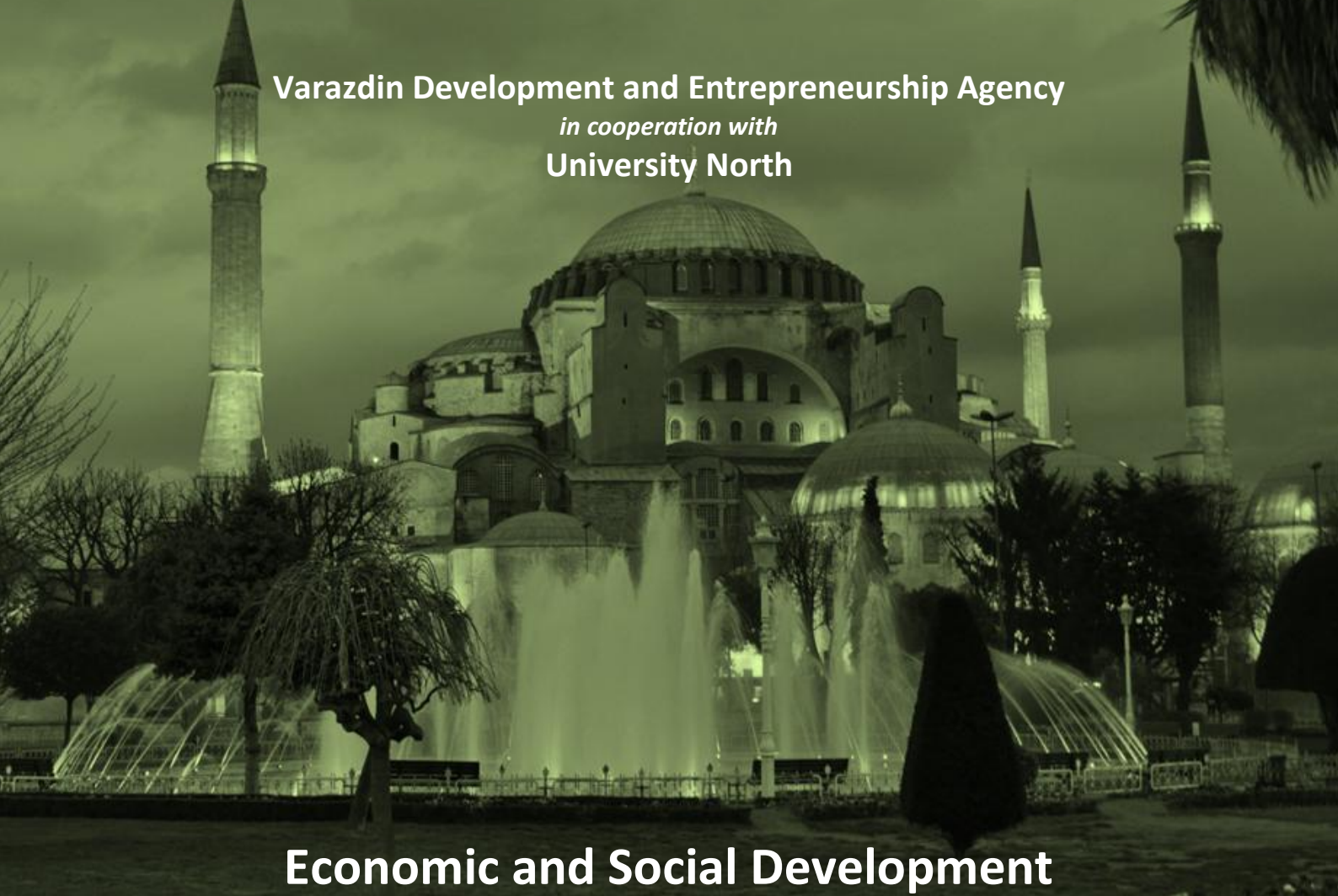


Varazdin Development and Entrepreneurship Agency
in cooperation with
University North



Economic and Social Development

9th International Scientific Conference



Editors:

