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“HRVATSKO GOSPODARSTVO U TRANZICIJI”
Zvonimir Baletić et al., Zagreb, Ekonomski institut,
1999., p. 784

This collection of essays was published to mark the 60th anniversary in the life of the Institute of Economics at Zagreb. For a research institution a life span of 60 years does not seem to be extremely long. However, as the chief editor of this volume, Professor Baletić notes in the foreword, 60 years is a very long life for a research institution in the field of social sciences in a country in which political and therefore economic systems had been changed several times during that period. A number of directors and research staff of the Institute over a 60-year period should be congratulated for their achievements and this volume is a tribute to their work.

This publication is large volume (784 pages) with 40 chapters, which have been grouped into five parts: Economic System, Economic Development, Transition, International Relations and Development, and Regional Studies. These themes are representative of the areas of research the Institute has covered over the last ten year period. Obviously little from the discipline of Economics is left out and this work would not be given justice if a reviewer tried to comment in detail on all parts or even worse all chapters. After all, all economists specialize in some sub-field of Economics independent of whether they admit believing in Adam Smith or not! Thus my approach in writing this review is to briefly outline the content of each part by simply recounting the topics of chapters that make up the different parts, while commenting in some more detail only on chapters which cover topics closer to my area of specialization.

Part One on Economic System includes nine chapters. These chapters discuss issues that were the central focus of the Institute's research activities over the last decade: building the market economy and privatization and related problems of posttransitional economies. Stjepan Zdunić, in the chapter entitled “The Concept of Building the Market Economy System and the Privatization Policy”, surveys

the state of the Croatian political and economic systems right at the beginnings of the transition process and critically evaluates the chosen approach to privatization by the Croatian government. He concludes that such a privatization process has not contributed to the necessary microeconomic restructuring because it was ill devised and therefore must be abandoned as soon as possible and replaced with a process of privatization, which is in accordance with macro-economic and developmental goals. Slavko Kulčić in his chapter on "Reconstitution of Society as a recondition for the Reconstruction of the Economy and Inclusion in Euroatlantic Integration" puts emphasis on the role of culture and civilization in the growth and development of society and state. The chapter entitled "Privatization in Croatia" by Jadranko Bendeković begins with a brief description of the state of the Croatian economy prior to privatization and of the legal and institutional framework for the process of privatization. It continues by providing the results of privatization in the period of 1991-95 in terms of the number of enterprises privatized and their share in the national product, employment, investment and similar. As a way of conclusion the author offers his evaluation of the privatization process looking at the political, social and economic aspects of privatization. The chapter, "New Approach for Analysis of Transition and Privatization Process on the Example of Republic of Croatia" by Vladimir Lasić seems to be the most recent work on privatization in this part of the volume since it provides results of privatization up until 1997. It compares the proclaimed goals of Croatian privatization and the actual achievements, and it concludes that there is a great discrepancy between the two. This goes against the interests of Croatian citizens and therefore the author calls for a change in the approach to privatization and in the methods used.

The next three chapters do not deal with the problem of privatization, at least not explicitly. Velimir Šonje and Aleksandar Štulhofer contribute a chapter with a title "The Not So Dangerous Liaison Between Sociology and Economics: A Sketch of a Socioeconomic Model" on the role of norms, institutions and socio-cultural capital as factors of social changes. Dubravka Jurlina Alibegović, in her chapter "Financing Local Government" writes on the difficulties involved in choosing the "right" model of organization and financing of local governments in general, and more specifically in Croatia which was undergoing a reform of the fiscal system when this paper was written. Zoran Barac and Mladen Latković address a different sort of problem faced by investors in Croatia. The title of their chapter "How to Choose a Portfolio On the Croatian Equity Market?" reveals the content of their paper in which they apply Markowitz's portfolio diversification theory. A chapter by Mustafa Nušinić and Ivan Teodorović under the title "Analyzing the Success of Rehabilitation Programs" shifts the focus of Part One back to the issues of transition and privatization proper. On the basis of a sample of 56 Croatian enterprises in state ownership, the authors conclude that the state is "a poor manager and that it should be phased out as soon as possible" (p. 168) narrowing the role of the state to the level of providing the growth strategy and horizontal support measures. The last chapter of Part One is by Evan Kraft on "Croatia's Second Banking Crisis". He attributes a relative instability of the banking system in Croatia,

compared to Hungarian or Polish banking systems, to a slower economic growth, a less successful restructuring, and a less efficient legal framework in Croatia. He does conclude however by saying that Croatia is not an out-layer amongst the rest of the transitional economies, most of which do experience a string of banking and financial system crises.

