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The Demise of Osijek

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Once an industrial powerhouse, eastern Slavonia is in danger of becoming a rural backwater

It is Saturday night in Osijek, and the capital of Croatia's eastern Slavonia region, if not exactly buzzing, is getting ready for a weekend of fun and relaxation. Ten years ago this stately city on the Drava looked shattered, the walls punctured with bullet holes and the roofs of its churches and Habsburg-era buildings torn open by incoming shell-fire.

Hardly anyone was left. Of a pre-war population of 120,000 no more than 10,000 remained, cowering in cellars and an underground shopping centre to escape the Yugoslav army's remorseless bombardment.

Now the city looks resurrected. Trams glide along the tree-lined boulevards and the shops are full of goods. Above the underground shopping centre, where people hid in the freezing winter of 1991, youths clatter on skateboards.

Osijek's revival is a parable of life in post-war Croatia. The bullet holes in the walls recall a recent past that is not forgotten, but life is astonishingly normal now.But look closer, however, and all is not well with Osijek, or with Croatia. The city's airport is knee high in weeds, its long-predicted re-opening still far away.

The bridge over the Danube to the triangular-shaped Baranja region on the border with Hungary and Yugoslavia has been rebuilt, but it carries little traffic. The shops are full, but customers are sparse and an alarming number of the most basic foodstuffs are foreign imports. In and among the families licking ice cream on a summer's day, old women beg pitifully for money to buy bread.

Good things have happened in Osijek since the last sliver of Serb-held territory round nearby Vukovar was peacefully reintegrated with Croatia in 1998. Tension with neighbouring Yugoslavia has practically evaporated since Slobodan Milosevic's fall from power in Belgrade, and business and media delegations from the neighbouring Serbian province of Vojvodina are common.

The border regime has been relaxed and residents living on either side of the frontier can cross over without documents - a great boon to Croats in their search for cheap bread and petrol.

But even if they remain wealthier than their Serb counterparts, the future looks far from bright in Osijek. Prices of basic goods in Croatia are on a level with those in Western European countries, while an average monthly wage of 3,000 kuna ($800) is much lower.

The unemployment rate is high at 23 per cent, but that figure conceals a much larger number officially in work but who receive little or no wages from failing state firms.

In eastern Croatia, the situation is even worse than the average. The region's pre-war economy was closely tied to the rest of Yugoslavia and has had difficulty adjusting to the altered conditions after Croatia's independence.

The huge industrial complex of Borovo in Vukovar and the big agricultural state firm of Belje, in Baranja, were typical of the region's major employers, supplying a captive market of 23 million Yugoslavs that has since shrunk to 4.5 million Croats.

Some factories were destroyed beyond repair in the 1991 war, but most big firms have gone bust as a result of market shrinkage and the corrupt privatisation programme managed by the former HDZ government of Franjo Tudjman.

Quite notoriously, state firms were sold to allies of the government who frequently sold the assets and took the money out of the country. A single individual, Miroslav Kutle, famously made off with at least 150 firms. There were few cases of these friends of the HDZ investing private capital in their new concerns, many of which have been declared insolvent and lost their workforce.

In Osijek, as in the rest of Croatia, privatisation has meant the partial de-industrialisation of the local economy.

Hopes were high of an improvement under a new coalition government under the Social Democrat leader Ivica Racan, which includes Zlatko Kramaric, Osijek's mayor for the last decade and the Liberal Party leader. But since the new team supplanted the HDZ 18 months ago, the economy has, if anything, worsened, as the six coalition parties fight for their pet regional or political projects.

An ominous test case presented itself in March last year when the main bank in Croatia's western region of Istria appeared close to insolvency. The Racan government injected funds to prop it up after his coalition ally, the leader of the regionalist Istrian Democrat Council, Ivan Jakovcic, threatened to resign. Similar banks elsewhere were allowed to go under.

The coalition shows little sign of putting together an economic strategy beyond selling off as many enterprises as possible. Possibly, they have no choice in the struggle to reduce the $10bn foreign debt and a budget deficit aggravated by very unfavourable import-export balances with Croatia's trading partners.

Croatia needs investment to update its infrastructure, but the sale of a majority stake in the country's telecommunications company to Deutsche Telekom, and of most of its banks to other German and Italian investors, threatens to leave the government with few economic levers. Even the flagship oil company INA is up for grabs, posing a threat to the 24,000 workforce.

The government pins its hopes on EU membership, which ministers say Croatia may join as early as 2005. But this may not be the panacea they expect. A recent 'stability pact' agreed with Brussels entailed Zagreb removing tariffs round key state firms, including the sugar industry and the country's old confectionery firm, Kras. Far from introducing healthy competition, such shock therapy may simply kill off the Croatian enterprises, leading to more job losses.

The government's inertia on the economy is on display in Osijek. Eastern Slavonia has lost its old role as a supplier of food stuffs and rubber products to Yugoslavia and needs re-branding. The huge wildlife reserves in the wetlands of nearby Baranja, where former Yugoslav president Tito used to hunt, could easily be developed as a wildlife tourist centre, but no attempt is being made to lure visitors to eastern Croatia.

A shambolic railway system transports passengers daily from Zagreb to Osijek in a few overcrowded, slow 'express' trains, while the two shabby and overpriced hotels in the city - one a Soviet-style monstrosity - offer tourists a dismal selection of accommodation. In the streets, mouldering 'Austrian Secession' facades recall an era before the First World War when Osijek was abreast of the latest European trends.

A decade after the war for independence - which was supposed to release the nation's suppressed potential - Osijek is in danger of becoming Europe's forgotten backwater.

Marcus Tanner is the author of Croatia, A Nation Forged in War, Yale University Press, to be republished this autumn.

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