

## «Global Competitiveness Report 2002-2003: Results for Croatia»

The results of the Global Competitiveness Report for 2002/2003, published by the World Economic Forum in Davos, in which Croatia was included for the first time through the initiative of the National Competitiveness Council, showed that Croatia took 58th place out of 80 countries in the Growth Competitiveness Index, and 52nd place in the Microeconomic Competitiveness Index. Croatia cannot be satisfied with these results, especially because it is far behind other countries in transition except for Bulgaria and Romania which are placed behind Croatia.

The National Competitiveness Council considers these results to be realistic. This year Croatia has received internationally comparable information regarding its competitiveness ranking for the first time. This has ensured an objective evaluation of the state of the Croatian economy and provided a starting point for management of change.

A benchmarking analysis of Croatian competitiveness was created based on high quality research using internationally recognized methodology. The benchmarking analysis, used especially in countries in transition, identified areas in which Croatia is left far behind. This is a basis for recognizing priorities in solving competitiveness problems, as well as for defining a program of change which will last several years. Management of change in the Croatian economy needs to result in future improvements of Croatia's position in competitiveness rankings.

The National Competitiveness Council will also continue to improve the dialogue between the private and the public sector, work on raising the awareness of the importance of competitiveness for the sustainable development of Croatia, as well as motivate further research and discussion about Croatian competitiveness.

### The Global Competitiveness Report in general

The Global Competitiveness Report contains two key indices:

1. The Growth Competitiveness Index, GCI, developed by dr. Jeffrey Sachs. It evaluates the possibility for mid-term economic growth (5-8 years) and contains information about public institutions, the macroeconomic environment and technology.
2. The Microeconomic Competitiveness Index, MICI, was developed by dr. Michael Porter. It measures current prosperity and productivity potential, and contains information about the companies' strategy and operations, as well as the quality of the national business environment.

The Global Competitiveness Report is based on two information sources: the executive opinion survey and statistical data. In the spring of 2002, in association with the Institute of Economics, Zagreb, under the supervision and according to the regulations of Harvard University, the Hendl company successfully conducted a survey on a sample of 101 companies. The World Economic Forum accepted the obtained information and included Croatia in the Global Competitiveness Report 2002-2003. It is important to point out that in those questions where statistical and survey data are available (e.g., the country's innovative capacity), the correlation between these data is very high.

## The global position of Croatia in the Global Competitiveness Report 2002-2003

Results:

- **The Growth Competitiveness Index** ranks Croatia as the 58th country out of 80. Of all the countries in transition only Bulgaria (62) and Romania (66) were placed lower. Slovenia is in the 28th, Hungary in the 29th, the Czech Republic in the 40th, Slovakia in the 49th and Poland in the 51st position.
- **The Microeconomic Competitiveness Index** ranks Croatia as the 52nd country out of 80. Of all the countries in transition only Romania (67) and Bulgaria (68) were placed lower. The following countries are ranked better: Slovenia (27), Hungary (28), the Czech Republic (34), Slovakia (42) and Poland (46).

### The results of the benchmarking analysis for Croatia

Besides the initiative to include Croatia in the Global Competitiveness Index, the National Competitiveness Council hired the Institute of Economics, Zagreb, to carry out a special study of Croatian competitiveness in association with Harvard University and according to data from the World Economic Forum. A benchmarking analysis was conducted regarding Central and Eastern European countries, as well as in relation to the EU average and the common average of all 80 countries. The benchmarking of the answers of Croatian managers in relation to the answers from other countries in transition was analyzed in special detail.

The results for Croatia are based on the perceptions of general managers, i.e., the results derived from the questionnaires. More than 4,800 managers, 101 of which are from Croatia, participated in this year's worldwide survey. The reasons why perceptions of managers are considered to be a good indicator of the state of the country are the following: first of all, the fact that statistical data cannot encompass all aspects of the economic environment (e.g., the efficiency of government institutions, the sophistication of the local supplier networks, the nature of market competition, etc.), and secondly, the fact that managers affect economic growth and development through their decisions, and their perceptions offer valuable information about the state of the economy.

The information obtained from the survey of Croatian managers and compared to the information from other countries, was divided according to the World Economic Forum methodology into 12 different areas. These were the findings:

#### 1. Company characteristics

- Most companies do not make direct foreign investments in countries in transition
- The companies' top management spends very little time negotiating with the government
- There is dissatisfaction with the effectiveness of local business organizations in lobbying for common business interests with government representatives
- There are companies whose largest burden of all the expenditures are the expenditures on salaries.

