The deindustrialisation process of the Croatian economy

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Introduction

In last two decades Croatian economy has gone through significant structural changes. It is therefore necessary to reconstruct and analyze political and economic framework that enabled, induced and stimulated this transformation. Reestablishment of capitalist relations of production through process of privatization at the beginning of the nineties is infelction point that strongly defined all political and ecomomic activities in the coming period. Because of it consequences it is also particulary traumatic development to which many keep coming back as a original sin of all economic troubles, especially now in time of deep recession. But only in historic context can we thoroughly understand privatzation process and adoption of other neoliberal policies that underlay destruction and disappearance of broad industrial base which generated secured employment to many workers. Thus becomes unavoidble to depict developments in transformation of industrial ecomomic structure to import-based one, in rising financialization and in dissemination of European narratives.

Dissolution of Yugoslavia and the restoration of capitalism

First parliamentary elections after the Second World War in Croatia and Slovenia in the 1990 resulted in victories of nationalist parties. This was the way in which ten-year long road of Yugoslav dissolution came closer to its finale, and this finale was marked by especially bloody content of war. Only a decade ago it had been difficult to predict this turn of events, although the process of disintegration had already firmly established economic and political foundations. During the eighties, divided against itself, the Yugoslav market was passing through the harsh austerity program under the supervision of the International Monetary Fund (IMF). The whole Yugoslav economy was subjected to the process of paying external debt. Strict saving measures were implemented to reduce domestic demand and increase exports in order to accumulate foreign currency to repay international loans. The result was economic stagnation, regular protests and mutual accusations of republican leaderships which led to the rise of nationalism as a method of maintaining power.[1]

In this roaring period at the turn of the decade when the Yugoslav state was collapsing and the transition to the democratic standards envisioned in private ownership of the means of production was begining, that is, when the restoration of the capitalist mode of production was being implemented, the Croatian economy was still in a relatively favorable position. The country had built all the basic infrastructure and developed industry. The industrial sector in the late eighties employed 35 percent of workers and contributed to GDP with a share of 40 percent. Although the investment in the eighties strongly declined, much of the industrial enterprises had good conditions for the continuation of work in the transition period.

Parliamentary elections brought to power the Croatian Democratic Union (HDZ), an openly nationalist and separatist party. While the ideological rhetoric of HDZ was completely different from the Yugoslav ideology, economic continuity with the reforms undertaken during the eighties in Yugoslavia was preserved. The new government took over and continued even strongly and more radically to advocate and implement the restoration of private property, initiated by laws in December 1988 (The Enterprise Law and The Foreign Investment Law).[2] The program of widespread austerity, trade liberalization, free pricing and radical anti-inflation of 1980s could finally be supplemented with privatization of self-manged enterprises.

Since the privatization of self-managed enteprises is an extremely violent act that takes wealth created by society and grants ownership to one or a few selcted individuals, it was necessary to somehow hide this process and avoid resistance. The violent privatization process was therefore very conveniently hidden behind the curtain of conflict between Croats and the Serbian minority, which began in the spring 1991. Military operations were very successful mechanism to hide privatization and prevent resistance to privatization process.

The adoption of The Transformation Law in 1991 enabled the transfer of social ownership into private hands. The authorities implemented privatization in a way that the enterprises were actually distributed to politically loyal managers and individuals who in the most cases systematically destroyed acquired factories.[3] Industrial plants disappeared in the sale of material factors of business: machinery, buildings, offices, land, vechiles, that is, all factors that could quickly be transformed into cash were vanishing. Instead of investing in the manufacturing process which did not seem rational at all amidst war and loss of foreign markets, new elite was dismembering Croatian industrial base part by part. Tycoons governed themselves by the capitalist logic of higher profit.

