

THE REPUBLIC OF CROATIA BEFORE ITS ENTRY INTO THE EU: EXPECTATIONS AND LIMITS

Mladen Vedriš, Ph.D.¹

¹University of Zagreb, Faculty of Law Department of Economics,
Republic of Croatia, mladen.vedris@pravo.hr

Abstract

The Republic of Croatia becomes a full member of the European Union on 1 July 2013. That goal was set more than two decades ago. To some extent it was delayed by social and political circumstances and also because of the slow process in adapting to the legal requirements of the European Union. At the same time, we were witness to and participants in the greatest economic crisis in Europe and the rest of the world since the Great Depression of 1929. That crisis demands adequate responses and solutions. But in the period since 2008 until today Croatia has not succeeded, either in absolute or in relative terms, in finding adequate responses. Therefore, the main theme of this work is to suggest what to do and how it should be done, and by what means and with what instruments the crisis can be overcome, while also providing an analysis of the current situation. The effects of the crisis can be seen in the constantly increasing rate of unemployment, the continual decline in GDP, and reduced share of exports to the European Union and the rest of the world, and the ever greater difficulties in maintaining financial equilibrium at the level of meeting the total obligations from the category of public expenditure. The work also emphasizes the areas and measures that are not only necessary but imperative to implement in order to achieve a successful economic turnaround. The achievement of such a turnaround in the economic sphere is also necessary as the foundation for maintaining social stability and social cohesion. Recent examples – Greece, Portugal, and Spain – have demonstrated all of the negative effects of the extended economic crisis: emigration and negative trends, and the further erosion of the overall value system. Therefore, finding adequate responses to achieve this turnaround is the fundamental responsibility of the protagonists of economic policy within each individual country.

JEL Classification:

Keywords: economic crisis, economic recovery, structural reforms, national competitiveness and environment, EU membership, EU adaptation.

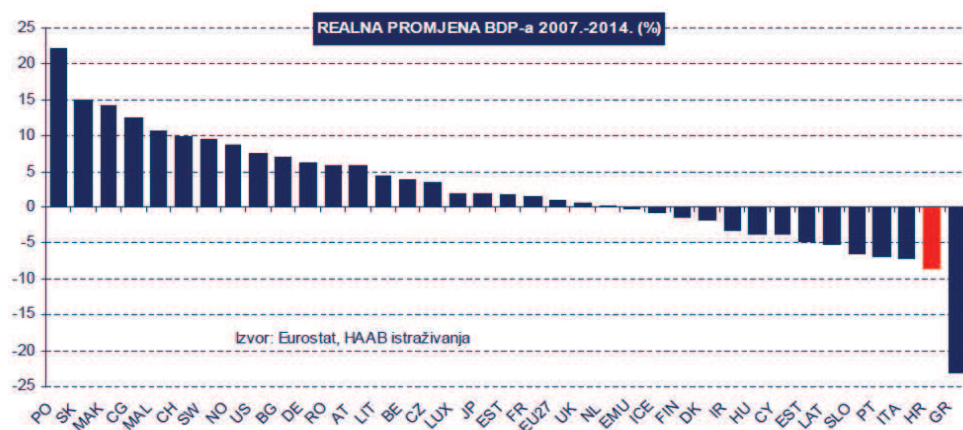
1. Introduction

The Republic of Croatia has traveled a long road in its preparations to acquire full-member status in the European Union (EU). The initial enthusiasm at independence (1992) was interrupted, primarily by wartime events, and then by an extended transition process, which continued several social, economic, and normative limitations. An opportunity was missed in 2004, when ten new member countries were included in the EU, and in 2007, when it expanded with the inclusion of Romania and Bulgaria. At the same time, the requirements in regard to the preparedness of new candidates for membership, which included Croatia, became more rigorous. The economic crisis of 2008 shifted the EU's focus on its priorities: from one of further expansion – the future of the EU – to a pragmatic, immediate one – how to respond to the global crisis to provide at the national and multilateral levels the optimal reform programs, and to establish policies and measures that would mitigate the consequences of the crisis, which were apparent in the aggregate in a decline in GDP and in growing unemployment. At the same time, within the EU tensions increased between members that were bearing up during the crisis (northern Europe) and *Club-Med*, those Mediterranean countries caught in to a greater or lesser degree: Greece, Portugal, Spain, Italian, and France.

2. National realities – current situation

The fact is that the economic crisis has been felt more deeply and more powerfully in the Republic of Croatia in comparison to the overall average of the EU27 and to the reference group of transition countries – the EU12. The rate of unemployment has grown dramatically when measured by both indicators: administrative and that which is expressed as a measure of the degree of interest in new employment. It is also apparent in the long period of time (beginning in 2007) in which GDP has continuously declined, as shown in the following graph.

Graph 1. Real changes in GDP - 2007-2014 (%)

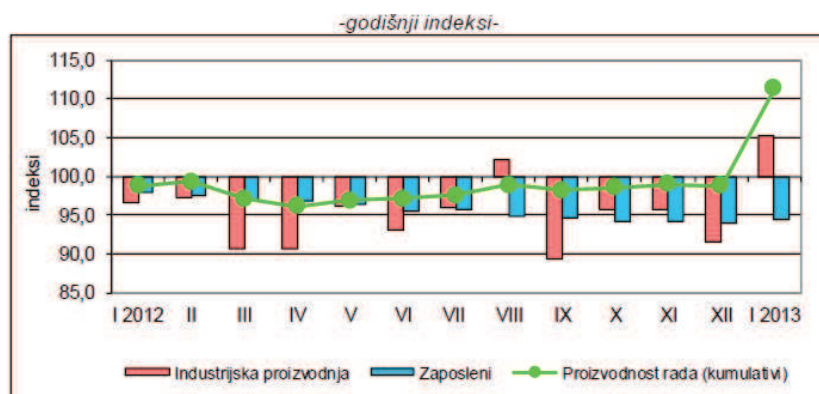


Source: Stojić, H.: *Ekonomski izgledi 2013.-2014*, Economic Research, Hypo Alpe Adria, Zagreb, 26 March 2013.

