

## CHALLENGES OF CROATIAN EXPORT

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### Abstract

The intention of this paper is to analyze a set of factors that determine the challenges of the Croatian export sector during the past two decades and provide suggestions and recommendations for the design of tailored and consistent national policies in various segments, especially the industrial, research and development and technology policy, they rely on the totality of Croatian economic relations with foreign countries with the most significant part being exports. Along with the policies necessary to strengthen the administrative capacity of the system of economic diplomacy, the agency for the promotion of exports and CCE. A key prerequisite for the internationalization of the Croatian economy is comprehensively designed to promote and encourage the further development of Croatian innovation, technology and export - oriented enterprises and their networking into clusters and other internationally competitive organizational forms.

**Keywords:** exports, economic policy, innovative technology entrepreneurship, economic diplomacy, clusters.

**JEL Classification:** E23, F13, F15

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### INTRODUCTION

Exports have a major impact and contribution to the competitiveness of the national economy for a small open economy such as Croatia, especially in transition to a market economy and in the process of EU accession. Key factors in the competitive export sector arising from the ability of economic policy in creating the conditions and components for dynamic national economy and the ability of firms to realize the circumstances entrepreneurial endeavors at the national and in-

ternational market. Croatia since its independence, and so far, has failed to largely overcome the inherent weakness and challenges of the export sector, which characterizes the small size, narrow base in terms of the number of exporters, unfavorable ratio of products and services, unfavorable geographical structure, and inadequate technological level.

From the business perspective, long - term structural weaknesses of Croatian exports are; narrow base of products and services directed to a small number of generally close markets, low level of technological complexity, low value - added products and services, high proportion of seasonal services, and the disproportionate ratio of exports of goods and services.

An extremely low, approximately 1/6 of the total revenue from businesses selling goods and services to foreign markets, reflects a number of factors, the historical heritage of the economy, the weakness of the transitional period, with emphasis on de-industrialization, unstructured industrial sector, a large share of services of low profitability, high cyclicalities of the economy and an underdeveloped high value-added service sector. Only one in eight Croatian entrepreneurs generates revenue from foreign markets (Croatian Chamber of Economy, 2012).

Stagnant low share of income of entrepreneurs from foreign markets potentially represents one of the major risks to the successful achievement of the economic criteria for Croatia joining the EU, the Croatian economy for sustainable competition in the single EU internal market (Djankov et al., 1997).

The aim of this paper is to conduct an analysis of the factors affecting the Croatian export companies during the past two decades and provide suggestions and recommendations for the design of national policies, with special emphasis on industrial policies as well as technology policies and research and development policies. Internationalization of the Croatian economy is comprehensively designed to promote and encourage the further development of Croatian innovative, technological and export-oriented enterprises and their networking in clusters and other internationally competitive organizational forms. The work is based on the following research objectives: (1) assess the state of Croatian exports, (2) analyze the trends in Croatian exports in the year 2012, (3) analyze the trends of Croatian exports from the previous period, (3) to evaluate the non / existence and non / consistency of the export policy, (4) assess the appropriateness of administrative capacity for export expansion, and (5) On the basis of reflection and analysis suggest recommendations to increase Croatian exports.

## RESEARCH METHODOLOGY

The evaluation of Croatian exports was performed using the data of the Croatian Chamber of Economy, the Croatian National Bank and other publicly available data, the basis of which have been implemented graphical and analytical processing and adopted conclusions on trends and perspectives. This analysis of secondary data makes the first methodological support of this work.

Another methodological thrust of this paper is to investigate the field. The study defined the problem had characteristics of exploratory research and the technique of research on past experience (Marušić et al., 2003). The past experiences technique was elected on the assumption that the use of existing knowledge, experiences and ideas of people who are well versed in Croatian exports to gain insight into the issue of this paper. Rather than carry out research on a number of subjects, where to obtain the general thinking, we started conducting research on a sample of connoisseurs. The author of this work presents the experience that he gained as head of a Croatian firm that is export-oriented, but also the experience of many businessmen with whom he had the opportunity to work through the Croatian Employers' Association, Chamber of Commerce and other institutions. In-depth interviews were conducted following the framework of this study, but in conversation free discussion was used, which led to some very interesting conclusions and information. The interlocutors were deliberately and specifically chosen because they are more informed about the work than other experts, which allows conclusions about the nature of the phenomena.

## TRENDS IN CROATIAN EXPORTS IN THE YEAR 2012.

During the year 2012 the positive trend (started in 2011.) of rapid growth in revenues from the sale of businesses with international markets continued. In the first nine months of 2012 the revenue of Croatian entrepreneurs from selling goods and services to international markets totaled 76 billion, an increase of 1.3% compared to the same period in 2011. Trends of Croatian exports and imports in 2012 were mostly determined by the current economic situation in the country and the most important trading partners.

Thus, the first drop in demand in the European Union, still the most important partner of Croatia, has significantly limited dynamic growth of Croatian exports, while the drop in demand in the domestic market limited the growth of imports. Figure 1 outlines the same.

**Figure 1** Croatian exports, imports and trade deficit 2006th-2012th

Changes of export and import prices affected the movement of value of trade, although their influence was smaller than in the 2011th year. Due to the price increase there has been an actual increase in the value of exports by 1.4%, and a slight increase in the value of imports by 0.4% (HRK). Movement of the value of exports is still and (nominally and really shown) was somewhat lower than of imports, so that on an annual basis there was a minor decrease in the amount of trade deficit (-1.1%) and a slight increase in the coverage of imports by exports with 58.9 % in 2011th year to 59.4% in the 2012th The (Croatian Chamber of Economy, 2013).

Due to the slight depreciation of the kuna against the euro in the 2012. The data in the euro shows that export growth in the euro stood at only 0.3%, and imports reported a decrease of 0.7%, while the trade deficit declined by 2.2% and amounted to 6.6 billion euros.

