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SELLING CROATIA OR SELLING OUT CROATIA?

Tourism, Privatization, and Coastal Development Issues in a "New" Democracy

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Executive Summary

The collapse of the state socialist systems of Eastern Europe and the (former) Soviet Union between 1989-1991 ushered in what some analysts (Bryant and Mokrzycki 1994) have called "The New Great Transformation," the expected transition to democratic, capitalistic societies. Yet this transformation has occurred only belatedly in Yugoslav successor states like Croatia, owing to the violence and economic devastation brought about by Yugoslavia's collapse and the authoritarian control exerted by independent Croatia's first president Franjo Tudjman (1991-1999). Tudjman's death and the subsequent election of a democratic coalition in 2000 have finally made privatization, the welcoming of foreign capital, and economic restructuring key priorities within Croatia. This paper explores that ongoing privatization process, focusing on the once lucrative tourist trade. Both political leaders and everyday Croatians currently pin much of their hope for economic recovery on tourism.

Examining the success with which privatization is being carried out in Croatia's tourist sector requires considering the ways in which Yugoslavia's unique socialist system and its dramatic dissolution have shaped this transition process. The warfare that erupted after the declarations of independence by the republics of Slovenia and Croatia in June 1991 surprised many Yugoslavs and foreign observers alike. Some scholars even expected Yugoslavia – independent of the Soviet bloc since 1948, possessed of hybrid economic institutions that departed from the rigid central planning of the Soviet Union and its satellites, and open to the West (both welcoming tourists from the West and permitting its own citizens to work and travel abroad) – to experience a much easier and more successful economic and political liberalization than the Warsaw Pact countries (Gruenwald 1987: 528). When the opposite instead occurred, scholars and policy

analysts addressed themselves to the most pressing problems at hand: trying to end the conflicts, redrawing state borders, and coping with massive refugee flows.

As a result, the issue of privatization and changing regimes of property rights received relatively little attention in the successor states of Yugoslavia (with the exception of Slovenia and the question of property reparations to refugees) until recently, despite the fact that this issue has been central to studies of the "transition" elsewhere in Central and Eastern Europe. Tourism, it is argued, offers a valuable window onto a wide spectrum of challenges of great significance for Croatia's future prospects for democracy and economic well being.

Introduction

The collapse of the state socialist systems of Eastern Europe and the (former) Soviet Union between 1989-1991 ushered in what some analysts (Bryant and Mokrzycki 1994) have called "The New Great Transformation," the expected transition to democratic, capitalistic societies.[1] Yet this transformation has occurred only belatedly in Yugoslav successor states like Croatia, owing to the violence and economic devastation brought about by Yugoslavia's collapse and the authoritarian control exerted by independent Croatia's first president Franjo Tudjman (1991-1999). Tudjman's death and the subsequent election of a democratic coalition in 2000 have finally made privatization, the welcoming of foreign capital, and economic restructuring key priorities within Croatia. This paper explores that ongoing privatization process, focusing on the once lucrative tourist trade. Both political leaders and everyday Croatians currently pin much of their hope for economic recovery on tourism.

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[1] This paper builds upon almost a year of fieldwork carried out in Dalmatia (Dubrovnik) and Istria (Rovinj). I am grateful to the National Council for Eurasian and East European Studies for awarding me a Policy Research Fellowship and to Bowdoin College for providing me with a Kenan Fellowship, both of which made this research possible. I appreciate the assistance provided by the staffs of the libraries at the Centro di Ricerche Storiche di Rovigno and the Fakultet za turizam i vanjsku trgovinu in Dubrovnik. Thanks also go to John Henshaw for his editing suggestions.

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Tourism and Ownership under Yugoslavia

Before considering the state of tourism in contemporary Croatia, it proves necessary to outline the development of tourism within the socialist context. Croatians working within the tourism industry today inherited not only the old material infrastructure of that well developed tourist sector but also much of its work culture (expectations about work, ideas about labor-management relations, and understandings of ownership) associated with it.[2]

When Tito and his communist supporters came to power in 1945, they inherited a tourist tradition derived from the Habsburg period. Spas catering to the wealthy elite came into existence by the end of the 18th century and flourished in the 19th as developments in transport (railway and steamers) connected the Viennese metropole to its outlying territories (Allcock

[2] On the persistence of socialist values and the inertia of cultural and political systems, see Mares, Musil, and Rabusic 1994; on the use of a 'path dependency' approach that takes institutional legacies into consideration, see Stark 1992; Williams and Baláz 2002.

1991: 237). The "Hygiene Society," formed in 1869 on Hvar, extended the reach of this early "health tourism" whereas grand hotels like the "Kvarner" in Opatija and the "Imperial" in Dubrovnik were established in the following three decades (Pirjevec 1989: 143). Tourists continued to come to these former Habsburg resorts under the first Yugoslav state, which established a Department in the Ministry of Trade and Industry for the traffic of foreign visitors. The JUG Tourist Association, founded in 1927, also sought to promote winter tourism in places previously outside tourism circuits, such as Macedonia (Vasilevska 1998: 269-270).

