

# PUBLIC PERCEPTIONS OF POLITICAL AND ECONOMIC TRANSFORMATION IN CROATIA AND BIH: A PILOT STUDY \*.

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## **Abstract**

*Following successful accession to the European Union by many countries labeled “transition economies”, the definition of Europe’s transition zone (or, its modern “frontier”) continues to shift. Some of Yugoslavia’s successor states continue to struggle as independent entities in the wake of the country’s dissolution. Leaders in the Republic of Croatia and the Federation of Bosnia and Herzegovina (BiH) mapped out their return to Europe and have achieved varying levels of success, offering excellent laboratories for comparative assessment of ongoing transformation. As we approach the end of the second decade since the signing of the Dayton Peace Accords, and as Croatia prepares for its own 2013 EU accession, we attempt to better understand interrelated contemporary issues ranging from socio-economic wellbeing to contentment with government. Of particular interest is the prospect of EU accession given the ongoing global recession and widespread uncertainty surrounding the Euro. Our approach entails primary data collection through brief interviews with residents in localities of Croatia as well as Sarajevo, BiH, followed by an analysis of qualitative and quantitative responses. With Croatia’s imminent entry to the European Union, problems of economic diversification continue. In BiH, stagnation persists two decades after independence, and the failure of leaders to embrace transparency and generate a shared national consciousness continues to stymie public confidence and domestic growth while dissuading foreign investors.*

**Keywords:** Transformation, Balkan Economies, Croatia, Bosnia

**JEL Classification Codes:** O5, P2, R1

## **1. Introduction**

Efforts in the Republic of Croatia and Bosnia and Herzegovina (hereafter “BiH”) to converge toward European standards of living are ongoing. While considerable research has attempted to evaluate progress toward that goal, the present paper investigates perceptions of citizens in both countries. This descriptive paper bridges quantitative and qualitative approaches in order to assess the state of political and economic affairs in both countries. Findings are based upon interviews carried out during May 2012 with residents of major cities including Zagreb and Sarajevo.

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\* This paper represents a faculty-student research collaboration at Bentley University, a business-oriented institution near Boston, Massachusetts. As part of their general education/liberal studies curriculum, nine undergraduate business students worked with their professor to design the project and conduct fieldwork. The authors gratefully acknowledge the contributions of Siniša Ubiparipovic and Djana Kazic, as well as the students in the course Global Studies 276: Case Studies in Transition Economies of Europe. Contributors include Aleksey Grokhotov, Da Som Hu Kim, Lindsay Mensher, John Ngo, Vsevolod Prizhitomsky, Paulina Sotomayor, Eva Tsisina, and Janine Velutini. In May 2012, these students traveled to the Balkans to take part in a rigorous program of lectures, company visits, government meetings, and social outings. The findings here result from interactions with respondents representing a variety of demographic categories across Croatia, as well as Serbian and Bosniak portions of BiH. The pilot study yielded this manuscript, and will also lead to further field-based research as articulated in the conclusions section of this paper.

To better understand the context of Croatia and BiH, we begin with a brief overview of the countries. As nation states, both are young, having just gained their independence from Yugoslavia in 1992. Both countries are considered to be emerging middle-income states, although Croatia's economic situation is relatively stronger than that of BiH, as evidenced by its per capita GDP, cumulative FDI, and imminent (2013) accession to the European Union. Table 1 provides important background information for comparison.

**Table 1:** Overview of Basic Data

Country	Population (thousands)	Area (km sq)	GDPppp (bil USD)	GDP/cap (USD ppp)	Growth 2011	FDI stock 2009 (mil USD)
Croatia	4,480	56,594	79.30	18,300	0.0%	33030
BiH	3,879	51,197	31.57	8100	1.3%	7280

Source: CIA World Factbook, 2012; Hunya, 2010

Croatia's parliamentary democracy follows the civil law system, mimicking the civil codes of former Yugoslavia. Croatia's GDP per capita is \$18,300 (CIA, 2011) heavily concentrated in the services sector, which dominates 70.1% of the economy. An emerging federal democratic republic, BiH is organized into two first-order administrative divisions (the Bosnian-Croat Federation and the Serbian Republic and the internationally supervised district of Brčko. BiH's three presidency members represent the country's population of Bosniaks, Croats, and Serbs, and each president rotates every eight months.



**Figure 1:** Location of Croatia and BiH and their major cities

[Cartography by Joel Deichmann]

The locations of Croatia and Bosnia location in the Balkan Peninsula are presented in Figure 1. Prior to independence, Croatia and BiH existed as republics in the former Federal People's Republic of Yugoslavia along with Serbia, Macedonia, Slovenia, and Montenegro and the two autonomous provinces of Kosovo and Vojvodina. Yugoslavia had been formed after the dissolution of the Austria-Hungarian Empire in 1945 under the rule of Prime Minister Jozep Broz Tito (Judah, 2011). Communist Party president and war hero Josip Broz was able to keep Yugoslavia unified since its formation in 1945, until his death in 1980. Broz, known for his authoritarian approach to leadership, is also known as "Tito", a nickname derived from the Serbo-Croatian expression "you (do) that". Tito's tight control, although oppressive at times, kept the country united. Yugoslavia was communist but contrary to

Soviet communism, it was the most free of the communist states at the time and it remained a popular tourist destination. Each republic managed its own affairs, while being monitored by Tito, who carefully and forcefully established a functioning union amongst the South Slavs by discouraging ethnic nationalism. Tito cultivated a Yugoslav “brotherhood” that was above ethnic differences. During the Cold War between the Soviet Union and the United States, Tito’s vision of a “third way” enabled Yugoslavia to work with both East and West without being formally united. Tito did not leave a successor to continue his work and as feared, Yugoslav unity started to dissolve soon after Tito’s death. Violent acts began to take place between citizens as demand escalated for sovereignty in the republics. Tito had declared that if the provinces were to become independent, they were to do so by a referendum. This led to fracturing along ethnic lines, with relatively “central” BiH left as the most ethnically heterogeneous republic. The more ethnically homogeneous republics of Slovenia and Croatia declared independence, prompting what remained of Yugoslavia (centered on Serbia) to declare war. By 1992, Yugoslavia was in the process of dissolution, and multiethnic Bosnia’s declaration of independence resulted in the country becoming the epicenter of conflict as its large Serbian minority was determined to remain within Yugoslavia and create a greater Serbia. Bosnian Serbs received help from extremists groups in Belgrade, which began to drive Muslims out of their homes and engage in *ethnic cleansing* (BBC, 2006).

