Competitiveness for the Third Millennium: Implications for Croatia

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This presentation draws on ideas from Professor Porter’s books and articles, in particular, Competitive Strategy (The Free Press, 1980); Competitive Advantage (The Free Press, 1985); “What is Strategy?” (Harvard Business Review, Nov/Dec 1996); “Strategy and the Internet” (Harvard Business Review, March 2001); and a forthcoming book. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Michael E. Porter. Additional information may be found at the website of the Institute for Strategy and Competitiveness, www.isc.hbs.edu, Version: May 13, 2pm
The Croatian Economy in 2009

• Croatia has experienced **solid growth rates** over the last few years, taking advantage of the transition to a market economy

• The **global economic** crisis is now starting to take its toll

• Despite the recent period of growth, however, Croatia is facing **serious competitiveness challenges**

• Croatia needs to **address these issues aggressively** instead of hoping for an automatic return to growth after the crisis or that EU ascension is sufficient

• Croatia **lacks a clear strategy** and an effective implementation mechanism for improving competitiveness
Prosperity Performance
Selected Countries

PPP-adjusted GDP per Capita, 2007 ($USD)

Growth of Real GDP per Capita (PPP-adjusted), CAGR, 2000 to 2007

- Croatia has benefited from the end of conflict and market reforms

Note: highlighted countries are part of the East African Community (EAC). Source: EIU (2009), authors calculations
What is Competitiveness?

- Competitiveness depends on the **productivity** with which a nation uses its human, capital, and natural resources.
  - Productivity **sets the sustainable standard of living** (wages, returns on capital, returns on natural resources)
  - It is not **what** industries a nation competes in that matters for prosperity, but **how productively** it competes in those industries
  - Productivity in a national economy arises from a **combination of domestic and foreign firms**
  - The productivity of "**local**" or **domestic industries** is fundamental to competitiveness, not just that of export industries

- Only competitive businesses can create wealth and jobs
- Nations compete to offer the **most productive environment for business**
- The public and private sectors play **different but interrelated roles** in creating a productive economy
Comparative Labor Productivity
Selected Countries

- Croatia’s labor productivity is lagging, and overstated by low workforce participation

Source: authors calculation, Groningen Growth and Development Centre (2009), EIU (2009)
- Croatia is caught in a trap where low productivity retards job growth, but unemployment retards needed reforms

Source: Economist Intelligence Unit (2009)
Export Performance
Selected Countries

Exports of Goods and Services (% of GDP), 2008

- Malaysia (103.5%)
- Ireland
- Estonia
- Cambodia
- Belarus
- Cambodia
- Ukraine (-17.5%)
- Moldova
- Philippines
- Canada
- Israel
- Ireland
- Indonesia
- Argentina
- Albania
- Benin
- Pakistan
- Brazil
- Ethiopia
- Burundi

Change in Exports of Goods and Services (% of GDP), 2004 to 2008

- Croatia's export growth is lagging

Source: EIU (2008), authors' analysis
Export Performance
Selected Countries

Exports of Goods and Services (% of GDP)


Slovakia
Hungary
Czech Republic
Slovenia
Croatia

Rank, 2008

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Croatia’s Exports By Type of Industry

Source: UNComTrade, WTO (2008)
Domestic Fixed Investment Rates
Selected Countries

- High investment is due to catch-up investments and FDI driven by privatization

Note: Includes inbound FDI
Source: EIU, 2009
Inbound Foreign Investment Performance
Stocks and Flows, Selected Countries

Inward FDI Stocks as % of GDP, Average 2003 - 2007

FDI Inflows as % of Gross Fixed Capital Formation, Average 2003 - 2007

- Foreign direct investment inflows have been a **key driver** of economic growth, but most are due to privatization rather than greenfield investments.

Foreign Investment in Croatia
Selected Activities

*2008 is estimated figure.

