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**Marija Kopal, Ph.D.**

Full Professor

[mkopal@oliver.efpu.hr](mailto:mkopal@oliver.efpu.hr)

**Kristina Afric, graduate assistant**

[kafric@oliver.efpu.hr](mailto:kafric@oliver.efpu.hr)

Faculty of Economics and Tourism “Dr. Mijo Mirkoviæ”, Pula  
University of Rijeka  
Pula, Croatia  
Tel:++385 52 218 211  
Fax:++385 52 216 416

**RESTRUCTURING ECONOMY IN TRANSITION  
- THE CASE OF CROATIA**

**ABSTRACT:** In this paper the authors analyse the features of the economic development of selected countries in transition in the nineties. The emphasis is given primarily on countries in transition with highest achieved economic development level, and the Croatian economy is compared with economic features of those countries.

Regarding the importance which the structural changes have in economic development, the authors analyse structural features of the former Croatian economic development, particularly industry as a predominant economic activity, consider development trends of manufacturing industry and overall economy as the presumptions for the admission in the European Union.

Marija Kopal, Ph.D., Full Professor

Faculty of Economics and Tourism “Dr. Mijo Mirkovic” Pula, Croatia

Kristina Afric, graduate assistant

Faculty of Economics and Tourism “Dr. Mijo Mirkovic” Pula, Croatia

## **RESTRUCTURING ECONOMY IN TRANSITION - THE CASE OF CROATIA**

### **1. INTRODUCTION**

The world has been in the period of characteristics with exceptionally opposite economic indicators. A high rate of “knowledge use” enables the developed countries to overcome the obstacles in their further development much easier than the less developed countries. But, as the process of globalization has been in course at the same time, the countries in transition have become the region for which the developed world is interested in manifold.

Thus, that complex reality, both the process of transition and the process of globalization have been going on simultaneously in the countries of Central and Eastern Europe.

One of the key prerequisites for a successful process of transition is a successful restructuring of the economy of the countries in transition. That is the reason why in the paper some characteristics of the process of restructuring of the economy in the selected countries in transition<sup>1</sup> and the structural traits of the economy of the Republic of Croatia are examined.

The beginning of the nineties makes the most significant turning point in the economic and overall development of the Republic of Croatia. In that period of transition Croatia achieved its sovereignty and independence.

As industry is the most represented branch in the Croatian economy, its traits and prerequisites of further development have been studied in the paper. In the process of restructuring of the economy of Croatia the export and investment intensity has a key role. It will enable the break through of the technical and technological

progress into the “economic tissue” of Croatia, the increase of competitive level of products and more successful participation in the international exchange.

## **2. THEORETICAL-METHODOLOGICAL OBSERVATIONS**

Great number of factors, some of which are measurable and others hardly or completely immeasurable, have influence upon economic development of every country. Furthermore, the economic development is an uneven and unequal process, which has been influenced the most powerfully, by the steady technical and technological progress in the rising period of globalization.

In the former development all the previous growth and development factors had limited possibilities, on account of which new ones also appeared, to which it was necessary to adapt timely economic, social, institutional and other structures. Introduction of a new key factor requires an increased investment effort, abandoning of great number of products from the previous development period and “aiming” to those projects in which the application of a new key factor is reflected the most. Nowadays those are knowledge and information.

By means of economy restructuring<sup>2</sup> it is possible to increase development potential of a country. It is possible to influence by it upon work productivity increase and investment effectiveness. It should be pointed out that a favourable macroeconomic environment is a prerequisite of a successful restructuring process.

The structural changes enable not only bigger productivity, but also greater ability of adaptation. They make possible the transfer of available resources form less productive activities into productive ones, setting up thus faster economic development. Structural changes of industry are one of the fundamental traits of development of every economic system, since technical-technological progress is primarily reflected in industry, and through it in the entire economy.

In our scientific and professional circles a dilemma has been often met: to “develop” predominantly work-intensive or capital-intensive industrial branches? That is the problem of short-term or long-term approach to industrial and economic development. High level of unemployment should not be an obstacle for a faster advance of technical and technological progress, since by means of structural policy developmental resources may be directed selectively to the development of a number

of key technologies and group of products that make possible the creation of competitive advantages.

It may be said that the productivity growth tendencies reflect the degree of technological development of particular countries. Those countries in which more intensive structural changes took place, they had the fastest productivity growth, which made possible the improvement of their position in the international goods exchange.

The structural policy has the characteristics of being long-term. In short periods of time its possibilities are limited, but in long ones they are bigger considerably. In addition to the fact that it has the characteristic of long-termness and elasticity, a structural policy must be continuous, since economic development is conditioned by permanent structural changes. If the necessity of structural changes is neglected, they will happen all the same, but with a phase motion and with a bigger overall price.

