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## EU-anchor in "non-mainstream" countries' transition path: The case of Croatia and Slovakia

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**TRANSFORMATION, INTEGRATION and GLOBALIZATION ECONOMIC RESEARCH**  
**CENTRUM BADAWCZE TRANSFORMACJI, INTEGRACJI I GLOBALIZACJI**

## **TIGER Working Paper Series**

**No. 115**

### **EU-anchor in “Non-Mainstream” Countries’ Transition Path: The Case of Croatia and Slovakia**

**Fruzsina Sigér**

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# EU-anchor in “Non-Mainstream” Countries’ Transition Path: The Case of Croatia and Slovakia

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## 1 Summary

Some years ago one would have predicted very different scenarios for Slovakia and Croatia. The difference was twofold. On the one hand, both paths have shaped significantly different from the previous expectations. On the other hand, the paths of the two have been very different from each other, although the initial conditions seem to be highly similar.

After an inward-looking, nationalistic period, both Slovakia and Croatia has moved towards market economy and their political system has moved to consolidated democracy i.e., both countries has converged to the “European model”<sup>2</sup>. The question arises how much of the changes has been the consequence of the EU-impact. The tool with which this paper tries to find the answer is the framework of Europeanization. We argue that the EU has played crucially important role of anchor in both countries. In Slovakia it gave an initial boost to a later “self-propelling” process, while in Croatia it has been a continuous impulse that kept pushing the country to the track of Europeanization.

## 2 The puzzle of Croatia

According to the concept of transition countries at the beginning of the 1990’, Croatia was an expectant of a quick and successful Europeanization process and EU membership, for various reasons. First, during the socialist times Yugoslavia (and especially its two developed republics, Slovenia and Croatia) was a frontrunner in reforming and softening the socialist system. In Yugoslavia the Croatian elite belonged to the pro-Europe group. Second, Germany and Italy were in favour of independent Croatia and early membership. Of course the war put everything in a different context, but still according to the expectations, with the end of the war Croatia would have joined the EU immediately – as the previous example of Greece showed. Third, Croatians

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<sup>2</sup> Here I refer to “European model” as functioning market economy and pluralist democracy.

have never felt themselves a Balkan country but they have had a strong Central European identity that would show the way to Europeanization.

In less than ten years Croatia has moved from one of the post-communist states most likely to “join Europe” to a place at the end of the queue. When Croatia seceded from the Federal Republic of Yugoslavia in 1991, Croats were optimistic about their newly independent country. They had two hopes. First, Croatia would become a sovereign state. Second, side by side with the newly gained independence, Croatia would (re)join Europe and (re)appropriate the standards of civil society and the economic prosperity, which they felt that they had been denied as part of Yugoslavia (Lindstrom–Razsa 1999:3). This latter period was considered as “short Balkan episode” in Croatia’s history compared to the centuries when it belonged to Central Europe (Tudjman 1997). That is why the prefix “re” is very important as it symbolises the Croatian attitude towards Europe and European identity. These hopes were not unrealistic; moreover Croatia had promising prospects to realize it.

Contrary to the expectations, Croatia was not eager to join the EU as soon as possible. Moreover, Croatia has missed two rounds of EU enlargements, one in 2004 and the other in 2007. The surrounding countries with similar (or even less) economic development level have already joined the EU. Croatia is the only country in the region, i.e. the transition countries of Central and Eastern Europe and Southeastern Europe that even though could be ready for EU-entry, still out of the club.

Categorizing the transition countries has been a common tool in the international literature (Csaba 2000:338). The “classic” frontrunners of transition have been Hungary, Czech Republic, Poland, Estonia and Slovenia. The “second best” group of countries has consisted of Slovakia, Latvia, Lithuania, Bulgaria, Romania and Croatia. The other Southeastern European (beyond Ukraine and Russia) countries belong to the third group, which is struggling with half-solutions on the way of transition. In the fourth group of countries the transition is in most part only rhetoric, Belorussia and the other former CIS countries belong here. In the second group Croatia is the only one that is not an EU member yet. Some years ago it was not obvious at all that Croatia will be an exception.

Thus the question arises why it is so. Was it a conscious decision to stay out or rather the consequence of several external factors? The second question is whether the delay from the mainstream Europeanization process (i.e. with the 2004 or 2007 round) was/is advantageous or

rather disadvantageous for Croatia. Has Croatia won with the years out of EU or rather is it wasted time?

### **3 Why compare with Slovakia?**

Slovakia is a similar case from more aspects. Slovakia was part of Czechoslovakia and previously Hungary and the Austro-Hungarian Monarchy. The country emerged in 1993 as a brand new state without almost any experience of independence. As part of Czechoslovakia, Slovakia belonged to the Visegrád three, that is, to the group of most promising transition countries, although Slovakia was regarded as the weaker part of Czechoslovakia. When Czechoslovakia disunited, the newly independent country did not follow the path of the other Visegrád countries. The new government of Vladimír Mečiar established a rather authoritarian, nationalistic and contra-EU regime that also meant a third way concept of the Slovak foreign policy and ambitions of cooperation with Russia and the EU at the same time.

The structural backwardness together with the lack of willingness of fulfilling EU-conditions made Slovakia less and less attractive in the eyes of the West. Referring to categorization of transition countries<sup>3</sup>, Slovakia belonged to the “second best” group. Although the Slovak national identity has been Central European, which would pave the way to Europeanization, the newly independent Slovak nation first in its history had more ambitions to step on its own way without following anyone else’s will. That was regarded as the interest of the nation.

Contrary to the image of a nationalist and lagging-behind country, in some years Slovakia became the “Tatra Tiger”. Quick and attractive measures were needed to convince the international community and the EU about the determination of the government. By May 2004 the country joined the European Union with a consolidated democracy and well-functioning market economy. The reorientation and policy measures of two Dzurinda governments between 1998 and 2006 were able to change the image of Slovakia and place the country among the frontrunners of Europeanization. Nowadays Slovakia is among the most reform-minded member states of the EU and by January 2009 Slovakia introduced the euro, first among the Visegrád states.

The question arises what origin of the willingness in Slovakia was to turn to Europeanization and not just fulfil the requirements but overfulfil them in reforming the state. Was it purely the fear of

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<sup>3</sup> See Csaba 2005:338

lagging behind? Another puzzling question is whether the quick and rather deep reforms of the Slovak state are reversible or durable enough after 2006.

## **4 Theoretical framework: Europeanization**

The theory of Europeanization tends to explore how European factors influence domestic structures. However, this task is far from being unambiguous. As Haughton (2007:2) notes, social scientists do not have the luxury to isolate individual factors and then re-run control-experiments to see if the result changes. As a consequence, demonstrating chains of causation is extremely difficult, if not impossible. The conclusions of the argumentation are often vague and less than robust: whether the development of a country makes it ready for EU accession or the development itself is the impact of the EU. Haverland (2006) shows the methodological difficulties of case selection as well. Concerning the establishment of causal effect or relative importance of the EU, the author shows also evidence for biases towards EU-level explanations. The model of Cernat (2006) shows that Europeanization is not even the only external factor but the impact of globalization and other international organization may be also taken into account.

The definition of Europeanization is a rather debated issue in the international literature. The concept itself comes from the field of political science and European studies and the majority of authors agree that Europeanization occurs when something in the domestic political or economic system is affected by “something European” (Vink 2002:1). The term “European” most usually refers to the European Union, therefore Europeanization very often examines the influence of the European integration.

Whichever definition of Europeanization we consider, there are three conditions<sup>4</sup> that make possible to talk about Europeanization. First, there must be a misfit or incompatibility between domestic and European institutions, policies or processes. Second, this misfit should generate adaptation pressure. We argue that the adaptation pressure only show up when the misfit is *perceived*. The presence of misfit can be described more or less objectively but whether it creates adaptation pressure depend on more subjective factors. As a general rule, the lower the compatibility between European and domestic institutions, policies or processes, the higher the adaptation pressure. The adaptation pressure is necessary but not sufficient for changes. The third

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<sup>4</sup> Based on Börzel–Risse (2000:5) who identify two conditions.

condition is the existence of factors (actors or institutions) that foster respond to the adaptation pressure.

