy, making it vulnerable to mismatches between its economic cycle and that of the broader Eurozone. In cases where the Croatian economy requires distinct monetary measures, such as interest rate adjustments, it may find itself constrained by the common policy of the ECB, which may not fully address its specific economic conditions.

To navigate these challenges, Croatia must prioritize other policy levers to ensure economic stability and resilience within the EMU. These could include fiscal policies, structural reforms, and measures to enhance economic competitiveness. Close coordination with the ECB and other euro area members will also be essential to advocate for policies that best serve Croatia's interests and address potential mismatches in economic cycles.

In the EMU, macroprudential regulation can serve as a crucial tool, complementing traditional monetary policy. This approach allows member countries to address financial stability and systemic risks, particularly when interest rate adjustments are constrained by the single monetary policy of the European Central Bank. By monitoring and regulating financial institutions, capital flows, and credit conditions, macroprudential policies can help prevent financial crises and manage economic imbalances. This underscores the importance of a multi-faceted approach to economic governance within the

EMU, where macroprudential regulation plays a pivotal role in safeguarding the stability of the Eurozone's financial system.

The geopolitical dynamics in South East Europe have been subject to continuous shifts, reflecting a complex interplay of regional and global influences. These changes have significant implications for the countries in the region, their neighbours, and the broader international community. One prominent aspect of the geopolitical landscape is the ongoing tug-of-war between the EU and Russian influence in South East Europe. Several countries in the region have sought closer ties with the EU, aspiring to become members and benefit from the economic and political stability it offers. Simultaneously, Russia has sought to maintain or expand its sphere of influence in parts of South East Europe, leading to geopolitical tensions and diplomatic rivalries.

Currently, there appears to be a discernible trend of decoupling from South East Europe and a return to the Central Europe circle of countries, echoing historical patterns that existed prior to the upheavals of World War I and its aftermath. This shift is driven by a range of factors, including political realignments, security concerns, and economic opportunities. However, it is crucial to recognize that the entire region could greatly benefit from further integration. Enhanced cooperation and integration among South East European nations would have manifold advantages, spanning security, economic, and political domains. Collaborative efforts could contribute to increased stability, economic growth, and greater resilience against external pressures.

From a security perspective, regional cooperation can help address common challenges, such as border security, organized crime, and cybersecurity threats. Economically, integration can foster trade, investment, and infrastructure development, promoting prosperity and job creation. Politically, it can lead to greater diplomatic cohesion and a stronger collective voice on the global stage.

In conclusion, the evolving geopolitical dynamics in South East Europe involve intricate relationships between neighbouring countries and major global actors. While there may be shifts in regional alignments, there is a clear recognition that further integration among South East European nations

would be advantageous on multiple fronts, ensuring greater stability, economic growth, and political influence in the evolving global landscape.

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Managing the Obstacles and Maximising the Benefits That Come with Croatia's Participation in Euro-Atlantic Integrations

Mario Holzner

A Tale of Two (Euroised) Croatias

Croatia, maybe more than others, is a geographically very diverse country, given the small size of its territory. In the Pannonian East, fertile planes span between the rivers Danube, Sava and Drava. At the foothills of the Alps, in the North, hills have allowed for the establishment of a large number of fortified cities, including Croatia's capital Zagreb. Along the Mediterranean coast, in the West and South, the Dinaric Mountains separate the sunny shores and islands and picturesque port cities from the stony hinterland.

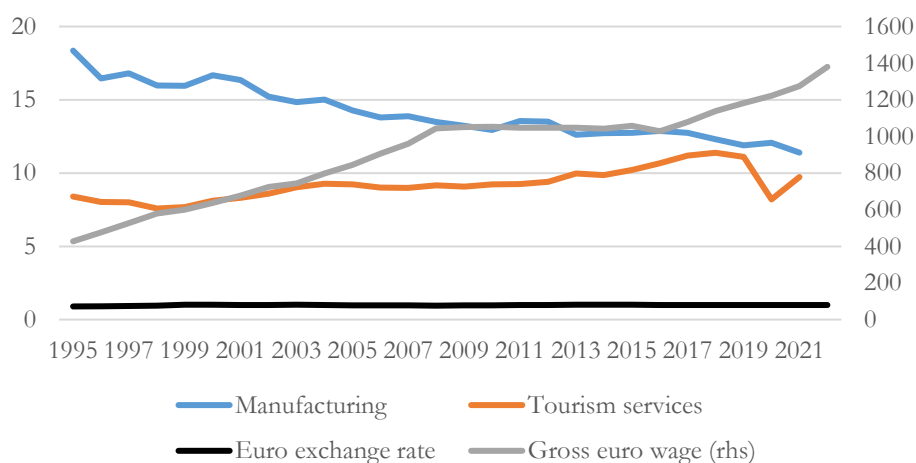


Figure 1: Manufacturing and tourism in % of Gross domestic product (GDP) and the Exchange rate (lhs); Euro denominated average gross wage (rhs)¹

¹ Note: Manufacturing: NACE Rev. 2 letter C; Tourism services: NACE Rev. 2 letters H (transport), I (hotels, food), N (support services); Euro exchange rate: NCU/EUR; Gross euro wage: average monthly gross wage, total, in euro. Sources: wiiw Annual Database.

To a large extent, geography has thus also shaped the economic structure of the country. The East is dominated by agriculture and related food processing. Its long borders to non-EU Balkan neighbours has left this part of the country poor and peripheral. It lost its central position it used to have a few decades earlier within Yugoslavia. Today it is a source of constant mass emigration. In economic and political terms, it has little influence on Croatia's policy making.

By contrast, the urban centres of the North, close to some of Europe's richest regions in Austria and Bavaria, are home to manufacturing industries and related business services. The South and the West have specialised in tourism. Thus, in economic terms, one can claim that there are two Croatias, with distinctive interests, inter alia, in terms of real exchange rate policy, against the backdrop of a history of strong euroization going back to Yugoslav times.

Tourism Gaining from (Real) Appreciation

By definition, tourism services profit from real appreciation of a country's currency. The tourism sector would be interested even in a nominal appreciation in order to generate even more foreign currency inflows. Given the beauty of Croatia's coast with its 1000 islands, clean waters, several top-notch UNESCO (United Nations Educational, Scientific and Cultural Organization) world heritage sites, high levels of personal security and central position in the Northern Mediterranean, rising average gross wage levels expressed in Euros have not harmed the Croatian tourism sector. On the contrary (Figure 1). The share of tourism services in Croatia's GDP has been constantly increasing to levels of below 8% at the end of the Yugoslav wars in the 1990s to double digit levels since the 2010s, neglecting the brief implosion to the levels of the 1990s during the pandemic.

Manufacturing Losing Competitiveness

By contrast, the manufacturing sector has been suffering from the strong increases in average gross wages expressed in Euros from below 500 in the mid-1990s to about 1400 in 2022. Over the same period the share of manufacturing in GDP has almost halved from levels below 20% to just above 10%. While falling shares of manufacturing can have different reasons, clearly, Croatian industry would have gained from a more flexible exchange rate policy, particularly during economic crisis periods. However, since the

existence of the Croatian currency Kuna, from the mid-1990s up until the adoption of the Euro on 1 January 2023, the exchange rate to the Euro was de facto fixed and even throughout the worst economic crises of the last decades showed only little oscillation around the long run average (normalised to 1 in Figure 1). The de facto long-run fixed peg to the Euro can be interpreted as a grand compromise between the needs of “Manufacturing Croatia” and “Tourism Croatia”. Thus, in essence, Croatia had the Euro already since the mid-1990s. The official adoption at the beginning of 2023 marked a symbolic recognition of this fact and granted Croatia a seat at the Governing Council of the European Central Bank and a better rating.

Croatia Benefitted from Its (Late) EU-Accession

Until its EU accession in 2013, Croatia had shares of goods and services exports that were constantly below 40%. Only after its accession, this share increased strongly to current levels of more than 60% (still a far cry from e.g. Slovenia’s 84%). For a number of reasons, Croatia missed the eastern enlargement waves of 2004 and 2007 and was hence to a certain extent excluded from the strong inflow of manufacturing Foreign Direct Investment (FDI), that the earlier acceding countries from the region have experienced. This is another reason, why the share of manufacturing in GDP has declined strongly. Hence, Croatia does not show the typically patterns of a Central European ‘factory economy’, included in the global value chains via its functional specialisation in production, such as for instance Hungary. It has rather specialised in business services, when looking at greenfield FDI capital expenditures.

Structural Changes in the Central European Automotive Cluster

Thus, Croatia might not suffer from a potential high-risk impact that the ongoing structural changes in the Central European automotive cluster might entail. Croatia’s share of automotive exports in percent of total goods exports of about 6 percent is fairly small, by Central European standards (Figure 2). By comparison, more than a third of Slovakia’s exports are in cars and related spare parts. However, Croatia is home to Rimac Automobili, that develops and produces electric sports cars, drivetrains and battery systems, inter alia in cooperation with Porsche. While others in the region should be worried about the future of their combustion engine based car production, Croatia has the potential to become a centre for global e-mobility design.

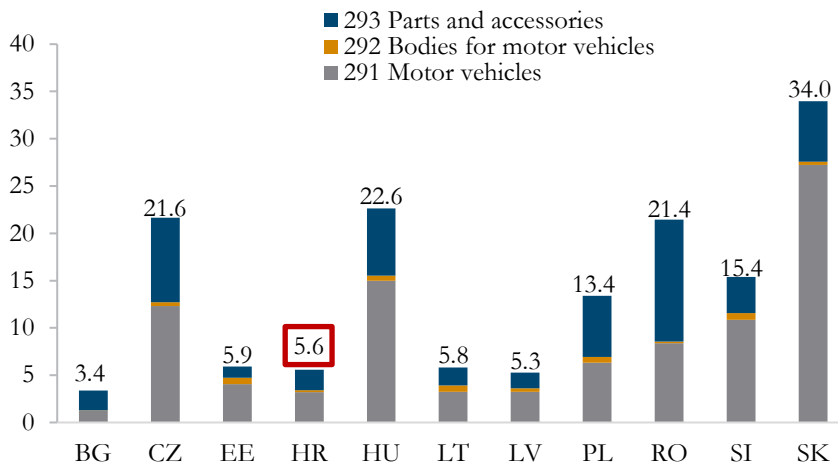


Figure 2: Automotive industry exports (NACE rev. 2), in % of total goods exports, 2019²

The Digital Revolution as a Driving Force for Leap-Frogging towards High-Tech Services?

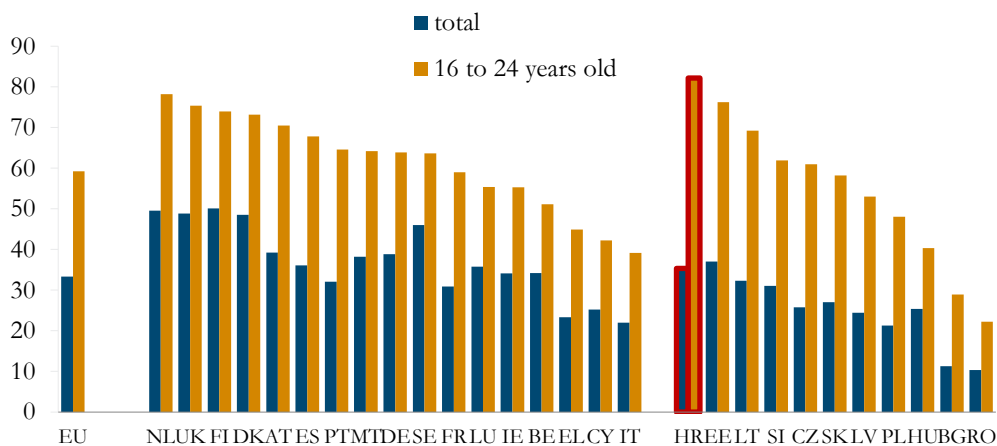


Figure 3: Individuals with an above basic level of digital skills in 2019, in % of respective age group³

² Source: UN Comtrade.

³ Source: European Commission, Digital Scoreboard.

Rimac Automobili is just one out of two technology unicorn start-up-companies in Croatia, worth over a billion US dollars. The other one being Infobip, that offers cloud communication services to telecom providers around the world. Moreover, among all the Member States of the EU, Croatia's youth has by far the highest share of individuals with an above basic level of digital skills (Figure 3). This hints at a large potential for a further expansion of high-tech services in the country. However, one of the major challenges of Croatia is, that after decades of mass emigration, the number of young people, who should embrace the digital revolution is shrinking.

Unprecedented Demographic Decline Outside of War or Famine

If anything, the demographic decline is likely to even accelerate. According to UN population projections, Croatia will lose about a quarter of its working age population by the mid of the century (Figure 4). In this respect it is not helpful, that it is very difficult for young Croats to establish a household in Croatia.

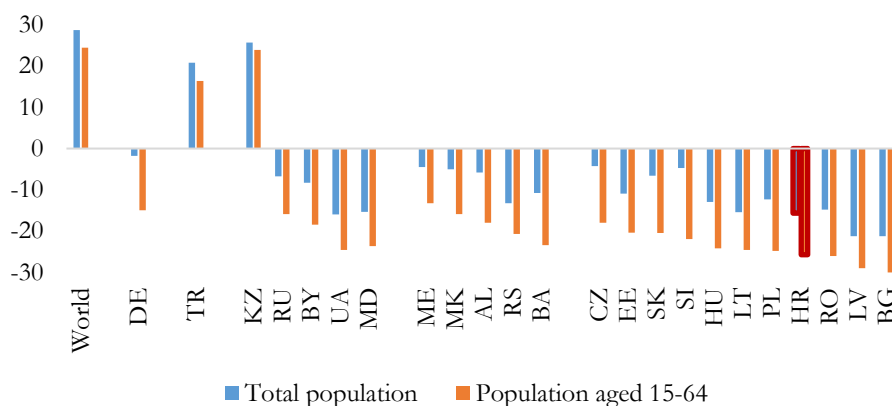


Figure 4: UN population projections, % change between 2015 and 2045⁴

How to Attract Young Families and Accumulate Human Capital in Croatia?

According to Eurostat, in 2021, Croat young men left their parental household at an average age of 35, only. This is the oldest age among all the EU

⁴ Source: UN, Medium fertility variant.

Member States. At the other extreme young Swedes leave their parental household before the age of 20, on average. This hints at substantial problems in the Croatian housing market, that need to be solved quickly. A move towards a rental market, including a massive expansion of public housing construction by municipalities is needed to overcome the housing crisis and attract young families ready to overcome the many challenges the country is facing and to seize the opportunities, that Croatia's membership in the Euro-Atlantic integrations, most recently in the Schengen area and the Eurozone, are offering.

PART II: Croatia's Membership in the Schengen Area: Opportunities and Challenges Ahead

The Schengen Borders and the Western Balkans: An Unclear Future

Vladimir Petronijević

Introduction

By joining the Schengen Area, the Republic of Croatia has completed the Euro-Atlantic integration process. As a member of the European Union, NATO and Eurozone, Croatia has become a full-fledged member of the Euro-Atlantic family. By Croatia's achievement of full integration into the Euro-Atlantic institutions, the importance of the internal, i.e. the national consensus in the society has been reaffirmed. When highest national goals are clearly and unequivocally defined and persistent efforts are invested in their achievement, then historically important results can be expected.

This is all good news for Croatian citizens, but also for the entire region of Southeast Europe. Croatia's success indicates that integration processes in Europe are gaining a new momentum that the countries of the region should recognise and use on their European integration paths.

For the citizens of the Western Balkans, the shifting of EU's borders inside the Schengen Area means that there are no longer additional passport controls and customs procedures at the borders between Croatia and its European neighbours. This is another contribution to European freedoms, i.e. to free movement of people and goods.