Although civil wars had broken out in Slovenia and Croatia, Bosnians did not believe they would suffer the same fate, so they did not prepare for war (Cviić and Sanfey, 2010; Demick, 2012). When Bosnia was first attacked, it lacked a standing army, and its capital of Sarajevo faced the added disadvantage of being surrounded by mountains. A three-way war between Bosniaks, Serbs, and Croats began, and Sarajevo lay under siege for three and a half years. The war in Bosnia continued until 1995, when Americans applied pressure to end the war; eventually leading to the Dayton Peace Agreement in November. The settlement’s goal was to establish the sovereignty of BiH and to protect human rights among its citizenry.

## 2. Literature

In attempting to find answers for our research questions, we take a brief look at a wide range of literature, including political and economic transition, and even the growing body of scholarly work on national happiness. The notion of “happiness” is relevant to our inquiry to the extent that people respond subjectively to questions based upon how they feel about their own situation, which of course is informed by culture and values.

Cviić and Sanfey (2010) offer an excellent overview of political change and economic progress in the Balkan region since the 1990s, placing the comparative transformations into historical context. Although emerging from the same Yugoslav system, the countries progressed in very different ways. To a large extent, the authors attribute economic wellbeing to political changes that have taken place since the dissolution of Yugoslavia, with Slovenia enjoying the most growth followed by Croatia, while BiH lags at the other end of the continuum, just ahead of Europe’s poorest state, Albania.

Counter-intuitively given Yugoslavia’s violent demise and the ongoing global recession, most Balkan countries have been successful at achieving and maintaining economic growth over the past two decades. In fact, between 2001 and 2008, the average weighted growth in the region equaled or exceeded that in Central-Europe and the Baltics every year (Cviić and Sanfey 2010, 135). Unfortunately, BiH has had one of the hardest times gaining back its economic activity following the war. The authors point out that during four years of conflict, economic activity fell by up to 80 percent. To the extent that BiH has seen a turnaround since 1995, it is largely attributable to investment in the steel industry. According to the authors, BiH still requires six to seven years of recovery to surpass its 1989 level of economic output. In addition, the Balkan region continues to project a negative image, and this obstacle must be overcome. Cviić and Sanfey (2010, 124) argue that the very mention of the Balkans “conjures up troubled images of war and conflict, rather than investment opportunities and economic potential”. Such statements demonstrate the war’s true toll on the country, not just in terms of deaths and injuries.

We now take a brief look at the recent literature summarizing research on the political situation and economy in each country.

### *Government*

As newly independent states, Croatia and BiH both struggle to establish national identity and legitimacy. In the Balkan *shatterbelt* region, this task can be particularly onerous, and in the past has been accomplished for an enduring time period only under Josip Broz Tito's heavy hand. The Croatian government has a long history of changing hands. In 1918, the territory that is now Croatia and BiH was part of the new Kingdom of the Serbs, Croats, and Slovenes, and later became Yugoslavia. After World War II, Josip Broz Tito manipulated Yugoslavia's nascent independence to create a communist regime. Following independence on 25 June 1991, the Republic of Croatia was declared and Franco Tudjman was inaugurated as the first president. Currently, Croatia is ruled by the "Kukuriku" four-party coalition, led by Social Democrats and their PM Zoran Milanović. Croatia's stable democracy lent credence to the republic's European Union (EU) accession efforts, which are rewarded by its 2013 accession as the 28<sup>th</sup> member.

BiH's governmental structure is generally considered to be confounding and ineffectual (*Economist*, 2012). The country is governed by a Parliamentary Assembly that was established by the Dayton Peace Accords, which were imposed by foreign powers (notably the USA) in an effort to stem the bloodshed of the Civil War. As the highest authority in the country, parliament has a bicameral structure, consisting of fifteen members that form the House of Peoples and 42 members that for the House of Representatives. Representation in the House of Peoples is divided equally between Croats, Bosniaks, and Serbs while representation in the House of Representatives is comprised of 28 members from the Federation of BiH and the remaining fourteen seats go to the Republika Srpska (RS). Assemblies serve for a term of four years. After nearly two decades since independence, and more than a year without a government, the BBC (2012) argues that BiH still needs "create a functional state". It is worth noting that a 2010 Gallup poll found that more than 88 percent of RS's residents favor independence from BiH (*Gallup Balkan Monitor*, 2010).

McNeil, Herzog, and Cosic (2009) offer a thorough overview of citizen perception of local government effectiveness based upon in-depth interviews and household survey questionnaires throughout BiH. The authors find that citizens are only now beginning to recognize their rights to criticize government and demand improvement in services. The authors attribute widespread skepticism toward government to a belief that they do cannot make a difference and to a limited knowledge of government processes. Only 20 percent of respondents are willing to participate in local government, and 70 percent believe that local government decisions never or almost never reflect their priorities. Moreover, the authors point out that women are particularly underrepresented in participatory processes. McNeil et al. (2009) conclude that the onus is on government to affect change by educating and motivating the citizenry, and soliciting suggestions through open meetings.

Similarly, we are interested in how citizens feel with regard to their national government, which as we discuss(ed) earlier is handicapped by a complex and unwieldy structure as set forth by the Dayton Accords (*Economist*, 2011). We therefore ask respondents what the most important issues are facing their national government, and how satisfied they are with government's effectiveness. We further probe whether respondents believe the necessary progress can be achieved by the present leadership (in the case of BiH, multiple presidents). In Croatia, we ask about the effectiveness of the Kukuriku Coalition. In light of Transparency International's (2011) ranking of Croatia and BiH as the 66<sup>th</sup> and 91<sup>st</sup> most corrupt countries, respectively, we ask whether respondents have a reason to believe that this is the case.

Corroborating Transparency International's (2012) rankings, the BBC (2012) reports that corruption and organized crime remain major impediments to EU accession. For this reason, we inquire whether respondents believe government corruption will continue to have an impact on the country or the broader European Union after eventual accession. With the

responsibility to uphold the rule of law, a country's judicial system is intended as a stalwart against corruption. We therefore ask for public perceptions of respective judicial systems, requesting specific examples of known corruption among public officials or in everyday life,

### *European Union Accession*

As a supranational political and economic entity that embodies for many the notion of "successful transition", the European Union warrants our attention here. Several Balkan countries have been seeking membership since Yugoslavia's dissolution (Bechev, 2012), including Croatia and BiH, which represent only two of eight countries working toward EU membership (European Union, 2012). According to Domm (2011), European Union accession involves a conversation about the economic condition of candidates, as well as preparedness and willingness to adopt the euro. In January 2012, a referendum in Croatia resulted in a two-to-one vote in favor of joining the European Union (Castle, 2012), albeit with a meager 43 percent voter turnout.