Codification of neoliberal capitalism: adoption of the Stabilization Program in 1993

In October 1993, the government adopted the Stabilization program, written under the supervision of the International Monetary Fund. It was focused on combating hyperinflation, which escalated at the beginning of the nineties. However, the emphasis of the program was actually on its longevity. And, indeed, the objectives laid down by the program became, and has remained to this day, the only economic strategy which let roots so deeply into political and economic life that no government stepped out of this frame. It is stated in the program that anti-inflation policy is not an end in itself but its achievement needs to be within the politics of long-term stabilization. This stabilization is explained by the general objectives of the program written in the third chapter: (a) stabilization and strengthening of the Croatian economy, (b) creating a free market climate and the appropriate ownership structure with the reduced role of the state in the economy, (c) protection of the poorest from the devastating power of redistribution in the context of hyperinflation, (d) creation of conditions for stable growth and development. The chapter continues with list of the conditions that should contribute to disinflation: rapid privatization and de-monopolization, consolidation of state budget (which means reducing expenditure), a long-term process of rehabilitation of the banks, creating a stable, even overvalued fixed exchange rate.[4] Influence of the International Monetary Fund in the formulation of these goals was quite distinctive.

The program's objectives and policies represented continuity with earlier stabilization programs that have been approved since long-term stabilization program in 1983, also written under the supervision of the IMF. The difference lay in the fact that the objectives of the stabilization programs of the eighties, in the framework of the Yugoslav political relations, were realized sporadicly and very slowly. The objectives of this program, at least those fundamental (which certainly did not include the protection of the poorest) were realized immediately: privatization began even before the adoption of the program and inflation was instantly restrained with establishment of overvalued fixed exchange rate that enabled increased imports.

The stabilization program achieved the main goal – taming the inflation – a goal to which the monetary policy remained subordinated to the this day. Inflation was curbed primarily using strict monetary policy through a massive withdrawal of money from circulation and after that defending overvalued exchange rate fixed to deutsche mark. The reduction of money supply contributed to further growth of interest rates in commercial banks (lack of money increased its price) that have already been rising because of higher risk premium due to non-performing loans given to companies. Intervention of monetary policy in restraining the inflation was so radical that the price immediately began to fall while the established exchange rate appreciated in nominal terms (from end-december 1993 it appreciated 5 percent against the deutsche mark and 17 percent against U.S. dollar). However, real effective exchange rate remained relatively constant during 1994 (depreciating by 3 percent) as the net impact of Croatian deflation (3 percent) and German inflation more than offset the nominal appreciation of the kuna. The relative stability against the deutsche mark continued in the first half of 1995 with an appreciation in the exchange rate of the kuna of less than one percent between end-december 1994 and end-june 1995.[5] In coming years and to this day established overvalued exchange rate remained stable, initially fixed to deutsche marx and later to euro.

After 1994 the rate of inflation stayed under 4 percent, with the exception of the 1998 when it was 5.7 percent due to the introduction of value-added tax (VAT). It should be noted that although the average inflation was moderate, certain sectors had very different levels of inflation. The items of cost of living that rose most strongly were those that affect in the first place the poorest (food, electricity, water), and the government prevented the spillover effects on salary growth with their administrative control. Prices were influenced not only by VAT but also by the strong liberalization of imports, with the result of increased competition in the market which led to price stabilization. On the one hand, the effects of fiscal policy led to a rise in prices due to tax increases, especially after the 1998 when VAT was introduced, but, on the other hand, the government froze salaries and pensions which prevented retailers to significantly raise prices.

The fixed overvalued exchange rate has been sustained to this day and its consequences for the industry, and not only the industry, were fatal. Industrial production, which was dependent on the export markets, assuming it was not destroyed in war or in privatization, found itself in extremely difficult position. In the domestic markets it had to compete with cheaper imported products due to appreciated exchange rate, while, at the same time, it was losing foreign markets because exported products were more expensive for the same reason. In addtion, the banking sector was pushing higher interest rates on loans which made it impossible to borrow money for technological revitalization and last, but not lesat, the state denied subsidies on the basis of market principles prescribed by the neoliberal Stabilization program. Industry found itself frozen in a cube with sides coming together.