In order to estimate the success of state intervention in the process of restructuring, it is necessary to start from the objective, that is wish to be achieved by restructuring. In the cases when the intervention is unavoidable in the work-intensive industries, it is difficult to expect prompt reallocation of resources as the result of intervention, which the experience of a series of OED countries has confirmed. Then, the intervention is more successful if rationalisation and restructuring are performed in a long-term period, with a strong policy of support by means of involving corresponding package of instruments (Roe, 1984, 46).

The success of structural economic policy depends upon its connections and consistency with special structural policies such as industrial, energy, agricultural, infrastructure, etc. Thus, upon the complete insights into parts of economic policy depends the success of the structural economic policy.

In the process of “directing” the economic development, it is necessary to take into account the achieved level of consumption, structural changes by means of which it is wanted to accelerate the economic and general development, as well as the most favourable inclusion in the international economy. All along that and in every phase of the development the best possible direction of developmental factors is secured by the optimum combination between the short-term and long-term effects. So, the speed and

optimum of economic growth and development are dependent not only upon the volume but considerably more upon the structure and effectiveness of investment.

In the economic development of every country, in addition to investment, export “endeavour” have extraordinary significant place, particularly in that phase in which export are the fundamental driving force of the economic growth. But, that which speeds up the growth is not the simple fact that production is aimed to export, but the increase of competitive production in satisfactory proportions in order to satisfy the increased export demand.

The export oriented production can bring wanted progress to an insufficiently developed economy. The export increases the income of all those who are included in that production. That income makes the basis from which it is possible to pass to further phases of development, since production capacity is increased and a dynamic home market is created.

The economic growth and foreign exchange are closely interrelated. The foreign trade may accelerate the economic growth, if the export has the tendency of faster growth than import, or otherwise it holds it back. By means of adequate inclusion in the foreign exchange, desired structural changes are achieved.

The view of the world has changed completely in the last twenty years. The market globalization and increased capital mobility, as well as the permanently growing significance of the so called invisible investment, ask for new strategies both for enterprises and bearers of state policy. An interest for industrial policy has been animated, particularly for the horizontal industrial policy. A number of factors have had influence upon the concept change (inefficiency of state enterprises, necessity of reduction of public debt, manufacturing industry changed role, globalization, doing business internationalization and transnationalization). Similarly, it has been also evident that the conception of sectors comparative advantages is not a useful guide for the policy selection. The stated factors have caused the change of the industrial policy conception in the conventional sense and they have redirected the attention primarily to the industry competitiveness, particularly in the period of reindustrialization.

The innovation policy plays a big role in that. In the countries in transition, governments should “play” a very active role in the acceleration of innovations processes in the private sector, and direct its policy towards the stimulation of applied

research, creation of links between technological institutes and universities with the private sector, and development of mechanisms of technology transfer.

The process of economic reforms and especially the industry restructuring<sup>3</sup> is a long-term and complex, so that the countries in transition are faced with a series of problems: standard of life decrease, unemployment growth, considerably lessened social insurance, quality of medical services getting worse (in the state hospitals), crime spreading and the like.

With regard to the fact that in the economic structure of the observed countries in transition, the industry has the most significant part, i.e. the manufacturing industry, in this paper is emphasize its importance for development of the national economy. So, much the more the manufacturing industry in the countries with mature industrial and economic structure is considered the “engine of growth” and the most productive generator and disseminator of technology. It carries in the results of the technical and technological progress in the economic “tissue” and in this way it accelerates the growth of the whole economy.

### **3. ECONOMY TRAITS OF THE SELECTED COUNTRIES IN TRANSITION**

The essence of the process of transition is to reach the development level of the developed market economies. During the long lasting “isolation” from the developed part of the world market, the former centrally planned economies steadily lagged behind the level of development of the western economies due to the inefficiencies embodied in their economic system. In order to include equally into the world market, an increase of the productivity level is necessary in the first place. Having in mind that the most of the observed countries in transition have got a long-term objective to join the European Union, one of the fundamental prerequisites for a successful inclusion is a considerable lessening of the existing development gap between the countries in transition and the EU member countries (ECE, 1998,9).

The success in the restructuring process of the countries in transition depends a great deal upon successful industry restructuring. But, the process of restructuring in those countries has been made difficult with a considerable decrease of economic activity and industrial production. The radical changes, started in 1989, caused in the

countries in transition much bigger fall of GDP than expected. While the fall of a few percentage points was predicted, the average GDP fall in those countries was 25-30% in the period 1989-1993 and the industrial production was falling with even faster intensity<sup>4</sup>.