According to accession rules and the *Acquis Communautaire*, all new members after 2004 must adopt the euro as their currency (European Commission, 2012). Croatia's imminent accession in 2013 also begs the question of the suitability of membership for its Balkan neighbors. BiH trails Serbia, Montenegro, and the former Yugoslav Republic of Macedonia (FYROM) in accession progress and is not expected to be admitted anytime soon. The ongoing Euro crisis only compounds the legacy of the 1990s war, with differential implications for successor republics, and remembering that BiH was the conflict's epicenter (Panagiotou, 2010; Bechev, 2012).

Currently, BiH remains at "potential candidate" status for EU accession. Following the signing of the bilateral Stabilization and Association Agreement ("SAA"), BiH made significant strides in resolving issues brought forward by the EU. However, in order to achieve full "candidate" status, the last unresolved condition remaining is the so-dubbed Sejdić-Finci amendment, resulting from a 2009 case in the European Court of Human Rights, where Jakob Finci, a Jew, and Dervo Sejdić, a Roma, were found to be discriminated against by the BiH constitution. In the current constitutional provisions, the presidency and upper house of Parliament are reserved for members of the Serb, Croat, and Bosniak ethnic groups, rendering anyone in the "other" category ineligible for election. Since this finding by the European Court of Human Rights in 2009, BiH has been unable to reach an agreement between its six political parties on the implementation of an amendment to resolve this barrier to EU entry. If the issue is resolved, the country will be granted "candidate" status, and will be permitted to proceed in accession preparations (Adelina-Marini, 2012). In the meantime, BiH already benefits from its associate status with the EU, as this affiliation underwrites Bosnia's reputation and builds global confidence in the country (Mustafic-Cokoja 2012). A recent Gallup poll (*Gallup Balkan Monitor*, 2010, 8) reveals some optimism, as the average date expected by BiH citizens for their country to become a full member of the EU is 2018.

Croatia was awarded EU "candidate" status on 18 June 2004 after six years of negotiations closed. The republic's entrance to the EU is scheduled for 1 July 2013, making Croatia the second Yugoslav successor state to join the EU after Slovenia. Croatia's accession was delayed by organized crime issues, but over the past few years the country managed to capture its highest profile targets. However, economic concerns remain both in the EU and in Croatia. The EU still languishes in the midst of the financial crisis, as leaders struggle to avoid being dragged down by debts of existing members such as Greece, Italy, Spain, and Portugal (Lekic & Gec, 2011). Another concern is that Croatia has been reluctant to undertake deep fiscal reforms. Moreover, Croatia is required to conform to European Commission standards, requiring appointment of judges and state prosecutors that will result in more "transparent" judicial systems, as well as making "high-level corruption investigations more thorough" (BBC, 2012).

Although Croatia's accession referendum has been upheld by a two-thirds majority of voters in that country, concerns remain about the direction of the country. For this reason, we inquire why respondents take their chosen position in favor of or against EU membership, and

what the implications are for other successor states of Yugoslavia. We further ask about concerns related to the euro crisis in Southern Europe, and whether Croatia after accession might exacerbate the problem or be part of the solution.

### *Economy*

Croatia's July 2013 European Union accession has been approved by the 27 member states and upheld by a domestic referendum, but budget deficits continue to threaten growth. According to the Croatian Bureau of Statistics (2012), gross external debt reached 44.6 billion Euros in 2011. Compounding the debt problem is a trade deficit of 6.7 billion Euros, signaling the relatively small economy's overdependence upon foreign goods.

Often at the expense of agriculture and manufacturing (Benacic, 2012), Croatian policymakers deliberately placed a heavy emphasis upon tourism, particularly from other countries (Ministry of Tourism, 2003). However, this creates a dependency upon income that is subject to the economic wellbeing of people in other countries, and most of Croatia's tourists come from Europe. The Croatian Bureau of Statistics (2012) provides very detailed data on the country's economic composition, with extensive reference to the tourism industry. Although the Ministry of Tourism (2011) and the World Travel and Tourism Council (2012) estimate tourism at approximately one quarter of Croatia's GDP, the industry is difficult to track because it transcends so many categories (such as transportation, hotels, restaurants), and is considered to be a subset of the "service" sector. Services represent nearly two-thirds of the country's employment and GDP, compared with less than manufacturing and less than three percent in agriculture. The World Bank estimates international tourism in Croatia at over 35 percent of total exports in 2010, and has at times represented as much as half of all exports.

According to the UNWTO (2012), foreign tourism numbers have risen tremendously in the last decade and continue to progress from Croatia's stature, along with France, Italy, and Spain, as one of the most desirable destinations in the world (Škuflić and Štoković, 2011). The government has attempted to maximize the country's competitive advantage in tourism by focusing upon that sector (Ministry of Tourism, 2003). When Croatia joins the EU in 2013, the expectation is that arrivals and receipts will accelerate, as citizens of more member countries could cross freely into the country, yielding foreign exchange and revenue for Croatia's economy. Three quarters of tourists already originate in EU countries, with an even higher number projected following accession.

According to the UNWTO (2012, 7), international tourism arrivals to both countries have grown at about ten percent each of the past two years (2009-2011). However, Croatia attracts over nine million tourists per year, while BiH has yet to surpass 400,000 during any single year. Similarly, international tourist receipts in 2011 favor Croatia (\$9.185 billion) over Bosnia (\$628 million). Given tourism's importance in Croatia's economy, it warrants special attention in this paper. Croatia is a popular destination for tourists from around the globe due to its geographic advantages of climate and scenery. In 2011, it attracted 9.1 million visitors, resulting in \$9.2 billion in tourist expenditures (UNWTO, 2012). Croatia's Ministry of Tourism (2011) estimates the receipts in recent years to be approximately 22 percent of the Country's GDP.