Assume that the first condition of Europeanization, misfit is given and adaptation pressure is generated. The third condition, the capacity that foster respond to the adaptation pressure varies between countries and also between policy areas. It is partly the result of the fact that institution-building and policy-making are unevenly developed across countries, and partly the result of the way these adaptation pressures are “refracted” by different domestic circumstances (Buller 2003:533). Green Cowles, Caporaso and Risse (2001:222) argue that the greater the misfit between domestic and European factors, the more likely Europeanization to occur. On the contrary Knill (2001:201-202) argues that a more differentiated conception of European adaptation pressure distinguishes different levels of misfit: whether European policy demands are in contradiction with institutionally strongly embedded core patterns of the domestic structures or adjustment is possible within the given domestic context. As a consequence, adaptation pressure is more likely to induce changes in cases where Europeanization requires minor or incremental changes and resistance to change is more likely when it has a revolutionary character.

Europeanization can be interpreted both as internal and external impact. The internal point of view reflects on the internal process of changing in the European Community and the adaptation capacity of the member states. The process of this type of Europeanization is mutual i.e., not only the domestic systems are adapting to the European entity but the European entity is influenced by the national systems as well since it is constructed from the institutions and policies of its member states (Wallace–Wallace 2000:6).

Concerning third, mostly applicant countries, the self-contained approach of Europeanization is not relevant. The “outward looking” perception of Europeanization allows the conceptualization of Europeanization as an external (mostly EU-led) process guiding applicant countries’ complex domestic economic, social and political transformations (Demetropoulou 2004:6). The external Europeanization process differs from the interaction between the EU and its member states: it is not mutual but unilateral acceptance instead (Csaba 2007b:149).

In the context of post-communist countries, two different mechanisms of Europeanization can be identified. The first mechanism is coercion, based on control and conditionality. In course of control, certain policies are inspired by positive or negative sanctions. In this case the EU is an actor (Demetropoulou 2002:89-90, Noutcheva 2003:2). Conditionality means that specific

conditions are attached to distribution of benefits. In other words, the EU's bargaining strategy is reinforced by rewards. The presence of conditionality, however, does not necessarily cause successful rule transfer (Schimmelfennig – Sedelmeier 2004:670).

The second mechanism is mimicry, based on contagion and consent. Here the EU serves as a point of reference. Via demonstration effect and interactions between international processes and domestic groups the EU has a more indirect role and serves as a framework (Demetropoulou 2002:89-90, Noutcheva 2003:2). In other words, through processes of persuasion and learning the EU socialize the countries rather than coerce them. Furthermore, the countries might consider EU rules as effective benchmarks for domestic policy changes and adopt them independently of EU conditionality (Schimmelfennig – Sedelmeier 2004:670).

#### **4.1 Costs and benefits of Europeanization**

Europeanization process and EU membership has both cost and benefits without a doubt. Many authors have examined in many papers both sides of the balance. They usually agree on the result: the newcomers benefit more than they pay as the cost of membership. The experience of previous enlargements (primarily that of the Mediterranean enlargement) also support this statement.

On the economic side, one of the largest benefits is the easier access to the EU market due to the abolition of trade burdens and the adoption of EU regulation and standards. EU membership makes the countries more attractive in the eyes of the investors that contribute to increasing FDI inflow. The foreign capital is often connected to new technology and know how transfer.

On the political side, if a country gets into the club, it will be able to take part in its institutions and decision-making processes. The integration also contributes to the improvement of the administration capacity, and to the maintenance of stable democratic order and security. (Samardžija et al. 2000:126-128, Grabbe 2001:30-33).

Altogether, the EU has offered *clearly better solutions* for transition than any home-made solutions on any transition country. The EU anchor impressively contributed to the success of the transition countries in Central and Eastern Europe (Csaba 2007b:374; Åslund 2007:3).



## **5 External factors - the comparison of the association agreements**

The outcome of Europeanization process is explained by the “concerted action” of the country’s own internal factors and the external impact coming from the European entity. It is important to examine whether the external factors were different in Croatia and Slovakia. Did the EU “send the same signals” to the two countries? In other words, was the EU-pressure the same in the two cases? It is important to find out because if the two were not the same, we could not expect the same outcome.

### **5.1 The two agreements**

When Slovakia became the partner of the EU in its own right, it did not follow the path of a “frontrunner Visegrád” country. Still, Slovakia was the subject of Europe Agreements. At the same time, as a consequence of the war Croatia did not participate in the Europe Agreements but became the subject of the “next version” of associations. The Stabilisation and Association Agreements (SAAs) meant a new initiative in the line of association agreements of the EC/EU and were devised for the countries of the Western Balkan in 1999. On the one hand, they were fashioned after the Europe Agreements in terms of integration and harmonisation and the SAAs offered the perspective of EU membership to the countries. The EU has intended the same purpose for the SAAs as the Europe Agreements: the formal mechanisms and agreed benchmarks which allow the EU to work with each country to bring them closer to the standards which apply in the EU (Gligorov 2004a:4-5). On the other hand, a detailed comparison between the Europe Agreement with Slovakia (EA 1994) and the Stabilisation and Association Agreement with Croatia (SAA 2005) helps to highlight why there was a need to introduce a new version of association agreements. The comparison are based on the framework of Balázs (2002:133-143) who examines seven key elements: free trade of industrial products, agricultural concessions, protection provisions, promotion of economic development, admission of labour force, institutions and the evolution possibilities of the agreement.

#### **5.1.1 Industrial products**

In the Europe Agreement with Slovakia the Community and the Slovak Republic gradually establishes a free trade area in a transitional period lasting maximum 10 years. Customs duties on imports originating in the Slovak Republic are abolished, with long list of exceptions. The

measures are asymmetric in favour of Slovakia. First, the liberalization steps of Slovakia are delayed by four years in average. Second, the extent of liberalization is also favourable for Slovakia, although the measures only reduce the EC's advantage in foreign trade.

The Croatian SAA stipulate about a free trade area during maximum seven years in an asymmetric way in favour of Croatia. The SAA took over the preferential treatment that was established in a previous Council Regulation (CR 2007/2000) (Christie 2004).

In both cases the textile and steel products are regulated separately from the rest of industrial products. The EU protects its sensitive sectors.

### **5.1.2 Agricultural concessions**

The Europe Agreement with Slovakia states that the Community and Slovakia grant each other the concessions on a harmonious and reciprocal basis. The Community abolishes the quantitative restrictions on imports of agricultural products originating in Slovakia according to the Council Regulation (EEC) No 288/82. Imports into Slovakia originating in the Community are free of quantitative restrictions. The timing of the concessions was asymmetric in favour of Slovakia.

According to the SAA with Croatia, both the Community and Croatia abolishes all quantitative restrictions on imports of agricultural products. The tariffs are abolished with certain exceptions on both sides.

### **5.1.3 Protection provisions**

The association agreement with Slovakia contains provisions for dumping, re-export, market disturbances and shortage. Slovakia has the right for exceptional measures of limited duration concerning infant industries and certain sectors undergoing restructuring or facing serious difficulties. The Member States and the Slovak Republic progressively adjust state monopolies within five years, avoid discriminations in procuring and marketing goods.

The SAA contains similar measures regarding dumping, re-export, market disturbances and shortage. The agreement with Croatia establishes shorter deadline (within four years) for adjusting state monopolies.

#### **5.1.4 Promotion of economic development**

The preamble of the Europe Agreement with Slovakia refers to the economic and social disparities between the Community and Slovakia. The preamble also declares the readiness of the Community to contribute to the strengthening of the new democratic order and the principles of a free market economy in Slovakia. The agreement contains several field of economic cooperation (Title VI): industry, science and technology, agriculture, energy, environment, transport, telecommunication, banking, regional development, tourism, etc., aiming the establishment of a functioning market economy. In order to achieve the objectives of the agreement, Slovakia benefits from temporary financial assistance from the Community in the form of grants and loans from the PHARE program and the European Investment Bank. The financial assistance is based on conditionality, takes into account the absorption capacity of Slovakia and its ability to repay loans and accomplishment of a market economy system and restructuring.

The preamble of the Stabilization and Association Agreement with Croatia does not mention the economic and social disparities between the parties. At the same time, the preamble declares the readiness of the Community to contribute to the economic reforms in Croatia. The fields of economic cooperation (Title VII) are rather similar than in the Europe Agreements. In order to achieve the objectives of the agreement, Croatia receives financial assistance from the Community in the forms of grants and loans, including loans from the European Investment Bank. Interestingly enough, the financial assistance does not depend on the absorption capacity of Croatia and its ability to repay loans.

#### **5.1.5 Admission of labour force**

The Europe Agreement declares that the treatment of workers of Slovak nationality, legally employed in the territory of a Member State is free from any discrimination based on nationality, as regards working conditions, remuneration or dismissal, as compared to its own nationals. At the same time Slovakia accords the same treatment to workers who are nationals of a Member State and are legally employed in its territory. Both parties facilitate the setting up of operations on their territory by companies and nationals, with timing asymmetry in favour of Slovakia.