With regard to the GDP trends (Table 1), the crucial year was 1994 for almost all the observed countries in transition. Poland, as the only one of the observed countries, reached the pretransitional level in 1996. Then come Hungary, Slovenia and the Czech Republic. Croatia is on the last place with two thirds of the realized GDP in relation to 1989.

**Table 1**

**REAL GROWTH (FALL) RATES OF GROSS DOMESTIC PRODUCT FOR THE SELECTED COUNTRIES IN TRANSITION**

- previous year = 100
- in national currencies
- in %

Country	1990.	1991.	1992.	1993.	1994.	1995.	1996. <sup>1</sup>	1997. <sup>2</sup>
<b>Czech R.</b>	-1,2	-11,5	-3,3	0,6	2,7	4,8	4,1	1,3
<b>Hungary</b>	-3,5	-11,9	-3,1	-0,8	2,9	1,5	1,0	4,0
<b>Poland</b>	-11,6	-7,0	2,6	3,8	5,2	7,0	6,1	6,9
<b>Slovak R.</b>	-2,5	-14,5	-6,5	-3,7	4,9	6,8	6,9	6,5
<b>Slovenia</b>	-4,7	-8,9	-5,5	2,8	5,3	4,1	3,1	3,3
<b>Bulgaria</b>	-9,1	-11,7	-7,3	-1,5	1,8	2,1	-10,9	-7,4
<b>Romania</b>	-5,6	-12,9	-8,7	1,5	3,9	7,1	4,1	-6,6
<b>CROATIA</b>	-6,9	-20,6	-11,7	-0,9	0,6	1,7	3,2	6,5

<sup>1</sup> Preliminary

<sup>2</sup> Economic Commission for Europe: Economic Survey in 1998, p. 46

**Source:** Countries in Transition 1997, The Vienna Institute for Comparative Economic Studies (WIIW), Vienna, 1997, pp. 76-92

“The basic causes of the GDP level fall in most of the countries in transition are related to the transitional (pluralistic and market) restructuring and market loss. The exception is only Croatia in which about 50% of the causes are related to the war, temporary occupation of a part of the territory, the refugees and exiles, war damages and other consequences of the war” (Vojnic, 1996, 268).

Almost in all observed countries, the fall of the industrial production had the strongest influence upon the fall of the GDP (Table 2). With regard to the fact that technical and technological progress is primarily reflected in industry, its “slow-

down” has got far-reaching consequences for the other parts of the national economy. Branches with a bigger participation of knowledge are the most represented in the industrially developed countries, upon which the measures of the horizontal industrial policy may influence the most and may be directed to raise the quality level of all key factors of the economy as a whole (investment in infrastructure, education, scientific and research activity, etc).

**Table 2**

**INDICES OF INDUSTRIAL PRODUCTION  
OF THE SELECTED COUNTRIES IN TRANSITION**

■ in US\$  
■ 1990=100

Country	1989.	1991.	1992.	1993.	1994.	1995.	1996. <sup>1</sup>
<b>Czech R.</b>	...	78	72	68	70	76	81
<b>Hungary</b>	109	80	72	75	83	86	89
<b>Poland</b>	136	92	95	101	113	124	134
<b>Slovak R.</b>	...	...	73	70	74	80	82
<b>Slovenia</b>	112	88	76	74	79	80	81
<b>Bulgaria</b>	120	78	65	58	63	6	59
<b>Romania</b>	131	77	58	58	60	66	72
<b>CROATIA</b>	113	70	62	59	57	58	60

<sup>1</sup> Preliminary

**Source:**

- Monthly Bulletin of Statistics, No. 5, United Nations, New York, 1995, pp. 24-32
- Monthly Bulletin of Statistics, No. 9, United Nations, New York, 1997, pp. 24-32

Success of the transitional restructuring may be evaluated by the GDP per capita indicator in comparison with EU-15 (Table 3). In the overall period since 1990 until now the most successful are the Slovak and the Czech Republic. The remaining observed countries in transition are on the level below 50% of the GDP per capita EU-15, adding that Poland realized the biggest positive move. In comparison with EU-15, no substantial moves have been made in Croatia. In the period from 1991 to 1996, the GDP per capita purchasing power parity for Croatia was about one fourth of the EU-15 average. “It is evident that in Croatia the policy of interforeign exchange rate has not been taken as an instrument of export stimulation, i.e. the decrease of costs expressed in dollar-term in harmony with the global productivity; other countries in transition, except Croatia and Slovenia, support their economy on the world market, because of the low productivity, by the exchange rate policy. Croatia can pay that cost



difference only by the productivity that is equal to the European level, and not by the relative prices on the home market. Slovenia has potentially succeeded in it. To reach the European productivity a longer period of time is needed, that other countries in transition have secured....” (Zdunic, 1997, 65)

