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Prospectus Draft

On July 1, 2013, Croatia finally became a member of the European Union (EU). A decade of conferences and changing policies preceded this decision that finally allowed Croatia into the multinational market group. Obviously as the 28th member of the EU Croatia was not a founding country. The economic turmoil after the fall of the Iron Curtain (the end of the Cold War in 1991) meant a communist government was the transformation into a new type of economy, moving from centralized planning to a free-market orientation. These countries are labeled as *transition economies*.

Under the communist regimes leading up to the 1990s, the Russian government controlled economic activities. The Russian government also controlled efficiency and innovation, and the focus was primarily on production for the masses. Hyperinflation occurred and the supply and demand was very unbalanced. These issues warranted an outcry for democracy and a free market (Library of Economics and Liberty). The authors of International Business, Czinkota, Ronkainen, and Moffett, explain that the move toward privatization “presents a substantial shift in market orientation and offers new opportunities for trade and investment” (Czinkota, Ronkainen, and Moffett, 2010: 266). They also recognize that solely announcing the change from a centrally planned economy does not automatically create a market economy (Czinkota, Ronkainen, and Moffett: 267).

With that said, we can look at Croatia in the process of moving to a market orientation, while we also see their new exposures to trade and Western involvement from the movement into the European Union.

Research Question:

My research question will answer and define the ability of Croatia to successfully convert centrally coordinated business to a more market-oriented business model. My independent variable, x , is the Croatian economy and market. More specifically, I will examine infrastructure, foreign direct investment, and unemployment as major determinants to the success of Croatia converting to a market driven market. My dependent variable, y , is the realistic expectation of what Croatia can accomplish.

Hypothesis:

Part of my project is examining different existing economic factors in Croatia and deciding where they are competitive enough to compete in a market driven economy. Therefore, I will have a number of different hypotheses based on the information analyzed about infrastructure, foreign direct investment, and unemployment.

The first element that I will examine to determine Croatia's ability to do business in the EU is infrastructure. As noted by Harvey and Myers, "if there is not an adequate infrastructure in Eastern European countries, the likelihood of Western companies entering these markets is reduced;" and "if there is not a degree of compatibility between the infrastructure elements, the difficulty of conducting business is decreased" (Harvey and Myers: 102). By looking at the current level of

Croatia's stability, I will rate how compatible it is with the rest of the European Union.

The next issue is unemployment. With a population of 4.4 million and 20 percent unemployment, Croatia falls in a category of very high unemployment. An average, or safe, unemployment is between 4 and 5 percent. This is due large in part to the decentralization of firms. When the economy moved to more private firms, many people lost their jobs. However, as the country moves to more of a market base, these jobs are reopening in different types of businesses. I will address the relationship of Croatia's unemployment with the rest of the EU.

Lastly, I will examine foreign direct investment (FDI). FDI is the establishment or expansion of operations of a firm in a foreign country, assuming a transfer of capital (Czinkota, Ronkainen, and Moffett, 2010: 12). In 2011, FDI in Croatia was 2.02% of the GDP. The "highest value over the past 19 years" was 8.70 in 2008, while in 1992, it reached the lowest percent of .13 (IMF 2012). Authors of the article: *The Structure of Foreign Direct Investment in Croatia and Its Impact on the Domestic Economy: An Empirical Analysis*, explain that the Croatia's FDI "impact on the overall economy, especially employment, exports and productivity is much less evident than that in other Central European economies" (Sohinger, Gallinec, and Skudar). By analyzing Croatia's current FDI, I can hypothesize whether or not it will become an important determinant in the transition into a market economy.

After researching these elements in depth, comparing them to EU markets, and analyzing how they can be improved, I will be able to measure the ability of Croatia to do business in the market orientation of the European Union.

Methodology:

I will use quantitative data to measure the Croatian economy's ability to work in and compete with other market economies. After examining existing data on infrastructure, unemployment, and foreign direct investment in Croatia, I will compare them to already successful markets in the EU, analyzing and strategically looking at what Croatia needs to do to become competitive. I will also analyze the best strategies for Croatian firms to grow in a transition economy that is trying to do business with market economies. I will mainly use macroeconomic data.

Background:

I will now list the foundations of a common market as illustrated by the EU. Now that Croatia is a member of the EU, it is important to recognize the foundations before we can decide the ability that Croatia has to do business in the EU. In my research, I will delve into current Croatian economic factors. But it is important to first understand the basics behind the EU market.

The European Union is a common market, which means there is free movement of people and capital among member states (PPT Harvey). To become a member of the EU, a country must have certain attributes that are economically, politically, geographically and socially shared. As a multinational marketing group, the EU has strategic ways that of making up their group. The foundations include: 1. The standardization of frontier controls. 2. The freedom of movement and right of people to settle in member countries. 3. Technical and standards harmonization. 4. The opening-up of government procurement markets 5. The liberalization of financial services market. 6. The gradual opening up of the information services

market 7. The liberalization of transportation services. 8. The creation of suitable conditions for industrial cooperation without fear of antitrust violation; and 9. The removal of fiscal barriers. (PPT Harvey).

The EU is a multinational market group, meaning a group that is created by different countries that want to take positive steps to reduce trade barriers among the members (PPT Harvey). Their economic cooperation in turn brings about political and social benefits (PPT Harvey). It is important to look at the MMGs factors to success, because it is crucial that Croatia fit into these categories to become a member of the EU. I will list the factors for success and relate them to Croatia's situation in the European Union:

1. Economic factors- Is Croatia at the trading level of the European Union. Does it have a balance of trade? Does it have resources that the EU and the rest of the world needs? What can they do to increase the trading power in Croatia?
2. Political factors- Does the Croatian government cooperate with other EU governments? Internally, is the Croatian government stable and non-corrupt?
3. Geographic factors- We know that Croatia is geographically compatible with other countries of the EU. It is located closely to members of the European Union and even to the other transition economies that are working on becoming members of the EU.

The European Union's expansion over time will play an important role in this process. By classifying the countries of the EU based on economic factors and comparing Croatia to those different groups, I will predict the future: either the success or failure of Croatia in the European Union based on infrastructure, foreign

direct investment, and unemployment. Will Croatia be economically successful in the EU and if so, how long will it take?