

# DISTANCE FACTORS AND CROATIAN EXPORT OBSTACLES IN THE EU15: CAGE APPROACH

Helena Miloloža\*

Faculty of Economics and Business University of Zagreb  
Zagreb, Croatia

DOI: 10.7906/indecs.13.3.8  
Regular article

*Received:* 28 May 2015.  
*Accepted:* 23 June 2015.

## ABSTRACT

For long-term sustainability of any enterprise, it is required to observe each market separately and systematically modify business approach to prevailing conditions in each. However, adaptation to each market can be a complex affair that requires certain financial costs but ignoring distinguishing criteria leads to reduction in revenues and undermines long-term profitability. Time saving and cost-effectiveness can be achieved by application of The CAGE Distance Framework – a model that analysis all diversities between two or more countries.

Croatia did not yet utilize the benefits that European Union membership provides nor did significantly improved its international business. It is obvious that Croatia faces difficulties in the strategic approach to prospective foreign markets. Therefore, emphasis of this article is on analysis and identification of the distinguishing factors between Croatia and the EU15 in order to facilitate and enhance cooperation among them in the future. Throughout the analysis of Croatian export from the beginning of the economic crisis, this article gives an overview of international collaboration among Croatia and the EU15 and comparative analysis by using The CAGE Distance Framework. This analysis has confirmed significant fluctuations, unexploited potential and problems of the Croatian economy in all dimensions of The CAGE model.

## KEY WORDS

global market, CAGE distance framework, Croatia, The EU15, export

## CLASSIFICATION

JEL: F02

\*Corresponding author, *η*: [hmiloloza@efzg.hr](mailto:hmiloloza@efzg.hr); +385 1 238 3465;  
Faculty of Economics and Business, Trg J.F. Kennedyja 6, HR – 10 000 Zagreb, Croatia

## **INTRODUCTION**

Export represents a cost-effective way for rapid penetration into new markets and is of a great importance for the development of post-transition economies such as Croatian economy. In terms of internationalization and globalization, it is impossible to maintain and enhance the national economy without an expansive economic strategy. Only export competitiveness creates sustainable competitive advantage and economic growth.

However, the decision about expanding to foreign market is a complex process that depends on many different factors. As a rule, the decision about export on certain market is easier if there is a greater similarity between countries that participate in the international exchange of goods and services. On the other hand, the company will, in general, have more difficulties to export to countries that have different features. The CAGE Distance Framework presents a systematic model that defines all differences between countries through four frames – cultural, administrative, geographic and economic distance. Each of these distances includes various factors. Certain factors are easily recognizable, while others are hidden. The CAGE Distance Framework interprets them as the baseline for defining an export strategy [1].

International exchange of Croatia has always had a negative trend. Croatia cannot overcome the inherent weaknesses and challenges of the export sector, which has been marked by: unsatisfactory technological level, low added value to the products and services, lack of economic and political support and consistent focus on a small number of close markets. However, although only 13 % of companies in Croatia are exporting, they also employ half of the employees in all companies and generate 65 % of revenues [2].

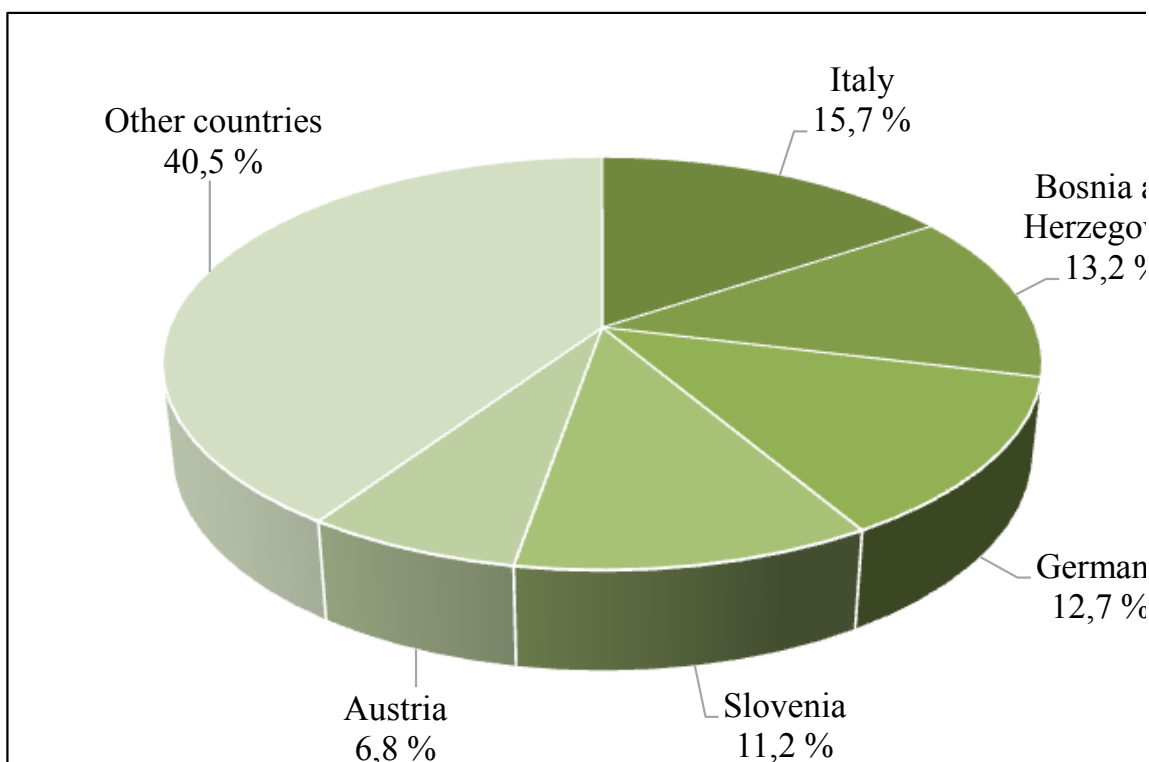
In the modern economy there is a great and decisive importance of trade agreements. Thus, access to the global market becomes easier than ever before. Croatian accession to the European Union has shown its positive effects in the first year of membership. It has been recorded a relatively high growth rates in 2014. The increase in export did not apply only by the increase in export of domestic products but is partly a result of Croatia's mediation in trade between the European Union and third countries. But even though development has been recorded, there is a trend of export retardation, which lasted throughout 2014, and which reflects in the first published data for January 2015 [3]. Therefore, it is obvious that Croatian membership in the European Union has not been utilized and competitiveness of Croatia in the European Union market is still questionable.