Initially following a Soviet model (Shaw 1991), socialist Yugoslav tourism broke with this older tradition of elite tourism in favor of domestic tourism premised upon the rejuvenation and reproduction of the working class. What Vukicevic has called "trade union tourism" replaced the elite tourism of old, with tourism tightly controlled by the Ministry of Commerce and Supply in the federal capital Belgrade and by the sole state travel agency Putnik, which took its name from the first travel agency in Yugoslavia founded in 1923 (Allcock 1991: 239). This increased the number of tourists significantly, with 1,617,000 (internal) tourists in 1948 as compared to 663,000 total tourists in 1939 (Vasilevska 1998: 270).

Yugoslavia's shaky economic position after the country's 1948 expulsion from the Cominform, however, meant that by the 1950s the country began to open its horizons to Western tourists and their valuable hard currency. Western aid for infrastructure development, notably the construction of the Adriatic highway, stimulated this nascent tourist industry (Hall 1991a: 97). This coincided with the articulation of the system of "self-management" (designed to make the workers in firms the chief stakeholders), the reorganization of the banking system, and the establishment of the General Investment Fund (later abolished in 1963) as a key means by which the federal center distributed resources. In 1953 the Tourist Association of Yugoslavia was

established, followed a year later by Chambers of Trade at the federal, republican, and communal/local levels (Allcock 1991: 241).

The self-management system enshrined a notion of property rights understood as "social ownership." This existed alongside a regime of private property in the form of small landholding (after Yugoslavia quickly abandoned attempts to collectivize agriculture). In practice, social ownership "meant that employees could use and manage the capital, but they were not its owners" (Tihi 1997: 26). This permitted a certain freedom in decision-making for managers, as well as greater openness to business collaborations with Western partners, but it also created problems of expertise (since Workers' Councils often made decisions about issues on which they lacked specialized knowledge) and accountability. "First of all, formal owners – managers and employees – did not have a motive to behave as real owners. Capital was placed at their disposal, but not the results – they could simply leave the company and be free of responsibility.

Managers were more interested to satisfy politicians than to make profit" (ibid: 29; see a similar critique by Babic 1997 for the self-management system in Croatia.) Yet self-management also created in some workers a sense of rights and participation much greater than that found in the Soviet bloc, a fact to be kept in mind when considering the reaction of average Croatians to privatization. Self-management, promoted as one of the key principles in Yugoslavia's "Third Way" positioned between the capitalism of the West and the state socialism of the bloc, thus proved a source of pride and was duly exploited by the regime for its propaganda potential.

Indeed, the uniqueness of Yugoslav socialism and the myth of a heroic Tito breaking away from Stalin helped attract curious westerners – and their valuable hard currency -- to the country. Tourism expanded dramatically from 1965 on, thanks in part to the abolition of tourist visas and the mechanism of the "retention quota," which permitted those enterprises exporting goods and

services to keep a certain amount of the foreign currency generated by these exchanges (Allcock 1986: 568; Allcock 1991: 244).

The growth of large hotel structures along the Adriatic coast was paralleled by the creation of private accommodations in the form of apartments for rent, with legislation passed in 1965 (the Basic Law on Catering Activity) permitting Yugoslav citizens to house paying guests and to establish private catering enterprises. Credits from the government together with remittances from workers abroad facilitated the building of such apartments (Hall 1991a: 86; Allcock 1992: 396-297).[3] The income generated by renting apartments and the possibilities for rebuilding or building anew comfortable, modern homes raised standards of living along the coast.

These changes inscribed on the landscape in quite visible ways the growing economic disparity between regions and republics within the Yugoslav federation, a trend that paralleled (and went hand in hand with) increasing tendencies towards political decentralization. Initially, tourism to the coast and other sites (capital cities, alpine spots) had proved fairly balanced. Already by the early 1960s, however, the shift towards a dominant coastal industry – and also a highly seasonal one focused on the four-month period from June to September -- had occurred (for a similar imbalance in Bulgaria, see Pearlman 1990).[4] This transformed areas, like certain islands and the Istrian peninsula, that previously had suffered from isolation and economic underdevelopment (Allcock 1986: 573). Prior to the 1991 war, roughly 80% of all Yugoslav

[3] Private accommodation also proved significant for tourism in socialist Bulgaria, Hungary, and Poland (Harrison 1993: 522). On Hungary, see Borocz 1990.

