

Global value chains and their impact on the Croatian Economy

CCE International Conference on export and FDI

“The role of global value chains – an opportunity for export and investments?”



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DECEMBER 6, 2018

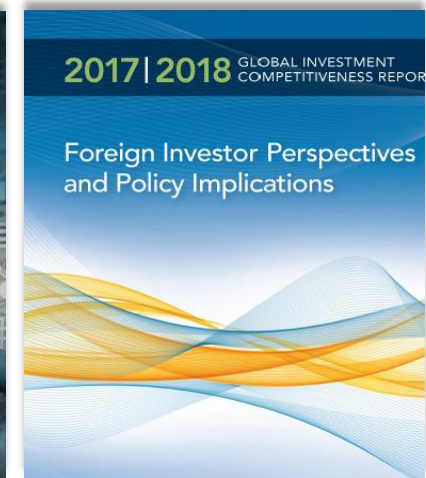
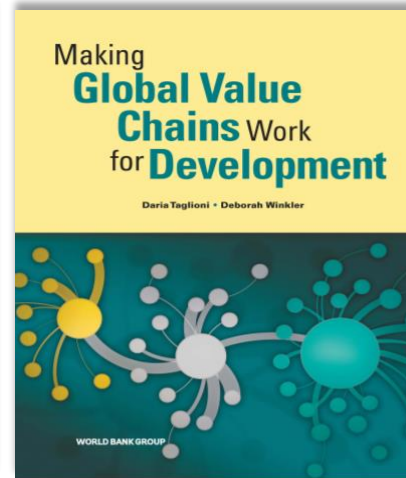
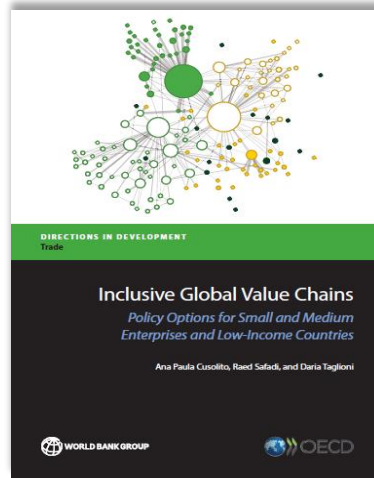
Global value chains and their impact on the Croatian Economy

- **Why the World Bank and Croatia should be interested in GVCs**
- **What have you and us done in Croatia in the last two years**
- **The change looking to the future**

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Why the World Bank and Croatia should be interested in GVCs



- Last 20 years GVCs have **optimized production across the world**
- **Margins have eroded** due to global competitors and technology
- Mainly in **manufacturing** but also **agriculture, services** and **tourism**
- The next **World Development Report** is on GVCs

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Strategic Analysis: Where and how can Croatia's firms can compete?

Main Objective of the work carried by HGK and the WB for the MoE

- To identify areas for investment to **increase the competitiveness** of Croatia's firms and industries, in 13 sectors identified by the S3, **in GVCs**.

Research Questions

- What are they **key threats** to Croatian Industry in each S3 sector?
- Which global changes have a **structural impact** on the industry?
- How is **value created** in each value chain, and **who captures** it?
- What are commercially-attractive **opportunities** within the industry?
- What do advanced **buyers** require? How can these requirements be met?
- What will be the key priorities for firms to **transform business models** towards these opportunities?

An Assessment of 13 S3 Sectors Reveals a Weak Competitive Position

Situational Assessment

- Croatian Industry is struggling to maintain competitiveness, due to:
 - Increasingly **Globalized World**
 - **Rapidly Changing Business Models**
 - **Low adaptation** of technology
- Every industry studied is at risk