However, there are reasons for which Croatia's accession to the Schengen Area may also be considered a significant challenge in the forthcoming period. The area of Southeast Europe, particularly the Western Balkans, is one of the most attractive routes for irregular movement of migrants from the Near East and partially from Africa, towards the EU Member States. Although in 2023, as compared to 2022, the European Border and Coast Guard Agency, FRONTEX, recorded a decline in the total number of detections of

irregular border crossings at EU's external borders through the Western Balkan route, the number of 98,600 irregular crossings is still significantly high.¹ Thus, irregular migration remains the most significant challenge at EU's external borders, and thus a challenge for EU's neighbouring countries.

Recollection of the Migration Crisis and Tensions between Neighbours

Over the past decade, the EU and its neighbouring countries have been facing significant economic, political and security challenges. A series of crises have marked and still determine the dynamics of political processes in Europe today. The first Ukrainian war in Donbas (since April 2014) and Russian occupation of Crimea (March 2014), the Eurozone crisis, migration crisis, COVID-19 pandemic and finally the second Ukrainian war (since February 2022), i.e. Russian aggression against Ukraine, significantly determine social life of Europe today and that of its neighbours. Some of the crises have finished and some have only been put under control, with a potential to jeopardise a decades-long peace on the European continent, while some are very much current and threaten the peace and stability of entire Europe.

The migration crisis can be categorised in the latter group, as we are not nearly in the situation that we had in 2015, but we are equally far from its end. Moreover, we may rather say that migration movements towards Europe will never stop, and the key question is how the European Union and its neighbours will treat this phenomenon in future. That is, have the lessons from 2015 been learned?

Since 2015, over a million and a half refugees and migrants have past through Serbia alone, among which between a third and a quarter of them have been children.² This unprecedented migration flow has brought many challenges to Serbia and other countries of the region. Burdened by conflicts from the last decade of XX century, with their political, economic, social and inter-ethnic challenges, the Western Balkan countries found themselves before a huge and seemingly hardly solvable migration crisis issue.

¹ ETIAS, <https://etias.com/articles/eu-migrant-influx-record-2023>.

² UNICEF Srbija, <https://www.unicef.org/serbia/izbeglicka-i-migrantska-kriza>.

The rescue came from the German Chancellor, Angela Merkel, when she decided to make refugees and migrants welcome to Germany, which made the Western Balkans a transit area towards the EU, i.e. towards the German provinces.

Nevertheless, this crisis could not pass without tensions. And it was at borders, first between Hungary and Serbia, and then between Croatia and Serbia where the tensions rose.

In the mid-2015, Hungary started erecting a 175km-long fence at its border with Serbia, and this razor wire fence was fortified over time and additional equipment was set up on it. Consequently, there are now two lines of the fence between which there is a communication path for armed forces, the police and the army, and the fence is also equipped with low-voltage electricity and the feature to report back to maintenance centres any contact made with the fence. There are also speakers installed on the fence through which warnings can be heard to move away from the fence, and it is lit by spotlights. The Hungarian police and armed forces are also equipped with thermal cameras, and it has recently been announced that a special squad of border police officers will be established to include, for a start, about two thousand people.³

The razor wire has not been erected on the border between Serbia and Croatia, but sharp words have been exchanged between representatives of both governments. Accordingly, Radio Free Europe reported,

Croatia has closed seven border crossings with Serbia after 11 000 refugees had entered Croatia from Serbia. These measures are in force until further notice, and Croatia is to hold today a National Security Council session on the migration crisis. The Serbian Labour and Social Security Minister, Aleksandar Vulin, has sent a message to Croatia not to close its border and international roads or otherwise, as he announced, Serbia would seek protection before international courts.⁴

The border crossings were reopened a few days later, leaving a bitter sense of lack of substantive communication between the governments even in the situation of severe crisis that threatened the peace and stability of this part of Europe.

³ The City of Subotica, <https://gradsubotica.co.rs/madjarska-za-metar-podize-ogradu-na-granici-sa-srbijom/>.

⁴ Radio Slobodna Evropa, 18/09/2015. <https://www.slobodnaevropa.org/a/27255137.html>.

Have the lessons from 2015 been learned or can we expect similar approaches in future, now when the Western Balkan region is fully surrounded by Schengen borders?⁵

The developments since 2015 to now have indicated two key things. First, border police often opt for the so-called push back of migrants towards the neighbouring countries. Consequently, this leads to the lack of respect and to the referral to readmission agreements as an international standard for regulating relations between states in cases of detection of irregular border crossings. Secondly, human rights of migrants are no longer in competent institution's focus of attention, but rather the protection of national borders.

The European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) has published the report on its ad hoc visit to Croatia from 10 to 14 August 2020. In a report on Croatia, the CPT urges the Croatian authorities to take determined action to stop migrants being ill-treated by police officers and to ensure that cases of alleged ill-treatment are investigated effectively.⁶

This report is significant as it refers to the border between Croatia and Bosnia and Herzegovina which is, together with the border between Finland and Russia, the longest external EU and Schengen border.

Having in mind the dynamic developments within the EU relating to the adoption of the New Pact on Migration and Asylum, new tensions are more likely than a constructive and multilateral and bilateral approach in tackling the irregular migration issue.

New Pact on Migration and Asylum – Positions of Croatia and Western Balkan Countries

On 20th December 2023, the political agreement was reached between the European Parliament and the Council on the Pact on Migration and Asylum. This is the result of the European Commission's long-lasting efforts to make a major breakthrough towards a common system for managing migration in the EU.

⁵ Bulgaria and Romania are to join the Schengen area in March 2024.

⁶ Council of Europe, <https://www.coe.int/en/web/cpt/-/council-of-europe-anti-torture-committee-publishes-report-on-its-2020-ad-hoc-visit-to-croatia>.

European Commission's President Ursula von der Leyen said:

Europe is a strong community and capable of finding great answers to great challenges. I welcome the timely political agreement reached by Parliament and Council on the key elements of the New Pact on Migration and Asylum. Our goal was to find a fair and pragmatic approach to managing migration together in the EU. It is a crucial step in making sure that Europe has the tools to manage migration.⁷

Many reputable non-governmental organisations dealing with the migration and asylum phenomenon would not agree with this view. The criticism refers both to legislation reform directions taken and to the lack of solidarity with the EU neighbouring countries, such as the Western Balkan countries. Furthermore, it has been emphasised that the EU has resorted to the externalization of the asylum system, which shifts a particular responsibility onto the *countries at EU's external borders*. On this topic, for example, the European Council on Refugees and Exiles (ECRE) said,

An underlying objective is to transfer responsibility to countries outside Europe, even though 85% of the world's refugees are hosted outside Europe, mainly in desperately poor countries. The targets are the countries of the Western Balkans and North Africa, through the use of legal tools such as the "safe third country" concept. Nonetheless, the reforms do nothing to increase the likelihood that these countries agree to host people returned from the EU. (...) The definition of a safe third country has been eroded as Member States [(MS)] will decide which countries meet the definition. A country needs to meet certain protection criteria and there needs to be a connection between the person and the country, as per international law. However, what constitutes a connection is determined by national law. Examples in the text are family links and previous residence, but a MS could decide that pure transit is a sufficient connection.⁸

The fact that externalization of the asylum system is becoming a new reality is reflected in recent bilateral agreements that might answer how the new reality will be shaped and what the role of the countries at EU's external borders and the Western Balkan countries will be like. The Balkans in Europe Policy Advisory Group (BiEPAG) commented on this in an article:

In its entirety, the protocol grants jurisdiction to the Republic of Italy over parts of the territory of Albania for building the so-called "migration processing centers" for a period of five years, with the possibility of extension. Italy, which takes on the

⁷ European Commission, https://ec.europa.eu/commission/presscorner/detail/en/statement_23_6708.

⁸ European Council on Refugees and Exiles, Catherine Woollard, editorial, <https://ecre.org/editorial-migration-pact-agreement-point-by-point/>.

financial burden for the project, claims to manage the structures in accordance with EU law. However, as the European Council on Refugees and Exiles (ECRE) observes, “with no information on how these obligations will be respected” as well as on what precisely their functionality and purpose will consist of. According to ECRE what the agreement legally refers to as the “staying” of migrants in the centers might be interpreted as an “automatic use of detention” which is illegal. Moreover, the agreement clearly discloses that refugees will not be allowed to trespass the extraterritorial areas and enter in Albanian territory, even when their processing would be finalized. Furthermore, the document does not take into consideration possible outcomes and further procedures related to people’s return to their country of origin or elsewhere. It also disregards the fact that extraterritorial processing is not allowed.⁹

President Ursula von der Leyen’s position that Europe has found its tool for shaping the migration movements can also be challenged from the perspective of some EU Member States, notably Croatia that lies on its external borders, but also European countries that are EU’s direct neighbouring countries and aspiring countries.

Conclusion

The optimism from the beginning of this text has been decreased by further analysis of the challenges we may expect in future. The dynamics of EU law development and the migration dynamics indicate the possibility of new tensions at EU’s and Western Balkan’s borders.

The question is whether the new tensions could be avoided?

When it comes to irregular migration, the answer to this question is obviously multi-dimensional and could boil down to three key groups of facts that need to be taken into consideration.

The first group of facts refers to a broader plan and the EU’s role with the partner countries that are key factors in migration movements on the Western Balkan route. Application of the EU-Turkiye agreement and control of migration movements from Turkiye towards Europe are key prerequisites for a reduced presence of migrants on the Western Balkan route. The countries of the region cannot affect the application of this agreement, but the

⁹ The Balkans in Europe Policy Advisory Group, <https://biepag.eu/article/melonirama-migration-protocol-unlawful-and-deeply-worrying/>.

scope of the migration crisis they might face in future largely depends on its application. In this regard, the EU needs to take into account the consequences that a potential setback in the application of this agreement with Turkiye might have on the Western Balkans.

The second group refers to the relations between the EU itself and the Western Balkan countries in the context of regulating migration movements. The migration and asylum system reform inside the EU is not at all *under the radar* of the governments in the region. The moment when the Pact's enforcement begins and when EU's expectations from the countries in the region become larger, the Western Balkan societies might be unprepared for the challenges that are expected. In this regard, organisation of a special EU-Western Balkan summit, focused only on migration policies and migration movement challenges, needs to be considered. As the Western Balkan countries cannot sit at the table when the EU changes its own legislation, the Western Balkan countries need to be a part of the European dialogue on this issue.

The third group are bilateral relations between the EU and the Western Balkan countries, and particularly important here are the relations between the EU Member States that are at EU's external borders and their neighbouring countries. Croatia in this regard, might play a very constructive role. Firstly, as the country that will adjust its national legislation to new directives, it may timely notify its neighbours thereon and offer additional explanations regarding the application effects. Secondly, Croatia's experience in joining the Schengen Area is significant for the countries of the region that have particular interests in building up their know-how and capacities. Thirdly, through migration dialogues with its neighbours, Croatia could be their *voice* in European bodies and present the migration management challenges faced by the countries in the region. On the other hand, it could also be the *source* of timely information relevant for Western Balkan countries' migration policies.

**PART III: Croatian Transitional Experience and
Challenges Faced by Individual South East
European States**

Croatia's EU Integration and Its Effects on the Accession Process of Montenegro

Milena Bešić

Croatia's EU Integration and Its Ripple Effects on Southeast Europe

In this scholarly endeavor, we delve into a very important moment in Croatia's journey and the significant impact it has on Southeast Europe. The subject under scrutiny, namely, Croatia's accession to the Eurozone and Schengen Area, and its potential impact on South East Europe, emerges as a timely and momentous subject of investigation. Within the confines of this study, our focus revolves around Croatian transitional experience and the challenges confronting individual South East European states.

On January 1st, 2023, Croatia celebrated a historic achievement, joining the Eurozone and Schengen Area. This marked the culmination of a journey that began over two decades ago, at the Zagreb Summit in 2000, when the Stabilization and Association Process was initiated. Croatia's transformation from post-socialist and post-conflict turmoil to a European integration success story is nothing short of remarkable. This achievement reshapes Croatia's position within the regional and European context.

Over the past 20 years, Croatia has accumulated a wealth of experience in democratic transition and European integration. This experience serves as a valuable asset for Croatia's foreign policy in the regional and European arenas and offers valuable insights for other Southeast European countries undergoing transformational processes.

However, our overview of the subject matter takes place against the backdrop of a complex geostrategic environment, marked by Russian aggression against Ukraine and its many-sided repercussions. While this situation understandably dominates the EU's priorities, it is crucial not to lose sight of the challenges within Southeast Europe. Democratic deficits, inter and intra-state tensions, incomplete state-building processes, pervasive organized

crime and corruption, and the influence of assertive external actors pose a long-term threat to stability in the region.

Having dedicated over two decades to assisting political and economic transformation in Southeast Europe, the EU cannot afford to allow any backsliding in its own “backyard”. Here, the role of the nearest EU member-states with a nuanced understanding of Southeast European democratic transition becomes crucial. They can advocate for the integration process of regional countries within the corridors of Brussels.

Therefore, Croatia’s experience holds the potential to benefit other Southeast European nations struggling with similar challenges. The commonalities we share provide a foundation for collective progress. Croatia’s successful conclusion of the EU integration process is symbolic and can have positive ripple effects beyond its borders.

Croatia’s Impact and Policies in Southeast Europe

The Croatian case is relevant because of its similarity to Western Balkan (WB) countries. It is a post-communist state, with the experience of a recent war, geographically situated in the same region and was part of the same perspective for EU membership. It has cultural similarity, shares historical legacy, and has started from a similar economic and political base as its neighbors. However, among the WB states, Croatia was so far the only one capable to start and finish negotiations and become a full-fledged EU member.¹

In this geopolitical and regional context, it is of utmost importance to address several subject matter related questions:

1. What will/could be the impact of Croatia’s Eurozone and Schengen Area accession on the region?
2. How can Croatia employ policies to support political and economic consolidation in the region and assist non-EU members on their journey to EU membership?

¹ Šelo Šabić, S. (2019). (Ir)relevance of Croatian Experience for Further EU Enlargement. *Insight Turkey*, Vol. 21 / No. 2, pp. 173–174. Available at: <https://www.insightturkey.com/file/1148/irrelevance-of-croatian-experience-for-further-eu-enlargement>.

3. Who opposes the accession of countries in the region to transatlantic structures, and how can their influence be mitigated, especially with the support of neighboring countries already being EU member states?

Firstly, Croatia's integration into the Eurozone is likely to promote economic stability within the region. As part of the Eurozone, Croatia will use the Euro as its currency, eliminating currency exchange risks and facilitating trade and investment with neighboring countries. Additionally, Croatia's participation in the Schengen Area is expected to improve border management and security cooperation in the region. On the political level, Croatia's expanded role within the EU, as a member of both the Eurozone and Schengen Area, can translate into increased political influence. It can advocate for the interests of Southeast European countries more effectively within EU institutions, potentially accelerating the accession process of other nations in the region by leveraging its own successful integration experience. Finally, Croatia's enhanced position in the EU can contribute to greater regional cooperation in Southeast Europe. It can serve as a model for neighboring countries, demonstrating that EU integration is attainable with sustained efforts and reforms. This can encourage regional cooperation on various fronts, including resolving historical disputes, promoting economic development, improving trade of goods and services, addressing common security challenges, migration policies in different forms (regular, irregular, brain drain, migration of workforce, treatment of refugees, etc.).