Table 1: The key indicators of Croatian economy, 1990–2000.

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP, current prices, billions USD	24,8	18,2	10,2	10,9	14,6	18,8	19,8	20,1	21,6	19,9	18,4
Growth rates (%), constant prices	...	-21,1	-11,7	-8	5,9	6,8	5,9	6,8	2,5	-0,9	2,9
Average number of employed persons in thousands	1.568	1.432	1.281	1.238	1.211	1.196	1.195	1.187	1.272	1.364	1.341
Average number of unemployed persons in thousands	161	254	267	251	243	240	261	278	288	322	358
Indices of industrial production volume	100	72	61	57	56	56	58	62	64	63	64
Indices of employed persons in industry	100	82	70	68	65	62	56	57	55	53	51
Export, billions USD	4	3,3	4,6	3,9	4,3	4,6	4,5	4,2	4,5	4,3	4,4
Import, billions USD	5,2	3,8	4,5	4,7	5,2	7,5	7,8	9,1	8,4	7,8	7,9
Coverage of import by export (%)	77,5	86	103	83,7	81,5	61,7	57,9	45,8	54,2	55,2	55,7
Gross external debt, billions USD	...	2,7	2,6	2,6	3	3,8	5,3	7,5	9,7	10	11
Deficit/Surplus of general government budget, (% of GDP-a)	...	-4,8	-4	-0,8	0,6	-0,7	-0,4	-1,2	0,5	-2,2	-5

Source: Statistical Yearbook of the Republic of Croatia, 1991–2001; Yearbook of Croatian Ministry of finance, 1994–2000.

All macroeconomic indicators, except for inflation, during the nineties had a negative trend. Unemployment during the nineties had strong growth trend to the number of 358 thousands of unemployed at the end of 2000. Unemployment would even be higher if government did not compensate for the loss of jobs with giving pensions (especially to those who were in the war). Destructive power of privatization is particularly noticeable in this loss of jobs. The number of jobs between 1990 (1,568 million employeed) and 1997 (1,187) decreased by 381 thousand.

The process of accelerated deindustrialization

The loss of jobs was strongest in industrial production, the most powerful Croatian economic sector responsible for more than one-third of GDP in 1990, although the problems for industry had already begun a decade before. During the eighties industrial production stagnated and it was quickly lagging behind western industry. That was a direct consequence of economic stagnation caused by the pressure from international financial institutions on debt payment. These institutions were imposing severe austerity programs which did not leave a lot of room for investment, but industrial stagnation was also a consequence of rapid disintegration of the economies of the socialist bloc whose market was an important export domain. But the breakup of Yugoslavia and the ascent of a new political elites brought to industry only one disaster after another. Restoration of capitalisism, through process of privatization during the war at the beginning of the nineties, had destructive effect on the production process in most factories and fixed exchange rate wich was led to an appreciation of the kuna in real terms made a presences on foreign markets much more difficult. Since industrial exports did not have suport of currency devaluations which would increase price competitiveness, the remaining method was to pressure down the wages of workers in order to reduce the price of the product (internal devaluation) and thus regenerate competitiveness in foreign markets. This increased exploitation of workers at the very moment when the state was pressing the poorest with regressive taxes (VAT).

The high interest rates of the banking sector were an additional problem. They hindered technological progress of the industry because borrowing for investments in the production procees was prohibitively expensive. Once the banks faced bankruptcy, the government did not even consider policy alternatives to simply bailing out the banks: establishing banks as public utilities and channeling funds to investments into production. Domestic and international political and economic relations pushed the industry to open space of destructive forces. Foreign markets were wiped by the shock doctrine of neoliberal capitalism, Yugoslav market was blown up by bombs, necessary renovation by privatization tsunami and requirements of neoliberal Stabilization program. In the end industrial plants were liquidated by bankruptcies.