Sectors

Pharmaceuticals & Medical Devices

Health Services

Nutrition

Energy Technology & Systems

Environment-Friendly Technology & Systems

Road and Rail Vehicles & Parts

Intelligent Transport Systems

Environmental (Maritime) Transport

Cybersecurity

Defense Dual-Use

Mine Action Program



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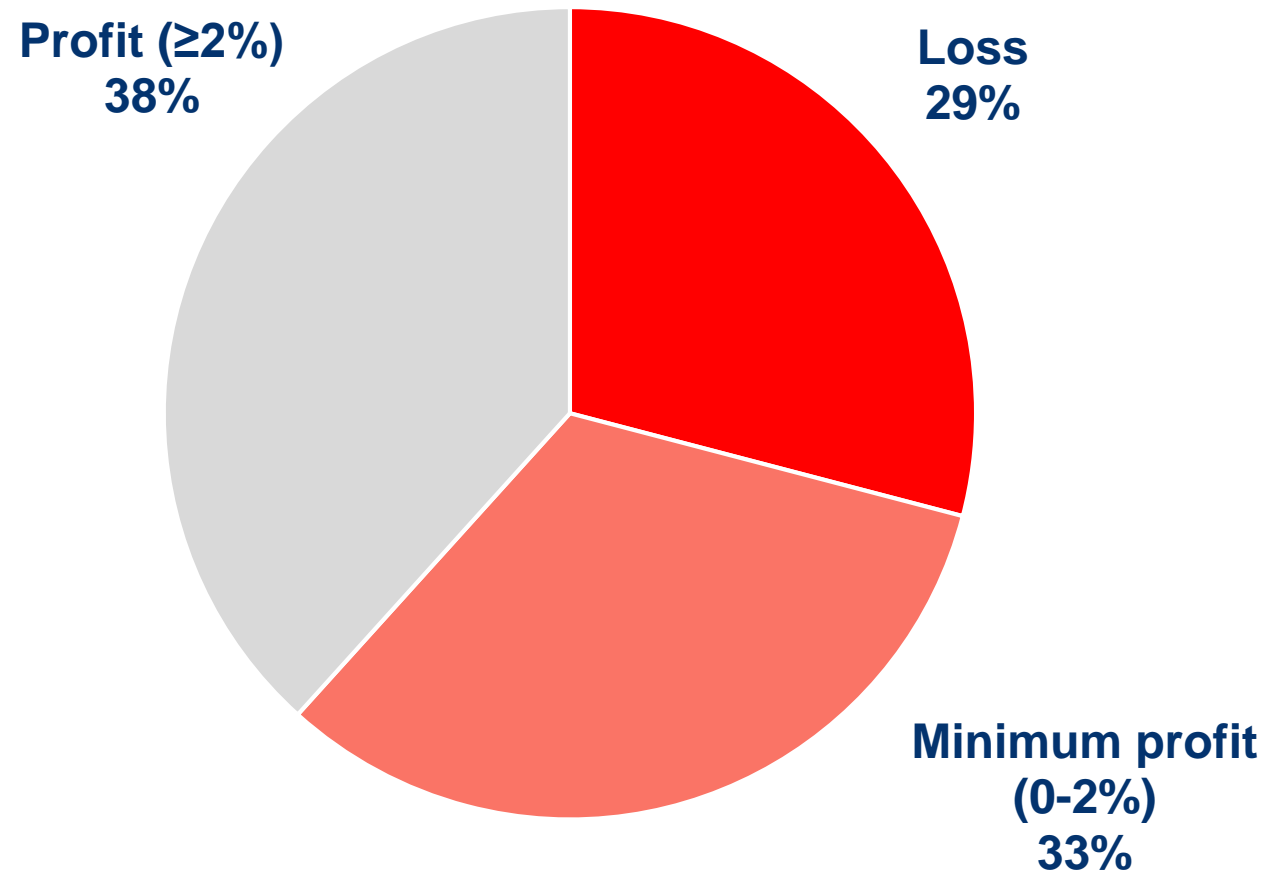
Mine Action Program



Low Average Profit Margin Show Precarious Position of Croatian Firms

Croatia Wooden Furniture Manufacturers

Croatian Firms are
Generating **Losses**
or Minimal Profits
Despite State
Subsidies



Old and New Business Models have Contrasting Opportunities

Traditional Segment



Moveable Products

New Segment



Customized & Installed Interiors

Three Disruptive Trends in the Traditional Segment

Type	Explanation	Consequences
Retail Consolidation	Considerable consolidation of retail outlets	Increasing Power of Retailers and decreased power of manufacturers
Technological Adaptation	Digitization and robotics in wood processing	Investments in capital intensive machinery
Consumers Buying for Temporary-use	High mobility of population and often change of furniture	Increased demand for light easy-to-use composite wood furniture (decreased demand for solid wood)