Ilko Vrankic, Goran Kozina and Vladimir Kovsca

Book of Proceedings

Istanbul, 9-10 April 2015

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Section 1

Globalization and Challenges of the Modern World

COMPARISON OF DETERMINANTS OF EXPORT COMPETITIVENESS OF CROATIA IN RELATION TO CHOSEN COUNTRIES IN THE ENVIRONMENT

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ABSTRACT

This paper analyses facts connected to the export-competitiveness of Croatia in context of chosen countries in the environment, to evaluate the relative aspect of Croatian production aiming on export. The countries for comparison are chosen by key of experience in socialistic, planned economy and relatively late access to the European Union. In the analysis data is used from the period before the crisis which began in 2008, on incoming foreign investments, size of labour cost, movement of productivity of labour-force and importance of European Union market in the structure of export. By size of incoming foreign investments and especially by size of labour cost and growth of productivity rate and their correlation, Croatia is among the chosen countries in the most unfavourable position to realize growth of production meant for export. Decrease of share of export to developed markets of European Union countries from the year 2000 until now witness on the inadequate export-structure and on its increasing mismatch with import demand of EU countries, opposite to the scenario favourable for Croatia.

Keywords: competitiveness, foreign direct investments, exports

1. INTRODUCTION

One country's competitiveness can be looked at as its position in the international market in comparison to the position of other countries with a similar grade of economic development. The state and national conditions are important factor for international competitiveness. Michael Porter discloses four attributes of a national economy which influence the creation of competitiveness of the country and companies acting within: factorial attribute, attribute of demand, strategy and structure of competition and supporting and connected industry. (Grgic, Bilas, Franc, 2010, p. 90). The process of economic development influences the changes of intensity of influence of the single growth factor.

With regard to the importance of the single growth factors Porter recognizes three groups of countries. The first group comprehends countries that compete with labour force and natural resources, so their companies compete with low prices and generally sell primary products and low-tech products. These countries are depending on import of higher technologies and belong to underdeveloped countries. The second group of countries are middle developed countries which are characterized by a higher grade of investment efficiency, and as such they are selling products of middle developed technology. The third group of countries bases its growth on innovations and their companies compete with high technologies, new and unique

products. We are talking about high developed countries which are dominated by the service sector, developed scientific-investigative work and global orientation, and with higher salaries than in the two other groups of countries (Grgic, Bilas, Franc, 2010, p. 91). In the past 50 years important changes concerning the importance of factors of economic development took place. While 50 years ago competition was based on product development to achieve competitive advantage, today it is of prime importance to understand the market position for increasing competitiveness and market share on international markets, so we speak about collaborative and adaptive advantage. New factors of competitiveness are flexibility, integration, co-ordination and innovations. The world economic forum united these two indexes to the index of global competitiveness and defined competitiveness as aggregation of institutions, factors and politics which determine the grade of productivity of a country.

2. BASIC CHARACTERISTICS OF INTERNATIONAL COMPETITIVENESS OF CROATIAN ECONOMY

If we would rank the columns that make the global index of competitiveness, we would see that the most unfavourable places are taken in this order by: efficiency of labour market, efficiency of market of goods, institutions, business sophistication, development of financial market and macroeconomic environment. Concluding based only on the ranking of columns of competitiveness that make the index of global competitiveness of the World economic forum, Croatia is at most marked by being part of the first group of countries which are orientated on factors and build their competitiveness on institutional framework, infrastructure, macroeconomic stability healthcare and basic education, and partially in the second group, group of medium developed countries which build growth on higher efficiency of investments and taking technology of more developed countries. For analysing it is interesting to take a look also the most problematic factors for doing business in Croatia, given by the forum. Within 15 most problematic factors the first five in the ranking are in this order: inefficient state bureaucracy, corruption, political instability, tax rates and restrictive regulation of labour market. (<http://reports.weforum.org/global-competitiveness-2014-2015/> 31.1.2015)

3. COMPARATIVE ANALYSIS OF FOREIGN-TRADE FLOW OF SELECTED COUNTRIES IN THE ENVIRONMENT

Summarized one can state that the basic condition for increasing export is competitiveness on international markets, and the structure of production for export aligned with the demand on international market (Kersan – Skabic, 2005, p. 82). For the sake of a comparative analysis of export competitiveness of Croatian economy countries are selected in the environment which went or are going to a transition phase like Croatia, except the war and war damages: Bulgaria, Czech Republic, Hungary, Romania, Slovakia and Slovenia. The observed countries generally export more than half of their export to countries in the European Union, that means to the market of developed countries. The analysis of their export-structure will show that Hungary has the biggest share of capital-intensive technological products in its export, while Croatia leads in labour-intensive products and low-technology products according to OECD classification. (Hatzichronoglou, 1997, p. 6).

