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UNVEILING CROATIAN INTERNATIONAL COMPETITIVENESS THROUGH EXPORT PERFORMANCE

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ABSTRACT. Exports attract special attention in the economic literature and practice due to its contribution to the stability and long term development of any economy, particularly small one as Croatian economy. Also, its role is additionally augmented in the contemporary context of increasing global competition.

The multifold contributions of exports are particularly evident in accelerating of economic growth not only directly through production, but also indirectly, through facilitating the imports of goods and services, transferring and spreading out of new ideas, knowledge and technologies, i.e. through forcing all stakeholders to more innovative behavior and increased productivity. Furthermore, it contributes to resolving of macroeconomic problems like unemployment and external debt which is of significant importance when their current dimension in Croatia is considered. Export volume and structure portray export performance of an economy and indicate the level of its international competitiveness.

Export performance of Croatian economy is extremely weak, implying at the same time its poor international competitiveness. The main purpose of this paper is to explore the reasons for such weak export performance as well as to discuss issues facing the export enterprises in Croatia. The special attention is given to the exploration of small and medium sized- enterprises’ contribution to the total Croatian exports.

Key words: trade performance, competitiveness, Croatia, export enterprises

1. Introduction

Exports attract special attention in the economic literature and practice due to its contribution to the stability and long term development of any economy, particularly small one such as Croatian economy. Also, its role is additionally augmented in the contemporary context of increasingly powerful global competition.

The multifold contributions of exports are particularly evident in accelerating of economic growth not only directly through production, but also indirectly, through facilitating the imports of goods and services, transferring and spreading out of new ideas, knowledge and technologies, i.e. through forcing all stakeholders to more innovative behavior and increased productivity. Furthermore, it contributes to resolving of macroeconomic problems like unemployment and external debt which is of significant importance when their current dimensions in the most of the Central and Eastern European (CEE) countries are considered. Export volume and structure portray export performance of an economy and indicate the level of its international competitiveness.

The competitiveness of nations is a vague concept. There are plenty of definitions trying to explain its meaning (see for review Garell, 2003, Annex II). The following one is usually

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used in literature: “Competitiveness of nations looks how nations create and maintain an environment which sustains the competitiveness of its enterprises” (Garell, 2003). This definition puts emphasis on the role of economic policy in shaping the business environment. International competitiveness refers to the ability of a nation to compare its competitiveness with competitiveness of other nations, i.e. to compete successfully for export markets. If country’s performs well internationally, this could be a sign of its sound international competitiveness.

Michael E. Porter criticizes the traditional description of the competitiveness, where nation’s competitiveness is measured by exchange rates, interest rates, government deficits and the like. The competitiveness of the nations is not coherently explained by existing theories. According to Porter, “the only meaningful concept of competitiveness at the national level is productivity. Seeking to explain competitiveness at the national level is to answer the wrong question. What must be understood are the determinants of productivity and the rate of the productivity growth” (Porter, 1990, 160-161).

For Porter the competitiveness of the nations are complex outcome of the forces described as factor conditions, context and rivalry conditions, demand conditions, and supporting industries – cluster conditions. Porter’s diamond theory provides a holistic concept which helps all stakeholders in a country to consider competitiveness in its complexity and to communicate constructively about improving the environment for raising competitiveness.

This theory stresses the importance of macroeconomic issues. But, the sound macroeconomic environment is only precondition; the improvement and sustainability of the country’s competitiveness is rooted in its microeconomic conditions, and abilities of the local firms to gain superior productivity in some industries.

There is no consensus among economists on the question: “Do nations really compete?” Although some economists (e.g. Krugman, 1994; see for discussion also Reiljan at al., 2000) put the usefulness of the concept into question, and deny the ability of nation to compete among themselves, because this can be done only by enterprises, several international studies such as the World Competitiveness Yearbook, the Global Competitiveness Report (GCR), Global Entrepreneurship Monitor (GEM) confirm that the government can shape the favorable environment in which enterprises operate, and consequently contribute to nation-competitiveness.