Cheap „Flat pack” furniture is taking market share



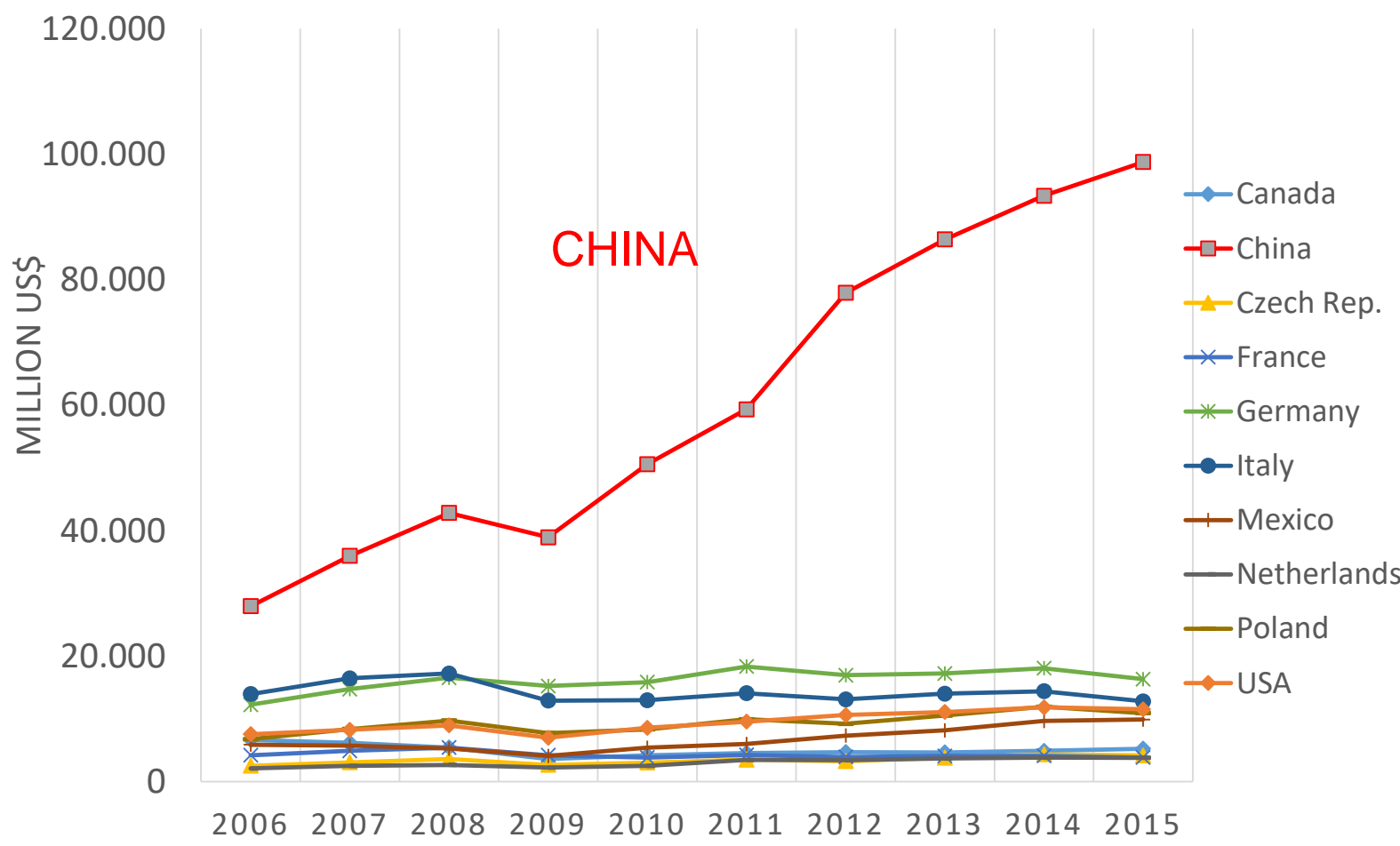
Source: IKEA

These Changing Markets Are Causing Global Disruptions

The Economies of Scale Necessary to Compete are Growing Larger and **New Players are emerging** as Traditional Players Suffer



Total value of global furniture export = **226,7 bn US\$** (2015)



Source: UN COMTRADE

And the Global disruptions can create Local catastrophes



Harvard Business School

9-795-100

Rev. July 10, 1995

Antmobel (A)

In early 1994, Jaume Arnau, president of the La Sénia, Spain-based household furniture company Antmobel, was considering an unexpected order for 1,000 bedroom sets from the Republic of Uzbekistan. As he considered the order, Arnau recalled another situation 14 years earlier when he first met with sales representatives from Barcelona. At that time, the representatives had tried to convince him to produce furniture that represented a new concept for the Spanish market, one that went against the industry's conventional wisdom. Arnau had taken that risk, and as a result had built Antmobel into Spain's leading manufacturer of household furniture. Now, in the midst of a severe recession in Spain, which had contributed to a 9% reduction in Antmobel's sales in 1993, the Uzbekistan order was presented to him as an opportunity to improve the company's financial results and to begin an expansion into international markets.