**Table 3**

**GDP/PER CAPITA IN SELECTED COUNTRIES IN TRANSITION**

■ US\$ at PPP

Country	1990.	1991.	1992.	1993.	1994.	1995.	1996. <sup>1</sup>
<b>Czech R.</b>	9461	8662	8276	9273	9791	10388	11122
<b>Hungary</b>	5712	5606	5842	5992	6361	6558	6828
<b>Poland</b>	4192	3991	4381	4668	5040	5454	5939
<b>Slovak R.</b>	7263	6395	6399	6302	6771	7300	7997
<b>Slovenia</b>	9163	8563	8789	9237	10014	10560	11161
<b>Bulgaria</b>	4457	4086	4106	4195	4404	4365	4015
<b>Romania</b>	3966	3553	3545	3700	3959	4301	4614
<b>CROATIA</b>	4700	3867	3863	3766	4007	4107	4567
EU-15	14871	15366	15939	15918	16665	17277	18154

- in %

<b>Czech R.</b>	63,6	51,9	56,4	58,3	58,8	60,1	61,3
<b>Hungary</b>	38,4	36,7	36,5	37,6	38,2	38,0	37,6
<b>Poland</b>	28,2	27,5	26,0	29,3	30,2	31,6	32,7
<b>Slovak R.</b>	48,8	40,1	41,6	39,6	40,6	42,3	44,1
<b>Slovenia</b>	61,6	55,1	55,7	58,0	60,1	61,1	61,5
<b>Bulgaria</b>	30,0	25,8	26,6	26,4	26,4	25,3	22,1
<b>Romania</b>	26,7	22,2	23,1	23,2	23,8	24,9	25,4
<b>CROATIA</b>	31,6	24,2	25,2	23,7	24,0	23,8	25,2
<b>EU-15</b>	100,0	100,0	100,0	100,0	100,0	100,0	100,0

<sup>1</sup> Preliminary

Source: Calculated from:

- Countries in Transition 1997, WIIW Handbook of Statistics, The Vienna Institute for Comparative Economic Studies, Vienna, 1997, pp. 76-93
- Eurostat 1996, p. 211 and 1997, p. 210

Those countries in transition that have realized more intensive restructuring, have also realized more important developmental results, namely, “more efficient development”. It is evident that some of more successful countries in transition have a low investment intensity (Table 4). But, the quality of investment and their efficiency make them more successful than the average of the observed group of countries in transition. Croatia has continually had a low investment intensity and belong to the countries in transition with a high rate of unemployment, which for 1997 was 17,6% (ECE, 1998, 123).

Table 4

**GROSS FIXED CAPITAL FORMATION  
AS PERCENT OF GDP  
FOR SELECTED COUNTRIES IN TRANSITION**

■ current prices

■ in %

Country	1990.	1991. <sup>2</sup>	1992. <sup>3</sup>	1993.	1994.	1995.	1996. <sup>4</sup>
<b>Czech R.</b>	26,3	21,5	28,5	26,6	30,0	31,0	32,6
<b>Hungary</b>	19,3	19,7	19,9	18,9	20,1	19,1	...
<b>Poland</b>	21,0	20,9	16,8	15,9	16,2	16,9	...
<b>Slovak R.</b>	31,3	25,0	32,9	32,6	29,5	29,2	36,6
<b>Slovenia</b>	18,0	19,0	18,4	18,7	19,7	21,2	22,1
<b>Bulgaria</b>	21,3	18,3	16,2	13,0	13,1	14,2	13,5
<b>Romania</b>	19,8	14,2	19,2	17,9	19,8	21,9	23,3
<b>CROATIA<sup>1</sup></b>	9,6	10,9	10,7	11,3	11,3	10,1	...

<sup>1</sup> Calculated from: SYC-97, pp. 166 i 172.

<sup>2</sup> Source: Countries in Transition 1995, The Vienna Institute for Comparative Economic Studies (WIIW), Vienna, 1995, pp. 60-76

<sup>3</sup> Source: Countries in Transition 1996, The Vienna Institute for Comparative Economic Studies (WIIW), Vienna, 1996, pp. 176-183

<sup>1</sup> Preliminary

**Source:** Countries in Transition 1997, The Vienna Institute for Comparative Economic Studies (WIIW), Vienna, 1997, pp. 202-210

The highest level of investment, in comparison with 1989. was realized by the Czech Republic, the Slovak Republic, Slovenia and Hungary. The lowest level of investment was realized by Croatia, realizing at the same time a high balance of payments deficit. From the above stated a conclusion can be drawn that the cause of the deficit is “noninvestment” liabilities, which will have, taking into account the technical and technological progress, the longest-term consequences and will represent the strongest developmental limitations. Therefore the beginning of a new investment cycle means an imperative of further economic and overall development of the Republic of Croatia.