Part Two carries the title "Economic Development" and contains ten chapters. The leading chapter is by Zvonimir Baletić and Stjepan Zdunić on "The State of the Croatian Economy and the Choice of the Development Strategy" and it appears to be written especially for this volume. Baletić and Zdunić criticize the official development policy for being ignorant of the real state of the Croatian economy and therefore setting objectives, which were not appropriate. Instead of this "neo-liberal" development policy (p.203), the authors advocate the use of the Keynesian approach which would favor a more gradual liberalization.

This is followed by the shortest chapter in this volume (only 5 pages) on "The Process of Globalization of the World Economy" by Ivan Kresić. He warns against a fast opening of the Croatian economy as, according to him, the world is still divided into a small number of highly developed enclaves in the Northern Hemisphere and a large number of inadequately developed peripheries which do not take an active role in the process of globalization but instead are being globalized themselves. Kresić believes Croatia might face the same destiny.

Andrea Mervar has contributed a chapter "Determinants of Long-term Economic Growth: A Survey of Empirical Research and Messages for Croatia". She begins by briefly reviewing the leading theoretical models of economic growth with an emphasis on the Solow and endogenous growth models. Mervar turns next to a review of the empirical tests on convergence with an intention to explore any automatism in the growth of an economy. Finally this chapter questions the applicability of cross-country tests to the case of Croatia and derives implications for a long-run economic policy.

Mira Lenardić claims that the potential for growth of the Croatian economy is determined by competitiveness of its economy. In her chapter entitled "An Approach to the Analysis of the Competitiveness of the Economy and Strategic Analysis of Particular Industrial Sectors" Lenardić examines the theoretical and empirical aspects of the competitive advantages of the Croatian economy. She argues for a shift from passive to an active structural adjustment based on Porter's concept of a diamond of competitive advantages.

This chapter is followed by an empirical paper entitled "The Accumulative and Reproductive Ability of the Croatian Economy" by Tomislav Brozović who calculates various indicators of profitability and accumulative ability in the period 1993-96. He ends on a pessimistic note warning of the high level of indebtedness for the economy as a whole and some of the industrial sectors in particular.

Željko Lovrinčević writes on the causes for a slowdown in economic growth in Croatia in the chapter "A Critical Theoretical Comment on Macroeconomic

Facts". This title is somewhat misleading as the author in fact uses actual macroeconomic indicators to conclude that Croatia is lagging behind other Eastern European transitional economies in terms of restructuring and growth. Zoran Jašić explores the role of human resources in the integration of the Croatian economy into the world economy under the title "Croatia in Conditions of Globalization: The Role of Human resource.". Domagoj Račić takes up one aspect of the role of human resources in his chapter on "The Neglected Causes of Management Inefficiencies in Croatia".

Josip and Mladen Štahan use the analysis of the "Consumption and Income of Households in the Republic of Croatia 1998" to argue that one of the possible causes for slower economic growth in the 1990-98 period in Croatia lies in the area of private consumption. The last chapter in this part is by Nenad Starc on "Sustainable Development, Tourism and Investment Project Appraisal". His writing is passionate but his analysis of the four components: ecological, economic, technologic and social effects of the sustainable development is clear based on the investment project appraisals used also by the international economic organizations.

Part Three of the volume entitled simply "Transition" includes nine chapters, most of which deal with comparative analysis of the transition process among the countries of Central and Eastern Europe. The leading chapter is written by Dragomir Vojnić, the longest serving Director of the Institute (1973-93). The title of his paper is "Countries in Transition - From the End of the Eighties To the End of the Nineties, With Special Reference To Croatia". It appears as this material was especially written for this commemorative volume; it is certainly a paper from the late nineties as it summarizes the experiences of former socialist countries after a decade of transition. Vojnić opens with two sections which are quite useful as they provide a historical recount of the efforts of reform in some former socialist bloc countries. He continues with a discussion on the Washington Consensus and the costs of applying economic neo-liberalism in almost all transition economies. Vojnić approves of the concept of the post-Washington Consensus as defined by Stiglitz (p.371) to mean not only relying on a larger number of instruments, but also to have more of a more loosely defined goal, such as an improvement in the standard of living, which is measured not only by an increase in the GDP, but also by an improvement in health and education. Vojnić fully embraces application of the post-Washington Consensus in the Croatian economy by a new government. Section four focuses on the comparison of the transition results among the Central and Eastern European (CEE) countries. The section on the transition economies and their interaction with European and Atlantic integrations is interesting and provides useful comparative data. It is only the opinions in Vojnić's conclusion which I cannot endorse. He blames mostly trade and imports in particular for less than satisfactory results of the Croatian transition so far, and recommends re-focusing on the growth of domestic production and on export expansion. As a trade economist I cannot but react critically to suggestions that exports are somehow better for the national economy than imports. They are both important and desirable as consistent parts of international trade, neither one could be increased on its own in a very long run.