Source: Screen shot from Televisio de Catalunya documentary "La senia el parais pedut"

Experiences from the leading furniture cluster in **Catalonia**, a Harvard case study in 1995 to the total bankruptcy now.

Potential Opportunities Rest in New Types of Buyers

Hotels



Retail Fashion



Restaurants



Firms in the New Segment DESIGN SPACES, NOT FURNITURE...



Export Opportunities for Customized and Installed Products Exist



Projects map of a successful **Interior Manufacturing** company in Italy

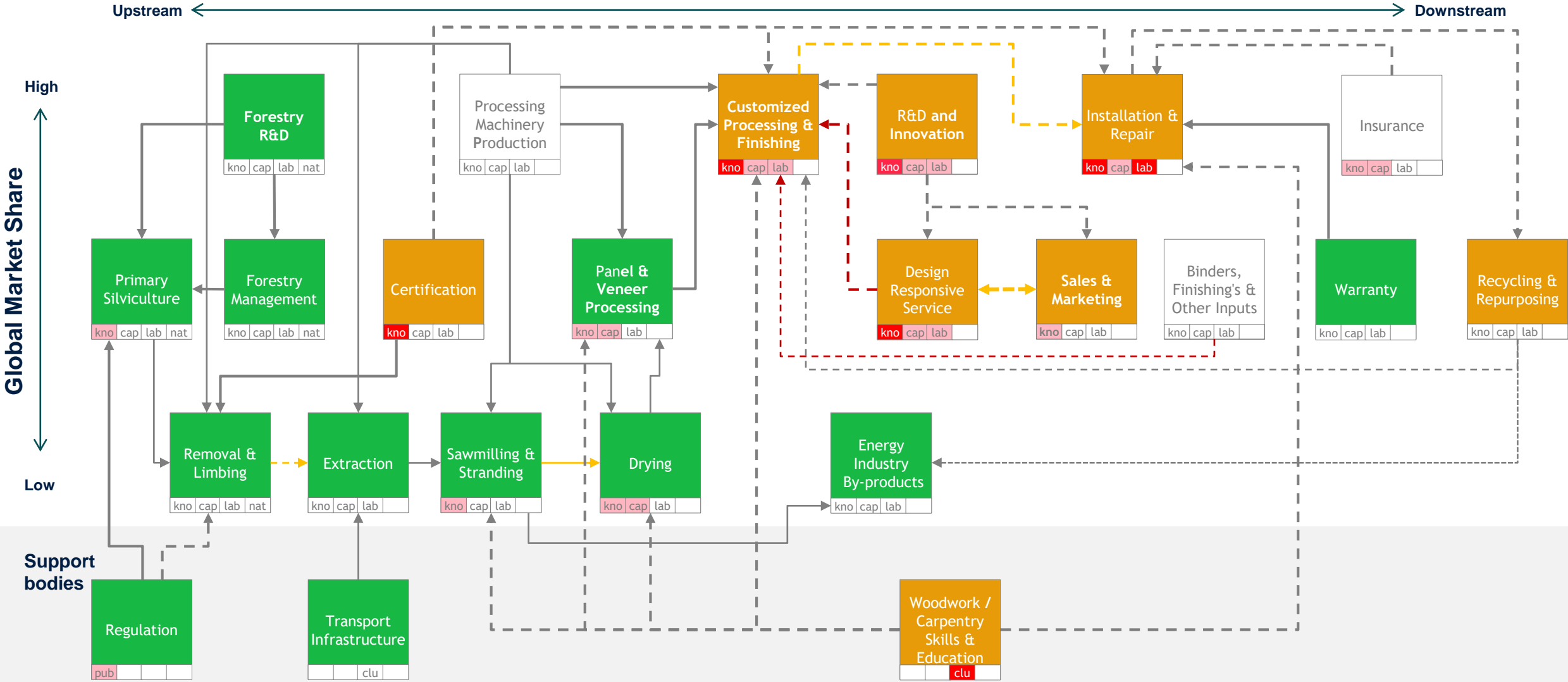
Benchmarking the value chain for the Customized Product + Installation strategic segment for Fashion conscious Commercial & Institutional Buyers (C2)

Interior Wooden Spaces & Furnishing

- Present in Croatia
- Investment Opportunity in Croatia
- What to look for?

