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Vorwort

Es ist uns ein Vergnügen, das Konferenzband „Interdisziplinäre Managementforschung VII/ Interdisciplinary Management Research VII" vorstellen zu können. Ein Buch aus dieser Reihe ist zum ersten Mal 2005 erschienen, als Resultat der Zusammenarbeit zwischen der Wirtschaftsfakultät in Osijek, Kroatien und der Hochschule Pforzheim, Deutschland, und insbesondere durch das Magisterstudium des Management. Die Zusammenarbeit der zwei genannten Partnerinstitutionen ist unter anderem durch jährliche wissenschaftliche Symposien gekennzeichnet, auf welchen interessante Themen aus verschiedenen Bereichen der Wirtschaft und des Managements vorgestellt und folglich in einem Band veröffentlicht werden. Jedes Jahr ziehen die wissenschaftlichen Symposien Akadamiker anderer kroatischer, sowie ausländischer Universitäten, einschließlich Ungarn, Polen, Rumänien, Slovenien, , Montenegro, Bosnien und Herzegovina, Serbien, Indien, Irland, Czechien, Israel, Italien, Südafrika, Belgien an, die ihren wissenschaftlichen und profesionellen Beitrag zur Diskussion über zeitgenössische Fragen aus dem Bereich des Managements leisten. Die Aktualität der behandelten Fragen, der internationale Charakter im Hinblick auf Themen und Autoren, die höchsten Standards der Forschungsmethodologie sowie die Kontinuität dieser Konferenzreihe wurden auch von der internationalen akademischen Gemeinde erkannt, weswegen sie auch in internationalen Datenbanken, wie Thomson ISI, RePEc, EconPapers und Socionet, zu finden ist.

Die neueste Ausgabe von „Interdisziplinäre Managementforschung VII/ Interdisciplinary Management Research VII" umfasst 74 Arbeiten geschrieben von 134 Autoren. Der Erfolg früherer Ausgaben ging über die Grenzen der Länder hinaus, deren Autoren schon traditionell Teil der Reihe waren und zog neue Autoren aus USA, Slowakei, Dänemark, Mazedonien, Schweiz und Großbritannien an. Jedes der Autoren leistete einen bedeutenden Beitrag zu diesem fachübergreifenden Managementforum.

Als Herausgeber dieses Bandes hoffen wir, dass diese Reihe auch weiterhin Akademiker und Profesionelle dazu bewegen wird, in Forschung und Beruf die höchsten Standards zu beanspruchen, und dass es weiterhin als Ansporn zu weiteren Formen von Zusammenarbeit unter Teilnehmern dieses Projektes dienen wird.

Prof. Dr. Dražen Barković

Prof. Dr. Bodo Runzheimer

CROATIA AT THE DOOR OF THE EU: CURRENT RISKS AND NEW POSSIBILITIES

Prof.dr. Mladen Vedriš[1]
Ružica Šimić[2]

Summary

The Republic of Croatia is facing dilemmas (developmental, political, and social) related to its impending full membership i the European Union (EU). For its part, the EU is fatigued by the existing and future expansions, especially from the aspect of the process of harmonizing viewpoints and decision-making, while in the Republic of Croatia there are present economic and social consequences of an insufficiently successful transition. What must be done to find a way to transform the economic crisis, national and global, into a chance for development is the basic scientific-research interest of this work. The authors are convinced that on the basis of *best practices* achieved by individual group of countries to date, such a step forward can be made in the Republic of Croatia, especially by the used of new potential available with its upcoming membership in the EU.

JEL classification: F12, G01

Key words: global economic crisis, national economic crisis, EU membership, EU 2020, Euro plus pact, public policies, development models, competitiveness.

INTRODUCTION

The expected impending entry of the Republic of Croatia into the European Union (EU) – it is assumed that negotiations will conclude in 2011 and ratification by member states will follow in 2012 – opens questions that are now almost a decade old in relation to the first possible term for entry into the EU (2004, the entry of the transition countries) on what Croatia must do in order for this new economic and geopolitical positioning to be a significant factor in promoting economic growth in a national sense.

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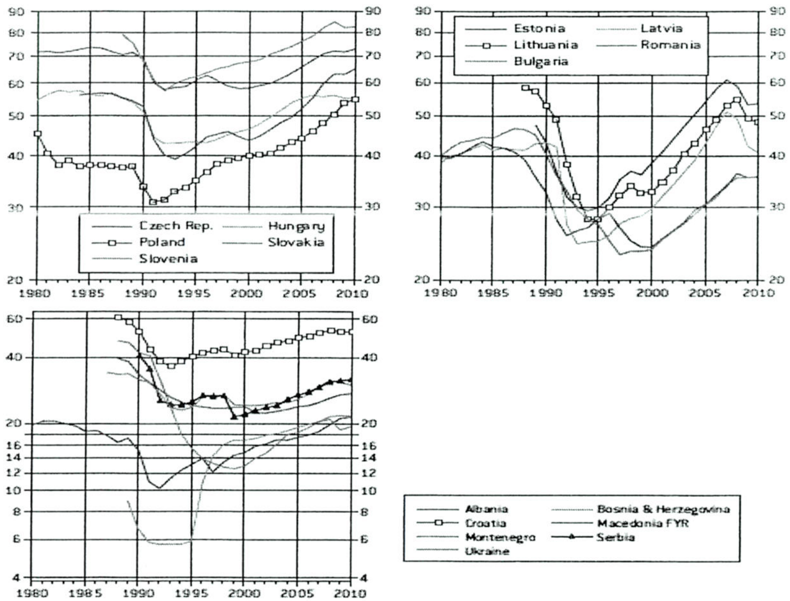
The circumstances in which that process is being definitively achieved is characterized on one hand (the EU) by a kind of *expansion fatigue*, created by the fact that not all countries (especially Romania and Bulgaria) could not easily integrate into the normative framework of the EU, the process of expansion also led to an intensification of the tensions in the decision-making system and stronger pressures for use of the subsidy mechanism. All of this occurred in during the time of the global economic crisis, which after the US passed into Europe, which it has also lasted longer, as can be seen from the lower rates of economic growth, the higher unemployment rates, and accordingly, greater social tensions that area creating the urgent need for unified EU policy in several areas ranging from energy and ecology to a joint foreign policy.