The aims of this article are: (i) to highlight the importance of the EU15<sup>1</sup> in the export of Croatia, and (ii) to present The CAGE Distance framework and make a comparison of each member of the EU15 with Croatia. Through a comparative analysis of differences between Croatia and the EU15, it would possible to improve the chances for successful performance of Croatian companies on these profitable unique foreign markets.

## **FOREIGN TRADE BETWEEN CROATIA AND EU15**

Croatia's extroversion towards the European Union is undeniable. The European Union represents the most important foreign trade partner for Croatia. Every year Croatia places around 60 % of its goods and services intended for export on the European Union market. In export, the cooperation with Italy, Germany and Austria prevails, which are, along with Bosnia and Herzegovina and Slovenia, the top five export markets of Croatia (Figure 1).

Croatian economy has established good relations with the EU15 by exchanging various goods and services which can be noticed from Table 1. Croatian export in many EU15 countries fluctuated, but generally tends to increase in the last five years. However, the total value of export to the EU15 has been stabilized at around 5,5 billion US dollars.



**Figure 1.** The main export partners in the foreign trade of the Croatia in 2013 [5]

**Table 1.** Export of Croatia in the EU15 in the period from 2010 to 2014 (thousands of USD) [6].

Country	2010	2011	2012	2013	2014
Austria	624 280	762 140	808 068	797 360	842 120
Belgium	91 011	122 012	136 850	115 589	184 089
Denmark	30 731	34 389	41 564	40 688	44 782
Finland	16 829	28 906	30 399	23 813	23 655
France	161 906	380 752	182 955	219 201	306 537
Greece	88 605	48 742	92 825	118 687	154 422
Ireland	19 291	8 615	9 968	13 159	17 905
Italy	2 209 839	2 111 581	1 892 181	1 851 796	1 916 140
Luxembourg	314 353	331 099	108 663	103 686	22 481
Netherlands	169 241	179 346	207 762	183 942	218 124
Germany	1 218 670	1 349 254	1 260 669	1 496 969	1 538 411
Portugal	8 939	15 061	7 177	14 070	55 683
Spain	79 053	73 066	53 679	73 728	179 042
Sweden	60 600	63 886	59 807	76 866	100 207
UK	175 092	199 745	193 622	273 161	206 053
<b>TOTAL</b>	<b>5 268 440</b>	<b>5 708 593</b>	<b>5 086 187</b>	<b>5 402 714</b>	<b>5 809 650</b>

The main Croatian export products and their share in the total export of the Croatia to each country of the EU15 is shown in Table 2. In export, food, industrial and pharmaceutical products dominate. From industrial products, in export to the EU15 the most important are electrical appliances, petroleum products, steel, iron and cement. From agricultural products, except fertilizers, special interest has been expressed for food. There is also a great proportion of products with high added value (electrical transformers and generators) as well as pharmaceuticals.

**Table 2.** Mayor Croatian export products and their share in the total export of Croatia to each country of the EU15 [7].

Country	The most important export products in 2013	Percentage, %
Austria	Electrical resistors, footwear, insulated wire, roller bearings, diodes, transistors, and similar semiconductor devices	27,7
Belgium	Antibiotics, boxes for metal foundry, leaves for fuming, television, furniture	35,9
Denmark	Products made of aluminium, iron and steel, electrical appliances, wood	42,7
Finland	Steam vapour, electrical transformers, insulated wire, motor vehicles and associated parts	74,7
France	Motor parts, shoes, machines, articles of iron or steel boxes for metal foundry	33,5
Greece	Petroleum oils, fertilizer, sugar, soy	88,9
Italy	Petroleum oils and gases, socks, insulated wire, iron products	23,1
Netherlands	Drugs, electrical transformers, aircraft, iron and steel structures, products for the transport and packing of goods	51,5
Germany	Seats, insulated wires, appliances for automatic regulation, footwear, aluminium products	23,1
Portugal	Fertilizer, leather, pharmaceuticals, aluminium products, central heating boilers	70,7
Spain	Seats, medicines, fertilizers and other chemicals, electric transformers	52,2
Sweden	Prefabricated buildings, electrical transformers, boilers, cement, food and beverages	52,7
UK	Boilers, petroleum oils, insulated wire, soap, food and drink	50,6

The export of services is dominated by tourism which is the dominant export product of Croatia. Namely, tourism is considered as an invisible export because tourists have to go to a different country for their experience where they spend their money. In that case, tourism, as an export industry, sells a significant share of its goods or services outside of the country, thus bringing new money into the local economy. Tourists from the EU15 achieved a total of 12,4 million arrivals and 64,8 million overnight stays in 2013. Their share in the total number of arrivals was 46,9 % and in a total of 51,5 % of total overnight stays in Croatia in 2013 [8].