Secondly, when it comes to the ways in which Croatia can employ policies to support political and economic consolidation in the region and assist non-EU members on their journey to EU membership, numerous effects can be made. For example (Montenegro has already had that experience), Croatia can actively share its experiences and best practices from its own EU accession process. This can include providing guidance on legislative reforms,²

² For example, "one way Croatia has assisted the Montenegrin accession process to the EU and NATO has been by granting access to Croatian translations of EU legislation. On June 13, 2012, the Croatian Foreign Minister Vesna Pusić and her counterpart signed an agreement on EuroAtlantic partnership, directed at Croatian assistance to Montenegro in its reform process. Most notably, the agreement gave Montenegro access to its most recent EU legislation adopted later in its accession process". See: Johnson, A. (2014). *The Balkans is Our Neighborhood, Europe is Our Destiny: Croatia's Attempt*

institutional capacity building, and aligning with EU standards and norms. Croatia can serve as a mentor and offer technical assistance to neighboring countries in their reform efforts. Additionally, it can strengthen its engagement in regional initiatives and cooperation mechanisms, and actively promote dialogue and reconciliation among neighboring countries, or it can advocate for and support regional economic integration initiatives. Promoting customs and trade facilitation agreements, reducing trade barriers, and harmonizing regulations can boost intra-regional trade and economic development. One notable challenge lies in the increased freedom of movement, which, while generally positive, has far-reaching effects on the entire region. This includes shifts in the labor market and demographic dynamics, driven by the movement of workers in both directions – some leaving their home countries and others arriving from abroad. For smaller countries like Montenegro, these changes pose unique risks. In this context, Croatia's experiences in addressing such challenges can offer valuable insights and solutions that hold particular significance for countries in a similar position, like Montenegro.

Moreover, it is undoubtedly that the foreign-policy position of Croatia can be beneficial for Southeast Europe in the sense of cross-border infrastructure, or strengthening rule of law and anti-corruption policies. Supporting infrastructure projects that enhance connectivity among neighboring countries can be a crucial policy. Investment in transportation, energy, and digital infrastructure can reduce barriers to trade and promote economic growth. Also, Croatia can assist neighboring countries in strengthening the rule of law, promoting transparency, and combating corruption (e.g. mechanisms of international/regional judicial cooperation, especially in criminal matters). These efforts are essential for both political stability and progress toward EU membership.

In a nutshell, Croatia, as an EU member, can advocate for the acceleration of EU accession processes for its neighbors in Southeast Europe. It can employ a combination of diplomatic, economic, and institutional strategies to support the political and economic consolidation of Southeast European

to Build Regional Relations in Hopes of EU Membership. *University of North Carolina at Chapel Hill*, pp. 29–30.

countries and assist them on their path to EU membership. By actively engaging in regional cooperation, advocating for EU accession, and sharing its EU integration experience, Croatia can contribute significantly to the region's stability and prosperity. Using its democratic resources, it can also play a constructive role in resolving historical disputes and conflicts within the region. By advocating for peaceful dialogue and reconciliation, Croatia can contribute to regional stability and create a conducive environment for EU integration.

Croatia's Role in Montenegro's EU Journey

Therefore, it becomes evident that Croatia's role in fostering Montenegrin democratic transition and development, along with facilitating progress on its journey toward EU membership, holds significant promise. Croatia's own remarkable experience in navigating the complexities of European integration, particularly its recent accession to the Eurozone and Schengen Area, positions it as a valuable mentor and partner for Montenegro. In this context, it is necessary to underline the exceptional importance of maintaining strong and positive relations between Croatia and Montenegro. These relations not only serve as an example of successful diplomatic cooperation and sincere reckoning with historical challenges but also provide the foundation for building robust and mutually beneficial ties between our nations.

However, the fact that Montenegro and Croatia enjoy good relations today is not merely the absence of conflicts but also the result of effectively addressing and overcoming challenges as they arose. In that sense, it is of high importance to underscore the responsibility of the former Montenegrin government for events in the 1990s, including the attack on Dubrovnik, and the fact that Montenegro's unequivocal acknowledgment of its past actions without reservation or qualification stands as an example of how rational and sincere policies can foster strong relationships despite a challenging historical legacy. From then until today, even regardless of the fact that the government in Croatia has changed in recent decades (while the same party was in power in Montenegro for 30 years until 2020), Montenegro and Croatia have maintained good mutual diplomatic and neighborly relations, that we must carefully preserve and nurture, as our goal should not merely be to prevent veto scenarios but to genuinely foster neighborly relations and alliance.

Accordingly, it is worth mentioning one of the latest examples of quality diplomatic relations between Montenegro and Croatia, and noting that Croatia was the first European Union member visited by Mr. Milatović, President of Montenegro. During his official visit, he engaged in discussions with President Milanović on crucial topics such as bilateral relations between Croatia and Montenegro, the possibility of resolving outstanding issues through diplomacy, the status and rights of Croats in Montenegro, the continuation of Montenegro's negotiations for European Union membership, collaborative efforts within North Atlantic Treaty Organization (NATO), and the political situation in Southeastern Europe. This is, at least on a symbolic level, a continuation of the previous quality diplomatic and neighborly relations between Montenegro and Croatia. However, we will see how the relations will continue considering the current political hesitations of Montenegro at this important moment when it needs to repent if it is really for the EU or not.

Nevertheless, while it is important to highlight the positive relations between Montenegro and Croatia, we should not overlook the unresolved bilateral issues concerning Prevlaka, the ownership of the Adriatic ship, or the compensation for former camp detainees. It is imperative that these outstanding matters be approached in a constructive manner, employing diplomatic channels that prioritize the fostering of positive and cooperative neighborly relations.³

This sentiment was echoed in a recent interview by Tonino Picula, the European Parliament rapporteur for Montenegro. Speaking about the 'Prevlaka' issue, he stated:

Montenegro only has direct contact with the EU on one part of its external borders. This section of the border is regulated by a provisional protocol that I, as the then Minister of Foreign Affairs, signed on behalf of Croatia nearly twenty years ago. However, it has been shown that such a solution has not had a negative impact on our relations. On the contrary, Montenegro and Croatia have since become NATO members, which means they should "watch each other's backs" in possible security

³ Nevertheless, in October 2011, the Croatian parliament adopted a "Declaration on Instigating European Values in Southeast Europe", in which it pledged to support EU enlargement, and promised not to use open bilateral issues to block its neighbors from the EU accession. The Declaration is available at: <https://www.notarius.hr/zakonodavstvo/deklaracija-o-promicanju-europskih-vrijednosti-u-jugoistocnoj-europi-1>.

crises. I am opposed to the (mis)use of unresolved bilateral issues in negotiation processes by member states, as Croatia has had very unpleasant experiences in this regard. Nonetheless, it would be beneficial to address open bilateral issues, not so much for closing negotiation chapters but for the sake of improving relations.⁴

In light of the evolving dynamics between Montenegro and Croatia, it becomes increasingly evident that addressing the unresolved bilateral issues is not only a matter of diplomatic necessity but a pivotal step towards reinforcing their mutually beneficial relationship. The significance of these measures transcends mere diplomacy, as they hold the key to enhancing regional stability and cooperation. One must bear in mind that Montenegro and Croatia have both assumed the responsibility of NATO membership, signifying a commitment to safeguarding one another in times of potential security crises. This collaborative defense posture underscores the need for these neighboring nations to forge an even closer bond, one built on trust and cooperation.

Moreover, it is imperative to follow the wise counsel of Mr. Tonino Picula – his principled stance against the misuse of unresolved bilateral issues in negotiation processes, grounded in Croatia’s own disconcerting experiences, serves as a strong warning about the dangers of using such tactics. Therefore, it is not merely a matter of convenience but a matter of strategic prudence to address these outstanding matters constructively.

To sum up, the resolution of these bilateral issues takes on a dual significance. Firstly, it bolsters the foundation of good neighborly relations between Montenegro and Croatia, a cornerstone for regional stability and development. Secondly, it opens the door to the valuable support Croatia can extend to Montenegro on its journey towards European Union membership.

⁴ The whole interview is available at the Vijesti portal: <https://www.vijesti.me/vijesti/politika/673153/intervju-picula-buduca-vlada-mora-biti-saglasna-oko-temeljnih-ciljeva>. (Accessed on September 10, 2023).

*Strengthening Transatlantic Integration in Southeast Europe:
Croatia's Contributions and Opposition Mitigation*

Finally, it is left to answer the third question: Who opposes the accession of countries in the region to transatlantic structures, and how can their influence be mitigated, especially with the support of neighboring countries already being EU member states?

The opposition to the accession of countries in the South East Europe region to transatlantic structures stems from a variety of sources. Russia has historically opposed NATO and EU expansion in what it sees as its sphere of influence, using diplomatic and political means to discourage integration efforts. Additionally, nationalist and populist movements within some regional countries view closer ties with Western institutions as a threat to their national sovereignty. Neighboring countries that have opted for alternative alliances or regional cooperation frameworks outside the EU and NATO (e.g. Open Balkan Initiative) may also work to compromise integration efforts, aiming to boost their influence in the region. Lingering historical tensions and disputes among regional countries further complicate integration, as these issues can be exploited by opposing actors to sow discord and hinder cooperation. Effectively mitigating their influence is essential for the successful integration of South East Europe into transatlantic structures.

Mitigating the influence of opposition to the accession of countries in Southeast Europe to transatlantic structures is especially possible with the assistance of neighboring EU member states. They can provide their assistance through a multifaceted approach. Diplomatic engagement plays a pivotal role, fostering open dialogues and negotiations to address concerns and build trust among opposing actors. Croatia, as experienced EU member states, possess valuable insights that can significantly aid EU candidate countries in Southeast Europe during their accession process. One of the most crucial forms of support they can offer is by sharing their own experiences from their respective EU accession journeys. This exchange of experiences can provide candidate countries with essential insights into the negotiation process, aligning with EU standards, and implementing necessary legal and administrative reforms. Croatia can offer practical guidance based on its own successes and challenges.

Technical assistance is another way through which Croatia can contribute to the progress of candidate countries. This assistance can encompass a wide range of areas, including legal harmonization, public administration reform, and capacity-building. By providing specific expertise and resources, Croatia and Slovenia can help candidate countries more effectively meet the demanding criteria set by the EU for accession.

Bilateral agreements and cooperation frameworks established between Croatia, and candidate countries, can play a pivotal role in facilitating the integration process. These agreements can reach various domains, from trade and economic collaboration to cultural and educational exchanges. Such partnerships can create a solid foundation for strengthening regional ties and preparing candidate countries for future EU membership.

Moreover, Croatia can utilize its influence within the EU to actively promote the integration efforts of candidate countries. This involves endorsing the commencement of negotiation chapters, ensuring that the accession process continues to be a central concern on the EU's agenda, and rallying support from a broader group of EU member states for the accession of Southeast European countries. However, it is worth noting that the criteria for attaining membership have evolved significantly and have become more rigorous. Furthermore, the geopolitical landscape has experienced substantial changes, and the ramifications of the Ukraine conflict have complicated relations in the Western Balkans region, which is not working in our favor.

Moreover, given the security dimension, enhancing security cooperation and coordination with candidate countries, particularly in the context of NATO membership, can contribute significantly to regional stability and deter potential security challenges. In that sense, it is important to highlight the significance of Montenegro's NATO membership and the creation of the Adriatic Charter, which includes Albania, Montenegro, Croatia, and Slovenia and plays a pivotal role in regional stability. In the period leading up to Montenegro's NATO membership, Croatia's support was almost indispensable, particularly when facing significant external pressure from other quarters, including Russia and Serbia, supported by domestic political factions, to prevent Montenegro from joining the alliance.

Lastly, Croatia can play a critical role in facilitating conflict resolution for historical disputes and tensions within the region, as these issues can pose significant obstacles to EU accession. By actively engaging in crisis management and disaster response mechanisms, they ensure a coordinated regional response to emergencies, reinforcing regional stability and cooperation. In summary, Croatia has a multifaceted role to play in supporting the EU accession process for Southeast European candidate countries. Their experiences, technical assistance, advocacy, and cooperation initiatives are key tools for promoting regional stability and prosperity on the path to EU membership.

Having said all of the above, it is to be summarized: While a vacuum emerged in accession negotiations and the Berlin Process on the Western Balkans, Croatia was diligently working toward finalizing its processes, culminating in its entry into the Eurozone and the Schengen Area. It would be prudent on our part to leverage the progress made by our neighbors and continue our reform processes toward EU accession, drawing lessons from Croatia's experience, even though the conditions and challenges for them and us are somewhat different.

Nations like Croatia, Slovenia, and others, which have shared similar histories and are members of the EU and NATO, are incredibly valuable allies. Their support goes beyond just diplomatic gestures; they provide practical assistance in legal and administrative matters and play a crucial role in advocating for EU integration. In the case of Croatia and Montenegro, the ease and feasibility of such activities are enhanced by the shared language and a common legal heritage stemming from their time in the former Yugoslavia. As we navigate through the challenges and setbacks on our path to European integration, our relationship with Croatia, a country that has successfully overcome similar obstacles, becomes increasingly indispensable.

Additionally, Croatia's NATO membership and its role in the Adriatic Charter have significantly contributed to regional stability. The support of countries like Croatia was pivotal in countering external pressures during our accession process. We must not underestimate the importance of these security partnerships in maintaining peace and security.

To wrap it up, as the Western Balkans faces changes in EU membership talks, Croatia joining the Eurozone and Schengen shows us that we can make progress. We should take lessons from their journey, even if our situations are not exactly the same. The key is to stay committed to making improvements and reforms. Croatia's journey towards Eurozone and Schengen membership offers both hope and guidance for the Southeast European region. By embracing responsibility, fostering regional alliances, securing our collective security, and learning from Croatia's experience, we can continue progressing toward a more stable, prosperous, and integrated future.

Between Ethnocracy and Integration: Croatia's Influence on Bosnia and Herzegovina

Sead Turčalo

Setting the Context

For more than three decades, Bosnia and Herzegovina (BiH) has navigated a myriad of challenges. Influenced by a range of historical and geopolitical events, BiH remains firmly rooted in the European context, both geographically and culturally. Joining the European Union (EU) is crucial for BiH, though this alone will not resolve all internal issues. On the other hand, exclusion from the EU's system of shared values could have substantial economic and political repercussions for both the state and its society. The EU is more than an economic bloc; it is a comprehensive framework promoting peace, freedom, human rights, and dignity. For BiH, such a framework is essential to fulfill its potential as a stable, multi-ethnic democracy.

The Western Balkans, including BiH, differ from other Eastern and South-eastern European countries in their turbulent transition to post-socialist societies and EU integration. The violent dissolution of Yugoslavia added layers of complexity, combining economic and political transitions with unresolved historical grievances.¹ The EU has faced challenges in promoting democratic consolidation in the region, marked by diverse ethnic compositions and intricate geopolitical landscapes.

In 1999, the EU initiated the Stabilisation and Association Process (SAP) to strategically integrate Western Balkan countries, including BiH, into the EU. This process outlined specific conditions for EU membership, incorporating criteria from the 1993 Copenhagen and 1995 Madrid European Council summits, regional requirements, and individual country conditions.² The

¹ Dabrowski, M., & Myachenkova, Y. (2018). The Western Balkans on the road to the European Union. *Policy Contribution*, (04).

² Marktler, T. (2006). The power of the Copenhagen criteria. *Croatian Yearbook of European Law and Policy*, 2(2). <https://doi.org/10.3935/cyelp.02.2006.23>; Madrid European Council. (n.d.-c). https://aei.pitt.edu/1452/1/madrid_dec_1995.pdf.

Zagreb Summit in 2000 and the Thessaloniki Summit in 2003 recognized Western Balkan countries as potential EU members. The EU provided substantial support through trade benefits and financial aid via the CARDS program and later the Instrument for Pre-Accession Assistance (IPA), focusing on aligning beneficiary countries with EU standards and policies.³

BiH's path to EU integration, post-1995 war, initially focused on economic reconstruction and peace stabilization, significantly aided by the international community and the Dayton Peace Agreement.⁴ The EU Road Map for BiH in 2002 set out conditions for starting negotiations on a Stabilisation and Association Agreement (SAA),⁵ which was signed in 2008 and came into force in 2015. BiH's application for EU membership in 2016 marked a new reform phase towards aligning with EU standards.⁶ While there is political consensus in BiH on EU membership, internal disagreements on reform implementation impede progress. The post-Dayton era saw advancements proportional to international intervention, particularly through the Office of the High Representative (OHR).⁷ However, domestic political challenges have hindered integration efforts since 2006.⁸

The EU's evolving approach towards BiH, exemplified by the Berlin Process and the German-British Initiative, underscores the prioritization of economic and social reforms. Complex political issues are set aside for later

³ Đurović, G., & Jaćimović, D. (2014). From stabilisation and association process to full membership of Western Balkans countries. *International Journal of Information Systems and Social Change*, 5(3), 12–30. <https://doi.org/10.4018/ijissc.2014070102>.