How the Republic of Croatia can construct a new, active position in all such circumstances, which are the limits in creating such options and strategies, is a question of vital interest in this work. Also, recent analyses of the achievements of individual transition countries, which today are EU members, point to the conclusion that almost all of these countries, to a lesser or greater extent, used EU accession as an important *push* factor for structural changes and the development of their national economies. Also important are the institutional factor and the relevant environment that makes overcoming the consequences of the global crisis within their own national boundaries easier.

Aggregate quantification of the results achieved is apparent from a review of a graph on GDP of transition countries (per capita, parity purchasing EU 15 = 100) of Central and Eastern Europe in the last thirty years (1980-2010). This is a period that embraces the gradual dissolution of the once monolithic Easter Bloc of the former USSR, then the beginning of the transition process (1990-1995), and the phase of accelerated recovery and growth, especially present since 2004 among countries that became EU members.

Graph 1. GDP per capita based on parity purchasing power (EU 15 = 100), 1980-2010



Source: Becker, T., Daianu, D., Darvas, Z., Gligorov, V., Landersmann, M., Petrovic, P., Pisani-Ferry, J., Rosati, D., Sapir, A. and Di Mauro, B.W, "Wither growth in central and eastern Europe? Policy lessons for an integrated Europe", Bruegel Blueprint Series, Vo. XI, Bruegel, Brussels, 2010, page 4.

It is apparent that Slovenia, the Czech Republic, and Slovakia were the most successful in passing through the transition process. The first two began from a relatively more satisfactory starting position; they went through the fewest oscillations and have relatively successfully taken advantage of the time period after entry into the EU (since 2004), especially in the context of overcoming the consequences of the global economic crisis (2008 -). Poland registered a high degree of oscillation, but it still took advantage of the period after EU entry to register extremely robust economic growth by which it reached the level of Hungary (GDP, parity purchasing power).

The next group of transition countries (today EU members) – Estonia, Lithuania, Latvia, Bulgaria and Romania – experienced oscillations even deeper than those in Poland. Together they passed through a period of conjuncture (2000-

2008), but also sharply evident consequences of the global crisis on their national economies.

In the group of countries with which it is usually compared (Serbia, BiH, Macedonia, Montenegro – countries of the former Yugoslavia - and Ukraine and Albania) Croatia had a relatively high starting position (1990), more satisfactory than the examples of Slovakia and Hungary, with troughs and deficits in the period of aggression and war (1991-1995) and a gradual recovery in the last 15 years. Its position today (2010) corresponds with the position at the beginning of the transition period (1990). The data clearly indicate that today Croatia is (again) at the beginning of the convergence process, but it is no longer measured against the EU 15, but against the entire European Union - the EU 27.

I. THE EUROPEAN UNION TODAY: KEY GOALS AND PRIORITIES

The accelerated process of globalization forcefully stimulated by the sudden disappearance of the ideological, but also the possible military, confrontation between East and West (the fall of the Berlin Wall), confronted the European Union in the 1990s with the fact that it had to create a competitive framework for the acceleration of its own economic growth, not for internal reasons, but primarily because of the growing competitive pressure in the global environment: on one hand North America (the US and Canada) and on the other hand the Far East (Japan and the little Asian tigers – Singapore, Hong Kong, Malaysia, South Korea – and then the new great challenge of China). Therefore, in March 2000, the European Commission adopted a development document at a meeting in Lisbon that became the fundamental strategic act with goals and guidelines for the next decade.

The main goal of this Lisbon Strategy was to significantly boost the EU's economy, particularly compared to Japan and United States. In the first phase the focus was on the implementation and introduction of its mechanisms in the member states. The European Commission would take the lead role in monitoring and coordinating the implementation processes. The Open Method of Coordination was specifically created as a governance method to be used with the Lisbon Strategy in order to ensure the spread of best practices and convergence to achieve the goals of the Lisbon Strategy.

Despite some progress, the overall results of the Lisbon Strategy were below expectations, mainly because of ambiguous responsibilities. After a mid-term review in 2005, the Lisbon Strategy was re-launched. The new Strategy focused on growth and jobs; other objectives were concerned as long-term goals. Within that framework of growth and jobs framework the following areas were considered the most important: research and innovation, human capital, the labor market, entrepreneurship, and climate change. In 2008, a third cycle of the Lisbon Strategy was launched for the period 2008-2010. It focused on implementation and emphasized the environment, climate change and energy, social aspects, and the connection between the Lisbon Strategy and cohesion policy.

Further, due to the activities and time using the demonstrated realization and experience created in the general application of the Lisbon Strategy, a new framework for common growth and development was created. But for the new time, and in new circumstances it was necessary to structure a new configuration, which required a new relationship of power and new priorities created by a new wave and the new requirements of globalization.

How the EU intends to achieve its development priorities under today's circumstances is apparent from this detailed and carefully balanced document.

Table 1. Europa 2020 – Flagship Initiatives

1	***Innovation Union*** The aim of this is to re-focus R&D and innovation policy on the challenges facing society such as climate change, energy and resource efficiency, health and demographic change. Every link should be strengthened in the innovation chain, from "blue sky" research to commercialization.
2	***Youth on the move*** The aim is to enhance the performance and international attractiveness of Europe's higher education institutions and raise the overall quality of all levels of education and training in the EU, combining both excellence and equity, by promoting student mobility and trainee mobility, and to improve the employment situation of young people.
3	***A Digital Agenda for Europe*** The aim is to deliver sustainable economic and social benefits from a Digital Single Market based on fast and ultra fast Internet and interoperable applications, with broadband access for all by 2013, access for all to much higher Internet speeds (30 Mbps or above) by 2020, and 50% or more of European households subscribing to Internet connections with more than 100 Mbps.
4	***Resource-efficient Europe*** The aim is to support the shift towards a resource-efficient and low-carbon economy that is efficient in the way it uses all resources. The aim is to decouple economic growth from resource and energy use, reduce CO2 emissions, enhance competitiveness and promote greater energy security.
5	***An industrial policy for the globalization era*** The framework will address all elements of the increasingly international value chain from access to raw materials to after-sales service.
6	***An agenda for new skills and jobs*** The aim is to create conditions for modernizing labor markets with a view to raising employment levels and ensuring the sustainability of our social models.
7	***European Platform against Poverty*** The aim is to ensure economic, social and territorial cohesion, building on the current European Year for Combating Poverty and Social Exclusion to raise awareness and recognize the fundamental rights of people experiencing poverty and social exclusion, enabling them to live in dignity and take an active part in society.