--- Dashed line: Missing or Suboptimal Linkage

Red/Pink: Needs more resources



Highlight of Value Chain Activities for Interiors

Quality guarantee

**Interior
consultancy**

**Customized
production**

Installation

Project management and logistics

By improving the mentioned areas, wood industry in Croatia has the opportunity to enter the more attractive segments and increase the value added and improve its position in the global value chains



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From “Traditional Furniture” to “Customized interior solutions”

Traditional Furniture

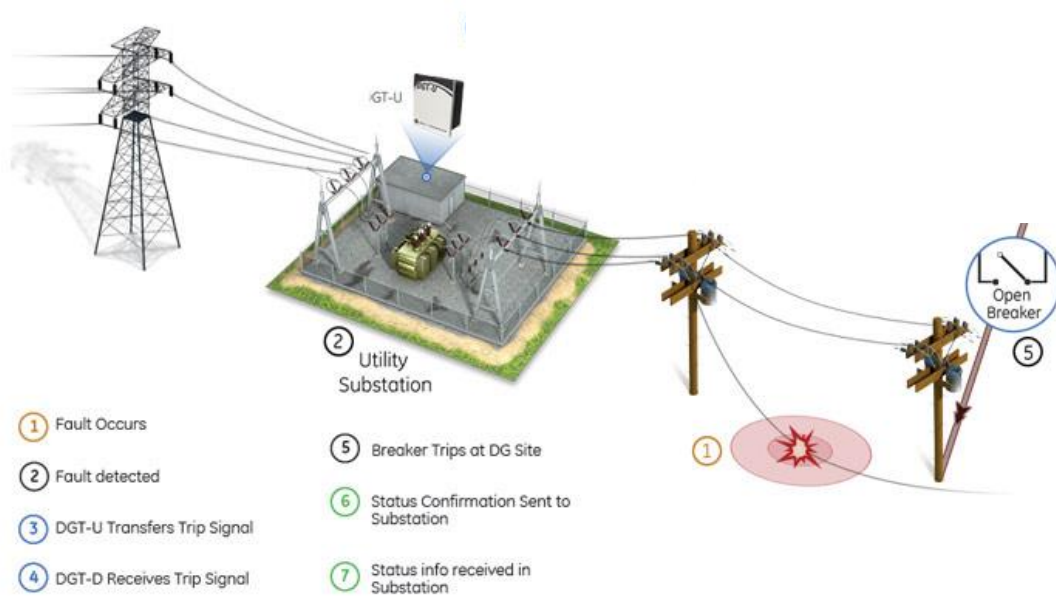


Customized Interior Solutions



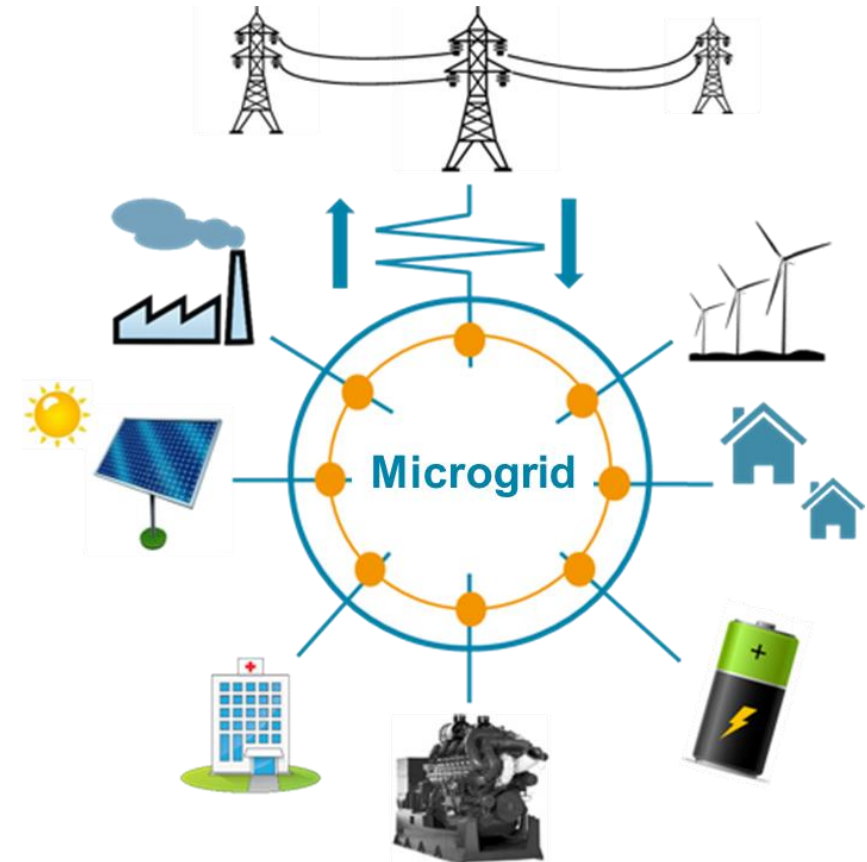
From “Traditional Grids” to “Energy Islands & Distributed Energy”