⁴ Singer, P.W. (2000). Bosnia 2000 Phoenix or Flames. *World Policy Journal*, 17, 31–37; Ačić, M., & Grujić, M. (2022). The role of selected financial organizations in the reconstruction of Bosnia and Herzegovina after the Dayton Peace Agreement. *Acta Politica Polonica*.

⁵ Nežirović, S., Živko, A., Durmišević, B., & Hodžić, A. (2022). Stabilisation and association agreement between the Western Balkan countries and the European Union. *Journal of Geography, Politics and Society*, 12(2), 36–50. <https://doi.org/10.26881/jpgs.2022.2.05>.

⁶ Turčilo, L. (2013). Bosnia-Herzegovina and the European Union: Strong European Identity in Spite of Scepticism.

⁷ Minasi, N. (2023). Post-War Interventionism and Diplomatic Practice in Bosnia Herzegovina: Too Much or Too Little? *European Review of International Studies*.

⁸ Dedić, H. (2021). Dejtonski mirovni sporazum i političke reforme u tranziciji bosansko-hercegovačkog društva / Dayton Peace Agreement and Political Reforms in the Transition of Bosnian Society. *Pregled: časopis za društvena pitanja / Periodical for social issues*.

stages of integration. BiH's accession process is unique due to its post-conflict, multi-ethnic nature, and the complex state structure established by the Dayton Peace Agreement. The ethnic division of political power, as per the Dayton Agreement, complicates decision-making and reform implementation, hindering EU integration. The Bosnian constitution, based on ethnicity, discriminates against those not belonging to the three main ethnic groups, posing a challenge to EU human rights standards.

Efforts to transform the Bosnian political system have faced resistance, often influenced by external actors from neighboring countries. The Dayton Peace Agreement, initially aimed at ending the war, has shown its limitations in fostering a sustainable political system. The EU integration process demands significant reforms in BiH, including addressing its decentralized political system, institutional weaknesses, ethnically driven politics, corruption, and external influences. Successful EU integration requires a reformed legal and political order in BiH, aligned with EU standards of liberal democracy.

Since 2000, the EU's strategy of offering membership as an incentive for reform, known as Europeanization, has seen mixed success in BiH. The gap between conditions, expectations and outcomes highlights the limitations of the EU's influence within the intricate socio-political landscape in BiH. Even the recent announcement by the European Commission from the on accession talks rings with the familiar tune of conditioned progress.⁹ When measured against the gap between the professed European integration mantras of domestic politicians and concrete reform efforts, this tune could well become the anthem of a protracted exhaustion in meeting the preliminary conditions to even commence the process.

Ursula von der Leyen, President of the European Commission, has delivered a message tinged with both hope and the weight of fluid contingencies: Bosnia and Herzegovina may start negotiations "once it achieves the necessary

⁹ López Domènech, B. (2023, November 16). Bosnia's 2023 commission report: A lack of strategic steering and the Buck passed to the Council. European Policy Centre. <https://www.epc.eu/en/Publications/Bosnias-2023-Commission-report-A-lack-of-strategic-steering-and-the~55bd38>.

degree of compliance with EU criteria.”¹⁰ This diplomatically framed remark is a potent reminder of the 14 key priorities set in 2019 that remain unfulfilled, eerily reminiscent of the conditional terms from the NATO summit in Tallinn concerning the activation of the Membership Action Plan (MAP) – a condition that had almost turned the integration process into a mirage. One wonders if the 2023 November 8th message of conditionality might transform the decision on the commencement of negotiations into yet another mirage.

Croatia’s Impact on Bosnia’s Path to the EU: Between Integration and Interference

The foreign policy framework of Bosnia and Herzegovina (BiH) has been historically shaped by the document “General directions and priorities for implementation of the Foreign Policy of Bosnia and Herzegovina”, established in 2003.¹¹ This initial post-war strategy outlined the nation’s ambition to join the European Union (EU) and NATO. The pursuit of these goals has been a consistent theme, as evidenced by the 2018–2023 Foreign Policy Strategy which emphasizes EU integration as the primary objective.¹² An understanding of BiH’s foreign policy is incomplete without examining the influence of neighboring countries, especially Croatia. Croatia’s role is significant due to its lengthy border with BiH, its status as an EU member, and its impact on the Croat population in BiH. The complexities in BiH-Croatia relations stem largely from the legacy of past conflicts, continuing to shape their interactions today.

Croatia’s foreign policy towards BiH has undergone significant transformation since the early post-war years. Initially, under President Franjo Tuđman, Croatia, in tandem with Serbia, envisioned absorbing large portions

¹⁰ Oslobođenje – Ursula von der Leyen: Otvaranje Pregovora sa BiH ... (2023, November 8). <https://www.oslobodjenje.ba/vijesti/bih/ursula-von-der-leyen-otvaranje-pregovora-sa-bih-kada-se-ispune-uslovi-906244>.

¹¹ Ministarstvo vanjskih poslova Bosne i Hercegovine. (n.d.). Opći pravci i prioriteti za provođenje vanjske politike Bosne i Hercegovine. https://mvp.gov.ba/vanjska_politika_bih/osnovni_pravci_vanjske_politike_bih/default.aspx?id=2.

¹² Presidency of Bosnia and Herzegovina. (2018, March). The foreign policy strategy of Bosnia and Herzegovina 2018–2023. <http://predsjednistvobih.ba/vanj/default.aspx?id=79555&langTag=en-US>.

of BiH territory.¹³ This expansionist agenda changed following Tuđman's death in 1999 and subsequent international pressure, marking a shift in Croatia's approach to BiH. Although Croatia's accession to the EU necessitated a more pragmatic stance, there has never been a complete renunciation of the idea of territorial autonomy for Croats in BiH. In recent years, there has been an increasing call within Croatia for the establishment of a Croat-dominated entity within BiH,¹⁴ a concept that has gained momentum and become more pronounced.¹⁵

Upon Croatia's EU membership in 2013, expectations emerged that it would facilitate BiH's integration into the EU. Contrary to these anticipations, Croatia began advocating for the creation of a third, Croat-majority entity within BiH, purportedly in the name of "equality."¹⁶ This stance was not only openly endorsed but also subtly veiled in calls for "federalism and decentralization." Croatian MPs in the European Parliament have consistently pushed for constitutional and electoral reforms in BiH to safeguard the rights of Croats, essentially advocating for their distinct representation in the BiH presidency and preservation of minority veto powers.

Recently as a controversial example of alleged Croatia's influence in BiH's internal affairs¹⁷ was understood the intervention of the High Representative

¹³ Hamzić, O. (2021). Bosnia and Herzegovina in current Serbian and Croatian political conceptions. *Historijski pogledi*. <https://doi.org/10.52259/historijskipogledi.2021.4.6.233>.

¹⁴ Sahadžić, M. (2019). Mild Asymmetry and Ethnoterritorial Overlap in Charge of the Consequences of Multinationalism. *A Country Study of Constitutional Asymmetry in Bosnia and Herzegovina. Constitutional Asymmetry in Multinational Federalism*, 47. https://doi.org/10.1007/978-3-030-11701-6_3.

¹⁵ Rose, E. (2018, May 22). Bosnian court ruling lends weight to Croat agitation. *Balkan Insight*. <https://balkaninsight.com/2016/12/15/bosnian-court-ruling-spells-constitutional-trouble-say-experts-12-14-2016/#sthash.ELgxm6i0.dpuf>; Grbavac, V. (2020, April 13). Third entity would destroy Bosnia's Croat political elite. *Balkan Insight*. <https://balkaninsight.com/2020/04/10/third-entity-would-destroy-bosnias-croat-political-elite/>.

¹⁶ Sarajevo, N. (2022, May 5). Croatia's president: BiH Croats are prepared for establishment of third entity. <https://n1info.ba/english/news/croatias-president-bih-croats-are-prepared-for-establishment-of-third-entity/>; Rathfelder, E. (n.d.). The third entity – A fiction? https://ba.boell.org/sites/default/files/uploads/2017/12/third_entity_by_erich_rathfelder.pdf.

¹⁷ Mulaosmanovic, A. (2022, August 4). Analysis – one state, two entities, 3 peoples, and problem of Muslim majority. *Anadolu Ajansı*. <https://www.aa.com.tr/en/analysis/analysis-one-state-two-entities-3-peoples-and-problem-of-muslim-majority/2653300>.

for Bosnia and Herzegovina, Christian Schmidt, who made significant changes to the country's electoral laws and constitution amid ongoing elections.¹⁸ This decision was criticized by various quarters for its timing and nature,¹⁹ suggesting a possible influence by Croatian interests. Schmidt's amendments, perceived as favoring BiH Croat ethnonationalists, are seen as potentially inspired by Croatian lobbying within the EU.²⁰ Critics argue that such intervention undermines democratic principles and the electoral process's integrity,²¹ raising concerns about external influences on BiH's governance.²² Such political maneuvering, influenced by neighboring states, exacerbates existing divisions and hinders even a clear EU approach to BiH.

The narrative within Croat political circles in BiH, reinforced by Croatian support, has increasingly emphasized a distinct European identity for the Croat community, setting it apart from other ethnic groups in BiH. This distinction is framed in terms of cultural superiority and European values, a stance exemplified by the largest Croat party in BiH, the HDZ.²³ Such identity politics are rooted in a nationalist perspective, where the creation of an 'other' is essential to defining the 'self.' This dynamic fosters exclusion and division, perpetuating myths and misconceptions about history and present realities.²⁴

¹⁸ Brezar, A. (2022, October 7). Bosnia's peace envoy changed laws mid-election. But what does it mean? Euronews. <https://www.euronews.com/my-europe/2022/10/07/bosnias-peace-envoy-changed-laws-mid-election-but-what-does-it-mean>.

¹⁹ Fokus.ba. (2022, July 28). Transparency international: Najoštrije osuđujemo nametanje Izmjena Izbornog zakona. <https://www.fokus.ba/vijesti/bih/transparency-international-najostrije-osudjujemo-nametanje-izmjena-izbornog-zakona/2368242/>.

²⁰ Klix.ba. (2022, July 23). Pravnici Ohr-A Su Prvo Dobili dokument iz zagreba, a zatim pripremili Izmjene Izbornog Zakona. <https://www.klix.ba/vijesti/bih/pravnici-ohr-a-su-prvo-dobili-dokument-iz-zagreba-a-zatim-pripremili-izmjene-izbornog-zakona/220723089>.

²¹ International Bar Association. (n.d.). Rule of law: Electoral changes in Bosnia-Herzegovina lead to charges of "ethnic gerrymandering." <https://www.ibanet.org/Electoral-changes-in-Bosnia-Herzegovina-ethnic-gerrymandering>.

²² Zećo, A. Ć. (2023, November 4). Činjenice Protiv Schmidta: Visoki Predstavnik Ili Specijalni Izaslanik Zagreba za BiH? Istraga. <https://istraga.ba/cinjenice-protiv-schmidta-visoki-predstavnik-ili-specijalni-izaslanik-zagreba-bih/>.

²³ Sveučilište u Mostaru. (n.d.). Znanstveno-Stručni Skup "Hrvati BiH – Nositelji Europskih Vrijednosti?", obavijest. <https://www2010.sum.ba/index.html%3Fp=1419.html>.

²⁴ Veličković, N. (2017, March 17). Znanstveno Neumovanje. dw.com. <https://www.dw.com/bs/znanstveno-neumovanje/a-37990007>.

The geopolitical implications of Croatia's stance on BiH's EU aspirations add another layer of complexity. The concept of "normalization," a term pivotal to the discourse on BiH's accession, is interpreted differently by various political factions in BiH. For Bosniak parties, it signifies a move towards a more inclusive national framework, whereas for Croatian politicians, it implies the need for territorial reorganization favoring Croats. This debate extends to the idea of federalization, viewed differently by BiH Croats, Serbs, and Bosniaks. Croatian politicians in both BiH and the EU Parliament have pushed for this concept, which is seen as a means to create an ethno-territorial unit within BiH with a Croat majority. Such political maneuvering, influenced by neighboring states, exacerbates existing divisions and hinders even a clear EU approach to BiH.

Beyond Croatia: Rethinking EU's Strategy in Bosnia and Herzegovina

The European Union's strategy towards BiH has been marred by significant shortcomings, primarily stemming from a failure to tailor its approach to the unique, ethnically defined realities of the post-war BiH state. A critical misjudgment was the underestimation of the differing perspectives of BiH's three principal ethnic groups – Bosniaks, Serbs, and Croats – regarding the EU-led reforms.²⁵ This oversight is a glaring deviation from the rationalist institutionalism paradigm as proposed by Robert Keohane (1995), which posits that states or ethnic groups will weigh institutional norms against their rational self-interests.²⁶

The Bosniaks generally perceived benefits in a unified, decentralized BiH, whereas the Serbs and Croats were apprehensive, fearing subjugation by the majority group. This situation illuminates the limitations of the EU's normative framework, predominantly hinged on democratic values and human

²⁵ Tzifakis, N. (2012). Bosnia's Slow Europeanisation. *Perspectives on European Politics and Society*, 13, 131–148. <https://doi.org/10.1080/15705854.2012.675649>; Reményi, P., Gekić, H., Bidžan-Gekić, A., & Sümeghy, D. (2021). Electoral Geography of Bosnia and Herzegovina – is there anything beyond the ethnic rule? *East European Politics*, 38, 227–253. <https://doi.org/10.1080/21599165.2021.2006639>.

²⁶ Keohane, R. O., & Martin, L. L. (1995). The promise of institutionalist theory. *International Security*, 20(1), 39. <https://doi.org/10.2307/2539214>.

rights, which proved insufficient in addressing the divergent ethnic interests.²⁷ A more nuanced approach, blending normative ideals with rationalist considerations of cost-benefit analysis, could have potentially led to more widely acceptable institutional arrangements for all parties involved.

Additionally, the EU's strategy has been perceived among Serbs as biased, particularly in its insistence on reforms that seemingly undermine the autonomy of the Serb-dominated Republika Srpska.²⁸ This EU insistence on reforms has been used among the ruling political elite in Republika Srpska to diminish the EU's impartiality and also its moral standing among Serbs. Applying George Tsebelis' "Veto Players" theory,²⁹ one can understand why the Republika Srpska, as a significant veto player, resists reforms threatening its autonomy.³⁰

The EU's approach to BiH's accession process has further been undermined by its inconsistent stance on enlargement, often retreating from its demands and accepting only partial compliance. This approach introduces a 'moral hazard', encouraging BiH to shirk necessary reforms, knowing full well that the EU is unlikely to enforce stringent penalties for non-compliance.³¹ Such a predicament is not unique to the EU but is particularly acute given its supranational nature and limited enforcement capabilities. To counteract this, the EU needs to clarify its legal and policy requirements, enhance decision-

²⁷ Bargués, P., & Morillas, P. (2021). From democratization to fostering resilience: EU intervention and the challenges of building institutions, social trust, and legitimacy in Bosnia and Herzegovina. *Democratization*, 28, 1319–1337. <https://doi.org/10.1080/13510347.2021.1900120>.

²⁸ Ponamareva, A. (2021). Eurointegration as a Trigger for the Serbian Ethnic Separatism in Bosnia and Herzegovina, 13, 120–156. <https://doi.org/10.48015/2076-7404-2021-13-1-120-156>; Dudley, D., & Saez, F. (2022). The European Union's Political Membership Criteria and Their Effects on Divided Societies: The Case of Bosnia and Herzegovina. *Journal of Balkan Studies*. <https://doi.org/10.51331/a025>.