Source: Samardžija, V., Butković, H., "From the Lisbon Strategy to Europe 2020", IMO, Zagreb, 2010, p. 12.

As already stated, the program "*EUROPA 2020*" arose as a result of: a) a focused process to continue to achieve the important development goals of the Lisbon Agenda, expanded by new challenges; b) ever greater awareness of the need keeping step in development with the primary partners and competitors – the US and China; c) an awareness that managing a joint development policy, and consequently a coherent economic policy, is the *sine qua non* for the successful functioning of the EU and maintaining the consistency of the euro zone project. In order to make it possible to achieve all of this, The EU Commission adopted *Integrated Guidelines* that open the way for a continuation of the reforms that have been initiated. In concrete terms, this includes the following actions:

Table 2. EUROPE 2020 INTEGRATED GUIDELINES

1	Ensuring the quality and sustainability of public finances.
2	Addressing macroeconomic imbalances.
3	Reducing imbalances in the euro area.
4	Optimizing support for R&D and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy.
5	Improving resource efficiency and reducing greenhouse gas emissions.
6	Improving the business and consumer environment and modernizing the industrial base.
7	Increasing labor market participation and reducing structural unemployment.
8	Developing a skilled workforce responding to labor market needs, promoting job quality and lifelong learning.
9	Improving the performance of education and training systems at all levels and increasing participation in tertiary education.
10	Promoting social inclusion and combating poverty.

Source: European Commission, 2010 - Provjera Sourcea
http://ec.europa.eu/europe2020/targets/eu-targets/index_en.htm

It is planned that these guidelines be achieved by the middle of the year 2014, when their contribution will be analyzed, both in formulating national economic strategies and in overall competitiveness: meeting important goals at the EU level. There are more detailed expectations (European Commission) stating that they must be the basic goals of this programmatically demanding document.

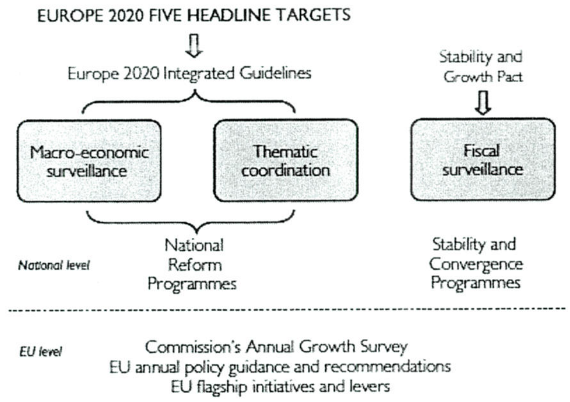
Since the global economic crisis to a great extent stressed the weaknesses of EU economic policy, the Europe 2020 strategy was additionally set with goals that not only focused on a recovery from the crisis, but also on more proactive ways to avoid crisis situations in the future. In addition, Europe is concerned by the growing number of its competitors, including Japan, the United States and the increasingly «threatening» emerging markets. (Samardžija, Butković: 15).

Stated more precisely, and as a lesson in the *soft* way of managing the goals of the Lisbon Agenda, it is expected that there will be a firmer structural concept for monitoring the achievement of the five important goals of the EU 2020 Program.[3]

[3] Five targets of new European strategy for jobs and growth: **aiming to raise to 75% the employment rate for women and men aged 20-64,** including through greater participation of young people, older workers and low-skilled workers and better integration of legal migrants;

This viewpoint is clearly and directly formulated in the proposal for the establishment of new management mechanisms for monitoring the implementation of agreed upon policies within EU member states. The new concept is apparent in the framework for permanent monitoring that has been set up.

Graph 2. EUROPE 2020 FIVE HEADLINE TARGETS



Source: European Commission, 2010g.

Source: Source: Samardžija, V., Butković, H.:„From Lisbon Strategy to Europe 2020", IMO, Zagreb, 2010, str. 17

improving the conditions for research and development, particularly with the aim of raising combined public and private investment levels in this sector to 3% of GDP; the Commission will elaborate an indicator reflecting R&D and innovation intensity; **reducing greenhouse gas emissions by 20% compared to 1990 levels;** increasing the share of renewables in final energy consumption to 20%; and moving towards a 20% increase in energy efficiency; the EU is committed to reaching a decision to move to a 30% reduction by 2020 compared to 1990 levels as its conditional offer with a view to a global and comprehensive agreement for the period beyond 2012, provided that other developed countries commit themselves to comparable emission reductions and that developing countries contribute adequately according to their responsibilities and respective capabilities; **improving education levels,** especially by aiming to reduce school drop-out rates to less than 10% and by increasing the share of 30-34 years old having completed tertiary or equivalent education to at least 40%; **promoting social inclusion, in particular through the reduction of poverty,** by aiming to lift at least 20 million people out of the risk of poverty and exclusion. (Source: European Council, Conclusions from 17 June 2010, EUCO 13/10, Brussels, 17 June 2010, http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/115346.pdf)

Such an orientation and such decisions are the result of direct experience in managing crisis and remedying its consequences, which have been present in the European economy since 2008, and with an increasing accelerating pace: territorially – Greece, Ireland, Portugal – but also structurally – increasing pressure on the euro as a common currency, lower rates of economic growth comparable to other global economies, an increased degree of social polarization. In this context, it is realistic to expect and to require a system of monitoring of the implementation of macroeconomic policy at the national levels and program of reform within individual countries and national economies. It is also clear that fiscal supervision relying on the principles of the *Stability and Growth Pact* is an important precondition for an approach to using the resources earmarked from the *European Stabilization Mechanism,* as a new, extremely important instrument of a joint EU economic policy.