In a review of the exchange of capital assets, there have been no major Croatian capital investments in the EU15. However, the EU15 countries have invested significant resources in Croatia, which has made a great contribution on development and facilitation of Croatian export. According to the Croatian National Bank, Austria has the status of the most important investor in Croatia [9]. In the period from 1993 to the end of 2013, Austria has invested 7,1 billion euros in Croatia. At the second place, with 12,4 % of the total direct investment in Croatia, is Netherland (3,32 billion EUR), and on the third place is Germany (3,21 billion EUR).

Among the major investors in Croatia emphasizes the Italy with a total of 5,1 % of total foreign investments (1,41 billion EUR) and France with 4,2 % of total foreign direct investments (1,39 billion EUR). The list of top 15 investor also includes Belgium (591,6 mil. EUR), Sweden (529,0 mil. EUR) and United Kingdom (430,4 mil. EUR). On the other hand, Finland, Greece, Ireland and Luxembourg have not made significant investments in Croatia.

According to the research of the Croatian Chamber of Commerce, each of the EU15 countries expressed interest for improving the collaboration with Croatia [10]. The EU15 are highly

developed countries and their interests are technologically appointed. They are interested in energy, IT, telecommunications and high technologies. Opportunities for cooperation exist in the field of metal processing, electrical and electronic industries, and textile and footwear industry. Greenfield investments, innovation, education and the displacement of production and cooperation between different regions of the two countries in the sectors of common interest (agriculture, wood processing, tourism, food industry, etc.) are also areas in which the EU15 sees Croatia as a potential business partner. There is space for improvements in the automotive and aircraft industry as well as in the military equipment production. However, Croatia has the greatest assignment to improve the quality of the industrial sector in terms of quantities and high technological level of production in order to be able to meet the demand by the EU15 countries.

## **CAGE DISTANCE FRAMEWORK**

Differences in business environment are sometimes hard to identify. Diversities often act as a barrier to export activities. Potential international market is established on the basis of unique criteria that each company sets for itself. The attractive market for a particular company can be based on the price of raw materials, transport costs, accessibility options for the selected markets, habits and preferences of consumers, the economic power of the customers or countries and a number of other conditions under which the company makes a decision about participating in certain foreign markets. Of course, any type of international expansion strategy must be supported by specific assets and capabilities that the company possesses [11].

Understanding the differences and their control is greatly facilitated if there is a universal theoretical model in which any company, regardless of their individual characteristics, can incorporate. Since the beginning of the 20<sup>th</sup> century economists were trying to define models that will facilitate the understanding of the international exchange and the existence of comparative advantages of a country or company over another.

Pankaj Ghemawat, a professor at the University in Spain, defined the most comprehensive framework for examining the function and impact of the various diversities on internationalization. The CAGE Distance Framework is the model that provides detailed, comprehensive and non-discriminatory access to perspectives of different kind of distances that can occur between countries on the basis of their own limitations and mutual differences. The CAGE Distance Framework identifies Cultural, Administrative, Geographic and Economic distances between countries that companies should address when crafting international strategies. The most distinctive feature of The CAGE Distance Framework is that it encompasses the bilateral attributes of country pairs as well as the unilateral attributes of individual countries. Table 3 shows a detailed review of each category within The CAGE Distance Framework that includes bilateral and unilateral factors. Bilateral factors are attributes of country pairs that include characteristics and differences which occur by comparing the two countries. Unilateral factors or unilateral attributes of individual countries are related to their self-analysis which helps in identification of personal characteristics that can act as significant aggravating sentence while doing international business.

*Cultural distance* has the greatest impact on consumer preferences as they explain the initial modes of interaction between people, companies and institutions. Different religious belief, racial differences, social patterns of behavior and language barriers can significantly hinder business cooperation between companies [13].

*Administrative distance* is related to differences in the bureaucracy, its work and political structures that are prevailing in two countries. The historical and political background of the country is often crucial in achieving the international cooperation. Governments are the ones

**Table 3.** Four dimensions of The CAGE Distance Framework [12].

<b>Dimension</b>	<b>Country pairs (bilateral)</b>	<b>Countries (unilateral/multilateral)</b>
<b>Cultural Distance</b>	Different languages Different ethnicities Different religions Different values, norms, and dispositions	Insularity Traditionalism
<b>Administrative Distance</b>	Lack of colonial ties Lack of shared regional trading bloc Lack of common currency Political hostility	Nonmarket/closed economy Lack of membership in international organizations Weak institutions, corruption
<b>Geographic Distance</b>	Physical distance Lack of land border Differences in time zones Differences in climates	Landlockedness Lack of internal navigability Geographic size Geographic remoteness Weak transportation or communication links
<b>Economic Distance</b>	Rich/poor differences Other differences in cost or quality of natural, financial and human resources, infrastructure, information or knowledge	Economic size Low per capita income

that can create administrative and political obstacle to other countries by induction of unilateral measures (tariffs, trade quotas, restrictions on foreign direct investment, subsidies to domestic producers or regulating procurement) to foreign competitors. Also, weak institutional infrastructure of the country can be used for the amortization of cross-border activities. On the other hand, companies have an aversion of doing business in the countries that are known for corruption or political conflicts. For these reasons, international integrations and organizations have an important role in the international trade. The European Union is a leading example of a conscious attempt to remove administrative and political differences and facilitate cooperation between member states [14].