From the data on size of imports, exports, their growth rates in the five-year period from 2003 to 2008, the size of the balance of exchange of goods and balance of current transaction account in table 1. we can see that, except Hungary and Czech Republic, all countries have a deficit in exchange of goods, and Croatia takes the third place by deficit of exchange of goods. Higher deficit of exchange of goods have Poland, 16,65 and Romania, 18,34. But taking into consideration that the deficit of exchange of goods in this countries is taking

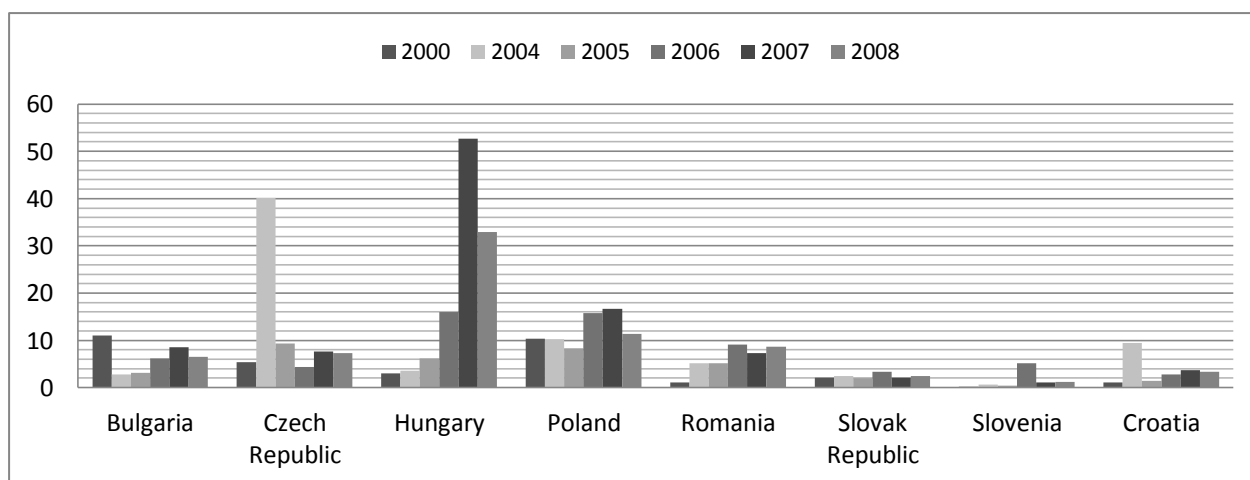
“only” 13,86% (Poland) and 54,65% (Romania) of the total export, while the Croatian deficit of exchange of goods exceeds total export by more than a billion EUR, the situation of Croatian exchange of goods is by far the worst. At the same time Croatia is the only country with a coverage ratio of import by export less than 50%. The second worse position as per coverage rate import by export share Romania and Bulgaria with about 64%.

According to the share of deficit of balance of current transactions in overall GDP, Croatia with 9,4 % is ranked third, behind Bulgaria (25,4%) and Romania (12,2%). The best ranks concerning this criteria are taken by Czech Republic (3,1%), Poland (5,4%) and Slovenia (5,5%) and Slovakia (6,6%). Croatia meanwhile registers the lowest export growth-rate, 11,92% in the five year period from 2003 to 2008. A somewhat higher growth rate record Slovenia (12,06%) and Hungary (13,86%) while Slovakia with 19,98% registers the highest export growth-rate. For the sake of rightful interpretation, this data has to be completed with the data that also by the growth of import Croatia takes the lowest rank with 10,46%, which talks about the general “slowing” of Croatian economy. A somewhat higher import growth-rate is recorded for Hungary with 12,14% and Slovenia with 13,72%, while the other countries register from 15% to 21% import-growth. Here definitely the most unfavourable position is taken by Romania, where the growth rate of import I by 5 percentage points higher than the export-rate.