Considered more generally, it is becoming clear at the EU level that since the beginning of the concept of union in a *common European market* and today's integrated form, a *European Union*, requires a different, considerably more elaborated, demanding and better defined mechanism for mutual economic cooperation. This awareness became more realistic after the introduction of the euro (monetary policy), when a divergence in managing the fiscal policies of the member states (revenue and expenditure sides), and the degree of economic growth (national competitiveness, under conditions of the rising global crisis, drastically and dramatically questioned both the efficiency and overall sustainability of the common policies of the EU. The recognition of this type of (re)action to a crisis situation (beginning from 2008) has its empirical stronghold on a documentary base, that demonstrates the economic growth that has been achieved, but also the failed opportunities in the last decade. [4] The following data show this more exactly:

4 The question remains whether the achieved deficits in potential GDP growth would have been greater if in the same period within the EU the it had not devised (sooner or later, in a more organized way or more spontaneously) the concept of the Lisbon Agenda.

Table 3. Output gaps: Deviations of actual GDP from potential GDP as a percentage of potential GDP

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	-0.2	0.3	0.4	0.4	0.6	-0.3	1.1	-0.2	-2.1	-2.1	-1.7
Austria	0.4	-0.5	-2.0	-1.7	-0.9	0.5	1.9	1.7	-3.4	-3.5	-2.7
Belgium	-0.3	-1.1	-2.0	-0.6	-0.6	-0.1	0.1	-1.5	-6.5	-6.9	-6.7
Canada	0.8	1.0	0.3	0.7	0.9	0.9	1.0	-1.0	-5.3	-3.4	-2.0
Chile	..	..	..	..	..	..	..	..	..	..	..
Czech Republic	-0.6	-1.7	-1.8	-1.3	0.9	3.6	5.5	4.0	-3.1	-3.6	-3.7
Denmark	1.0	-0.3	-1.2	-0.4	0.2	1.7	2.1	-0.4	-6.5	-6.0	-4.7
Finland	0.1	-1.3	-2.3	-1.1	-0.9	0.5	2.1	0.4	-8.9	-8.0	-6.6
France	1.0	-0.1	-0.9	-0.4	-0.3	0.3	0.7	-0.6	-4.5	-4.0	-3.2
Germany	1.0	-0.3	-1.6	-1.8	-1.7	0.4	1.5	0.9	-5.2	-4.4	-3.6
Greece	-1.6	-2.2	-0.4	0.1	-1.3	0.2	1.2	0.0	-3.8	-8.0	-10.2
Hungary	0.6	1.0	1.5	2.6	3.0	4.0	2.4	0.7	-6.1	-5.8	-4.0
Iceland	1.1	-2.1	-3.0	0.6	4.2	3.0	4.5	1.3	-5.1	-6.1	-4.1
Ireland	2.9	2.9	2.1	1.8	2.8	3.1	4.2	-2.0	-9.2	-8.9	-5.5
Italy	0.8	-0.1	-1.1	-0.6	-0.4	1.0	1.6	-0.3	-5.5	-4.6	-3.7
Japan	-2.0	-2.7	-2.5	-1.2	-0.3	0.7	2.2	0.1	-5.5	-3.1	-2.1
Luxembourg	1.5	1.5	-0.9	-0.6	0.8	2.3	5.1	1.3	-5.3	-5.5	-4.8
Mexico	1.0	-1.6	-2.8	-1.3	-0.6	2.0	3.0	2.4	-6.1	-3.7	-1.9
Netherlands	2.1	-0.3	-1.9	-1.5	-1.2	0.2	1.5	1.5	-4.1	-3.8	-2.8
New Zealand	-0.1	1.4	1.9	2.6	2.6	0.5	0.8	-1.7	-4.8	-3.7	-1.8
Norway[1]	1.4	0.5	-0.7	1.0	1.7	1.6	1.8	-0.2	-3.8	-3.8	-3.0
Poland	-1.6	-3.1	-2.2	-0.2	-0.1	1.8	3.3	3.2	0.3	-0.1	0.8
Portugal	2.6	1.3	-1.0	-0.9	-1.3	-0.9	0.1	-0.7	-3.9	-3.1	-2.5
Slovak Republic	-2.0	-1.5	-1.6	-1.9	-1.0	1.5	5.9	6.5	-3.6	-4.0	-3.3
Spain	1.7	0.6	0.0	-0.2	-0.1	0.4	0.5	-1.2	-5.5	-5.3	-4.3
Sweden	0.3	0.2	0.4	1.9	2.5	4.1	4.4	0.4	-7.1	-7.4	-6.0
Switzerland	0.5	-0.9	-2.8	-2.0	-1.0	0.9	2.2	1.5	-2.1	-2.2	-2.0
United Kingdom	0.5	-0.1	0.3	1.0	0.9	1.5	1.8	0.1	-6.4	-6.2	-5.1
United States	0.0	-0.8	-0.6	0.7	1.2	1.3	0.9	-1.2	-5.1	-3.2	-1.7
Euro area	1.1	-0.1	-1.1	-0.9	-0.8	0.5	1.3	0.0	-5.1	-4.7	-3.9
Total OECD	0.1	-0.7	-1.0	-0.1	0.3	1.1	1.4	-0.3	-5.1	-3.8	-2.6

Note: The methodology used is described in Giorno et al., "Potential output, output gaps and structural budget balances", OECD Economic Studies, No. 24, 1995/I.
Source: OECD Economic Outlook 87 database.

Source: OECD Economic Outlook 2010, Preliminary Edition, http://www.oecd.org/home/0,2987,en_2649_201185_1_1_1_1_1,00.html

Negative values (deviations, deficits) of achieved compared to potential GDP were considerably more present in the period under consideration in the European Union, comparable to OECD countries, but also to a great extent in part of the previous period in comparison to the United States.