In recent years, the economic growth generated by the tourism industry in Croatia is a sign of great potential for the country to further enhance its status as a popular destination. The survival of Croatia's tourism industry depends on monitoring current trends and recognizing areas of potential investment and new market/infrastructural opportunities. As evidence of successful planning, the Ministry of Tourism (2011) reports that since 1999, the number of visitors has enjoyed 20% annual growth per year until the economic crisis hit. Škuflić and Štoković (2011) assess the growing impact of tourism in Croatia's economy as well as increasing demand, substantiating data that show its growth is faster than that of the rest of the economy. They point out that 75.2% of tourists come from within Europe. Drilling down into these numbers, it is interesting to consider the breakdown of the origins that contribute to Croatia's tourism inflows in 2009. The leaders include Germany (22.7%),

Slovenia (11.2%), Italy (10.2%), Austria (8.9%), Czech Republic (8%), and Poland (5.4%). All of these countries are members of the European Union, and at least parts of most of them are successor states of the Austro-Hungarian Empire or Yugoslavia.

According to Naef (2011), although war slowed international tourism to a virtual standstill in the 1990s, its memory and the scarred landscape now provide an opportunity to grow “dark tourism” in such epicenters of conflict as Vukovar and Sarajevo. Naef (2012) further examines media coverage and popular films as a means of popularizing the Balkan “powder keg” and explores the effects of exploitation by certain actors.

### *Happiness*

In order to capture perceptions of political and economic realities, it is instructive to consider the issue of happiness, especially when obtaining responses from a population that was traumatized by recent war. Primo Levi (1995) states that “sooner or later in life, everyone discovers that perfect happiness is unrealizable, but there are few who pause to consider the antithesis: the perfect unhappiness is equally unobtainable”. Although written about the Holocaust, this passage has equal applicability to the Balkan War, as it is appropriately echoed in Demick’s (2012) *Logavina Street*<sup>2</sup>.

Measures of happiness represent a growing literature that complements economic measures of wellbeing (Brooks, 2008; Wiener, 2008). Demick (2012) portrays Yugoslavia as a “happy” country prior to the 1990s conflict, and the 1984 Olympics showcased Yugoslavia’s peaceful coexistence on a global stage, leaving the impression among foreigners that this multi-ethnic confederation is an extraordinarily happy place. The World Database of Happiness (Veenhoven, 2010) lists BiH as a 5.6 and Croatia as a 6.0, on a scale of 0-10 (Costa Rica being the happiest at 8.5). In another study according to the World Values Survey (2012), Croatia is the 31<sup>st</sup> happiest country in the world. To our respondents, we explain that we are interested in learning more about their level of happiness as their countries emerge from the war.

### **3. Methodology**

Following Sayer (1993), this pilot combines elements of both qualitative and quantitative approaches, employing empirical data from statistical agencies as well as semi-structured survey responses. While most research designs conform to either positivist or realist techniques, Sayer (1993) argues that these methodologies are not mutually exclusive. The advantage of combining both approaches is arguably to treat their individual shortcomings; using existing datasets allows us to glean the big picture, and but with semi-structured interviews we are able to probe for more details.

The main purpose of this exercise is to better understand the intricacies of Balkan citizens’ perspectives on current events through face-to-face conversation. Our interview script is formatted in a flexible fashion and administered in a casual setting in order to invite context-specific comments and facilitate probing when necessary. Interviews are given by groups of two or more students in social situations in Zagreb, Sarajevo, Mostar, and Dubrovnik (see Figure 1), and both the interviewers and the respondents are instructed to forgo answering any questions that might make either party uncomfortable. Our questions relate to contemporary politically-themed topics of government and regulation, as well as the more economic themes of corruption, tourism, and happiness<sup>3</sup>.

Interview responses are then coded, tallied, and analyzed in order to capture a better picture of the overarching trends in opinion toward government, regulations, economy (with special emphasis on tourism) and overall happiness.

The sample size of our pilot is twenty (eight in Croatia, twelve in Bosnia-Herzegovina). In addition to opinions, we requested basic demographic data. The average age

<sup>2</sup> The book *Logavina Street* tells the story of several individuals and families who lived on Logavina Street, a main street in the center of Sarajevo, Bosnia, during the war. This novel does not try and find ways to make the war sound better and talk about the happiness seen in every one’s daily life; the author states factual instances that happen to people that lived on this street in Sarajevo during the war.

<sup>3</sup> A copy of the interview script/survey instrument is available from the authors upon request.

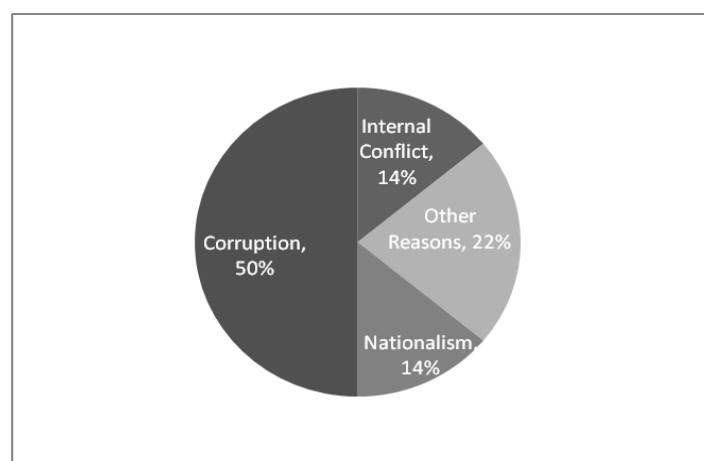
of respondents in Croatia is 39 (four female, three male, one undeclared), and 27 in BiH (six female, two male, and four undeclared). About half of the respondents are students, with the others listing occupations as painter, sales, cashier, baker, journalist, professor, project manager, neuropsychologist, NGO worker, and economist. They currently reside in Ploče, Dubrovnik, Sarajevo, Neum, Banja Luka, and Zenica.

#### 4. Analysis

##### a. Government

The government situations in Croatia and BiH are very different. Croatia is a Republic on the verge of joining the European Union, while BiH remains under supervision by the international community following the imposed Dayton Accords, and according to Štiks (2011), is “effectively a semi-protectorate”. Bieber (2011) raises concerns that as recently as 2010, a Gallup poll found that more than 88 percent of the respondents in the RS would prefer independence from their multi-ethnic state. This section summarizes the interview responses provides an analysis of interview responses as interpreted by the authors. Given the importance of government’s role in the transformation of the Western Balkans, our questions address satisfaction levels with the present government. On a scale of 0-10, the average score for satisfaction among Croats is 4.14, while for Bosnians it is 2.01.

Our second question asks respondents where they believe government policy priorities should lie. Figure 2 illustrates the responses.