From the beginning of the crisis until today and looking at future trends: beginning from a zero or a negative rate of GDP growth (in 2013), and the pronouncements for a weak recovery in 2014, it is apparent that this decline, considered in a comparative way (countries in the region, EU members), was greatest in Greece, followed immediately by Croatia. The countries of the EU27 have all achieved mild growth. There were also negative overall trends, but less than in Croatia, in the group of new EU members: Slovenia, Hungary, and Latvia; on opposite, positive side by rate of growth, considerer aggregately are Poland, Slovakia, Romania, the Czech Republic, and Estonia, while in this region positive trends were recorded by Montenegro and Macedonia.

This stated negative cumulative decline in GDP in Croatia is particularly worrisome because it coincides with a very strong decline in industrial production, which is closely related to the growth of unemployment and reduced export performance. This trend from the early phases of the crisis (2009-2010) is also apparent in the following period of the crisis (2011-2012).

Graph 2. Industrial production



Source: Economic Trends, No. 2, Croatian Chamber of Commerce (HGK), Zagreb, March 2013, p. 8.

Considered comparatively, the average decline in industrial production in the EU in 2012 was two percent, while in the same year in Croatia it was significantly greater. Keeping in mind the drastic reduction of activity in the area of construction, the poor weather conditions that affected agricultural production (drought, flooding), and the stagnant trends in the tourism industry, it is clear that the economic recovery is just in the phase of – expectations.

In addition, these statements on the absence of an economic recovery in the period 2009-2012 and beyond is a fundamental question that along with external reasons – the global crisis and the search for new models of economic cooperation within the EU – are the basic endogenous reasons for the Republic of Croatia's inability to find appropriate responses for its own long-lasting negative trends and, therefore, indicators. It is necessary to search for the answer in Croatia's overall contractions and deficits of economic policy: to attract domestic and foreign investors to new investment activities, but at same time and no less important, greater use of existing capacities: the processing industries, construction, agriculture, the tourism industry, and intermodal transportation.

It is certain that such a concept of economic policy – the spontaneity of events and other public policies that encourage a turn to creativity and entrepreneurship – which also means the readiness of citizens to accept business and life risks is missing. Without a doubt, principled investment assistance must also be given to various forms of concrete supporting activities: additional education, a professional public service for the purpose of education and constant evaluation of

business results, the sharing of (credit) risk with the engagement of public agencies especially established and staffed for that, support for entering domestic and foreign markets, financial and professional incentives for raising the level of quality of originality of products, and other concepts from a spectrum of well-known and well-established measures in several (competitive) countries and economies. All of this will be determined by the initial sentiment among Croatian citizens for entering the entrepreneurial sector. This is apparent from the data in the following table, which clearly identifies two types of entrepreneurship: a) that which arises from recognizing business opportunities, and b) the form of entrepreneurship that arises from personal or existential need, most frequently as a consequence of the loss of a previous job or the inability of one or members of a family to find a job.

Table 1. Motives for entering entrepreneurship – opportunity or need

Godina	TEA Prilika%		TEA Nužnost%		Motivacijski koeficijent TEA Prilika/TEA Nužnost		
	Hrvatska	Rang	Hrvatska	Rang	Hrvatska		Najbolji
					TEA Prilika/TEA Nužnost	Rang	
2002.	2,18	35/37	0,85	13/37	2,57	25/37	30,20 Francuska
2003.	1,74	29/30	0,59	9/30	2,97	20/30	14,39 Danska
2004.	2,04	32/34	1,57	23/34	1,30	31/34	16,67 Island
2005.	2,92	32/35	3,09	30/35	0,94	35/35	27,40 Danska
2006.	4,41	28/42	3,81	34/42	1,15	40/42	26,38 Norveška
2007.	4,16	28/42	2,90	31/42	1,43	39/42	17,67 Danska
2008.	5,43	27/43	2,16	23/43	2,52	25/43	15,05 Island
2009.	3,01	46/55	2,08	28/55	1,44	50/55	13,62 Švicarska
2010.	3,52	48/60	1,78	27/60	1,97	39/60	13,01 Island
2011.	4,61	42/55	2,59	28/55	1,78	47/55	20,00 Norveška
Usporedba sa prosjekom zemalja čija gospodarstva su temeljena na efikasnosti							
	TEA Prilika%		TEA Nužnost%		Motivacijski koeficijent TEA Prilika/TEA Nužnost		
	Hrvatska	Gospodarstva temeljena na efikasnosti - Prosjek	Hrvatska	Gospodarstva temeljena na efikasnosti - Prosjek	Hrvatska	Gospodarstva temeljena na efikasnosti	
						Prosjek	Najbolji
2008.	5,43	7,38	2,16	3,54	2,52	2,50	5,77 Meksiko
2009.	3,01	7,21	2,08	3,70	1,44	2,14	3,49 Tunis
2010.	3,52	7,81	1,78	3,58	1,97	2,56	7,02 Malezija
2011.	4,61	9,71	2,59	3,92	1,78	3,43	18,54 Barbados

Source: Singer, S., Šaralija, N., Pfeifer, S., Oberman-Peterka, S.: Što čini Hrvatsku (ne)poduzetničkom zemljom, Results of GEM 2002-2011 for Croatia, p. 28; available at: <http://www.gemhrvatska.org/>

General research (GEM) ¹ stresses that the reasons for undertaking entrepreneurial activities point to the capacity for entrepreneurial activity. This means that those who engage in this undertaking because of observed opportunity frequently have long-term plans and are more optimistic, and they contribute more to the economy through greater innovation and the creation of new jobs (*Reynolds et al., 2002*).