The observed countries in transition are the countries with a low purchasing power, small domestic market (except Poland) and finding themselves in the first developmental phase having in mind the importance of exports for the economic development. All these are significant reasons which “dictate” their export direction.

The necessity of the export orientation has been also determined by the following: the loss of traditional export markets, strong pressure exerted by

international institutes to achieve external balance, as well as by the efforts of the countries in transition to achieve adequate agreements and joining the EU and the high demand for imports. The export orientation also requires raising of the competitiveness level of home products (Landesman, 1993, 17)

Slovenia, the Czech Republic and the Slovak Republic belong to a more open economies with regard to export share in GDP in the observed period (Table 5). With regard to the developmental phase in which Croatia is, it has disproportionately small exports share in the GDP.

**Table 5**

**EXPORT SHARE IN THE GDP  
OF SELECTED COUNTRIES IN TRANSITION**

■ in %

Country	1990.	1991.	1992.	1993.	1994.	1995.	1996. <sup>1</sup>
<b>Czech R.</b>	30,4	27,9	34,6	30,1	32,3	44,8	45,6
<b>Hungary</b>	26,1	34,3	29,9	32,8	22,3	34,8	36,5
<b>Poland</b>	16,2	20,3	18,9	21,9	23,2	24,3	27,6
<b>Slovak R.</b>	20,8	33,3	32,6	33,8	33,8	36,6	43,5
<b>Slovenia</b>	27,2	32,6	49,0	45,8	50,8	47,1	46,7
<b>Bulgaria</b>	22,7	33,3	51,9	44,0	41,4	43,8	54,6
<b>Romania</b>	24,0	20,1	32,0	24,7	23,6	28,8	32,1
<b>CROATIA</b>	21,3	22,8	44,9	33,3	35,7	36,0	34,0

<sup>1</sup> Preliminary

**Source:** Calculated from:

- Countries in Transition 1997, WIIW Handbook of Statistics, The Vienna Institute for Comparative Economic Studies, Vienna, 1997, pp. 50-57 and 76-93

At the same time, the trade coverage ration of Croatia in relation to the observed countries, in that period from 1994. up-to-date, is the lowest, so that the trade deficit increases.

**Table 6**

**TRADE COVERAGE RATIO FOR SELECTED COUNTRIES IN  
TRANSITION**

■ in %

Country	1990.	1991.	1992.	1993.	1994.	1995.	1996. <sup>1</sup>
<b>Czech R.</b>	92,2	111,9	84,6	97,7	92,8	83,7	74,7
<b>Hungary</b>	110,8	89,3	96,0	70,5	73,4	83,8	81,1
<b>Poland</b>	150,3	96,0	82,9	75,1	79,9	78,8	65,8
<b>Slovak R.</b>	90,1	91,0	96,8	77,3	90,0	87,7	73,8
<b>Slovenia</b>	87,1	93,8	108,8	88,2	86,1	80,6	79,5
<b>Bulgaria</b>	102,4	127,1	87,8	78,2	95,2	94,6	90,4
<b>Romania</b>	62,8	73,6	69,7	75,0	86,5	77,0	70,7
<b>CROATIA</b>	77,5	86,0	103,0	75,4	70,7	53,6	47,6

<sup>1</sup> Preliminary

**Source:** Calculated from:

- Countries in Transition 1997, WIIW Handbook of Statistics, The Vienna Institute for Comparative Economic Studies, Vienna, 1997, pp. 50-57 and 76-93

Studying the structure of exports of the selected countries by regions of trade (Table 7) in 1990, a more favourable position of Slovenia, Croatia and Poland is evident with regard to the fact that the share of exports to the EU-15 countries is more than 50% of the total exports. The share of exports to the EU-15 for Croatia in 1996 decreases. It is indicative with regard to the fact that the position of the Czech Republic and Hungary has improved significantly, while Slovenia and Poland retain earlier reached high share of exports.

