

Croatia: Trade Brief*

Trade Policy

As judged by the latest Trade (MFN) Tariff Restrictiveness Index (TTRI), on which it is ranked 51st out of 125 countries, Croatia's trade regime is somewhat less restrictive than in an average upper-middle-income country, but is comparable to the Europe and Central Asia (ECA) country group mean. At 5.0 percent and 4.8 percent, respectively, Croatia's 2007 MFN applied simple and trade-weighted tariff averages are several percentage points lower than in the earlier 2000s and are both below the comparators' 2007 mean rates; the MFN maximum applied tariff rate of 48.9 percent is relatively low. In 2007, import duties constituted 1.0 percent of Croatia's total imports and about 1.2 percent of total general government revenues, according to national figures. With services accounting for over 60 percent of its economic activity, actual openness in services trade is much higher than is indicated by the GATS commitment index, which is lower than the regional average. For instance, Croatia's 2005 International Telecommunication Union (ITU) competition index in telecommunications is 2 (0 to 2, better).

Market Access

Ranked 58th out of 125 countries on the latest Market Access TTRI, Croatian exporters, on average, are faced with higher tariff barriers abroad than are those from an average ECA or upper-middle-income country. Moreover, its MFN duty-free exports accounted for about one quarter of Croatia's total exports in 2006. Croatia joined the WTO in 2000. That same year it was granted Autonomous Trade Preferences (ATPs) by the EU, with which it later also signed a Stabilization and Association Agreement (SAA) that entered into force in early 2005. The country is now a candidate for membership in both the EU and NATO. A Generalized System of Preferences (GSP) beneficiary with a number of other industrialized countries, it is also a party to the Central European Free Trade Agreement (CEFTA) and to a free trade agreement (FTA) with Turkey. Nearly two-thirds of Croatia's 2006 exports were to its FTA partners and according to national sources remained steady in 2007.

Behind the Border Constraints

Ranked 97th (out of 178 countries) on the Doing Business 2007 rank, Croatia improved significantly over the previous year (120th out of 178). Outperforming the ECA country group average, Croatia, one of the most developed countries of the former Yugoslavia, ranked 63rd (out of 151) on the 2006 Logistics Performance Index. Here, its strongest category was timeliness of shipments (3.45 on the scale of 1 to 5 and higher than either of its comparators' averages) while its weakest one was efficiency of customs and other border procedures (2.36). Although the latter has improved significantly over the past decade, problems with customs administration and border-clearance systems remain. Croatia is 96th (out of 178) on the Doing Business—Trading Across Borders 2007 subcategory. All three of Croatia's governance indicators—regulatory quality, rule of law, and control of corruption—point to a slightly less favorable institutional environment in 2006 than in 2003, 2004, or 2005. With respect to telecommunication and information technology (IT) infrastructures, Croatia's per capita telephone and mobile phone (142 percent in 2006), personal computer (19.9 percent in 2005, and according to national sources 33 percent in 2006), and Internet user rates (35.5 percent in 2006, and according to

*As of April 2008. See the World Trade Indicators 2008 database at <http://www.worldbank.org/wti2008>.

national sources 38 percent) were all higher than regional and upper-middle-income group average for comparable years. Its school enrollment rates this decade are in line with the regional and income group means. According to national sources, in 2006 the secondary and tertiary school enrollment rates were 88.8 percent and 45.7 percent respectively.

Trade Outcomes

Croatia's real growth in total trade of goods and services has decelerated from a yearly average of 8.2 percent in 2000–04 to 6.5 percent in 2007 (7.7 percent in the early 2000s and 5.7 percent in 2005–06 according to national sources). Its trade integration ratio (share in GDP) in 2007 was 103.8 percent, an openness ratio similar to the ECA mean but slightly below that of an average upper-middle-income country. Services, primarily tourism, accounted for 49.3 percent of Croatia's total exports in 2007, a considerably higher share than either of its comparators'. Croatia's product exports are well diversified both by ECA and upper-middle-income country standards; top commodity exports in 2007 according to national sources were ships, petroleum and petroleum products, electrical machinery and appliances and wearing apparel. According to the IMF's Direction of Trade Statistics, Croatia's main destination markets in 2006–07 included Italy, Bosnia and Herzegovina, Germany, Slovenia, and Austria, while its imports were primarily obtained from Italy, Germany, Russia, Slovenia, Austria, and China. Foreign direct investment (FDI) inflows reached a high 7.9 percent share of GDP in 2006 (according to national sources, 7.5 and 9.1 percent in 2006 and 2007, respectively).

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