*Geographic distance*, except the pith geographical distance, also includes topographic features, the size of the country, the average distance of some cities to national borders and access to waterways. Obviously, the geographic distance affects the cost of transportation, as well as the communication and information barriers. Consequently, its presence may be a dumping measure on trade and investment flows [15]. Therefore, for the companies engaged in the production and trade of solid products or companies whose business requires a high degree of coordination the geographical segment is of great importance.

*Economic distance* is related to differences in economic conditions between two countries. It includes fundamental differences related to income, wealth distribution and the relative purchasing power in certain international markets. Wealth or income of the consumer is the most important economic attribute that creates differences between countries. Moreover, it has a significant impact on the possibility of achieving business cooperation and the level of trade. Since there is a positive correlation between the GDP per capita and trade flows, economically stronger and more stable countries achieve noteworthy international exchange [16]. Also, companies that rely on standardization, experience and economy of scale, reveal their interest to similar economic profile markets because it is easier to implement existing business strategy and well-known patterns of action rather than to implement a completely new strategy on unknown foreign market [17].

Each of the elements of The CAGE Distance Framework “hits” economic relations in a different way and in different proportions depending on the type of industry in which the company operates. However, the basic principle is that: the greater the distance between the countries is present, the greater is the uncertainty of the business.

## **ANALYSIS OF THE CROATIA AND THE EU15 BY USING THE CAGE DISTANCE FRAMEWORK**

The CAGE Distance Framework can be used for better understanding of trade, capital, information and human behaviour patterns. Applying The CAGE Distance Framework, and guided by their own priorities (costs of initial resources, facilitated/difficult access to foreign market and/or consumers, and many other key decision-making criteria), companies can easily study the parameters of the distance within a single model, identify and recognize attractive markets and more clearly see the possibilities and risks of international business.

In the process of internationalization, managers are forced to make decisions about foreign markets. The decision they make, on behalf of the company, is one of the most risky and most crucial, because a single mistake in the selection can have long-term negative effect on business performance. The CAGE Distance Framework can help managers in defining export strategy and to facilitate the export decision by detecting differences between their own company and the market of interest. It helps in the assessment of the effects of distances that act as barriers to the export of various industries in different markets and facilitate acquiring a competitive advantage and provides the possibility of equal competition with domestic firms and enables implementation of quantitative analysis.

Below are given all the characteristics of the EU15 countries placed within The CAGE Distance Framework, analysed by each individual dimensions of the model and compared with the Croatia and its characteristics [18].

### **CULTURAL DISTANCE**

Communication usually represents one of the biggest obstacles to the realization of international business. If two markets are identical to each other by all criteria except the presence of language barrier, business cooperation will be three times more difficult than in the case when there are no communication differences [19]. From Table 4 it is evident that each country of the EU15, including Croatia, has its own language, which, initially, hinders business cooperation. However, the difference in language is easy to establish in advance so companies have enough time to react and reduce the distance in this segment. On the other hand, there are not many religious differences between the EU15 and Croatia because in all countries dominates Christianity.

In a review of migration processes it is visible that the inhabitants of the EU15 have not recorded significant immigrations. Croatia does not represent a productive market for achieving economic prosperity. However, the dominance of emigration movement of Croats has been recorded. The most significant are the emigrations to Germany but also migrations to Austria, France and Italy stand out.

In fact, some cultural distances are much harder to notice, reveal and understand. Social behaviour patterns and adopted system of values are complex cultural characteristics that are invisible and difficult to detect. It is impossible to measure and statistically evaluate them, so it is necessary to establish more intimate business relationship in order to determine these differences. But the starting observatory point in the form of religion can serve as a framework which defines beliefs, patterns and acceptable norms of behaviour and can support the conclusion of small differences between Croatia and countries of the EU15.

However, there are some statistical indicators – Indicators of governance and development – that provide additional measurement of cultural distance between countries, facilitate understanding of the complex cultural factors and help spotting present diversity [20].

*The Human Development Index* (HDI index) measures the average achievements in a country in three basic dimensions: a long and healthy life, access to knowledge and a decent standard of living. The index was created to emphasise that people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone. Classifications are not absolute, but rather relative to the amount of countries scored each year. The index is classified into four quartiles: (i) Very high, (ii) High, (iii) Medium and (iv) Low. All countries in Table 5., including Croatia, are classified in the highest category according to the HDI index. They are situated in a group of countries that have very high human development.

*Voice and accountability* captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. Point estimates range from about -2,5 to 2,5. Higher values correspond to better governance outcomes. Croatia, according to the Voice and accountability index, lags behind all EU15 countries and is located at the very bottom of the scale. Finland dominates in the freedom of expression and independent decision-making process, while in all other EU15 countries, except Italy and Greece, there is less autonomy of the population. Yet all the countries are ranked between 1.1 and 1.6 which represents a satisfactory value. Only residents of Italy and Greece have a lower degree of freedom; their coefficients of voice and accountability are under 1.