The SAA declares similar provisions for prohibition of discrimination based on nationality, as regards working conditions, remuneration or dismissal, on a reciprocal basis. The conditions are

also similar regarding setting up of operations on their territory by companies and nationals, with timing asymmetry in favour of Croatia.

#### **5.1.6 Institutions**

The Europe Agreement establishes the Association Council that consists of the members of the Council of the European Communities and members of the European Commission, and of members appointed by the Slovak Government. The decisions of the Council are binding on the Parties. The Association Parliamentary Committee and the Association Committee is also established. The agreement creates the framework for political dialogue, intends to be an effective means to accompany and consolidate the rapprochement between the parties.

The institutions in the Croatian SAA are in parallel with the institutions in the Europe Agreements. Stabilisation and Association Council, the Stabilisation and Association Parliamentary Committee and the Stabilisation and Association Committee work the same way. The political dialogue is also established with bigger emphasis on multilateral framework and regional dialogue including other countries of the region. Regional cooperation is only inspired among the Europe Agreement countries, but it is required in the SAA countries and it is one of the conditions for the further development of bilateral relations with the EU (Anastasakis – Bojicic-Dzelilovic 2002:24).

#### **5.1.7 Evolution possibilities of the agreement**

The preamble of the Europe Agreement with Slovakia recognizes the fact that Slovakia's ultimate objective is to accede to the Community. Moreover, the association is to help the Slovak Republic to achieve this objective. However, the Community does not express its will to accept the country as a future member state. The agreement includes a transition period of a maximum 10 years divided into two five-year-long stages. The Association Council proceeds regularly to examine the application of the agreement and the future highly depend on the decisions of the Association Council. The conditions of the possible membership are described separately in the Copenhagen criteria but they are not included to the association agreement.

The preamble of the Croatian SAA refers to the strong links between the parties and the values that they share. "Their desire to strengthen those links and establish a close and lasting relationship based on reciprocity and mutual interest, which should allow Croatia to further

strengthen and extend the relations with the Community”. The preamble does not refer to Croatia’s objective to accede to the EU. The EU expresses its readiness to integrate to the fullest possible extent Croatia into the political and economic mainstream of Europe. The EU recognizes Croatia’s status as a potential candidate for EU membership on the basis of the Treaty on European Union and fulfilment of the Copenhagen criteria. The condition of the EU is the successful implementation of the agreement, notably regarding regional cooperation.

Gligorov, Holzner and Landesmann (2003) conclude that the best development instrument that the EU has is integration itself. This requires clear membership prospect. In case of Slovakia and the CEEs, the membership prospect is not clear in the association agreements but it became tangible after the Essen summit in December 1994.

The SAA recognises Croatia as “potential candidate”. However, number of authors<sup>5</sup> blamed this term saying that neither the Stabilisation and Association Agreements, nor the European Partnership outlined clear membership prospect for the Western Balkan countries. At the same time the term “potential candidate” means also that the EU considers the country as a possible future member state and that “the ball is in their court”: if they fulfil the conditions, the potential will become real.

### **5.1.8 Conclusion**

To sum up, the comparison of the two types of association agreements show that trade, agriculture and labour market provisions are highly similar. The architecture of institutions is the same. One of the main differences is the post-war “*stabilization*” *dimension* that is, as a matter of course, missing from the Europe Agreements. The *context* is another difference. The Europe Agreement with Slovakia was signed in 1993 while the Stabilisation and Association Agreement with Croatia in 2001. During the eight years passed between the two, the EU enlargement policy changed as well. The package of conditions concerning Croatia has been more demanding than it was in case of Slovakia and the other CEE countries. First, the later the candidate arrives, the longer the integration agenda is. Second, beyond the Copenhagen criteria and the Stabilisation and Association Agreement there have also been conditions of peace agreements. In other words, beyond the “usual” agenda of economic transition and political democratization, in Croatia the

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<sup>5</sup> See e.g. Gligorov (2004c) and Anastasakis – Bechev (2003).

EU agenda also includes security, post-war reconstruction, border questions and peace-building issues (Anastasakis 2005:84).

The signing dates of the two agreements highlight that Slovakia had contractual relations with the EC from the very beginning. The independent Slovak Republic came into existence by 1993 and in the same year it signed the association agreement that came into force in 1995 (together with the Czech Republic!). Croatia was recognized by the EC in 1991 but it signed the association agreement only ten years later in 2001. Moreover, the agreement finally came into force in 2005. The “nationalist” period passed in Slovakia with an association agreement in the background. At the same time Croatia was disengaged during its “nationalist” period, which indicates larger distance from the EU and from its impact. The association relation was established only after the changes in 2000. In case of Slovakia, the pre-accession process started in December 1999 while in Croatia in June 2004. However, these details lead us from the external factors to the responding capacity of the countries, i.e. how the external EU factor realized in each of the countries.

All in all, we will conclude that the attitude of the EU towards the countries *in effect* was never *the same*. As a matter of fact it does not purely spring from the EU but it always contains reaction to the countries’ acts. However, the original *intent* of the EU can be considered *the same* towards the two countries.

## **6 Findings of the comparative analysis**

After we have demonstrated that the original intent of the EU was the same towards the two countries, in this section we attempt to highlight what are the decisive divergence points of the transformation paths of the two countries. Our assumption has been that the two countries’ initial conditions at the time of the regime changes are similar from a number of aspects, which makes the comparison reasonable.

### **6.1 The parting of the ways**

1. In both countries the end of the nationalistic regime occurred due to the victory of the opposition (1998 in Slovakia and 2000 in Croatia). In Slovakia, although there were frictions, the governing coalition stayed together, and could stay in power for two terms. The elite consensus was present about the future of the country and the population was ready to accept the reform

measures<sup>6</sup>. In Croatia, the reforming coalition was not enough strong to keep in power for two turns, partly because of inner disputes but also because of the public opposition towards reforms. After the elections in 2003 the HDZ, party of Tudjman get back to power, however, in a restructured form and broken with the nationalist past.

2. In both countries the political obstacles of EU integration were stronger then the economic obstacles. In Slovakia, the political orientation changed dramatically with the Dzurinda regime. In Croatia, the political orientation also changed after 2000, but the situation was more complicated than the abolition of the nationalistic ruling system. Thus the turn was not enough sharp, although the expectations from the side of international actors were huge. Slovakia could manage its nationalistic heritage more easily because it was not complicated by the legacy of the war that burdened quick political change in Croatia.

3. In Slovakia the political change was followed by radical reform in the countries economic system and the size of the state was reduced dramatically. In Croatia, the restructuring process was burdened by continuous delay. The system of crony capitalism was not abolished with the changes of the foreign policy orientation. The size of the state remained huge and the role of the state in the economy remained dominant.

4. Although authoritarianism was discredited in both countries, the attitude of the population differed. In Slovakia, the majority of the people have been pro-EU and ready to accept reform measures initiated by the EU. The attitude of the population about being “European” in Slovakia was one of the driving forces of the quick reorientation and European integration. „Europeanness” in Slovakia has been more equivalent to the EU. „Europeanness” in Croatia does not equal the EU by all means. At the same time, the level of Euroscepticism has been very high. The armed conflict resulted in a different approach of the “national interest” and “national unity” than in Slovakia. As a result, the battle between “nationalists” and “Europeanists” (Fisher 2006) had different conditions in the two countries. The rise of the Europeanists in Croatia was significantly slower and more painful than it was in Slovakia. The Croatian society has been more divided concerning their attitude towards “Europe”.

5. The tourism sector and its revenues have created tempting opportunities to delay crucial restructuring decisions in Croatia. It may help to close the loophole which would otherwise

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<sup>6</sup> However, the Slovak people seemed to be run out of reform appetite by 2006. But until then the direction of public policy changed already.

emerge in the current account of Croatia due to its trade balance deficit and slow export growth. In Slovakia there was no opportunity for such an “alternative way”. Moreover, these advantageous circumstances turned into *rents* (see Csaba 2007b:371).

6. Slovakia could succeed from Czechoslovakia without border disputes. Beyond the war with Serbia and Bosnia and Herzegovina, Croatia has further border disputes with Slovenia that are actual until today. This dispute (together with the argument on the frozen deposits) has overshadowed the relation of the two countries and they have become enemies rather than allies in the integration process of Croatia.