**Table 7**

**EXPORT STRUCTURE OF SELECTED COUNTRIES IN  
TRANSITION BY REGIONS OF TRADE**

- in %
- current prices

Country	1990.				1992.			
	OECD <sup>1</sup>	EU15	CEEC	Other countries	OECD <sup>1</sup>	EU12	CEEC	Other countries
Czech R. <sup>3</sup>	5,3	38,4	12,6	43,7	5,9	61,6	9,2	23,3
Hungary	11,9	42,1	7,9	38,1	8,9	62,3	6,2	22,6
Poland	10,7	52,7	6,4	30,2	6,3	65,6	5,9	22,2
Slovak R. <sup>4</sup>	2,5	41,4	16,7	39,4	4,0	50,1	12,9	33,0
Slovenia <sup>2</sup>	8,2	64,8	5,5	21,5	5,9	60,9	3,9	29,3
Bulgaria	3,4	5,6	12,1	78,9	10,8	31,5	5,0	52,7
Romania	10,2	33,9	9,1	46,8	11,3	35,2	6,3	47,2
CROATIA <sup>2</sup>	9,2	59,9	3,8	27,1	3,7	52,5	2,4	41,4

- continued

Country	1994.				1996.*			
	OECD <sup>1</sup>	EU15	CEEC	Other countries	OECD <sup>1</sup>	EU15	CEEC	Other countries
Czech R.	5,6	54,1	23,7	16,6	5,4	58,2	22,2	14,2
Hungary	8,3	63,7	7,4	20,6	7,1	62,7	9,5	20,7
Poland	6,2	69,2	5,2	19,4	5,5	66,2	6,4	21,9
Slovak R.	4,4	35,0	46,3	14,3	3,6	41,3	41,3	13,8
Slovenia	6,9	65,6	4,9	22,6	5,7	64,6	5,8	23,9
Bulgaria	12,3	37,6	3,4	46,7	13,0	38,8	3,4	44,8
Romania	7,8	48,2	5,9	38,1	5,7	56,5	4,2	33,6
CROATIA	4,6	59,4	4,1	31,9	3,9	51,0	4,1	41,0

CEEC = Central and East European Countries (Bulgaria, Czech R, Hungary, Poland, Romania, Slovak R. and Slovenia)

1 without European Union 15

2 without former Yugoslavia for 1990.

3 without the Slovak R. for 1990.

4 without the Czech R. for 1990-1992.

\* Preliminary

**Source:** Calculated from:

- Countries in Transition 1996, WIIW Handbook of Statistics, The Vienna Institute for Comparative Economic Studies, Vienna, 1996, pp. 251-267
- Countries in Transition 1997, WIIW Handbook of Statistics, The Vienna Institute for Comparative Economic Studies, Vienna, 1997, pp. 270-287

In the current developmental phase, the aiming of the observed countries in transition towards the market of the EU-15 may be estimated as positive having in mind high quality standards set by the developed environment. Therefore the differences in the quality of input and output should be decreased in the terms of globalization.

Contrary to the earlier expectations that the service sector would be the principal source of new jobs in the further course of the process of economy restructuring, the industry has been the main generator of employment in the private sector in the observed countries. Although the number of new jobs in the service sector is not negligible, it was only in the Czech Republic the major resource of new jobs. In the most countries in transition of the Central and Eastern Europe it seems that a process of reindustrialization is going on, with a strong export orientation (ECE, 1998, 3).

In the observed European countries in transition the industrial policy has not been defined, although some measures of the stated policy have been realized. In those countries a fact has been overlooked that “the industrial policies forms an integral part of the set of policy instruments used by western economies” (Landessman, 1993,1). Therefore the industrial policy is a necessary factor of the process of restructuring of the countries in transition. In those countries the industrial policy has not been practised because of “market failure”, but because of the absence, i.e. only the initial development of the market. In such conditions, the key question is not whether the state should intervene in or not, but what kind of industrial policy should be developed that enterprises and employed should enable themselves for the market economy. In addition to that, those countries have been faced with a considerable loss of former markets. While the price liberalization and temporary macroeconomic stability is possible to attain in a relatively short period of time, the creation of the institutional and legal frame of a sound market environment requires time and long-term adaptation. If the state does not start to carry out the measures of industrial policy before market is not developed enough, there is a danger that “market failure” will be increasingly present.



Source: Calculated from: SYC-97, p. 197

Within the intrasectoral structure, in the primary sector, agriculture and fishery are the most represented, in the secondary sector industry and mining, in the tertiary transport and communications, housing activity and other “non-productive” activities.

In comparison with 1990, the secondary sector realized the greatest decrease. According to the intrasectoral analysis (Table 9), the greatest fall rates in the observed period were realized in industry and mining and in catering and tourism.

In comparison with 1989, the industrial production decreased for thirteen index points already in the pre-war 1990. The industrial production decrease in some developed countries has had completely different causes. Those are the countries of mature developed industrial structures<sup>6</sup>.