#### 2. Overall perception of the country's economy

- Strongly expressed pessimism regarding potential economic growth in 2003 (ranking: 60/80)

The benchmarking analysis indicates that greater pessimism regarding the overall perception of the country's economy can be found in Poland (68), Slovakia (61), Bulgaria (67) and Romania (62).

### 3. Technology

- Croatia is technologically far behind other countries (ranking: 67/80)
- Direct foreign investments represent a very small source of new technologies (65/80)
- The decision of the government to purchase advanced technologies was motivated primarily by price (51/80)
- Extremely small investments by companies in research and development (59/80)
- Weak business cooperation with local universities in the areas of research and development, although there is a positive attitude towards the quality of the scientific and research institutions (56/80)
- A lack of subsidies or tax deductions for companies investing in research and development (58/80)
- Information and communication technology is not a priority for the government, and therefore, government programs for the motivation of such technologies are not successful (49/80)
- Low level of legislature covering the area of information technology (46/80)
- Internet access is slow and expensive due to inadequate competition between internet service providers (70/80)

The benchmarking analysis indicates that Croatia is below the European average regarding the issues dealing with technology, research and development and the development of business cooperation between companies and local universities.

Direct foreign investments represent a substantial source of new technologies for Hungary (2/80) and the Czech Republic (5/80), while they are not significant for Croatia (65) and Slovenia (61).

Companies in Croatia invest very little in research and development (59/80); companies in the following countries invest much more: Slovenia (24), the Czech Republic (29), Hungary (30), Poland (35) and Slovakia (49); in the following countries companies invest less than the Croatian ones: Bulgaria (66) and Romania (74).

The unsatisfactory access to the Internet due to the lack of competition is a problem for all the countries in transition: Croatia (70), Slovenia (56), Hungary (42), Poland (68), Slovakia (67), Bulgaria (63), Romania (72) with the exception of the Czech Republic (12/80).

### 4. The government and the public sector

- The ineffectiveness of the Parliament as a legislative and supervisory institution (ranking: 55/80)
- Low personnel quality in public institutions (52/80)
- Administrative regulations represent an obstacle to business (63/80)
- A very simple and transparent tax system (30/80)
- Subsidizing policy wrongly directed (73/80)
- High level of political corruption (57/80)

The benchmarking analysis indicates that in most of the areas mentioned and connected to the government and the public sector, Croatia is ranked similarly – poorly – as other countries in transition. The only exception is the perception of the tax system which is seen as better and more transparent than the world average, as well as the EU average, comparable to Slovenia (27) and Hungary (25), and much better than Slovakia (51), Poland (56), the Czech Republic (59), Bulgaria (70) and Romania (80).

## 5. Public institutions

- The judiciary highly affected by various influences (ranking: 63/80)
- Low legal security (65/80)
- Extremely weak protection of intellectual property (60/80) and financial assets (68/80)
- High level of censorship in the media (61/80)
- Low level of faith in the work of the police in the fight against crime (52/80)
- Frequent bribery and corruption (according to various types between 45th and 57th place)
- There was no increase in the frequency and the extent of additional payments and bribes in the past 3 years (9/80)

The benchmarking analysis indicates that, regarding public institutions, Croatia is in a similarly low place compared to other countries in transition, with the exception of Slovenia and Hungary which are mostly in a better or a much better position. Regarding the increase in the frequency and the extent of additional payments and bribes, Croatia has been in a better position in the past 3 years than the world average, the EU average, and all the countries in transition. Regarding the level of censorship in the media, the only country ranked lower than Croatia is Bulgaria (64) and the following countries are ranked higher: the Czech Republic (29), Slovakia (34), Slovenia (39), Hungary (41), Romania (45) and Poland (48).

## 6. Infrastructure

- A very low general mark (ranking: 61/80)

The benchmarking analysis in Croatia indicates that regarding the general level of development of the infrastructure Croatia ranks better only than Romania (72), and worse than the other countries in transition: the Czech Republic (28), Slovenia (33), Hungary (39), Slovakia (47), Bulgaria (59) and Poland (60).