²⁹ Tsebelis, G. (2002). Veto Players: How Political Institutions Work. *Princeton University Press*, 38–40.

³⁰ See also: Bonifati, L. (2023). Constitutional Design and the Seeds of Degradation in Divided Societies: The Case of Bosnia-Herzegovina. *European Constitutional Law Review*, 19, 223–248.

³¹ Noutcheva, G. (2009). Fake, partial and imposed compliance: The limits of the EU's normative power in the Western Balkans. *Journal of European Public Policy*, 16(7), 1065–1084. <https://doi.org/10.1080/13501760903226872>.

making transparency, fortify enforcement mechanisms, and strengthen relationships with member states.

A crucial aspect where the EU's strategy falters is in effectively communicating the mechanisms for compliance with its rules. Direct governance by the EU has failed to adequately convey these mechanisms, and the authoritative role of the High Representative/EU Special Representative (HR/EUSR) has led to a passive stance among local leaders. The success of the EU's efforts in BiH hinges on two factors: cohesiveness among EU member states and the credibility of the EU as a reliable partner. The current lack of a unified EU stance and the perceived inconsistency in its demands have significantly hindered BiH's compliance.

Given these challenges, it becomes imperative for the EU to adopt a more cohesive and consistent approach to effectively influence BiH's Europeanization. It must focus on increasing the credibility of its policies and the clarity of its compliance directives.³² Furthermore, the EU should consider substantive policy initiatives that resonate with Bosnian aspirations, such as the development of opportunities and efficient infrastructure. The geopolitical landscape also demands attention,³³ with players like Russia, Turkey, and Hungary potentially forming alliances that could sway BiH away from the EU's influence.

Finally, the EU's strategy towards BiH needs a comprehensive overhaul, incorporating a balanced approach that acknowledges the ethnic complexities of the state, establishes a credible and consistent framework for accession, and effectively communicates compliance mechanisms.

Concluding Remarks

This examination of BiH's quest for EU integration, with the intricate involvement of Croatia, casts light on the multifaceted nature of regional transitions.

³² Kučukalić, E. (2022). From Frozen to Latent Conflicts. Is a New EU Paradigm for Bosnia and Herzegovina Urgent? *Środkowoeuropejskie Studia Polityczne*. <https://doi.org/10.14746/ssp.2022.3.5>.

³³ Engelhardt, G. (2020). Bosnian ethnic communities' long-term foreign policy affiliations: from the Crimean War to Dayton, 345–367. <https://doi.org/10.31168/4469-1767-9.20>.

It encapsulates a web of historical, political, and socio-cultural strands, offering a prism through which the broader regional challenges and experiences can be understood. The pursuit of EU membership by Bosnia and Herzegovina from the perspective of its citizens symbolizes a desire for stability and prosperity yet is deeply woven into the fabric of its post-war ethnopolitical reality. The EU's focus on democracy and human rights grapples with the complex ethnic polarization of BiH society, highlighting the necessity for an EU approach that is not only normatively driven but also keenly aware of the distinct ethnic challenges in post-conflict scenarios.

Croatia's entry into the EU raised expectations of it aiding BiH's integration. However, Croatia's advocacy for a Croat-dominant entity within BiH reveals its dual role—simultaneously a facilitator and an ethnonational disruptor. This dichotomy, stemming from the protection of Croat rights, inadvertently deepens divisions within BiH and presents a challenge to EU integration efforts. Thus, it becomes crucial for Croatia to harmonize its foreign policy with the EU's overarching goals of fostering BiH's stability and unity.

The EU's strategy in BiH, marked by a lack of consistency and an underestimation of ethnic intricacies, calls for a strategic reorientation. This necessitates a blend of normative ambitions with a realistic grasp of ethnic group dynamics, improving the effectiveness and relevance of EU policies that resonate with BiH's goals while considering the influence of external powers like Russia, Turkey, and Hungary.

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As Croatia Cruises, Can Its Neighbors Speed Up? Some Lessons for Kosovo from Croatia's Euro-Atlantic Integration Experience

Qëndrim Gasbi

Introduction

In January 2023 Croatia marked another historic achievement when it officially joined the Eurozone and the Schengen Area. After becoming a member of the North Atlantic Treaty Organization (NATO) in April 2009 and of the European Union (EU) in July 2013, membership in the Organization for Economic Co-operation and Development (OECD) remains the only item on its strategic “to-do” list.

Although not always linear, Croatia's progress in the past three decades has been remarkable. Compare that with the respective paths of the neighboring six Western Balkans countries (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia), and Croats have plenty of reasons to celebrate.

Could those neighbors, and in particular Kosovo, use Croatia as “a model”? What lessons can Kosovo draw from Croatia's experience? In the present note we examine the last question.

A Role for Croatia in the Western Balkan Region

Independently of whether or not Croatia can inspire its Western Balkan neighbors, it is worth recalling that Croatia has legitimate interests as well as an important role to play in the region's Euro-Atlantic integration processes.

At a time of increasing global volatility, especially after the Russian aggression against Ukraine and the very recent (as we write this) massive terrorist attacks by Hamas against Israel (and possible regional and global repercussions), Croatia has a vital interest to see a secure, stable and prosperous neighborhood.

As a member of both NATO and the EU, Croatia also has an interest in how these two key actors interact with and shape their policy towards the region, including their local missions in respective countries. During Croatia's presidency of the Council of the EU in 2020, Zagreb promised to "strive for the continuation of a credible and effective enlargement policy, as an investment in stability and security as well as further economic development and connectivity on the European continent."¹

Croatia's direct regional engagement in the security sector includes the US-Adriatic Charter (A5), and also a military contingent in Kosovo, serving under the NATO-led Kosovo Force (KFOR).

Croatia's contributions in the region are not limited to regional and international organizations in which it is a member, but they also include bilateral and multilateral initiatives with its EU and non-EU neighbors. A notable one is the Brdo-Brijuni process, which started a decade ago as a joint initiative of Croatia and Slovenia.

In July 2023, Croatia, alongside Austria, Czechia, Greece, Italy, Slovakia, and Slovenia, adopted the Götting Declaration by the "Friends of the Western Balkans" which calls on the EU institutions

[...] to present a clear agenda for gradual and accelerated integration with concrete implementation steps until 2024 and beyond, based on fair and rigorous conditionality and the principle of own merits. Special emphasis should be placed on areas that can bring tangible benefits to the citizens of the Western Balkans.²

The declaration also states these countries' commitment

[...] to driving forward an agenda for a deeper partnership and joint ownership. We want to see our Western Balkans partners at the EU table as often as possible, be it formally or informally, as participants or observers. We invite other EU colleagues and EU institutions to engage in concrete and visible action in order to pursue the shared goal of full EU membership for our Western Balkans partners with increased determination.

¹ https://vlada.gov.hr/UserDocsImages/Vijesti/2019/12%20prosinac/31%20prosinca/web_FINAL_PROGRAMME_EN_FINAL.pdf (accessed on 12 October 2023).

² https://www.bmceia.gv.at/fileadmin/user_upload/Zentrale/Aktuelles/Aufmacher/2023/Goetting_Declaration.pdf (accessed on 12 October 2023).

But, while the declaration is welcome, it has been over a decade since the last country, Croatia, was admitted to the EU, and it is not yet clear when new members would be admitted, despite the recent signals from Brussels, which have been, as usual, mixed. The EU should be using the period of Russian aggression against Ukraine to project more power and unity. And the same goes for NATO. Croatia understands and can articulate this better than most.

The need for EU power and unity in the region is nowhere more acute than in Kosovo today. Despite being a successful example of the EU's ability to promote postwar democracy building, Kosovo also reflects the failure of the EU to have a clear, positive common foreign and security policy in the Western Balkans. With five member countries that still do not recognize the independence of Kosovo, the EU's ability to realize its potential in the region is greatly weakened. Whatever the arguments used by each of those individual countries, the de facto effect is the endangering of the entire investment of the EU in the region, as the situation is skillfully exploited by many actors, from nationalists in the wider region, to countries such as Russia and China. The same argument can be made about the NATO, whose full potential to generate security in the region is hindered due to the stance of the four non-recognizing members of the alliance.

Open Problems in the Region

Parallel to internal challenges or malign influence from outside, the countries of the Western Balkans face open problems among themselves or with individual neighbors that are already EU and NATO members.

The ongoing Kosovo-Serbia dispute weighs down on the entire region, with Belgrade continuing to maintain clear territorial aspirations over Kosovo. This was made dangerously clear on 24 September 2023 when a serious incident occurred in the northern part of Kosovo.

The incident was qualified as a terrorist attack by the EU High Representative. It involved a heavily armed group of Serbs from Kosovo (and some from Serbia) that attempted to carry out an armed uprising in northern Kosovo. They shot dead a Kosovar policeman and, in the fighting which ensued close to a Serb Orthodox Monastery (which claims to have no relations with

the group), three assailants were left dead, among them a former bodyguard of a former minister of the Serbian government, who was in charge of Kosovo affairs 2013–14.

The self-confessed organizer of the attack was the number two in the local party of Kosovo Serbs, a man who is close to the President of Serbia and also under a US sanctions list.

As a result, there is an attempt to save and indeed revive the EU-facilitated Kosovo-Serbia “dialogue”. And it is clear that a substantial change in approach seems necessary although there is very little time left before the European Parliament and the US presidential elections take place in 2024.

The present status quo hinders the security of the region and of the EU, and the policy changes should start with EU projecting more power and unity. There should also be a faster and clearer path for integration for countries of the region.

Croatia and Kosovo

Beyond the sphere of integration processes, Croatia plays an important political, security, economic, and cultural role in the region. And it has bilateral ties with the Western Balkans that vary in depth and scope from country to country, with a special focus on Bosnia and Herzegovina, due to a sizable Croatian community there, indeed one of the three ‘constituent peoples’ present therein.

Croatia and Kosovo have excellent bilateral relations that are based on mutual interests, common threats, and converging goals for the region. These relations were especially forged in the 1990s and continued to be deepened ever since. Indeed, after Kosovo declared its independence in February 2008, Croatia swiftly recognized it and also presented a case in its favor at the International Court of Justice in 2009.³

³ <https://www.icj-cij.org/sites/default/files/case-related/141/141-20091207-ORA-01-00-BI.pdf> (accessed on 12 October 2023).

While the economic cooperation is not impressive (Kosovo ranks second from last among Western Balkan partners of Croatia both in exports and in imports),⁴ there are important security, cultural and diplomatic ties between the two countries.

More than fifteen years after its independence, most of Kosovo's main internal challenges are similar to those of the neighboring countries: building economic opportunities for its citizens, especially its youth; addressing alarming negative demographic trends; improving health care and education sectors; and strengthening the functional rule of law. Another internal challenge, which is made more difficult by Belgrade's destabilizing role, is the full integration into Kosovo's institutions and society of the Serbian community, in particular those that live in the northern municipalities of Kosovo.

Externally, Kosovo aspires to join the EU, Partnership for Peace and then NATO, Council of Europe, UNESCO and the UN. Croatia's support for these legitimate aspirations strengthens the region as a whole.

A Cartesian Analysis

Mark Heemskerk finds

no evidence for the lesson-drawing model: enlargement policy remains an EU-driven process. Croatia converged easier than Serbia to the EU *acquis* as it faced less political constraints domestically, is less prone to regional power interference, and was subjected to a more consistent enlargement strategy by the EU.⁵

However, even if we do not question the conclusion that the enlargement policy is EU-driven, one can ponder over what drives the EU and that is where "the Croatian model" becomes more elucidating. The ability to forge deep bilateral relations with EU countries has been beneficial to Croatia.

Indeed, in examining the European integration aspirations of a country, one may look at internal and external factors, and concentrate broadly on four

⁴ <https://podaci.dzs.hr/2022/hr/29546> (accessed on 12 October 2023).

⁵ Mark Heemskerk, *Bringing Europe to the Western Balkans: The Europeanisation of Croatia and Serbia Compared*, EU Diplomacy Papers 6/2020, College of Europe, https://www.college.eu/sites/default/files/research-paper/edp_6-2020_heemskerk_0.pdf (accessed on 12 October 2023).

types of challenges: 1) identity convergence; 2) institutional capacity; 3) relations with neighbors; and 4) the European and wider geopolitical context.

According to Jelena Subotic:

[Identity convergence] is a process by which political actors strategically emphasize shared norms and values and disregard contradictory ones in pursuit of particular political goals. Conversely, identity divergence is a mechanism by which domestic coalitions resist norms and rules of Europeanization and instead define the national community in contrast to Europe.⁶

She argues that, despite their shared history of communism and equivalent regional status, “the process of identity convergence explains Croatia’s rapid compliance with controversial EU requirements, while in neighboring Serbia, identity divergence has derailed Serbia’s EU candidacy.”

Not only Croatia’s identity convergence, institutional capacity, or improved relations with neighbors, especially with Slovenia, have helped its integration processes, but also its strengthened position in the European and wider geopolitical context due to its investment in strategic bilateral relationships.

Conclusion

While “the enlargement policy remains an EU-driven process”, we propose that Kosovo follow the example of Croatia in building strong, bilateral partnerships with individual EU members states. Those partnerships will have an impact on the EU as a whole and should be used to speed up Kosovo’s integration process.

More specifically, Kosovo should strengthen its bilateral relations with some of the European countries with which it shares common appreciation of regional or external threats. Croatia is one of those countries.

In addition, Croatia should be encouraged to continue its support for the countries of the region on their EU path, sharing best practices with them, both individually but also as a group, and include Kosovo in the bilateral

⁶ Jelena Subotic, *Europe is a State of Mind: Identity and Europeanization in the Balkans*, *International Studies Quarterly*, Vol. 55, No. 2 (June 2011), pp. 309–330.

agreements supporting its European path. This would strengthen Kosovo's institutional capacity and the Euro-Atlantic perspective.

Croatia has a particular role to play in the regional energy sector and in countering malign influence from third states. It can use its membership in the EU and NATO to support democratic values and norms. In that regard, Kosovo and Croatia have converging interests.

These interests and efforts should benefit and align with the regional aspirations to join the EU and NATO and successfully deal with malign third actors and common threats.

How is Croatia Assisting the Western Balkans and Albania in Joining the EU?

Noela Mahmutaj

At the end of the twentieth century, the Western Balkan region was characterised as one of the most unstable regions in the broader European context. Thus, the twentieth century is very challenging for the region, not only in conflicts and obstacles to having good neighbourliness and friendship but also in the construction of sustainable democracy and its integration. In the 1990s, the region suffered from serious conflicts with negative political and economic consequences that persist to this day. During this period, there were also significant challenges and changes as a result of reforms in Western Balkan states, which played a stabilising role in the region's future development. The transition from a regime to a new system of government has historically shown that states need enough time to adapt and develop.

These factors explain the fact that the Balkans today still have delicate problems rooted in the past, including ethnic conflicts, the issue of Kosovo, a lack of cooperation between countries in the region (i.e., in the political, economic, and socio-cultural spheres), distrust of neighbouring states, etc.

Such problems hinder cooperation between states in the political sphere as well as in the economy, trade, tourism, and matters of security, stability, and regional development. In addition to these problems, there are still internal problems in the Western Balkans, among which we can especially note the poor governance and recurring problems such as high-level corruption, organised crime, money laundering, and other phenomena that from time to time provoke instability and crises of different formats in the region. Today, the Western Balkan borderlands seek to overcome conflicts and obstacles since they are on the path of democratisation and integration of the region into Euro-Atlantic structures.

Brief Background of Albania-Croatia Relations in the Current Stage

The collapse of the communist regime and the breakup of Yugoslavia brought a new approach to relations between the countries of the Balkan

region. Meanwhile, the beginning of the 90s brought a new diplomacy between Albania and the countries of the Balkan region. Specifically, the first step of Tirana's foreign policy was the establishment of diplomatic relations with European countries and beyond.