In several export branches there was a significant increase in the value of exports and a special distinguished production of petroleum products. In addition, the export of crop and livestock production (in which there is a significantly increased grain exports), fabricated metal products, except machinery and equipment (weapons, aluminum construction, cast iron and steel), metal significantly increased. Unfortunately, there has been a substantial reduction in the value of exports of iron and steel with a concurrent high export growth non-monetary gold and pharmaceutical products. The food industry (Podravka, Kraš, Dukat, PIK, Ledo, Vindija and other manufacturers) in relation to other activities, has maintained its presence in foreign markets and generated exports of 3.5 billion, and increased international revenues by 5.9 % in nine months in 2012.

On the other hand, the biggest drop in the value of exports was recorded in manufacture of other transport equipment, which largely consists of shipbuilding. The share of exports of this sector in 2011 was reduced from 11.8% to 7.8% in total due to reduced orders and ship deliveries. Along with shipbuilding, as a result of a large decrease in exports of plastics in primary forms, the chemical industry has the most reduced export value. This decrease is caused by the suspension of production in companies DIOKI and DINA.

Not much has changed in the structure of exports by country of destination, but there is still a slight decline in the share of exports in the EU27 Member States, from 59.9% in 2011 to 58.3%. This decrease was mostly due to reduced exports to France, Luxembourg, Malta and Italy for what was largely influenced by reduced exports of ships, but also the economic crisis in the same countries. The largest increase in total exports (both within and outside the EU) was recorded in Germany and the Netherlands.

A share growth to 21.0% was recorded in CEFTA where the greatest increase in the value of exports was recorded towards Montenegro, among other countries, the most prominent increase in the value of exports was to Russia (Ericsson Nikola Tesla). However, it is unknown how Croatia joining the European Union on 01.07.2013. will reflect export to CEFTA countries.

In the first 10 months of last year export to EU27 has increase by 9,7%, import by 4,7%, which has led to decrease in trade deficit by 36,4%. in export, the value of exported machinery, equipment and vehicles has increased most, as well as sales on the U.S. market.

At the same time the growth of imports was still mostly influenced by energy imports, and in addition to imports from the United States where the highest growth was recorded, a high growth was recorded in imports from Russia.

## **TRENDS OF CROATIAN EXPORTS FROM THE PREVIOUS PERIOD**

### **PERIOD UP TO THE EARLY 2000 YEAR, AND PERIOD IN BETWEEN 2000. - 2008**

Although often a declarative export strategy of the Croatian economy in the independent Croatia was emphasized as a key to solving the most important problems in the Croatian economy, and as a basis for future development, the reality is quite different.

During and immediately after the war, the cause of the low level of exports was found to be because of the war devastation, the loss of the market of the former Yugoslavia and the former Soviet Union, relations inherited from the former Yugoslavia, etc.

Rewiev of Foreign Trade of goods in the period in 1990. to 1995. is given in the following Table.

**Table 1** Foreign trade exchange of goods (U.S. \$ million) in the period from 1990. to 1995.

| Year  | Merchandise exports | Merchandise imports | Total trade | Trade deficit |
|-------|---------------------|---------------------|-------------|---------------|
| 1990. | 4.020               | 5.188               | 9.207       | -1.168        |
| 1991. | 3.533               | 3.787               | 7.320       | -254          |
| 1992. | 4.445               | 4.431               | 8.876       | 14            |
| 1993. | 3.910               | 4.658               | 8.569       | -748          |
| 1994. | 4.403               | 5.530               | 9.933       | -1.127        |
| 1995. | 4.517               | 7.352               | 11.869      | -2.834        |

Source: CCE, author's calculations

From Table 1, we can see that Croatia has even surplus exports in the year 1992, due to different calculation exports for the period in which the services are not entered, a deficit is expressed. But Croatian export performance did not significantly improve in the years after the return of occupied territories. On the contrary, the state and tendencies of foreign trade getting worse which clearly shows a growing trade deficit and the deficit of the current account deficit, which is evident from Table 2.

**Table 2** Foreign trade (million USD) in the period from 1995th until 2000. the

| Year  | Merchandise exports | Merchandise imports | Total trade | Trade deficit |
|-------|---------------------|---------------------|-------------|---------------|
| 1995. | 4.517               | 7.352               | 11.869      | -2.834        |
| 1996. | 4.644               | 7.784               | 12.427      | -3.140        |
| 1997. | 3.981               | 9.101               | 13.083      | -5.120        |
| 1998. | 4.517               | 8.276               | 12.793      | -3.758        |
| 1999. | 4.302               | 7.799               | 12.101      | -3.496        |
| 2000. | 4.432               | 7.887               | 12.318      | -3.455        |

Source: CCE, author's calculations



This period marks the fall of exports and a tremendous increase in imports, on which the wrong economic model implemented in Croatia has especially affected, firstly in the deindustrialisation of Croatia and unreasonable growth rate of the kuna, which has significantly favored imports and lead exporters into heavy losses and lack of competitiveness.

The stagnation of exports on the one hand, and some indicators of growth of the Croatian economy on the other, point to the fact that the development is not based on export growth, but on the growth in domestic consumption. Such a growth model becomes acceptable in the long term and if held it is only a matter of time when the external debt, which is based on consumption growth, will no longer be able repairable. In the period from 1995 to 2002 the stagnation of Croatian exports, which rose only 5.8%, and high import growth of 42.8% led to a record high trade deficit in 2002 from \$ 5.82 billion, an increase of 102.2% compared to the 1995 deficit as is evident from the following Table 3...