The level of openness for international trade and the success in foreign trade lead to an increase in country’s economic performance, and reflect country’s competitiveness. The world experience indicates the less the country is, the more open for international trade it is. This fact holds also for Croatia. Croatia is a small country with slightly less than 4.5 million of inhabitants and 6,220 EUR of gross domestic product (GDP) per capita (PPP). Although the Croatian macroeconomic authorities have recognized the importance of exports for its economic performance and growth, they failed in shaping favorable business environment for Croatian export enterprises. Consequently, this contributes to poor export performance of Croatian economy, implying at the same time its poor international competitiveness. The main purpose of this paper is to explore the reasons for such feeble export performance, i.e. manufactured trade performance, as well as to discuss problems facing the export enterprises in Croatia. Because, the most of Croatian enterprises, approximately 99% when defined by numbers of employees, can be described as small or medium-sized, the special attention in this paper is also given to the exploration of small and medium sized-enterprises’ contribution to the total Croatian exports.

2. The short review of relationship between export performance and international competitiveness

Export performance and trade openness can be important for enhancing economic growth. A number of studies have explored the relationship of the trade and economic performance (Sachs and Warner, 1995; Dollar and Kraay, 2000) and showed that the trade
openness in general, can raise economic growth rates. However, inconsistent results for developing countries indicate that variation in national experiences stems from differences in the internal conditions of the country. Different set of the macroeconomic and microeconomic conditions result in different types of the competitive strategies and advantages for the particular enterprise and particular country. Although export performance is only one facet of the international competitiveness, it seems valuable to investigate the Croatia export performance and its relationship with competitiveness.

There is a self feeding relation between export performance and international competitiveness. Exports are first level of international competitiveness affirmation. The improvement in the export performance leads to an increase in country's competitiveness. This effect is a result of the enterprise's skills, knowledge, propensity to innovate and use new technology, ability to exploit technological opportunities in a successfully commercial way, etc. On the other hand, in striving to achieve successful exports in highly competitive global markets, a country is forced to improve its competitiveness. The more competitive a country is, the more economically powerful it is. Consequently, it is more capable to compete on global market, to attract people with the highest level of knowledge, skills, to buy new technologies, etc., and to improve its export performance as well as to achieve better export results. This can be propitious for additional innovations and in general to improvement in its competitiveness. Consequently, export performance and competitiveness should not be considered in isolation, totally independently from one another; they are mutually interdependent.

A review of available theoretical literatures and empirical evidences support notion that competitiveness can be explained to some extent by the country’s ability to export (see for example Fagerberg, 1986, Dollar and Wolff, 1993). However, competitiveness should not be equated only with the country’s ability to export; it should reflect all its dimensions such as technology and price. According to Porter (1990) the ability to produce goods and services which can be sold internationally seems to be the first sign of the enterprise’s international competitiveness in particular national economy. However, this ability is usually driven by different economic rationality. Dynamics of the international competitiveness is characterized as the transition from the factor driven economy, through investment driven economy, to innovation driven economy. The ultimate stage of the competitive development is the ability of the enterprises to provide innovate products and services, to compete with distinctive strategies that provide unique values.

3. International Competitiveness of Croatia – result reports

There are several international projects exploring the competitiveness of nations. Croatia has been participated in the research of the Global Competitiveness Survey and consequently in the GCR since 2002. According to the GCR, Croatia worsened its competitiveness in 2004 compared with the previous years. In 2004 it took the position on the competitiveness scale behind not only the leading CEE countries included in this project (such as Estonia, Slovenia, the Czech Republic, and Hungary), but also behind, in some competitiveness dimensions, South East European countries like Romania and Bulgaria. The worsening of Croatian competitiveness position is not only the consequence of weakness in competitiveness of its economy, but the improvement of competitiveness of these other countries (see table 1).

The worsening of Croatian competitiveness can be observed in all of three indexes designed by GCR in order to measure competitiveness: the Growth Competitiveness Index, the Business Competitiveness Index and the Global Competitiveness Index (for description see GCR, 2004-2005). The worsening of the macroeconomic environment, the state of the Croatian’ public institutions and its technological readiness contribute to the worsening of the
Table 1.