Table 1: Indicators of exchange of goods in Croatia and selected countries in the environment in 2008, in billions EUR (Source: Wiener Institut für Internationale Wirtschaftsvergleiche (WIIW), Handbook of Statistics 2009, II Structural Indicators, Table II/1.13, Croatia: Main Economic Indicators, str. 63, 65, 69, 75, 77, 79, 81 i 86)

	Export in billion EUR	Import in billion EUR	Balance of exchange of goods in billion EUR	Balance of current transactions in % of GDP	Average annual export growth rate in period 2003-2008	Average annual import growth rate in period 2003-2008
Bulgaria	15,2	23,8	-8,6	-25,4	18,04	21,34
Czech Republic	98,82	94,67	4,15	-3,1	18,2	15,98
Hungary	72,26	72,16	0,1	-8,7	13,86	12,14
Poland	120,15	136,8	-16,65	-5,4	17,48	18,42
Romania	33,56	51,9	-18,34	-12,2	16,56	21,7
Slovak Republic	47,72	48,43	-0,71	-6,6	19,98	19,98
Slovenia	20,03	22,66	-2,63	-5,5	12,06	13,72
Croatia	9,74	20,61	-10,87	-9,4	11,92	10,46

For the sake of this analysis we will limit to the absolute amount of direct foreign investments. As is visible from picture 1, international investors in the relevant period were attracted most by Hungary, whose incoming investments had accelerated growth until 2007. Croatia entered significant investments only in 2004, while in other years the amounts are on the level of investments in Slovakia. Less foreign investments than Croatia and Slovakia received only Slovenia, while all other countries record significantly higher income of investments than Croatia, even ten times the amount.



Picture 1: Income of direct foreign investments in Croatia and selected countries in 200, and 2004 – 2008 in billion EUR (Source: Wiener Institut für Internationale Wirtschaftsvergleiche WIIW (2009), Handbook of Statistics, II Structural Indicators, Table II/1.13, Croatia: Main Economic Indicators, p. 63, 65, 69, 75, 77, 79, 81 i 86)

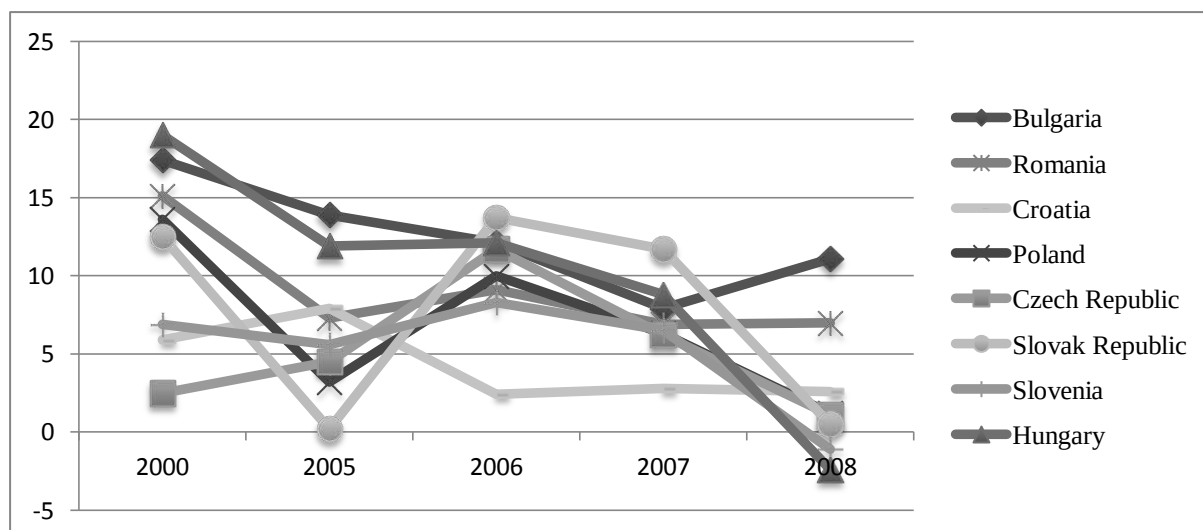
Beside the stated facts connected to the size of incoming foreign investments, it is important to take also the structure of the industries into consideration that registered most investments. The biggest share of direct foreign investments was in the banking industry, in connection with privatisation, rehabilitation and sales of banks, and telecommunication, connected with Deutsche Telekom becoming a shareholder, and pharmaceutical industry. After receiving direct foreign investments, these industries did not have significant impact on the increase of competitive competence of the exporting sector. The main reason is the lack of influence direct foreign investments on the export potential, type of industries that received investments: we are talking about so called local, internationally not tradable sectors, by this thinking of telecommunication and banking sector. In pharmaceutical industry there was acquisition of existing companies or acquisition of shares of existing companies, with undisturbed continuing of business, so that it did not come to new production, income or employment. The motive of the investor was hidden in taking market position and existing business and technology. Positive experience with foreign direct investment can be shown on the example of consolidating the banking sector, which manifested in improving quality and stability. The mentioned three sectors were receiving 62,1% of all direct foreign investments. The remainder is spread over many other industries. In internationally tradable sectors we lose the influence of foreign currency exchange rate on level of prices and production cost, that is why some authors consider the overvalued kuna partially reason for such structure of incoming of foreign investments, where non-production industries dominate, without export potential (Majic, 2012, p. 128)