A chapter by Amina Ahec-Šonje looks in more detail at the determinants of sustainable growth in emerging markets and her title "Economic Growth in Transition Countries: Past Experience and Prognoses Through the End of the Decade" fits nicely with her objective. She firstly reviews theoretical and empirical works which reexamine determinants of sustainable growth in emerging markets. She then turns to an estimation of measures, which these countries ought to undertake in future in order to reach the level of development of countries of the EU. Finally, Ahec-Šonje looks at reforms of individual countries and estimates the development dynamics of the most important macroeconomic dimensions in these countries. Part Three continues with a chapter by Božidar Jusić on "Foundations of the Theory of Transition". As its title suggests, this chapter sets out to form a theoretical basis for the transition of former communist societies. Jusic uses the new evolutionary theories to argue that any theory of transition must contain elements of both chaos and order to facilitate and accelerate the required transition. A paper following this paper is by Vladimir Veselica and Dragomir Vojnić under title "European Countries in Transition - Quo Vadis Croatia". They engage in the comparative analysis of the prerequisites as well as of the results of transition of the CEE countries. They identify Croatia as a country that had well satisfied most of the prerequisites to come out of the initial phase of transition as one of the economic leaders in the region. However due to the mistakes of the policy makers, according to the authors, Croatia has been successful only in the areas of price and exchange rate stability, while it is way behind other transitional economies when it comes to international economic relations. The authors suggest that Croatia quickly return to its pre-late 1980s growth path in order to catch up. They also emphasize the need to introduce more democracy and pluralism to areas such as freedom of press (speech) and human rights. Dinko Dubravčić in his chapter "German Unification: messages for Transition Economies" looks at the economic programme for the unification of Germany in order to draw lessons for other transitional CEE countries. His finding is that in order to prevent recession and economic crisis, which occurred in former East Germany, more conservative transition policies ought to be adopted in other transitional economies.

Valerija Botrić, Jelena Ladavac and Lorena Škuflić present another of the comparative analysis papers entitled "Problems? Outcomes and Perspectives for the Transition Process in the Countries of Central and Eastern Europe". As did other authors earlier, these also base their comparisons on the data available from the EBRD and the Vienna Institute of International Economics. It is then no surprise that the conclusions, with respect to listing the common problems and macroeconomic achievements in transitional economies are similar to other comparative studies in this volume. This paper also provides a narrative on the role of exports as an engine of growth in transition economies as well as some descriptive statistics about the development in international trade sectors of the CEE economies.

The three chapters that follow are not typical of other chapters in this volume in that they do not compare macroeconomic achievements of the CEE countries. Sveto Marušić bases his chapter entitled "Companies in Transition Changes,

Resistance to Change, and Management Change" on the findings of the international project "The Learning Organizations" which compares changes and resistance to changes in firms of China, Israel, Germany and Croatia. The author offers the management of change plan which for a Croatian firm means introducing a new concept of human resource management, and improvement in the areas of participation of employees, job redesign, organization, management training, motivation for work, and compensation. Božo Marendić, head of the Croatian negotiating delegation for succession has contributed a paper "The Status of the Succession Process of the Former SFR Yugoslavia". Marendić reports on the lack of progress in achieving any agreements with the delegation of the Federal Republic of Yugoslavia on succession issues. He suggests that the only avenue open to Croatia and other successor states is to internationalize the succession issue by seeking binding arbitration of an international expert body. Matko Meštrović contributes the last chapter of Part Three, and he writes on "Culture between Economics and Transition".