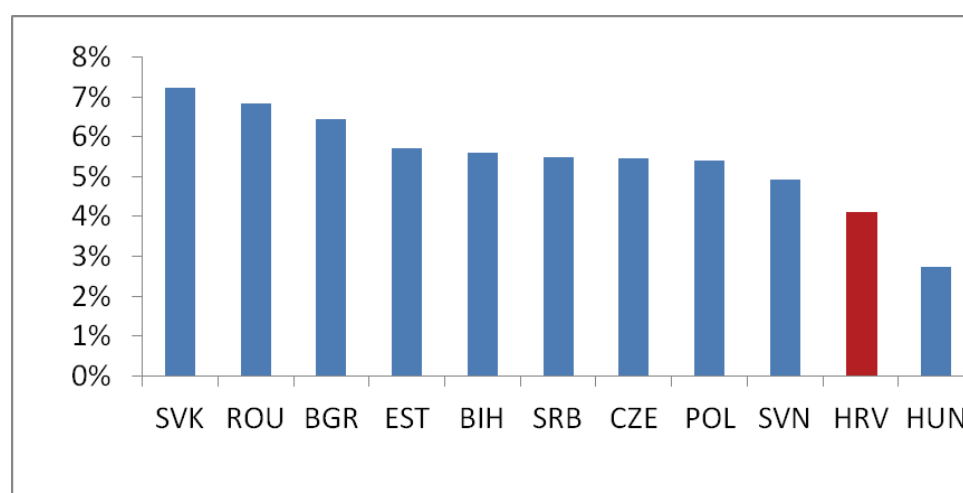
Also, it is continually stated that for almost the entire period Croatia was at the tail end of countries with regard to entrepreneurial activities based on observed opportunity, while for most of the years in the first half of the period under consideration the ratio between those who started a business enterprise because of opportunity and those who did so because of need was extremely low, which continually positioned Croatia in the lower third of those countries that participate in the GEM research. Of even greater concern is the gap between the motivation coefficient of Croatia and the countries that had the highest ratio between entrepreneurs based on opportunity and entrepreneurs based on need in the years under consideration: in 2005 that ratio was 1:29, while in the best year (2003) it was 1:4.85 (2003). In comparison to countries in the same development phase as Croatia (an economy based on efficiency) the conclusions remain unchanged: Croatia has low entrepreneurial activity and among those who observe and among those who are forced into self-employment, which lead to a motivation coefficient that is half of that compared to the average of all countries of that development group.

The stated general situation: the quality (or lack of quality) of economic policy, the low level of institutional support for entrepreneurship, and a general (mis)comprehension of the role and responsibility of executive authorities for all development has resulted, in comparative terms, with Croatia's drastic lagging behind the group of referent countries. This lag was achieved during the period of global conjuncture, which was less apparent from the outside, especially because of the accelerated indebtedness of all sectors: the government – budget and public enterprises, businessmen, and the populace. Such a trend and such a commitment created in the medium term (2000-2008) a false picture of the growth of living standards (citizens), of increased employment capacity, especially in construction (highways, apartment construction), the rapid development of the commercial sector (reliant on imports and, again, construction), and relatively significant of revenues from

¹ Singer, S., Šaralija, N., Pfeifer, S., Oberman-Peterka, S.: *Što čini Hrvatsku (ne)poduzetničkom zemljom*, Results of GEM 2002-2011 for Croatia, p. 28; available at: <http://www.gemhrvatska.org/>

the tourism industry. Fundamental activities: research and development, the use of innovation, support for and development of the sector for processing industries and *green field* investments to strengthen export potential, were almost entirely neglected. All of these trends are confirmed in the following graph.

Graph 3. Annual rates of growth, average 2004-2008

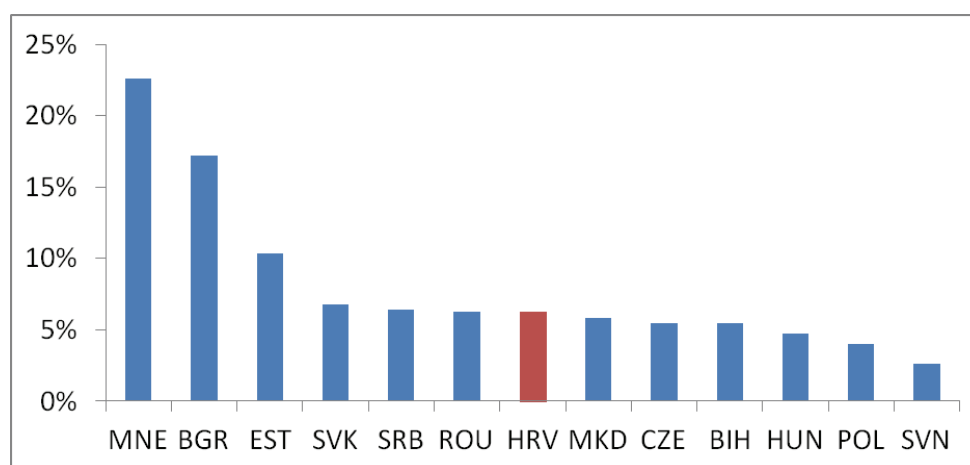


Source: Paić, A. (OECD): *Novi zamah hrvatske konkurentnosti*, Conference: International Competitiveness and the Business Appeal of Croatia, National Bank of Croatia (HNB), Zagreb, 15 February 2013.