The industrial production volume between 1990 and 1995 was almost halved, the decline was 44 percentage points. In the years after 1995 industry was differentiated by branches. Negative growth rates were realized in the textile industry, the leather industry, the metal industry, the wood industry, the production of electric machinery, the production of electricity, the production of crude oil and gas. Positive growth rates were recorded in food and beverage industry, pulp and paper industry, the production of petroleum products, the chemical industry and the production of machinery and equipment.[6] Industrial production in 1990 amounted close to 9 billion dollars, and in 1995 it was 5 billion dollars. The level of industrial production volume slightly improved by the end of the decade (64 percent in 2000), but it still has not reached pre-war levels.

The decline in industrial production resulted in a continuous loss of jobs. The index of employment in the industry shows that more than 50 percent of workforce employed in industry vanished in the maelstrom of the privatization process and with that also disappeared the economic substance of industrial development. The privatization procees hit hardest the metal industry (26 thousand employed in 2000), machinery production (12 thousand employed in 2000) and textile industry (40 thousand employed in 2000). Substantial loss of production was also recorded in the food and beverage industry because big agro-industrial conglomerates which encouraged agricultural production and integrated small farms in the cooperative relationship dissapeared. Jobs were also rapidly disappearing in the chemical industry and electronics. Loss of industrial jobs was compensated with the rapid growth of the service sector especially in the sector of trade with number of employed in the wholesale and reatil trade increased to nearly 200 thousand at the end of the nineties. This was followed by the opening of shopping malls, restaurants, and revitalization of tourism at the end of the decade.

The new millennium – period of rising financialization

Results of parliamentary elections at the beginning of 2000 were seemingly announcing political change. The six-party coalition led by the Social Democrats and gathered around a pro-European platform with the promise of punishing all the economic crimes of past decade won the landslide victory. But the high expectations of the people expressed in the election results were soon disappointed. The privatization process was not canceled nor was anyone punished for the destruction over a thousand factories. The new government did not engage in any production revitalization, instead it agreed to the dictates of global capital in the process of expanding the cooperation with international economic institutions. Member since 1992, Croatia signed three successive stand-by arrangment in 2001, 2003 and 2004 agreeing to fiscal consolidation, labour flexibilization and further privatizations.[7] In july 2000, Croatia joined the World Trade Organization which meant implementing rules that guarantee trade liberalization and that bring strong competition to ravaged domestic companies. Croatian goverment thus agreed to the strict rules of global capitalism and in turn gained access to capital markets, that is, Croatia won the right to be a debtor.

Against this backdrop, the industrial production continued to deteriorate, and the service sector rapidly expanded. Industry suffered an additional blow with adoption of a new law on the central bank in 2001, which strictly prohibited government borrowing from the central bank, the option used during the previous decade in the form of bridging the liquidity up to 5 percent of the budget (the state borrows money at a begining of a year when revenues are lower and pays back during midyear when revenues are much higher).[8] This law paved the path of growth of external debt: without possiblity of borrowing from the central bank at lower interest rates, the goverment could only borrow money on capital markets at higher interest rates. Meanwhile, the main and only central bank policy remained identical to that of the nineties: the protection of overvalued exchange rate which continued to encourage the development of import-based economic structure, especially in circumstances of widely available credit and noticeabe in the coverage of import by export that remained lower than 50 percent in a pre-crisis period.

The main driving force of growth became bank loans of privatized banking sector. Loans were directed to financing of the consumption of the population. Consumption based on the bank loans generated economic growth until the outbreak of the crisis when the borrowing disappeared and the economy sank. It is therefore not surprising that consumer and housing loans to households and businesses made up the largest share (50 percent) of external debt which by end of 2008 rose to 40.6 billion euros.