<table>
<thead>
<tr>
<th>Country</th>
<th>Growth Competitiveness Index (104)</th>
<th>Business Competitiveness Index (93)</th>
<th>Global Competitiveness Index (104)</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>61</td>
<td>67</td>
<td>79</td>
<td>Worsening</td>
</tr>
<tr>
<td>Romania</td>
<td>63</td>
<td>54</td>
<td>57</td>
<td>Enhancing</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>59</td>
<td>70</td>
<td>70</td>
<td>Enhancing</td>
</tr>
<tr>
<td>Estonia</td>
<td>20</td>
<td>27</td>
<td>24</td>
<td>Enhancing</td>
</tr>
<tr>
<td>Slovakia</td>
<td>43</td>
<td>38</td>
<td>41</td>
<td>Enhancing</td>
</tr>
<tr>
<td>Slovenia</td>
<td>33</td>
<td>30</td>
<td>35</td>
<td>Stagnating</td>
</tr>
<tr>
<td>Hungary</td>
<td>39</td>
<td>40</td>
<td>46</td>
<td>Stagnating</td>
</tr>
</tbody>
</table>

Note: Total number of countries included in project is given in parenthesis.

Source: Global Competitiveness Report 2004 – 2005

The worsening of the microeconomic business environment quality contributes significantly to the worsening of business competitiveness. Administrative burdening of local authorities, administrative burdening of central government, feeble organized efforts in rising competitiveness, regional differences in business environment quality, poor transparency of governmental policies in decision making, government failures in reducing poverty and inequality, unethical behavior of enterprises are stressed by 109 interviewed enterprises in the frame of GCR research in Croatia in 2004 as the most important disadvantages of national business environment.

The results of the other international projects (such as GEM, Transparency International) indicate the similar unfavorable trends in Croatian economy, especially when they are compared with the outcomes of countries restructuring faster. The same unfavorable tendency regarding the competitiveness of Croatian economy is noticed also in the work of Fagerberg et al. (2004). Fagerberg et al. (2004) made distinction among four dimensions of competitiveness: technological (which refers to the ability of a country to compete successfully in markets for new goods and services), capacity competitiveness (which refers to the ability of a country for exploiting technological opportunities in a successfully commercial way), price or cost competitiveness (measured as unit wage costs in manufacturing), and demand competitiveness (which refers to the ability of a country to exploit the changing composition of demand, by offering attractive products that are in high demand at home and abroad).

Based on the analysis of data for 49 countries from 1993 to 2001, characterized by very different development level and trends, they found out that both technological and capacity competitiveness play the most important role in explaining why some countries perform better than others. Compared GDP per capita in 1997 and average annual growth rate (1993 – 2001) they found out that Croatia belongs (among all the new EU members plus China, Korea, Malaysia and Chile) to the group of countries called "catching up", i.e. to the group which have low GDP per capita and high average annual growth rate. But, besides the poor price and demand competitiveness, the main source of feeble international competitiveness and export performance is based in poor technological and capacity competitiveness of Croatian economy. Regarding these two dimensions it belongs to the group of countries called "failing further behind". Fagerberg at al. (2004) found out that deteriorating capacity competitiveness is one of the main factors hampering low-income countries in Europe and Asia in exploiting the potential for catch-up in technology and income.
4. Export performance of Croatian economy

Foreign trade of the Croatia is growing dynamically compared to the pre-war period (from 7.3 USD billion in 1991 to 24.6 USD billion in 2003). However, this increase is mainly due to the increasing imports in the foreign trade (see picture 1). During 1991-2004 exports comprised 37.8% of the total trade. Foreign trade deficit grew from 254 USD million in 1991 to 8.6 USD billion in 2004.

For a small country like Croatia, exports are basic precondition for sustaining expected growth rates and standards of living. Simultaneously, it is the precondition for achieving positive benefits of the economies of scale, as well as learning and experiences curve. After the fall of the Former Yugoslavia and Homeland war (1991-1995) Croatia was faced with the diminishing export prospect in former Yugoslavia member republics: Bosnia and Herzegovina, Serbia and Montenegro, and Macedonia. Because of the narrow domestic markets, these countries were main export destinations of the Croatian products. These markets, as well as other Eastern European markets, were due to political and security situation, closed or hostile toward Croatian export enterprises. To sustain economic growth Croatia was challenged to find new export markets.

