The EU enlargement and its results are positive by most accounts. I am convinced that Croatia would not be as developed today were it not for the EU. EU was and still is a strong magnet that attracts its neighbors into joining this members-only club.

1. A short walk down the memory lane – Why EU?

The 2004 expansion of the EU must be viewed as part of a broader process of convergence of Central and Eastern European countries toward Western Europe. We should start at least from 1989, the fall of the Berlin wall, as a symbol of the collapse of the communist regime. As the Iron Curtain fell, most former communist countries chose EU as their ultimate goal. Geographical proximity is important but not the only contributing factor. Most countries wanted to join EU for its high living standards, political democracy and more generally a „human“ way of living. Compared to the rest of the world, EU area has the highest quality of life. Therefore, joining EU has been the beacon in navigating the paths of post-communist reforms for many. With the Global Financial Crisis, the light from this beacon has been dimmed. It was almost shut down during the Sovereign debt crisis in Europe. But, by 2014 this crisis came mostly to an end and EU had 14 new members. The process of integration is not complete as only some countries have joined the Eurozone. For some new EU members Euro-crisis has affected the „attractiveness“ of joining the Euro. But as European financial system has been considerably changed since then with new institutions, new mechanisms and different monetary policies run by ECB, one should expect the Eurozone enlargement to continue.

EU membership was the main driving force behind economic reforms in my own country - Croatia. Since Croatia’s independence in 1991 the overarching goal of both political elites (decision makers) and most of the population was to be „part of Europe“. That meant joining Euro-Atlantic integrations, i.e. to be a member of EU and of NATO. The main reason for this was the wish to reconnect and indentify with Europe i.e. with Western European values and to attain EU living standards. In our case the fact that EU was initially created as a „peace mechanism“ cannot be neglected either.

Immediately after independence in Croatia, the Washington institutions (IMF and WB) were the main driving forces of transition from semi-planned towards a market-based functioning economy. But in this century the motivation behind most of economic reforms was joining the EU. Today we want to became fully integrated aspart of the Eurozone. While some new members are reluctant and want to postpone the inevitable – Euro, Croatia wants to join as soon as possible. We are a highly euroized country with a tightly managed exchange rate regime (for mostly historical reasons). Being a very small and relatively open economy, joining a monetary union (and benefitting from its safety nets) is a reasonable choice.

2. What were the main transmission mechanisms for convergence toward EU and EURO?

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a) **Legal framework and EU rules.** *Acquis communautaire* is not a menu - pick and. It is a set of rules and adopting them is a necessary precondition for EU membership. If you want to be a member of this club, you have to adapt and obey to them. This worked very well for Croatia. As a former socialist economy, without those rules we would have endless discussions on how to address a particular reform. As long as EU was the ultimate goal (and now it is Euro) we had to follow the rulebook. Let's take an example of central bank independence. There is no doubt in my mind that without EU and ECB watching changes in our legislation the Croatian national bank law and its independence would look quite different today than they do. Populism and printing money has been very much alive in our country much before it is now fashionable practice in Europe (or in monetary theories like Modern monetary theory). In one of his blogs the famous economist Paul Krugman was quoting an experienced policy maker who said that bad economic ideas are like cockroaches, you flush them down the toilet but sooner or later they come back. EU and its rules have been playing (at least partially) the role of „flushing“ bad economic ideas in Croatia. And this was and still is very useful. Let me mention the example of shipyards in Croatia which over the years received ample taxpayers’ money but some of them are still not profitable... Were it not for EU state aid rules I am sure this waste would be even bigger and would continue. As a taxpayer, I say thank you EU!

b) **Set of macroeconomic „benchmarks“.** Maastricht criteria are the first set of benchmarks in Economics. They are the set of economic parameters for a country to be stable. As Croatia decided it wants Euro sooner rather than later, this set of numbers helps in policy making and stops endless discussions with populists on topics such as why we need low inflation? I am sure that our public debt would continue growing were it not for EU's Stability and Growth Pact, Macroeconomic imbalances procedures and Excess deficit procedure. True, *Quod licet Iovi non licet bovi*, so, Italy's public debt is still twice the allowed level and France never paid for its deficits in the past. But as Croatian taxpayer I can say again, thank you EU!

c) **Financial system integration.** I personally have no doubt that foreign bank contribution to economic development to Croatia was and is positive and relevant. First of all, since privatization of banks to foreign banks there was no need to bail them out, like almost all banks had to be bailed out by taxpayers money in former Yugoslavia. Second, they brought not only fresh capital (huge inflows) but new management, modern techniques and in general best (or at least better than former one) practices. They increased competition so domestically owned banks had to adapt. Key word is increased competition. Because of no bail-out of banks (and the new frameworks for distressed banks in EU and Eurozone) I can only repeat – thank you EU!

d) **Free movements of goods and people.** Trade and free movement had a positive impact on well being of population in my country. However this factor was not as strong as in other countries. Ex-Yugoslavia was relatively more open than most countries from behind the Iron curtain. Since mid-1960 a lot of workers went mostly to Germany, we had visa-free travel through Europe, and a large number of tourists were coming every summer. But we now drive much better cars than in socialism and people can chose in which EU country they want to study, work and live. Thank you EU!

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2 https://krugman.blogs.nytimes.com/2016/05/03/recovery-cockroaches/
3. **Lessons from the past as guidance for the future.**

How will convergence play out in the future? What are the main obstacles? I would argue they primarily are not economic but in the area of political economy realm. Below are some of my personal lessons from the past, which could be useful for the future:

**Lesson 1:** *Rome was not build in a day.* This is a valid lesson to remember for the future. We, people from southeast Europe are impatient. We expected higher living standards (like Germany at least) and developed institutions in a short period of time. When thinking about future progress we need to be patient. Therefore looking backwards and acknowledging tremendous progress we achieved is not only beneficial as motivation for the future, but necessary to keep reform *mojo* alive.

**Lesson 2:** *We must indeed all hang together, or most assuredly, we shall hang separately.* It seems that the UK has forgotten this Benjamin Franklin’s admonition. Pity, as the whole Brexit process is proof how painful divorce from EU can be.

**Lesson 3:** *Every action creates a reaction.* This Newtonian Law applied to economic reforms works and should be remembered. Typically every reform redistributes income. Thus there are losers and winners of reforms. To minimize obstacles to reforms, it is imperative to think about „losers”, compensate them in one way or another and try to create win-win situations. This is a big task, not easily achieved, but worth the effort.

**Lesson 4:** *Keep Darwin alive.* Competition policies are more important than ever. Even in a single EU market concentration of BigTech companies (Google, Amazon, Facebook and Apple, but others as well) are only one of many cases where additional regulation and competition policies must be preserved.

In conclusion, EU was and still is the main magnet for many countries in South East Europe. Progress is not linear. Looking backward and acknowledging what EU has done for us may be a useful exercise to gain strength for the next set of reforms. Therefore I say again: Thank you EU!