The above data correspond to a great degree with the data from Graph 1, which relates to the period up to the beginning of the crisis. That period was notable for global conjuncture and accelerated economic growth at the global level, and also within the EU, which also means the group of new member countries. At the same time, it is apparent that economic growth in Croatia was, comparatively speaking, the most modest. Only Hungary was positioned behind Croatia, while in front of it were Slovakia, Romania, Bulgaria, Estonia, the Czech Republic, Poland, Slovenia, and two of Croatia's neighbors, both of whom are outside the EU, Bosnia and Hercegovina and Serbia. The subject of this analysis is to research what caused these events. It is necessary to search for the fundamental reason in the long present economic model that was oriented mostly to public investments in infrastructure and to the growth of that portion of the domestic economy that is reliant on imports.

An effort and orientation to raising the level of competitiveness, which is the only real basis for stimulating foreign direct investment, was missing, which is apparent in the following data.

Graph 4. Average Influx of FDI as a % GDP, 2000-2008

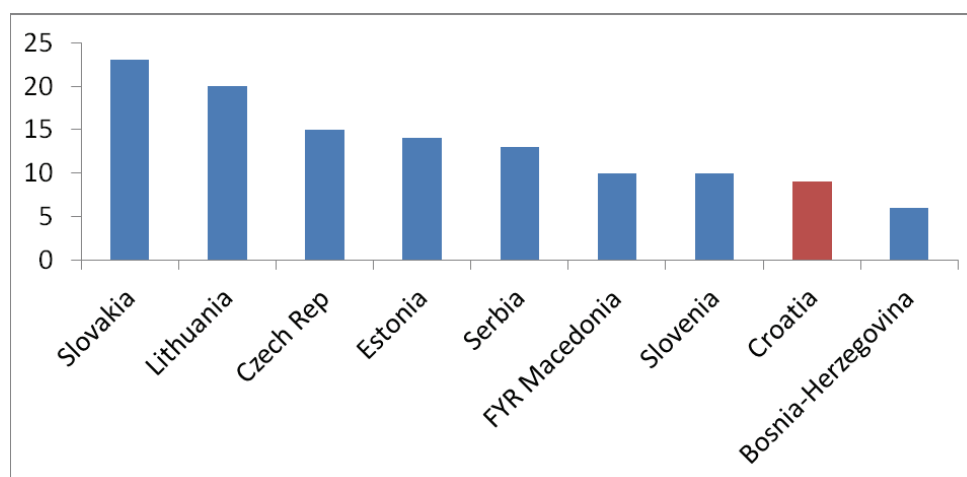


Source: Paić, A. (OECD): *Novi zamah hrvatske konkurentnosti*, Conference: International Competitiveness and the Business Appeal of Croatia, National Bank of Croatia (HNB), Zagreb, 15 February 2013.

Based on the level of GDP, the entry of foreign investments into the Republic of Croatia was more than modest – approximately five percent per year – a poor comparison to the extremely high 22 percent in Montenegro, 17 percent in Bulgaria, 12 percent in Estonia, and 8 percent in Slovakia. Only countries with a certain degree of political and social turbulence (Bosnia and Herzegovina, Macedonia, Hungary, and Slovenia) recorded slightly weaker results than Croatia, as did the Czech Republic and Poland, which had already absorbed a significant portfolio of foreign investment in the previous period.

In addition to this review of the influx of FDI as a share of GDP in individual countries in the year of economic growth, it is also of research interest to analyze the degree of motivation of foreign investors to invest in individual countries, measured by the number of *green field* project in the same time period.

Graph 5. Number of FDI in green field project per million of population



Source: Paić, A. (OECD): *Novi zamah hrvatske konkurentnosti*, Conference: International Competitiveness and the Business Appeal of Croatia, National Bank of Croatia (HNB), Zagreb, 15 February 2013.