*Rule of law* is dimension that captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Point estimates range from about -2,5 to 2,5. Higher values correspond to better governance outcomes. According to the criteria of the rule of law in the EU15 were recorded minor discrepancies between countries. Sweden, Denmark, Luxemburg, Netherlands, Austria, United Kingdom, Ireland, Germany and Finland have the best established political systems. Not far behind are Belgium, France, Spain and Portugal. In Greece and Italy is by far the highest probability of the occurrence of violence and crime, and Croatia is situated on the last place, trailing the EU15 countries.

## **ADMINISTRATIVE DISTANCE**

Economists argue that the policy of free trade is ideal because it eliminates distortions and increases economic welfare. Therefore, political and administrative similarity contributes to a strong trade relations between two countries. Colonial relations contribute to the growth of trade by more than 900 %, and bilateral trade agreements and treaties, single currency and political union enhance trade by more than 300 % [21].

The biggest distinguishing criterion between Croatia and the EU15 is the currency. Table 5 shows that all countries, except Denmark, Sweden and United Kingdom, use the euro as its currency. For Croatia, it would be desirable that, as a member of the European Union, it becomes a part of the single monetary union. In that case Croatia would avoid exchange losses and exchange rate fluctuations and overcome the problems of growing demand and emission of local currency.

Croatian accession to the European Union should facilitate and enhance cooperation with the EU15. In fact, membership in a particular trade union creates a common market with common policies, rules and regulations. Through membership, a political community (The



**Table 4.** The cultural characteristics of Croatia and the EU15 [18].

Country	Cultural factors								
	Language (spoken by more than 20 %)	Religion, %			Diaspora (1995 – 2004)		Governance and development indicators		
		Christianity	Other	None	From Croatia	In Croatia	Human Development (2011)	Voice & accountability (2010)	Rule of law (2010)
CROATIA	Croatian	93	2	5	–		Very high	<b>0,44</b>	<b>0,19</b>
Austria	German	78	10	12	38 994	1 550	Very high	1,44	1,80
Belgium	Dutch, French, German	100	0	0	32	75	Very high	1,43	1,40
Denmark	Danish	98	2	0	593	39	Very high	1,58	1,88
Finland	Finnish	85	0	15	877	58	Very high	1,97	1,54
France	French	90	6	4	30 591	425	Very high	1,52	1,23
Germany	German	68	32	0	243 614	8 246	Very high	1,35	1,63
Greece	Greek	98	2	0	361	155	Very high	0,90	0,62
Ireland	English, Irish	92	4	4	563	160	Very high	1,34	1,76
Italy	Italian	96	4	0	19 968	1 707	Very high	0,93	0,38
Luxembourg	Luxembourgish	87	13	0	303	7	Very high	1,56	1,82
Netherlands	Dutch	50	2	42	148	131	Very high	1,49	1,81
Portugal	Portuguese	87	0	4	93	322	Very high	1,12	1,04
Spain	Spanish	94	6	0	876	225	Very high	1,14	1,19
Sweden	Swedish	87	13	0	5 726	259	Very high	1,58	1,95
UK	English	72	6	23	7 474	724	Very high	1,31	1,77

**Table 5.** Administrative features of Croatia and the EU15 [18].

Country	Administrative factors				
	Trade Bloc	Currency	Corruption		Legal origin
			Corruption perceptions index (2014)	Control of corruption (2010), %	
<b>CROATIA</b>	<b>EU</b>	<b>HRK</b>	<b>48</b>	<b>59</b>	<b>Germany</b>
Austria	EU	EUR	72	92	Germany
Belgium	EU	EUR	76	90	France
Denmark	EU	DKK	92	100	Scandinavian
Finland	EU	EUR	89	98	Scandinavian
France	EU	EUR	69	89	France
Germany	EU	EUR	79	93	Germany
Greece	EU	EUR	43	56	France
Ireland	EU	EUR	74	93	UK
Italy	EU	EUR	43	57	France
Luxembourg	EU	EUR	82	95	France
Netherlands	EU	EUR	83	98	France
Portugal	EU	EUR	63	81	France
Spain	EU	EUR	60	81	France
Sweden	EU	SEK	87	99	Scandinavian
UK	EU	GBP	78	90	UK

Parliament), free trade zone, single custom union and common market have been established. Croatia is gradually adjusting to the economic policy of the European Union in order to fully overcome all differences. Becoming a member of the European Union, a larger unique market has been opened to Croatia. More severe competition is present but also more opportunities have been given to Croatia in order to achieve economy of scale, as well as opportunities for better use of resources, as well as significant investments.

Corruption is measured with The Corruption Perceptions Index that ranks countries/territories based on how corrupt a country's public sector is perceived to be. It is a composite index, drawing on corruption-related data from expert and business surveys carried out by a variety of independent and reputable institutions. Scores range from 0 (highly corrupt) to 100 (very clean) [22].

The EU15 leads a successful fight against corruption and have a very high value of The Corruption Perceptions Index (60+). In Croatia, corruption is still at high level. Together with Greece and Italy, Croatia has the lowest administrative staff and non-transparent laws and processes. Corruption is further aided by a lack of economic development and income inequality. Corruption of the system prevents the development of fair and efficient market operations. Corrupted Croatian economy does not provide an open and equal access to the market for all potential business partners what impedes international exchange and cooperation. However, Croatia is undertaking various reforms aimed at establishing an equitable administrative and political system. Numerous measures have been taken to eradicate the corruption, but the complexity of the process requires many years of effort, perseverance and resume control.