[4] Allcock argued that this seasonality, together with the concentration of workers with lower skill levels, tended to mitigate the effectiveness of the self-management system (1986: 577). Furthermore, the concentration of large enterprises meant that "organizations are typically well above the size at which (in Yugoslav law) management decisions must cease to be conducted by an assembly of all employees, and must be entrusted to a body of elected representatives" (ibid: 582).

tourist revenues came from activity in Croatia and, of that, 50% came from Istria (Betti 1997: 22).[5]

Not surprisingly, many Croatian academics became proponents of tourism as a strategy for modernization and economic development. Already in 1954, lecturers at the Faculty of Economics in Zagreb began to include tourism as a topic of interest. From 1961 on, there existed courses of study in "Tourism Economics" and schools of hospitality and tourism soon opened in places like Dubrovnik and Opatija (Vukonic 1995). When the nationalist movement known as the "Croatian Spring" took center stage in 1971, the issue of tourism and Croatian control over its development and earnings featured as a prominent concern (Allcock 1991: 248), alongside those of linguistic and cultural autonomy. As the economic crisis worsened in the 1980s, members of the wealthier republics of Croatia and Slovenia increasingly complained about what they perceived as unfair siphoning off of their hard earned taxes. These perceived injustices neglected the fact that the state heavily subsidized many aspects of the tourist industry.

The Yugoslav economy's deterioration in the decade following Tito's death prompted efforts to liberalize the economy, including tourism. Whereas the 1974 Constitution had permitted small private businesses employing a maximum of five persons, a 1988 constitutional amendment opened up greater possibilities for private businesses. Yet individual proprietors always occupied an ambiguous and often difficult position within the Yugoslav socialist system (Allcock 1992: 400). The regime also opened the way for joint ventures through the Law of Enterprises, Law of Foreign Investments, and the Law of turnover and disposition of social capital. In 1989, for example, the Hyatt Regency in Belgrade opened, representing the first joint

[5] Such statistics can be considered approximations at best. Hall (1991b) has written on the definitional dilemmas associated with tourism and tourism data such as "frontier arrivals," "registered accommodation," and so on. Allcock similarly notes the looseness with which Yugoslav statisticians defined "tourists" (1991: 236). Official figures for tourist revenues in Yugoslavia were also inaccurate, due to the size of the "grey economy" not subject to state oversight (Cizmar and Poljanec-Boric 1997: 290).

venture with a majority foreign holding (Hall 1991c: 68). Such efforts were not unique within the socialist world, paralleling joint ventures in tourism and other fields in places like Hungary, Romania, Poland, and Bulgaria (Buckley and Witt 1990: 14-15).[6]

Yet in spite of such moves, by the late socialist period the precipitous deterioration of the Yugoslav political scene and standard of living (with hyperinflation unchecked despite a devaluation of the dinar) paralleled drops in tourist number and revenue. After shortages in 1982 created bad press and scared some tourists off, efforts were made to guarantee petrol and food for tourists (Sallnow 1985). Yet some Americans who had visited Yugoslavia in the late 1980s described the place as "grim", "menacing", and "clearly not a happy society" (personal communication), noting the trouble that lay barely below the surface.

Privatization under Tudjman

The beginning of the Serb-Croat war in June 1991 at the very start of the summer season severely damaged Croatia's tourist industry (already in decline). This deterred foreign tourists for many years, disrupted the "domestic" tourism market, and damaged tourist infrastructure (either directly, as in the case of hotels in the Dubrovnik area or indirectly, through hotels' disuse or as refugee accommodation). In 1994, a year before the Dayton Accords halted the Bosnian conflict, tourism volume in Croatia remained 68% lower than it had in 1989. "No other economic sector in Croatia registered such a large fall in physical activity" (Ivandic and Radnic 1996: 5).

Ivandic and Radnic estimate that tourist revenue lost in Croatia between 1991 and 1995 approached a figure of US $6.8 billion. This loss was heaviest in Dalmatia, where war damage proved extensive in some places and where the disappearance of tourist transport (boats,

[6] The desire to attract foreign investors reflected both an increasingly desperate need for capital but also a recognition that Yugoslavia's overreliance on foreign aid played an important role in the economic crisis. Not only did this dependence on foreign assistance create problems of debt but also reliance upon foreign technology (Skrtic 1989: 198).

damaged or mined highways) isolated the region. Some estimates put the loss to Dubrovnik's tourism economy alone at US $1.2 billion (Ban and Vrtiprah 1999: 233). Despite the end of major conflict within Croatia by 1992, the situation did not really begin to stabilize until 1995 after Dayton and the last major offensive of the Serb-Croat War (Operation Storm, which cleansed the Krajina of ethnic Serbs and retook Slavonia for Croatia). Though the outbreak of hostilities in Kosovo dashed initial post-Dayton hopes that large numbers of tourists would return, the last three years have signaled a major revival of the Croatian tourist industry.