Source: Foreign Direct Investment in Croatia (by activity), Croatian National Bank, 2009
Innovative Capacity
Innovation Output of Selected Countries

Average U.S. patents per 1 million population, 2003-2007

- Croatia has technological strengths, but these have not been mobilized in business development.
Causes of Competitiveness

Microeconomic Competitiveness
- Quality of the National Business Environment
- State of Cluster Development
- Sophistication of Company Operations and Strategy

Macroeconomic Competitiveness
- Social Infrastructure and Political Institutions
- Macroeconomic Policies

Natural Endowments

- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition**
Macroeconomic Competitiveness

<table>
<thead>
<tr>
<th>Social Infrastructure and Political Institutions</th>
<th>Macroeconomic Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Basic human capacity</td>
<td>• Fiscal policy</td>
</tr>
<tr>
<td>– Education</td>
<td></td>
</tr>
<tr>
<td>– Health</td>
<td></td>
</tr>
<tr>
<td>• Safety and security</td>
<td>• Monetary policy</td>
</tr>
<tr>
<td>• Political institutions</td>
<td></td>
</tr>
<tr>
<td>• Rule of law</td>
<td></td>
</tr>
</tbody>
</table>
## Croatia’s Competitiveness
### Progress on the Competitiveness Index

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Estimated Ranking:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Global Competitiveness Index</td>
<td>63</td>
<td>63</td>
</tr>
<tr>
<td>Macroeconomic Competitiveness</td>
<td>67</td>
<td>68</td>
</tr>
<tr>
<td>Social Infrastructure and Political Institutions</td>
<td>58</td>
<td>59</td>
</tr>
<tr>
<td>Macroeconomic Policy</td>
<td>91</td>
<td>84</td>
</tr>
<tr>
<td>Microeconomic Competitiveness</td>
<td>60</td>
<td>69</td>
</tr>
<tr>
<td>GDP Per Capita Rank (ppp-adjusted)</td>
<td>48</td>
<td>48</td>
</tr>
</tbody>
</table>

Note: Rank versus 130 countries; overall, Croatia ranks 48th in 2008 PPP adjusted GDP per capita and 63rd in Global Competitiveness. Source: Institute for Strategy and Competitiveness, Harvard University (2009)
Governance Indicators
Selected Countries

Note: Sorted left to right by decreasing average value across all indicators. The ‘zero’ horizontal line corresponds to the median country’s average value across all indicators.


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Corruption Perception Index, 2007

Note: Ranks only countries available in both years (91 countries total)
Source: Global Corruption Report, 2007

Change in Rank, Global Corruption Report, 2007 versus 2001
Macroeconomic Competitiveness

• Croatia has a **solid position** in terms of basic human development indicators, in line with many other former Communist countries

• Croatia has made some **progress on macroeconomic policy indicators**, but the current global crisis will test the sustainability of these improvements
  – Croatia has been running high current account deficits for the last decade

• Croatia remains a **regional laggard** in terms of political and legal institutional quality and there are few signs of fundamental improvements

• Croatia’s government is much **too big**
• Croatia has **much work to do** to improve its macroeconomic competitiveness, especially its institutions
Croatia’s Position
Microeconomic Competitiveness

<table>
<thead>
<tr>
<th>Component</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Microeconomic Competitiveness Index</td>
<td>60</td>
<td>69</td>
</tr>
<tr>
<td>National Business Environment</td>
<td>63</td>
<td>69</td>
</tr>
<tr>
<td>Company Operations and Strategy</td>
<td>58</td>
<td>64</td>
</tr>
</tbody>
</table>

Note: Rank versus 130 countries; overall, Croatia ranks 48th in 2008 PPP adjusted GDP per capita and 63rd in Global Competitiveness
Source: Institute for Strategy and Competitiveness, Harvard University (2009)
Microeconomic Competitiveness: Quality of the Business Environment

Context for Firm Strategy and Rivalry

- Local rules and incentives that encourage investment and productivity
  - e.g. salaries, incentives for capital investments, intellectual property protection, corporate governance standards

Factor (Input) Conditions

- Access to high quality business inputs
  - Natural endowments
  - Human resources
  - Capital availability
  - Physical infrastructure
  - Administrative and information infrastructure (e.g. registration, permitting, transparency)
  - Scientific and technological infrastructure

- Vigorous local competition
  - Openness to foreign competition
  - Competition laws

Related and Supporting Industries

- Availability of suppliers and supporting industries

Demand Conditions

- Sophistication of local customers and needs
  - e.g., Strict quality, safety, and environmental standards
  - Consumer protection laws

- Many things matter for competitiveness
  - Successful economic development is a process of successive upgrading, in which the business environment improves to enable increasingly sophisticated ways of competing
## Factor (Input) Conditions