**Table 9**

**INDICES OF GROSS DOMESTIC PRODUCT BY UCEA  
AND CHANGE RATES**

■ in 1990. constant prices

■ 1990=100

Activity	1989.	1991.	1992.	1993.	1994.	1995.	1996.	Change rates 1990-1996
<b>Manufacturing and mining</b>	112,8	71,5	61,2	57,4	55,9	56,0	57,8	-8,7
<b>Agriculture and fishery</b>	103,2	92,3	80,2	83,7	81,0	81,6	82,8	-3,1
<b>Forestry</b>	116,8	78,0	70,7	65,3	73,5	68,0	71,7	-5,4
<b>Water management</b>	94,5	83,0	79,0	83,1	83,7	84,3	87,1	-2,3
<b>Construction</b>	112,5	70,5	38,6	34,1	33,9	34,7	44,5	-12,6
<b>Transport and communication</b>	102,2	79,7	67,8	64,5	64,6	66,3	69,8	-5,8
<b>Trade</b>	107,5	74,3	68,0	69,3	71,3	76,7	80,3	-3,6
<b>Catering and tourism</b>	111,4	39,4	38,6	42,9	56,6	50,8	67,1	-6,4
<b>Crafts and trades</b>	106,3	93,3	85,7	86,0	90,1	94,6	97,6	-0,4
<b>Community service activities</b>	10,4,3	89,8	83,1	82,6	83,1	84,2	85,6	-2,6
<b>Financial and other services</b>	115,6	90,8	85,4	87,4	84,0	86,9	84,4	-2,8
<b>Education and culture</b>	100,9	94,1	88,9	90,0	90,5	89,9	90,7	-1,6
<b>Health care and social services</b>	100,1	93,8	90,9	91,8	90,6	88,9	89,5	-1,8
<b>Public administration</b>	10,6,5	90,2	81,7	81,7	81,8	86,7	89,5	-1,8
<b>TOTAL</b>	107,7	79,4	70,2	69,5	70,0	71,2	74,2	-4,9

**Source:** Calculated from: SYC-97, p. 167

On the one hand, growingly lower investment influenced upon the falling rates of the GDP, and on the other hand, even more unfavourably, long-range absence of corresponding restructuring of the industry and economy as a whole, where it should be taken into account that the technical and technological progress has been increasingly influencing upon the industrial and economic growth and development in the developed countries with more than 50% index points.

As far as the intensity of the investment activity is concerned in the period 1990-1996, Croatia was on the last place among the countries observed in this paper (Table 4). It should be pointed out that industry, construction and trade already in the course of 1980's entered the process of disinvesting, which, with regard to the absence of the technical and technological progress break through, will have a long-range and expressively negative consequences.

From the analysis of the structure of the realized investment in industry, as the most represented activity in the period 1990-1996, a conclusion can be made of the tendency of a long-term bigger share of the technologically non-propulsive branches and significant decrease of the technologically propulsive branches share (particularly manufacturing of machinery and electrical equipment). But, it is really needed to emphasize the positive moves in the technologically very propulsive branch - chemical products manufacturing, in which the share of investment has been increasing.

A lot of energisers and work have been invested in the exported products, and insufficient amount of materialized knowledge. In the long period of time, the basis of the export direction was a low work cost, and which at the same time did not improve significantly the competitive capability of industry.

The structure of exports in that period of time is expressively unfavourable, and that is the consequence of market evaluation of the industrial structure of Croatia on the international market. The criteria of the most developed countries have become the standards and normatives for all the participants on the world market and that is the reality to which the economy of Croatia should adapt to.

In the structure of exported industrial products of Croatia some negative structural changes are going on: the share of intermediate goods is increasing and the



share of capital goods is decreasing. Consequently, the share of technologically propulsive branch groups is decreasing (Table 10).

The “sector” of knowledge and information in our country has been slowly developed, which in the countries with high growth rates of the industrial production has become an incubator of new working posts.

**Table 10**

**EXPORTS BY INTENDED USE OF PRODUCT<sup>1</sup>**

■ in %

Description	1989.	1990.	1991.	1992 <sup>2</sup> .	1993 <sup>2</sup> .	1994 <sup>2</sup> .	1995 <sup>2</sup> .	1996 <sup>2</sup> .
Intermediate goods	48,9	42,5	44,9	53,5	51,0	48,8	53,0	49,3
Capital goods	26,4	19,8	19,1	12,5	8,2	12,7	11,8	15,3
Consumer goods	24,7	37,7	36,0	34,0	40,8	38,5	35,2	35,4
TOTAL	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

<sup>1</sup> Volume of trade is calculated in kunas according to the yearly exchange rate for 1996, where 1 US \$ - 5.2975 kunas

<sup>2</sup> Includes exports with countries of former Yugoslav Republics

**Source:** Calculated from:

■ SYC-1997, p. 316

In the new market conditions the process of restructuring can be neither postponed nor stopped, but the price of restructuring has become growingly bigger, namely, it is even more difficult and expensive to achieve developmental impulses in the scarcity of accumulation.

