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Croatia: Basic Facts

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Summary

This short report provides background and analysis on Croatia, including its history, current political and economic situation, foreign policy, and U.S. policy toward Croatia. This report will be updated as events warrant.

Historical Background

After the collapse of the Hapsburg empire at the end of World War I, Croatia (most of which had been under Turkish and Hapsburg rule since the 11th century) was incorporated into the Kingdom of the Serbs, Croats and Slovenes (Yugoslavia). Croats favored a federation which would afford them a great degree of autonomy, but the dominant Serbs imposed a centralized administration. In 1941, Hitler invaded and occupied Yugoslavia. He set up a Croatian puppet state (including large parts of Bosnia-Herzegovina) under the dictatorship of Ante Pavelic, the leader of the Croatian fascist Ustashe movement. The Ustashe killed hundreds of thousands of Serbs and members of other ethnic groups. After World War II, Croatia became one of the six republics of the new Socialist Federal Republic of Yugoslavia, led by Communist Partisan leader Josip Broz Tito.

Croatia at a Glance

Area: 56,538 sq. km., slightly smaller than West Virginia

Population: 4.78 million (1991 census)

Ethnic Composition: 78% Croat, 12% Serb, 10% others (1991 census)

Gross Domestic Product (GDP): \$20.2 billion in 1999 (Economist Intelligence Unit)

Leadership:

President: Stipe Mesic

Prime Minister: Ivica Racan

Foreign Minister: Tonino Picula

Defense Minister: Jozo Rados

With the collapse of communism in Eastern Europe, Croatia and the other republics of Yugoslavia held their first multi-party elections in 1990. The nationalist Croatian Democratic Union (HDZ), headed by Franjo Tudjman, won the majority of votes and parliamentary seats. Croatia pushed for a de facto independent Croatia within a

confederation with other Yugoslav republics, but was rebuffed by Serbia. Croatia held a referendum on sovereignty on May 19, 1991. The referendum was approved by over 90% of those voting (many ethnic Serbs in Croatia abstained). Croatia (along with neighboring Slovenia) declared independence on June 25, 1991. Local Serb insurgents and the Yugoslav Army seized about one-third of Croatia (mostly areas in which Serbs formed a majority or a plurality of the population) with the goal of uniting these areas with Serbia. The outgunned Croats agreed to the deployment of a U.N. peacekeeping force in December 1991 to separate the two sides, but used the respite to build up their forces.

In May and August 1995, Croatia unleashed its revamped army against the Serb-held regions of western Slavonia and Krajina, respectively, brushing aside U.N. forces and killing several peacekeepers. Bosnian Serb forces and Serbia-Montenegro did not come to the aid of local Serb forces, which were quickly crushed. Each offensive triggered a massive exodus of Serbs from the conquered areas, emptying them of most of their population. Serbs attempting to return to their homes were attacked by Croat mobs or had their houses burned. Far from stopping the attacks, Croatian authorities moved Croat refugees from other regions into abandoned housing. After the offensives, the final Serb-held area, eastern Slavonia, agreed to be reincorporated in Croatia without bloodshed. After a two-year transitional period under U.N. administration, Croatia assumed full control of the region in January 1998.

Political Situation

From 1990 until 1999, Croatia was led by President Franjo Tudjman and his nationalist Croatian Democratic Union (HDZ). Tudjman's successes in securing Croatia's independence and restoring Croatia's control over its territory made him popular with many Croats. He won re-election as President in 1992 and 1997 by large margins. According to the 1999 State Department Report on Human Rights Practices, Tudjman's regime, while nominally a democracy, had strong authoritarian elements. Opposition parties and media were harassed, and official media slavishly praised the regime. Election laws were manipulated to the HDZ's advantage. Government cronies were given control of lucrative privatized businesses. The popularity of the regime began to wane in the late 1990s, as Croatia's independence appeared secure and the economic situation in the country deteriorated. Croats were also angered by rampant high-level HDZ corruption and cronyism. Moreover, many Croats appeared to feel that Tudjman's autocratic, highly nationalist regime was increasingly inappropriate for their country, which they wanted to become a "normal" European state.

This shift in public sentiment caused a sea change in Croatian politics when Tudjman died in December 1999, after a long bout with cancer. In January 2000, the HDZ suffered a crushing defeat in parliamentary elections. An opposition coalition led by the former Communist, center-left Social Democratic Party (SDP) and the center-right Croatian Social Liberal Party (HSLs) won 71 of the 151 seats in the lower house of the Croatian parliament. The SDP-HSLs coalition then formed a majority with a grouping of four smaller center-right opposition parties (the Croatian Peasant Party (HSS), the Croatian People's Party (HNS), the Istrian Democratic Assembly (IDS) and Liberal Party), which won 24 seats. The HDZ won 46 seats. The new majority formed a government headed by SDP leader Ivica Račan.