Thus, diplomatic relations between Tirana and Zagreb were established in 1992, when Croatia was recognized as an independent state from Albania. First important bilateral agreements were signed, such as the Treaty of Cooperation and Friendship. Both parties are increasingly eager to expand their collaboration in economic and trade exchanges, cultural cooperation, education, and security. Approximately 45 agreements have been signed between Albania and Croatia,¹ which concern different areas of cooperation.

Furthermore, in October 2023, Albania and Croatia signed the agreement for social insurance. The formalisation of the agreement between the two governments enables the coordination of social security schemes in accordance with the standards of European legislation, also enabling unemployment benefits, maternity payments, cash benefits in case of accidents at work and so on.² In the territory of Croatia are about 3,000 citizens of Albania who live and work there. Thus this new agreement is significant for them. It is understandable that the strengthening of relations resulted from the high-level talks between governments, which are still frequent and constructive.

Meanwhile, the regional infrastructure projects that already started in the Western Balkan region, such as the blue Adriatic-Ionian corridor or the Adriatic-Ionian gas pipeline, will be projects that will enable a more active infrastructure between the two countries. Furthermore, they will create more facilities for Albanian and Croatian entrepreneurs to cooperate.³ According to data, both countries have active cooperation in the field of trade and tourism and other areas, and about 40 Croatian companies operate in Albania,

¹ Albanian Embassy in Croatia, "Bilateral Relations," n.d., <https://ambasadat.gov.al/croatia/en/bilateral-relations>.

² Ministria Financave dhe Ekonomisë, "Shqipëri – Kroaci, nënshkruhet marrëveshja për sigurimet shoqërore," <https://financa.gov.al/shqiperi-kroaci-nenshkruset-marreshja-per-sigurimet-shoqerore/>.

³ Ministria Financave dhe Ekonomisë, Shqipëri-Kroaci, forcohet bashkëpunimi dhe marrëdhëniet në fushën ekonomike, <https://financa.gov.al/shqiperi-kroaci-forcohet-bashkepunimi-dhe-marredheniet-ne-fushen-ekonomike/>.

specifically in areas such as industry, construction of tourist villages, trade, consulting, and technology.⁴ It can be added that trade exchanges between both states might double in the future as Croatian investors are interested in investing in Albania. Also, Albanian private companies have consistently increased their interest in being part of the Croatian market, targeting a new market that is already part of the European Union.

However, if we look at foreign investments in Albania, according to the Albanian Institute of Statistics (INSTAT), the extracted data shows that Croatia is not on the list of leading investors in the region, such as Greece and Italy.⁵ Furthermore, in the sphere of tourism, Croatia does not rank first among nations with large potential flows, such as Greece, North Macedonia, Serbia, and others.⁶ This demonstrates that despite cooperation remaining on the states' agendas, there is still yet to be explored between the two countries.

On the other hand, it should be emphasised positively that there are no open issues and disagreements between Albania and Croatia, as there may be with other countries in the region⁷ and their relationship is historically friendly and positive. Additionally, Albania and Croatia continue to support each other since they have a common foreign policy focus as well as similar perspectives towards regional problems.⁸ As two NATO member states, both states even in the pre-membership period strengthened cooperation in the field of defence and security policy. Hence, Albania and Croatia as NATO members have bilateral relations which are based on a collaboration that constantly intensifies in all areas of mutual interest.

⁴ Albanian Embassy in Croatia, "Bilateral Relations," n.d., <https://ambasadat.gov.al/croatia/en/bilateral-relations>.

⁵ Institute of Statistics of Albania, "Ndërmarrjet e Huaja në Shqipëri 2018–2020," https://www.instat.gov.al/media/9393/nd%C3%ABrmarjet-e-huaja-e-te-perbashketa-2018-2020____.pdf, f. 13–14.

⁶ World Travel & Tourism Council, "Albania. 2022 Annual Research: Key Highlights," https://wtcc.org/DesktopModules/MVC/FactSheets/pdf/704/28_20220613152800_Albania2022_.pdf.

⁷ Albanian Embassy in Croatia, "Bilateral Relations," n.d., <https://ambasadat.gov.al/croatia/en/bilateral-relations>.

⁸ Embassy of the Republic of Croatia in the Republic of Albania, "Marrëdhëniet Dypalëshe Mes Kroacisë Dhe Shqipërisë," n.d., <https://mvcp.gov.hr/mardheniet-dypaleshe/marredheniet-dypaleshe-mes-kroacise-dhe-shqiperise/180269>.

Meanwhile, integration into the European Union is a significant priority of Albanian foreign policy. Croatia, as a friendly country, fully supports Tirana not only in the Euro-integration process and in the EU institutions in Brussels but also through technical assistance on expert level. In this respect, Albania considers Croatia a constructive partner not only in bilateral terms but also in regional terms, when it comes to assessing developments in the Western Balkans and its Euro-Atlantic integration.

Lessons Might Be Needed for the EU's Accession of the Western Balkan Region

The Thessaloniki Summit in 2003 organised by the EU offered Stabilization and Association Agreements (SAAs) to the six Western Balkan states as a framework within which they would reform and fulfil criteria and conditions that qualify them for the EU membership. In this context, the EU members expressed their support to the European perspective and future of the Western Balkan region; and, in addition to adopting the EU *acquis*, which also included provisions for regional cooperation and economic development.⁹ However, Croatia is the first country from the region that has so far joined the EU, on July 1st, 2013,¹⁰ despite the fact that it began the process at the same time as the other countries in the region.

As a result, the fundamental reasons why Croatia was able to join the EU before the Western Balkan-six are presented below. Those elements are essential, as well as recommendations for Albania, as they represent the principal “obstacle” to the region for joining the EU.

First and foremost, there is no doubt that politicians in Zagreb joining the EU was about drawing a line under the tragic and bloody past of the recent civil war. It was also about proving to Brussels that the country was not condemned to crouch outside the EU door.¹¹ This showed the well-managed political will between parties in Croatia, which is a very important lesson for

⁹ European Commission, “Press Corner,” n.d., https://ec.europa.eu/commission/press-corner/detail/en/PRES_03_163.

¹⁰ European Neighbourhood Policy and Enlargement Negotiations (DG NEAR), “Croatia,” n.d., https://neighbourhood-enlargement.ec.europa.eu/croatia_en.

¹¹ Carnegie Europe, “What Croatia’s EU Membership Means for Europe,” n.d., <https://carnegieeurope.eu/strategieurope/52041>.

the Balkan states to step forward (including Albania). In this light, Croatia's most distinguished achievement has been the close cooperation between the political parties, leaving aside internal disputes and showing the will for meaningful reforms. Although political parties in transitional countries very often want to maintain influence on the judiciary, the positive paradigm shift was demonstrated by enabling the prosecution of the once very powerful former prime minister Ivo Sander¹² from the Croatian Democratic Union. He is currently serving a prison sentence for corruption. This case gives clear evidence of both political will and functioning of the judiciary in a necessary reform process.

Moreover, the judicial system reform is another noteworthy accomplishment as a very significant step forward for Croatia by training judges, ensuring enough resources for the functioning of the legal system, and recognising the necessity of building a strong system in Croatia based on rule of law principles.¹³ Of course, the implementation of reforms in Croatia has benefited from the work of independent watchdog organisations as well as professional prosecutors, who have all aided in the implementation of the reforms in their country.

As a result, Albania has yet to take a visible step in the justice system, which is very important to restore the people's trust in government institutions. Hence, somehow their progress is modest in meeting the criteria of the EU. In this respect, Albania should be more focused and work on Croatia's experience since Croatia is considered a good example for the region in the framework of the integration process with the EU.

Meanwhile, the problem is not only on the Western Balkans side (including Albania) but also on the EU stance. Due to the changing geopolitical reality, the methods and strategies of enlargement have changed significantly compared to 10 years ago, particularly with Ukraine and Moldova knocking on the European door and becoming candidate states. In this regard, the EU

¹² BBC, "Croatia jails ex-PM Ivo Sanader for taking bribes," n.d., <https://www.bbc.com/news/world-europe-20407006>.

¹³ European e-Justice, "Justice system in the Republic of Croatia," n.d., https://e-justice.europa.eu/16/EN/national_justice_systems?CROATIA&member=1.

was different a decade ago and is different now. International issues, considering the war in Ukraine, COVID-19, global warming, economic crises, cybersecurity, and other players' presence in the Western Balkans, make the EU less focused on the region and not on its agenda as a main priority. Those issues have created new *acquis communautaires* with more policies and criteria. 10 years ago, the community legislation was around 120,000 pages, while now it has reached 300,000 pages. Of all, it is no longer about pages, but rather about the exhaustion of joining the EU and not being "fair" to the region.

It is important to stress that the EU's enlargement process is not impartial or one-sided. To establish strong, liberal democratic political systems in new member states, which in turn strengthens the EU as a coherent body, the EU's efforts to "punish" member states that diverge from liberal democratic ideals and implement sanctions against those that break the EU's rule of law requirements. Croatia has been a supporter for the Western Balkan states, but it can be more vocal in the European Council.

At this point, to break the cycle of enlargement and accession fatigue and accelerate regional adjustment to the EU, the Western Balkan region requires credible European development prospects. This needs to demonstrate that EU membership can act as a successful motor for the WB region's economic development and social cohesion. Certainly, all candidate countries aspiring to become part of the European family must be willing to implement necessary reforms and resolve domestic and regional disputes, not for the EU but for the future of the Balkan people by living in peace and in "EU standard living". This may require a lot of will, energy, and time.

Recommendations

According to the EU integration process framework, Albania has a lot to learn from Croatia's integration, particularly in terms of political will, cooperation among parties, investment in technical and institutional capacities, cooperation with non-governmental actors, and other areas. Of course, there may be a long list of suggestions, but I would like to focus on one in particular because it is critical for both Albanians and the country itself.

As a result, the judicial reform in Albania should stay at the heart of the EU accession process because a reformed judiciary affects every segment of society. These reform effects will be felt in nearly every area of Albania's well-being as a state. An essential prerequisite for Albania's economic growth and the promotion of investments is an independent and professional judicial system. In the long run, this will improve the quality of life for Albanians. In this regard, building public trust by demonstrating an effective justice system – something Albanians have been waiting for a long time – as well as by combating corruption and having a system of real transparency could help to move easily to other recommendations such as cooperation with parties or non-governmental actors, and so on.

To summarise, it is critical to realise and acknowledge that the lack of a clear and consistent membership perspective of the EU or the EU's hesitant attitude towards the region, is a waste of momentum for the enlargement. In this respect, the EU should continue to fairly support Albania and the other Western Balkan nations, providing them with additional financial and technical assistance to facilitate requisite reforms as well as a clear agenda with the region as its top priority.

Croatia's Support for Macedonia's EU Integration: Between Opportunities and Expectations

Rade Rajkovchevski and Aleksandar Pavleski

Introduction

Relations between Croatia and North Macedonia are mainly positive, which is key to the further development of this cooperation and reflects North Macedonia's desire to be given continued Croatian support. An atmosphere of bilateral cooperation characterises North Macedonia's European integration process, as it did the process of accession to NATO.

The history of cooperation between the two countries covers a period of slightly more than three decades. It began when both countries gained independence from the former Yugoslavia (1991), continued with the countries joining the Stabilization and Association Process (2000–2001) and the EU and Euro-Atlantic integration process. Croatia made serious steps forward in joining NATO (2009), the EU (2013), and the Schengen Area (2023).

North Macedonia, pursuing similar strategic goals, made progress by joining NATO (2020), but has not yet achieved EU membership. The trajectory of North Macedonia's EU integration process has not only been burdened by disputes with neighbouring countries (Greece and Bulgaria), but also by internal problems (lack of skills in Macedonian diplomacy, numerous corruption scandals involving officials, and developments typical of young democracies) and EU issues related to inconsistent EU enlargement policy and unclear EU priorities.

The effectiveness of Croatia's support for North Macedonia and its commitment to it, in addition to the possibilities of benefiting from Croatia's experiences in the transformation and EU integration process, are conditioned by two real and separate components. The first involves domestic Macedonian processes and relates to national capacities. These factors may not only affect Croatian support, i.e. the way in which state policy is implemented *vis-à-vis* countries supporting North Macedonia in the integration, but also the

overall approach of the government in relation to EU requirements regarding aspirant countries, such as fighting corruption, guaranteeing the rule of law, etc.

The second component of the analysis is the way Croatia technically and politically supports North Macedonia in the European integration processes. This component depends on and is analysed in the context of Croatia's national policy regarding bilateral support and assistance to the countries of the Southeast European region and in the context of Croatia's role in the EU's approach to enlargement.

Current Tendencies Regarding Macedonia's EU Integration

Between April and May 2023, the International Republican Institute (IRI) conducted a survey in which citizens expressed their view of the situation in North Macedonia, their trust in politicians and the political system, as well as the country's European perspectives. Almost 80% of the citizens declared that they are in favour of EU membership, but half of the citizens do not support the current negotiation process, i.e. the inclusion of the Bulgarian minority in the Constitution and other concessions requested by Bulgaria (Kapital, 2023). Two thirds of the total number of respondents (65%) do not agree with the constitutional changes necessary to complete the phase of opening membership negotiations. A solid majority of 80% of ethnic Macedonians are against constitutional changes, 53% of respondents who identify as ethnic Albanians support these amendments (Velinovska, 2023).

Contrary to the indicated percentages, it is significant that EU officials state that they see the future of North Macedonia within the framework of the Union. In his statement given at the Bled Strategic Forum in 2023, the President of the European Council, Charles Michel, clearly indicated his conviction and confidence that the future of North Macedonia is in the EU. He stated that the relations between North Macedonia and the EU were excellent and he welcomed the decision to start the process required for the constitutional amendments. Together with Prime Minister Dimitar Kovachevski he declared that "the constitutional amendments represent a unique and unrepeatable chance for the progress and prosperity of North Macedonia within the EU" (Nova Makedonija, 2023a).

In fact, from the moment the issue of constitutional amendments regarding the Bulgarian minority was raised there has been wide international support for North Macedonia regarding the implementation of the amendments in the pursuit of EU membership. However, the Macedonian citizens witnessed the same kind of international support in the period before the Prespa Agreement (2018) and the name change to North Macedonia. This change was presented to the citizens as the last obstacle before the start of negotiations with the EU, and the question put to the voters in the 2018 Referendum was formulated to that end.

The events which followed the name change – i.e. the start of the negotiation process vetoed by Bulgaria – had a significant impact on Macedonian citizens' acceptance of any new constitutional amendments. Hence, it is very likely that the ruling Macedonian political parties will initiate the constitutional changes, which will then be rejected in Parliament and face defeat in the upcoming parliamentary elections.

One of the (less likely) exit strategies is the proposal that the constitutional amendments will be made immediately after North Macedonia completes the negotiation process, in order not to face “additional conditions and demands of this nature” during the process. However, if the current coalition fails to secure a sufficient majority of votes in the National Assembly to process the constitutional amendments, it is highly likely that in the pre-election period (the first half of 2024), the intensity of the issue concerning the integration of North Macedonia in the EU will decrease.

Likewise, the opposition parties in North Macedonia do not have a clear strategy on how to proceed regarding Macedonian EU integration. Currently, they are loud in their pressure on the ruling coalition to call an early election, without offering any information on how they will manage the process of (not) making the Bulgarian minority a part of the Macedonian constitution. Their desire to head the government is larger than either their vision or their capacity to guide the country through this irrational bilateral dispute, which has become a part of the EU enlargement legend.

Macedonian Citizens' Perception of States and Organizations as Strategic Partners and Contributors to the Development of Macedonian Society

How Do Macedonian Citizens Perceive the Republic of Croatia and Its Political Authorities regarding Its Role and Influence in the Region and the EU?