## GEOGRAPHIC DISTANCE

Based on the geographical features it is impossible to establish uniform rules on the basis of which trade relations will be established. Certainly, they can promote the cooperation but they are not of a crucial matter. Specifically, in geographical terms, Croatia has far more similarities with the EU15 which can be noticed from Table 6.

There are almost no distinguishing features in terms of climatic conditions, as well as time constraints that would prevent the development of mutual trade relations. Also, vicinity to most countries should facilitate international exchange because of reduced time and transportation costs that are conducive for cooperation. However, only Austria, Italy and Germany have represented a high share of Croatian export (35,06 %). Other countries, except United Kingdom, are not in the top ten Croatian export markets which confirm the lack of Croatian competitiveness in the international market and a great lack of demand for Croatian products and services. Unfortunately, Croatia did not utilize the geographical advantage since the EU15 are technologically modern economies with high level of information and communication technologies through which they overcome physical distances to more distant markets that meet their needs.

## ECONOMIC DISTANCE

Observing the economic differences between Croatia and the EU15, economic power of the state is situated in the foreground. It is manifested through certain macroeconomic indicators such as gross domestic product, real annual growth rate of gross domestic product, the rate of unemployment, inflation and international exchanges which is ultimately reflected as the distinction between export and import in the current account balance. Economic characteristics of Croatia and the EU15 are shown in Table 7.

**Table 6.** The geographical features of Croatia and the EU15 [18].

Country	Geographic factors			
	Distance, km	Land area, km <sup>2</sup>	Time zone	Climate zone
<b>CROATIA</b>	–	<b>56 594</b>	<b>1</b>	<b>Temperate</b>
Austria	271	83 871	1	Temperate
Belgium	1024	30 528	1	Temperate
Denmark	1123	43 094	1	Temperate
Finland	1703	338 145	2	Frigid
France	1082	643 427	1	Temperate
Germany	912	357 022	1	Temperate
Greece	1079	131 957	2	Temperate
Ireland	1799	70 273	0	Temperate
Italy	517	301 340	1	Temperate
Luxembourg	847	2 586	1	Temperate
Netherlands	1085	45 543	1	Temperate
Portugal	2201	92 090	1	Temperate
Spain	1702	505 370	1	Temperate
Sweden	1513	450 295	1	Frigid
United Kingdom	1341	243 610	0	Temperate

**Table 7.** Economic characteristics of Croatia and the EU15 [18].

Country	Economic factors			
	GDP per capita (2014),in US\$	Real GDP Growth Rate (2005-2009), %	Human Development Index (2013)	Internet Penetration (2013)
<b>CROATIA</b>	<b>13 598</b>	<b>2</b>	<b>47</b>	<b>66,7</b>
Austria	50 511	1	21	<b>80,6</b>
Belgium	46 930	1	21	82,2
Denmark	59 819	0	10	94,6
Finland	49 151	1	24	91,5
France	42 560	1	20	81,9
Germany	46 251	1	6	84,0
Greece	21 966	2	29	59,9
Ireland	50 478	0	11	78,2
Italy	35 686	-1	26	58,5
Luxembourg	110 665	2	21	93,8
Netherlands	50 793	1	4	84,0
Portugal	21 738	0	41	62,1
Spain	29 882	1	27	71,6
Sweden	60 381	0	12	94,8
UK	40 781	0	14	89,8

The purchasing power of consumers is an important criterion which is reflected in the gross domestic product per capita. From the few empirical papers on the economic distance, it has been concluded that the great economic distance between countries discourages companies to enter foreign markets. Mentioned phenomena has been explained through the perception of economic ability of the customers. Namely, consumers in countries with alike value of gross domestic product per capita, probably, have similar patterns of consumption and are exposed to similar marketing strategies. For example, in most high-income countries the use of credit cards and Internet buying are common, while in low-income countries trade still occurs in the social commerce stores and the services are charged in coins [23].

Studies have shown a positive correlation between the level of GDP per capita and increased trade flows between similar countries [24]. The gravity model also indicates a reduction in trade due to the differences in per capita income [25]. However, purchasing power of consumers is not the only factor that creates the decision to start businesses on certain foreign market. The traditional models (such as H-O model) confirmed that the trade can be motivated and based on the difference in input factors – resources, information and knowledge. In this case, input endowed economy will develop trade with economies with poor resources, like in the case of Croatia and EU15 countries.

Looking at the gross domestic product per capita, a great lag of Croatia is evident. Luxembourg has by far the highest GDP per capita, almost twice the size of Sweden GDP per capita which is on second place in the ranking of the EU15 countries. GDP per capita of other countries in the EU15 is between 30 000 and 50 000 (except Greece), while GDP per capita in Croatia was recorded at only 13 598 US dollars in 2014 [26].

Human Development Index (HDI index), as an indicator of management and development, is explained with cultural diversity, which is shown in absolute values according to four basic categories (very high, high, medium and low). Table 8 contains ranks of each EU15 country in the overall order that includes 187 countries [27]. A higher ranking on the scale implies better human development index. The EU15 are highly ranked in comparison to Croatia which is far behind them.