**Table 3** Foreign trade exchange of goods (U.S. \$ million) in the period since 2000 to 2010

| Year  | Merchandise exports | Merchandise imports | Total trade | Trade deficit |
|-------|---------------------|---------------------|-------------|---------------|
| 2000. | 4.432               | 7.887               | 12.318      | -3.455        |
| 2001. | 4.666               | 9.147               | 13.813      | -4.481        |
| 2002. | 4.904               | 10.722              | 15.626      | -5.818        |
| 2003. | 6.187               | 14.209              | 20.396      | -8.022        |
| 2004. | 8.024               | 16.589              | 24.613      | -8.565        |
| 2005. | 8.773               | 18.560              | 27.333      | -9.788        |
| 2006. | 10.377              | 21.502              | 31.879      | -11.126       |
| 2007. | 12.364              | 25.839              | 38.203      | -13.475       |
| 2008. | 14.124              | 30.727              | 44.851      | -16.603       |
| 2009. | 10.492              | 21.205              | 31.697      | -10.713       |
| 2010. | 11.811              | 20.067              | 31.878      | -8.256        |

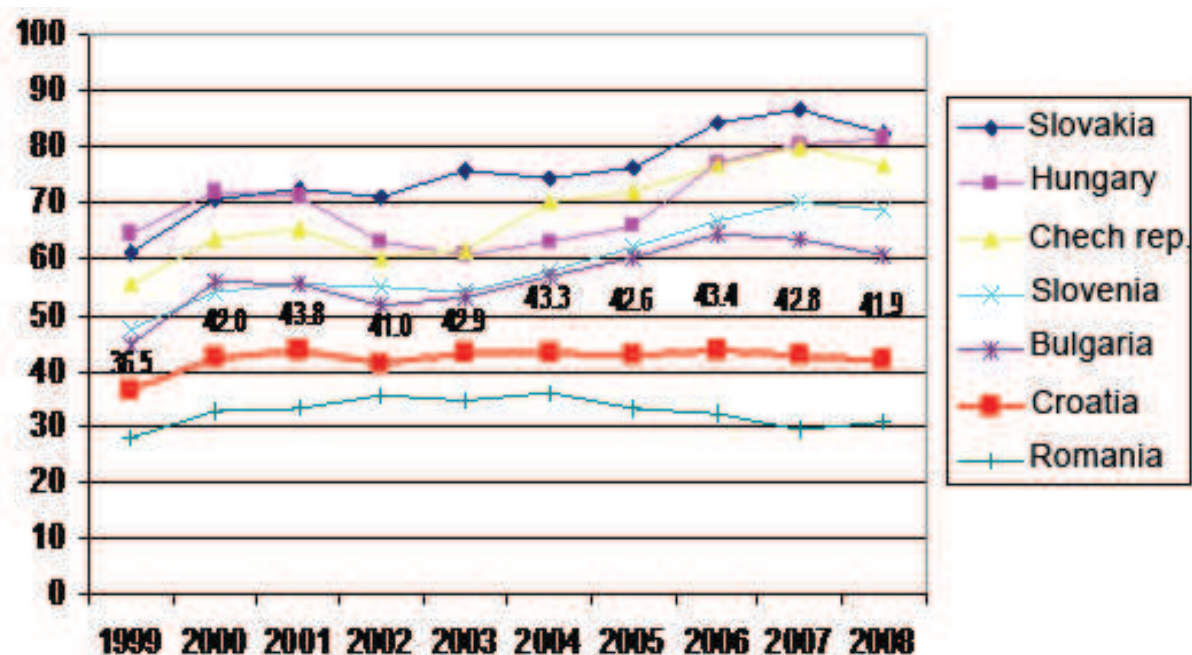
Source: CCE, author's calculations

Total generated deficit in this period amounted to over \$ 32 billion. External debt at the end of 2002 amounted to over \$ 15 billion, with a tendency to further increase, which led Croatia to the border between the central and highly indebted countries. The only way out is a reduction in the trade deficit by increasing exports, but the problem is that in the last years the proceeds of the foreign borrow-

ing and foreign direct investment in the banking and telecommunications sector, have not invested in production and investments that would stimulate exports, but in consumption based on imports. In the period from 1995 to 2001. about 80% of imports are from the player and consumer goods, and products for investments, despite the rise in their share, still belongs to the smallest share. Trends in total foreign trade Croatian was largely determined by developments in the field of manufacturing industry accounting for about 95% of Croatian export and 85% of imports. Thus, the export processing industry in the period 1995-year 2002. grew at an average rate of only 0.6%, while the average growth rate of imports was 6.8%.

Export results are more unfavorable if shipbuilding were to be excluded from statistical considerations, an activity with the highest cyclical movements, which has from 1995 through 2002. increased its share in the structure of exports from 6% to 15%. In that case, the export manufacturing industry decreased by an average rate of 0.6% per year. The period since 2000. - 2008 marked further stagnation in exports of goods and services, which is at 42% of the GDP od Croati, unlike the other new members of the European Union which in the same period recorded a dynamic growth in exports to a level of almost 70% of GDP (Slovenia) or to almost 90% of GDP in Slovakia which is the size of Croatia, which is evident from Figure 2.