Because of the problems created by the war and the nationalist style of the first leader of independent Croatia (Franjo Tudjman, president 1991-1999), privatization of all economic enterprises (not just tourism) proceeded slowly during the first decade of Croatia's existence. Though the term privatization might appear self-explanatory, before considering Croatia' s specific privatization strategies and process, it proves useful to ask, What exactly is meant by privatization?

Duke and Grime point out that the term privatization encompasses many processes of differing scale and magnitude. For example, they term much of the privatization that has taken place in Western European countries during the last twenty years "*marginal privatization* in a mixed economy, which was already overwhelmingly private" whereas "Eastern Europe is experiencing a process of *total privatization* as part of the transformation from a state-dominated economy to a predominantly private market economy" (1994: 145).

As Duke and Grime note, most of the English language work on privatization in the former socialist world focuses almost exclusively on the transformation of large state enterprises into private companies. They instead propose a wider perspective that considers "(1) the small-scale privatization of shops, restaurants, etc.; (2) the large-scale privatization of state enterprises; and

(3) the reprivatization of property to former owners (e.g. Bartlett, 1992; Kowalski, 1992)" (ibid: 146).

Williams and Baláz, working in the context of the Czech and Slovak republics, instead distinguish between "distributive privatization whereby the property rights to existing assets are redistributed; and creative privatization, or establishing new privately-owned assets" (2002: 40). Both these definitions prove useful for studying the tourism industry in Croatia since this sector comprises much more than large, (former state) enterprises and because privatization involved not only transfer of ownership of large tourist firms but also the creation of new companies, often foreign owned.

Privatization in Croatia has two distinct phases: that initiated under the Tudjman regime and the ongoing privatization process begun by the democratic coalition elected in January 2000. Though privatization started almost immediately after independence, with the Croatian Privatization Fund established in 1992, the real impetus for the process came in 1995, with the brokering of peace in neighboring Bosnia and new attention to reconstruction, particularly in the realms of construction and tourism (Betti 1997: 7).

In contrast to many other former socialist states, a good portion of Croatia's capital resided in the hotel industry (Cizmar and Poljanec-Boric 1997: 290). In the period 1990-1995, however, the average company size in the Croatian tourist industry shrunk from an average 100 employees in 1990 to an average 16.2 employees in 1995, in part because of economic decline (with rising unemployment), in part because of the growth of small companies (Kovacevic 1998: 44).

In another contrast to the experience of many former socialist states, the Tudjman regime maintained a firm grip on the privatization process. In other parts of Eastern Europe, privatization typically has meant the increasing diminishment of state control, often with

negative consequences. Notes anthropologist David Kideckel (a specialist on Romania), "The delegitimation of the state and its withdrawal from community life particularly affects the tenor of community relations and the development of the local economy" (1995: 3). The Croatian state instead remained a main shareholder in certain key firms and sought to control foreign investment (at the same time that foreigners often proved wary of investing in Croatia). The fear that "carpetbagger" foreigners would buy out Croatia and strip the country of its assets did reflect genuine concerns, though the continuation of a virtual state monopoly suited the nationalistic and autocratic style of the Tudjman regime. Until 1996, when a new act for privatization began wide-scale privatization, only 2,557 enterprises had been privatized and an estimated 70-80% of all capital remained state property (Betti 1997: 12-16).

At the time of Tudjman's death in 1999, the privatization process remained incomplete and non-transparent. Within the tourism industry, a good number of small firms had been completely privatized whereas the ownership of most large enterprises remained divided between the state/Croatian Privatization Fund, banks (with Zagrebacka banka in a privileged position), and small shareholders (usually employees) (Cizmar and Poljanec-Boric 1997: 295). The financial health of many of these large firms remained questionable, as the "crony capitalism" typical of the Tudjman regime resulted in the frequent selling off of assets to associates of the President, many of whom let these companies slide further into insolvency. Summing up the results of those years, the Croatian Privatization Fund notes,

> It should be emphasized that the Croatian privatization model was primarily based on case-by-case principle sales methods with preferential treatment to privileged buyers and with the approval of considerable discounts to former and current employees (a basic discount of 20% plus an additional 1% discount for each completed year of employment) for the purchase of shares with a par value of DM 20,000.00. They were allowed to purchase shares with payment in installments, on credit, first with repayment periods of five years and then later even of twenty years. This thereby created the 'small shareholder' system which is specific to the

> Croatian transformation and privatization process. Contracts on the sale of shares were concluded with 641,152 former and current employees of formerly socially-owned enterprises who thereby acquired the position of so-called 'small shareholders.' In 1996, limited mass privatization schemes were also introduced which were aimed at the socially most-needy categories of the population that were hardest hit by the war (displaced persons, wartime and civilian disabled, families of missing persons, war veterans, etc.) Approximately 226,000 holders of vouchers participated in this process, and they could bid for the shares of 471 joint stock companies (CPF 2003: 2).