Part Four is on "International Relations and Development" and includes eight chapters. The opening chapter is by Gorazd Nikić with a title "Changes in the Structure of Croatian Foreign Trade in the Period of Price Stability (1994-98) as Indicators of Changes of Export Competitiveness". Nikić identifies three candidates as the most likely factors causing a decrease in export competitiveness. One is a disproportional growth of wages relative to a growth of labour productivity. The second is the growth of the tax burden and public expenditure which rose much faster than GDP, while the third one is the fact that the Croatian Kuna got substantially overvalued after the implementation of the Stabilization Programme in 1993. Nikić also notes that export competitiveness was not helped by Croatia's nonparticipation in any of the regional free trade arrangements, nor was it helped by ongoing political problems and military operations in neighbouring countries. Basically I agree with all the points Nikić makes and I also have to admit that I have always liked his style. There is one thing that kept popping up in my mind while I was reading the paper. Nikić does not define export competitiveness in any explicit terms nor does he demonstrate directly that competitiveness has fallen in the period of his analysis. The facts are that the total Croatian exports in value terms have stagnated and that regional orientation of Croatian exports has slightly changed. If export competitiveness was to be measured by changes in market share in the world market or in regional or individual export markets, we could indeed claim that at the global level Croatia's exports have suffered a squeeze in the world market. It would have been nice if specific evidence of such a decrease were provided. But it would have been nice to provide a specific number of such a decrease. With respect to export markets in Europe, the market was lost in Germany and Italy, while it was gained in BiH. Admittedly, one tends to appreciate the west European markets more than other regional markets when it comes to positive externalities that local exporters could extract from exporting into such markets (based on learning by doing, tougher competition, opportunities to access sources of additional financing, etc). I guess, what I want to say is that we all feel export

competitiveness has deteriorated but as economists we would prefer to know by how much! There are other factors supporting this notion about exports' weakening that Nikić lists. The current account has deteriorated badly since 1996, so that the deficit of the current account in terms of the GDP rose to 12.6% in 1998 and to 10.6% in 1999 (January to June) according to the data of the United Nations (Economic Commission for Europe). In addition, during the same period the real wages have risen and the Kuna has kept appreciating. All of these are typically looked at when evaluating the national export competitiveness. However to gain a better diagnosis about the export sector of a country, it would be necessary to also use data on unit values of exports and imports, and terms of trade, as well as on total factor productivity for each one of the industrial activities. Nikić is quite right however in asserting that part of the blame for export stagnation should be put on trade protectionism in exporting markets. As Croatia has not gained, until recently, preferential access to any of the western markets, exports were naturally hindered by high entry barriers.

The second chapter of Part Four is by Zvonimir Baletić under title "The Adriatic Facing the Realities of the European Union". This title led me to expect that I would be reading about difficulties that Croatia will have to face when applying to be considered for membership into the European Union (EU). In contrast, the paper takes a positive stand and explores the historic role of the Adriatic in providing a route to connect and integrate the Croatian people with the rest of the world, including Europe. Based on that, Baletić is optimistic when it comes to possible integration of Croatia into the EU. He discusses how the transport infrastructure and the markets of transport services could facilitate this integration.

Hopes rose high prior to the Ministerial meeting of the WTO in Seattle last November with respect to Croatia becoming a full member of the international trading community. Unfortunately, that did not materialize as yet. Thus Dubravko Radošević's piece on "Croatia and the WTO: Liberalization of Financial Markets" remains topical even though the main barrier to Croatian entry into the WTO remains in the area of intellectual property rights rather than opening of the financial markets. Radošević also provides a good summary of the WTO rules in the area of financial services liberalization which is useful for professionals as well as students of international economics.

While the former three chapters were more or less about the real side of the economy and international trade, Ante Babić's paper focuses on the monetary side. "The Choice of an Exchange Regime in a Small Open Transition Country: The Case of Croatia" narrows the choice down to one of the two extreme regimes: fixed or floating, and picks out the fixed regime against Euro as the one most suited for the Croatian economy.

Sandra Švaljek's chapter entitled "A Quantitative Approach to a Reasonable Foreign Borrowing Policy, With Application to Croatia" looks closely at the prudent external debt policy for Croatia. She undertakes to construct an objective measure of the external debt burden, which would be invariant to the movements in exchange

rates. This measure is useful in calculating the growth rates of external debt, which are consistent with preserving the foreign credibility of a country. Švaljek also, at the same cost, assesses the feasibility of Croatian foreign credibility showing that there is only a small scope for further growth of the external debt without endangering foreign credibility.