**Figure 2** Exports of goods and services from 1999 to 2008,% of GDP



Source: Eurostat, the Croatian National Bank



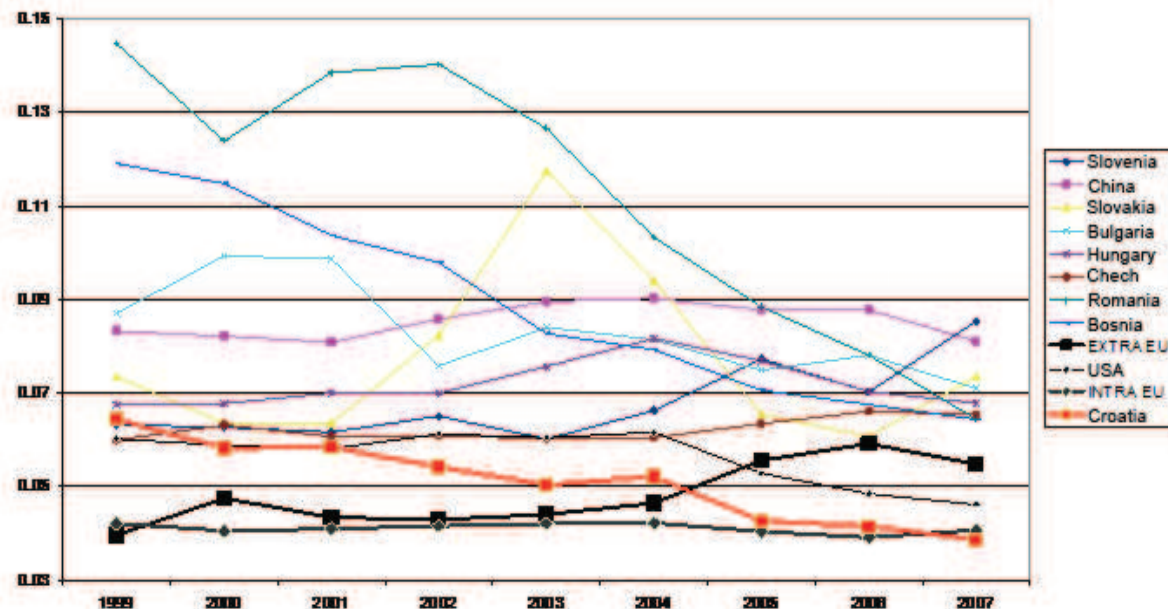
In Croatia, in the period of from 2003 to 2008 a faster growth of exports in goods than exports of services occurred, which is particularly applicable to tourism services so we have the fact that merchandise exports increased from 18.6% of GDP for 2003. year to 20.7% of GDP in the year 2008, while the share of tourism services decreased in those years, from 18.6% to 16.2% of GDP, and our desire to be one of the leading countries that provide tourism services. It is significant that in this period there was a substantial increase in the share of investment, but it is not reflected in the increase of exports.

Although export growth was significant in this period, and the same with the 5 billion in 2000. The increase of 9.2 billion euros in 2007 can seem quickly growing and satisfying, but it is not so and the same status can best be seen in comparison with other transition countries.

In that same period, Slovenia achieved twice the export of Croatia's 18.9 billion Euro in 2007. and Slovakia had exports of nearly 42 billion euros. This is the best display of the bad economic policy and economic model which Croatia implemented.

The deficit in trade of goods and services in Croatia amounts to 8% of GDP, the current account deficit was nearly 9.5% of GDP. Special disadvantage lies in the fact that the cause of the deficit is increasing the share of capital goods, as their share in this period decreased by 1.7% compared to the period from 2003 to 2007. and increased the share of imports of consumer goods. Exports of goods and services in this period of dominance in the market of the European Union and is the largest in Italy, 33.6% in the 2004.

Particularly interesting is the concentration of manufacturing exports of Croatia, or whether most of the exports consist of smaller or larger number of product groups. Large countries have a wider range of exports to more products and small countries have a higher concentration of manufacturing exports. Concentration of exports is measured by Herfindahl index of concentration in Figure 3 shows the same index of exports to the EU 27.

**Figure 3.** Herfindahlov index of concentration of exports in the EU27

Source: Eurostat, the Croatian National Bank

From Figure 3 we can see that the production concentration of Croatian exports is very low and much lower than the concentration of trade among the member countries of the European Union.

It also reduces the concentration of exporters, and significantly increases the concentration of the importer. The number of companies that export decreased substantially during the period from 2003 to 2007.

A notable fact of slow growth of exports of goods and services of Croatia lies in the fact of uncompetitive and weak competitiveness of Croatian products, but also of the Croatian economy.

The reason for the above is primarily and predominantly inadequate economic policies of the Croatian Government, sluggishness administrative system and huge tax, out tax and other charges, whether at the national or local level.

While other countries, especially countries in transition (Slovakia, the Baltic countries, Poland, Czech Republic) supported the development and investment in their industry with stimulus measures intended for export production and create additional value. For Croatia that is not the case, in Croatia the stimulating effect on productive investments is completely ignored and dominant was the import and investment in productive investments outside (eg shopping centers).

Although industry in Croatia was in front of these countries in the period up to 1990. In the period of independence Croatia lost that status, and the competitiveness of their products.

The data from the World Bank shows that the main driver of export growth in transition countries and EU member states have been significant investments in production, integration of producers in these countries and their integration (integration and investment) with final producers (usually in the form of ownership) from other developed countries, due to the stimulation of economic policy in those jurisdictions, primarily related to the product with a higher content of knowledge and advanced technology, while Croatian exports were in labor and resource-intensive activity, which leads to stagnation in exports and addiction.

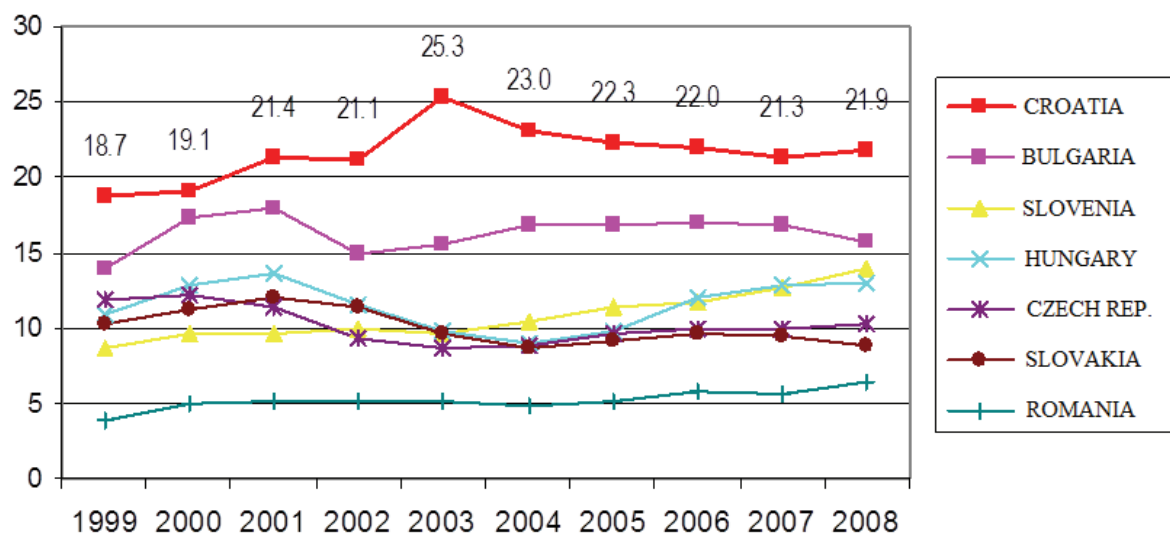
Croatian exports are characterized by unfortunately low content of knowledge and technology, making it more expensive due to labor costs in comparison with other transition countries (eg Romania, Slovakia ...) makes it even less competitive.