Internet penetration shows how many residents, in 100 of them, use the Internet. Using the Internet reduces the differences between countries and facilitate access to information and knowledge. It also shows the degree of social development of society, ICT development and the degree of approximation of the overall economy and the internationalization of modern economic trends. Most EU15 countries are forefront of Internet use except Italy, Portugal and Spain which are at par with the Croatia. Yet, Greece is behind Croatia with only 59.9 people with access to the worldwide network [28].

## CONCLUSIONS

With the development of different models of financing and establishing trade agreements access to the global market has become easier than ever. Globalization has forced countries to open their economies because only by internationalization they can maintain on the market. Because of the low intensity of maturation of the domestic market and the limited possibilities of the same, export is of particular importance to businesses without the financial and managerial resources needed for more extensive international operations, including joint ventures and foreign direct investment.

In modern economies, the structure and the amount of export and import is the result of the application of technological advances, organizational superiority and managerial skills, and on that basis, a lower costs with an emphasis on high quality and product differentiation. The products with high added value, as well as the greater coverage of import by export, enable survival in the inherently complex environment and provide long-term growth.

Croatian economy has expressed the need to integrate into the world economy because Croatia is counted as medium resource-scarce country. Therefore, in order to achieve certain economic effects on international markets, Croatian companies have to provide a high quality products and services with reasonable prices especially on mature markets such as the EU15 market. In addition, Croatia must focus on this market which represents a majority share of Croatian export.

However, trade between Croatia and other countries is very unfavourable which impedes economic development of closed Croatian economy. The biggest problem is that Croatia does not based its positive results on structural reforms, but on the reduction of overall economic activity, overall demand and changes in trends in the prices of raw materials and finished products on the world market. Croatia needs to make quality and sustainable economic policy, as the synergy of fiscal, monetary and other policies, which will, consequently, boost export and reduce the trade deficit. This includes structural reforms that yet have not been intensified.

The goal of the article was to compare Croatia and EU15 countries, using the CAGE Comparator [18]. In the comparison of Croatia and EU15, according to The CAGE Distance Framework, significant fluctuations, unexploited potential and problems of the Croatian economy are visible in all four dimensions of The CAGE model.

Cultural differences between the EU15 and the Croatia are present in terms of language, expression freedom, association and action, as well as in the system of political power which is underneath the level of the EU15. These negative differences act as obstacles in cooperation and decrease Croatian export in the EU15 countries.

Croatian accession to the European Union reduced administrative differences significantly. International trade with the member states has been significantly facilitated. Taxes, tariffs and other barriers that created adverse effects on trade have been reduced and/or eliminated. Croatia is gradually adopting homogeneous rules and regulations of the European Union that should establish order and eradicate the highly pervasive corruption in the Croatian administrative and political system.

In geographic terms, Croatia is very close to the EU15. Croatia, however, has not used geographical proximity as its strategic advantage. Unfortunately, in the past, the geographic distance represented an important issue and was an important factor in achieving business cooperation between distant markets. But in modern times, technology and the Internet access have greatly contributed to overcome these barriers and reduce the distance in terms of time needed to transport goods. Also, with digital products and services, the geographical distance has almost been completely eliminated as a restriction for trade between countries. Therefore, despite the proximity and geographically important position, Croatia does not represent an important business partner for the EU15. Croatian economy faces the fragmentation of production and lack of production capacities so it cannot meet the high demands of the EU15. Most of the Croatian export comes from labor-intensive activities, and competitiveness in such a manner cannot be secured or maintained. In Croatia, there is an indispensable need for structural export changes in terms of increasing the export of products based on new technologies.

The most pronounced differences between the EU15 and Croatia are from an economic point of view. In economic sense, Croatia is a developing country with scarce resources. The low level of education, unskilled labor and low quality of products and services, due to lack of technological development, prevents Croatia to become a serious business partner and equal participant in the international market. The EU15 (except Greece in certain segments) are highly developed countries with regulated economic policies and sustainable economic systems. Croatia is not in such a position and it is a question of time when will Croatia be capable of overcoming the present obstacles.

The Croatian economy must internationalize. Croatia needs to establish a proper legislative and legal basis, define and systematically implement structural reforms, stimulate export activities through the production and finally, design high-quality export strategy in order to achieve significant results on international markets by placing competitive products and services on the promising market such as the EU15 market.

## **REMARK**

<sup>1</sup>The EU15 comprised the following 15 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom.

## **REFERENCES**

- [1] Ghemawat, P.: *Distance still matters*. Harvard Business Review **79**(8), 137-147, 2001,
- [2] Croatian Ministry of Foreign and European Affairs: *About Croatian Exports*. In Croatian. <http://gd.mvep.hr/hr/o-hrvatskom-izvozu>, accessed 27<sup>th</sup> May 2014,
- [3] Croatian Bureau of Statistics: *Released Data – First Results*. <http://www.dzs.hr>, accessed 13<sup>th</sup> April 2015,
- [4] Croatian Bureau of Statistics: *Statistical Yearbook of the Croatia 2014*. [http://www.dzs.hr/Hrv\\_Eng/ljetopis/2014/sljh2014.pdf](http://www.dzs.hr/Hrv_Eng/ljetopis/2014/sljh2014.pdf), accessed 15<sup>th</sup> April 2014,
- [5] Croatian Bureau of Statistics: *Export and import by partner countries*. In: Statistical Yearbook of the Croatia 2014, Croatian Bureau of Statistics, Zagreb, 2014, [http://www.dzs.hr/Hrv\\_Eng/ljetopis/2014/sljh2014.pdf](http://www.dzs.hr/Hrv_Eng/ljetopis/2014/sljh2014.pdf), accessed 15<sup>th</sup> April 2014,

