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A. INFORMATION ON THE COUNTRY'S EXPERIENCE

A.1 Country policy to promote exports and competitiveness

General information

With a GDP growth rate of 5,2% in 2002, 4.3% in 2003 and 3.8% in 2004, Croatia has been among the fastest growing countries in Europe in recent years after the Baltic states. Judging by the last indicators, somewhat slower growth took place during the first quarter of 2005. Economic growth has been generated by the services sector (in particular the tourist sector, which still has substantial growth potential), a strong retail sector, and the construction sector, in part due to ambitious public infrastructure projects. The old heavy industries experienced sharp declines in the early 1990's. Industrial production has been rebounding recently due to dynamism in the SME sector and the infusion of knowledge and technology through the takeover of industrial companies by foreign multinationals.

More than 80% of Croatia's trade is based on free trade principles. The country has liberalized trade links with 31 European countries. It is a full member of the Central European Free-Trade Association (CEFTA) and the World Trade Organization (WTO), enjoys special trade privileges with the European Union (EU) and has concluded a free trade agreement wiith the European Free Trade Association countries in 2001. The Agreement on the Accession of the Republic of Croatia to CEFTA was signed in Zagreb in 2002. and since 2003 the country is a fully fledged member of CEFTA. The Customs Code of 2000 is in full harmony with the requirements of the EU. Croatia is also a signatory to the International Convention on the Simplification and Harmonization of Customs Procedures. The Customs Tariff Law complies with the Harmonized Commodity Descriptions and Coding System enforced by the WTO.

The Stabilization and Association Agreement with the EU, signed in 2001, is particularly important for the Croatian economy as it establishes political and economic relations with the European Union on a contractual basis, and provides for the establishment of a free trade. Given that the European Union is the most important foreign trade partnern(its share in total Croatian international trade is 56%), the provisional application of the Agreement's trade provisions significantly influences the Croatian market.

While over 7,000 Croatian companies were engaged in domestic and foreign trade in 2001, there has been a trend towards concentration among Croatian exporters since 1997: fewer small and medium-scale enterprises (SMEs) now participate in exports. SMEs however are seen as the 'starter engine' of economic prosperity. According to statistics, 99% of total registered business entities are SMEs. In addition to 68,981 SMEs there are 106,145 craftsmen and 1,067 co-operatives. Croatian SMEs employ 55% of the workforce and account for 44% of GDP.

Stimulating competitiveness and exports

There are no specific programmes or measures for export promotion in place, apart of co-financing of the first appearance at the international fairs and exhibitions, as well as designing of promotion materials. The competitiveness and export-orientation of the Croatian economy are however stimulated by a number of measures, including foreign investment regulations, the promotion of free zones, the provision of shared business facilties and an SME development programme.

- The investment climate in Croatia favours foreign direct investment. Over 95% of the Croatian banking sector is controlled by foreign banks. Outside of the financial sector, the largest direct foreign investments have been in the telecom sector. The new

Investment Promotion Law regulates the promotion of investments of Croatian and foreign legal or physical persons. Its incentives and tax and tariff privileges among others aim to integrate the Croatian economy in international trade through increased competitiveness and exports.

- The Free Zones Act regulates free zones in line with global standards. All forms of foreign trade are allowed in a zone; the restrictions of the Trade Act and the Foreign Exchange Act do not apply. Goods may be freely imported and exported and may remain within a zone for an unlimited period of time; when they are stored in a zone no customs duties or taxes are levied nor do other economic regulations apply. Corporate income tax is 10% (50% of the standard rate). Users that invest more than 1 million HRK (Croatian crowns) in infrastructure facilities within a zone are exempted from corporate income tax in the first 5 years of operation. The Government grants free zone concessions on the basis of a public tender or a public bid collection. While only domestic legal entities may found a zone, both domestic and foreign legal entities and natural persons may be zone users. Economic activities in a zone are carried out on the basis of an agreement with the founder of the zone.

- The establishment of shared business facilities in local entrepreneurial zones, centres and incubators is one of the key elements in developing entrepreneurship. By directly investing in entrepreneurial zones, the Government is creating the conditions for the introduction of a series of incentives for SMEs, which primarily consist in making land completely equipped with infrastructure available to entrepreneurs on favourable terms. At the moment there are over 100 zones entrepreneurial zones in 23 Croatian counties (for more details see www.zone.mingorp.hr/English).

- The SME Development Programme of the Ministry of Economy, Labour and Entrepreneurship to promote the development of SMEs aims at modernizing and upgrading business operations, increasing the value added level of products, increasing SME employment as well as staff skills and boosting exports. The measures and activities of the programme are divided into eight different areas :

  1. Removal of administrative burdens
  2. Strengthening the entrepreneurial environment
  3. Entrepreneurship development for specific population groups
  4. Education, training and counseling of entrepreneurs
  5. Co-operative development projects
  6. Craft development projects
  7. Technology development and manufacturing projects
  8. Institutional support

A. 2 The development and character of exports

Overall trade figures

Since 1990, when the transition to a market economy began, exports ceased to be the exclusive domain of a few specialized foreign trade companies. For a small market economy like Croatia, foreign trade is immensely imporant. During 2000-2004 trade has practically doubled, from US$ 12.3 billion to US$ 24.6 billion, as Table 1 shows. In spite of the recent fast growth of exports, Croatia's trade deficit has continued to grow – though deficit is growing more slowly.