**Croatia’s Relative Position 2008**

### Competitive Advantages Relative to GDP per Capita

<table>
<thead>
<tr>
<th>Factor</th>
<th>Rank Change since 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile telephone subscribers per 100 population</td>
<td>26 ↑</td>
</tr>
<tr>
<td>Telephone lines per 100 population</td>
<td>30</td>
</tr>
<tr>
<td>Quality of roads</td>
<td>30 ↑</td>
</tr>
<tr>
<td>Quality of math and science education</td>
<td>35 ↓</td>
</tr>
<tr>
<td>Internet users per 100 population</td>
<td>35</td>
</tr>
<tr>
<td>Utility patents per million population</td>
<td>36</td>
</tr>
<tr>
<td>Ease of starting a new business</td>
<td>42 ↓</td>
</tr>
<tr>
<td>Personal computers per 100 population</td>
<td>43</td>
</tr>
<tr>
<td>Quality of telephone infrastructure</td>
<td>44 ↓</td>
</tr>
<tr>
<td>Quality of electricity supply</td>
<td>44</td>
</tr>
<tr>
<td>Quality of railroad infrastructure</td>
<td>44 ↑</td>
</tr>
<tr>
<td>Number of procedures required to start a business</td>
<td>44 ↑</td>
</tr>
<tr>
<td>Quality of scientific research institutions</td>
<td>47 ↑</td>
</tr>
</tbody>
</table>

### Competitive Disadvantages Relative to GDP per Capita

<table>
<thead>
<tr>
<th>Factor</th>
<th>Rank Change since 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protection of minority shareholders’ interests</td>
<td>101 ↓</td>
</tr>
<tr>
<td>Burden of government regulation</td>
<td>97 ↑</td>
</tr>
<tr>
<td>Time required to start a business</td>
<td>91</td>
</tr>
<tr>
<td>Venture capital availability</td>
<td>87 ↓</td>
</tr>
<tr>
<td>Quality of port infrastructure</td>
<td>84 ↑</td>
</tr>
<tr>
<td>Quality of air transport infrastructure</td>
<td>83 ↓</td>
</tr>
<tr>
<td>Ease of access to loans</td>
<td>81 ↓</td>
</tr>
<tr>
<td>Brain drain</td>
<td>80 ↓</td>
</tr>
<tr>
<td>Quality of management schools</td>
<td>76</td>
</tr>
<tr>
<td>Regulation of securities exchanges</td>
<td>74</td>
</tr>
<tr>
<td>Financial market sophistication</td>
<td>71 ↓</td>
</tr>
<tr>
<td>Burden of customs procedures</td>
<td>63 ↓</td>
</tr>
<tr>
<td>Quality of the educational system</td>
<td>62</td>
</tr>
<tr>
<td>Demand conditions</td>
<td>61</td>
</tr>
<tr>
<td>Soundness of banks</td>
<td>60 ↓</td>
</tr>
<tr>
<td>University-industry research collaboration</td>
<td>51 ↓</td>
</tr>
<tr>
<td>Tertiary enrollment</td>
<td>49</td>
</tr>
</tbody>
</table>

**Change up/down of more than 5 ranks since 2007**

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**Note:** Rank versus 130 countries; overall, Croatia ranks 48th in 2008 PPP adjusted GDP per capita and 63rd in Global Competitiveness

**Source:** Institute for Strategy and Competitiveness, Harvard University (2009)
### Context for Strategy and Rivalry

**Croatia’s Relative Position 2008**

<table>
<thead>
<tr>
<th>Competitive Advantages Relative to GDP per Capita</th>
<th>Competitive Disadvantages Relative to GDP per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Tariff rates</td>
<td>Business impact of rules on FDI 114 ↓</td>
</tr>
<tr>
<td></td>
<td>Cooperation in labor-employer relations 110</td>
</tr>
<tr>
<td></td>
<td>Low market disruption from state-owned enterprises 110</td>
</tr>
<tr>
<td></td>
<td>Impact of taxation on incentives to work and invest 103 ↓</td>
</tr>
<tr>
<td></td>
<td>Rigidity of employment 102</td>
</tr>
<tr>
<td></td>
<td>Effectiveness of antitrust policy 98 ↓</td>
</tr>
<tr>
<td></td>
<td>Extent of market dominance by business groups 98 ↓</td>
</tr>
<tr>
<td></td>
<td>Efficacy of corporate boards 98</td>
</tr>
<tr>
<td></td>
<td>Strength of investor protection 95</td>
</tr>
<tr>
<td></td>
<td>Pay and productivity 88</td>
</tr>
<tr>
<td></td>
<td>Distortive effect of taxes and subsidies on        80 ↓</td>
</tr>
<tr>
<td></td>
<td>competition</td>
</tr>
<tr>
<td></td>
<td>Restrictions on capital flows 76</td>
</tr>
<tr>
<td></td>
<td>Strength of auditing and reporting standards 76 ↓</td>
</tr>
<tr>
<td></td>
<td>Prevalence of trade barriers 73 ↓</td>
</tr>
<tr>
<td></td>
<td>Intensity of local competition 71 ↓</td>
</tr>
<tr>
<td></td>
<td>Intellectual property protection 68 ↓</td>
</tr>
<tr>
<td></td>
<td>Regulatory quality 54</td>
</tr>
</tbody>
</table>