However, exports were stagnating during 1991-2003 on the average level of 4.5 USD billion. More dynamic growth in exports were not experienced until 2003 and 2004 when the export value grew from 6.2 USD billion to 8 USD billion respectively. Unfavorable trends in the foreign trade are also indicated by diminishing rate of imports covered by exports. During the 1992 imports were 100% covered with the value of the exports. During the 2000-2003 imports were covered by exports at rate of 46.7%.

![Figure 1. Foreign trade statistics for Croatia during the 1991-2004.](image)

Note: Values are in 000 of US$

Source: Croatian National Bank

There are two negative trends in the exports. First trend is that level of the exports as part of the GDP structure is unfavorable compared to the level of imports. Exports comprise smaller part in the structure of the Croatian GDP; while imports have got the dominant share. The most favorable share of the exports as the part of the GDP Croatia achieved in 1992 (50.1%), while the bottom level of the export share in the GDP was achieved in 2003 (30.3%). The second trend is that exports grow at the slower pace than imports, so the gap is widening.
Furthermore, there are some unfavorable shifts in the export destinations, too. The share of the exports with the members of the EU is diminishing. While 1991 share of the EU members were 0.34%; at the 2000 the share was halved to 0.19%. The major influence in that was diminishing rate of the exports with Italy and Germany, two the most important export partners of Croatia. For instance, Croatian exports in 1993 as the percentage of the Italian and German imports were 1.10% and 0.49% respectively, while in 2000 the values have been diminished to 0.70% (Italy) and 0.27% (Germany) (Galinec et al., 2002). During that time the other CEE countries almost doubled their exports to Italy and Germany. This was possible due to the Croatia lagging globalization and integration processes. It was only during late 1990s that liberalization was enhanced by creating free trade agreement, forging member status with the World Trade Organization, and signing The Stabilization and Association Agreement with the EU.

However, weak export propulsiveness of the Croatian economy is to the great extent outcome of the slow industry restructuring and modernization, combined with the uncompetitiveness and unfavorable structure of the Croatian export products. The prevalent rate in the structure of the export products is the low added value products (Galinec et al., 2002, NCC, 2003). Croatia exports are inelastic and concentrated on the few groups of products. Concentration trend is evident since 1991. While in 1993 the five most important export products comprised 43% of the total Croatian exports; in 2000 they comprised almost 47% (Djukec et al., 2003). However, the reason why this concentration is not favorable is that the five most important export goods are low technology products, with low intellectual or design or innovation potential (Djukec et al., 2003). Analysis of the export product structures shows that the volume of the technology, knowledge intensive product has been reduced, while the labor intensive products have been extended in the structure of the Croatian exports (NCC, 2003; Galinec et al., 2002).

There are many ways to categorize goods by technology. According to the most commonly used method due to its simplicity, it can be distinguish as "high" and "low" technology based on their R&D intensity. OECD (1987) suggests distinguishing between resource-based, labor-intensive, scale intensive, differentiated and science-based goods. Combining these two methods Lall (2000) made distinction among resource-based, low technology, medium and high technology products.

Resource-based and labor-intensive products comprise the dominant part of the Croatian exports (Galinec et al., 2002, NCC, 2003). The technology level of the export goods is mostly low or medium. The countries or goods are competing using several key advantages: operative efficiency; unique values, customer intimacy. The products or countries that compete on the basis of the operative efficiency are most often in the zero sums game. The main competitive advantage is the low price that will attract some of the customers of the other producers. However, such moves usually trigger price wars and require large volumes of the goods and services to capitalize on the scale, learning or experience curves. Operational efficiency is also imitative and hard to protect. The Croatian export strategy is by large concentrated on supplying non differentiated, commodity type of goods with inherited natural resource base; or easy transferable competitive advantages (cheap input factors). Since labor cost in Croatia is higher than in the other CEE and Asia countries (except Slovenia) the prospect of Croatian exports is not optimistic. Empirical findings suggest the technological intensive products have better growth prospects than do others (see for discussion Lall, 2000). Consequently, a shift from low to high technologies can be noticed for manufactured trade in world context. GEM measures export orientation of the Croatian entrepreneurs, and it was found out that there is only a small proportion of the total entrepreneurialy active population in Croatia oriented to export or to high tech – high growth endeavors. For instance the Croatian
high tech exports comprise only 12% of the total export while high tech exports of Ireland in the 2002 comprised 41% of the total Irish exports.