Although the Tudjman government often lauded its "success" in privatization, in practice market competition stagnated and privatization and the private sector became associated with corruption in the popular mind. "Due to a specific privatization concept which formally preferred insiders (employees, managers) and enabled the de facto formation of a narrow, 'chosen' class of owners (tycoons), the degree of technological progress and innovation, and of investment in companies was inappropriate, so that the process itself resembled something more like the "seizure of ownership positions" than real investment" (ibid: 3). The association of market activities with immorality, criminality, and illegality has been widely reported in other former socialist states (on Russia, for instance, see Humphrey 2002).

These attitudes reflect not only the reality of socialist systems in transition (corruption, nontransparency) but also pervasive ideologies of egalitarianism associated with communism. As noted previously, the Yugoslav system of self-management did create a sense of involvement on the part of many workers; given small shares in newly privatized enterprises through the process described above, these workers often were forced by economic necessity to sell these shares and/or witnessed the arrival of new managers and owners who no longer took the opinions of the Workers' Councils into account at all. (A 1993 law limited the initial purchase right of employees to 50% of a company's basic equity.) Furthermore, Yugoslav socialism had created a system of semi-private enterprise at the same time that Tito and others continued to warn against

the dangers of *bogacenje*, or enrichment. Tito particularly cautioned against this ill in the profitable tourist sector and reminded Yugoslavs, "It is impossible to cram into the same basket those who have earned something by honourable work (even though this is above the 'average') and that which is gained by speculation and fraud" (Allcock 1992: 404). Such attitudes persist in the postsocialist, post-Tudjman era.

Privatization after Tudjman: Theory and Practice

Franjo Tudjman's death in 1999 ushered in a period of rapid change in Croatian politics. The 1999 elections led to the defeat of Tudjman's nationalist party, the Croatian Democratic Union (HDZ), and the installation of a coalition government of former opposition parties headed by the Social Democrats (SDP). Reversing the years of isolation wrought by the Tudjman regime, the new government sought to establish its democratic credentials and demonstrate its willingness to cooperate with international bodies such as the World Bank and the IMF in promoting financial recovery.[7]

In line with this, the Croatian Privatization Fund was reorganized, consolidating its portfolio and laying out new strategic objectives. These include increased foreign investment, structural adaptation of the economy to the standards of the European Union, and increased legal transparency (CPF 2003: 8). The fund also launched a public relations campaign designed to inform the Croatian public about the transformations brought about by privatization. Announcing their new openness to the EU and the desire to fast track entry, Croatia's leaders received pledges of support from many EU member states who had remained wary or even critical of the Tudjman government's nationalism and human rights abuses.

[7] (For those interested in the government's statement of its comprehensive strategy, go to www.croatia21.hr.; for a detailed statement of the various accords made by the new government with actors ranging from the EU to the U.S, consult www.mac.doc.gov/ceebic/country.croatia.)

The new government also quickly announced the revitalization of the tourist industry as a key economic goal. Leaders from the national level down to those of regional/county and commune have given great emphasis to environmentally friendly and sustainable tourism. This has been particularly true for the Istrian region, which was governed throughout the Tudjman era by an opposition regionalist party (the Istrian Democratic Assembly, IDS) that positioned itself as the champion of Istrian interests and promoted a European-looking stance premised upon transnational cooperation on questions such as environmental protection and minority rights. In summer 2003, for example, the Istrian region sponsored a European-wide conference on sustainable tourism.

For those familiar with Croatia, the consequences of these new directions are quite visible, particularly in the tourist sector. Tourists have begun to return in numbers resembling those of the pre-war period and they frequently find – in contrast to just a few years ago – many more newly renovated hotels and tourist facilities. In addition, the liberalization of regulations regarding foreign ownership of apartments and vacation homes has encouraged non-Croats (primarily Italians, Slovenes, Austrians, Germans, British, and Hungarians) to purchase second homes along the coast.

This process is transforming the coast in visually obvious ways. On the positive side, many decaying structures in historic city centers have been renovated as a result of foreign ownership. On the negative side, such old towns increasingly become depopulated outside of the summer season (the locals having been priced out). Furthermore, the building of new summer homes – often without the proper permits -- has resulted in architectural and environmental blight along wide swathes of coastline in places like Savudrija and Umag (in Istria) and the Peljesac peninsula (in Dalmatia).

These negative consequences point to some of the realities of the privatization of tourism in coastal Croatia that the pronouncements of government officials and tourism promoters obscure. In much of this feel-good rhetoric, Croatia is presented as a kind of "untouched" paradise awaiting visitors and investors from the West. "The Mediterranean the way it used to be," ran the national tourist campaign ad line for Croatia in 2003. Such a slogan overlooks the development of mass tourism on the coast from the 1960s on, which favored large concrete hotel structures that often had negative impacts on the visual and ecological environment. In addition, the touting of Croatia as an uncontaminated environment ignores the damages created under Yugoslavia by industrialization, urbanization, flushing of untreated waste into the Adriatic, and poorly planned building of second homes and guest houses.