Thus adapting to the requirements of internatioanal capital defined Croatian economic trajectory even before the formal request for the membership of European Union. The accession process only further consolidated the existing program of economic development and, more importantly, amputated any discussion of the political and economic alternatives outside the European Union. Consumer loans briefly improved standard of living, jobs opened more quickly and in that period of early years of the new millenium future membership of the European Union seemed like very seductive illusion of upcoming propserity. After the failure of Yugoslav state, disappointment in nation-state, European Ubion seemed as only salvation.

Meanwhile, the Social Democrats lost power (in the parliamentary elections 2003). Disappointment about not fulfilling their promises had simply been too overwhelming. Reformed nationalists, led by Ivo Sanader, rose to power. The negotiation process with the euroburocracy on the conditions of membership was extremely secretive and completely excluded from any public debate. All parliamenatry and

Table 2: The key indicators of Croatian economy, 2001–2011.

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP, current prices, billions EUR	25,7	28,2	30,2	33	36	39,7	43,4	47,5	44,7	44,8	44,9
Growth rates (%), constant prices	4,4	4,9	5,4	4,1	4,3	4,9	5,1	2,1	-6,9	-1,4	0
Average number of employed persons in thousands	1,348	1,359	1,392	1,409	1,420	1468	1,517	1,555	1,499	1,432	1,411
Average number of unemployed persons in thousands	380	390	330	310	309	292	264	237	263	302	305
Indices of labor productivity in industry (1995 = 100)	146	160	172	182	188	198	209	216	213	226	233
Indices of industrial production volume (1990 = 100)	68	72	75	78	81	84	88	90	81	80	79
Indices of employed persons in industry (1990 = 100)	51	50	50	50	50	50	52	52	50	47	46
Export, billions EUR	5,2	5,1	5,5	6,4	7,1	8,2	9	9,5	7,5	8,9	9,6
Import, billions EUR	10,2	11,3	12,5	13,3	15	17,1	18,8	20,8	15,2	15,1	16,3
Coverage of import by export (%)	50,98	45,13	44	48,12	47,3	48	47,87	45,67	49,34	58,94	58,9
Gross external debt, billions EUR	13,6	15,1	19,9	22,9	26	29,7	33,7	40,6	45,2	46,5	45,7
Deficit/Surplus of general government budget, (% of GDP-a)	-2,4	-5	-6,3	-4,8	-4	-3	-2,3	-0,9	-3,3	-4,4	-4,4

Source: Statistical Yearbook of the Republic of Croatia, 2002–2012; Yearbook of Croatian Ministry of finance, 2001–2011.

non-parliamentry parties supported the accession. Social institutions did not question the accession to the European Union at that time either. The relatively prosperous period until 2008 prevented any critical discussion of the European Union. After the financial crisis affected the Croatian economy, the fragility of credit-based model quickly come to the fore as the crisis soon revealed many cracks in the promised European progress.

Changes in the annual growth rates of gross domestic product between 2001 and 2007 oscillated between 4.4 percent and 5.1 percent. This growth of the Croatian economy was based, as stated before, on the widely available bank credits which encouraged and financed public spending (primarily infrastructural projects like highways), the consumption of the population and a wide range of small and medium enterprises and commercial activities. Th service sector rapidly developed (currently accounts for 70 percent of GDP), particularly trade which substituted for devastated industrial sector, destroyed due to war, privatization and import-oriented monetary policy. The growth of trade and small and medium enterprises was thus a direct consequence of the disappearance of a large manufacturing plants.

Increased economic activity also encouraged the expansion of the construction sector and consequently the growth of entrepreneurial appetite for transformation of any attractive land to building sites. Generous bank loans motivated construction investors to expanded building of residential units, especially on the coast, as land prices continually rose. Such macroeconomic conditions had extremely negative implications for investment in industrial production, because the factory owners

Table 3: Employment structure by selected branches in thousnads, 1990–2012.