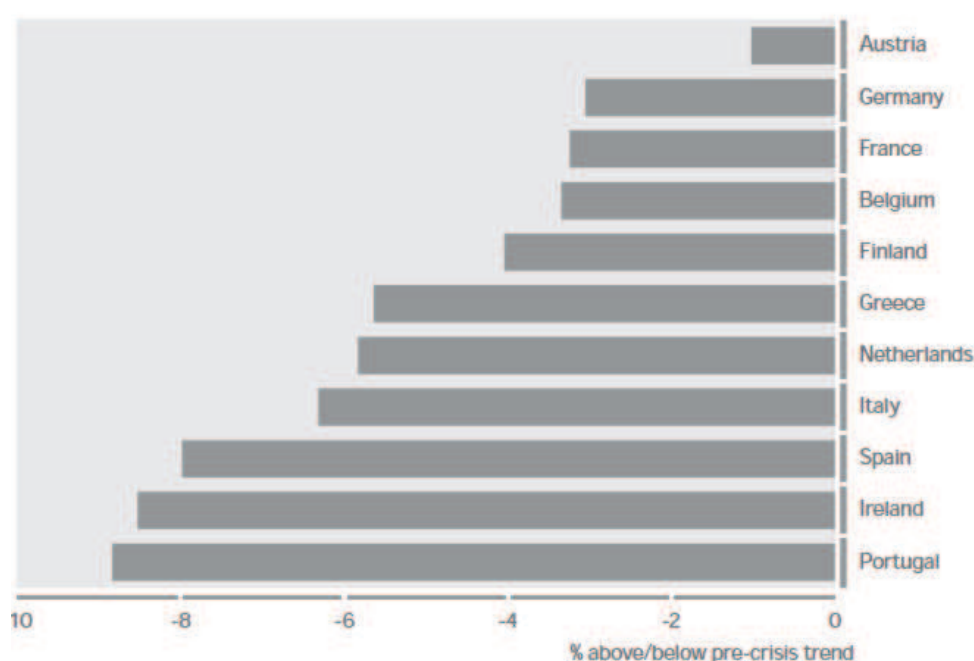
It is apparent that this number for almost four times greater in Slovakia and Lithuania, twice as much in the Czech Republic, and almost 50 percent higher in Serbia. Keeping in mind the potential for possible investment in the Republic of Croatia, which structurally possesses the characteristics of a global investment portfolio – an exceptional geo-transport location, intermodal transportation, processing industries, including metal processing (for automobiles and ships), food, pharmaceuticals, and a strong service sector based on the tourism industry and the possibility of becoming a financial center for the region – then the presence of the lagging behind these other countries seems even more drastic.

3. What to do – what the EU does

After the first shock from the appearance of the crisis in the EU, and after its initial appearance in the US, the Eurozone, and the EU as a whole, began to search for general solutions that did not have a palliative character. The reason for this was the quick realization that the crisis was not just a global financial incident (*sub-prime* credits and extreme range and value), but a tectonic shift at the level of the global economy: the US – EU – the Far East, then its appearance and growth in the

BRIC group of countries, all of which influenced the establishment of totally new and different relationships. What that means in real terms and then in potential economic losses can be seen in the following data.

Graph 6. Potential output relative to pre-crisis trend (2011)



Source: Eurozone, Ernst & Young Eurozone Forecast, Autumn Edition - September 2011, p. 17.

The authors assess that permanent output losses are therefore likely to have occurred in many Eurozone economies, but especially in member states at the epicenter of the sovereign debt crisis, where severe austerity is causing deep recessions. Our calculations suggest that the most significant loss of output so far has occurred in Portugal, where we estimate that the level of productive capacity in 2011 was almost 9% below where it would have been had the pre-recession trend continued, and Ireland, where the difference is around 8.5%.²

² Based on: Eurozone, Ernst & Young Eurozone Forecast, Autumn Edition - September 2011, p. 17.

This situation was followed by concrete action, laid out in a document of the EU Commission as part of its annual report on economic growth for 2013.³ The goal of the document was to determine the economic and social priorities for the EU in 2013, by providing clear directions for member countries in the context of structuring their policies.

Moreover, it launched the third European Semester of policy coordination, through which national performances and priorities are reviewed collectively at the EU level in the first half of each year. The European Council will issue guidance in March 2013 and Member States are due to present updated national programs by mid-April 2013, following which the Commission will present its country-specific recommendations.⁴

In a realistic context this means a continuation of the policies and directions from 2012, which have been aggregated into the following five priorities.

- Pursuing differentiated, growth-friendly fiscal consolidation
- Restoring normal lending to the economy
- Promoting growth and competitiveness for today and tomorrow
- Tackling unemployment and the social consequences of the crisis
- Modernizing public administration⁵

These directions for action and their content are important and timely for the Republic of Croatia, when the creation, and more importantly the implementation, of a common EU policy (development, economic, and social) becomes an obligation arising from membership on 1 July 2013. Also, it is clear that within the framework of overall coordination of policies at the EU level there will be an evaluation procedure of national performances and priorities. The estimate (EU Commission) is that in 2012 much was done to break the vicious circle of the weaknesses in the financial system, the shocks from the financial markets caused by the high and rapidly growing public debt of individual member countries, and the low rates of economic growth and to move in a direction to create the conditions for a gradual and sustainable recovery. In this context the following measures and

³ Source: Communication from the Commission – Annual Growth Survey 2013, European Commission, COM(2012) 750 final, Brussels, 28 November 2012.

⁴ Ibidem, p. 3.

⁵ Ibidem, p. 3.

activities can be cited as measures that can create the conditions for an achievable and sustainable recovery.

- The establishment of the European Stability Mechanism provides a credible backstop to assist euro area countries whose access to finance is curtailed.
- The adoption of a Compact for Growth and Jobs by the Heads of State or Government at the June 2012 European Council should galvanize the efforts of the EU legislator and administrations at all levels to mobilize the growth levers they have at hand - from the implementation of the Single Market Acts to the more targeted use of EU Structural Funds. The Commission has also recently proposed a strategy to improve the functioning of energy markets, as well as measures for a reinforced industrial policy.
- New rules to strengthen economic governance, notably within the euro area, are being implemented ("six pack" legislation), agreed (Treaty on Stability, Coordination and Governance) or should be agreed soon ("two pack" legislation).
- The European Central Bank has taken important measures to safeguard financial stability in the euro area.⁶

All of these measures clearly demonstrate the extent to which the EU is consistently seeking for solutions to the economic crisis within its own borders, while keeping in mind the overall circumstances and all global factors that led to the crisis, but which all essentially the possible solutions. Also, it is apparent that there is an awareness of, but also a practical attitude that requires: a) the coordination of economic policies and national reform programs; b) the creation and constant introduction of criteria that will be a required threshold of behavior and at the same time a pre-condition for active EU assistance in resolving the concrete problems of individual member countries.