7. The sovereignty of Slovakia was achieved peacefully, without armed violence while in Croatia the Yugoslav war of secession lasted from 1991 to 1995 and it was 1998 when Croatia was “re-unified”. The legacy of the war differentiates Croatia from the new EU member states and the Yugoslav war proved to be a unique and crucial factor in Croatia’s transition process. The cooperation commitment with the International Criminal Tribunal for the former Yugoslavia (ICTY) was also the result of the war. This cooperation proved to be overall important regarding EU-relations, but it was burdened by public opposition that made the governments hesitate. The extremely mixed feelings of the society towards the ICTY and the indicted generals excluded the possibility of consensus on society level. Such a commitment was not present in the EU-Slovakia relations. In Croatia the war and its consequences caused *lock-in and higher social cost* of Europeanization.

## **6.2 What the numbers tell us?**

Our attempt in this section is to examine numerical data whether they show different realization of Europeanization in the two countries.

If we compare the EBRD transition indicators of Slovakia and Croatia (Table 1 and Table 2), the following results appear. In 1989 all of the Slovak indicators were 1, meaning a rigid centrally planned economy. In the Croatian case the average score was 1.56 in 1989 because four out of the nine the examined areas had higher score than 1. Due to the Yugoslav type of socialism Croatia was in a more favourable initial position. In other words, it was closer to the European model.

The numbers show that the structural change started quicker and with larger steps in Slovakia: by 1991 the Slovak average score reached 2.11 (compared with the Croatian 1.78) mainly as a result



of small scale privatization developments, price and forex liberalization. On other words, by 1991 Croatia lost its advantage coming from its soft socialist regime. Slovakia took the lead and until 2007 it had higher average structural and institutional change scores than Croatia. In 2007 the average Slovak score was 3.74 and every area was at minimum 3. Croatia had 3.52 average score in 2007 and the only competition policy was under 3.

The developments of the first years were more unbalanced. Considering standard deviation result, the first years of transition show divergent speed among the examined sectors. Some sector stayed in the status of rigid planned economy until 1995 in Croatia and 1994 in Slovakia. Later the standard deviation decreased as every sector started to transform. The Slovak transformation show higher standard deviation scores between 1997 and 2000 due to the slow changes in field of infrastructure. Later on the Croatian scores tends to be higher as a result of slow changes in competition policy. The small scale privatization has been at a highly advanced stage from the very beginning. Price liberalization is another “success story” in Croatia. At the same time the securities markets and non-bank financial institutions appeared relatively late. Slovakia was also a frontrunner in small scale privatization and in field of trade and forex system. The overall infrastructure reform appeared relatively late in Slovakia.

If we compare the 2008 scores one by one, Slovakia has maximum scores (4.33) in three fields: small scale privatization, trade and forex, and price liberalization. At the same time, these are the fields where Slovakia reached high scores in less time. Croatia has maximum scores small scale privatization and price liberalization. Croatia has higher scores than Slovakia in banking reform and interest rate liberalization. In all other sectors Slovakia has higher or equal scores than Croatia. The scores of Croatia show higher standard deviation.

This short review shows rather small (0.22 score) difference between the two countries (3.52 average score for Croatia and 3.74 for Slovakia) in 2008, although the one is a frontrunner in transition reforms and the other follows far behind.

**Table 1: Croatia: Transition indicators**

	Large scale privatization	Small scale privatization	Enterprise restructuring	Price liberalization	Trade & Forex system	Competition Policy	Banking reform & interest rate liberalization	Securities markets & non-bank financial institutions	Overall infrastructure reform
<b>1989</b>	1.00	3.00	1.00	2.67	2.00	1.00	1.00	1.00	1.33

1990	1.00	3.00	1.00	3.67	2.00	1.00	1.00	1.00	1.33
1991	1.00	3.00	1.00	3.67	3.00	1.00	1.00	1.00	1.33
1992	2.00	3.00	1.00	4.00	3.00	1.00	1.00	1.00	1.33
1993	2.00	4.00	1.00	4.00	3.00	1.00	2.00	1.00	1.33
1994	2.00	4.00	2.00	4.00	4.00	1.00	2.67	2.00	1.67
1995	3.00	4.00	2.00	4.00	4.00	1.00	2.67	2.00	1.67
1996	3.00	4.33	2.67	4.00	4.00	2.00	2.67	2.00	2.00
1997	3.00	4.33	2.67	4.00	4.00	2.33	2.67	2.33	2.00
1998	3.00	4.33	2.67	4.00	4.00	2.33	2.67	2.33	2.00
1999	3.00	4.33	2.67	4.00	4.00	2.33	3.00	2.33	2.33
2000	3.00	4.33	2.67	4.00	4.33	2.33	3.33	2.33	2.33
2001	3.00	4.33	2.67	4.00	4.33	2.33	3.33	2.33	2.67
2002	3.00	4.33	2.67	4.00	4.33	2.33	3.67	2.67	2.67
2003	3.33	4.33	2.67	4.00	4.33	2.33	3.67	2.67	3.00
2004	3.33	4.33	3.00	4.00	4.33	2.33	4.00	2.67	3.00
2005	3.33	4.33	3.00	4.00	4.33	2.33	4.00	2.67	3.00
2006	3.33	4.33	3.00	4.00	4.33	2.33	4.00	3.00	3.00
2007	3.33	4.33	3.00	4.00	4.33	2.67	4.00	3.00	3.00
2008	3.33	4.33	3.00	4.00	4.33	2.67	4.00	3.00	3.00

Source: EBRD Transition indicators

**Table 2: Slovakia: Transition indicators**

	Large scale privatization	Small scale privatization	Enterprise restructuring	Price liberalization	Trade & Forex system	Competition Policy	Banking reform & interest rate liberalization	Securities markets & non-bank financial institutions	Overall infrastructure reform
1989	1.00	1.00	1.00	1.00	1.00	1.00	1.00	NA	1.00
1990	1.00	1.00	1.00	1.00	1.00	1.00	1.00	NA	1.00
1991	4.00	3.00	2.00	2.00	1.00	1.00	1.00	NA	1.00
1992	4.00	4.00	2.00	2.67	1.00	1.00	1.00	NA	1.00
1993	4.00	4.00	2.00	2.67	2.00	1.00	1.00	NA	1.00
1994	4.00	4.00	3.00	2.67	2.67	1.00	1.00	NA	2.00
1995	4.00	4.00	3.00	2.67	2.67	1.67	2.33	NA	2.00
1996	4.00	4.33	3.00	2.67	2.67	1.67	2.33	NA	2.00
1997	4.00	4.00	3.00	2.67	2.33	1.67	2.33	NA	2.00
1998	4.00	4.33	3.00	2.67	2.33	1.67	2.33	2.00	2.00
1999	4.00	4.33	3.00	2.67	2.33	2.00	2.33	2.00	2.00
2000	4.00	4.33	3.00	3.00	2.33	2.00	2.33	2.33	2.00
2001	4.00	4.33	3.00	3.33	2.33	2.33	3.00	2.33	3.00
2002	4.33	4.33	3.00	3.33	2.33	2.67	3.33	2.67	4.00
2003	4.33	4.33	3.00	3.33	2.67	3.00	3.33	2.67	4.00
2004	4.33	4.33	3.33	3.67	2.67	3.00	3.33	2.67	4.00
2005	4.33	4.33	3.33	3.67	2.67	3.00	3.67	3.00	4.00
2006	4.33	4.33	3.33	3.67	3.00	3.00	3.67	3.00	4.00
2007	4.33	4.33	3.33	3.67	3.00	3.00	3.67	3.00	4.00
2008	4.33	4.33	3.33	3.67	3.00	3.00	3.67	3.00	4.00

Source: EBRD Transition indicators

The transition indicators show little difference between the two countries. That is, the two countries are close to each other on a scale from rigid centrally planned economy to an industrialised market economy. However, this similarity does not reflect in their business environment, as the Doing Business rankings show (see Table 3). The foundations for a well functioning market economy are present according to the transition indicators. As we have highlighted previously in the section “Why stabilization in Croatia has not brought economic growth”, problems with property rights and contract enforcement; the large size of the government, inefficient bureaucracy and high regulatory burden; and corruption are the four most important micro risks that determine the quality of market economy in Croatia.

