

ECONOMIC RECOVERY: POSSIBLE SOLUTIONS WITHIN A NATIONAL ECONOMY

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ABSTRACT:

The current major economic crisis, the deepest economic disturbance since the Great Depression of 1929-1933, with a powerful financial upheaval in the capital markets in the United States. In 2008, it quickly expanded into the other parts of the world, especially in Europe and the Far East, and became a global phenomenon. Moreover, it is no longer a financial crisis, but a crisis in the real economic sector.

In this context, the Republic of Croatia has been relatively successful in bridging the first phase (the financial crisis, 2008). The depth of the economic upheaval has been felt in the real sector (2009-2010), especially in the negative rates of economic growth and a drastic decline in employment, in particular in the construction sector, in the food processing industry, and to some extent in commerce.

The goal and purpose of this work is to point to new, qualitative possibilities and solutions for stimulating economic growth by encouraging investment in essential areas: energy efficiency, transportation and complex infrastructure, agriculture and irrigation, and the tourist industry. The designated new and complex solutions provide the opportunity and a real basis for a national economy to enter again into the zone of positive growth rates and to engage financial capital for investment on three bases: national potential, the structural funds of the European Union, and the business interests and capital of private investors.

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Key words: economic crisis, global and national aspects, economic recovery, preparation and project development, new investments, new areas of investment, synergy of sources of investment, EU structural funds.

INTRODUCTION

The global economic crisis that began in 2008 created new realities almost overnight. These included a fall in consumption, reservation in making investment decisions, and a preference for security over anticipated earnings. Viewed overall, a drastic decline in economic activity ensued after a long period of conjuncture of global proportions. Along with certain common organized actions (EU, OECD, G-20) for the purpose of establishing new common frameworks of behavior and the creation of control mechanisms on one hand, and the establishment of a system for stimulating economic growth on the other hand, programs for stemming the economic crisis and for economic recovery were devised and implemented by individual countries – from the largest and the strongest (the United States, Great Britain, Germany and France) to the transition countries (Hungary, the Baltic countries).

The Republic of Croatia has succeeded in halting further development of the economic crisis of 2008, but in 2009 and 2010 it has been confronted with a crisis in the real economic sector. Responses must be found, prepared and achieved immediately and in an organized manner.

In this context, the following areas are continually emphasized: energy, energy efficiency, integrated transportation and logistics, agriculture and irrigation, and the tourist industry, where there is a possibility to situate, prepare and achieve projects whose realization will make important contribution to long-term positive rates of growth in GDP, increased employment, and the creation of new goods and services oriented to exports. With Croatia's impending entry into the European Union (EU), these imperatives seem even more apparent and unquestioned.

1. THE GLOBAL ECONOMIC CRISIS – BEGINNING AND CAUSES

1.1. Postwar Growth and Development

With the end of the Second World War a period of economic and general recovery began, first in the United States and then in Europe. Rapidly and efficiently, the dramatically increased military production potential was shifted to peaceful purposes, which means construction of civilian facilities, the delivery of investment equipment, and the production of goods intended for broad consumption. On one side were the requirements related to the reconstruction of a devastated Europe, on the other side of the ocean there was strong pressure for a rapid growth

in the standard of living. That process also began in *old* Europe at the beginning of the 1960s, initially associated with the European Common Market. In the United States the creation of anew social framework began, which may be characterized (doctrinarily) as *democratic capitalism* (Reich, R.B., 2008., pp. 46-47).¹ The key features of this American model are mutually supplemented in a coherent and complementary system that joins economics and politics. “The major American corporations planned and achieved the production of large quantities of goods, achieving a significant *economy of scale* while also reducing production costs per unit. Explicitly and implicitly coordinating their activities with other giants in the same industry, they set prices that were rather high in order to generate significant profits. A portion of those profits were re-invested in new plant and equipment. The other portion was earmarked for compensation of senior and mid-level management, depending on their position in the organization. A portion also went to employees who had been organized into unions throughout the industry... In return, the organized unions avoided strikes that could endanger an unhindered production of considerable scale...” Continuing, Reich (2008) explains that regulatory agencies set prices for communal services, roads, telephones, and aviation routing to certain destinations through monopolies (even though these could be offered to the general public under the same conditions and without monopolies). Legislators devoted special attention to the needs of local communities, while the federal government set high marginal tax rates for the wealthiest individuals and companies. Although the declared purpose was defined differently, a considerable portion of tax-generated resources went to national defense during the era of confrontation with the Soviet Union.

This spontaneously established system of *democratic capitalism* to a great extent corresponded with the phenomenon and appearance of the *welfare state* that began to be formed in the economically developed continental part of Europe during the same time period. On both sides of the Atlantic in a period of two decades this model was distinguished by extremely high economic and social performance. Changes began at the end of the 1970s, inspired first because of the energy crisis, followed by continued inflationary pressures, and then – stagflation. Then – the beginning of a new epoch, theoretical and then practical, in the form of a new concept of economic policy – the *neoliberalism* of Ronald Reagan and Margaret

¹ Reich, R.B.: *Supercapitalism: The Transformation of Business, Democracy, and Everyday Life*, 2007, pp. 46-47.

Thatcher – that powerfully stimulated the “*animal spirits of capitalism*”. The *genie was let out of the bottle*, the general economic scene globalized with the sudden and powerful entry of the Asian tigers, with the strong, rapidly growing economies of the Far East. The level of their overall competitiveness in production and the export of these processes was another cause of relentless acceleration. With the fall of the Berlin Wall in 1989, the level of global political confrontation and the possibility of an eruption of military conflict declined considerably, while at the same time the possibilities for investment, finance, the international exchange of goods, i.e. the totality of further economic expansion jumped and quickly grew. The concept of democratic *capitalism* and the *welfare state* gave way to a new concept, with a variety of names but in doctrinal terms with the same content: *global capitalism, super capitalism, and neoliberalism*.

1.2. The beginning of the current crisis and categorical determination of economical upheaval

After the deep changes in the character of capitalism as a system, both by its value orientation and, consequently, also its effectiveness in managing to maintain the internal balance of society amid accelerated economic growth, a new set of circumstances appeared that engendered a series of spontaneous events. Finally, an open crisis appeared whose dimensions have already surpassed all conjunctural declines recorded in the last half century and whose depth and duration are still not discernible.

The world today is passing through an economic crisis whose depth is being measured against the Great Depression of 1929/1933. The possible parallels do not stop here. Just as the causes of the Great Depression were cited as a direct consequence of the liberal economic concept, *capitalism that happens*, today's crisis is closely tied to the reliance on a model of neoliberalism that experienced first a theoretical conception and then its practical application at the beginning of the 1980s, powerfully supported in practice by a model of behavior applied by the leading economic powers of the time, the United States and Great Britain.