- On some indicators, Croatia is ranked at the level of some African countries

Note: Rank versus 130 countries; Croatia, Croatia ranks 48 in 2008 PPP-adjusted GDP per capita and 50 in Global Competitiveness

Source: Institute for Strategy and Competitiveness, Harvard University (2009)
Doing Business Indicators

Ranking, 2009 (of 181 countries)

Central European EU countries include: Austria, Bulgaria, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia

Demand Conditions
Croatia’s Relative Position 2008

Competitive Advantages Relative to GDP per Capita

Competitive Disadvantages Relative to GDP per Capita

Buyer sophistication 92 ↓
Government success in ICT promotion 76
Government procurement of advanced technology products 68 ↑
Presence of demanding regulatory standards 67 ↓
Stringency of environmental regulations 54 ↓

Change up/down of more than 5 ranks since 2007

Note: Rank versus 130 countries; overall, Croatia ranks 48th in 2008 PPP adjusted GDP per capita and 63rd in Global Competitiveness
Source: Institute for Strategy and Competitiveness, Harvard University (2009)
Croatia’s Business Environment Quality

Overview

• Basic factor conditions are relatively strong but weaknesses exist in more advanced dimensions
  – Relative strength in road transportation and communications infrastructure as well as fundamental innovative capacity
  – Relative strength in primary and secondary education
  – Relative weakness in financial market sophistication
  – Relative weakness in port and airport infrastructure

• Business rules and regulations remain cumbersome and distortive
  – Problematic labor relations
  – Local market still dominated by entrenched domestic business groups
  – Rules and regulations for foreign direct investors are cumbersome
Competitiveness and Cluster Development
Tourism Cluster in Cairns, Australia

- Public Relations & Market Research Services
- Food Suppliers
- Property Services
- Maintenance Services
- Travel agents
- Tour operators
- Restaurants
- Attractions and Activities e.g., theme parks, casinos, sports
- Hotels
- Airlines, Cruise Ships
- Local retail, health care, and other services
- Local Transportation
- Souvenirs, Duty Free
- Banks, Foreign Exchange
- Government agencies e.g. Australian Tourism Commission, Great Barrier Reef Authority
- Educational Institutions e.g. James Cook University, Cairns College of TAFE
- Industry Groups e.g. Queensland Tourism Industry Council

Sources: HBS student team research (2003) - Peter Tynan, Chai McConnell, Alexandra West, Jean Hayden
The Australian Wine Cluster
Trade Performance

Australian Wine Exports in thousand US $

Value
Market Share

Australian Wine World Export Market Share

The Australian Wine Cluster
History

1930
First oenology course at Roseworthy Agricultural College

1955
Australian Wine Research Institute founded

1965
Australian Wine Bureau established

1970
Winemaking school at Charles Sturt University founded

1980
Australian Wine and Brandy Corporation established

1990
Winemaker’s Federation of Australia established

1991 to 1998
New organizations created for education, research, market information, and export promotions

1950s
Import of European winery technology

1960s
Recruiting of experienced foreign investors, e.g. Wolf Bass

1970s
Continued inflow of foreign capital and management

1980s
Creation of large number of new wineries

1990s
Surge in exports and international acquisitions

The Evolution of Regional Economies
San Diego

- Climate and Geography
- U.S. Military

- Biological Research Centers

- 1910
- 1930
- 1950
- 1970
- 1990

- Transportation and Logistics
- Power Generation
- Aerospace Vehicles and Defense
- Analytical Instruments
- Communications Equipment
- Information Technology
- Medical Devices
- Biotech / Pharmaceuticals
- Education and Knowledge Creation
- Hospitality and Tourism
- Sporting and Leather Goods
- Information Technology
## Related and Supporting Industries