**Table 3: Rankings on the ease of doing business in CEE and SEE countries, 2007 and 2008**

Regional subrank	Country	Rank <sup>7</sup> in 2008	Country	Rank in 2009
1.	Estonia	18	Estonia	22
2.	Latvia	26	Lithuania	28
3.	Lithuania	28	Latvia	29
4.	Slovakia	37	Slovakia	36
5.	Bulgaria	44	Hungary	41
6.	Romania	47	Bulgaria	46
7.	Hungary	50	Romania	47
8.	Slovenia	64	Slovenia	54
9.	Czech Republic	65	Macedonia FRY	71
10.	Poland	72	Czech Republic	75
11.	Macedonia FYR	79	Poland	76
12.	Montenegro	84	Albania	86
13.	Serbia	91	Montenegro	90
14.	Croatia	107	Serbia	94
15.	Bosnia and Herzegovina	117	Croatia	106
16.	Albania	135	Bosnia and Herzegovina	119

Source: World Bank Doing Business 2009:6

<sup>7</sup> Rankings on the ease of doing business are the average of the country rankings on the ten topics covered in Doing Business reports: Getting credit, Registering property, Dealing with licenses, Employing workers, Starting a business, Protecting investors, Trading across borders, Paying taxes, Enforcing contracts, Closing a business.

The smaller state redistribution – among other favourable impacts – limits the rent-seeking possibilities (Csaba 2007a:761). Both countries suffered from state capture and high level of rent-seeking as a result of crony capitalism. In the following we show how the size of the state changed during the examined period in the two countries.

The Dzurinda reform agenda decreased the level of public expenses from 50.5% in 2000 to 37.3% in 2006. Considering this data, Slovakia is among the countries with lowest government redistribution in the EU and it is more close to the level of Baltic and South Eastern European member states than the other Visegrád countries.

Although the size of state decreased by 9 percentage points since the end of the Tudjman regime, the Croatian state is still among the largest compared to CEE states, but also compared to all EU states. The size of public expenditures relative to GDP show interesting picture in Croatia, in comparison with Yugoslavian times. In communist countries the public expenditures are high by definition. Yugoslavia was an exception, where there was a difference between state and social sector. Still, the level of state expenditure was high in Yugoslavia, but from a number of respects it was lower than it has been nowadays in Croatia (Gligorov 2002).

## **7 Internal factors – the respond to the Europeanization pressure**

The outcome of the Europeanization process is explained by the “concerted action” of the internal and external factors. As we have highlighted, the external factors were present in both countries. Since the external factors can be regarded as highly similar, they cannot be “blamed” for the different outcome of Europeanization in the two countries. The domestic factors are responsible for perception of the misfit and for the presence of the responding factors. How did the two countries respond to the impetus coming from the EU? What are the factors that have hindered or fostered Europeanization?

As we demonstrate, the internal factors are quite similar in the “nationalist” phase and they have been rather different in the “Europeanist” period in the two countries. What are the crucial points that make the development of Croatia and Slovakia different? The comparison aimed to find the crucial factors that are behind the different outcome.

## 7.1 Initial conditions

The Europeanization process, in the sense of the impact parallel to the transition of post-communist Eastern European countries, reached both of our case study countries when they were not independent countries. Croatia started as a member state of Yugoslavia, while Slovakia was part of Czechoslovakia. Thus the early stage of their Europeanization was not an “independent” choice in these countries but a result of a collective action. In both cases the early stages possessed favourable EU relations. Yugoslavia’s special status with the European Communities was enviable among the CEEs during the Cold War. This preferential status disappeared with the outbreak of the war. The first stabilization program in Croatia was introduced in 1990 (still as a part of Yugoslavia). The program did not have an explicit European dimension and due to this deficiency, only a partial break was made with legacies of the self-management, and the credibility of commitment towards the European model was very low (Bićanić–Franičević 2003:6). Czechoslovakia was among the first countries that started the negotiations about EC association agreements (Europe Agreements) in December 1990. Czechoslovakia has been among the Visegrád states that were the frontrunners in transition.

The status of the countries changed profoundly when they became independent.

## 7.2 Two countries – four cases

In order to detect the key factors of Europeanization in the two countries, we examine them in three periods (Table 4). We start with the initial conditions. Then we turn to the period that was marked by nationalism and we call it “nationalist” period. We consider the next period from the time when opposition governments got into power and call it “Europeanist” period. The turning point is 1998 in Slovakia and 2000 in Croatia. The three key words of Europeanization (misfit, perception and responding factors) are examined in all cases. When the internal factors respond to the external ones, the outcome depends on their interplay. In the context of transition countries the interplay is seen successful when the EU serves as anchor during the transition process. We also examine in the following cases whether the EU anchored the transition of the counties.

**Table 4: Realization of Europeanization in Croatia and Slovakia: overview**

	<i>Croatia</i>	<i>Slovakia</i>
<i>initial conditions</i>	yes	yes

<b><i>“nationalist” era</i></b>	no	no
<b><i>“Europeanist era”</i></b>	partly	yes

The countries vary how they response to EU adaption pressure. We examine first the possible theoretical explanation that Vachudova (2005:72-79) outlines. The *geographical proximity* does not explain the willingness of the two countries to participate in EU integration: although both are in the direct neighbourhood of the EU, the countries tried to ignore the influence of the EU during the 1990s. On the logic of *initial economic conditions*, both Yugoslavia and Czechoslovakia should perform well since they were relatively rich. Some of the successor states performed well but some not<sup>8</sup>. The initial economic conditions are surely important but not all: one has to take into consideration the political, historical and sociological initial conditions as well.

Turning to the next explaining factor, did the *EU dislike* any of the countries? Czechoslovakia (both part of it) belonged to the Visegrád countries, which were considered as the most favoured group of transition countries. Yugoslavia was in a special relationship with the EC until its disintegration that meant preferential treatment compared to the other communist countries. On the whole, both countries had at least not bad or even good reputation in the eyes of the EC at the beginning. However, the dissolutions changed the picture. Where pro-EC governments got the power in the successor states, the good relation sustained. At the same time, where the nationalist powers got to the government, it changed the attitude of the EU as well. In this latter period the EU “disliked” those countries, but it was not unilateral.

None of Vachudova’s factors explain the different outcome of Europeanization process in Croatia and Slovakia. We argue that the *self-interpretation and scope for action of the political elite* matters. This elite dynamic roots in the cultural and historical heritage of the country. Since the Europeanization process depends primarily on policy decision, the attitude of the political elite is essentially important. In the following we attempt to highlight the different dynamics of Europeanization and their determinant factors.

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<sup>8</sup> Of course not all the Yugoslav republics were rich. The regional disparities were huge but the relative richness of Croatia and Slovenia did not determine their paths either.

### 7.3 Croatia in the Tudjman era – the nationalist period

As outlined above, there are three conditions to be able to talk about Europeanization. First, there must be a *misfit* or incompatibility between the domestic and the European institutions, policies or processes. Considering the development of Croatia during the 1990', the misfit is undoubted.

This misfit was *perceived* very differently in Croatia and in the EU. On the one hand, Croatia saw itself as an independent democratic state with a stable economy whose European integration process was hindered by other European states (Tudjman 1997). On the other hand, from the side of the EU a large misfit was perceived and pronounced. The main elements of the misfit were the war, the undemocratic political style and abuse of minority rights. The outcome of the two perceptions scarcely overlapped. The difference in perception of the misfit – we argue – rooted in the different perception of the war: in the Croatian reading it was the Homeland war and Croatia was the victim of the Serbian aggression. However, the EU and most of the international community blamed the country because of its ambitions against Bosnia and Herzegovina. As a result, the perception of the misfit was wrapped into the national interest of Croatia as an independent country and nation.

The existence of factors (actors or institutions) that *foster responding* to the adaptation pressure were almost missing during the Tudjman regime in Croatia. The country was isolated from the EU (less economically and more politically). The governing party (HDZ) responded rather defensive than cooperative to make Croatia EU-conform. In fact, the need of being EU-conform did not arise. Instead, the pressure of the EU was seen as a danger to the national interest. As a result, there were no or little efforts made in order to meet EU requirements and European integration had a very low priority. Croatia did not become a Europe Agreement country and as a result the EU membership was less than real prospect. The role of the EU in the transformation process was minor.

According to the above described, can we talk about Europeanization during this period in Croatia? The evidence shows that the three conditions did not realize. Thus the EU did not play the role of *anchor* in the Croatian transition process; it rather went on its own way dictated by the “national interest”. The Croatian system proved to be EU-resistant. However, this does not mean that the EU was not present in Croatia's life. The presence of the EU-pressure had impact on the country's life even if not towards the direction of Europeanization.

The fact that Croatia did not become a Europe Agreement country was the result of policy decisions made by the political elite. In the next section we examine what kind of factors made the political elite to do so. We will find that the two main reasons were the war and the national identity.

### 7.3.1 Is Croatia different?

Every country and every transformation is different. However, there are several factors that all or at least the vast majority of the transition countries shares. In Croatia the following factors are potentially different.

First, the transformation process of Croatia began in 1988 during the last years of Yugoslavia; therefore the Croatia inherited this path. This factor is *special but not unique*: Slovenia inherited the same background but it is the first euro country among the CEEs.