2. Activities of international institutions and organizations and important referent national economies

2.1. Results stimulated by the activities of international institutions and organizations

The developed countries of the world, and then very soon the broad circle of countries directly affected by the economic crisis, or as a consequence of its pandemic expansion, began strong and institutionally synchronized action (EU, OECD, G-20, etc.) to halt the economic downturn and then to initiate activities to prevent its spread and deepening (duration, rates of growth). The quality of the indicators (illustration) as a part of these efforts is apparent in the size of the financial packages in individual countries.

Table 1. Absolute amount of financial stimulus packages 2008-10, mln USD

US	804 070	Denmark	8 668
Germany	107 789	Finland	8 575
Japan	99 992	Belgium	8 016
Canada	61 551	Czech Republic	6 500
Spain	56 754	New Zealand	5 404
Australia	45 673	Poland	5 145
Korea	42 667	Austria	4 600
United Kingdom	38 003	Switzerland	2 486
France	18 568	Luxembourg	1 968
Netherlands	13 367	Portugal	1 963
Sweden	13 109	Slovakia	35

Source: www.oecd.org/document/22/0,3343,en_2649_34269_42913302_1_1_1_37417,00.html

In summary, it is estimated that the governments of the G-20 countries provided fiscal packages in a total value of 2% of their GDP (in 2009) along with continued investments for this purpose amounting to 1.6% of GDP (in 2010).

A more complex consideration of the type of measures that the governments of individual countries implemented as *government interventionism*, with the goal of stopping a further spread of the crisis can be seen from the following review.

Table 2. Initial goals of the program

	Macroeconomic stability/ adaptability	Preparedness for crisis	Corresponding financing	Stability of financial sector	Fiscal sustainability
Armenia	x		x	x	
Belarus	x		x		
BiH			x	x	x
Costa Rica	x				
El Salvador		x		x	x
Georgia			x		
Guatemala	x	x			
Hungary			x	x	x
Iceland			x	x	x
Latvia	x		x	x	
Mongolia	x	x			
Pakistan	x		x		x
Romania	x		x	x	x
Serbia	x	x		x	x
Ukraine	x			x	

Source: Requirements for SBA.

Source: Review of Recent Crisis Programs, International Monetary Fund, Washington D.C., September 14, 2009, p. 13.

In general, it is possible to emphasize three important points on the basis of the measures that were implemented: ²

- The goals of the programs were adapted to specific circumstances in individual countries. The Eastern European countries are trying to resolve external imbalance, especially the problems of liquidity and current account deficits.
- Because of financial limits arising from the crisis, the priority focus of policy and resources is the budget. Because of global economic uncertainty and reduced activity, along with a reduced inflow of financial resources, there has been an adaptation of program measures.

² Source: Review of Recent Crisis Programs, International Monetary Fund, Washington D.C., September 14, 2009, pp. 13-14.

- The IMF was able very quickly to provide financial assistance to countries hit by the crisis. Urgent help was available within 4-6 weeks, as demonstrated by the cases of Hungary, Iceland, Latvia, Pakistan and the Ukraine.

The other lever that was formulated and quickly applied in anti-crisis policies according to the circumstances was a strategy to stimulate innovation. Thus, the assessment of the OECD in 2009 is relevant: "Today, when the crisis is continuing to unfold around the globe... innovation will be one of the keys for accelerating recovery and putting countries back on a path to sustainable – and smarter – growth. Yet the crisis itself poses a number of serious risks and challenges to the innovation ecosystem. Getting the policies right is vital. Today's exceptional economic stimulus measures represent a unique opportunity for public policy to foster innovation. By providing the incentives for innovation-related investments, and accelerating activities for which barriers may have been otherwise too high, governments can help lay the foundations for a greener economy and durable growth. If this opportunity is handled effectively, countries could be reaping the benefits for decades to come."³ Along with material investment, this relates to all forms of creating and applying new knowledge, which includes research and development, software, human capital, marketing and organizational concepts as vital factors for increasing the effectiveness of business. Therefore, their share in the GDP of individual countries is nearly equal to the value of material investment and stands between 5 and 12%.

The current orientations are clear. Dilemmas do exist and are present only around the concrete modalities of action, the specific situation in individual countries, the differences in the approach to the problems of development policy and the possibility that they are carried out and give different results while implementing measures of an anti-crisis policy. These differences are significant, which is then both a reason and an opportunity to choose among examples from reality those that also offer lessons and actions applicable to one's own national level.

2.2. Program undertaken in individual countries – activities and the degree of success

Measuring the success of the anti-crisis policies of individual countries ultimately is not possible and cannot be established accurately because of the great differences

³ 2009 Interim Report on the OECD Innovation Strategy. An Agenda for Policy Action on Innovation. OECD, Paris, 2009. p.3.

in the development trends of individual groups of countries. Thus, for example, the average rate of growth of the Asian countries in the last 20 years was three times greater than in the developed Western countries. And now in Asia, in contrast to the expected modest positive rates in Europe, the signs of recovery are visible. In 2009, China, Indonesia, South Korea and Singapore recorded above average growth. Despite internal limitations, Japan's economic growth is faster than in the West. The recession hit India less than in some other areas because of its relatively low share of foreign trade in GDP. Such rapid growth in production and revenues is partly the result of the large share of the processing industries, with considerable oscillations in the level of production that is achieved. Because of the easing of the financial crisis, exports also began to grow. However, the most important reason for the recovery is the growth in domestic demand, as a consequence of providing and directing larger and earlier fiscal stimuli than those in the West. Government finances of the Asian countries (except India) from the beginning of the crisis were significantly healthier, with large hard currency reserves and a satisfactory balance of trade. The low indebtedness of the private sector also permitted an increase of expenditures and a more efficient application of monetary and fiscal policy.