Although in recent years it changed and still is absolutely insufficient for the competition, which has led to a further decline in the Croatian economy in the period from 2007 to 2012 and the inability to exit from the economic crisis, all these five years.

Interesting is the further fact that Croatian exports to the European Union, from which we have become a permanent member, and remained stagnant from year to year to around 0.12%. At the same time the share of exports to the European Union other transition countries, EU member states grew much faster.

It is a worrisome fact that the share of exports of the former countries of Ex-Yugoslavia (Serbia, Montenegro and Kosovo) to the European Union increased by almost 3.5 times and reached Croatian export share in total imports the EU 27

Croatia has a significantly higher share of services exports in total exports of other comparable countries, especially tourism, because of the geographic location of Croatia, and the fact that we are a tourist country. Unfortunately, though tourism is a very important export activity of Croatia, a decrease in its share of GDP was recorded in the previous period, tourism was not the holder of export competitiveness. Exports of other services (transport, communications, business and financial ...) remained at the same level, while the collapse had construction services, as can be seen from Figure 4

**Figure 4** Exports of services in% of GDP

Source: Eurostat, the Croatian National Bank

## STATUS OF CROATIAN EXPORTS

Croatia has two economies in production: the state-public and private, the import is completely private (Viduka, 2007). According to the registration of activities of entrepreneurs in Croatia trading enterprises dominate, and in the production of reproductive entrepreneurs working on other people's requests or samples. Disbelief in the possibility that Croatia produces better industrial solutions and products than imported are being sown by people who live well on imports and encouraging imports.

An important factor in exports are products that are traditionally exported (so called „Old products“), but also products that have recently appeared on the market (so called „new products“). New Products in Croatia are based on new knowledge and technology that is being adopted and the problem is that they are under the perception of a foreign buyer, coming from a country that is no longer considered industrial. Such products are being produced in Croatia by companies that want to be leaders, at least in the region. New products require a large investment, high risk and carry a big profit, which often involves direct foreign investment (Jošić, 2008; Vukšić, 2005). Electronics in the world achieves the greatest profits and expansion, and for us most of these companies disappeared (ATM, RIZ, TESLA, part KONCAR-a).

Today the cycle of development and production is short. Exports of many companies in Croatia, just sprung and should be helped. Fair costs are huge - catalogs, people, time, marketing. Exports of consumer goods are becoming less possible from small countries in transition. Croatian technical experts are increasingly working in import companies, because they live good from it - that's why they go to community college and we pay for and encourage it. Source resources in Croatia and is now on the rise, and knowledge and technology in the fall. Highly qualified and skilled personnel in Croatia are getting older. Fewer and fewer young people have manufacturing knowledge. There is an outflow from the Croatian educational and professional technical staff.

Exports are carried out in two ways. The first is a competition in international tenders - where the competition is strong, the conditions for prequalification rigorous, it is a difficult passage for all Croatian companies. Another form of sales over the factory or wholesaler abroad which Croatia does not have, or distributor directly, (which our company practices the most) or through a network of agents.

National government enterprises, especially in the EU, ably protect local produce with specific requirements in the tender documents for major infrastructure projects. In Croatia, it is not the case, and Croatia did not provide any compensation business, or offset for our production in those countries. This is the main challenge of the Croatian state in terms of export promotion in these countries.

The dynamics of globalization have already cost us industrial and technological connections with the so - called transition countries which did not show only one competitor, but it is in some sectors there is so large competition that we are asking the question of the existence of these branches in our country).

Croatian companies in export markets, without foreign partners - integrators, can hardly get a serious job. A large number of highly educated staff, the collapse of the industry of the nineties, "spilled" into small firms or importers. With the disappearance of integrators such as Koncar contacts were lost with the global international market - there is no work for large or small, there is no new development, there is no export and the circle of slowing down the industry is closed. For these large systems: PRVOMAJSKA, KONCAR, JEDINSTVO, TESLA, ATM and others, incurred numerous specialist companies. The largest number have become service-oriented and import. Now foreign integrators use them for jobs in Croatia. Specialization is an important prerequisite for export competitiveness (Buturac, 2006, Yilmaz, 2005).

In Croatia, the lack of real quality and risk funds. A growing shortage of professional manpower of high technology. Students don't have opportunity to acquire the necessary practical professional experience anymore. Croatian business environment has so far stifled initiative oriented towards entrepreneurship based on knowledge, intellectual capital and exports. In Croatia, the government still has anti entrepreneurial views and new ideas difficult have difficulty finding their way from idea to product. There is a growing apathy of the existing and potential entrepreneurs in Croatia, exporters in the field of development and production of innovative competitive enterprise and industry as such - which is actually the most dangerous long-term consequences of the current situation. Lack of understanding of the needs of the industry, and not taking any steps that would be global in any sense of constructive help, is discouraging, cumulatively leads to increased feelings of helplessness.

### **EXPORT POLICY - VOLATILITY AND / OR INCONSISTENCY**

The current Croatian government has set an extremely ambitious export target in its election program 21, before coming to power. The government's goal was to at the end of the four-year term of office, ie until the end of the 2015th year, increase the share of exports in industrial production from the current 30% to over 50%, which corresponds to the level of successful CEE countries from the last round of enlargement. This means that every year the share of exports should increase by approximately 5 index points in industrial production. At the same time it is one of the few quantified economic goals of the 21st election program.