The parliamentary election was followed by presidential elections in late January and early February 2000. Croatian voters again demonstrated their desire for change. In a surprise result to many observers, Stipe Mesic, a former HDZ leader who broke with Tudjman in 1994 over Tudjman's support of Croat hardliners in Bosnia-Herzegovina, won 42% of the vote. HSL's leader Drazen Budisa finished second with 28%. HDZ moderate Mate Granic finished third with 22%. In a runoff vote between the two leading candidates, Mesic beat Budisa handily, 56% to 44%. Both Mesic and Budisa campaigned on a pledge to break with the authoritarian excesses of the Tudjman regime and support Croatia's integration into Europe. However, observers say voters appeared to prefer Mesic's humorous, down-to-earth style, a sharp contrast with Tudjman's aloof and many detractors said pompous manner.

The new government has attempted to dismantle many of the most unpopular aspects of the Tudjman regime. Shortly after taking office, President Mesic released Watergate-style tapes from a recording system Tudjman had installed in his office. Although many of the most damaging tapes had reportedly been destroyed before Mesic took office, the ones that remained painted a sordid picture of cynicism and corruption that further blackened the reputation of the former regime. In November 2000, with the support of President Mesic, the Croatian parliament amended the Constitution to reduce the vast powers of the Croatian presidency. The government has also tried to reform media laws to make them more democratic and to prosecute corruption cases against the previous regime (including against Tudjman's daughter), but has not been able to make rapid progress.

Economy

In 1993, Croatia embarked on an ambitious macroeconomic stabilization program that cut inflation from 1,517% in 1993 to an estimated 3.6% in 1997. It also stabilized Croatia's currency, the kuna, which was introduced in May 1994. After years of decline due to the effects of war and economic mismanagement (Gross Domestic Product declined nearly 60% between 1989 and 1994), the economy began to recover. Croatia embarked on a voucher privatization program, which turned most small and mid-size firms over to private owners, mainly company management and employees. The privatization of several large, "strategic" enterprises (in such areas as telecommunications, banking and energy) has been slower. The Tudjman government handed over control of many key firms to regime cronies. Some regime-linked businessmen mismanaged their firms and stolen large sums from them. Many companies are heavily indebted and lack the capital needed for restructuring. Bad debts to enterprises led to the collapse of several banks. A key factor in the defeat of the HDZ in the January-February 2000 elections was the deterioration of Croatia's economy.

Since coming into power, the new government has cut spending, especially defense spending and subsidies to the Bosnian Croat military, and reduced taxes. It has maintained the previous government's stress on price and exchange rate stability. Economic growth has resumed. Gross Domestic Product increased by 3.5% in 2000. However, unemployment remains high at 15.4% in 2000 and living standards have not shown dramatic improvement as yet, which has contributed to a decline in the government's popularity. In 2000, Croatia joined the World Trade Organization. In a vote of confidence in its policies, Croatia received a \$250 million stand-by loan from the International Monetary Fund in March 2001.

Foreign Policy

During the Tudjman era, Croatia's relations with Western countries were often difficult. Tudjman's authoritarianism and nationalism often put him at odds with Western objectives. On the other hand, Tudjman viewed his country as part of the West, and sometimes made grudging concessions in an effort to gain acceptance, aid and to head off possible sanctions. Western officials demanded more respect for democracy and human rights in Croatia. They called for real progress in returning Serbs refugees to their homes. Western countries also demanded that Croatia cooperate fully with the International Criminal Tribunal for the Former Yugoslavia (ICTY). One particular area of dispute between Western countries and Croatia was the West's demand that Croatia compel its Croat allies in Bosnia-Herzegovina implement the Dayton Peace Accords (DPA). Croatia provided large amounts of material aid, advice, and personnel for Bosnian Croat military forces during the Bosnian war, and continued to do so after the war. Critics charged that while providing lip service to the DPA's goal of an integrated Bosnia, Tudjman had built a client state within a state, in hopes of one day breaking it away from Bosnia and merging it with Croatia.

The new Croatian government has stressed that its main foreign policy goal is integration into Western institutions. The new government has vowed to bring greater democracy to Croatia, including reforming media laws. The new government has pledged to allow all Serb refugees to return to their homes. Progress on this issue has been modest. Only about 80,000 of the 300,000 Serb refugees or displaced persons have returned to their homes, in part due to the lack of an administrative and legal framework to permit refugees to quickly regain possession of their property. In February 2001, President Mesic said that Croatia has cut off all funding to the Bosnian Croat military. Analysts note that Tudjman's support for Croat separatism in Bosnia-Herzegovina was largely due to the presence of Herzegovina Croats among his senior advisors and cronies. The policy had little real support among most Croats in Croatia. Croatia's new leaders say that Croatia does not want a special relationship with Croat-majority areas of Bosnia, but would like a good relationship with a unified Bosnia. In March-May 2001, Bosnian Croat hardliners attempted to secede from the Federation of Bosnia-Herzegovina (one of the two semi-autonomous "entities" within Bosnia). The effort failed, in part due to the firm opposition of Croatia and the international community.