In general, but primarily in Europe, because of its high degree of integration in global economic trends, the decline in demand caused by the crisis led to a serious foreign trade shock. The crisis, however, did not strike everyone equally: the Baltic countries were most seriously affected, and then Ireland, Spain and Great Britain, especially because of the collapse of the real estate market and instability in the financial and banking sector. Large public debt and high foreign trade deficits caused difficulties in Greece and Hungary. Several facts illustrate the intensity and depth of the crisis. Germany, Spain and Great Britain, for example, had the greatest decline in output per capita in the current crisis. Just as in past crises, Spain experienced a fall in employment which has been substantially higher than in previous economic cycles. In this connection there have been significant differences in the trends of productivity: in Spain they grew during the recession, in Great Britain, they mostly fell, while in Germany this time they fell by the greatest amount to date in the postwar period. The most frequent explanation for adjustment of the labor market to shocks is in the flexibility of the labor market itself, especially in employment protection. Great Britain has introduced measures to protect employment. The unsatisfactory situation in Great Britain is continuing because of how much the financial sector was struck by the crisis, which as a rule means a slow recovery. Germany is providing subsidies as compensation for reduced working hours, while at

the same time because of the production structure (knowledge-intensive products) companies have an incentive to retain employees. Considering a sectoral overview, in Spain the crisis struck at the same time as the crash of unsustainable construction “boom”.⁴

In addition to their own (national) efforts, European governments also expanded their measures for easing the crisis into surrounding areas. This included acquiring liquid resources from the European Central Bank and the recapitalization of financial institutions to fiscal stimuli to invigorate demand. Several countries in Central and Eastern Europe also received assistance from the IMF, the EU, and from other sources.⁵

France has not intensively participated in international capital markets, and it does not have the indebtedness of Spain and Italy. But the French government has increased investment in public companies (post, energy and railways), in strengthening defense, and in strategic areas: sustainable development and pure technologies, education, research and development. It is also assisting local communities in the construction of hospitals, educational and social institutions, subsidizing employment in companies, but also health and environmental protection. Through special measures, it is aiding the domestic automobile industry. France has also achieved positive results in increasing exports, especially to Asian markets.

The German economy has been helped by a revival of exports, especially investment equipment in the countries of the Far East. Measures under the national economic policy have played an important role in halting the deepening of the crisis. These include investments in infrastructure: schools and universities, measures to assist companies in retaining employees, and getting through the crisis by means

⁴ *Regional Economic Outlook – Europe Securing Recovery*, World Economic and Financial Surveys, International Monetary Fund, Washington D.C., October 2009, str. 9-12. There exists a certain similarity and correlation of this crisis with some of the causes of the crisis in the Republic of Croatia. This is the powerful support for economic growth in the past period from two sectors: the tourist industry and (housing) construction, which are also linked to real estate transactions, especially in foreign markets. At the same time, there is a very evident deficit in the structure of the educational profile of a generation being educated for the labor market, and the limited reach in stimulating exports with the appropriate innovative content.

⁵ Such an orientation and such practical orientations and solutions of economic policies emphasize the importance of a presence in organized economic-political associations. Here it is a concrete matter of membership in the European Union. The stated solidarity arises from an awareness of the connection to common economic interests for overcoming the crisis.

of credit and government guarantees, tax reductions, and contributions to salaries, reduced income taxes, increased child support, financial assistance for education and pre-qualification, financing for innovation, and research for the development of new products and technologies. Special measures from the arsenal of vertical measures of industrial policy have also been applied, such as assistance to the automobile industry.

Spain is in difficulties because of a decline in competitiveness – in the last three years the growth of wages has surpassed the growth of productivity, along with the neglected role of exports and the unsatisfactory situation in the oversized construction sector. Of the stimulus measures, the most important are public works, tax reductions, credits to companies in difficulty, social assistance to households, and special assistance for the modernization of transportation, energy, telecommunications, and the modernization of public administration. The problem is the indebtedness of the country, so the possibilities, and the resources, for additional intervention are limited.

The structural problem of the Italian economy is contained in the fact that Italian exporters of clothing and furniture do not have the benefits of the growth of Chinese demand for investment goods. At the same time, Italy is among the most indebted countries in Europe, which limits its room for maneuver in an anti-recession policy. In such circumstances, they are being helped by investments in infrastructure and research and directing social assistance to the poorest households and pensioners. Special assistance is being provided to the automobile industry and for investment in environmental protection.⁶

3. THE CROATIAN CONSTRUCTION SECTOR – THE CURRENT SITUATION

3.1. Recession in a national framework – essential characteristics

A review of the anti-crisis measures of the preceding countries shows similar structural characteristics. These primarily involve instruments of Keynesian policies: deficit financing, social outlays and assistance to threatened companies and branches of an economy. However, the difference between those in a relatively satisfactory position and those in an extended crisis is in the size of the fiscal pack-

⁶ *Main objectives and targets of budgetary stimulus packages, excluding measures aimed at the financial system May 2009.* http://www.oecd.org/document/150/0,3343,en_2649_33703_43163698-1-1-1-1.00html.

age and in the accompanying conditions that give a government sufficient room for maneuver for adequate intervention. These include: a healthy financial sector, a relatively satisfactory financial position for the country, export potential, and a relatively good foreign trade balance.

How does Croatia stand in light of these possibilities and achievements? The fewest difficulties were encountered in terms of preserving the stability of the financial sector. The restrictive and conservative policy of the Croatian monetary authorities, especially with the effective control of commercial banks, did not permit the development of *casino capitalism*. But despite this, problems in the form of illiquidity spilling over from the real sector are growing, so that there is a possibility of difficulties in the financial system. The possibilities for using monetary policy in an anti-recession policy are limited by the need to maintain a stable exchange rate for the kuna, whose current revaluation, postponed for more than a decade, would make the position more difficult both because of the high indebtedness of the country and because of equally indebted enterprises and households, whose credit usually contains a hard currency clause. The stated macroeconomic frameworks have drastically narrowed the possibilities for a conjunctural policy of the Keynesian type. Croatia, as a whole, is highly indebted, while at the same time, it is a small and very open economy. This means that its fiscal multiplier is very low because each increase in demand to a great extent would lead to increased imports. That is why now, when fiscal stimuli are the most necessary, instead of increasing government expenditures, it has been necessary to increase taxes (VAT, personal income taxes) in order to finance vital government needs. And if and when the government decides or is forced to reduce the burden of government debt, it will have several years to achieve – a budget surplus and thus brake and not stimulate the growth of demand.

From all of the above, it arises that on the Croatian economy scene there is no possibility for conjunctural revival only by autonomous action. The impulse for economic recovery can and must come from several sides – beginning with an increase in exports to acquiring additional capital for new developmental investments that have acceptable potential (i) of financial return because the degree of autonomy of a large part of the national economy compared to the specified (created financial) frameworks is additional confirmation of the inevitability of such an orientation.

Therefore, it is necessary to recognize, to stimulate, and to support structurally and over the medium term with capital companies and projects that have a powerful multiplier potential. This would include their direct effects and also their ability to attract other investors and partners. In doing so, it must be kept in mind that the possibilities for taking on new debt are limited and that it will be necessary to link them with investments with a strong multiplier effect in the national economy.