4. COMPARATIVE ANALYSIS OF BASIC INDICATORS OF EXPORT COMPETITIVENESS OF CROATIA AND SELECTED COUNTRIES

For comparative analysis of export competitiveness of Croatian economy and the economy of selected countries the following indicators are used: productivity of labour, level of wages and importance of market of developed countries.

4.1. Productivity of labour

Productivity of labour is the indicator of the level of GDP per one employee. Growth of productivity of labour can be reached by growth of GDP by same level of employment, growth of GDP faster than growth of employment or decrease of employment and same GDP. In case of Croatia we can talk about decreasing employment at same level of (Kersan – Skabic, 2005, p. 92), which lead to undeserved optimistic picture of growth of employment in some periods in the early nineties. Growth of employment was reached by laying off workers. The same thing happened with countries in transition, which we compare with Croatia, but only at the begin of transition, later growth of employment followed.



Picture 2: Productivity in manufacturing industry in Croatia and selected countries in 2000 and 2005 – 2008, annual growth rate in % (Source: Wiener Institut für Internationale Wirtschaftsvergleiche (WIIW), Handbook of Statistics 2009, II.7 Manufacturing Industry, Table II/7.2, p. 231-241)

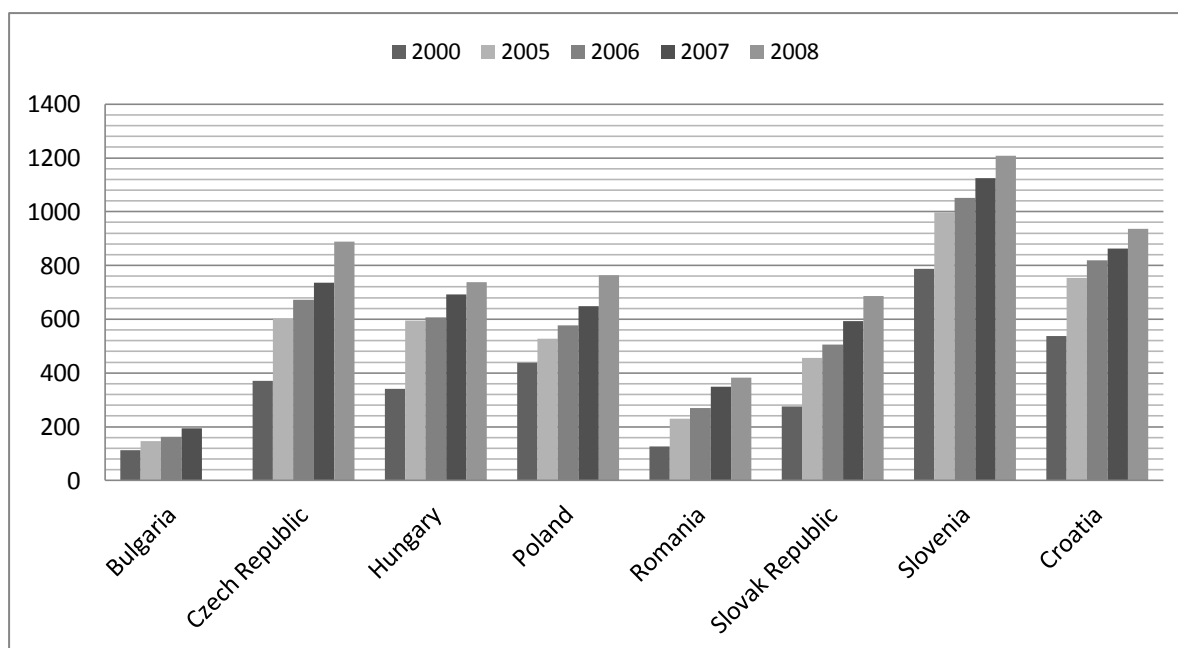
Data from picture 2 will show that Slovakia, Czech Republic, Hungary and Poland show high growth-rates of employment. Croatia records in the contemplated period lowest average rates of all other contemplated countries, without major oscillations, which some countries record (Hungary, Slovakia, Slovenia) in 2008, showing negative values.