Following all of the above, a mid-range platform was created in the (crisis) year 2010 for reforms that, as was then estimated, had to begin immediately, with the adoption of the EU 2020 Program. But even more, the last quarter of 2010 and the beginning of 2011 have revealed a deepening macroeconomic, development, and increasingly, fiscal crisis – after Greece and other member countries like Ireland and

Portugal[5] (and potentially Spain and Italy) – which requires further activity both in harmonizing macroeconomic policy within the EU and in creating public and still more clearly defined rules of behavior that will apply to all members of the euro zone and beyond. This also means other members of the EU, who wish or want to join in that initiative and to accept the newly created rules, but also possible support from the new institutional framework. [6]

The first option was: the *Competitiveness Pact* proposed by German and France (4 February 2009), which called for a joint (harmonized) in the following areas of structural changes: a) stimulation of employment; b) sustainability of public finance; c) development of a system of wages linked with the growth of productivity and d) adaptation of the pension system to current demographic trends and limitations on early retirement. All of these reforms (structural changes) were a consequence of facing weaknesses that have, because of the global economic crisis, lead to the implosion of parts of the national economies within the EU accompanied by the danger of a chain reaction in the future.[7]

The guiding principle was the decisive actions that had been started in the direction of raising the level of competitiveness of the member countries (signatories) of such a pact, for the purpose of encouraging a successful economic convergence.

[5] Along with Greece and Ireland, Portugal is the third EU country to apply for support from the European Stabilization Mechanism, which is i Irsku, Portugal je treća zemlja EU koja apparent from a statement by the Portugese government and their (published on 6 April 2011) to submit an urgent request to the European Commission for the resources.

(Source: http://news.yahoo.com/s/ap/20110406/ap_on_bi_ge/eu_portugal_financial_crisis)

[6] The European Community and the IMF announced the creation of a new European stabilization mechanisam, capable of providing up to € 500 billion of financial assistance over a three-year period, with up to €250 billion of matching funding fromn the IMF. These funds, plus the loans for Greece are equivalent to close to 9 ½ per cent of euro area GDP. The interest rate charged on the new funds appears likelya to be similar to that charged on the bilateral loans to Greece, at around 5%. (Source: OECD Economic Outlook 2010, Preliminary Edition, http://www.oecd.org/home/0,2987,en_2649_201185_1_1_1_1_1,00.html)

[7] In response to criticism and comments (especially from trade unions) that this was a dismantling of the system of benefits and social protection, Herman Van Rompuy, at the public presentation of the document, stated: "Just the opposite. The goal of the measure is to rescue them. We want to provide sufficient competitiveness of the economy in order to be able to create new jobs and to maintain the living standards of our citizens. It is only about that." (Source: Summit EU, http://www.europeanvoice.com/article/2011/february/merkel-sarkozy-present-competitiveness-pact/70165.aspx, February 2011)

In this context, three indicators were proposed (the Merkel-Sarkozy Proposal) to measure competitiveness as the national level:

1) An indicator to measure price competitiveness (e.g., stability of real labor cost, realigning labor cost according to development of productivity);
2) Stability of public finance, from a comprehensive point of view (assessment measure still to be fixed, under consideration of explicit and implicit public debt);
3) A minimum rate for investments in research, development, education and infrastructure of x% of gross domestic product (value still to be fixed).

Furthermore, agreement was reached at the same level and a joint six-point proposal for raising the level of competitiveness was formulated that could be applied at the national level over the next 12 months. The points are as follows:

1. Abolition of wage/salary indexation systems;
2. Mutual recognition of and agreement on education diplomas and vocational qualifications to promote mobility of workers in Europe;
3. Call for the creation of a common tax assessment basis for corporate income taxes;
4. Adjustment of the pension system to demographic developments (i.e., average age of retirement);
5. Obligation for all member states to include the debt alert mechanism into their respective constitutions;
6. Establishment of a national crisis management regime for banks.

"We will review on a regular basis the implementation of the pact.

We will establish the necessary procedures and adopt the necessary institutional provision in view of the organization of our work and of our supporting decisions." [8]

These principles, after an intensive but not very long period of discussion (and somewhat edited) became the center of the Pact for the Euro Plus as the lower limit and common denominator of the agreed upon obligation that members-signatories of the pact accept for the purpose of: a) overcoming the current crisis –

[8] Source: The full text from Angela Merkel and Nicholas Sarkozy outlining their plans for closer economic governance, http://www.europeanvoice.com/article/2011/february/merkel-sarkozy-present-competitiveness-pact/70165.aspx, veljača 2011.

economic and monetary with its constant tendency and threat to create a domino effect and b) overcoming structural weaknesses of individual national economies, but also the EU community as a whole in relation to global trends and the global environment.

In summary, an extreme acceleration is apparent in conceiving, formulating and (the expected) implementation of agreed upon policies compared to a decade ago and the *Lisbon Agenda* as a framework of behavior (2000-2010), which had only one correction and supplement (2005-2007). The *EU 2020 Program* was adopted in the fall of 2010 and awareness of the need for the creation of a narrower, operational act with important rules and obligations for behavior, the *Competitiveness Pact* occurred in the spring of 2011) and within 30 days it was reshaped into a jointly agreed upon and adopted *Euro Pact Plus*. What can be expected from the new development concept, expressed in rates of GDP growth, can be discerned from projections at the level of the euro zone in the period to the year 2014.

Table 4. Real GDP: Achieved and expected rates of growth - Annual

Real GDP
(% year)

Rank		2009	2010	2011	2012	2013	2014	Average 2010-2014
1	Slovakia	-4.7	3.9	2.8	4.8	4.6	3.8	**4.0**
2	Finland	-8.1	2.8	2.9	2.9	3.0	3.0	**2.9**
3	Luxembourg	-3.7	3.0	2.7	3.0	3.0	3.0	**2.9**
4	Malta	-2.1	2.2	2.1	2.8	3.0	3.0	**2.6**
5	Cyprus	-1.7	0.6	1.9	2.8	3.8	3.4	**2.5**
6	Germany	-4.7	3.5	2.1	1.7	2.1	2.1	**2.3**
7	Belgium	-2.7	2.1	2.1	2.4	2.7	2.2	**2.3**
8	Slovenia	-8.4	1.3	2.0	2.3	2.4	3.1	**2.2**
9	Netherlands	-3.9	1.7	1.8	2.2	2.4	2.1	**2.1**
10	Austria	-3.7	1.9	2.0	2.0	2.1	2.1	**2.0**
11	France	-2.5	1.6	1.8	2.0	2.1	2.0	**1.9**
12	Eurozone	-4.0	1.7	1.4	1.7	2.0	2.0	**1.8**
13	Italy	-5.1	1.0	0.8	1.1	1.4	1.5	**1.2**
14	Spain	-3.7	-0.2	0.6	1.4	1.7	1.9	**1.1**
15	Portugal	-2.6	1.4	-0.7	0.6	1.1	1.7	**0.8**
16	Ireland	-7.6	-1.5	-2.3	0.9	2.1	2.5	**0.3**
17	Greece	-2.3	-4.0	-3.3	-0.2	1.4	2.0	**-0.8**