The latest surveys show that Macedonian citizens do not identify Croatia as a strategic partner in the achievement of state interests related to European integration, and in other relevant spheres of cooperation and influence (economy, culture, support of democratic development etc.). 45.3% perceive Serbia as the friendliest country, the US is number 1 in terms of contributions to the country's democratic development, and the EU comes first regarding contributions to economic development, according to the initial results of the survey conducted by the PRESPA Institute (April–May 2023, sample: 1,500 respondents – NM, 2023; Gerov, 2023). The most important criteria for the perception of Serbia as the friendliest country are common values and “interests”, not democracy or the economy. Accordingly, the USA, the EU and Serbia contributed the most to democratic and economic development. Culture, religion, and tradition are the most important values for all age groups, and relations with neighbours are neither good nor bad. Concerning the question which country or international alliance/union is the closest friend of North Macedonia (after Serbia), 9% state Kosovo, 6.8% the United States, with Turkey at fourth place with 6.7%. Albania is considered a friendly country by 5.6% of respondents, the EU by 5.1%, Germany by 1.5%, and 1.1% of respondents stated NATO.

In the responses, the perceptions and convictions concerning the way certain countries and international organizations act in relation to North Macedonia are striking. The respondents' views are closely related to the way citizens interpret the messages sent by the official representatives of the political authorities in the states and international organizations in the context of the internal developments in North Macedonia and/or in relation to the challenges faced by North Macedonia on the way to European integration. Thus, citizens' perceptions of certain countries and organizations based on statements made by their political representatives are perceived as friendly (messages of support), as messages that put pressure on North Macedonia, and

as messages neutral in character. The surveys/polls do not provide statistical data on how many of the citizens declare that they do not know or that they do not have an opinion in the context of determining their attitude about which country or international organization is perceived as the friendliest and which country or international organization has contributed to economic, democratic, and other development of North Macedonia.

Reasons for Serbia being regarded as the friendliest country are the messages sent by Serbian political authorities on good neighbourliness, the absence of unresolved issues (in May 2022 the Serbian Orthodox Church recognized the autocephaly of the Macedonian Orthodox Church and ended the long-term dispute between the two states/churches), the ethnic, cultural, and religious similarities, and the number of mixed marriages. The political authorities in Serbia skilfully exploit the situation of North Macedonia's relations with its neighbours. For example, the fact that Macedonia was forced to change its name (in the context of the dispute with Greece), the demands made by Bulgaria regarding constitutional changes, as well as the dysfunctional cooperation in criminal matters between North Macedonia and Kosovo. For many years, the latter has resulted in the non-extradition of convicted persons by the Kosovar courts in cases related to terrorism and of persons against whom North Macedonia has issued international arrest warrants. Although North Macedonia and Kosovo have signed an agreement on mutual legal assistance in criminal cases, which entered into force in 2012, the practice so far shows a slow and insufficient application of this agreement, primarily by Kosovo. Probably the best proof of this is the fact that North Macedonia has been waiting for 10 years for a positive response from Kosovo on the extradition of two persons (of Albanian nationality) accused of terrorism, i.e. for an event in April 2012 when four young and one middle-aged person (of Macedonian nationality) were killed near Skopje.

The choice of the EU as the international organization that makes the greatest contribution to the economic development of North Macedonia shows that the citizens have a clearer idea of the economic and trade relations between the EU and North Macedonia, because a large share of exports go to the EU, and trade takes place with EU countries.

The contribution of the United States to the democratic development in North Macedonia is reflected in the efforts to promote democratic processes

in the country, the influence and statements of the embassy, but also the overall role of the United States as a strategic partner of North Macedonia. The USA has continued to support democratic processes, also after North Macedonia's accession to NATO. These include measures which benefit society as a whole, such as putting politicians, businesspersons and other public figures on the US blacklist.¹ Usually this happens in response to their participation in major corruption processes, misappropriation of public assets, expropriation of private assets for personal gain or political purposes, or bribery. A place on the US blacklist is also likely in the case of extremism, terrorism and the undermining of the US-sponsored Ohrid Framework Agreement which ended the inter-ethnic clashes in the Republic of Macedonia in 2001 (Price, 2022; Marusic, 2023; Euronews Albania, 2023; CNN World Biographies, 2023; RFE/RL's Balkan Service, 2022, BIRN, 2009).

How the citizens perceive certain countries (such as Kosovo) which do not contribute to the development of Macedonian society is surprising. In the case of Albania and Turkey, the citizens recognize the support of the political authorities of both countries in relation to the disputes which Greece and Bulgaria have in North Macedonia, but also the continued support provided by Turkey until North Macedonia's full membership of NATO.

Germany ranks relatively low in the public survey results (1.5%), which is in contrast to the economic parameters, i.e., the majority of Macedonian exports go to Germany. Germany supported many of the current EU countries and members states from the Balkans during the EU enlargement process and was proactive in shaping public opinion in North Macedonia concerning the adoption of the Prespa Agreement. Macedonian citizens probably expected Germany to be more proactive regarding the French proposal signed by the EU and North Macedonia and adopted by the Parliaments of North Macedonia and Bulgaria (mid 2022) concerning negotiations with EU.

Austria is not among the countries and organizations which Macedonian citizens consider friendly and which contribute to a certain form of development of North Macedonia, although it is actually the most dynamic and

¹ Putting people on the US blacklist effectively bans them from entering, but in addition, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) imposes economic sanctions on them.

consistent country in terms of supporting the integration of the countries of the Western Balkans (and Southeast Europe in general) into the EU. The situation is similar with Slovenia and Croatia, which are expected to provide the greatest support to Macedonia on the road to the EU. North Macedonia has no open disputes with either country and shares many similarities, based on common values and a shared past.

The History and Developments of the Bilateral Relations between North Macedonia and Croatia

Diplomatic relations between the Republic of Macedonia and the Republic of Croatia were established on 30 March 1992. Regarding the available data on the bilateral relations of both countries, it can be noted that the cooperation covers a wide range of areas, but also fields which prove to be key for the development of regional cooperation in areas related to the accomplishment of the EU membership criteria (Ministry of Foreign Affairs of the Republic of North Macedonia, 2021; Embassy of the Republic of Croatia in the Republic of North Macedonia, 2010). A number of agreements and memoranda of understanding/cooperation were therefore signed between 1992 and 2016 concerning cooperation in economy, education, culture, social care and policy, science and technology, traffic, communications, environment, health, trade and economy, but also in juridical and police/criminal matters, disaster prevention and response, military affairs and Euro-Atlantic issues, minority rights, classified information exchange and others.

There is no doubt that the agreements and memoranda open a wide scope for the establishment and development of bilateral cooperation between North Macedonia and Croatia. In addition, the nurturing and development of cooperation between the two countries can be monitored through the evaluation which North Macedonia receives in the annual reports of the European Commission (EC) on the country's progress. Since 2006, the cooperation between North Macedonia and Croatia has continuously been evaluated as good and without any open issues between the two countries. Former Croatian President Ivo Josipović once stated that although Croatia is not a physical neighbour of North Macedonia, it is still a “neighbour at a distance”, due to its history, but also its present (Josipović, 2020). He also pointed out that it is not only the coexistence in the former Yugoslavia that contributes to this closeness between peoples and states, but also numerous

friendships, marriages, cooperation of all kinds and finally the fact that there is no significant dispute between Croatia and North Macedonia.

The similarity between the languages is also a precondition for good cooperation between the public administrations involved in the screening and potentially in the accession negotiations, as many civil servants in North Macedonia cannot speak, write or read English. The language similarity makes it easier to read and understand EU documents in Croatian.

In particular, the analysis of the annual reports of the EC shows that relations with Croatia continue to develop positively and that there is a particularly strong **political cooperation** regarding the EU integration process, with a regular exchange of information on a technical as well as a political level. The 2007 report emphasized that relations with Croatia continue to develop intensively, highlighting the points of the first meeting of the Joint Committee established for the implementation of the bilateral agreement under Article 10 of the Stabilization and Association Agreement (SAA). In the following reports, covering the period 2008–2014, relations with Croatia were positively evaluated. The reports emphasized that bilateral relations with Croatia were close, which was confirmed by regular bilateral visits at the highest level. The reports also indicated that North Macedonia had a trade surplus with Croatia, one of the country's most important trading partners. The 2014 report noted that relations were further developed by high-level visits and the entry into force of the Euro-Atlantic Partnership Agreement (Parliament of the Republic of North Macedonia, 2023).

The EC reports from 2015–2022 also confirmed the positive relations and cooperation between North Macedonia and Croatia, complemented by more frequent meetings between representatives of the two countries at the highest level (Sitel, 2018; Sitel, 2022). At the same time, it is particularly significant that at such meetings, Croatia continuously highlights its commitment to full support for North Macedonia's full membership in the EU. The exceptionally good cooperation with Croatia is emphasized in the statements made by the political representatives of the two countries (President of the Republic of North Macedonia, 2022; President of the Republic of North Macedonia, 2021; V.J., 2023). The media coverage in North Macedonia regarding the political meetings and events in relation to the bilateral cooperation between North Macedonia and Croatia has been positive so far.

At the meeting held in Zagreb in 2021 between the Croatian Prime Minister Andrej Plenković and the President of North Macedonia, Stevo Pendarovski, it was emphasized that Croatia supports the opening of EU accession negotiations with North Macedonia, and at the same time the desire for a further strengthening of the economic cooperation and the cooperation in the sphere of the military industry between the two countries (Trkanjec, 2021). At the same meeting, President Pendarovski stated that the two countries are connected by “deep geographical and cultural ties” and that Croatia is one of Skopje’s greatest allies.

At the last meeting between the Macedonian and Croatian presidents, at the beginning of April 2023 in Skopje, the good cooperation between the Macedonian and Croatian institutions was confirmed, especially from the aspect of using the Croatian experience in the process of preparations for the start of EU accession negotiations with North Macedonia. On this occasion, the Macedonian President once again expressed his gratitude to Croatia for its overall support for the membership aspirations of North Macedonia in the EU (President of the Republic of North Macedonia, 2023). One month later (on 23 May 2023) at the meeting between the ministers of justice on cooperation in the area of capacity building concerning negotiations within the framework of Chapter 23, judiciary and fundamental rights were the main topic of discussion. Additionally, the ministers talked about the possibility of sharing the Croatian experience in the fight against organized crime and corruption (Kocovska, 2023).

The chronology and development of bilateral relations between Croatia and North Macedonia show stable and continuous interstate relations. Croatia’s approach to North Macedonia in certain periods deviated from Croatia’s general approach to regional cooperation. As the Croatian constitution stipulates that the government and the president are responsible for foreign policy, there is, in contrast to other issues, unity between both political actors regarding North Macedonia.

Croatia’s EU Presidency (from 1 January to 30 June 2020) was marked by the Corona crisis, but there is no doubt that Croatia tried to play a proactive role regarding EU enlargement of the region. On the basis of the fourth priority titled “An influential Europe” (Ministry of Finance of the Republic of Croatia, 2020) and included in the Programme of the Croatian Presidency, Croatia

declared that it was committed to a “continued credible and effective enlargement policy, as a pledge towards stability, security and further economic development and mutual connection on the European continent” (ibid.).

In a practical way, the efforts of Croatia’s diplomacy can be considered a serious step forward regarding support for North Macedonia’s EU integration. Croatian diplomacy significantly contributed to the decision to open accession negotiations with North Macedonia and Albania on 24 March 2020, when EU ministers in charge of European issues reached a political agreement to this effect. (Vidačak and Milošić, 2020). Čipek states that the revised methodology for EU membership negotiations is another thing Croatian diplomacy regards as one of its successes. France had a key role in implementing the revised methodology, but sent confusing signals (Čipek, 2020). Against this backdrop, Croatia was consistent during its EU Presidency in its proactive approach towards enlargement policy.

In addition, on 6 May 2020, the EU-Western Balkans Zagreb Summit was held as a high-level political event, which brought the leaders of the EU27, EU institutions, the six leaders of the Western Balkan countries and representatives of international organisations together online. One outcome was a strong message regarding the European prospects for the region and support for the reform efforts of the Western Balkans. Hence, EU member states expressed their commitment to further intensify the EU’s engagement by supporting the political, economic, and social transformation of the Western Balkan countries. EU leaders and Western Balkan partners agreed with the Zagreb declaration that “the EU once again reaffirms its unequivocal support for the European perspective of the Western Balkans ... [and] the Western Balkans partners reiterated their commitment to the European perspective as their firm strategic choice” (Bandov, 2020).

Croatia’s current approach (October 2023) to North Macedonia fits into the EU’s general strategic approach to the countries of the Western Balkans and the implementation of the Berlin process which is aimed at overall stability, economic progress, and development. Croatia’s efforts and strategic interests in regional cooperation are focused on speeding up the European integration of the Western Balkans. Referring to the main objectives of the Berlin Process (European Commission, 2022), Croatia has been highlighting the need for a stronger regional connectivity at all levels: energy, transport, digital and

human, as some of the crucial factors contributing to economic development, prospects, and jobs. At the end of November 2022, the Croatian Minister of Foreign and European Affairs stated that “the present energy crisis could be managed through a stronger regional cooperation, where Croatia, thanks to its geostrategic position, has the potential to become an energy hub for Central and Southeast Europe, including the Western Balkans” (Ministry of Foreign and European Affairs of the Republic of Croatia, 2022).

North Macedonia is at the beginning of its accession negotiations with the EU and of the screening process, before the concrete negotiation chapters with the EU are opened (conditioned by the constitutional changes regarding the Bulgarian minority). Practically, the technical cooperation and support provided by Croatia to North Macedonia can be seen through the involvement of the Croatian expert Vladimir Drobnjak in the next processes related to EU integration (Government of the Republic of North Macedonia, 2022). He, as a former Croatian main negotiator, together with the Macedonian Deputy Prime Minister in charge of European affairs and chief negotiator, started the coordination meetings with the ministers who oversee the clusters and the Working Commission for European integration at the beginning of September 2022.

North Macedonia and Croatia have excellent cooperation in the field of culture, with guest appearances, participation in festivals, poetry readings etc. The two countries continuously sign agreements and memoranda of cooperation in culture, reflected in multi-year cooperation programs (Makfax, 2011; Milchevski and Koroveshovska, 2017). Additionally, through specific initiatives, Croatia provides support to North Macedonia with advice on preserving North Macedonia’s rich cultural heritage and the possibility of it being included in the UNESCO list.

The Macedonian Ministry of Culture also supports the Croatian community in Macedonia, while the Croatian-Macedonian friendship society Tangenta is very active in Croatia. Many Macedonian women and men (doctors, artists, businesspeople, etc.) contribute to Croatian society (Josipović, 2020). At the end of October 2022, North Macedonia and Croatia signed the last Agreement on Cultural Cooperation, i.e., the Program for Cultural Cooperation between the Ministry of Culture and Media of the Republic of Croatia and the Ministry of Culture of the Republic of North Macedonia for the period

2022–2025 (TRT Balkan, 2022). The two countries see this as a continuation of the tradition of friendship between the two countries and cultures, whereby numerous successful cultural projects are realized between the two countries, between the artists, in theatre, music, literature, film and visual arts, very often in the form of institutional cooperation. At the same time, the act of signing the cooperation agreement was used to open the Cultural and Information Centre of the Republic of North Macedonia in Zagreb.

The economic indicators regarding the cooperation between the two countries do not show strong dynamics and intensity of cooperation.

		Jan–Jul 2023	2022	2021	2020	2019	2018
Export	Total	4,947.8	8,299.6	6,969.8	5,781.1	6,433.3	5,872.5
	Croatia	66.4	109.0	96.7	81.9	75.5	85.6
Import	Total	6,435.0	12,125.2	9,648.1	7,599.4	8,441.0	7,676.3
	Croatia	68.4	108.6	91.8	93.6	83.2	94.9

Table 1: Exports and imports from the Republic of North Macedonia to the Republic of Croatia and the total trade volume according to the Sectors of Standard International Trade Classification, cumulative data (in million EUR) (State Statistical Office, 2023)

In the analysed period, the trade exchange between the two countries has not exceeded 1.5% in terms of imports and exports. According to the data presented at the meeting between the prime ministers of the two countries in April 2023, Croatia has invested about 108 million euro in Macedonia, and according to the structure of the investments, the biggest investments are in the service/tertiary and food sectors (Racin, 2023). Thus, unlike political and cultural ties, cooperation in industry and trade cannot be said to be a priority in the relations between the two countries.