4. What to do – how to change things in the Republic of Croatia

Croatia stands at a unique crossroad. The continual postponement of the internal structural reforms has led to its slide in the rankings of the World Economic Forum from 57th place in 2007 to 81st place in 2012, which points to two facts: a) that since 2008 and the outbreak of the crisis the referent countries acted pro-

⁶ European Commission, Communication from the Commission – Annual Growth Survey 2013, Brussels, 28 November 2012, p.2.

actively and initiated reforms and thus improved or at least maintained their existing positions (Poland, the Czech Republic, and Slovakia); and b) that especially because of internal political turbulence a clear direction is missing, as is the necessary capacity of the executive authorities to quickly devise solutions and then to effect changes. At the same time, the IMF estimates that economic conditions in Croatia in the current time period have continued to deteriorate. Thus, changes are required, and there have been positive evaluations of the steps in the direction of limiting public expenditure (reducing salaries in the public sector) and the announced reforms of the pension and health care systems in order to curb unsustainable levels, but also the continued trends, of increasing payments for pensions and health care insurance. In this context the IMF is convinced that the Republic of Croatia must respond to the current challenges with a comprehensive, ambitious, and long-term package of measures, particularly in three urgent areas:

- Quick realization of a plan of structural reforms to improve the competitiveness of Croatia and to stimulate medium-term growth. Structural reforms bring results only after some time, so they should be implemented in the shortest possible time.
- The continuation of gradual, but lasting fiscal consolidation to re-establish the sustainability of debt and to maintain access to markets at a reasonable cost. The respite that the financial markets are now giving should not be a reason to be calm.
- Keeping an appropriate balance between improving financial stability and supporting a recovery in credit growth.⁷

It is extremely important that the announced reforms start to be realized in 2012, immediately with the entry of the Republic of Croatia into the EU. It is clear that in addition to the increased interest in doing business with Croatia and in Croatia from that moment competitive pressures of the overall EU market on the national market and national economic entities will increase drastically. Therefore, it is even more necessary to assist and strengthen the positions of domestic entrepreneurs through active economic intervention, but also at the same time to create the condition to attract new investments.

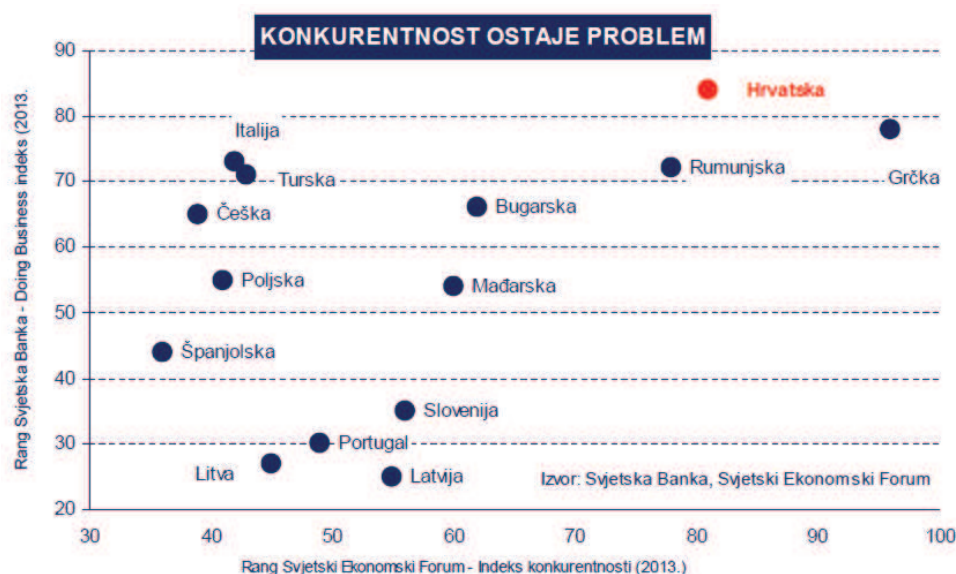
⁷ Croatia – Key statements after the visit of the IMF Mission in 2013, 25 February 2013, IMF, p. 1; available at <http://www.hnb.hr/mmf/clanak-iv/2013/h-zakljucna-izjava-nakon-posjeta-mmf-2013.pdf>

In this context it is clear that the Law on Strategic Investments will ease the implementation of major investments, but at the same time it is also necessary to invest additional effort to reduce the barriers to investment at the local level for all projects and to accelerate the privatization process. The IMF's estimate is that without improvement in these areas Croatia will not stimulate sustainable growth and it will not be able to take full advantage of joining the EU. At the same time, it warns that the implementation of gradual, but constant fiscal consolidation must continue because the failure to achieve that goal carries extreme risks. It is evident that the current trajectory of public debt is unsustainable, and interest costs are rapidly growing and squeezing out productive expenditures. Should this process last longer the final adaptation will be more significant and cause greater disturbances. "...Furthermore, the recent decline in the investment credit rating increases Croatia's vulnerability to increased interest costs for borrowers in the public and private sectors – creating additional pressure on growth and fiscal health – if there is another deterioration in the currently benign international financial environment. To reduce these risks as low as possible, the Government must dispel any doubt about its commitment to fiscal consolidation through the rapid implementation of further measures to adapt the budget and to put the budget back on the road to consolidation. ...Unfortunately, exceeding the projected amount of the mass of salaries and expenditures for pension and health insurance are compensated for by capital expenditures that are lower than planned and this depresses growth." ⁸

All of this represents not only an (un)disputed criticism but exceptionally valuable analytical material, prepared and published as a kind of *second opinion* that provides a basis for reaching the appropriate conclusions at the national level and then for creating certain implementing policies. Why it is necessary to make changes is evident in the following graph.