The export structure by prevailing economic use has not been changed since 1991. In average, production goods comprise 48.6%, investment goods 18.6%, and consumption goods 32.7%. These data are consistent with the export results by main industrial groupings; in 2003 export of energy comprised 9.32%; intermediate goods (except energy) 32.65%; capital goods 24.35%; consumable goods 29.92% and manufactures classified by material not classified in other activities except industry 3.47%. The structure of exports by SITC3 categories is distributed between machinery and transport equipment (29.47%), miscellaneous manufactured articles (19.58%) and manufactures classified by material (14.05%). Other commodities comprise less than 10%. Such a structure is prevalent in the exports from the late 1990s when the shipbuilding industry recovered by the government support.

Croatia is faced with the challenge of modernization and redefinition of the exports in order to keep and expand export markets. The export expansions seems like the only solution to the number of problems Croatia have at a moment. For instance, foreign debt has reached the level of 30.2 USD billion in December 2004; which means 82.1% of the GDP. Furthermore, export expansion is needed to offset slow GDP growth rate (3.8% in 2004) and huge unemployment (19.3% in February 2005).

5. SME’s in Croatia

The role of SME’s in modern economies based on knowledge and new technologies is very important because of their flexibility and ability to innovate. But, their role in exports is usually not significant. In the EU-19 SME’s export only 13% of their turnover, while large enterprises export 21% of total turnover (Snijders and van der Horst, 2002). The GEM results suggest that over 50% of start-ups do not expect to export any products, and that there is a correlation between exports and necessity entrepreneurship. The more important necessity as the motive for entrepreneurship is, the higher the proportion of start-ups that do not expect to export (GEM, 2004).

In Croatia, SME sector participate in the total exports by 25%.4 Solutions of the SME’s most urgent needs such as: lack of adequate knowledge, inappropriate infrastructure, inappropriate entrepreneurial infrastructure, value system and social norms inadequate to entrepreneurship (see Borozan and Barkovic, 2005) are preconditions for the foreign markets export expansion. Although these needs are perceived as important for the large enterprises too, SMEs are faced more intensely with these issues. Therefore in the next section we present more detailed analysis of the export performance from the enterprise’s point of view.

6. Reasons for poor export performance of Croatian economy – enterprise’s point of view

There are several reasons for the Croatian poor export performance such as those discussed in the previous section: lagging institutional reforms in the opening to the free trade, predominance of the labor or resources based goods, low or medium technology and low added value; disinvestments, high concentration of export sector, etc. Government role is to establish business conditions and framework conductive to the free trade, to reduce the possibilities for unfair competition, and to enhance the adequate macroeconomic conditions that will support exports. Hereafter, we have analyzed the perception of the convenient

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3 SITC = Standard International Trade Classification  
4 Source: Small business, Croatian Chamber of Economy, Zagreb, March 2004
sample of managers from the export oriented enterprises. The perception is solicited by the eminent business weekly magazine “Prvredni vjesnik” on the annual basis. In the 2003, 101 export managers and experts from the main export companies were administrated with the questionnaire. Since the managers came from the industries that generate more than 40% of the tangible Croatian exports the sample perceptions can be regarded as representative. In the 2004 questionnaire was administered to the 108 most important Croatian companies.