Table 1: Foreign trade trends, 2000 – 2004 (US$ million)

	2000	**2001**	**2002**	**2003**[1]	**2004**[2]
Export	4,432	4,666	4,904	6,187	8,022
• Annual change %	3,0%	5,3%	5,1%	26,1%	29,7%
Import	7,887	9,147	10,722	14,209	16,583
• Annual change %	1,1%	16,1%	17,2%	32,5%	16,7%
Total trade	12,318	13,813	15,626	20,396	24,606
• Annual change %	1,8%	12,1%	13,1%	30,5%	20,6%
Trade Balance	**-3,491**	**-4,481**	**-5,818**	**-8,022**	**-8,561**

Source: Central Bureau of Statistics (Compiled by ICE Zagreb)

Trade in manufactured goods

The structure of exports by SITC categories in 2004 (Table 2) shows that machinery and transport equipment had the highest share of Croatia's exports (32.2%) – the shipbuilding industry was the main contributor. Miscellaneous products are second, with 17.8% of the total, followed by products classified by materials (semi-finished goods), fuel and lubricants, and chemical products. Machinery and transport equipment made up most of Croatia's imports. This is mostly attributable to the increasing sales of new cars. The composition of imports is closely related to developments in personal income.

The chemical industry is on top of the list of industries that have lost shares in total Croatian exports, followed by the food industry, clothing, footwear, paper, plastics and machinery. Apart from tourism and other services, the sectors whose share in total Croatian exports has grown are shipbuilding, printing and communication equipment. In terms of value added or export shares the major contributors to exports are now tourism, shipbuilding, clothing and footwear, motor vehicles and base metals. In terms of the value of exports per person employed, the leading high value-added sectors are the oil industry, tobacco products, shipbuilding and the chemical industry.

Table 2: Foreign trade by sector, 2003-2004

	EXPORTS (US$ 1000)			**IMPORTS (US$ 1000)**		
	2003	2004	Change %	2003	2004	Change%
TOTAL:	***6,186,630***	***8,022,452 (100%)***	***29.7***	***14,209,035***	***16,583,152 (100%)***	***16.7***
of which:						
Food and live animals	560,402	505,933 (6.31%)	-9.7	1,000,947	1,189,837 (7.17%)	18.0
Beverages and tobacco	162,805	191,192 (2.38%)	17.4	116,667	123,101 (0.74%)	5.5
Crude materials, expect fuels	349,811	448,731 (5.59%)	28.3	325,744	352,969 (2.13%)	8.4
Mineral fuels and lubricants	595,344	908,197 (11.32%)	52.5	1,554,742	1,985,978 (11.98%)	27.7
Animal and vegetable oils and fat	13,530	13,203 (0.16%)	-2.4	40,933	51,588 (0.31%)	26.0
Chemical products	593,287	752,266 (9.38%)	26.8	1,560,780	1,851,358 (11.16%)	18.6
Manufactured classified by material	868,931	1,189,725 (14.83%)	36.9	2,661,565	3,258,970 (19.65%)	22.4

[1] Data reviewed
[2] Data preliminary

Machinery and transport equipment	1,823,331	2,586,751 (32.24%)	41.9	5,264,996	5,789,198 (34.91%)	10.0
Miscellaneous manufactured articles	1,211,375	1,425,326 (17.77%)	17.7	1,646,764	1,971,662 (11.89%)	19.7
Other	7,815	1,127 (0.01%)	-85.6	35,897	8,496 (0.05%)	-76.3

Main trading partners

As can be seen in Table 3, European countries account for some 88% of total Croatian exports. The EU accounted for 64% of Croatian exports in 2004 and the CEFTA countries accounted for 1.2%. The share of Croatian exports to developed countries has decreased while share of exports to developing countries has increased, due to the recovery of exports by the shipbuilding industry to flag of convenience countries such as Liberia, Malta, Chile and Cyprus. Exports by Croatia toCEFTA countries have been decreasing, except for a recovery in 2004 due to an upsurge in trade with Slovenia and Hungary.

Table 3: Commodity exchanges in 2004, by country group (US$ 1000)

TOTAL EXPORTS	**8,022,452**	**100.0**
European countries	7,077,547	88.2
EU countries	5,177,755	64.5
CEFTA countries	97,620	1.2
Other countries	944,905	11.8
TOTAL IMPORTS	**16,503.152**	**100.0**
European countries	13,947,511	84.1
EU countries	11,526,212	69.5
CEFTA countries	240,714	1.5
Other countries	2,635,641	15.9

Table 4 shows the importance of trade with individual countries. The main trading parters are Italy and Germany, followed by Austria, Slovenia, Bosnia and Herzegovina and Russia. With regard to exports, the picture is a bit different: Italy remains the major partner, but Bosnia-Herzegovina comes second, and Germany third.