Although such an ambitious goal of the Croatian Government is the key requirement for a completely new integrated industrial policy, new technology and innovation policy and, consequently, a new strategy for relations with foreign countries, some of these development plans, after more than a year and a half of the current mandate of the Croatian Government, are still in the preparation phase.

A stated objective of rapid jump in exports is something almost no one in the current state Government doesn't even mention.

Seemingly absurd, essentially very logical. The current Government has continued to maintain their disorientation and / or wandering in the field of economic relations with other countries in the independent Republic of Croatia. Two of the developed market economies important roles of public authorities: structured design of the development of the state and nation, and prudently managing economic



relations with foreign countries, with an emphasis on exports politics have so far not taken hold.

The current administration as well as most of the previous administrations in independent Croatia in the structure of the state administration has not found it necessary to form and establish a competent independent body which would be responsible for carrier management process (Process Manager) development of Croatian society and the state, the holder of the preparation, design and supervision of the implementation of national strategies development and other national strategic documents, such as, for example, a national program for economic recovery. In the short period when such a national body existed, its actual responsibilities were minor. SDF Croatian 2007-2013. prepared in accordance with the expectations of the EU, largely as a basis for the use of pre-accession funds is operationalized through sectoral and functional national policy.

The political elites in independent Croatia have from 1990. more or less secretly, shown animosity towards community planning, emphasizing it mostly as a relic of the previous socialist system. The consequence is that the knowledge and skills of strategic planning in Croatia, at the national level, through two decades have atrophied, and the adoption of competing competencies and establishing processes and systems of strategic planning at the national level needs much more than short, as a rule, ad hoc seminars from inexperienced public servants.

The European Commission stresses that national policies for particular sectors or areas will be an essential prerequisite for the nomination and the use of structural and cohesion funds for the next fiscal period until 2020. As in many cases so far, the response of public authority in Croatia in the preparation of the European Commissions' expected national policies by 2020 is marked by delays, inefficiency, partial access and improvisation. There is inappropriate behavior shown towards social partners and other relevant stakeholders from positions of power marked by uncooperation, lecturing, even arrogance. In this context, it is difficult to assume the majority of the necessary documents will meet the expectations of the European Commission set criteria specified in the Framework for Cooperation Member States with the European Commission for the period until 2020.

Regarding the Croatian strategy and policy of economic relations with foreign countries, with emphasis on export promotion policy that would be based, as in some EU countries, on integrated industrial policy, the situation is significantly worse. Specifically over the past two decades of the independent Croatian state, an

integrated industrial policy, nor a policy of economic relations with other countries was attempted. Today, the state administration has no authority that would be responsible for the policy of exports and not for the overall economic relations with foreign countries, a similar situation occurred in most of the previous government. Such a situation conducive to different government bodies, associations of businessmen and other institutions included in the rule, partly in the area of economic relations with foreign countries, where their role and responsibility for action is very often not in proportion. States, which exports are an important factor in GDP growth and the development of the national economy, position themselves to, sometimes to administratively camouflage promoting exports, often within the Department of Trade. Examples are the Japanese MITI (international ministers of trade and industry), USA Ministry of Trade, the Chinese Ministry of trade or KOTRA (Korea Trade).

Establishment and abolition of the Agency for the promotion of exports, which has happened three times in the past two decades in Croatia is one the worst examples of improvisation in promoting exports of one of the countries in transition. Such moves of economic policy are difficult to explain with economic reasons, and of political reasons, we can only speculate. Possible consequences are virtually immeasurable. Foreign diplomats in Croatia have accepted the moves around the periodic establishment and abolition of the Croatian Agency for the promotion of exports with a pronounced amazement. All countries of the new Europe, which joined the EU in the last two expansions, have invested considerable effort in creating the administrative competence of such national agencies. The goal is to increase the export competitiveness national economies and further enable companies, especially exporters of sharp and severe competitive match on a common internal market of the EU for all countries.

This last goal has remained unrecognized for all the governments of the Republic of Croatia. Perhaps the best example is the organizational structure in the Czech Republic. A very successful national agency Czech trade, as part of the continuity and brand recognition, partly inherited competencies of the former Czech national foreign trade organization, and has representatives in a number of Czech diplomatic and consular missions in the world.

CBRD is an example from which it can be inferred that the continuity of institutions and the immutability of its management, contributes to its quality and

reputation on the national and international level. However CBRD by its nature isn't a classic export bank, but operates its numerous anti-recessionary programs.

The only attempt to create some export policies for a multi-year period was the project of Croatian Export Offensive HIO from 2007 to 2010, under the auspices of the MOE, launched in the second half of 2006 and presented to the public in the beginning of 2007. The project remained at the level of the ministry and was not accepted by the Government. After the parliamentary elections in the fall 2007 and changes of the minister, the project started off. Project HIO set itself ambitious goals, but it lacked the quality of operationalization as well as execution control of set objectives and measures.

Croatian exporters (CEA) is the only Croatian Chamber of voluntary associations, present back less than a decade, in which its focus was to promote exports. The conclusions of the previous seven conventions were trying to draw the attention of economic policy makers on the importance, opportunities and problems of Croatian export and Croatian exporters. Despite certain, usually temporary positive developments, they still continue to face systematic chaos in economic policy and almost ignore and disregard by the Government.

The absence of a comprehensive policy of exports as part of an overall policy of economic relations with foreign countries, public and national policies and strategies that are related to or are the basis for export, at the present time, present a very significant risk to the role of exports as a driver of the development of the Croatian economy.

## **PUBLIC ADMINISTRATIVE CAPACITY - INADEQUATE FOR EXPORT EXPANSION**

The findings and views on the basis of media reports and conventions of Croatian exporters (CEA's) are that economic diplomacy does not work, there are a large number of institutions and agencies with parallel action in the field of economic relations with foreign countries; CCE, TIPPA which overturned, HIZ, MFA, ME, HOK, CEA. CCC only has a developed infrastructure for export promotion.