The highest growth-rate Croatia records in 2005, 8%, when growth is higher only in two countries: Bulgaria and Hungary. After 2005 the growth rate settles at about 2%. Romania and Bulgaria as youngest members of the EU within the selected countries record relatively high productivity growth rates, multiply exceeding the growth rates in Croatia, except in year 2005.

4.2. Wages

From the data on development of gross salaries in the manufacturing industry in the period 2005 – 2008 in picture 3, we see that Croatia is with respect to these criteria similar to the most developed countries or countries which record by far higher rates of productivity growth, Slovenia and Czech Republic.

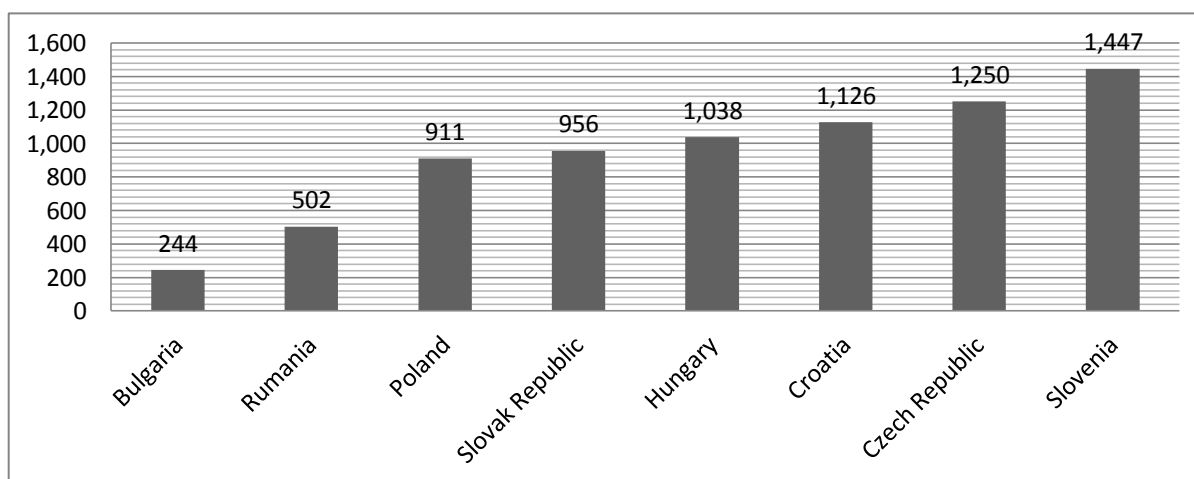
As per size of monthly gross salary multiply surpasses Rumania and Bulgaria, which, on the other hand, record multiple growth rates of productivity.



Picture 3: Average monthly gross salaries in the manufacturing industry in Croatia and selected countries in the environment in 200 and 2005 – 2008, at current prices, in EUR (Source: Wiener Institut für Internationale Wirtschaftsvergleiche (WIIW), Handbook of Statistics, II.7 Manufacturing Industry, Table II/7.2, p. 231-241)

For example, in 2007 the average salary in Croatia of 863 EUR exceeds four times the average salary in Bulgaria, and more than two times the average salary in Romania. As low labour cost is one of the motives of foreign investors to invest in countries in transition, as generally for start production, one can conclude that by these criteria, Croatia has low competitiveness.