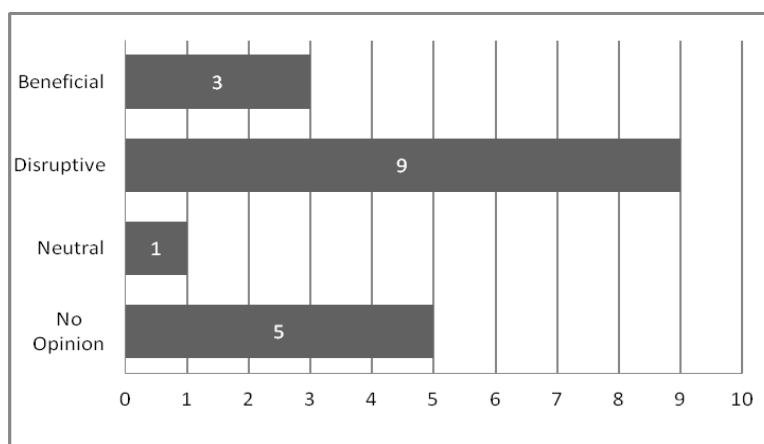


**Figure 2: Policy Priorities: Most Important Issue Facing Government**

Source: fieldwork by research team May 2012, N=19

Half of the respondents in Croatia and BiH believe that the most important issue facing their respective national government is corruption. Many people feel that nepotism in government is widespread, and that manipulation is common in bureaucracies that administer laws. Other issues that prevail are nationalism (14%), which can be defined as the enforcement of a non-native identity upon people. Especially following the breakup of Yugoslavia, a stronger nationalist mentality has emerged in the newly formed states, and in BiH, affiliation is split mainly between Serbs and Bosniaks. Internal conflicts represent 14% of the responses, and derive from the inability of their government to establish and enforce regulations. Following months without a consensus on leadership (*Economist*, 2011), we find that Bosnian citizens remain frustrated with an ineffectual government run by three different presidents; while others express consternation that rules are slow to establish and properly implement.





**Figure 3: Difficulty of Starting a Business**

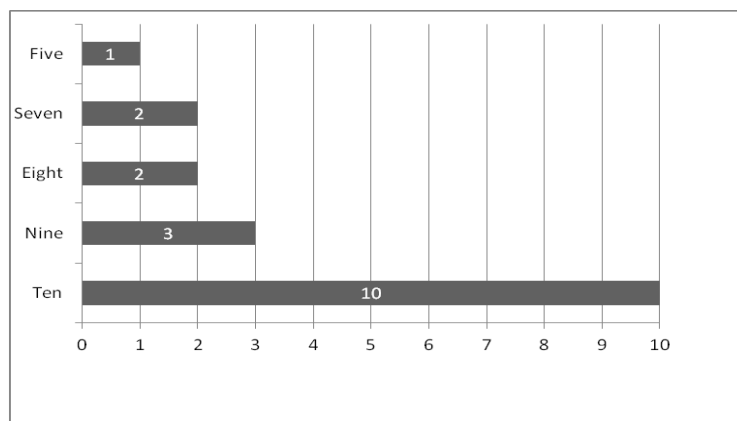
[Source: fieldwork by research team May 2012, N=18]

When asked whether government facilitates or hinders the creation of small businesses, many believe the process is very arduous and discouraging. Calling it a “complicated procedure” and in one case claiming that “corporations are killing small [business] production”, respondents believe doing business has become so exasperating because of their national economic situations. Others decline comment on the situation, possibly because of lack of knowledge of how to start a business. In a few cases respondents argue that government does assist business, especially in regions such as Dubrovnik where tourism is much more prevalent.

Our final question with regard to government is the expectation for effectiveness over the next five years. Respondents in both countries are extremely pessimistic. With responses ranging from -2 (much worse) to +2 (much better), the mean score in Croatia is -0.14, while respondents in BiH average -0.9 (a solid “slightly worse”). Most of those in Croatia who indicate a basis for their expectation cite the role of the EU in reforming their own government, while the widespread pessimism in BiH is justified by a solitary respondent, who simply states “I hate our government”.

#### *b. Regulation and Corruption*

Given a considerable level of difficulty for well-established countries to determine appropriate business regulation strategies that promote economic growth, it is unsurprising that Croatia and BiH, which continue their dramatic transformation from socialist economies toward capitalism, are not particularly healthy in their own business regulation strategies. One example of this is the dubious process of privatization that continues to plague Croatia, where it is widely known as “legalized theft” (Benacic, 2012). Perceptions of corruption are presented in Figure 4.



**Figure 4: Perceived Scale of Corruption (Scale of 0-10)**

[Source: fieldwork by research team May 2012, N=19]

Based on the opinions of a combination of individual citizens, business executives, government administrators, we find that Croatia and BiH both possess unhealthy bureaucratic systems. The systems are generally not conducive for growth of small and medium sized enterprises (SMEs), although Croatia's business environment seems to be relatively more favorable than that of BiH. Because of their size, large businesses are more noticeable to government administrators, and they are therefore better equipped to deal with the bureaucratic infrastructure and develop strategic personal connections with politicians. Nevertheless, even large enterprises are dissatisfied with the implementation of laws in the present regulatory environment. A thirty-one year old project manager at a large employer is among the seventy-three percent of respondents in Bosnia who gives "corruption" a score of "10", signifying that it is a problem of utmost importance (the remainder assigned the number of "9" to corruption).

Government corruption is an issue facing many legislatures around the world, to the detriment of society. In BiH and Croatia, government corruption is viewed as widespread, and regarded as major obstacle to economic progress. According to some respondents, nepotism is one of the most common examples of government corruption. Particularly in BiH, we observe an abundance of jobs created as "secretaries" for all levels of political positions, representing what many believe to be careless government spending. Corruption occurs elsewhere when legislatures give unfair tax breaks to corporate partners, creating an unfair advantage to big businesses over the working class population.

Based on comments from the Bosnian parliament's administrative employees as well as members of the Foreign Investment Promotion Agency (FIPA) the country has one of the most bloated, if not *the* most bloated, system(s) of government in the world (Mustafic-Cokoja, 2012). As articulated in more detail by Cviić and Sanfey (2010), this structure was established by the Dayton Accords in 1995. The most urgent purpose of the agreement was to establish and maintain immediate peace between the Serb, Croat, and Bosniak ethnic majorities, but little thought was given to ongoing long-term effective governance.