Managers perceived several determinants as sources for competitive advantage in 2003. These are perceived to be: technology (26% of the sample chooses this answer), low labor cost (24.0%), exchange rate (16.6%), other costs (12.0%), promotion (11.4%), and access to the sources of financing (9.4%). The high consistency of the manager’s perception, theoretical findings and empirical results are evident. Technology is perceived as the first and utmost important driver of competitiveness. The managers report that new technology adoption is one of the prime motives for investments. However, the underinvestment is still huge problem for Croatian economy together with obsolesce of technological equipment and technologies build in the goods produced by Croatian enterprises.

The most important issues managers expect to face in 2005 are related with the cost of production, increased competitive pressure, tax burdens, cost of the capital, and excess number of employees. The perception of the managers interviewed by “Prvredni vjesnik” is similar to the perception of managers interviewed by the National Competitiveness Council (NCC). NCC identified the following problems as urgent: inefficient bureaucracy, corruption, tax regulations, inappropriate education of the labor force, and high taxes. Scarcity of the knowledge and creative ideas for world class competitive goods and services has been perceived as one of the five top problems for Croatian managers in 2004. NCC reported diminishing quality of the macroeconomic framework as important issue since Croatia is positioned behind the main CEE countries.

Nevertheless, Croatian managers did not perceive technology obsolesce as one of the main issues in the 2005. The other problems in exports have been perceived as more urgent: overvalued national currency, uncompetitiveness due to the high public consumption, absence of government export support, absence of the export strategy, obsolesce of the technology and equipment and shortages in knowledge and innovation base needed to produce the world class competitive products (see Figure 2). Comparison of the most important issues is consistent with the perception of the main drivers of the competitive advantage gained by the foreign competitors. Majority of the participants (74.7%) in 2003 perceived foreign competitors have advantages in comparison with the domestic competitors. The main sources of competitive advantage were labor cost, financial conditions, technology, and government support (see Figure 3).

Although the technology is important part of the competitive advantage, in the 2005 the importance of technology is diminishing. Managers are perceiving technology input as less important than previously. On the other side, labor costs (such as compensation, taxes, benefits) are second most important feature in the competitive advantage, and the utmost important source of the competitive advantage of the foreign competitors. The exchange rate and overvalued national currency is closely connected to the problem of the

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5 National Competitiveness Council has been established upon the initiative of the business sector and Croatian employers’ organization, in order to promote ideas and principles that enhance economic development and sustainable economic growth. www.konkurentnost.hr/nvk

labor costs. Appreciation of the national currency has not been supported by the increased productivity, therefore it undermine competitiveness of the domestic goods on the international market. Consequently, the exchange rate has been perceived as an important factor of the competitiveness in 2003 and 2005. In addition, 15.4% of participants perceived it as important source of the competitive advantage of the foreign competitors on the globalized markets.

Reasons for the poor Croatian export performance are the function of the macroeconomic framework, and on the other side, there are reasons that are function of the microeconomic framework. Macroeconomic framework comprises exchange policy, labor cost, financial and monetary policy (e.g. taxes, interest rate, commercial credit lines), government support and strategy. Microeconomic conditions are research and development, technology, knowledge and innovations, marketing and promotional skills, etc.

![Figure 2. The most important problems expected](image)

Note: # shows % of the sample that choose the particular issue

On both occasions (in 2003, and in 2004) the managers have emphasized macroeconomic conditions as more important source of the problems and constraining factor for enhancing exports. In 2003 managers suggested several solutions for improvement: reduction of the taxes (suggested as solution from 27.8% of participants), depreciation of the national currency (22.8% of participants), more subventions (22.8% of participants), better financial conditions (17.7%), and technology enhancement investment (8.9%).
In the 2004 88% of the participants were dissatisfied with the government support programs. Only 1% perceived that government did everything that was necessary. Majority of the participants (66%) did not perceive government institutions as helpful in providing support, and 83% of the participants perceived current conditions as the same or even worse than before. Enhancement in the export performance is dependent on the quality of the national macroeconomic framework. However, this quality is rather the outcome of the consistency, transparency and synergy of the closely tied network of all parts of the Porters diamond: factor input conditions, debt and scope of the clustered supportive industries, demand conditions, strategy and rivalry of the industry. All these components are influenced by the government programs and policies. However, the companies also must adopt to the fact that the key ingredient of the competitive advantage is the company with its distinctive strategy, business model, export ambitions and performances. Only by continuous investment in the competence, capability and skills, only through continuous innovation and enhancement of the operation efficiency can the company create and sustain competitive advantage. The prime sources of the competitive advantage is under the control of the company and it is either operative excellency, or product leadership, or customer intimacy. Only by creating new, excellent, differentiated, value added, innovative products companies can build up their competitiveness and export performances. Without company competitive strategy no macro or microeconomic conditions will sustain its long term performances. This fact is also recognized by the participant of the questionnaire. Although admission to the World Trade Organization and free trade agreements are enhancements in the macro and micro economic conditions, more than a half of the participants (52.3%) recognized these improvements as no enhancement for Croatian competitiveness.