## 7. Human resources

- The labor market highly inflexible (ranking: 51/80)
- Employee – employer relations are more opposed than cooperative (77/80)
- The relationship between salaries and productivity is insignificant (58/80)
- Good quality of education in mathematics (29/80)
- High number of talented people who leave for foreign countries (69/80)
- Few scientists and engineers (45/80)

The benchmarking analysis indicates that the differences between Croatia and other countries in transition are the greatest in the area of human resources:

- In the area of labor market flexibility, the only country with an even more inflexible labor market is Slovenia (67)
- Relations between employees and employers are the worst of all the countries in transition
- The relationship between salaries and productivity is the most insignificant compared to other countries in transition
- The quality of education in mathematics does not differ greatly from other countries in transition
- The departure of talented people is higher only in Bulgaria (76) and Romania (78)
- Croatia has the fewest scientists and engineers of all the countries in transition

## 8. Finances and openness

- Low sophistication level of the financial markets (ranking: 68/80)
- Loans relatively easily obtainable (40/80)
- Regulative obstacles to investments and business can be found more often on a local level than the national level
- The standards of financial audits and accounting are not stable (50/80)
- Relatively rare occurrences of insider trading and money laundering through the banking system (28/80)
- Hidden import obstacles are not emphasized (44/80)
- Importing foreign equipment including all the taxes and the bureaucracy raises costs for more than 20 percent

The benchmarking indicates that Croatia is mostly weaker in the area of finances and openness than the world and European average, but compared to other countries in transition except Slovenia, it is ranked higher.

## 9. Domestic competition

- Very low level of competition on domestic markets (ranking: 60/80)
- Competition appears more often in the form of imports than local or multinational companies
- Consumers in Croatia do not demand innovative products, but make choices based on the lowest price (59/80)
- Weak presence and low quality of local suppliers (63/80)
- Very low concentration of clusters (63/80)
- Components, parts and production machinery are mostly imported
- Specialized research and education services for certain industries are not readily available (43/80)

The benchmarking indicates that a lower average in the area of market competition can be attributed to Slovakia (65), Bulgaria (64) and Romania (72), whereas the following have a higher average: Hungary (21), the Czech Republic (28), Slovenia (40) and Poland (48). Croatia is the only country where competition can more often be found in imports than local or multinational companies. A special characteristic for Croatia is the import of components and parts, which is not so often the case in other countries in transition. Cluster concentration in the countries in transition is generally limited, with concentration more frequent and higher, compared to Croatia, in Hungary (39), Slovenia (58), Poland (42) and Romania (44).

## 10. Company activities and strategy

- Companies are competitive on the international market because the uniqueness of products and production processes more than because of low costs and local natural resources (ranking: 28/80)
- Very far behind in the number of export markets (63/80)
- Inadequate and unsophisticated use of marketing (59/80)
- Low investment in human resources (67/80)
- Unprepared to delegate authority (53/80)
- Compensation of managers mostly based on salaries (62/80)
- Low quality and limitations of business schools (70/80)
- Very low level of corporate ethics (63/80)

The benchmarking shows that Croatia, alongside Slovenia and Hungary, believes that its companies are competitive on the international market due primarily to the uniqueness of its products. Other countries in transition put more emphasis on low costs or local natural resources (the Czech Republic, Poland, Slovakia, Bulgaria and Romania). Regarding the quality of business schools, Croatia is better positioned only than Bulgaria (72). Regarding the number of export markets, Croatia is far behind all other countries in transition. Regarding other issues related to company activities and strategy, Croatia is mostly better ranked only than Bulgaria and Romania.

## 11. Environmental protection policy

- Environmental protection regulations are not stable and transparent enough (ranking: 39/80)
- Low level of the implementation of the regulations (50/80)
- Extremely positive attitude towards the idea that upholding environmental standards improves competitiveness because it motivates the development of the product and the production processes (3/80)
- Infrequent use of the ISO 14000 environment management system (61/80)

The implementation of the regulations was marked worse only in Bulgaria (58) and Romania (53), while it was marked better in: Slovenia (21), Slovakia (28), Hungary (29) and the Czech Republic (46). When it comes to the use of the ISO standard Croatia is ranked better only than Bulgaria (63) and Romania (64), and worse than the Czech Republic (12), Slovenia (23), Hungary (29), Slovakia (36) and Poland (39). Croatia is above all averages in the perception that upholding environmental protection standards improves competitiveness because it motivates the development of the product and the production processes.

## 12. International institutions

- A very ineffective role of the World Bank, The International Monetary Fund and the European Bank for Reconstruction and Development in promoting the development of the private sector as well as the socio - economic development, and relieving poverty (between 58th and 75th place).

The benchmarking indicates that Croatian companies have the most negative attitude of all the countries in transition regarding the effectiveness of international financial institutions.