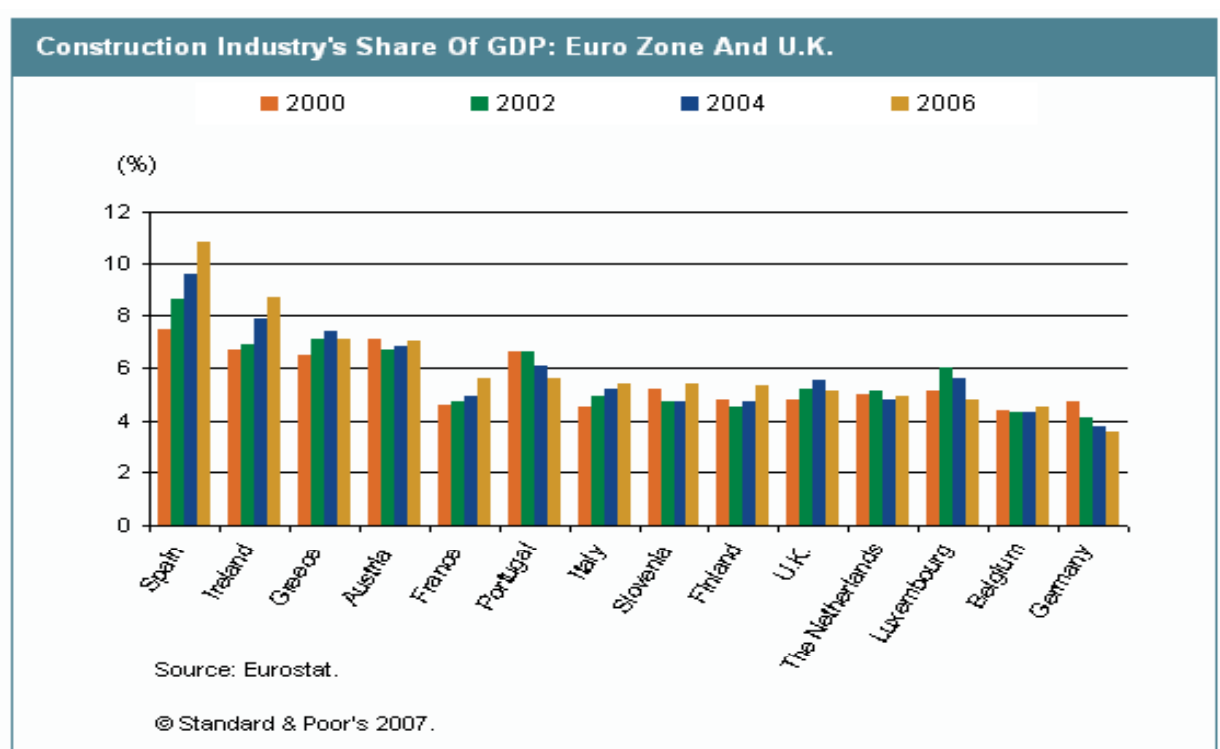
Confronting the situation at hand and facing its consequences demands an analysis of activities that individual (transition) countries also have made or are making in the context of the current crisis, but it will also require a strengthening of the autonomy of their economic position. The lesson and messages speak of the need to construct one's own exit strategy that will account for concrete circumstances, opportunities, and limits, and the experiences of those who were, or are, in a similar (more satisfactory or less satisfactory) situation, together with, of course, a general evaluation of the success of those policies.

And it is in just this area that the needs and possibilities for a different evaluation and positioning of the national sector of construction, as a partner of vital importance for achieving several projects in new development areas within the Republic of Croatia. The period before us and the conditions of economic turbulence is the optimal environment for their realization.

4. THE CONSTRUCTION SECTOR IN THE CROATIAN ECONOMY – ROLE AND IMPORTANCE

Before detailed consideration of the national scene, it might be of interest to examine the share of the construction sector in the GDP of selected countries and then in that context also to analyze the position of the Republic of Croatia. The data below show the extreme importance of the construction sector in the last several years in Spain, Ireland, Greece, and Portugal, with a stable share in Austria.

Graph 1.



Source: Eurostat, 2008.

Viewed overall, the Croatian construction sector recorded constant growth in the period 2000-2008 and it approached the countries that are at the top of the comparisons above. In roughly the past two decades the number of construction firms has increased almost 14 times – from 819 at the beginning of the 1990s to 11,244 in 2008. In 2008 alone the construction *boom* increased the number of active companies by 24% (from 8,845 to 11,244).⁷

In evaluating the competitiveness readiness and an entry into foreign markets, the relevant qualitative data is that the total number of construction firms that are considered large by Croatian standards (more than 250 employees) has declined: from an initial 114 (1990) to 101 (2005) to just 37 in 2008. The mitigating factor is that in crisis conditions construction companies have adapted and survived with fewer employees and lower fixed costs.

⁷ In the period November 2008 – November 2009 the number of employees in construction firms declined by 9.3%, which equates to 10,000 fewer jobs; the same number of insurees instead of paying taxes and contributions have become the beneficiaries of various forms of social transfers. With the publication of financial reports for 2009, it will be possible to quantify changes in the number of active firms.

In analyzing the structure of this sector, it is also important to consider financial data regarding business operations in the construction sector and data about the overall number of those employed in it.⁸

Table 3. Construction in Croatia – structural indicators, 2004- 2008

	2004	2005	2006	2007	2008
Number of companies	6,471	7,159	8,084	9,063	11,244
Avg. no. of employees (end of period)	84,642	89,524	95,249	104,142	110,190
Total revenues	41,327	44,560	53,351	57,951	69,230
Earnings before taxes	1,800	2,386	3,251	3,295	3,559

Source: Financial indicators for construction in Croatia in the period 2004-2008, database of HGK (Fina)

The number of employees constantly grew from 2004 (84,642) until 2008 (110,190), but there was also a clear decline of 8.3% in the number of employees in 2009 (100,599 at the end of October 2009). In aggregate, small companies (up to 50 employees) participated in total revenues with somewhat more than two-fifths (43.2%) and medium-sized companies (up to 250 employees) had approximately one-quarter (24.1%). The large companies (more than 250 employees) are present with a share of nearly one-third (32.7%) of total revenues generated, even though they represent just 0,1 % of the total number of companies in this sector.

The importance of the construction sector in the Croatian national economy (consolidated data from 20008) can be seen in the fact that of the total number of workers in the economy, 11.3% are employed in this sector, while its share of total revenues in the economy in the same year amounted to 8.8%. It is apparent that construction is a labor-intensive activity, which from the aspect of the importance of the recovery of the construction sector represents an important determinant. In the (still) dynamic year of 2008, total revenues compared to the previous year grew by 19.5%.