Table 4: Croatia's main trading partners, 2003-2004 (US$ 1000)

	EXPORTS			**IMPORTS**			**TOTAL TRADE**		
	2003	2004	% change	2003	2004	% change	2003	2004	% change
Italy	1,649,866	1,831,237	11.0	2,580,899	2,842,145	10.1	4,230,765	4,673,382 (18.99%)	10.5
Germany	733,153	895,134	22.1	2,221,011	2,567,629	15.6	2,954,164	3,462,763 (14.07%)	17.2
Austria	479,386	756,570	57.8	941,074	1,130,685	20.1	1,420,460	1,887,255 (7.67%)	32.9
Slovenia	510,925	601,010	17.6	1,051,666	1,179,496	12.2	1,562,591	1,780,506 (7.24%)	13.9
Bosnia and Herzegovina	892,443	1,154,065	29.3	231,184	348,717	50.8	1,123,627	1,502,782 (6.11%)	33.7
Russia	73,701	115,219	56.3	678,470	1,205,258	77.6	752,171	1,320,477 (3.37%)	75.6
France	174,665	183,767	5.2	749,246	731,752	-2.3	923,911	915,519 (3.72%)	-0.9
China	4,300	7,199	67.4	406,779	635,553	56.2	411,079	642,752 (2.61%)	56.3
Hungary	80,506	103,209	28.2	424,413	508,710	19.9	504,919	611,919 (2.49%)	21.1
USA	163,883	211,159	28.8	365,813	357,997	-2.1	529,696	569,156 (2.31%)	7.4
Czech Rep.	45,866	50,075	9.2	352,897	395,828	12.2	398,763	445,903 (1.81%)	11.8
Serbia and Montenegro	190,769	294,065	54.1	76,726	140,736	83.4	267,495	434,801 (1.77%)	62.5
UK	72,104	95,998	33.1	290,570	318,093	9.5	362,674	414,091 (1.68%)	14.1
Benelux	48,682	76,730	57.6	273,307	295,458	8.1	321,989	372,188 (1.51%)	15.6
Japan	73,772	56,631	-23.2	245,605	280,139	14.1	319,377	336,770 (1.37%)	5.4

A. 3 Role of support institutions

In Croatia there are no export consortia yet, and there is at present only one association of exporters, Hrvatski izvoznici – the Croatian Exporters Association. This is a multi-sector association with 456 members all over the country. The Association is one of the youngest export associations in the world, established in April 2004. Its headquarters are in Zagreb.

The Croatian Exporters Association was established on the basis of the Law on Associations. The Association is a non-profit, non-aligned, non-governmental association; it is independent in its operations and cannot be subordinated to any outside authority. Membership is public and open to any individuals and legal entities living or having a business seat in Croatia, those who export or intend to export products, goods and services, those participating or supporting the exports, as well as all those promoting Croatian exports. Membership is voluntary; the bylaws of the Association indicate how one can become a member.

The members of Association (currently 456) represent all industrial branches but most are from the following industries: electrical goods, machinery and transport equipment, shipbuilding, furniture, construction materials and plastic materials. Some of the most important Croatian companies, such as Končar–Elektroindustrija, Split Brodogradlište, Belišće, Dilj, Primacotrans and Ferokotao are members, but the Association also counts many craftsmen and traders who focus on export markets.

The Association has the following goals:

- Promoting the export of Croatian products, goods and services in any form and to all markets.
- Improving Croatian exporters' business practices.
- Permanent analysis and follow-up of government proposals and measures influencing Croatian export.
- Permanent articulation of Croatian exporters' interests in dialogue with the government, particularly in creating new export regulations.
- Building an appropriate legal and public information system which enables the members to express opinions and proposals that can have a direct positive impact on Croatian exports.
- Promoting the competitiveness of Croatian goods and services with the aim of creating long-term exports, helping to limit foreign debt and increase personal incomes.
- Application of European norms and standards to Croatian business practices.
- Raising awareness among Croatian citizens on the necessity of exporting, the role of exports in the Croatian economy, as well as its contribution to the well-being of all Croatian citizens.

The Association cooperates with the USAID project Enhancing SME Performance (ESP). Some members visited the Anuga fair in Cologne this year, as part of a joint representation and marketing effort at international fairs. Seminars and trainings on various topics ar organized for members.

Obstacles to the Association's work are:

- The only financing now is from membership fees, which is not enough for larger, long term and sustainable projects.
- Cooperation between different projects and institutions relevant to export promotion is not adequate.

The Association seeks support to overcome these problems, and also for match-making for its members, and for organized study tours and training.

Since the Association has only been active for a year, few statistics are available. The first statistics review will be published in October 2005. Preliminary data show that Association's members account for US$ 2,6 billion, or approximately one third of the total Croatian exports.

More details can be found on the Association's web site: www.hrvatski-izvoznici.hr.