As indicated by several of our respondents, one of the government's largest shortcomings is the complexity of administrative procedures and bureaucracy. Further compounding multiple levels of authority, permits are required for actions ranging from starting a business to marketing. In BiH, it is a notoriously difficult and lengthy process to apply for and obtain those permits. The granting of permits is decidedly non-transparent (Mustafic-Cokoja, 2012), and even if it were, many individuals surveyed cite great difficulty in understanding the system.

Convoluting administrative procedures necessary for operating a business discourage some foreign investors and inhibit the growth and development of SMEs within the country. To further complicate the situation, the political and economic turmoil that prevailed following BiH's independence in 1992 muddled the privatization process. The government lacks a complete set of records for land and property ownership, leaving businesses with a tangle of ownership issues to unravel when attempting to purchase and develop property

(Mustafic-Cokoja, 2012). Some survey respondents lament that contract enforcement by the judicial system takes too long, thereby placing businesses at a disadvantage when conducting transactions and forming agreements with other companies.

Although the regulatory environment is difficult enough to navigate in its current form, bureaucracy's lack of transparency creates an environment where corruption flourishes. Government employees are generally perceived by the public as giving preferential treatment to friends and close associates, making permits more difficult to obtain for SMEs businesses owned by individuals who do not enjoy the benefit of connections. This finding is strongly supported by our survey results, as 91% of respondents rate government corruption at the dire level of at least 9 or 10 ("worst"). Some go on to complain that unfair tax breaks and laws tend to be implemented for "connected" corporations. Furthermore, our interviews reveal that bribe money exchanges hands at an alarming rate, making fully legitimate transactions more difficult because administrative officials often show preference to businesses that come "bearing gifts", a problem that FIPA Senior Advisor Mustafic-Cokoja (2012) confirms.

The country's judicial system does little to solve these issues, and our respondents blame its ineffectualness and inefficiency. On average, our respondents rate the effectiveness of the BiH judicial system at 2.9/10, compared with 6.2/10 in Croatia. Probing deeper into these low scores, we find that numerous cases concerning allegations of corruption in the government remain in pending status for exceedingly long periods of time, and it is widely assumed that money changes hands to ensure convictions never occur.

Indeed, Croatia's regulatory environment is significantly healthier than that of BiH, as evident by its fulfillment of requirements for EU accession. However, some of the problems in BiH plague Croatia as well. Croatia has yet to streamline its daunting bureaucracy and permitting processes, and exhibits little transparency beyond minimum EU standards, detracting from its attractiveness to foreign firms (Deichmann, 2013). Corruption also survives in Croatia's bureaucracy, but compared to BiH we observe less concern among Croatian survey respondents. Many Croats believe corruption remains widespread, although they provide no concrete details on where it might be occurring.

An example Croatia's broken bureaucracy can be found in the case of Končar Power Transformers Ltd., which is required to pay a disposal tax on the oil included in their new power transformers, of which 95 percent are exported. Despite the fact that the oil is never disposed of in Croatia itself, Končar must pay this variable tax because the Croatian bureaucratic system does not provide a reasonable procedure for calculating the tax for exporters, relying solely on oil purchased in Croatia for use in manufacturing (Milčić, 2012).

Croatia taxes companies at a rate of approximately two-thirds of reported net profit. On the other hand, the country levies no capital gain tax, interest tax, real estate tax, nor property tax (Tica, 2012). This tax policy promotes more property and capital investments from companies, but may also lead to dubious accounting policies by companies seeking to reduce their tax burden. To further guide the economy, the Central Bank of Croatia sets a minimum interest rate standard. However, Sergio Resegotti, CEO of Banco Popolare (2012) argues that these interest rates are irrelevant during the present period of economic contraction because banks have a tendency to set higher interest rates in response to increased risk.

Despite already having a free trade agreement with the EU, Croatia maintains close ties to former members of former Yugoslavia. After its EU accession, Croatia will be subject to the EU's internal standards for quality. This has the potential for negative economic consequences for both Croatia and BiH because Croatia relies on food imports from BiH, which has yet to meet the EU's food quality standards (Mustafic-Cokoja, 2012).

### *c. Economy*

Because the economy plays such a vital role in the lives of citizens, most people seem to hold a rather clear opinion about its condition. Wiener (2008) rightly points out that the economy can be a major consideration in overall societal happiness. For our purposes, we are interested in perceptions of the economy at the national, local, and household levels, and whether respondents believe that the overall outlook is positive, negative, or neutral, followed

by probing into the reasons underlying the prognosis.

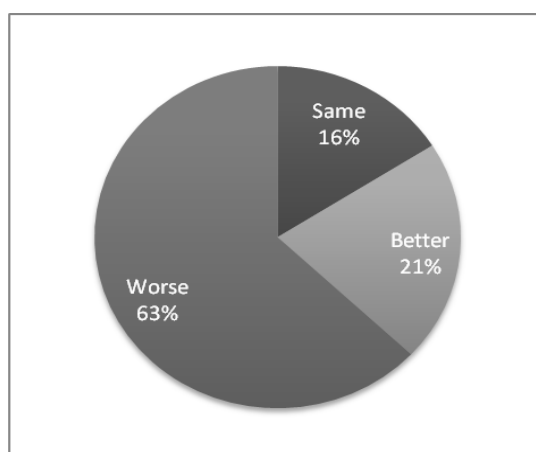
With regard to perceptions on the economy, our target group in Croatia is slightly more optimistic than respondents in BiH. The questions focus upon the state of the national economy, the local economy, and the respondent's household economic situation, going on to ask about expectations for eventual EU accession and allowing for open-ended responses. Table 2 summarizes the results.

**Table 2:** *Perceptions of Economic Situation at Various Scales*

Country	National Situation?	Near future?	Local Situation?	Near Future?	Household Situation?	Following EU Accession?
Croatia	4.0	0.0	5.0	.29	5.57	-.67
BiH	2.5	-.71	4.0	-.54	6.21	.42

As presented earlier in Table 1, the 2011 standard of living measured by GDP per capita, purchasing power parity is higher in Croatia (\$18,300) than in Bosnia (\$8100). For this reason, it is no surprise that Croats have a higher opinion about their national situation than do respondents in BiH. Sadly, if we assume that a score of "5" represents the middle of the scale, respondents in both countries are pessimistic about their national and local economic situation, and Bosnians believe that it will get worse in the near future, both for their country (-.71) and in their locality (-.54).