⁸ Croatia – Key statements after the visit of the IMF Mission in 2013, 25 February 2013, IMF, p. 2; available at <http://www.hnb.hr/mmf/clanak-iv/2013/h-zakljucna-izjava-nakon-posjeta-mmf-2013.pdf>

Graph 7. Competitiveness remains a problem



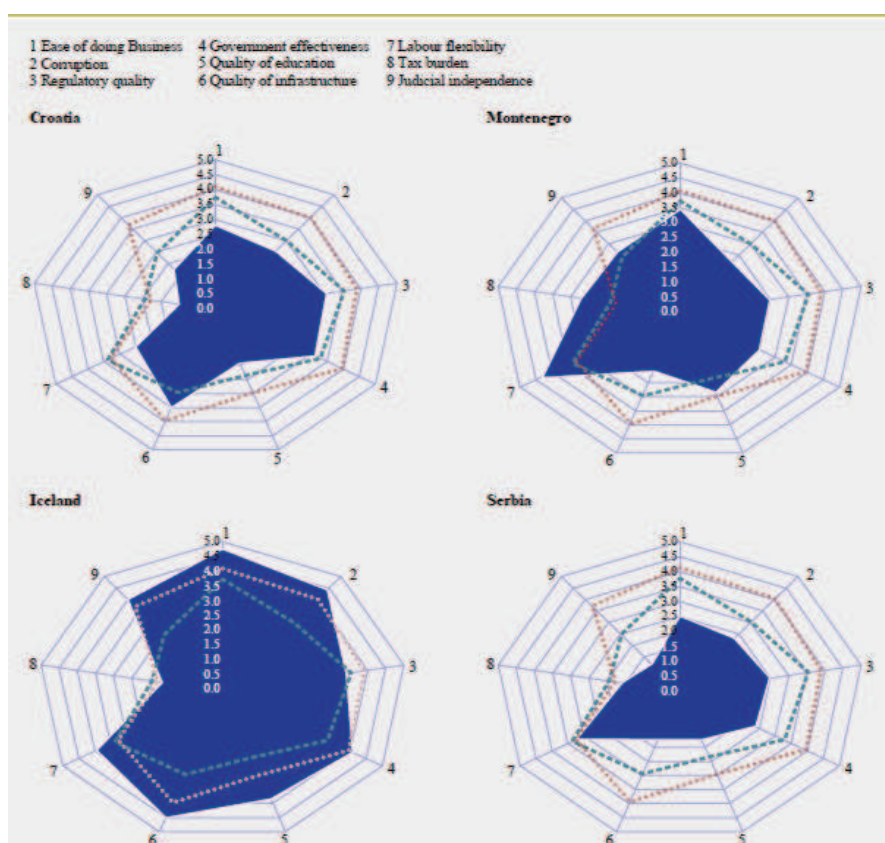
Source: Based on *Ekonomski izgledi 2013-2014*, Hrvoje Stojić, Director, Economic Research, Hypo Alpe Adria, Zagreb, 26 March 2013.

It is apparent that Croatia in terms of its current competitiveness is lagging behind the group of EU12 countries, which are positioned at the top of the table, and also behind all countries caught in the economic crisis that prepared and implemented structural reform programs: Portugal, Hungary, Greece, Italy, and Slovenia. Croatia's current position in the World Economic Forum's competitiveness rankings is 81, but Portugal is 49, Lithuania 45, Hungary 60, the Czech Republic 39, Italy 42, and Slovenia is 56.

Why this is so can be seen in several documents and analyses by prominent international organizations and individuals: the IMF, the World Bank, OECD, rating agencies, and domestic economic institutes and analysts. For the purpose of this work, it is important to show (comparatively) a graph contained in an ECB study entitled *External Competitiveness of EU Candidate Countries*.⁹

⁹ Orszaghova, L., Savelin, L., Schudel, W.: *External Competitiveness of EU Candidate Countries*, Occasional Paper Series, European Central Bank, Eurosystem, Frankfurt, No. 141, January 2013, p. 36.