The homeland war and the process of transition influenced substantially upon the decrease of the former market. From less demanding, it was necessary to adapt quickly to very demanding market. Therefore the effective use of the available accumulation is growingly and expressively defined by economic criteria. In addition to all that, it should be pointed out that the interest of foreign investors, having all the conditions of the international community, will grow in Croatia<sup>7</sup>.

## 5. INSTEAD OF CONCLUSION

The process of transition started at the beginning of the nineties and it has influenced substantially upon the present and future economic courses not only of the countries in transition, but also in the conditions of globalization in the developed

countries. In the new conditions, by the economy restructuring it is possible to direct most effectively the key factor of development, i.e. the technical and technological progress towards the raising of the achieved level of development and great inclusion into the international exchange.

The process of transition is long-term and complex. It contains in itself numerous problems of various intensity in a particular country (among which the most important are the fall of the standard of living and the increase of unemployment). Those countries that started in bridging the most fundamental differences between the central-planning and market economies.

The experience of the countries in transition has shown that the realization of the economic reform on the supply side is the “Achilles heel” of the entire process of reform, as it resulted with a drastic fall of the industrial production, and consequentially, with the fall of employment and the increase of the regional unequalness (Landesman, 1993,7).

All that influenced substantially upon the decrease of the achieved level of development which has reflected in decrease of the GDP. Although in 1994 positive moves began in all the observed countries, none of the countries (except Poland) has not yet realised the pre-transition level of development. According to the GDP per capita indicator, during the whole observed period and according to the purchasing power parity, Croatia realized a quarter of the EU-15 average.

The success of the industry restructuring, namely the manufacturing industry, has had the most significant influence upon the process of restructuring. In that period, in Croatia, a very low intensity of investment is evident and which deepened negative consequences of the process of “disinvesting”. It will have the longest-term consequences and will represent the strongest limitation with regard to the significance of the technical and technological progress for the future development and the decrease of the competitiveness of the Croatian products.

It has resulted from the research work in this paper that the Croatian economy is in such a developmental phase in which it is essential to increase the export intensity, namely the export orientation of the economy. At the same time, Croatia “makes” steps towards the creation of those economic and political prerequisites which will enable joining to the European Union in very demanding conditions imposed by globalization.

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## ENDNOTES

<sup>1</sup> The results of the research work in this paper are related to the countries in transition, CEE-7, and the economy of the Republic of Croatia. The countries of CEE-7 (except Bulgaria) are the members of CEFTA, which is one of the fundamental prerequisites for joining to the European Union. In December 1997, the Summit of the European Union made the decision of the terms of acceptance of 11 new members according to the formula "6+5". At the beginning of 1998 negotiations began about the joining of six countries. Out of the studied in this paper are: Hungary, the Czech Republic, Poland and Slovenia. Bulgaria, Romania and Slovak Republic have been rapidly preparing for the beginning of the negotiations.

<sup>2</sup> "The term restructuring may be designated as a process of industry adaptation in relation to the home structure of a region or country, as well as in relation to a bigger inclusion into the international economy, taking into consideration deep changes of the international environment and consequences caused by them; in: *Le redéploiement industriel, Etudes de politique industrielle, La documentation française, Paris, 1977, p.. 12*

<sup>3</sup> The restructuring of the transition economies implies a redefinition of the role of the state, not its elimination (ECE, 1995, 4)

<sup>4</sup> It is estimated that the countries of the Central and Eastern Europe would reach the level of production from 1989 only at the end of the century, while they would be catching up the GDP level and industrial production of the countries of the western Europe in a considerably longer period of time (ECE, 1995, 1)

<sup>5</sup> A new system of national accounting has been just introducing (based on SNA 1993), so that in this part of the paper parameters are used which are based upon the Uniform Classification of Economic Activity (UCEA), valid until 31. December 1996.

<sup>6</sup> If we express the achieved degree of the industrial development by the GDP of industry in relation to agriculture, and which for Croatia for the period 1990 to 1996 is 2,4:1, while at the same time in the developed economies that relation moves from 4,5:1 to 13:1, then we can draw the conclusion that the achieved degree of industrial development in relation to the developed countries is relatively modest.

<sup>7</sup> "The attraction of foreign capital and technology by means of foreign direct investment, and the inclusion in the global production and information systems should be the major direction of our developmental policy" (Baletic, 1997,2)

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