Source: Ernst &Young Eurozone Forecast, Winter Edition, December 2010, p. 39
http://www.ey.com/Publication/vwLUAssets/Eurozone_Forecast_Winter_2011/$FILE/Eurozone_forecast_winter2010.pdf

The average expected growth in the euro zone for the period to 2014 (1.8%) is considerably below the expected growth at the level of global projections and especially in emerging markets. There is an evident development pessimism in comparison to counties where structural reforms are lagging or are late (Italy, Spain, Portugal, Ireland, Greece), but also a dynamism is those national economies that were successful in the previous period (beginning with Finland and Slovakia).

The established and stated rules of the game are becoming the framework (economic, social) of behavior that they are also expecting from the Republic of Croatia (prospectively) by the end of 2012. In this context, it is reasonable to begin the preparations in real-time, which means immediately.

II. CROATIA – OPPORTUNITIES AND LIMITATIONS

Statically (and statistically) considered, it seems that the Republic of Croatia, in terms of both population and territory is not a large country, will have to seek for room for its economic growth as a *niche player* in the framework and context of larger economic and social events. But it is possible to consider these same values in the context of the general success of the nation and people in another way. That other niche is positioned in the evaluation of what one country, of the size and location of Croatia can and must do (Jurčić, 2010: 872).[9] "Croatia is a small country. It share in European or global production is much less than one percent. By only taking advantage of its natural resources and location it cannot ensure a suitable for its citizens. The absolute advantages of Croatia are too small for the country to live from them. Those comparative advantages as a basis for competitive advantages on the global market must be acquired. Comparative advantages under the conditions of globalization can be acquired by education, modern technologies and organization of the country with clear goals about what, how and for whom to produce for the next 50 years. This is the content of an industrial policy that Croatia still does not have. "The most successful countries in the world, based on several indicators (GDP, employment, exports) are closer to Croatia in their population than the leading countries in the world. And this includes the Nordic countries – Finland, Sweden, Denmark – and the Asian tigers – Singapore, Hong Kong – or even to those countries whose territory is less than Croatia – the Netherlands and Taiwan. Therefore, the basic question is what is the quality of the overall exchange of gov-

[9] Source: Jurčić, Lj.: Hrvatska – atipičan model gospodarenja, Ekonomski pregled, Zagreb, god.61 (12), 852-880 (2010)

ernment policy, and how are the public policies that must ensure the achievement of important national goals are formulated. Related to this, it is important at the beginning to define the methodology of the behavior of the state so that it is capable of stimulating and managing successful development processes. How to create and build such frameworks in the analysis of the shape and types of public policies is clearly defined (Petak, 2009: 269).[10]

"In the literature on public policies and public management the expressions *joined-up government* or sometimes *whole government* are increasingly being used, which points to the importance of the questions of coordination for the modern shaping of public policies (Christensen, 2006; Christensen, Leagreid, 2007; Parsons, 2001, 2004; Peters, 1998a, 1998b, 2004, 2005, 2006; Pollitt, 2003). Regardless of which expression is used, the meaning that comes to mind in the use of such terminology relates to increasing the level of coordination of the executive power and to improving the quality of its work. Such terminology is at work especially in countries that have accepted an orientation to new style of public management, such as Great Britain and the other Anglo-Saxon countries (Christensen 2006: 460).

The problem of coordination is apparent on several successive levels of achieving coherence in the shaping of public policies. Guy Peters has precisely defined them (Peters, 2004: 5-7). The lowest level includes *negative integration*, which is characterized by the fact that in the operations of agencies for public administration and a variety of other types of agencies there is no overlap in their work. *Positive integration* does not include only the avoidance of overlap in the operation of various agencies and organizations, but also a clear agreement on cooperation and the delivery of services. It is a higher form of linking *policy-coordination*, which not only includes cooperation in the delivery of services, but also the fact that organizations must pursue common goals. At the end are several developed *government strategies*, which not only ensure cooperation in the provision of services and common pursuit of goals but also gives a clear picture about the future of some sector of policy and the role of the government in it." This methodology is an important tool that the Republic of Croatia must also recognize and use in the context of creating its own *catch-up* strategy of evaluating the possible positive effect of it future membership in the EU. In this way it would also leave behind to a considerable extent

[10] Source: Petak, Z.: Oblikovanje javnih politika u Hrvatskoj i problem *policy*-koordinacije, Anali Hrvatskog politološkog društva, 2008., Zagreb

the consequences of the actions until now in the sphere of political and economic decision-making from the beginning of the transition process (the early 1990s). A related evaluation for this group of countries is apparent in a statement on the quality of their transition (Drašković, 2010: 201).[11]

"Economic development of the post-socialist countries in the SEE region is based on a permanent discrepancy between rhetoric on pluralistic institutional changes and monistic implementation of neoliberal recipes of macroeconomic politics. The latter has been extremely motivated by interests of insatiable appetites of state nomenclatures, which represented the main obstacle for institutional changes, apart from the noticeable socio-pathologic milieu. All of this resulted in long-term destabilization of economic systems through disinvestments and the spilling over of positive effects in spending instead of production." The evaluation, however much it contains the aggregate experience of several countries in the region with a varying degree of incidence of individual transition events, contains an important message in the form of achievements: the degree of economic success and social cohesion of a society measured by the level of GDP, by the degree of employment, foreign debt, the level of competitiveness, by security under the law for its citizens and business sector, and by the degree of overall satisfaction of its citizens, both from the aspect of the overall quality of life (*happiness index*) and of expectations (*degree of optimism*) in relation to the future..