Second, Croatia became a newly independent state in 1991, which also influenced the agenda of transition. However the new independence of Croatia *is not a significant distinctive factor*. State- and nation-building connects to transition in most of the cases. At the same time, albeit new independence is not a distinctive factor, the way *how* it was gained needs to be examined further. Here we arrive to the third possible distinctive factor: the first years of transition in Croatia were complicated by a war, which caused a shift in the priorities. We argue that this feature of the Croatian economy is *a distinctive one* since the Central and Eastern European countries did not face an armed conflict; the dissolution of Czechoslovakia and the secession of the Baltic states went peacefully.

As Kornai (2005:915) highlights, a very important characteristic of the transition paths in CEE is that they happened peacefully and without violence. Croatia looks fundamentally different. Although the armed conflict did not connect directly to the regime change, the Yugoslav war of secession has had deep impact of the Croatian transition path and therefore of its EU integration agenda. The war itself and its consequences created unique additional factors, cost and challenges that were missing in the CEE peer countries. Even the war did not break up against the transition itself, it impeded the possibility of a peaceful transition. *We do not find any example of successful transition which was complicated by long armed conflict among all the transition countries.* Among others the war was the factor that placed Croatia from the CEE group to the Western Balkans.



Usually Croatia is labelled as a delayed country from the perspective of Europeanization. From another point of view, Croatia is a frontrunner among the Western Balkan countries. Croatia always wanted to get out from the group of Western Balkans and join its “own group” of countries in the region. However, the war and its consequences distinguished Croatia from the rest of the CEE countries.

### **7.3.2 What can be placed to the account of the war?**

The war led first of all to loss of lives and it also forced many people to leave their homes. The war inflicted severe physical destruction on infrastructure and housing. It also meant the occupation of about one-third of Croatian territory that resulted in a four year long interruption of main traffic links between the Slavonia and the costal area. The image of Croatia in the eyes of the international community was unfavourable, the war led to increasing international isolation, which continued in post-war times as well. The isolation deprived Croatia from important flows of international assistance and international integration.

Regarding the economy, the war led to heavy direct economic losses (27.5 billion UDS that was more than a year's GDP of Croatia). The country lost its main traditional foreign markets and trade flows with other former Yugoslav republics were interrupted. The armed conflict seriously hurt the Croatian tourism industry. In the eyes of foreign investors, the war increased the country risk that was followed by loss of foreign direct investment flows. The transitional recession was combined with war recession that contributed to a particularly severe economic crisis. The country's GDP fell by almost 30% that was the most severe decline among CEE countries and Bulgaria and Romania. The war increased the role of the state: beyond defence expenditure, huge demand for social protection aroused from people affected by the war (World Bank 2001:2-3). Powerful interest groups benefited from the armed conflict who continued to benefit from various supports after the war as well, e.g. rents, pensions. The grey and back economy (including criminal activities) flourished during the war that continued after it as well, with a different character compared to Central European states (Inotai 2007:233-235).

The war and its legacies changed policy priorities fundamentally. The importance of this legacy is particularly visible after 1995. In spite of the end of the war, the foreign policy priorities did not change.

With the end of the war it did not disappear from the collective mind of politicians and the people. The reference to the war continued to influence policy decision. The size of state did not decrease after the end of war but the effects of war have contributed to the culture of interventionism in post-war times as well. The war and its consequences changed economic and political preferences and conditions, put several issues into new context and changed the balance of power among interest groups of the society. The political and economic sphere became highly interconnected. The non-transparent circumstances and delayed structural changes contributed to the evolution of crony capitalism.

The war had special impact also on the national identity, which is essential concerning the above mentioned state- and nation-building that connected to the transition.

### **7.3.3 Born to be “European”?**

After the fall of the Berlin wall the transformation of the Eastern European countries was also described as “returning to Europe”. The ideological, political and economic “return to Europe” meant among others European integration that is, the return of the Eastern European nations to the big family of (Western) European nations.

Although CEE countries declared that they always have been in “Europe”, every country strived to demonstrate its alignment to EU norms and rules. Their “Europeanness” had to be proven by accepting EU conditionality. Croatia experienced its “Europeanness” differently. In this country the above mentioned view about “we have always been in Europe” was understood more literally. The Croatian elite did not feel that Croatia should strive to demonstrate its alignment to EU norms and rules. They only referred to their roots in Europe (also historically, culturally and geographically) and kept it as their inalienable characteristic. Moreover, the myth of “Europeanism” was overwritten by the new myth of the war that influenced the national identity of people more vigorously. The “national interest” was to save this national identity from the pressure of the European Union.

As a result, during the first decade of transition the cost of Europeanization was very high in Croatia and the political elite were not willing to pay. Some EU conditions (especially the cooperation with The Hague) was unacceptable for the population. Both the transition and European integration were subordinate to the “national interest” that was often the interest of the narrow political elite.

To sum up, the choice in Croatia was not only whether Europeanist or nationalist (Fisher 2006) leaders get to power, as it was in Slovakia. The legacy of the armed conflict made the picture much more complicated. It changed also the idea of “inalienable Europeanness” when Croatia was placed among the less Europeanized Western Balkan countries.

#### **7.4 Croatia after Tudjman – attempts towards European integration**

The *misfit* was obviously still present when the opposition won the elections in 2000. But this misfit was *perceived* differently by the new government than the previous one. The new conception was more close to the perception of the EU although not the same. The idea of the national interest changed somewhat. However, key components of the misfit, namely the war (and its consequences) and the abuses of minority rights remained on the agenda and were attached to real or putative national interest.

The existence of *responding factors* changed after 2000. Following the elections the opposition gained power and the orientation of the external relations turned to the EU. The EU integration became a pronounced political priority.

Since 2000 the dynamics of Europeanization is visible. During the period of the opposition and also later when the renewed HDZ regained power, the EU was always a high a priority in the government's rhetoric and it presented ambitious integration schedules from time to time. Willingness for responding to the adaptation pressure strengthened significantly. The responding capacity was much stronger in rhetoric than in practice. The political goal of EU membership was also maintained after the change of government following the November 2003 parliamentary elections when the renewed HDZ won. The return of the HDZ highlights two issues: the infirmness of the coalition and the will of the electorate. The return if the HDZ did not go along with the return of nationalistic rule, inter alia because the emblematic HDZ leader Franjo Tudjman died in 1999. Stipe Mesić, president of Croatia said in 2000 that he hoped Croatia would have earned EU membership before his terms ended in early 2005. However, Croatia applied for EU membership in February 2003 and became a candidate country in June 2004 and only the negotiations could start in 2005, mainly because of the delay in cooperation with ICTY. The aim of Croatian membership was still overwritten by the national interest, which was

threatened by The Hague. The unexampled high level of Euroscepticism in Croatia has also burdened the integration process and the respond to adaptation pressure.

The main mechanism of Europeanization did not change in Croatia with the political turn. The dominant mechanism have been *coercion based on control and conditionality*. The Croatian experience showed that the mainly negative conditionality of the EU and also other international actors played highly important role in several crucial steps in the Croatian policy.

The hint of Schimmelfennig and Sedelmeier (2004:670) that the presence of conditionality does not necessarily cause successful rule transfer is particularly relevant in Croatia. In many cases the EU-conditionality proved to be ineffective, although the EU's bargaining strategy was connected to positive and negative sanctions. On the one hand, an example of the negative sanction was the suspension of assistance to Croatia under the PHARE program. It was suspended on 7 August 1995 when Croatia mounted a military offensive in Krajina. Until November 1999, Croatia was excluded from the PHARE programme because of its failure to strengthen its democratic institutions (e.g. reforming the electoral law, decentralising the media, respect for minorities and the return of refugees). Another negative sanction was the postponement of the accession negotiations because Croatia did not cooperate fully with the ICTY. On the other hand, as an example of a positive sanction, following a positive assessment from the ICTY Chief Prosecutor, the Council concluded immediately that Croatia had met the crucial condition and the negotiations could be opened on 3 October 2005.

#### **7.4.1 EU as an anchor**

The political elite were not only struggling with the conditions of the EU itself but also with its own agenda. The integration schedules have been delayed regularly. The EU perspective has been still complicated by unclosed issues of the Yugoslav succession and the consequences of the war. Thus it could not become the overall priority of foreign relations. The government had to balance between fulfilling the conditions of the EU and other international actors and fulfilling the expectations of the electorate. The two requirements were sometimes the opposite of each other.