The casting of Croatia as an untouched terrain for Western economic penetration further obscures the fact that Croatia possesses a class of employees well trained in the hospitality industry. The importation of foreign models and knowledge (as in the case of the Spanish consultants brought in to draw up the Istrian region's "tourism master plan") can create resentment on the part of those who work in the tourist industry. As a director of the town tourism office in Dubrovnik told me in spring 2003, she bridles at foreigners unaware of the realities of Croatia who come to offer "advice" and then treat Croatians as if they have no knowledge of either a market economy or tourism. "You can't put us together with Romania!" She argued. This woman also complained about the lack of say that she and others knowledgeable about local tourism have in regards to decision-making about hotel privatization and tourism development.

Mira, as we will call her, told me, for example, that despite the existence of a local branch of the CPF in Dubrovnik, only small companies are privatized through this local level fund. The big

prizes, such as the large hotels, go through the national CPF and there is little or no consultation of local leaders. Dubrovnik's mayor, for example, often only finds out who has won the bid for something when she reads about it in the newspaper. This lack of communication feeds a sense not only of powerlessness but also suspicion that the privatization proves to be anything but transparent in actuality.

The debate that erupted in 2002 over the "Suncani Hvar" hotel complex on the island of Hvar illustrates the continued difficulties with privatization in practice. When the Slovene company "Terme Catez" won the bid for the Hvar properties, both islanders and local politicians from the Croatian Peasant Party (part of the governing coalition but often in conflict with the dominant SDP over the privatization process) began a petition to protest the sale. The reasons for this rejection of Terme Catez proved varied.

On the one hand, many Croats (not just those on Hvar) resented the connections between Terme Catez and Ljubljanska Banka, which has frozen the assets of Croatian citizens and refused to return them in the decade since Yugoslavia dissolved. More generally, and somewhat to my surprise, there exists a widespread resentment of Slovenes and Slovene capital, a point I will return to. Yet another Slovene company, Kompas, had also bid for Suncani Hvar and many Croats I spoke with did not reject a Slovene company *per se* but Terme Catez in particular. The CPF was accused of having unfairly privileged Terme Catez over Kompas in the bidding process, a charge that led to months of parliamentary debate over the Suncani Hvar case.

In the minds of average Croatians, the Suncani Hvar affair represented merely a well publicized example of what they see happening in their communities every day: privatization by an autocratic CPF that only claims to follow the rules and legal framework, a symptom of the pervasive corruption that elsewhere enables foreigners willing to grease palms to purchase or

build vacation homes with an ease unknown to the average Croatian navigating the obligatory and complicated bureaucratic procedures.

Yet whereas foreigners at times appear privileged in the process of purchasing property, there remains a fundamental ambiguity at the legal level about ownership of land. This has emerged as a key obstacle in the privatization of hotel complexes. The status of land that formerly belonged to a firm in the sense intended by "social ownership" and immediately surrounding the hotel (as opposed to the land that the hotel sits on) often remains unclear – do the new owners of these hotels own this land or do they merely have a lease on it? The ambiguity over this question has clogged the Croatian courts with lawsuits and proves problematic for all investors, whether Croatian or foreign.

The case of Sol Mélia in Istria offers an instructive example of the problems surrounding these fundamental property rights questions, as well as the complexity of opinion towards "outsiders" versus "locals." The Spanish Sol Mélia chain became one of the first foreign investors to assume a major role in the Croatian hotel industry, taking the concession on a string of hotels in Rovinj and Umag even before Tudjman's death. The Spanish company signed a fifteen year contract with Jadranturist (in Rovinj) and Istraturist (in Umag), former state enterprises that had managed these hotel properties during the socialist period.

When the privatized Tobacco Factory of Rovinj (an extremely profitable company and one possessed of considerable liquid assets, unusual in the Croatian context) purchased Jadranturist, it renamed its tourist/hotel division Adria Resorts. Adria Resorts sought to buy Sol Mélia out of its contract with the aim of developing a new tourist complex; there has even been talk of dismantling some of the large hotels (Eden, Park) in the Rovinj chain and building new, smaller

ones designed to capture a more elite market of tourists.[8] The directors of Sol Mélia did not bow out of this contract happily and have pursued their legal options through the auspices of the Spanish embassy.

Sol Mélia had, in fact, renovated the hotels in Rovinj with measurable success. Hotel Park in Rovinj, for example, won a rating of 4th out of the 39 Sol hotels worldwide (Franjic 2000: 426). Yet at the local level, townspeople sometimes complained about the changes brought about by the foreigners (as with the ending of certain live music performances at the hotel) and some of the Spanish managers and directors found themselves the subjects of threatening graffiti or anonymous phone calls.