It is being thought about what kind of role in the development of a country development of export-oriented small and medium-sized manufacturing companies can have. In Croatia, it is officially still thought that only technology development can deal with large state and social business (a lot of people and halls - a lot of high-tech products), and the latter is craft. In the world, countries have carefully

organized technology parks (or Technopolis) who gather in their midst small high-tech firms with the aim of retaining products that are among the technological and manufacturing industries (India, Finland, China, Turkey, South Africa, Russia, EU countries).

Finland and Slovakia are countries similar to Croatia, but the explosion of knowledge and production in these countries is the result of effective national strategic policy. Croatia is lagging behind because the state development institutions do not focus efforts aimed at the economy. Technological independence is a condition of independence of the state. Croatian companies are less connected and developed as islands, not as clusters. As such they perform outside of the country, because there aren't any systems integrators and Croatian foreign companies for a long time.

The state in Croatia remains the largest investor. It artificially maintains a market unsustainable economic system. Large funds are still (instead of creating a knowledge company) invested in the maintenance of certain systems that are doomed to disappear, while neglecting the creation of business knowledge. This is reflected in the Croatian economy as a whole and prevents the creation of development of competing companies. In other transition countries, enterprises are privatized and growing fast (eg Poland, Romania, Czech Republic), the absorption of new technology is faster.

Old companies in Croatia have inherited the building, technology, products, brand and market. The state must help the newly created enterprises that create innovative products based on its own development. Product development, prototyping, pilot production, certification and marketing, and the advent of the global marketplace require major investments that carry a high risk, while many small and medium enterprises can hardly bear such financial outlays.

Incentives for small and medium enterprises, especially those for exporters from the industry, are good but too small. Unfortunately, many of the products in Croatia are subsidized.

Various government agencies sometimes act towards one another - which makes parallel action. In Croatia, everything is full of institutions and programs that encourage entrepreneurship, funds that finance innovation and development projects, new technologies; interest in sometimes more large loans are easy to obtain, but export performance has been poor. Blockages to real potential successful ex-

port projects are very subtle: meet many forms and reports, business plans, work huge explanations of competitiveness. Of course money should not be shared the easy way, but the problem is that in these instances, in quite a number of cases, employed persons, who do not know how to assess the value of a single business project, a product, or to distinguish “the wheat from the chaff.”

Croatia in its current economic policy has shown that it is unable to create internationally competitive internal and administrative capacities and institutions to strengthen the export competitiveness of their national economies.

## **MODEL TO ENCOURAGE THE DEVELOPMENT OF CROATIAN EXPORTS: TEN STEPS TO CROATIAN EXPORTS**

The question is: What to do, how can Croatian companies orient exports? Based on the experience of the author, and numerous interviews with entrepreneurs who are struggling every day to survive, it is proposed to introduce a model of encouraging the development of Croatian exports: Ten Steps to Croatian exports, which will be briefly presented below.

### **Step 1: Set goals that can be measured**

The system of Croatian economic goals in exports must be coordinated from one place by vertical organization that is part of all the institutions of the state that the system must respect and serve (CEPA). The key Croatian economic goal should be to export from the current 40% of GDP, reaching over 65% of GDP by 2020. In the meantime, by 2016. it should reach 50% of GDP, accompanied and stimulated by appropriate economic measures independently of the political option that was.

### **Step 2: The formation of a single body to support exports and to strengthen support for marketing**

In Croatia, there is a large number of different agencies and institutions in the field of economic relations with foreign countries, whose number should simply be reduced. An establishment of such at the Zagreb Fair pavilion for one CROATIA EXPORT PRODUCT AGENCY (CEPA) is proposed, one that would be the “one stop shop” for export. In one place to gather the civil service, the archive exporters, catalogs of companies by industry, space for presentations, meetings with exporters.

Modeled on HITRO.HR it is proposed to establish eg. IZVOZ.HR - EXPORT.HR ie, establish the institution in which exporters will promptly receive all necessary documents required for export products.

According to the investment in marketing of a company the ambitions of the company can clearly be seen. It also can be a criterion in the selection and perceptions of companies that should be supported. A marketing analysis of a market in principle must be carried out by economic diplomacy. For now the CCE is the strongest in that field, it organizes trade fairs and connects us with strangers. Daily inquiries from around the world are the result of exhibiting companies at trade fairs, independently or within CCE. Such a presentation of the markets are extremely expensive. Presentations are not any more favorable. And this is only the first step in exports.

### **Step 3: Professionalize economic diplomacy**

In the Croatian economy it is a commonly accepted situation that economic diplomacy is often a good place for some unquality personel on budget financing so that they lose and so qualify some high quality staff. One should wonder why economic diplomacy in Croatia has such a bad reputation. Is the problem in the approach to the organization of the same, or in the chronic lack of staff, as a consequence of the lack of tradition in the “young country”. Economic diplomacy should be appointed by the Ministry of Economy (MoE) with the cooperation of CEPA, CEA, because everything related to the economy must go through the MOE, CCC, CEPA. The system of financing economic diplomacy should be such that, for example the first 5 years it is financed from the budget, and then funding can be taken over by businesses that find interest in it. If no export or political interests exist then why would Croatia have an embassy and diplomats in that country?

Economic diplomacy is lobbying. The result of economic diplomacy does not have to be immediately visible because of the nature of work, but its final performance is systematic and organized approach. They need to create Business Intelligence-track competitions, the business climate, to organize meetings, to know the potential of individual companies and products. An annual meeting of economic diplomacy without exporters is completely meaningless. Exporter and diplomat must be „as thick as thieves“. Economic diplomacy, which should implement the experts at our embassies, should play a major role, the possibility and importance. However, it is almost non-existent because its users are not given tasks.



#### **Step 4: Strengthen the role of the Diaspora and Croatian embassies**

The ministry of Foreign and European Affairs and the ministry of the Croatian economy would have to significantly improve the connectivity with the Croatian diaspora. Croatian diaspora can be used in some countries as a springboard.