⁸ Source: Database of the Croatian Chamber of Commerce (HGK) according to indicators and data of FINA, 2009.

5. ESTIMATE OF FUTURE TRENDS IN THE CROATIAN CONSTRUCTION SECTOR

The extremely successful position of the Croatian construction sector until the end of 2008 has not been possible to maintain on the basis of the same factors as in the preceding medium-term period: dominated by constantly increased investments in housing construction, business and commercial centers, various types of road construction, primarily the construction of modern superhighways.

This means that the Croatian construction sector must draw clear lessons and messages from the current economic crisis and seek to create a new business environment for its activities. This can be found in that area where the construction sector will appear as an important factor in realizing other program of fundamental significance for the overall economic and social development. Such an orientation and participation in such programs will certainly ensure other and more complex sources of funding for the overall realization of these programs, which will also include various types of construction activities. At present, and still more in the future, these are areas in which the creation of new synergies and *cluster* effects can be expected in the framework of energizing national development potential. The important possible directions of such deliberations, and then orientation and action, are: ⁹

- 1) ***Energy sector*** – new investments in renewable and classic energy sources, especially keeping in mind the current deficit in Croatia's production of electrical energy, which to a considerable extent is also an inherited consequence from the time of the former Yugoslavia, where a significant portion of energy investment was allocated to other republic and provinces.
- 2) ***Complex investment in energy efficiency*** – both in the construction of new buildings and facilities and in the reconstruction of the huge number of existing ones. Such an orientation today is primarily economically motivated by savings and it will obtain its formal structure with the adoption of criteria and possible financial penalties for irrational use of energy. ¹⁰

⁹ These areas are listed only as possible areas of action without ranking or evaluating their possible financial or investment values.

¹⁰ The range that exists for the consumption of a unit of energy to create a unit of GDP in energy and ecologically developed countries compared to those countries that are just beginning to assess these categories is from 1 to 10. In this area Croatia has room for significant improvement.

At the same time, there is the important fact that the European Commission is preparing an action plan for the efficient use of energy, part of which is the European Construction Initiative, which will provide incentives for the renewal of 15 million buildings by 2020. The European Investment Bank would support this initiative. In this way 11 percent of the resources from European Funds that are spent for energy supply would be redirected to the construction sector. The Commission estimates that the initiative could create an additional 300,000 jobs in construction and related fields. Those companies involved in the installation of insulation materials would profit the most.¹¹

3) *Using the remaining, available, and ecologically acceptable hydro potential for the production of electrical power* – the expert assessment is that only half of the hydro electrical potential of the Republic of Croatia is being exploited. The other half is located in medium and larger water courses.¹² Its particular value is the long-term exploitation of this capacity and its character of *clean energy*. There is also a high degree of inserted domestic content, beginning with infrastructure and construction works to a significant share for equipment.

The existing limitations are the result of uncoordinated physical planning and the degree of overall preparedness for opening discussions and agreements for the financing and construction of new capacity.

4) *Infrastructural water and economic investment in agriculture* – the importance and potential of these investments has been faced by a broad spectrum of countries, from large and small one (the United States and Israel) to developing countries and highly developed ones (India and the United States), but especially in the last few decades, when two important questions – economic and social – crystallized: the profitability of production and production of sufficient quantities of agricultural produce to meet current demographic trends..

¹¹ Source: *Dobre vijesti za građevinsku industriju: EK želi obnovu 15 milijuna zgrada* (Good news for the Construction Industry: EU wants to renovate 15 million buildings), business.hr, 11 October 2009.

¹² For systematic exploitation of a part of the hydro potential an agreement is necessary and then concrete contracts on the use of and allocation of costs and revenues with appropriate companies in neighboring countries.

The following table and the analysis carried out by V. Stipetić this potential assess this potential as a part of the new Croatian development orientation.

Table 4. Irrigation and its share in cultivated surface area

Country	Irrigated (thous. Ha)			Irrigated cultivated area (%)	
	1979-1981	1989-1991	1999-2001	1979-1981	1999-2001
Denmark	389	432	447	15	19
France	1,369	1,980	2.628	7	13
Greece	950	1,200	1.441	24	37
India	38,448	46,760	55.983	23	33
Israel	204	202	192	49	46
Netherlands	480	554	565	58	60
Romania	2,301	3,124	3.082	22	31
Spain	3,028	3,387	3.719	15	20
Turkey	2,712	4,024	4.743	10	18
United States	20,582	20,800	22.543	12	13
World	209,657	244,196	275,090	15	18

Source: Stipetić, V.: *Kriza u poljoprivredi – prioritetnoj djelatnosti budućeg gospodarstva Hrvatske* (The Crisis in Agriculture – Priority Activities for the Future Economy of Croatia, in the collection of works “Kriza i okviri ekonomske politike” (Crisis and Frameworks of Economic Policy), HAZU and the Croatian Institute for Finance and Accounting, Zagreb, June 2009, p.34.

“Based on the quantity of freshwater that Croatia possesses, we are ranked at the top of European countries. One part of a river that flows through Croatia has the most water in the summer months (because it is filled by melting snow from the Alps), just at a time when agriculture is begging for water. But until now it has not been used for irrigation, which is out of step with European and global trends. Many countries have recognized this and for decades they have been increasing their agricultural surface area, which they are irrigating, and which provides up to five times greater value of their production per hectare (of course, with a different structure of production). The table above illustrates the trend of that expansion. About 11,000 hectares is now being irrigated in Croatia – just 1% of the cultivated surface area and we are at the bottom of the Mediterranean countries.”¹³ (*emphasis M.V.*)

¹³ Stipetić, V.: *Kriza u poljoprivredi – prioritetnoj djelatnosti budućeg gospodarstva Hrvatske* (The Crisis in Agriculture – Priority Activities for the Future Economy of Croatia, in the collection of works

It is obvious that the above comparison provides an exceptional area for action at the national level, where the activity of the construction sector is a necessary component – a platform for creating a considerably higher level of new value in agriculture and the beginning of the creation of a new network of waterways and new types of profitable logistics...