That said, the fact that the local Tobacco Factory (headed by a man from Zagreb) now owns the hotels does not ensure automatic acceptance by the townspeople. During 2003, the period of my field research, I heard many local people express fears about the potential objectives of the factory. Rumors circulated that Adria Resorts would close access to the town's large park/nature reserve by permitting only hotel guests to pass through the primary access points at the marina and by Hotel Eden. Even if this remains an unsubstantiated rumor, townspeople discussed the indisputable fact that Adria Resorts had gone to court to win the right of title to all the land surrounding the hotels, including that of Crveni Otok or Red Island. Furthermore, all individuals who owned land abutting onto the park had received letters from Adria Resorts offering to purchase these plots.

[8] Two of the primary arguments heard among Croatia's tourism policy-makers center on the need to develop a new tourist product by means of: 1) an "elite" or VIP tourism and 2) agrotourism. Developing these aspects of tourism will supposedly help shift the focus of Croatian tourism away from its almost exclusive seasonal "sun and sand" character and will capture those tourists no longer interested in the mass tourism package that brought prosperity to Croatia in the 1960s and 1970s (Already by the 1980s, Yugoslav experts on tourism advised such diversification, e.g. Sallnow 1985, Vukonic 1986.) Fostering elite tourism entails a process of remaking previously existing hotels, building new boutique hotels (the Hotel Angelo d'Oro in Rovinj, Istria, being one model), and creating possibilities for luxury shopping and dining. Because of the capital requirements necessary for such development, foreign investors have been welcomed in, at least in theory.

These developments suggested to many that Adria Resorts was seeking to strengthen and expand what essentially was a monopolistic position over Rovinj's tourist hotels that dated from the socialist days of Jadranturist. Not surprisingly, then, many townspeople remain suspicious of the motives of Adria Resorts, fearing that locals may not only lose any say in decision making processes about the future development of their towns and coastline but also be increasingly shut out from "VIP" areas in which locals are not welcome to enjoy what they see as their natural resources (sun and sea). The difference of opinion among townspeople as to how they perceive the replacement of the Spanish managers by the Tobacco Factory reflects, even if it maps onto only imperfectly, emerging political divisions in Rovinj.

Since 1993, the communal government has rested in the hands of the local branch of the IDS or regionalist party. In Adria Resorts' legal battles with Sol Mélia, the town government has implicitly sided with the Spaniards, having filed a lawsuit against the Tobacco Factory over the question of the extent of land around the hotels belonging to Adria Resorts. (This led to the initial decision in favor of Adria Resorts having been overturned and the question re-opened.) A new political party headed by architect Bruno Poropat, the List for Rovinj, has arisen, in part thanks to funding from the Tobacco Factory. These oppositions have produced a virtual stalemate in the town, pending a final court decision.

The situation in Rovinj suggests that an explanation viewing (potential) conflicts over hotel privatization and development in terms of local versus outsider sentiment is too facile. What many Croatians fear is that the coastline that escaped the horrors of Titoist hotel architecture will end up, to use local Istrian Italian dialect, "asfaltata" (paved over, asphalted) and that local use access (for recreation, fishing and other economic activities) will become severely restricted. Those individuals who live and work in Croatia know that this possibility is all too real, rhetoric

about sustainable tourism notwithstanding. In this instance, locals do not discriminate much if those who "enrich" themselves at their expense are insiders or outsiders, however those classifications may be constructed.

Expanding the Framework

As the discussion in the previous section suggests, the prospects for Croatia's privatization process remain tenuous. Although the situation has certainly improved from the Tudjman period, conflicts over land use and ownership, together with related issues of perception of corruption and graft, produce increasing disgruntlement among everyday Croatians. Even if the current government has inherited many problems from the previous regime(s), it must bear the brunt of this frustration. At this juncture, the short-term political future of the SDP-headed coalition appears shaky, especially with the overall worsening of the economic situation in the past year and with the growth of support for the Croatian nationalist right (HDZ). This situation clearly represents a threat to Croatia's nascent democracy.

The current government, like many everyday Croatians, pins much of its hopes upon Croatia's eventual accession to the EU. In a sense the almost millennial hope in a mythologized Europe matches the faith with which policymakers see tourism as the engine of Croatia's recovery. Apart from the problematic assumption that the EU represents a panacea for Croatia's problems, the desire to appear pro–Europe at all costs may, ironically, contribute to the very dilemmas that EU entrance is then expected to resolve.