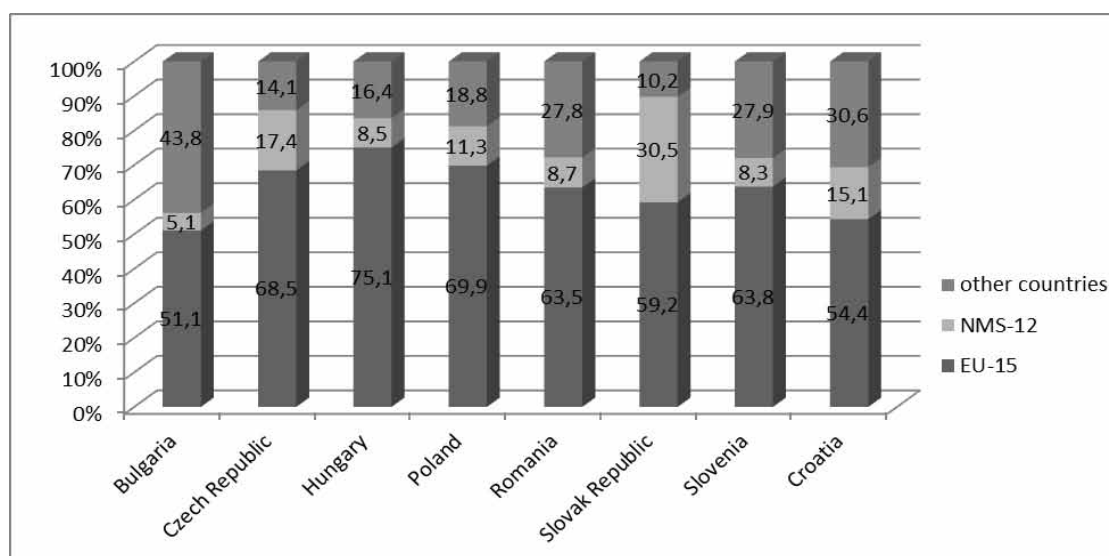
Looking at the size of total labour cost (picture 4) in 2008, this relation is even higher. With average 1.126 EUR labour cost Croatia is only somewhat lower than Czech Republic with 1.250 EUR, the second of the selected countries.



Picture 4: Estimated total labour cost in Croatia and selected countries in the environment in 2008, in EUR, from lowest to highest (Source: Wiener Institut für Internationale Wirtschaftsvergleiche (WIIW), Handbook of Statistics, II.7 Manufacturing Industry, Table II/7.2, p. 231-241)

4.3. Significance of EU market for export of selected countries in the environment

From all selected countries Croatia records the lowest share of export to EU countries in total export, especially to EU-15, old members, except Bulgaria in 2000 (picture 5 and 6). Comparing 2000 and 2008, almost all countries decreased the share of export to EU countries, but only in the case of Croatia we can speak about a significant decrease, which can be explained by the renewal of so called "soft markets" of former Yugoslavia. So Croatian export to EU decreased from 69,5% in 2000 to 61 % in 2008. The decrease of Croatia to EU-15 countries, old EU members, amounts in more than 10. Somewhat less decrease of share of export to EU countries records Hungary, from 83,6% in 2000 to 78% in 2008, no here we are talking about a country which is, after Slovakia and the Czech Republic, the third country as per share of export to the EU. The best positioned countries in that respect, Slovakia and the Czech Republic, show high convergence of export structure and demand of EU, realizing 85% (Czech Republic) and 85,3% (Slovakia) of its export to EU countries. From the structure of total export to EU and other countries, we see the increase of share of export of Croatia to other countries from 30,6 % in 2000 to 39,1 % in 2008, whereas other countries mark countries of ex- Yugoslavia and Russia.