Croatian embassies in most countries should in the future be considerably more a type of Croatian business centers in the world and not just political ones. Every diplomat needs to build up a network of commercial representatives of Croatian companies in the country, and the total amount of exports to be the result of his work. Encouraging states in a way that there will be a particular reward percentage of sales to the representative, because in that way his work will turn from service into professionalism which will again from generation to generation automatically create highly experienced staff whose knowledge will be useful for Croatia. Companies need specific reports from some markets. Lobbyist must be trained for our interests in foreign countries. We should strive to prepare a favorable climate for cooperation with Croatian companies, continuing to reflect and negotiate offset programs, compensation, and to be informed about future tenders in foreign countries.

#### **Step 5: Create new, non - traditional export products**

Creating new, non - traditional exports is important for developing countries, and makes the country less vulnerable to technologically advanced countries. Countries that attract foreign investors in manufacturing (and not in the trade and subcontracting) will develop a more competitive economy and increase the chance of being successful exporters. Technology is the main weapon in the competitive struggle. Hence the attraction of the technology industry is of paramount importance in terms of education and workforce development of domestic high-tech industrial base. Only contractors who develop higher technology can provide for economic growth. Technological independence is a requirement of independence, and only market competitiveness through export carries new developments. And with no new developments there is no technological independence.

Substitution import is an inevitable path to a competitive product. Substitution of today no longer means merely copying imported products. Japan, Korea and China have for thirty years carried the highest import substitution and export in history. Experiences from different countries say - what a local company produces with enough quality, can not have competition from imports and imported prod-

ucts even if they are cheaper. Import substitution is creating new products and new export opportunities. The biggest opportunity of the Croatian industry, is many small niche and high quality products. Different, previously imported equipment in Croatia allows us acquire knowledge. When it comes to government procurement infrastructure of high-tech equipment as this will reduce technological dependence and the foreign trade deficit, import substitution is something states support unreservedly. Substitution is a way of preserving jobs in Croatia. Experience tells us that we should not spend time and money on a mass substitution of a low technological level.

#### **Step 6: Strengthen the role of technology parks**

Technology parks, at least in every four Croatian universities, should be the core of development of production centers in Croatia. Their establishment is not expensive because Croatia has immense untapped public spaces that do not require large funds to put into operation. Technology parks are in many highly developed and developing countries, nursery innovative entrepreneurs and high value-added products for export. Each new company that declares itself to be high-tech, the state should provide stimulus to the clear definition of the condition and under the control of the technology park on product development.

#### **Step 7: Strengthen green technology**

The state should systematically promote and invest in the industry based on green technologies, some advanced technologies such as electronics and automation and robotics, energy and environmentally oriented transport, high - quality products based on natural resources, and high - quality intellectual and creative services. Each State legislation provides an impressive array of references in their industry.

#### **Step 8: Implement reindustrialization**

There is significant human capital in Croatias' IT industry, but is more related to trade and services. Without significant products with high added value there is no export. Therefore, we should create the conditions for re-industrialization - Help 'Todays' small and medium enterpreneurs to become larger with new products and new technologies. The main exporter is everywhere industry.

#### **Step 9: Provide support to small and medium enterpreneurs**

Small and medium enterpreneurs can break into export markets, first with references in Croatia, but this foreign integrators rarely allow. It is necessary to change

the philosophy. Clustering is necessary to ensure that foreign integrators work on the extent that our company does technology can not reach. In this way, the small and medium business that participates in the cluster gains experience, becomes competitive, creates a reference.

One of the most important things in the export of the reference, is where to get them, if not at home. The first placement, testing and development of new products and services can and must be done in a well-known domestic market. Each export product of advanced technology and high-tech product should and must be a national product. Very few Croatian companies are members of professional associations and relevant international EU integration which would have to be significantly encouraged.

### **Step 10: Provide training for personnel working in export**

The State must organize training of existing and future staff for export. It should be analysed where Croatian trained managers work, in commercial import or export companies.

Only countries with a high percentage of engineers and scientists have a high growth of national income, and thus promoting technical and natural sciences must be a national priority. Today, in a world dominated by the economy and the company's knowledge, in which it is most important to have quality educated staff and non-material resources - knowledge, patents, information, and speed development time and quality. This requires an enabling environment and the ability and willingness to constantly learn

## **CONCLUDING REMARKS**

Theoretical discussions and strategies are essential and necessary but practical life high-tech entrepreneurs in the Croatian environment suggests otherwise. In the early '90s a lot of these companies were established and most of them have unfortunately failed. Competition is the large multinational companies that use their infrastructure and high level of resources. Small Croatian company, without resources and support from the state can not force competitors to respond to the Croatian market. Thus, it was shown that the imperative of globalization of business activities and focusing strictly niche. Modern technology and communications skills and expand the market of small businesses. Developer entrepreneurs in Croatia have very well learned a lesson of how to, from nothing, do something, you really believe

that with a little more than nothing I can do “more than anything.” Entrepreneurs are the vanguard of “malcontents” in the overall system, because these are people who are looking for solutions to the problems and solutions are not being discovered. Croatian innovators at world fairs receive numerous awards. So why is innovation not converted into products? Because there is no organized approach to this, there is no state agency that will consolidate all of these innovations, and give them support in any form, there are companies that have development and production, sales ambitions and abilities. The state has no funds for risky investments, small and medium enterprises are not numerous enough and strong, and large Croatian companies are not generally interested in the Croatian innovation.

Ot national level without a sense of urgency and materiality, commitment to radical, systematic and comprehensive changes, as well as commitment to the achievement of ambitious national development and export targets, it is difficult to expect a significant positive step forward in the immediate future.

Only in this way will Croatian businessmen be able to make progress. With the current approach, which always reacts after the problem occurs, which stifles proactive rather than encourage it, development is not possible. It is only possible to survive, and the economic crisis has convinced us their reality, that this approach has a limited shelf life. Without urgent action, we can only ask ourselves: What next?

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