- [6] Croatian Bureau of Statistics: *Foreign trade in goods*.  
<http://www.dzs.hr>, accessed 15<sup>th</sup> April 2014,
- [7] Croatian Chamber of Economy, International relations sector: *Information about foreign markets*.  
<http://www.hgk.hr/sektor-centar/sektor-medjunarodni/informacije-o-inozemnim-trzistima>, accessed 21<sup>st</sup> April 2014,
- [8] Croatian Bureau of Statistics: *Tourist arrivals and nights, by country of residence*.  
In: Statistical Yearbook of the Croatia 2014, Croatian Bureau of Statistics, Zagreb, 2014,  
[http://www.dzs.hr/Hrv\\_Eng/ljetopis/2014/sljh2014.pdf](http://www.dzs.hr/Hrv_Eng/ljetopis/2014/sljh2014.pdf), accessed 15<sup>th</sup> April 2014,
- [9] Croatian National Bank: *The theory and reality of foreign direct investment in the world and in transition countries with special reference to Croatia*. In Croatian.  
<http://www.hnb.hr/publikac/pregledi/p-009.pdf>, accessed 23<sup>rd</sup> April 2014,
- [10] Croatian Chamber of Economy: *Information about foreign markets*.  
<http://www.hgk.hr/sektor-centar/sektor-medjunarodni/informacije-o-inozemnim-trzistima>, accessed 22<sup>nd</sup> April 2015,
- [11] Malhotra, S.; Sivakumar, K. and Zhu, P.: *Distance factors and target market selection: the moderating effect of market potential*.  
International Marketing Review **26**(6), 651-673, 2009,  
<http://dx.doi.org/10.1108/02651330911001332>,
- [12] Ghemawat, P.: *World 3.0: Global Prosperity and How to Achieve it*.  
Harvard Business Review Press, Boston, 2011,
- [13] Griffith, D.A. and Dimitrova, B.V.: *Business and Cultural Aspects of Psychic Distance and Complementarity of Capabilities in Export Relationships*.  
Journal of International Marketing **22**(3), 50-67, 2014,  
<http://dx.doi.org/10.1509/jim.14.0019>,
- [14] Balassa, B.: *The Theory of Economic Integration*.  
Routledge Revivals, Routledge & Oxford, 2013,
- [15] Bernard, A.B.; Grazi, M. and Tomasi, C.: *Intermediaries in International Trade: direct versus indirect modes of export*,  
w17711, National Bureau of Economic Research, 2011,  
<http://www.nber.org/papers/w17711.pdf>,
- [16] Waugh, M.: *International trade and income differences*.  
The American Economic Review **100**(5), 2093-2124, 2010,  
<http://dx.doi.org/10.1257/aer.100.5.2093>,
- [17] Cassey, A.J.; Holland, D.W. and Razack, A.: *Comparing the economic impact of an export shock in two modeling frameworks*.  
Applied Economic Perspectives and Policy **33**(4), 623-638, 2011,  
<http://dx.doi.org/10.1093/aep/ppr033>,
- [18] Ghemawat, P.: *CAGE Comparator*.  
<http://www.ghemawat.com/cage>, accessed 22<sup>nd</sup> April 2015,
- [19] Hutzschenreuter, T.; Voll, J.C. and Verbeke, A.: *The impact of added cultural distance and cultural diversity on international expansion patterns: A Penrosean perspective*.  
Journal of Management Studies **48**(2), 305-329, 2011,
- [20] Transparency International: *Corruption by Country/Territory*.  
<http://www.transparency.org/country>, accessed 22<sup>nd</sup> April 2015,
- [21] Ghemawat, P.: *Arbitrage Strategies*.  
Unpublished Globalization Note Series, University of Navarra, IESE Business School in Barcelona, Barcelona, 2014,
- [22] Alam, M.S.: *A theory of limits on corruption and some applications*.  
Kyklos **48**(3), 419-435, 1995,  
<http://dx.doi.org/10.1111/j.1467-6435.1995.tb02323.x>,

- [23] Mitra, D. and Golder, P.: *Whose culture matters? Near-market knowledge and its impact on foreign market entry timing*,  
Journal of Marketing Research **39**(3), 350-365, 2002,  
<http://dx.doi.org/10.1509/jmkr.39.3.350.19112>,
- [24] Bergstrand, J.H. and Jeffrey, H.: *The Gravity Equation in International Trade: Some Microeconomic Foundations and Empirical Evidence*.  
The Review of Economics and Statistics **67**(3), 474-481, 1985,  
<http://dx.doi.org/10.2307/1925976>,
- [25] James, E.A. and Wincoop, V.: *Gravity with Gravitas: A Solution to the Border Puzzle*.  
The American Economic Review **93**(1), 170-192, 2003,  
<http://dx.doi.org/10.1257/000282803321455214>,
- [26] The World Bank: *GDP Per Capita (current US\$)*.  
<http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>, accessed 14<sup>th</sup> June 2015,
- [27] United Nations Development Programme: *Human Development Index*.  
<http://hdr.undp.org/en/content/human-development-index-hdi-table>, accessed 14<sup>th</sup> June 2015,
- [28] The World Bank: *Internet users (per 100 people)*.  
<http://data.worldbank.org/indicator/IT.NET.USER.P2>, accessed 14<sup>th</sup> June 2015.