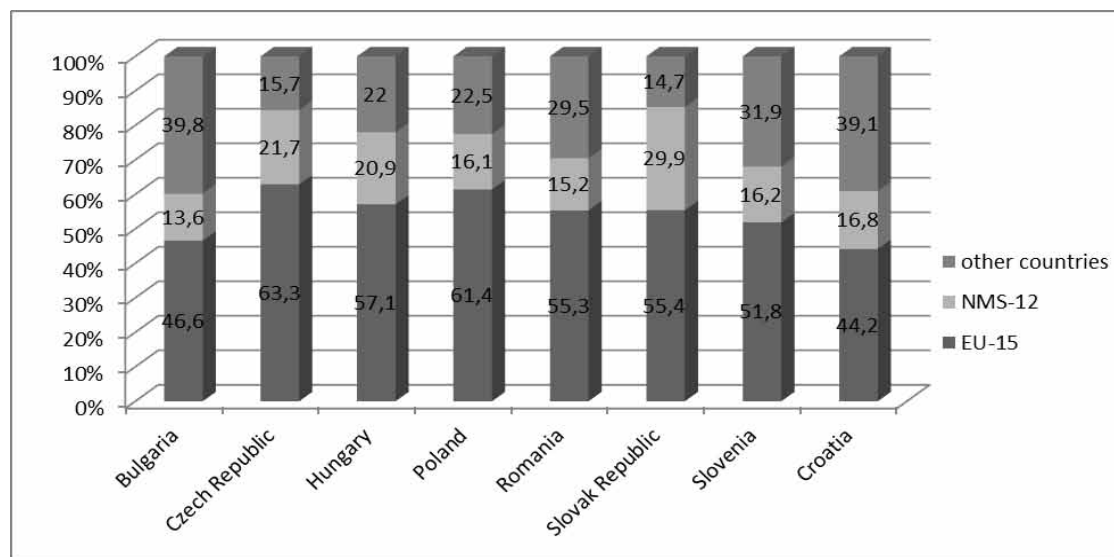


EU - 15 = „old“ member countries EU

NMS - 12 = 12 „new“ member countries EU

Picture 5: Significance of EU markets for Croatian export and selected countries in 2000 in % of total export (Source: Wiener Institut für Internationale Wirtschaftsvergleiche (WIIW), Handbook of Statistics, II.7 Manufacturing Industry, Table II/7.2, p. 231-241)

We can conclude that Croatia is in a phase of redirecting to soft markets of Ex-Yugoslavia, where it is easier to place Croatian products, and Russia, instead of the expected scenario of increased export to developed markets of the European Union, respectively we can speak on returning to the position before 1992. Liberalization of trade through joining the World Trade Organisation and bilateral contracts did not realize the wanted effects for Croatian exporters.



EU - 15 = „old“ member countries EU

NMS - 12 = 12 „new“ member countries EU

Picture 6: Significance of EU market for export of Croatia and selected countries in 2008 in % of total export (Source: Wiener Institut für Internationale Wirtschaftsvergleiche (WIIW), Handbook of Statistics, II.7 Manufacturing Industry, Table II/7.2, p. 231-241)

5. CONCLUSIVE CONSIDERATION

Looking according to the index of global competitiveness of the World Economic Forum, Croatia is marked a member of a group of countries directed by factors, which base their competitiveness on institutional framework, infrastructure, economic stability, healthcare and basic education, rather than medium developed countries which are aiming on realizing effectiveness and which base competitiveness on a system of high level education, efficient markets of goods and labour, developed financial markets, technological facilities and market-size. Croatia is significantly lacking behind in respect of sophisticated business and innovation, which are base of competitiveness of developed countries. Amongst the selected group of countries in the environment, Croatia is on high third place regarding labour-cost, and on second place, behind Slovenia, by size of gross-salary. Looking at growth rates of labour productivity, Croatia is amongst a group of three countries with the most unfavourable growth of productivity, not taking into consideration 2008, the year of recession when Croatia's position improved, as result of strong effect of recession on the majority of selected countries in the environment, than on Croatia. By size of inflow of foreign investments, and especially by size of labour-cost and growth-rates of productivity and their correlation, Croatia is amongst the selected countries in the environment in the most unfavourable positions as far realization of growth of production for export is concerned.

Decrease of share of export to developed markets of countries that are members of the European Union from 2000 until today witness an inadequate structure of export, respectively of growing miss-match with the import demand of EU countries, opposite to the scenario which would be favourable for Croatia. This fact is especially unfavourable, given that Croatia, expect ship-building, leads in export of labour-intensive products (textile industry), and resource-intensive products (mineral-oil and grease), instead of favourable capital-intensive products. At this place it is important to add that ship-building itself generates high import due to lack of fitted components, respectively un-developed supporting industry.

Growth of share of export to countries outside the EU shows that Croatia returns to the position before 1992, respectively again directs to so-called soft markets of Ex-Yugoslavia

and Russia. Movement of size and structure of export of the Republic of Croatia from independence until now shows that the economic policy in this part is not successfully established according to the challenges of transition and liberation of trade. Joining the contracts of free-trade and World Trade Organisation did not result in the expected respective increase of export and improvement of its structure but rather in increase of import due to growth of domestic consumption and increase of competition for the sector of domestic manufacturers which are anyway not strong enough.

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