7. Conclusive remarks
There is a high and growing concern with the export performance of many economies due to increasingly fierce global competition and impact exports have on the economic growth and welfare. Furthermore, export performance is important part of the overall competitiveness of the country.
Croatia is a small country, with moderate GDP per capita, and presently in the transition from the factor to investment driven sources of the competitive advantages. Croatia export performance is lagging the majority of the CEE countries’ performances as indicated by the GCR. The analysis of the trade performance of Croatia showed several unfavorable trends. The trade is growing due to the fast growth of the imports. The export level is also growing but at much slower pace. The level of the exports as part of the GDP structure is lower compared to the level of imports. Exports comprise smaller part in the structure of the Croatian GDP, while import has got the dominant share. There are significant shifts in the export destinations. The exports to the EU member countries are diminishing. Croatia exports are inelastic and concentrated on the few groups of products, such as transport equipment, chemicals, clothing, basic manufactures, and minerals. Resource-based and labor-intensive products comprise the dominant part of the Croatian exports. The technology level of the export goods is mostly low or medium. Croatia is faced with the challenge of modernization and redefinition of the exports if wants to keep and expand export markets.

The role of the SMEs in the competitiveness enhancement is critical. Export performance of the SMEs is especially important since it has some distinguishing features that enable them to act more flexible and faster. Being faster and more flexible in reaction to productivity shifts, or consumer preferences is important part of the competitive advantages. In Croatia, SME sector participates in the total exports by 25%, which compared with their predominant share of the economic structure (99% of all enterprises are SMEs) indicates the huge potential for enhancement. However, the solutions to the problems such as lack of adequate knowledge, inappropriate infrastructure, inappropriate entrepreneurial infrastructure, value system and social norms inadequate to entrepreneurship are preconditions for the foreign markets export expansions.

Reasons for the poor export performance of Croatia are the function of the macroeconomic framework, and on the other side, there are reasons that are function of the microeconomic framework. Macroeconomic framework comprises exchange policy, labor cost, financial and monetary policy of the country, government support and strategy. Microeconomic conditions are research and development, technology, knowledge and innovations, marketing and promotional skills, etc. However, the key ingredient of the competitive advantage is the company with its distinctive strategy, business model, export ambitions and performances. Only by continuous investment in the company’s competence, capability and skills, only through continuous innovation and enhancement of the operation efficiency can the company create and sustain competitive advantage. The prime sources of the competitive advantage are under the control of the company and it is either operative excellency, or product leadership, or customer intimacy. Only by creating new, excellent, differentiated, value added, innovative products companies can build up their competitiveness and export performances. Without company competitive strategy no macro or microeconomic conditions will sustain its long term performances. Analysis of the perception of the major Croatian exporters during the 2003 and 2004, as well as the results of the GCR and GEM projects suggest two main implications. First, Croatia is still lagging in the legal, institutional and macroeconomic framework conditions compared to other CEE countries. Therefore, the more legal and institutional encouragements in independent risk-taking and dynamic competition are needed, as well as enhancement in macroeconomic conditions. Second, business entrepreneurs are not willing or risk-averse to take advantage of the opportunities for development offered by modern technologies, or export markets. Therefore, the more allocation of the funds to research and development transfers, as well as major increase in investment in the education or innovations sectors are needed.
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