	1990	1992	1994	1996	1998	2000	2002	2004	2006	2008	2010	2012
Total	1,568	1,281	1,211	1,195	1,272	1,341	1,359	1,409	1,468	1,555	1,432	1,395
1. Industry	561	398	368	315	309	290	281	281	284	294	266	252
– Industry of food, beverages and tobacco	69	58	55	50	46	45	45	46	45	46	44	42
– Textile ind.	88	62	63	51	44	40	36	34	31	27	22	20
– Leather ind.	38	24	25	18	12	9	9	7	7	9	9	9
– Wood ind.	47	31	30	26	14	13	12	12	12	13	11	11
– Chemical ind.	41	32	30	27	17	15	14	12	12	13	7	7
– Metal ind.	69	41	36	27	26	26	26	27	30	34	30	27
– Machinery and equipment ind.	37	22	18	14	14	12	11	12	13	14	11	11
– Shipbuilding industry	22	16	15	13	17	17	19	19	19	13	12	11
2. Construction	119	99	59	61	96	89	98	115	130	146	120	100
3. Wholesale and retail trade	...	142	116	125	201	198	214	238	251	270	225	213

Source: Statistical Yearbook of the Republic of Croatia 1991–2012; Monthly statistical report, 4/2013.

located in attractive locations were more interested in extinguising the production, closing jobs and selling the real estate as opposed to long-term investment in industrial production with an uncertain market outcome and often low profit rates.

Industrial production in the period before the crisis slowly recovered after a devastating wave of privatization in the nineties. That is largely associated with the growth of the construction sector which is tied to a number of industrial activities needed for the construction of residential buildings. Industrial production volume in 2008 reached 90 percent of its level in 1990. Labour productivity after 2000 continued to rise but the cause of this growth was not implemetation of new production processes or the introduction of new technologies but the layoff of workers, putting strong and exploitative pressure on remaining workers forced to produce more.

The number of workers in the industry after 2000 rose on a wave of credit-stimulated economic growth although not all industrial branches recorded an increase in employment. Workers in the textile industry were not included in this the short-term economic expansion because the number of jobs in the this industry continued to decline. In most branches of manufacturing jobs have been stagnant, which means that the economic growth only stopped layoffs. The flourishing of construction sector is evident from the growth of the number of construction workers whose number in 2008 totaled 146 thousand. Growth of the number of workers in trade rose up to 270 thousand in the 2008. This vividly illustrates the transformation of economy from industrial to commercial.

The outbreak of the economic crisis, the accession to the European Union and the privatization of the shipyards

In 2008, the change of the annual growth rate of gross domestic product was just 2.2 percent and in 2009 the economy recorded a decline of 6.9 percent. It was an obvious indicator that Croatian economy was affected by the crisis. The economic crisis hit many households due to the closure of jobs (and not opening of new ones), falling incomes and increased living costs. The period between the 2008 and 2010 was very unfavorable for small and medium enterprises, which is largely a consequence of the impossibility of further funding due to strict banking decisions to avoid risky lending (which is especially manifested in times of crisis) and of the acuminate market conditions (local and international) due to a fall in consumption.

However, allegedly oversized government spending and massive public sector were blamed for the bad economic conditions, even though public spending is below EU average.[9] Moreover, it needs to be emphasized that a fragile economic structure built on small and medium enterprises does not have a mechanisms that would amortize impact of the financial crisis and facilitate economic recovery. The fall in GDP also pushed banks into a difficult position because of the inability to collect loans from the construction sector that has built residential buildings, but there are not enough interested buyers in the market, thus creating pressure for higher interest rates. The index of industrial production volume after the crisis outbreak started to fall and in 2011 was at 79 percent of that in 1990, resulting in a reduction of the number employed in the industry. The industrial sector lost around 40 thousand jobs, with the index of the number of employed in the industry in 2011 dropping to 46 percent of the total number of employed in industry in 1990. The coverage of imports by exports slightly improved and is close to 60 percent, but this was not the result of a successful export policy, but a significant decrease in imports.