It is heartening to observe that perceptions of household economic status are relatively positive, and in fact more positive in BiH (6.21) than in Croatia (5.57). Bosnian respondents believe that the impact of membership in the EU would be positive for their economy. In contrast, our Croat respondents believe that conditions will deteriorate after accession. At first sight, we might speculate that this pessimism results from relatively better current conditions in Croatia vis-à-vis BiH. This may also be a consequence of the limited size of our sample, or it could be related to jitters of imminence of accession. Now that Croatia has achieved admission, its citizens are faced with the reality that they will need to adjust to higher prices. This is part of a widespread and growing anxiety in accession candidates in the midst of crises in Greece and elsewhere that leads to what Rupnik (2011) refers to as "accession fatigue". Bechev (2012, 3) points out that "Balkan citizens are not in love with the EU; rather, they see it as something inevitable".



**Figure 6:** *Economic Outlook*

[Source: fieldwork by research team May 2012, N=19]

As shown in Figure 6, an overwhelmingly negative sentiment is evident in the region when respondents are asked to comment on their economic outlook over the next five years. More than 75% of respondents believe the economic state of their nation will either deteriorate or at best stay the same in the near future. However, as clarified in Table 1, contrasts are evident between the two countries under investigation. In Croatia, respondents

are virtually neutral (average of 0.0 on a scale of -2 to +2), while in BiH, they are rather pessimistic (average response of -0.708 on the same scale). Only one of twelve BiH respondents is slightly optimistic (even at the city and household level), and this person did not provide any demographic data or open ended responses in their questionnaire, so we are unable to speculate upon the reasons why.

Some of our respondents raise concerns that things will become more expensive after Croatia joins the EU. For example, a 25 year-old female sales associate in Dubrovnik laments that “if we join the EU, we will adopt the euro. Wages will stay the same but prices will be higher. (I live in) a big, tourist city with (already) high prices”. This sentiment, which was echoed elsewhere in our fieldwork, provides an excellent segue to a deeper discussion of findings about the largest industry in the Republic of Croatia: tourism.

#### *d. Tourism*

Although viewed as a priority in both countries, tourism is an especially significant cornerstone of Croatia’s economy at 22 percent of GDP. The country’s economy relies primarily on the service sector, as government policymakers in the new Republic emphasized tourism at the expense of agriculture and manufacturing, causing what Benacic (2012) sees as the “catastrophic decline of agriculture in the breadbasket regions of the former Yugoslavia”. Indeed, several of our respondents argue that the economy needs more production of goods and manufacturing.

Other sectors of the economy aside, when people are asked about the role of tourism, almost 75% of people in both countries believe that it is very beneficial. Table 3 reports measurements of perceived impact from international tourism, following a framework first introduced by Getz (1977) and distinguishing between economic, socio-cultural, and environmental dimensions.

**Table 3: Perceptions of Tourism**

<i>Country</i>	<i>Scale of Importance</i>	<i>Economic Impact</i>	<i>Social Impact</i>	<i>Environmental Impact</i>	<i>Future Increase or Decrease? (-2 → +2)</i>
Croatia	9.57	+1.6	+1.0	+0.6	+0.3
BiH	8.55	+0.8	+0.9	+0.8	+1.2

As summarized in Table 3, Croats and Bosnians feel similarly about the importance of tourism in the economy, at 9.57 and 8.55, respectively, on a scale of importance ranging from 0-10. We find this interesting because in terms of income, the industry is so much more important in coastal Croatia than in nearly land-locked Bosnia, whose only seaside city is the resort town of Neum. Our respective groups of respondents seem to recognize this differential, however, as Croats estimate the economic impact of the industry at an average score of 1.6 on a scale ranging from -2 for very negative to +2 for very positive. Bosnians, on the other hand, actually value the social/cultural impact of tourism (+0.9) over its economic multipliers (+0.8).

We find that environmental impact of tourism is gauged to be moderately positive in both countries. Given that environmental impacts are often thought to be negative (for example, litter, pollution, and congestion), how can tourism impact a host country positively? Tourism can provide the economic resources to ensure that attractions, be they natural or man-made, are protected and preserved for a sustainable tourist industry in the future. Bosnians in particular expect the tourism industry to grow dramatically in the near future (+1.2 on a scale of -2 to +2, versus +0.3 in Croatia). Of course this is partly due to the virtual destruction of the industry in BiH during the war, and a rise is “dark tourism” in the present (Naef, 2011; Naef, 2012). A sociology professor from Banja Luka, BiH explains her expectation of “a lot” more tourists as follows: “the war is over and we are very attractive country”. Moreover, a 31 year-old Sarajevo neuropsychologist comments that “I notice that

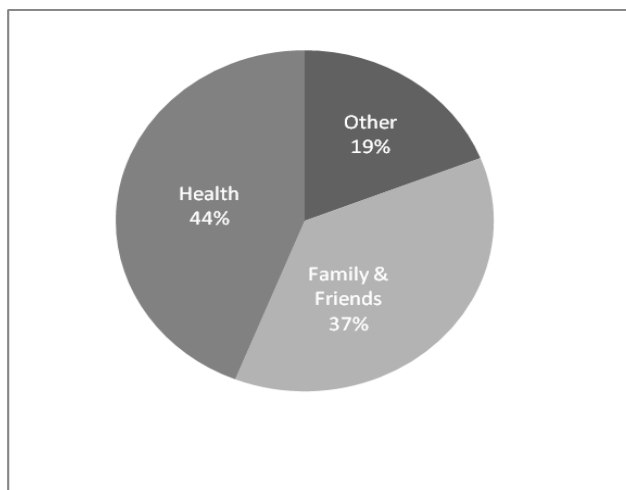
every year there are more people coming from the Europe and other parts of the world” (sic). In addition, as a 56 year old female cashier in Dubrovnik points out, Croatia’s tourism future is subject to “limited capacity”. The geographic advantage Croatia enjoys with its long Adriatic coastline and distance from much of the conflict means that the already successful industry may have little room for growth.

Given the importance of tourism in Croatia in particular, this industry warrants special analysis that goes far beyond the scope of the present paper. We therefore call for future research in this area, especially given the likelihood of the ongoing European crisis to further curtail traveling holidays.

#### e. *Happiness*

As briefly mentioned in our literature section, a growing body of research examines the notion of “happiness” and its determinants. Because happiness is thought to be culture-specific, and no consensus exists upon its definition, our inquiry asks respondents in the Western Balkans what happiness means to them. Given the trauma that descended upon the Balkan region during the recent war, we find this to be a particularly revealing component of our research. The open-ended series of questions also helps us to probe into some of the aforementioned issues, and allows respondents to raise important issues that we have not anticipated. With reference to happiness, we ask our respondents what three things in life are most important to them, and what makes them happy. We go on to ask them to describe what they consider to be a good day. Finally, we ask them to tell us about the happiest moment in their lives.