Relations with Slovenia illustrate how EU questions intersect with those of privatization. Understanding the anger generated by the proposed sale of the Hvar hotels to a Slovene company, for instance, requires considering a much larger framework of contention between

Croatia and Slovenia. The unresolved issue of where to draw the maritime border between Croatia and Slovenia in the Gulf of Piran in Istria, for example, prompted a "fisherman's war" in 2001 and 2002 when Croatian fishermen grew frustrated over what they characterized as Slovene "incursions" into their fishing waters and, more generally, over the "privileged" position of Slovene interests in Croatia.[9]

Croatian fishermen have found themselves at odds with representatives of both the Croatian state and the regional Istrian government. Fishermen I spoke with, for example, complained about the Croatian government's initial granting of a disproportionately large number (140) of licenses for Slovene fishermen to work within Croatian waters; given the size of the area, this number of new fishermen could easily threaten the basis of the ecosystem.

In our conversations, the outspoken former president of the Association for the Integrity of the Croatian Sea, lamented that in Croatia concern for the environment exists "only in the service of politics." In his view, the regionalist party that has held power in Istria since Croatia's independence has given mere lip service to trans-border agreements designed to protect a common Adriatic maritime space in order to gain European credentials as Istria and Croatia look towards the European Union into which Slovenia is set to enter in 2004.

Croatian fishermen argue that the regionalists have tried to diminish and downplay the actual problems afflicting the gulf. The president of the regionalist party, Ivan Jakovcic, for instance, has declared that this dispute is really "just a problem of five fishermen." In addition, Jakovcic has publicly ascribed to the fishermen a Balkanic mentality, noting that "these war cries [by the fishermen] are not part of our mental habits and instead look towards other regions, other times,

[9] The Slovene state has contended that the line of demarcation should be drawn in such a way as to award Slovenia 80% of the gulf and to create a corridor allowing access to international waters. Some Croatian political parties, together with the fishermen's association, instead demand that the maritime border divide the gulf 50/50.

other men. Unfortunately, the fishermen are not politically mature, nor are they capable of resolving the dispute" (*Il Piccolo*: 3 September 2002).

For local fisherman who do not count themselves among those Istrians profiting from a corrupt spoils system, the real problem in the Gulf of Piran is not a question of borders and their nationalistic defense, but rather one of political interests, with Slovenes on the one hand undertaking a "gobbling up of Croatian interests" and Croatian politicians, on the other, sacrificing Istria and the interests of its common people. Individuals I interviewed claim that the real enemy is the corruption and "enrichment" (reminding us of the persistence of socialist egalitarian values) endemic to independent Croatia and epidemic to the system of privatizing former state enterprises. Abuses by Slovene investors and fishermen are tolerated by Croatian authorities not just because local individuals profit, however, but also because Croatia is held "hostage" to its politically and economically more developed neighbor, whose tourists boost the local Istrian economy and whose leaders – once Slovenia enters Europe – will be able to decide whether to promote or retard Croatia's application for EU admission. The price to be paid for such admission, fear fishermen and other locals in Istria, will be that the Croatian sea and coastline end up in the hands of outsiders and that local people, with the exception of those greasing the wheels of the privatization process, will lose all control over the future development of their territory.

As such, though seemingly unrelated to questions of hotel privatization, in fact this fishing dispute proves inextricably bound up with issues of economic and political transition. The fisherman's war cannot be properly understood without considering this larger nexus of issues, nor can hotel privatization or second home ownership be analyzed without taking into account the maritime border dispute and broader questions of environmental protection. All of these

issues center on the question, Who owns the coastline and the sea (as well as their resources)? As I have argued, privatization of the tourist industry offers a rich window onto problems of pressing concern both for average citizens and for the country's future development.

Just as it proves fruitful to expand the theoretical frame in which privatization is considered, so too does expanding the methodological framework for such a study prove essential. In this article, I draw upon data gathered in part by means of anthropological methods that work from the bottom up through interviews and participant-observation. In Rovinj, local people not directly involved in the Sol Mélia-Adria Resorts-town commune dispute were more than willing to share their opinions about the process. Listening to these voices produces a very different picture than the do the reports of success offered by the CPF or the slick project plans offered by the individual companies in question. Policymakers obviously need to be attentive to the fact that not just legal frameworks but also cultural ideas about ownership, morality, and profit remain in flux in Croatia. These ideas remain potent sources of political discontent and support.

Conclusion

What will be the future of Croatia's coastline and its tourist industry? Despite efforts to protect the environment, coastal lands are rapidly being bought up for development. Competition for waterfront use for diverse economic activities – fishing and mariculture versus tourism, for example – will likely become more acute. Issues of legal transparency still plague the privatization process, creating risks for foreign investors. Corruption not only leads to the "selling off" of assets in ways that may anger and exclude local communities but also creates an opening for right-wing parties to find support by promising a return to the more nationalist, protectionist policies of the Tudjman era. Though Croatia's current governing class has corrected

many of the excesses of the Tudjman regime, the ongoing privatization process threatens to reproduce a system of political and economic inequity.

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