How to achieve qualitative changes, how to achieve structural changes, and in which areas are question for which fundamental must be found urgently and without postponement. One of the relevant views is contained in statements (Jurčić, 2010: 875/876)[12] about the possible ways and forms of activating one's own potential. "Increasing domestic production can be achieved in sectors in which there are unused resources, unused capacities, for which there is infrastructure and an educated and experience work force. To unused potentials of specific activities, to the ways of taking advantage of them and to solving problems one must add that it is necessary to ensure that they are employed and engaged in industrial policy. An integral part of industrial policy if a policy of technological development, and

[11] Source: Drašković, V.: *Real Institutionalization as a Condition of Efficient Economic Politics and Economic Development of the SEE States*, Croatian Institute of Finance and Accounting: Facing the Future of South East Europe, Zagreb, November 2010

[12] Source: Jurčić, Lj.: Hrvatska – atipičan model gospodarenja, Ekonomski pregled, Zagreb, god.61 (12), 852-880 (2010)

along with it, a policy of education. Both technology and education are production inputs, and because of that their policies are made from industrial policy. Industrial policy is primarily a structural policy. It is a policy that has as a goal employment of all production resources in activities in which the greatest added value will be achieved, but which will also create the conditions and raise a physical institutional infrastructure for new activities in which production resources will result in even greater added value. Its task is also to ensure a painless closing of "old" and to provide support to new industries." The author further states that there are unused potentials in almost all sectors. By increasingly taking advantage of these potentials, domestic production and employment will be increased, imports will be reduced, and the conditions for increasing exports will be created. Raising the technological level and the corresponding level of education will increase the efficiency and competitiveness of domestic industries. The belief is that efficiency and competitiveness must be protected and stimulated by market competition and protection from monopolistic behavior. Under the rubric industry the author means all activities from agricultural and the metal industries to the services sector: for example - tourism and banking, which is in accordance with modern understanding of the linking of the interactions of primary, secondary and tertiary sectors.

In other words, Croatia must establish its own *Competitiveness Pact*, a kind of national agreement among essential partners: the government and public sector, labor and capital, in order to first formulate and then implement the necessary reforms. One of the possible directions is also contained in recommendations for Croatian economic policy that point to the following, and for the author required, areas of activity for the protagonists of executive power: "industrial policy, which will enable a (re)industrialization of the Croatian economy and be a powerful stimulus of the domestic offer; a modern agricultural policy, which will enable the sustainable development of rural areas and certain regional areas of Croatia and be a powerful stimulus to the domestic agricultural offer; tourism with a greater reliance on quality and on that basis have a greater financial effect; solving the problems of low employment, also including the possibility of the re-employment of certain workers who have retired early, along with corresponding fiscal (tax) stimuli; resolving the relationship of relative prices (including the exchange rate) for the purpose of apparent disproportions between activities and relations abroad (the BS effect); an effective and appropriate investment policy; measures to encourage saving; improving the system of inflow of remittances from abroad; a systematic policy for investment in R&D and knowledge; resolving the relationship of the *tradable*

and *non-tradable* sectors; encouraging *greenfield* investments; de-stimulating the outflow of capital (profits) to foreign banks and companies whose ownership is non-resident; a systematic solution to the framework of the social infrastructure; health care reform, so that it is no longer an increasing burden to development – advancement of the traditional small farmers; enable development of traditional industries, especially shipbuilding, the wood industry, the textile industry, the electrical and metal industries; a comprehensive and systematic transportation policy, enable strengthening of large companies that would lead development in a region; *landlocked countries,* opportunities and linking with them, the accumulation of water for the development of agricultural and tourism. (Domazet, 2009: 73) [13]

The stated assessments of the situation and recommendations for possible solutions in Croatia have been repeated cyclically from a variety of analytical sources for a long time, with one important addition: each time they have become more urgent and with more substantiated numbers point to structural debalance (employed – unemployed – non-self-supporting population, a deficit in the current accounts balance, the level of overall foreign debt, the degree of indebtedness of some sectors of the population, etc.) Therefore, it might be of conceptual importance to state here: "While the report does not recommend the ultimate strategy or "policy-bundle" to be chosen, it does propose a framework for decision-making. Once the set of the —first-best policies is mapped, policy-makers must identify what policies are *politically feasible.* Next, politically feasible strategies need to be checked for their *consistency with the overall objective* of raising and sustaining economic growth. Third, politically feasible and consistent reform-packages need to generate *institutional requirements* that are commensurate with the existing institutional endowments of Croatia." [14]

The actions of the government in managing a consistent industrial (development) policy in the above-mentioned areas are the chief point of responsibility of that same government in achieving the goal of enduring and sustainable economic growth. This development requirement is becoming an imperative, as a logical aberration from the long period of oscillation in economic policy, beginning from the (neo) *laissez faire* (consumer syndrome, balance of payments imbalance, the growth

[13] Domazet, T.: Kriza, ekonomska politika i izlazna strategija, zbornik radova „Kriza i okviri ekonomske politike", HAZU i HIZFIR, Zagreb, srpanj 2009.

[14] Croatia's EU Convergence Report: Reaching and Sustaining Higher Rates of Economic Growth (In two volumes), Vol. I: Overview, Report No. 48879-HR, World Bank, June 2009, str. 50

of unemployment), to direct state intervention (shipbuilding, agriculture, unilateral financing of the construction of some infrastructure).[15] Persevering under the current model is no longer sustainable, the degree of foreign indebtedness and the servicing of these obligations has become a serious limitation on development, and the existing real potential and possibility for development, beginning with an evaluation of the transportation and geopolitical position to attracting foreign capital for investment in, at the global level, lucrative areas such as agriculture, energy, intermodal transportation, and the tourist industry are becoming questionable mortgages from the aspect of the interest of the investor and possible overall profitability and overall complex development (the creation of *clusters*).