Figure 5 summarizes the results. When asked what they consider to be most important in their lives, the top answer among our respondents was their personal health along with the health of their family. The second most important thing, at 37%, was loved ones (friends and family), with several references to children. Lastly, other important aspects mentioned include food, love, and wealth, and sunshine.



**Figure 5: Most Important Things in Life**  
[Source: fieldwork by research team May 2012, N=19]

The open-ended responses also shed light on important events in life. A 20 year-old female in Dubrovnik describes her happiest memory as the day she got her job in sales. A 25 year-old male student from Zenica cites God as being most important in his life, and goes on to describe a perfect day as follows: “I wake up, drink coffee, have a shot, and begin my day”. A 29-year old female economist from Doboje, BiH, describes her happiest memory as a birthday when her family gave her a watch inscribed with a reminder that she, her mother, her brother, her father, are a team that will be “together always”.

Reflecting upon Weiner’s (2008) *Geography of Bliss*, happiness is indeed defined differently in the Balkans. While the author associates happiness with different culture-specific priorities (such as wealth in Switzerland, deprivation in Moldova) in various case

studies, in no chapter of his book does he expound upon a culture with an emphasis placed on health, family, and friends as much as we observe in the Western Balkans. Because the data set for this aspect of our research is so small, more inquiry should be done on this topic to better understand the meaning of happiness, especially comparing the subtle differences between the two neighboring countries in our investigation.

## 5. Conclusions

By interviewing local citizens, companies, and government administrators, then tabulating and analyzing the responses, we conclude that both Croatia's and BiH's economies show great potential for the future. This is particularly true for Croatia, which has seen significant growth in its tourism industry, and will be positioned to take advantage of a consolidated market upon its 2013 entry the EU. BiH is not far behind, and some leaders are taking legitimate steps to resolve remaining barriers to efficiency and transparency in their over-sized bureaucracy. Of course, any optimistic appraisal of either country should be tempered given the ongoing European crisis and considerable frustration with reform as unveiled by the fieldwork presented here.

Indeed, a feeling of pessimism remains widespread amongst the region's citizens for many different reasons. In Croatia, this is primarily the result of the economic crisis that first struck Europe in 2008, and then came to the Balkans somewhat later. In Bosnia, pessimism endures as a result of the war, and is compounded by a sense of powerlessness thanks to the governing constraints imposed by the well-intentioned Dayton Accords (Štiks, 2011). Bosnians are vocally unhappy with their own government, but they have not yet given much thought to the implications of EU membership if they eventually join, a prospect that is looking increasingly threatened as "enlargement fatigue" mounts among the existing 27 members (Panagiotou, 2010). Indeed, by some accounts (Bieber, 2011) the very future of BiH remains in question. However, some of our survey respondents still believe that EU accession will be beneficial because better legislative structures are associated with SSA compliance.

EU membership could also potentially help Croatia's economy by easing the process of border crossings, thereby facilitating growth in its vital tourism sector. Similarly, Bosnia could benefit from EU membership economically, further enhancing security and transparency to make foreign investors more comfortable committing resources there. However, as new EU border crossings are erected on Croatia's shared border with BiH and as EU trade rules are applied, BiH could also suffer from short-term isolation from one of its top trade partners. The implications of new borders have been widely examined by scholars, and in this post-Yugoslav context offer an excellent opportunity for further research.

Of course, the principle limitations of the present research should be acknowledged. First, although the interviews are revealing, their number is insufficient for claiming representativeness of the larger population. Accordingly, we present this study as merely a pilot. Further research should broaden the scope of survey administration to include many more respondents. Because our surveys were administered in person, the collection of data was extremely time-consuming, and we and our interview team underestimated the time commitment involved in data collection. In addition, our survey instrument was written in the English language, not the native language of the respondents, which could introduce misinterpretations. Upon coding and summarizing our responses, we became aware that some of our questions had been misunderstood by respondents, none of whom are native English speakers. This particularly became an issue when the Likert scale was used. For example, where open-ended responses clearly revealed concern about corruption, some respondents gave the problem a "0" on the corresponding quantitative scale of "0 to 10". In addition, when asked to describe one of (his) happiest memories, a 30 year old journalist in Sarajevo responded "war memories". We are aware of the Bosnian sense of humor with regard to the traumatic siege of the city, but based upon straightforward and non-sarcastic answers throughout the rest of this completed survey, we feel that this respondent did not understand the question. Issues such as these should be considered in future fieldwork. Researchers should not assume that their questions are understood properly, and should be prepared to probe if there is a possibility that a question has been misunderstood.

With regard to policy, this research offers several suggestions. First and foremost, public officials should be aware that they are being watched carefully by their citizenry. As this research and other inquiries (Gallup Balkan Monitor, 2011) attest, citizens are paying attention and their frustration is mounting. Especially in BiH, respondents strongly criticize the bloated bureaucracy and lack of transparency by public servants. Frustration with politicians and police in particular continues to grow, as the years pass and improvement in personal wellbeing continues to stagnate. Secondly, from our responses we detect deep concern about economic policy. In Croatia, for example, while the role of tourism in the economy has been officially declared (Tica, 2012) and is widely recognized by respondents, our surveys reveal that citizens are apprehensive about the impact of EU crises on inbound tourism, while other voices argue that Croatia is already “too full” with tourists.

In sum, the main contribution of this research is to bring together elements of quantitative and qualitative analysis to better understand public perceptions of a timely topic: the ongoing transformation of two Balkan counties. This is particularly timely given Croatia’s imminent EU accession, and the pursuit of the same by Bosnia and Herzegovina. While putting a finger on the pulse of the citizenry with respect to politics, economics, and overall happiness, this paper also provides further directions for deeper research into a variety of themes. Given that tourism represents 22% of Croatia’s economy by share of GDP, how has the industry been impacted by the economic crisis in Europe, and how do Croats feel about this level of dependency? As Croatia and presumably other states including BiH enter the EU, how will public opinion about membership evolve? As BiH works toward accession, how will its government handle issues such as corruption and regulation, both of which clearly arise as important in the eyes of its citizenry? While we believe this paper has shed meaningful light on contemporary issues in the region, it also introduces these and other questions that will grow in importance as additional Yugoslav successor states continue to reintegrate with Europe.

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