### Croatia’s Relative Position 2008

#### Competitive Advantages Relative to GDP per Capita

- State of cluster development
- Extent of collaboration in clusters
- Local supplier quantity
- Supporting and related industries and clusters
- Local supplier quality
- Local availability of process machinery

#### Competitive Disadvantages Relative to GDP per Capita

- State of cluster development: 105
- Extent of collaboration in clusters: 98
- Local supplier quantity: 88
- Supporting and related industries and clusters: 77
- Local supplier quality: 72
- Local availability of process machinery: 61

Note: Rank versus 130 countries; overall, Croatia ranks 48th in 2008 PPP adjusted GDP per capita and 63rd in Global Competitiveness

Source: Institute for Strategy and Competitiveness, Harvard University (2009)
National Cluster Export Portfolio
Croatia, 1997 to 2007

Change in Croatia's world export market share, 1997 to 2007


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Croatian Maritime Cluster

**Related Clusters:**
- Automotive / Metal Processing

- **Shipbuilding**
  - 6 companies
  - ~20 ships p.a.
  - 11'000 employees
  - Value added: USD 750 million p.a.

- **Boatbuilding**
  - ~70 companies
  - (commercial, yachts, "nutshell")
  - Value added: USD 80 million p.a.

- **Supporting Industries**
  - 1'800 companies / 26'000 employees
  - Plastics
  - Metal

- **Government Agencies**
  - Ministry of Economy, Labor and Entrepreneurship
  - Ministry of Sea, Tourism and Transport
  - Croatian Privatization Fund

- **Industry Associations**
  - Brodarski Institut
  - Boatbuilding Association at Croatian Chamber of Commerce
  - Association of Boat Equipment Producers at Croatian Chamber of Commerce
  - Shipbuilding Cluster at Croatian Employers Association.

- **Trade Unions**
  - Association of Metal Workers
  - Association of Workers Trade Unions of Croatia
  - Croatian Trade Union Association
  - ...
Shipbuilding Cluster Productivity
Select European Countries

Value per Ship-Ton Produced in EUR

Average Hourly Wage in EUR

Source: CESA
Croatian Clusters

• Croatia’s clusters have developed naturally and reflect the strengths of legacy and location but also the challenges of the current business environment conditions

• Clusters provide an important perspective to understand the issues facing the Croatian economy

• Cluster-level competitiveness efforts are less politicized and enable action on more tractable issues related to productivity

• Cluster efforts are an opportunity to engage in a new model of public-private dialogue and cooperation

• Clusters are so far an unexploited dimension of economic policy that Croatia can ill-afford to neglect
• Clusters provide a framework for implementing public policy and organizing public-private collaboration to enhance competitiveness.
Geographic Levels and Competitiveness

- **World Economy**
  - WTO
- **Broad Economic Areas**
  - Europe
  - Southeast Europe
- **Groups of Neighboring Nations**
  - Croatia
- **Nations**
- **States, Provinces**
  - Regions
- **Metropolitan and Rural Areas**
  - Zagreb
Specialization by Traded Clusters
Selected U.S. Economic Areas, 2006

**Boston, MA-NH**
- Analytical Instruments
- Education and Knowledge Creation
- Medical Devices
- Financial Services

**San Jose-San Francisco, CA**
- Business Services
- Agricultural Products
- Communications Equipment
- Biopharmaceuticals

**Los Angeles, CA**
- Entertainment
- Apparel
- Distribution Services
- Hospitality and Tourism

**San Diego, CA**
- Analytical Instruments
- Hospitality and Tourism
- Medical Devices
- Education and Knowledge Creation

**Chicago, IL-IN-WI**
- Metal Manufacturing
- Biopharmaceuticals
- Chemical Products
- Lighting and Electrical Equipment

**Pittsburgh, PA**
- Education and Knowledge Creation
- Metal Manufacturing
- Chemical Products
- Lighting and Electrical Equipment