CONCLUSION

The Republic of Croatia finds itself in a (classic) development dilemma: how and when will it be possible to transform the problem into an opportunity. To start from how and by quoting scientists and practitioners of economic policy who managed to do this at the moment *(The Great Depression of 1929)* when it became completely apparent that the level of economic disturbances could endanger not only economic but also overall social stability of the developed world.. Therefore, even today the following evaluation is still valid (Baletić, 2010: 41): "Keynes, however clearly warned that 'an individualistic society left to itself does not function well, and is not even bearable. The more unsettled the time, the more poorly *laissez-faire* works.' The three evils of liberal society are: profiteering, uncertain expectations, and unemployment, and all three arise from it, maintain it, from 'instability of the standards of value… I want to warn the lords of the City and high finance that for

[15] The long-run path of economic growth in Croatia is a central point in the economic agenda of politicians and policy makers. In spite of the sustained long-run path of economic growth observed during the last years there still exists concern about whether the current growth path (steady state) is enough for Croatia to achieve convergence with respect to the EU in a reasonable period of time

The starting point to move to a new steady state is a positive structural change (shock) that would ignite Croatia's —growth reserves. Such a change could be triggered by good economic policies, improvements in the terms of trade and changes in political preferences. One challenge in identifying such economic policies, however, is that the economic literature is less than conclusive in terms of possible prescriptions. Indeed, the main conclusion of a recent review of 80 instances of rapid and sustained economic growth in the last half century is that growth accelerations are very hard to predict (See Hausmann, Pritchett and Rodrik, 2005). (*Source: Ibidem, p. 14)*

those who do not listen to the voice of reason, their days are numbered. I speak to this great city as Jonah spoke to Nineveh. I predict that if they do not accept wisdom in time, the system by which they live will function more poorly and will be inundated by things that they themselves will hate more than the mild and limited medicines that are now being offered.' " [16] Such lucidity, and at the same time a call for practical action it a platform that the Republic of Croatia now needs in order to produce its concept of a *great transformation*. The turnaround achieved by the successful transition countries (the Czech Republic, Slovakia, Poland), or some other group of countries before them (the Nordic countries, the Asian tigers) is a call and a signpost for the establishment of a national development pact based on *best practices* from the immediate and/or global surroundings. But, for such a turnaround a powerful institutional matrix and the interconnection of its components is a decisive importance. A transparent legal system, the security of ownership, an effective financial system, and a consistent macroeconomic policy are the basis for that mechanism.

The view that competitiveness is a choice of every nation, that it support efforts that will lead to an increase in the level of well-being in a country, means that a country must find the optimal way to engage its own (always limited) resources. How to optimize the use of (existing) natural riches in combination with the country's human potentials, the available technology, and to attract investors is the key question.

In the EU today, in addition to the *vulnerable* economies (Greece, Ireland, Portugal, Spain), there are those that demonstrate both stability and long-term prospects for growth (German, Austria, the Netherlands), based not on the concept of a low level of wages and a lower degree of social protection of employees. The foundations of sustainable growth are based especially on long-term investments in industry that create products of high added value. This mean that the state provides a powerful and durable stimulus to innovations and new technologies, which even in times of crisis permit a continuity of exports to diversified markets which renews technology companies and sectors and in reality transforms theoretical guidelines during a crisis into opportunities.

Therefore, the Republic of Croatia cannot and must not wait for the formal date of accession to the EU to begin to apply the development policies that the

[16] Baletić, Z. : John Maynard Keynes – teoretičar društvene krize, Sveučilište u Zagrebu, Ekonomski fakultet: J.M. Keynes i hrvatska ekonomska misao, Zagreb, 2010.

EU has recently applied (the *EU 2020 Program* of 2010 and the *Euro Plus Pact*, of 2011) as the basis of it economic and overall development policy. In this context, the extremely condensed evaluation – *A strategy for smart, sustainable and inclusive growth* – and its chapter, "*An industrial policy for the globalization era*" may be applicable:[17] "Industry and especially SMEs have been hit hard by the economic crisis and all sectors are facing the challenges of globalization and adjusting their production processes and products to a low-carbon economy. The impact of these challenges will differ from sector to sector, some sectors might have to 'reinvent' themselves but for others these challenges will present new business opportunities. The Commission will work closely with stakeholders in different sectors (business, trade unions, academics, NGOs, consumer organizations) and will draw up a framework for a modern industrial policy, to support entrepreneurship, to guide and help industry to become fit to meet these challenges, to promote the competitiveness of Europe's primary, manufacturing and service industries and help them seize the opportunities of globalization and of the green economy. The framework will address all elements of the increasingly international value chain from access to raw materials to after-sales service". If all of these stated principles are clearly read and communicated at the national level, then systematically transformed into a harmonized *tailor-made* concept of economic development policy, it is realistic to expect that entry into the EU will be neither a threat nor an increased risk nor a competitive pressure. To the contrary, it will be a chance to act more quickly and more successfully to remove the structural disbalances whose deepening are becoming a threat to the present, and even more, to the (immediate) future stability of society and the state, which examples from the EU clearly confirm, both among the successful and the unsuccessful members.

The above activities, immediately prior to entry into the EU, are becoming an unavoidable framework of activity primarily in economic policy. This is especially true if we look at the reality until now of continual postponement of the beginning of such changes, whose character in the midst of the global crisis (2009), within national borders is clearly established. Such an assessment of the situation, but also a possible way to resolve it is apparent from document of the World Bank. "Despite apparently quite high rates of technology adoption at the company level, Croatia's innovation capacity is relatively low when compared to similar countries.

[17] "Communication from the Commission EUROPE 2020: A strategy for smart, sustainable and inclusive growth", European Commission, Brussels, 3.3.2010, p. 15.

The EU's 2007 Innovation Scoreboard, for example, shows that Croatia's overall innovation status lags behind the EU average and has been falling further behind over the past five years. Croatia's 2007 Summary Innovation Index (SII) is 0.23 (out of 1), one of the lowest in the sample, higher only than those for Romania (0.19), Latvia (0.18) and Turkey (0.08). Croatia is grouped among the catching up countries that have scores significantly below the EU average. With the exception of Croatia, all other countries in this group have seen their scores increase towards the EU average over time." [18]

This source and analysis confirm the results of a series of research efforts, some of which are presented in the work (IMF, World Bank, Vienna Institute) in the area of transition changes that speak about the relatively more satisfactory position of the Republic of Croatia compared to its position in relation to the EU a decade or more ago than what it is at this moment. Therefore, in summary, on the benefit side of an acceleration of structural reform there is also the achievement of several important goals: convergence with EU criteria and requirement, as a momentary imperative but also a solution a part of the mortgage in your own life, created in the last several years. At the same time, such a path and such activities also provide for overcoming the consequences of the global crisis in the national economy, and its ability to participate in the global market, which, once the current crisis is over, will be even more demanding and more competitive.

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