As a consequence, the role of the EU and its *anchoring* possibilities has been limited in Croatia, it kept the distance from the EU after 2000 as well. Contrary to Croatia's resistance, the evidences show that the EU has been an important factor in Croatia's life. The country is already a

candidate country and the Progress Reports finds some progress every year. The question is the pace of progress and integration.

It is important to note that the structural reforms are necessary in Croatia regardless of the conditions of the EU. First of all, the improvement is the interest of the country and only on second place is the interest of the EU. Lejour et al. (2007:10) argue that Croatia could follow the reform path without the EU accession as well. However, the experience of the Croatian transition path showed that the (mainly negative) conditionality of the international actors played highly important role in several crucial steps in the Croatian policy.

Regardless of politics, the Europeanization of economic relations was significant. The EU became the most important trade and investment partner of Croatia, already during the “nationalist” period. The evidence shows that the geographical proximity determine most of the economic relations of the country. From strictly economic point of view, Croatia differs from the CEE countries with respect to the following features. The private sector investment and FDI as share of GDP is relatively low, the size of the government and the role of the state are relatively large, the business environment is less friendly, the legal system are less favourable, the labour market is less flexible (Lejour et al. 2007). The transition is lagging behind in several fields.

#### **7.4.2 Europeanness and war**

The two constraint mentioned in the previous section (the war and national identity) has been still valid in the “Europeanist” period, even though their intensity decreased.

The perception of “Europe” did not change principally after 2000 in Croatia. The political elite still did not feel the need that their “Europeanness” should be proved by accepting EU conditionality. This feeling changed only after the realization that the Eastern EU enlargement was over when Bulgaria and Romania joined the community in 2007. These two countries’ level of development has been well below Croatia’s level according to the common talk. The membership of the latter two countries “opened the eyes” in Croatia and brought to both the population’s and the political elite’s consciousness that Croatia *missed* the trains of EU enlargement.

At the same time the myth of the war and as a consequence, the legacy of the war became less and less intensive with the rolling years. In the second half of the 2000’ the perception of “Europeanness” became increasingly “instrumental”, as it was in Slovakia.

Vojnić (2003:158-165) argues that the performance of Croatia could be explained exclusively neither by the imposed war nor by the explosion of the Balkan nationalism. Vojnić argues that the performance of the country is also the result of crony privatization and the insufficient extent of stabilization. However, we argue that the two (war and the Balkan nationalism on the one hand and crony privatization and insufficient extent of stabilization on the other) are not unrelated. On the contrary, the latter are to a large extent the consequence of the former. The interrelation of politics and economy continued to determine the direction of policymaking, and the willingness and scope for action of the political elite.

#### **7.4.3 The role of crisis**

Crisis has been identified as one factor that can be conducive to economic policy changes, reforms and thus to accelerate growth. At the same time, crises are not unequivocally beneficial for reforms and also the eruption of crisis is not a necessary precondition for reforming measures. Gligorov (2004b:21) argues that in Southeastern European countries crisis does not play an unambiguous role. One crisis that had important role in a number of cases is hyperinflation. In Croatia a highly successful stabilization package was introduced after a period of hyperinflation. The inflation rate has been low and stable since then. In Croatia another economic success story, the restructuring of the banking sector occurred also in consequence of a financial crisis in 1998-1999. However, neither the restructuring of the financial sector nor the post-hyperinflation stabilization package was followed by overall restructuring in the economy. In other words, there was no “life-threatening” crisis in other sectors – neither benefit. The crisis of e.g. the shipbuilding sector has not been enough deep to move the balance of the crony system. As highlighted in the detailed country-study, the revenues from the tourism sector and the remittances of Croatian citizens working abroad has helped to maintain the possibility of policy making towards vested interest. As a result it has not enforced any radical structural changes. Croatia locked in, became the subject of institutional inertia.

#### **7.5 Slovakia during the Mečiar-years**

The misfit between the domestic and the European institutions, policies or processes was present in Slovakia undoubtedly. However, the misfit was partly perceived. On the one hand, the Slovak government saw the country as a newly independent democratic state that may serve as a bridge

between the West and the East. The misfit was not regarded as some kind of deficiency but rather the national interest of Slovakia as an independent country and nation. The perception of the misfit was different from the side of the EU, which expressed its aversion even in form of demarches. The main elements of the misfit were the undemocratic political style, the instability of Slovakia's institutions and abuse of minority rights.

The existence of factors to the foster responding to the adaptation pressure was almost missing in Mečiar's Slovakia. The country was officially in favour of the EU and it made an application for EU membership in June 1995. At the same time, in practice it rather isolated from the EU. The governing party (HZDS) followed nationalistic principles and stayed resistant to EU-pressure.

The dominant mechanism of Europeanization was coercion. The control with negative and positive sanctions played an important role during the Mečiar years. The most apparent example was the decision itself on the candidate status. The shortcomings regarding the political criteria were sanctioned with the delay of the start of negotiations. Slovakia stayed out of the first wave (the Luxembourg group) of EU-candidate countries, while the neighbouring countries (Czech Republic, Hungary and Poland) could join the Luxembourg group and get along with their integration process.

### **7.5.1 Being “European”**

During the Mečiar years Slovakia was not making efforts to “return to Europe”. Slovakia first refused the commitment of proving its “Europeanness” by accepting EU conditionality and became the “black hole of Europe”<sup>9</sup>. Being “European” was less important than the “national interest” of the newly born Slovak state that realized in the third way policy of the political elite.

A special duality was present in Slovakia's Europeanization process in this period. Regardless of its resistance towards the EU, it was one of the Europe Agreement countries. At the same time, the refusal of cooperation was more political and less economic since the EU was the most important partner of Slovakia in terms of trade and investments. In fact, Slovakia was closer to the EU than Croatia. It was on the way of integration and its refusal was less vigorous.

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<sup>9</sup> As Madelaine Albright US Secretary of State referred to Slovakia in 1995.

## 7.6 Slovakia after the turning point

The misfit continued to be present in Slovakia when the new government won the elections in 1998. At the same time, the perception of the misfit changed dramatically. The new government detected the lag in the country's integration process and thus in adopting EU-style institutions, policies and structures of the country compared to the other Visegrád states. This lag was considered as undesirable not only for the government but for the population as well.

The willingness for responding to the adaptation pressure strengthened significantly. The possibility of being excluded from the first round of enlargement made large impression to the population. The political goal of EU membership was maintained with the use of every means. The national interest changed compared to the previous era. The new interest was to catch up with peer countries and join the EU together with them. The first Dzurinda government had to face the scepticism of the international community. Accordingly, the reform process had to be quick and effective in order to start negotiations on Slovakia's entry into the EU. The reform process was driven by the promise of international integration and by international pressure. The promise of integration served as a unifying factor that made possible for the left-right coalition to stay in power for the full term. From 2002, the second Dzurinda government continued the reform process in order to complete Slovakia's integration into the EU (Mathernová–Renčko 2006:638).

In order to change the image of Slovakia that was created under Mečiar and gain credibility to the measures, the Dzurinda governments were ready to overfulfil the EU-requirements. In Slovakia the EU integration proved to be a strong anchor.

The mechanism of *coercion* and the instrument of conditionality were obviously present during the accession process as in case of every candidate country. However, this stage of Slovakia's Europeanization process was more driven by the *mimicry* mechanism. The EU served as a clear point of reference and destination as well. The integration process was the aim of the major part of the population and of the ruling government. They both consented to the EU integration and were ready to make efforts in favour of this aim. However, the reform measures both in economic and political field were necessary regardless of the EU membership and the conditions of the EU. The attitude of the Visegrád countries and other transition countries had a crucial impact on Slovakia's attitude and worked as a contagion effect. Slovakia did not want to act differently



because it would have been more costly for the country. The social cost of Europeanization was significantly lower than in Croatia.

#### **7.6.1 “Europeanness” in crisis**

In Slovakia the perception of crisis was present both in the field of economy and that of national identity. The decision about the Luxembourg group made Slovakian people feel excluded and reclaim their own place among the European democracies. People considered their country culturally and historically part of “Europe” and they thought it was capable for the same level of international acceptance like its neighbours. The country realized in the second half of the 1990’ that in the new post-communist context “being European” is connected to the EU, which became the only game in town. In Slovakia “Europeanness” was something to reach and this feeling was present both in the political elite (after 1998) and among the population. Contrary to the Croatian case, Slovakia apprehended “Europeanness” more instrumentally.

The perception of economic crisis worked as a motivation factor as well, to which the political elite answered with deep structural reforms.