- 5) ***Evaluation of area, environmental protection and waste management.*** A widely and indisputably accepted concept of sustainable development, it has been at the forefront of social and increasingly economic interest. Optimization of the use of space and the coordination between individual purposes is becoming the basis of urban and overall development planning. The responsibility for protection of the environment and waste removal and halting pollution of an area on various bases in the last several decades achieved a radical transformation: from the concept of *garbage* that frequently and in an uncontrolled fashion was dumped in various sites the term and concept of *waste*, which is collected and deposited in specific and designated sites, has become accepted. The modern concept has created the phenomenon of *secondary resources* that are recycled (glass, plastics, paper, tires, metals, organic matter, etc.) and which are again becoming an economically relevant category of renewable use value. On this basis several new technologies, industries, companies – and jobs – have been created. Market competition is all the more present between individual locations and destinations for the collected waste that will then become the foundation of a renewable secondary resource. As it approaches the standards of the EU, Croatia can reactivate a significant portion of its construction and technological capacity in this area.
- 6) ***Transportation infrastructure and logistics*** – international transactions in recent decades have grown at rates that are more than the average rate of growth of GDP. This trend will continue in future decades, strongly assisted by new technological solutions that are enhancing the tendencies to integrated transport. From an economic perspective, the constant pressures on the growth of competitiveness within a national economy and the constant search for locations with low costs and the possibility of high profits will support this tendency in the long-term. Therefore, it is completely clear that

“Kriza i okviri ekonomske politike” (Crisis and Frameworks of Economic Policy), HAZU and the Croatian Institute for Finance and Accounting, Zagreb, June 2009, p.34.

transportation and logistics are also becoming a complex infrastructure and an unavoidable stimulus to overall economic growth and development...

The Republic of Croatia like its *past work and investments* possesses public infrastructure that is extremely well positioned in logistical terms, beginning with the network of airports: Pula, Rijeka (the island of Krk), Split, Zadar, Dubrovnik, Zagreb and Osijek, as well as some new continental and island destinations. It also has the potential of its seaports: Pula, Rijeka, Zadar, Šibenik, Split, Ploče, and Dubrovnik. It has created a new highway system that links the continental areas with the sea, coastal areas with other coastal areas, and the continental portion of the country with countries that are today members of the EU. With the need for and possibility of continued investment in technological *upgrading*, increases in capacity, and the creation of *economies of scale*, two important open questions remain: the renovation of the existing and the construction of a new railway network and the construction of a system of waterways that follow river courses. There would then be the possibility for designing and building parts of a network of canals with several purposes: irrigation, travel, and flood control.

7) A tourist industry with a new orientation and new aspirations. Viewed on a comparative basis, Croatia has one of the most attractive coastlines in the Mediterranean. Currently, the tourist product is formed on two colloquially named *hardware* foundations. The first is hotel capacity, built primarily in the three decades before 1990. Then there are the frequently uncontrolled and spontaneously built apartments and a fewer family hotels that have been built between 1995 and today. There are also a number of auto camps that have appeared mostly since 1990. Almost all of these forms of tourist infrastructure are characterized by seasonality, which generally allows only for limited overall revenues and profitability.

A tourism of new orientations and new aspirations means investment in the construction of content dominated by congress and health-recreational capacity with accompanying content with social and entertainment aspects. Such new content is extremely demanding – in terms of capital, construction and overall equipment. They also require a high degree of investment in new infrastructure: roads, logistics, IT, a supply system with various inputs, maintenance of wide pedestrian zones, etc.¹⁴ The activation of insufficiently exploited land rents is a pre-condition for

¹⁴ Since the 1950s, construction of and investment in such zones and content has progressed from those designed for mass tourism (Spain, part of the Italian coast, Turkey) to larger and more de-

investments in new and different content, predominantly but not exclusively in the coastal regions of Croatia. Under current circumstances it is questionable whether the level of overall social costs (infrastructure, ecology) are equal to or more than revenues generated, or more exactly, more than the profits obtained.

It is important to emphasize that linkage of the stated transportation assumptions and the creation of new logistical centers (reception, transshipment, modification, final processing, customs clearance of goods, storage of goods, corresponding IT systems) can be posited as a project of vital interest to strengthening EU infrastructure in this area of deficit and also in relation to foreign trade with other parts of the world. At the same time, it is possible also to ensure co-financing with public resources for this investment and development purpose but it will also be attractive to private capital, as an important interest, advisor and partner in the realization of these projects.

6. THE POSSIBILITIES FOR PRO-ACTIVE ACTION – PRESENT CIRCUMSTANCES AND PROSPECTIVE TIME FRAME

6.1. Initial status and environment

Croatia is a relatively small country with an open economy, subjected to strong regional, EU and global influences as the consequence of economic events in these areas. Therefore, it is instructive and relevant to establish the expected trends in that environment in the near and medium terms, especially after a period of almost two years when the construction sector was one of sectors, along with the automobile industry, hardest hit by the crisis.

manding levels of a tourist offer (Cote d’Azur, Sicily, Sardinia), and attractive new destinations where row is the model of such investment locations (Dubai).

Table 5. Market segment of construction at a global level

	Size of market 2009 (in billions USD)	Real growth in 2005 USD 2009	Real growth in 2005 USD 2010	Real growth in 2005 USD 2009-14*	Real growth in 2005 USD 2009-19*
Total	6353.7	-4.7%	0.01%	4.1%	4.3%
Housing stock	2056.1	-12.2%	0.0%	4.4%	3.9%
Infrastructure	2011.7	4.2%	5.0%	4.7%	4.6%
Transport	1124.5	6.7%	4.0%	3.8%	3.7%
Public health	207.5	5.5%	10.4%	6.0%	5.3%
Energy sector	679.7	-10.5%	7.5%	6.3%	5.5%
Non-residential buildings	2285.9	-4.3%	-4.4%	3.3%	4.4%
Office	355.2	-6.2%	-6.9%	2.8%	4.5%
Commercial	449.6	-7.5%	-5.1%	3.5%	4.7%
Institutions	524.7	4.3%	-2.7%	2.3%	3.4%
Industry	884.3	-6.4%	-4.1%	3.9%	4.7%
Chemical sector	106.6	-6.9%	-1.8%	5.3%	5.8%
Electronics industry and electronic products	73.5	-2.5%	-0.1%	3.9%	4.7%
Communications sector	67.4	-5.5%	-2.8%	4.4%	5.0%
Maintenance	96.0	5.1%	-2.4%	2.2%	3.6%
Other	304.8	-4.1%	-5.8%	3.9%	4.8%
Food processing	95.4	-3.2%	1.0%	4.6%	5.3%
Transport equipment	67.8	-11.5%	-4.4%	4.0%	4.5%
Refineries and processing of petroleum derivatives	72.8	-26.5%	-13.9%	2.9%	3.5%
* amount of average annual rates of growth					

Source: Global Construction Outlook: Executive Overview, Third-Quarter 2009, www.ihsglobalinsight.com