It is particularly evident that bilateral cooperation and experience sharing is mainly implemented within the framework of various EU funded projects. This means that, out of a total of 50 twinning projects (with North Macedonia as a beneficiary) between 2004 and 2019, Austria appears as the most frequent partner with eight projects, while Germany is in second place, with six projects. Croatia appears as a partner in four projects, generally related to legal and economic issues. Specifically, the projects which involve Croatia focus on (Secretariat for European Affairs, 2019):

1. Strengthening the rule of law.
2. Further development and strengthening of the organizational, administrative and technical capacities of the Audit Authority.
3. Further institutionalization of structured mechanism(s) for cooperation between the Government and civil society.
4. Strengthening the institutional capacity of the National Bank on the road towards membership in the European System of Central Banks (ESCB).

There is no doubt that such EU projects are of great importance for countries because they enable them to achieve concrete and operational results related to the *Acquis Communautaire* or to match their policies with that of the Union. Such projects make it possible to create new or reformed systems under the full responsibility of the beneficiary countries. At the same time, participation in these projects also makes it possible to establish closer cooperation, develop constructive relations, and build trust between the beneficiary and EU member state partners.

For example, regarding the project “Strengthening the institutional capacity of the National Bank on the road to its membership in the ESCB”, the Governor of the National Bank of North Macedonia stated that “the project has achieved significant results in four project components: payment services and systems, banking regulation and supervision, financial account statistics and policy analysis research activities” (National Bank of the Republic of North Macedonia, 2019). This project supported the Macedonian central bank on its way towards alignment with the best European practices and standards, and thus towards membership in the European family of central banks. The Ambassador of the Republic of Croatia in North Macedonia also stated that “the project is tool for bringing peoples together, for developing good and close neighbourly relations, as well as for learning from the beneficiary countries”.

There is no doubt that such project-led examples increase the awareness of the benefits arising from participation in the cooperative engagement of all social entities in North Macedonia, especially from an EU integration point

of view. At the same time, it is significant that the positive experience gained from previous cooperation with Croatia also influences other areas and direct local initiatives.

In general, the absence of direct local initiatives (outside of EU projects as drivers for cooperation) by Macedonian authorities and stakeholders with regard to the use of the potential and experience of the Republic of Croatia in the European integration process is noticeable. There are various reasons for this, but they mostly relate to the following factors: insufficient political will (only declarative statements and commitments), absence of financial resources necessary for the implementation of such processes, lack of motivation, commitment and readiness involved in such processes etc.

Croatia's (Strategic) Role in the Integration Processes of the Republic of North Macedonia

What Is the Influence of Croatia's Diplomatic and Political Capacities in the EU?

What Influence Do Croatian Diplomats and Politicians Have and at

What Level Do They Manifest Their Influence in the Support of

Macedonia's European Integration?

Several factors affect the role and influence of Croatia in the EU, such as the fact that Croatia was the last state to join the EU and it may be assumed that Croatia as a small EU country has only limited influence in the EU bodies, conditioned also by low to moderate representativeness.

There are currently (October 2023) twelve Croatian members of the European Parliament. Croatia has the Vice-Chair and two members in the Committee of Foreign Affairs of the European Parliament. In the Council of the EU, national ministers meet regularly to adopt EU laws and coordinate policies. Council meetings are regularly attended by representatives from the Croatian government, depending on the policy area being addressed. The Commissioner nominated by Croatia to the European Commission is Dubravka Šuica, Vice-President for Demography and Democracy. Croatia has nine representatives in the European Economic and Social Committee. This advisory body – representing employers, workers and other interest groups – is consulted on proposed laws, to get a better idea of the possible affects

on work and social situations in member countries. Croatia has nine representatives in the European Committee of the Regions, the EU's assembly of regional and local representatives. This advisory body is consulted on proposed laws, to ensure that these laws take account of the perspective from each region of the EU. Croatia also communicates with the EU institutions through its permanent representation in Brussels (European Union, 2023; European Parliament, 2023).

The question remains as to whether and how Croatia could influence Bulgaria's veto, i.e., the demand for an inclusion of the Bulgarian minority in the Macedonian Constitution, which became an integral part of the requirements in the negotiation framework for the opening of the negotiation chapters. Thus, on one occasion, former Croatian president Ivo Josipović (2010–2015) commented:

It is unfortunate that Croatia, unlike several other EU members, did not react to the Memorandum, which is actually a nationalist pamphlet with which Bulgaria abuses the fact that it is a member of the EU and wants to deny the existence of an established nation with completely unacceptable blackmail... Some say that Bulgarian Prime Minister Borissov is baiting his public to divert attention from corruption scandals. Even if it is so, it is incorrect, un-European (Josipović, 2020).

Conclusion

There is no difference in terms of technical and political support provided by Croatia to North Macedonia. The relations between Croatia and North Macedonia are expected to deepen, and the Croatian technical support of North Macedonia is expected to become much more concrete once the negotiation chapters are opened. The positions of the current and former political authorities in Croatia are also expected to remain consistent and to further enable the deepening of the cooperation and support of North Macedonia in the European integration process.

Continued support for EU membership directly depends on the way the EU and the EU states formulate their relations with North Macedonia, related to the European integration process and the Bulgarian agenda within EU enlargement policy.

The blockades of and concessions made by North Macedonia show that there is indifference regarding the future of North Macedonia's integration into the EU. These circumstances are attended by internal factors which further complicate the situation and contribute to North Macedonia receiving no more than adequate support from the partner countries in the EU, including Croatia. Thus, the amateurism in the implementation of foreign policy by the Macedonian authorities is evident, as are frequent corruption scandals, the absence of the rule of law, the impunity with which serious crimes are committed and the way the state deals with these crimes, etc.

The key question of the quality of support provided by Croatia and other EU members to North Macedonia depends on how the Macedonian authorities manage to achieve the criteria for EU membership, irrespective of the Bulgarian agenda. This question is essential.

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PART IV: Policy Recommendations

Policy Recommendations

Regional Stability in South East Europe Study Group

Executive Summary of Recommendations

- **Western Balkan (WB) governments:** WB countries would benefit from the experience of Croatia in managing the integration processes and in preparing for future EU membership. In particular, the governments of the WB should focus on improving democratic standards and developing economic growth models.
- **Croatian government:** The Croatian government should make further efforts towards addressing open bilateral issues with its neighbouring countries to avoid these issues becoming an obstacle for EU membership of those countries.
- **EU – SEPA:** The EU should consider including WB countries in the Single Euro Payments Area (SEPA). This would contribute to better economic and financial integration.
- **EU – ETIAS:** The EU should take into account the specific situation of each WB country when it comes to the European Travel Information and Authorisation System (ETIAS).
- **EU:** The EU should intensify the coordination of migration policies with neighbouring WB states to ensure efficiency.

Situation Analysis

As of 1 January 2023, Croatia has been a full member of the Eurozone and Schengen Area, thus completing the process of European integration. Slightly more than 20 years ago, Croatia was a country torn by conflict that suddenly found itself on the threshold of post-socialist and post-conflict transformation. Croatia is now a stable democracy and therefore a true example of the European Union's transformative power. The completion of the process of European integration significantly changed Croatia's position

in the regional and European environment, positioning the country as a role model in the region of the Western Balkans.

During the integration process, Croatia gained extensive experience concerning various aspects of democratic transition. Croatian “know-how” could be useful, not only as an asset in the regional context, but in the wider European context as well. It is therefore of great importance to mention the Stabilisation and Association Process launched in 1999 and concretised at the Zagreb Summit in 2000, which emphasized the EU’s dedication to promoting and ensuring stability and eventual integration of the Southeast European countries.

Today, the change of the geostrategic context, marked by increasing conflicts worldwide, also affects the general stability of Southeast Europe. However, the main obstacles for the continuation of the European integration of the region remain internal. The democratic deficits of political elites, inter and intrastate tensions in the region, unfinished state-building processes, alarming levels of organised crime and corruption, as well as the growing influence of various assertive players are threatening not only the EU integration processes, but also the long-term stability in Southeast Europe.

Therefore, The European Union should use its transformative power to stimulate the spill-over effect at its borders. The Croatian experience could be of help in a wide range of chapters of the accession process, covering many policy areas. Croatia’s accession to the Eurozone and Schengen area have been challenging, but moreover they have created an opportunity for Croatia, and therefore the EU, to deepen its relations with non-EU Western Balkans states on issues related to irregular migration and border management, as part of a more effective migration policy.

According to the Study Group “Regional Stability in South East Europe”, Croatia could play a big role in advocating the EU integration process of the neighbouring countries and in providing helpful information gained during its own integration experience. This would be especially beneficial to the WB countries, which experience similar challenges in terms of e.g. high levels of euroization, demographic decline and specialisation in the service sector. By joining the Eurozone, Croatia eliminated foreign exchange risks, while leaving its already low level of monetary policy autonomy largely unaffected. In

that sense, the Croatian experience can be helpful to countries hoping for a fast Eurozone integration. Its position as an EU member gives Croatia the potential to use all the foreign policy resources to advocate at the EU level for the accession of the WB countries to the EU.

Policy Recommendations to Increase WB Countries' Stability

With Reference to the Entire WB

- **WB governments:** WB countries would benefit from the experience of Croatia in managing the integration processes and in preparing for future EU membership. Important elements of Croatia's success were a national strategic consensus, a sufficient number of experts, the commitment to fulfil all the conditions as well as regained trust in public institutions.
- **EU – SEPA:** The EU must consider a new strategic approach to connectivity issues in the WB region, including new models of financing joint cross-border infrastructure projects in the area.
- **EU – SEPA:** The EU should consider including WB countries in the SEPA zone, which would contribute to better economic and financial integration.
- **EU – ETIAS:** The EU should, as soon as possible, engage in dialogue with the candidate countries in anticipation of the implementation of ETIAS (2024). This is to ensure that this point does not affect the credibility of the enlargement process. This means that the EU should reconsider the implementation of this mechanism in certain cases in order to make exemptions or further extend the application of the previous system.
- **EU – ETIAS:** The EU should take an individual approach when it comes to ETIAS by taking into account the level of integration and the fact that most of the countries from the WB already have a special bilateral security and border control arrangement with the EU, including new FRONTEX agreements.

- **EU:** The European Union should deepen its relations with neighbouring Western Balkan states on issues related to irregular migration and border management, as part of a more effective migration policy.
- **WB governments:** WB countries should adapt their border management by implementing the Frontex Action Plan. The EU-sponsored border refugee camps should be inspected with respect to human rights.
- **WB governments:** Policies should focus on “entrepreneurial” states investing in research and development, in order to progress up the value chain. WB countries should fully embrace and take advantage of the digital revolution and should maximise EU resources available to fund green transition.
- **WB governments:** In order to address demographic decline, the automation of low-paid jobs should be considered. Policies should limit economic and social volatility caused by these structural changes, for instance “policies for a good life”, specifically large-scale investment in social housing.
- **WB governments:** The countries should develop a sound and comprehensive retention policy for the entire civil service. It could increase its attractiveness by taking care of the staff’s wellbeing, ensuring good working conditions, guaranteeing a managerial culture in line with the principles of good public administration, as well as ensuring opportunities for professional development and training.
- **EU:** The EU’s pro-active approach regarding the integration of Ukraine and Moldova should also be used as a positive momentum regarding the integration processes of the WB candidate countries.
- **WB governments:** WB countries should engage without delay in addressing remaining regional bilateral issues as well as those with EU member states.
- **EU:** The EU should use its mediation powers to placate regional disputes.

With Reference to Croatia

- **Croatian government:** Croatia could become a supporter state that would share best practices and lessons learned, e.g. demographic challenges, specialisation in the service sector as well as challenges concerning euroization.
- **Croatian government:** Croatia should use foreign policy resources to continue advocating at the EU level for the accession of the WB countries to the EU.
- **Croatian government:** The Croatian government should make further efforts towards engaging on a bilateral level to address open bilateral issues with its neighbouring countries, to ensure that these issues do not become an obstacle for EU membership of those countries.

With Reference to Albania

- **Albanian government:** The Albanian government should work to increase the level of trust in state institutions. The people's trust can be increased through the development of an effective legal system, the fight for transparency and against corruption, and streamlined cooperation with non-governmental actors and other parties.

With Reference to Bosnia and Herzegovina

- **EU:** The EU must implement and stick to a coherent policy towards Bosnia and Herzegovina. "Special approaches" (e.g. close contacts of the Hungarian government to separatist politicians in the BIH entity Republika Srpska) weaken European consolidation policy in the Balkan state.

With Reference to Kosovo and Serbia

- **Governments of Kosovo and Serbia:** As part of the dialogue under EU mediation, already negotiated agreements should be implemented.

With Reference to Montenegro

- ***Montenegrin government:*** The new government should engage with Croatian authorities regarding open questions such as the status of the Prevlaka peninsula in order to resolve this open question by mutual agreement in the upcoming period.
- ***Montenegrin political and institutional actors:*** The political and institutional actors should contribute to the stabilisation and consolidation of the country's still fragile political system and focus on public policy, economic development and the EU integration process.
- ***Montenegrin government:*** The government should enhance the implementation of “good life policies”, particularly in the areas of environment, transport, urban redevelopment, healthcare, social and educational system, reform of the labour market, sustainable infrastructure development and green tourism.
- ***Montenegrin government:*** Improvement of a secure digitalisation of public services and economic and financial processes must take place to ensure development in the light of increased cyber-attacks.

With Reference to North Macedonia

- ***North Macedonia's government and political opposition:*** There should be joint national efforts to overcome political and judicial hurdles in order to foster the EU integration process.
- ***EU:*** The EU should play a constructive role in resolving bilateral disputes in North Macedonia's integration process.
- ***EU and Bulgarian government:*** The EU should clearly state that if North Macedonia, as a constructive role model amongst the candidates, completes the reforms, the membership process will be accelerated and no new bilateral demands should be made by Bulgaria regarding North Macedonia's EU integration.

With Reference to Serbia

- ***EU:*** The EU should not tolerate democratic backsliding in Serbia.
- ***EU:*** Serbia should not be perceived internationally only through the Kosovo prism. The EU should focus on reinvigorating the democratization process in the country, the rule of law as well as the security sector reform.

List of Abbreviations

BIH	Bosna i Hercegovina / Bosnia and Herzegovina
CNB	Croatian National Bank
CPT	Committee for the Prevention of Torture
EC	European Commission
ECB	European Central Bank
ECRE	European Council on Refugees and Exiles
EDP	Excessive Deficit Procedure
EMU	Economic and Monetary Union
ERM II	Exchange Rate Mechanism II
ESCB	European System of Central Banks
ESM	European Stability Mechanism
ETIAS	European Travel Information and Authorisation System
EU	European Union
FDI	Foreign direct investment
FX	Foreign exchange
GDP	Gross domestic product
GFC	Global financial crisis
INSTAT	Albanian Institute of Statistics
IRI	International Republican Institute
KFOR	Kosovo Force
MIB	Macroeconomic Imbalance Procedure
MS	Member State(s)
NATO	North Atlantic Treaty Organization
OECD	Organization for Economic Co-operation and Development
SAA	Stabilization and Association Agreement
SEPA	Single Euro Payments Area
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organization
US/U.S./USA	United States of America
WB	Western Balkans

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EU and NATO member Croatia, which was still affected by war in the early 1990s, finalised its European integration process in January 2023 by joining the Eurozone and the Schengen system. This success story and Croatia's many years of experience with reforms could also be of great symbolic and practical importance for its neighbours in the Western Balkans.

The interesting contributions in this volume analyse whether and how individual Western Balkan states could benefit from Croatia's transition experience against the backdrop of difficult geopolitical conditions, on-going intra-regional conflicts and the latest Croatian integration steps.

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