Amina Ahec-Šonje and Danijel Nestić in a paper "International Price Level Differences: An Empirical Analysis" show that the law of one price is not in force when it comes to Croatia and a group of OECD plus some other transitional countries. Their econometric analysis suggests that the real GDP per capita is the key variable explaining differences in price levels; about 80% of the variations in national price levels of a sample can be explained by this variable and a constant. Other good explanatory variables are trade openness and the size of the economy. They also venture into explaining the high price levels in Croatia by comparing the actual with regression values. As chief factors causing Croatia to be more expensive than other transition economics they isolate higher than average government consumption, high receipt from tourism, and the smallness of the internal market. They also note that other factors, such as inflow of foreign capital, foreign exchange policy and liberalization in general might have a significant influence.

The second to last chapter of this part is a paper by Ivan-Damir Anić under the title "Internationalization of European Retailing and Croatia". He writes about the retail sector in Croatia and stresses the need for that sector to become part of the bigger European retailing systems in order to improve its competitiveness.

Lastly in this part, Vladimir Trlin addresses the problems of bilateral trade between Croatia and the BiH in the chapter entitled as "Current Problems In the Economic Relations Between Croatia and Bosnia-Herzegovina". At the heart of current and likely future economic relations between these two countries is politics, current and international. Trlin however holds that it is feasible to improve the economic and trade relations and by doing that to improve political stability in the region also.

Part Five covers "Regional Studies" and contains four chapters (in terms of chapter numbers, and/or page numbers this is the shortest Part in the volume). Zlatan Fröhlich opens up with a paper on "Regional Development and the Current Problems of Regional Development in Croatia". Fröhlich stresses the fact that Croatia is small in size, but spatially and regionally diversified so that its regions face different developmental problems. As the developmental budget is very limited, regional policy is led only by efficiency criteria. While a mobility of factors of production is encouraged it may lead to regionally disproportionate employment and growth.

The remaining three chapters explore various aspects of regional development. Juraj Padjen in a paper entitled "Regionalism and Regional Development: The Case of Istria" looks at the region of Istria. While it is true that Croatia was pre-occupied with strengthening a national state in the last decade, it was also necessary to encourage development, not only in an economic sense but also in an institutional

and administrative sense, of all the constituent parts of a state. Istria is a very important region in Croatia and Padjen explores how in the past and present Istria has managed to do this by developing its own political, economic and cultural identity and contribute to the strengthening of the overall national awareness and state integrity.

Dubravko Hunjet and Ivan Turčić contributed a chapter "An Analysis of the Economy of the Republic of Croatia by Counties". It is obviously an empirical analysis of 21 counties in 1996 with respect to employment, business assets, gross revenue and total income, exports, global efficiency and comparable efficiency levels. I hope such an analysis is done at regular intervals as it provides a good "health" check of the constituent parts of the national economy.

The very last chapter of Part Five and the volume is by Stanko Žuljić with the title "Territorial Aspects of the Organization of Croatia - The Position of Split and How It Can be Improved". Žuljić points out that the status of Split does not correspond to its functions in the macro-region of Dalmatia and to its development potential as a second gravity point of the country.

Let me, in conclusion, make a few comments about the editing of the volume. Obviously a number of papers published in this volume had already been published in a same or similar version and the reader would have appreciated having information about that.¹ Having such information would also help determining the "age" of papers, as it is not always clear from the papers themselves when exactly they were written within the ten-year period. I also think that the editors should have provided an introduction to each part. That would help readers see how the chapters of each part are linked with each other, as this is not obvious in some cases. It would also prevent a slight degree of overlap as a number of chapters treat very similar topics. I am aware of the fact that when such large volumes are prepared as this one is, deadlines are always difficult to meet. It may also have been the case with this special anniversary volume with contributors all being very much engaged in their numerous research and other activities. I am sure that a bit more time in the hands of the editors would have improved the presentation of papers. For example, a number of spelling mistakes (typos) have been overlooked by proofreaders which I am sure would have been picked up if there was more time. Another minor weakness of the volume is the uneven quality of the translation of the summaries into English. Only some of the contributors' names were followed by their titles and this little detail also added to an uneven presentation throughout the volume. But aside from these pedantic details, I have enjoyed reading this volume and I recommend it to anyone who wants to catch up with developments in economic research in Croatia.

¹ There are some chapters where such information is provided. For examples, chapters by Jurlina Alibegović, Mervar, Lenardić, Marendić, and Ahec-Šonje and Nestić.