The data presented above point to a global tendency to stagnation this year, but also with possible positive aspects: the infrastructure sector (growth of 5%), public health (growth of 10.4%), and energy (growth of 7.5%). At the same time, a decline in investment can be expected, for example in office space, both business and public; the food processing industry and transport equipment. The expectations and estimates of one of the most respectable scientific and research institutions

(OXFORD ECONOMICS) laid out in an analysis entitled “Global Construction Perspectives”, point to possible important and expected trends:

- 1) It is assumed that the global economy will grow at an average rate of 3.5 to 4 percent beginning in 2011. This would be 0.5 percent faster than average annual economic growth between 2001 and 2010, and with the pre-condition of excluding the extremely unsatisfactory growth indicators in 2008 and 2009. A part of that growth will be a consequence of a compensation for the deep decline in the designated period, but also of the continued accelerated growth of the economy in general, and especially of the economic *boom* in China and India. In these countries this will be conditioned by strong demographic changes that at the same time will be stagnating in North America, along with possible negative population signs. Examples: Japan, German, Italy.
- 2) It can be expected that the fiscal deficits that have been achieved and the degree of foreign and public debt will also be important determinants in setting the investment possibilities of individual countries in specific parts of the world.
- 3) Enhance efforts for environment protection, and ecology in general, will also be factors that will stimulate economic growth and will have an important and positive influence on the degree of growth and the level of activity in the construction sector. In developed countries today up to 40 percent of total energy is expended within building structures (private housing, business space, and public buildings).
- 4) There was also a pronounced trend of a further important above average degree of investment in countries whose economies are developing in the direction of raising the level of quality of their transportation systems, portions of their communal infrastructure, and commercial buildings. Slow growth (the achieved degree of saturation, fiscal limitations) is anticipated for areas of Western Europe and Japan.
- 5) The growth of investment in and engagement of the construction sector is anticipated in the area of Eastern Europe, with a special emphasis on Russia (the growth of revenues from oil and gas) and Poland (economy of scale and support from EU structural funds).

In conclusion, the stated trends represent a summary and a positive developmental synergy that can be expected in the next decade to be the consequence of several dominant factors: accelerated restructuring of the global economy, strong demographic changes, and newly-established and accepted postulates related to the concept of sustainable development and environmental protection.

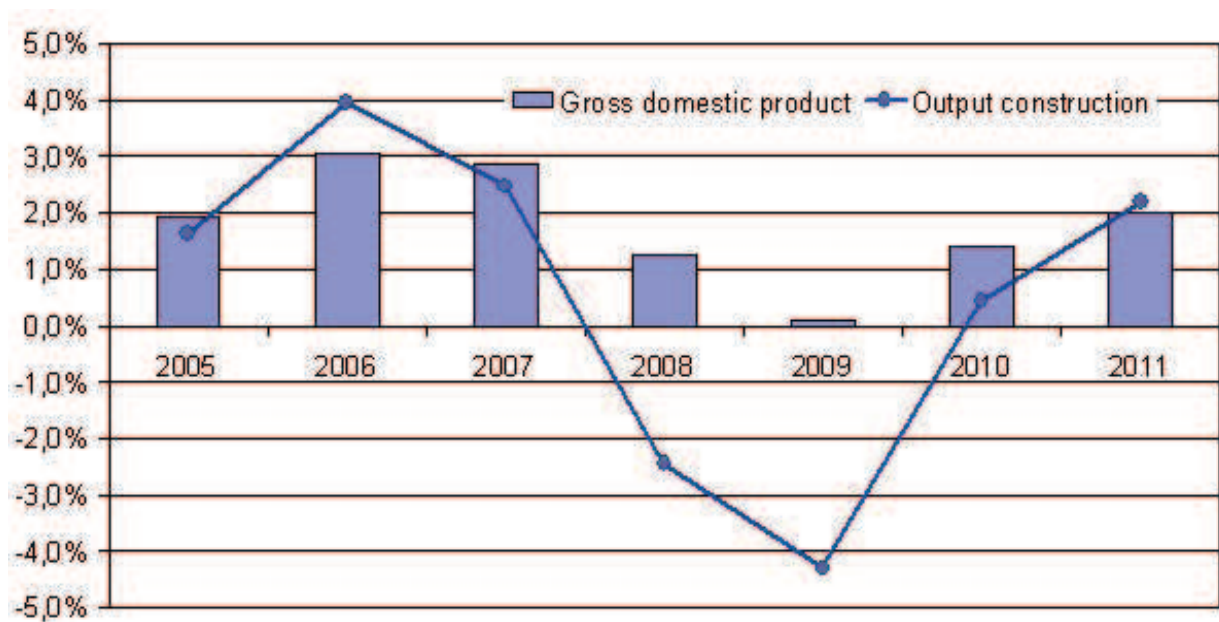
6.2 Assumed trends of events

What is important to observe in the area closer to home, along with this global level of positive expectations for the period after 2010, within the joint policy of the EU, is what soon (and formally) must to be relevant for economic events with the Republic of Croatia. “The Council of the EU not only agrees with the horizontal measures of industrial policy that are aiming at the support of all branches of industry, but in view of the recently completed analyses of expert groups, it also agrees with the conclusions for assistance to individual industrial sectors. At the same time, the Council recognizes that the focused and coordinated measures for assistance to sectors that have been initiated thus far as measures that can also be applied in other sectors of an economy that are threatened by the consequences of the economic crisis. Therefore, the Council welcomes regular monitoring of the situation in industrial sectors by the European Commission since this will help in the development of appropriate policies in the context of the European Plan for Economic Recovery.”¹⁵ Along with the clear statement that the EU is stimulating growth and qualitative changes of its economy by a series of measures and instruments of horizontal (general) industrial policy, it is also possible to state the immediate significance and interest in the construction sector, which, by its dimensions and importance, is of special significance. The revenues generated in 2008 in this sector amounted to 1.65 billion euros, which was larger than, for example, the GDP of Italy in the same year, and with several other multiplier effects on other economic sectors. One specific fact is that among the new EU members (Poland, the Czech Republic, Slovakia, and Hungary) the predominant investment activity is in general infrastructure and economic content, while in the classic EU 15 investment in various forms of residential buildings and housing makes up almost 50 percent of the overall activity of the construction sector.

¹⁵ Source: Council of the European Union: Council Conclusions – An integrated approach to a competitive and sustainable industrial policy in the European Union, 2945th competitiveness, Brussels, 28 May 2009, p. 8

The following graph confirms the foregoing statements and assessments confirm that speak about the correlation of the growth of GDP and stimulation of the construction sector in national economy within the EU...