Graph 8. Structural competitiveness (2010)

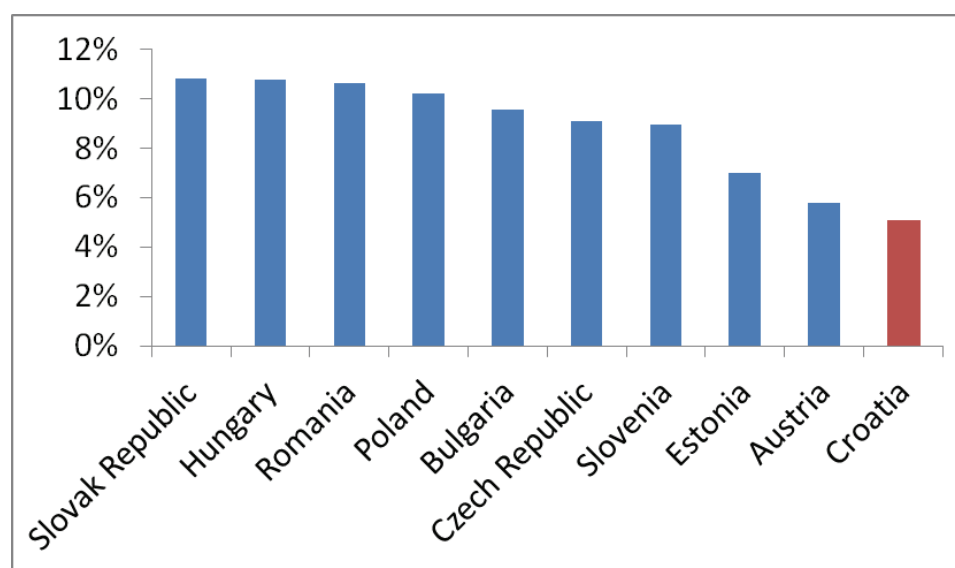


Source: Orszaghova, L., Savelin, L., Schudel, W.: *External Competitiveness of EU Candidate Countries*, Occasional Paper Series, European Central Bank, Eurosystem, Frankfurt, No. 141, January 2013, p. 36.

First, the data cited for Croatia for 2010 were relatively more satisfactory than for the year just completed, 2012. Second, clear structural deficits can be observed compared to the referent group of countries: the EU15 and the EU12. This is especially apparent in the degree of the tax burden, the quality of education, and the administrative difficulties related to doing business. The position of Iceland is much more satisfactory as a whole; also, it is worth noting the position of Montenegro and the same position of Serbia in the area of flexibility of the labor market and the competitive tax burden. Such a situation has essentially determined the investment position of the Republic of Croatia, which is conditioned by indicators

related to the export capacity of the country and (again) in the period of global and EU conjuncture.

Graph 9. Average growth of exports, 2002-2008



Source: Paić, A. (OECD): *Novi zamah hrvatske konkurentnosti*, Conference: International Competitiveness and the Business Appeal of Croatia, National Bank of Croatia (HNB), Zagreb, 15 February 2013.

Countries that in a longer period (starting in the mid-1990s) succeeded in achieving powerful investment push have also achieved significant shifts in exports; the average growth of exports in Slovakia, Hungary, and Romania were almost twice as great as in Croatia. Considerably better results were also achieved by Poland, Bulgaria, the Czech Republic, Slovenia, and Estonia. Even Austria, a highly developed economy that started from a considerably higher level achieved more satisfactory results in the period under consideration.

5. Conclusion

In today's globalized economy, maintaining a *status quo* position is extremely difficult and demanding, if we are discussing the leading economies in the world, not because of their overall size but because of their efficiency. Regardless of insig-

nificant annual changes in the leading positions, several economies (Singapore, the Netherlands, the Scandinavian countries) have succeeded that are comparable to Croatia's in the extent of their territory or that have a population that is closer to Croatia's than the leading economies in the world.

At present, though, the position of the Republic of Croatia cannot be an orientation to a *status quo* situation; in other words, with the establishment, and then the achievement, of a coherent and comprehensive economic and development program, this drastically unsatisfactory position will continue to deteriorate. Considered synthetically, the fact is that Croatia has fallen from 57th place in the global competitiveness rankings (WEF, 2007) to 81st place in 2012. The absence of changes and activity means that a further decline is possible. Or perhaps the creation of an awareness of reality, and then an awareness of the need for urgent and coherent pro-active action. In this work it has been clearly shown that there are real pre-conditions for such a turnaround. At the theoretical, scientific-research level there are several studies and analyses about the current situation and the reasons for it. But there are also undeniable targets and recommendations that can be made. Who – the executive authorities, and when – immediately after the first half of this year and Croatia's entry into the EU. Because Croatia has fulfilled the political and normative criteria necessary for entry; according to evaluations from various EU organizations for these areas, Croatia has exceeded the degree of preparedness and the status of some of the current members. There remains the other part that is still (primarily) in the realm of national responsibility: the creation and implementation of a model of economic development and growth appropriate to its own conditions and whose implementation can also be supported by EU and EU funds. But an adequate policy must be created within national borders. This is the responsibility and task of Croatia's legitimately elected representatives: parliament and the government cannot be substituted with any other mechanisms, not only because this is politically (and institutionally) impossible, but because there is no one else who can have a greater interest and agreement than the protagonists of public (political) life of any country, and it is the same for Croatia. Events in all or almost all EU member countries have confirmed this.

With its definite entry into the EU on 1 July 2013, Croatia cannot and must not direct its ambitions and its reach only to the (otherwise useful and necessary) engagement of the resources of the structural and cohesion of the EU. These are only some of the EU instruments to stimulate the development of SMEs, stability in agriculture, co-investment in future (national and EU) infrastructure – especial-

ly railways and ports. Indeed, how to strengthen institutional capacity (laws, public administration), the quality of economic policy: the complexity and consistency of measures, and including the system of education and the use of innovation in the overall development concept, remain the fundamental challenges.

With such an approach to its ambitions and goals, and then with its positioning as a country in the circle of *niche players*, and not the *trendsetters*, it is possible for Croatia to improve its national position in a reasonable period of time, transforming its comparative advantage into a competitive advantage in the EU. At the same time, with its new and enhanced presence with the EU, Croatia can establish a true win-win position.

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