The new government has cooperated more closely with the ICTY than the Tudjman regime. In March 2000, the new government turned over indicted Bosnian Croat war criminal Mladen "Tuta" Naletilic to the ICTY despite public outrage in Croatia against a 45-year sentence handed down a few days earlier by the court against Bosnian Croat military leader Tihomir Blaskic. In September 2000, the Croatian government arrested five Croats for war crimes against Serbs during the war in Croatia. In February 2001, Mirko Norac, a former Croatian general, was arrested by Croatian authorities on war crimes charges against Serb civilians in Croatia in 1991. In April 2001, ICTY investigators exhumed the bodies of Serb civilians killed by Croatian forces in Krajina in 1995. Croatian and ICTY investigations of war crimes committed in Croatia have created tensions within Croatia's military, civilian population, and in the Tribunal's relations with the Croatian government. Croatian leaders have expressed fears that the ICTY could indict commanders of Croatia's successful military campaign to retake Serb-held regions of Croatia in 1995. While most Croats have little wish to shield Bosnian Croat war criminals or those who committed individual atrocities in Croatia, the vast majority of Croats

strongly support the war of independence from Yugoslavia and object to prosecutions of senior officers that could bring their victory into disrepute.

Western officials applauded the new government as a hopeful sign for Croatia and the region. In a sign of their support, Croatia was admitted to NATO's Partnership for Peace program in May 2000. Croatia's long-term goal is to join NATO. In May 2001, Croatia joined the Visegrad group of 9 (now 10) Central European aspirants to NATO membership. Croatia wants to join as soon as possible NATO's Membership Action Plan process, which helps aspirants improve their qualifications as possible NATO members. Croatia also wants closer ties with the European Union, with the goal of eventual membership. In November 2000, the EU held a summit of EU and Balkan leaders in Croatia's capital, Zagreb, to signal its approval of the changes in Croatia. In May 2001, the EU initialed a Stabilization and Association Agreement with Croatia. The SAA cements a closer relationship between the EU and Croatia, including a six-year transition to a free trade area and a promise by Croatia to bring its laws up to EU standards. It also holds out the prospect of eventual EU membership for Croatia.

U.S. Policy

U.S. officials hailed the victory of democratic forces in Croatia in January-February 2000 as the most hopeful development in the Balkans since the Dayton Peace Accords. They say Croatia could develop into an anchor of stability and an engine of economic growth in the region. In a June 8, 2001 meeting with Croatian Foreign Minister Tonino Picula, Secretary of State Colin Powell welcomed Croatia efforts to improve its relations with Bosnia and with the new democratic government in Serbia. He also welcomed Croatia's steps to cooperate with the ICTY and said that these efforts should continue. Powell stressed the importance of the return of refugees to their homes in Croatia, according to a State Department spokesman. Powell expressed U.S. support for Croatia's efforts to become a stable, democratic country with a free market economy that will be attractive to foreign investors, as well as Croatia's efforts to become more closely associated with Euro-Atlantic institutions.

From FY1992 to FY1999, the United States obligated \$95.8 million in aid to Croatia under the Support for East European Democracy (SEED) Act. SEED technical assistance is being used to help strengthen Croatia's financial markets; and to bolster political parties, independent journalism, and local non-government organizations.¹ The United States has sought to bolster the new government with increased assistance. Croatia received \$36.2 million in SEED aid in FY2000, and is projected to receive \$44.527 million in FY2001. The Bush Administration requested \$45 million in SEED aid for Croatia in FY2002. Croatia received \$4 million in Foreign Military Financing in FY2000 and is projected to receive \$3.98 million in FY2001. The Administration has asked for \$6.2 million in FMF for Croatia in FY2002. Croatia received \$514,000 in IMET military training aid in FY2000 and a projected \$525,000 in FY2001. The Administration has requested \$600,000 for FY2002.² U.S. political and economic aid is targeted at expanding technical assistance to help Croatia plan and carry out economic reforms, as well as assist the return

¹ SEED Act Implementation Report, Fiscal Year 1999, March 2000, Appendix.

² U.S. Department of State, International Affairs, Function 150: Summary and Highlights, FY 2002 Budget Request.

of Serb refugees to Croatia. The FMF and IMET aid is aimed at helping Croatia reform its armed forces and participate in Partnership for Peace activities. Croatia will be eligible to receive U.S. Excess Defense Articles in FY2002.

In February 2000, the United States opened offices of the Trade and Development Agency and the Overseas Private Investment Corporation (OPIC) in Croatia. OPIC has established a \$150 million fund to invest in businesses in the region, including Croatia. The TDA will provide feasibility studies for investment projects. Croatia is part of the Generalized System of Preferences (GSP) program, under which a wide range of Croatian products can enter the United States on a duty-free basis.



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