Graph 2. Current and prospective indicators:



Source: 66th EUROCONSTRUCT Conference, Brussels, December 2008; http://www.euroconstruct.org/publications/cr_zurich09.jpg

After the real crisis year (2009), at the level of the EU, the recovery (to the level of 2008) can be expected in 2010 to continue into 2011 (to the level of 2005). A new boom in the construction sector (like the one in 2006 and 2007) can be expected at some time in the middle of the upcoming decade.

The EU strategy to establish the stimulation of growth in the business sector within a common market arises from the ambition to achieve a *win-win* result, while protecting employment and the share of this sector in the GDP of individual national economies. The goal is also to create complementariness with other sectors (energy, ecology, logistics, and increased competitiveness of individual sectors of the real economy). All of the designated areas also have to be an important orientation in the establishment of a Croatian strategy, led by the relevancy of the goals, and not (only) by the realistic expectation that the Republic of Croatia will also become a formal part of that institutional framework in the next 24 months.

7. SOURCES OF FINANCING FOR INVESTMENT PROJECTS – EXISTING AND NEW POSSIBILITIES

Having prepared serious and professionally recognized and designed projects as important areas for achieving its concept of development, Croatia must seek partners for financing and realizing them. The possibilities include:

- a) Its own (remaining) sources of accumulation in the framework of individually organized systems, where resources are gathered for the maintenance and development of individual vital segments of public infrastructure (roads, water, energy, ecology).
- b) Regional and cohesive policy of the EU is achieved through EU Funds, including Structural and Cohesive Funds and Current and Pre-Accession Funds.

For the Republic of Croatia, the focus is on IPH Pre-Accession Funds, and this will primarily be until the year 2013, when the current period of EU development policies ends. Since a continuation of the regional developmental policies is expected, it can be assumed that the main elements of existing solution will also be transferred into the upcoming period. The goals of financing are determined by the Lisbon Strategy, according to which the following have to be achieved:

- Convergence in a way that stimulates investment in regions with a per capita GDP less than 75 percent of the EU average.
- The global competitiveness of the developed members and support for the transition to an information society.
- Territorial cooperation defined as cross-border cooperation to resolve development problems of cities and rural and coastal areas.

The strategic goals will be achieved through funds applied within the system of Structural Funds, including:

- **European Regional Development Fund (ERDF)** - intended for investments to reduce development disparities between regions and to stimulate regional development, economic growth, environmental protections, construction of infrastructure, measure to reduce the risk of a variety of calamities, etc. . . .
- **European Social Fund (ESF)** – which focuses on worker development related to the increased demand for a more adaptable workforce and to equalize the chances for social inclusion.

- **Cohesion fund for environmental protection and the TransEU network.**

For countries with a GDP lower than 90 percent of the EU average.

It is apparent that with the exception of the Cohesion Funds, the level of development that has been achieved plays a main role in achieving the real use of these funds. Estimating the degree of this development is made at the regional and national level. Regional organization is a national responsibility. Statistical procedures are to a considerable extent standardized and make up part of the statistical system of the EU. The classification is carried out according to territorial criteria, within which there is the possibility for implementing certain local policies.

With this concept in an earlier wave of expansion (Spain, Portugal) and then in the later one (Poland, the Czech Republic, Hungary, Cyprus, Estonia, Lithuania, Latvia, Malta, Slovakia, Slovenia) and in the most recent one (Bulgaria and Romania) these countries were ensured of additional financial potential for co-financing several vital projects in their individual regions, and this included all stages and segments of realization – from initial phases of project design and the evaluation of overall effects to the performance of individual systems and keeping them in operation. Of special importance is the synergistic role of these resources because by stimulating regional development they attract private capital as a partner that for certain types of investments (logistics, the tourist industry) also provides access to regional, EU and global markets.

- a) The group of banks at the European and EU level (EBRD, EIB) that co-finance these types of development projects.
- b) The use of World Bank resources and those of other specialized partners (IBRD, IFC, UNDP) whose activities also includes investment in those areas that a) stimulate overall development of individual countries; b) provide room for investment by private investors; c) increase local employment levels; d) bring regional development into balance.

CONCLUSION

The above facts: the global and domestic economic crisis, the scarcity of capital and the lack of markets for a continuation of previous trends – foreign trade deficit, the growth of foreign and public debt, growth based on imports and outside accumulation on one hand and the fragmented execution of significant investments in various forms of infrastructure on the other hand, represent a fundamental di-

lemma – how to go on? Whether to treat the current situation as an open problem with unclear prospects and try to maintain the *status quo* – or *to move on but in an essentially different way*?

This means take note of the exceptional potential that has been created and to carry out an evaluation of these investments in the time ahead, and thus to achieve active effects by the use of the assumptions created in those several designated areas: energy and energy efficiency, ecology and new technologies for environmental protection and sustainable development, a highly profitable agriculture with intensive investment, yields, and new products. It would also include new investments in and the creation of new types of tourism that are different than the current seasonal (*poor*) destinations and the creation of *clusters* of modern logistic centers on the coast and inland.

The intersection of problems and possibilities is clearly marked; the question is one of an active and well thought out concept of action. The year 2010 can and must be the year of a turnaround: from inherited problems to the creation of complex developmental solutions that in the given circumstances demand coherent matrices for elaborating national development possibilities. This would be followed by complex planning, project design and economic verification and evaluation of the needed investments, placing those investments in the context of creating synergistic effects: national, regional, those at the level of the EU, and why not also global? ¹⁶

In addition to considering the possibilities and needs within national frameworks for participating in individual types of projects that would bring important new quality and create new value for investors and partners (shareholders and stakeholders), it is important to consider additional, complementary forms of activating the construction sector and the national economy as a whole.

This is an analysis of the possible areas (regional, national) where it is possible to compete (on the basis of respectable references from the past and present) in carrying out all types of construction projects: from housing and road construction to the construction of capital infrastructure facilities – rail networks, ports, airports, energy capacity, etc. Realistically, it is also necessary to consider entering into part-

¹⁶ During an official visit to the Republic of Croatia in June 2009, the President of the People's Republic of China state, "Croatia is the most important strategic partner in the region," *Vjesnik*, 21 June 2009. It is almost certain that this formulation addressed the exceptional potential of the logistical position of Croatia (coastal and continental) in relation to the possible linkage of trade routes of China and the broader area of Europe.

nerships in the form of international consortia, which ensures the required *economy of scale*, and, very frequently, the possibility of creating satisfactory financial conditions that make the overall offer competitive.

It is certain that such an arrangement in opening new possibilities and solutions can and must lead to new and complex use of the potential of a national economy. At the same time, it is necessary for its increased competitive capabilities be carried out within the EU and global environment, and not only as a way to overcome the crisis, but especially to generate long-term and stable economic growth.

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