**Seattle, WA**
- Aerospace Vehicles and Defense
- Information Technology
- Entertainment
- Financial Services

**New York, NY-NJ-CT-PA**
- Financial Services
- Biopharmaceuticals
- Apparel
- Publishing and Printing

**Raleigh-Durham, NC**
- Education and Knowledge Creation
- Biopharmaceuticals
- Communications Equipment
- Motor Driven Products

**Atlanta, GA**
- Transportation and Logistics
- Textiles
- Construction Materials
- Plastics

**Dallas**
- Aerospace Vehicles and Defense
- Oil and Gas Products and Services
- Information Technology
- Transportation and Logistics

**Houston, TX**
- Oil and Gas Products and Services
- Chemical Products
- Heavy Construction Services
- Transportation and Logistics

Croatian Counties
Prosperity Performance
Croatian Counties

GDP per Capita, 2008 (€)

$18,000
$16,000
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000

Growth of GDP per Capita (€), CAGR, 2005 to 2008

8% 9% 10% 11% 12% 13% 14% 15%

Croatia Average: 10.13%
Croatia Average: $9,400

Source: Croatia Central Bank, Croatia Statistical Institute
The Neighborhood
Southeastern Europe

- Economic coordination among neighboring countries can significantly enhance competitiveness
Croatia’s Competitiveness Challenge

• Croatia’s recent economic growth has been driven by natural catch-up following integration into the European and global economy
• Process can only be sustained if Croatia is able to continuously upgrade its competitiveness
• EU accession is an important opportunity, but the benefits will depend on reforms by Croatia to address its own competitiveness challenges

Key Challenges
• There are numerous weaknesses in the Croatian business environment
• The vitality of competition remains weak as a consequence of policy choices and a relatively isolated domestic market
• Clusters are present in the Croatian economy (e.g. tourism), but they have not been used as an effective policy tool
• The institutional weaknesses of the country have been a key barrier to achieve sustain improvements
• Croatian regions have not been challenged and enabled to contribute to competitiveness improvements
Croatia’s Competitiveness Agenda
Some Action Priorities

• Address corruption and weaknesses in political and legal institutions
• Ensure the sustainability of public finances
• Reform the rules and regulations for business
• Open up local markets to competition
• Create attractive conditions for foreign investors
• Strengthen the higher education system, financial markets, and airport/port infrastructure
• Use clusters as an organizing principle for upgrading workforce skills, infrastructure, and FDI attraction
• Support Croatian regions in their competitiveness efforts
• Strengthen economic cooperation in South-East Europe
The Process of Economic Development
Shifting Roles and Responsibilities

**Old Model**

- **Government** drives economic development through policy decisions and incentives

**New Model**

- Economic development is a **collaborative process** involving the private sector, government at multiple levels, universities, labor, and civil society

- Competitiveness must become a **bottoms-up process** in which many individuals, companies, and institutions take responsibilities
- **Every** community and cluster can take steps to enhance competitiveness
- The **private sector** must become more engaged in competitiveness to improve rapidly
Defining a Croatian Economic Strategy

**National Economic Strategy**

- What can be the **unique competitive position** of Croatia given its location, legacy, endowments, and potential strengths?
  - What is its unique value as a business location?
  - What role can it play with neighbors?
  - In what range of clusters does the nation excel?

**Developing Unique Strengths**

- What are the **key potential strengths** that Croatia must preserve or build?

**Achieving and Maintaining Parity with Peers**

- What **weaknesses** must be neutralized to achieve parity with peer countries?

- The **private sector** must lead the process of competitiveness improvement and provide continuity and accountability.
The Croatian Competitiveness Paradox

• Croatia has institutions like the **National Competitiveness Council** designed to guide competitiveness upgrading

• Croatia has sensible **plans** that identify the weaknesses the country needs to address

**BUT**

• Croatia has made **limited if any progress** on upgrading its competitiveness in recent years

• Government is preoccupied with short-term crises and EU ascencion
The Moment For Action

• The struggle for independence, the war with Serbia, and the path to political normality after the war have shifted political focus away from competitiveness

• Economic growth due to a natural catch-up has been sufficiently good so that there has not been pressure for real reform

• EU membership has been seen as the automatic path to competitiveness, requiring no further action within the country

• Entrenched interest groups in the political and economic sphere have paid lip service to competitiveness but have been unwilling to engage in real reforms that threaten the status quo

• Leaders in business and government must launch a new chapter in Croatia’s economy if the country is to hold its gains, much less see further standard of living improvements