#### **7.6.2 EU as an anchor**

The role played by the EU in the transformation of Slovakia is understood highly differently among the authors. Malová (2004:1-2) is the one extreme, who notes a bit satirically that Slovakia (together with the two Baltic states, which were later invited) acted like “an obedient dog faithfully following its master’s instructions”. Most of the authors agree that the EU (and other international institutions like NATO and OECD) served as a strong anchor during the reform process. The technical assistance proved to be crucial for the success of Slovakia’s reforms (the financial aid was less important). The international assistance gave also credibility to the reform measures. Mathernová and Renčko (2006:638) note that the assistance was not driven by supply but by demand i.e., the local experts and decision-makers had influence on the donors’ agenda. The conditions represented by the *acquis communautaire* had a significant role in the deep Slovak reform agenda. On the other extreme Haughton (2007:10) argues that the Slovak case highlights very clearly that the change in the domestic political elite and their commitment was indispensable. Real change comes from within - says the author.

Contrary to the first look the two reasoning did not oppose each other. At the beginning of the Dzurinda-turn the EU-anchor was extremely important since that was the factor that kept the often instable governing coalition together. The anchor was also important as it was the basis of building external credibility for the “new Slovakia”. In order to gain the invitation to the club in Helsinki in December 1999, Slovakia had to act like “an obedient dog” and follow its master’s instructions, i.e. consolidate politics and stabilize the economy. After the invitation was gained, the race against time began in order to catch up with Visegrád neighbours. The EU accession anchored the Slovak transformation without a doubt.

The reforms of the first Dzurinda government were far from popular. However, the government regained the confidence of international community that also helped to stay in power following the elections in 2002. The accession negotiations with Slovakia were closed in December 2002. The second Dzurinda government was free from EU-pressure when they began the series of radical reforms (Győrfy 2008a:16). Thus it is important to note that the drastic state reform was *not* among requirements of the EU. The performance of the second Dzurinda government supports the reasoning of Haughton (2007) that is real change comes from within.

Most probably the Slovak case is the coincidence of an effective EU anchoring and determined inner motivation for change. The two crucial factors reinforced each other. The EU accession provided an opportunity and the appropriate human factor was in right time, in the right place and grasped the opportunity (Győrfy 2008a:19). The external incentive has a special role when it lessens or even hinders reverse efforts. Altogether, the success of the Slovak reforms points beyond the success if Europeanization.

### **7.6.3 From external to internal**

By 2004 the misfit decreased to such a level that the country was welcome in the club. Slovakia entered the EU and thus the nature of Europeanization changed from external to an internal impact. The entrance conditions were replaced by a new set of internal rules. Vachudova (2005:241) argues that the EU’s active leverage in the accession countries, i.e. the leverage of pre-accession conditionality was diminished well before 1 May 2004, once the invitation for full membership was already happened. At the same time, many expected that the new members will easily meet the requirements of the Economic and Monetary Union (Csaba 2008:602). However, Slovakia (together with Slovenia) has been the exception but not the rule when the countries

actually fulfilled the euro-zone entrance conditions and thus continued their way of fulfilling EU conditions. In these two countries the accent shifted from external persuasion to internal one.

## 8 Concluding remarks

As Vachudova (2005:5) points out, the fact that a country is a credible future member state of the EU makes the country subsequently exposed to the pressure of Europeanization. This perspective also strengthens the position of liberal and pro-EU forces against illiberal ones. Probably that is why *sooner or later* most political actors see the benefits of moving their political agenda toward a direction that makes the country compatible with EU membership. The author concludes the above mentioned by examining six countries<sup>10</sup>, including Slovakia. Fisher (2006:20) extends this reasoning to Croatia. Furthermore our examination tends to confirm it as well.

The paths of the countries studied in this paper show some consequences about the dynamics of Europeanization.

1. In order to reach successful Europeanization, internal conviction is inevitable. Just like external pressure. Our results show that the outside pressure of the EU and other international organizations cannot induce deep reforms without the inside will of the political elite and the population, i.e. without sufficient responsive capacity. The external incentive may be necessary but not sufficient condition of changes. In other words changes do not appear automatically in the presence of external Europeanization pressure. At the same time, our results confirm that although international assistance in itself is insufficient, it is crucial and contributed to successful transformation (cf. Åslund 2007:297). Where the state is captured and vested interests block important reform steps, the outside pressure is often the only chance to break this dead-lock, even if these countries look first resistant. The impulse from outside is able to put domestic processes and structures into new context, and move them out from dead-lock.

2. The rules of the club are important whether the country intends or objects to join to club, and moreover when it is a member already. The club rules guide the members, what is right and what they have to comply with. The regulations of the club may affect also those who are not members of it. The EU is such a club. This external barrier plays stronger or weaker role in *every* actor's

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<sup>10</sup> Czech Republic, Hungary, Poland, Bulgaria, Romania and Slovakia

behaviour who get into contact with the EU<sup>11</sup>. Europeanization pressure does not appear ineffective even in the absence of internal response. This indirect Europeanization impact possesses different degree of efficiency, sometimes even to opposite the intended impact. Anyhow, the presence of Europeanization impact is *inevitable*; the countries under Europeanization pressure have to count with it whether they choose positive or negative respond.

3. The responsive capacity of a country depends on the will and determination of the political elite. “Real change comes from within” – from the political elite. As Dollar and Svensson (1998:4) point out regarding World Bank-supported reform programs, the governments willing to reform cannot be created but only identified. Some of the countries do not see Europeanization as a beneficial opportunity and thus they do not grasp it. The decision, whether to grasp the opportunity or not is the result of the decision of the political elite. The determination of the elite depends highly on its perception, latitude and social basis. The political elite will commit itself to changes only if its cost is lower than its benefits *for the elite*. However, this cost–benefit balance is often different than that of the whole economy and society. The scope for action of the decision-makers is not infinite but determined by deep identity questions, history and culture. These rather stable informal institutions cause path dependency and burden the scope for action of decision-makers. This set of initial conditions should be taken for granted (cf. Hodgson 2006). Another set of initial conditions may be “corrected” by policy decisions. Concerning this level of (mostly formal) institutions, the will of the prevailing political elite *is able* to overwrite path dependency and some disadvantageous initial conditions.

4. Timing is fundamentally important. It is not possible to join the club at any time. Whether then and there, or the possibility may swim away. This throws new light upon the debates of rashness of EU or euro integration. The evidence shows that the invited may not have the chance to decide *when* they prefer to accept the invitation. Once the possibility was not utilized, it is

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<sup>11</sup> Györfy (2008b:983) finds that the regulations of the Economic and Monetary Union were neither necessary, nor sufficient conditions of a successful fiscal consolidation in the EU-15. Even if the EMU regulations enforce fiscal consolidation, its sustainability will be weaker compared to countries where consolidation occurred purely from internal commitment. In case of the Eastern European countries, the relation of internal commitment and external pressure is different than in the old member states described above. Unfortunately we do not have the possibility to examine the development of these countries *in the absence* of EMU regulations. Only in this case could we disregard the effect of them. At the same time, the rules of the club consist of its members’ own rules, i.e. the club itself does not exist in a vacuum, apart from its members (Wallace–Wallace 2000:6). Thus the members’ own rules may overlap with the club’s rule as well.

doubtful when the next will come because the inviter's preferences may change with time. The latest developments of the EU show that Slovakia changed „on time”, could catch up with the Visegrád group and join the EU in 2004. In case of Croatia the “enlargement train has gone”, i.e. the enlargement conditions of the EU have changed considerably since the signing of the Nice Treaty that created the framework for the enlargement rounds in 2004 and 2007. Croatia has already reached the point when the decision-makers see the benefits of turning towards EU membership. Even if Croatia fulfils the three Copenhagen criteria, the EU itself has to fulfil the fourth one. Without the EU's ability to receive a new member state, the preparedness of a candidate has no worth. Fulfilling the fourth Copenhagen criteria became more fragile than ever before.

5. *War matters.* An armed conflict changes fundamental rules of the society; it creates special conditions, where the exception becomes the rule. The end of the war does not mean the end of this special period. First, it takes time to get back to “normal life” not only in economic but more in social and physiological terms. Second, the war influences the dynamics of interest groups. It serves as a basis of reference for several groups long after the end of the armed conflict and put nationalism in different costume. In other words, the war creates special burden and path dependence.

6. The *same* external pressure may induce *different* internal response and thus different outcomes. The same external pressure may fertile domestic factors if they are compatible, but may induce resistance if they are incompatible. The “good mixture” of external and internal factors that result in successful Europeanization may depend on whether (1) the external pressure finds linkage point with the internal factors (actors and institutions), (2) the external factors are able to compete with initial conditions and path dependency and (3) the internal response arrives on time.

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