The current coalition government, led by the Social Democrats, took the power in December 2011. Election propaganda rhetoric amounted to the habitual narrative of the fight against corruption of the previous government and the ambitious plans for exiting the crisis. After the election, promises were quickly forgotten and the realization of the economic program immediately took the content of fiscal consolidation marked by cutting public spending, labour flexibilization, raising regressive taxes and reducing progressive taxes. Just a month after parliamentary elections in January 2012, the government announced a referendum on accession to European Union that resulted with a score of 66 per cent of votes in favor of joining. However, it has to be pointed out that only 44 percent of electorate voted.

Economic implications of the accession process to the EU have been known for a long time, because the restructuring of the shipyards, that is cutting subsidies for the last survivor of the industrial devastation, was the final obstacle to the final opening of European gateway. Pressure from the European Commission nominally came from the aspect of protecting the market competition, admonishing government for subsidies to shipyards. Although there is no shipbuilding industry in the world which is not at least partially supported by the state, Croatia received sharp directive to restructure existing shipyards and abolish the subsidies. Because the state has no money for technological modernization it decided to implement the privatization process which will ultimately lead to reducing number of jobs and phasing out of this industry.

Shipbuilding is the last technologically complex industry that survived the dissolution of Yugoslavia and which has a strong multiplier effect on the economy, given that the ship is a complex product and its production binds many other industries and service sectors. This is shown in calculations by which state budget allocates 154 million euros to shipbuilding, but gets back through spending taxes 171 million euros.[10] Based on these data, we can see that the state budget in the shipbuilding sector realizes a net profit and to shut down the shipyards not only leads to vanishing of jobs but also leads to falling public revenues.

Shipbuilding is a low-profit industry which is not attractive to private investors, but it is extremely important for maintaining the economic dynamics as employs a large number of people. Although the Croatian shipbuilding possessed the potential to produce technologically demanding and quality aships there was no previous modernization of operations, reorganization of cooperation with subcontractors (who often through various corrupt collusions extort large funds) and prevention of the installation of party cadres in executive and supervisory boards, what was a direct consequence of chaotic management of the economy which became a main economic policy of all Croatian governments. As the date of Croatian joining to the European Union approached (July 1, 2013) the government rapidly implemented privatization and handed shipyards to private investors. How successful will be their functioning in private hands, without government subsidies, it will soon become clear, but the economy is permeated with growing crisis and it is unlikely that the process of restructuring and cutting jobs can result in any positive economic and social effects.[11]

Economic outlook of Croatian future in European Union

In the past two decades the structure of Croatian economy was radical amended. The industrial base of economy was thoroughly destroyed and in its place arose import-dependent economic structure. By joining the European Union, this trend will not change, om contrary, it will completely delete the remaining industrial pockets, primarily shipbuilding. This will firmly map out the position of Croatian economy in European Union: a peripheral country doomed to borrow for financing the import of goods from central countries. Until it follows the future of Greece and goes bankrupt under the weight of debts. Current government policy does not offer any alternative to this scenario, besides insisting on increasing competitiveness to attract foreign direct investment as a magic formula that guarantees success. For this purpose government is successfully bringing down the price of labor to make investment as possible attractive for foreign investors. Moreover, the colonial perspective of Croatian economy is not even hidden since most officials openly talk about converting Croatia into European Florida, that is, into an economy whose only purpose is to provide relaxation to members of the upper classes from the rich European countries. The only real alternative that remains for Croatia is building cooperative ties to other peripheral countries (not just those from the Balkans) and the developing institutions and instruments that will provide the basis for economic prosperity of these countries and raise living standards. Only in this way it will be possible to leave the colonial position in the so-called European Community of Nations, about which unfortunately still exist widespread illusions.

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