Central Power System & Inefficient Grids



Utility Substation & Disruptions to Grid

Microgrids, Energy islands, and Waste to Energy integrated Systems

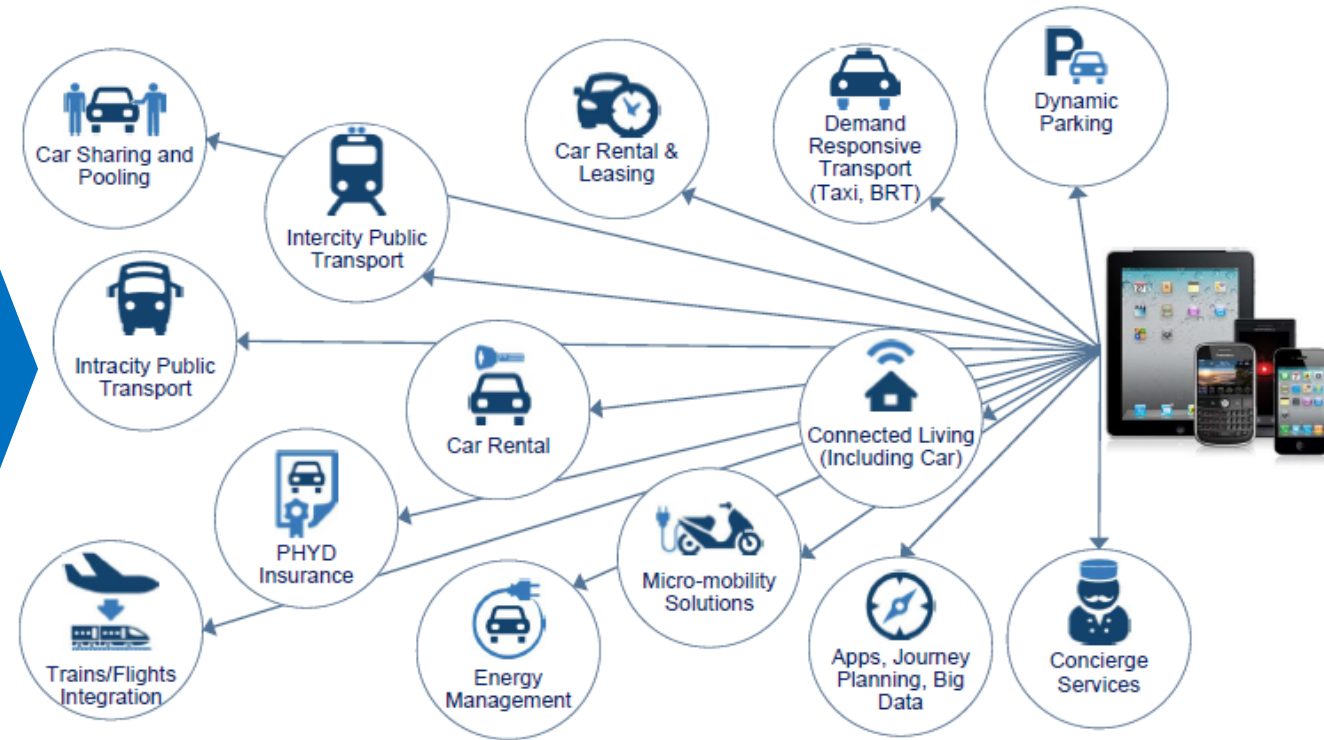


From “Auto/Rail Parts” to “Intelligent Urban Mobility Solutions”

Individual Parts with Limited Value



Integrated Urban Mobility Solutions



From “Container Ship Building” to “Electric Propulsion Generated Short Sea Mobility”

Traditional Industrial Shipbuilding



Short-sea movements of cargo & people using electric propulsion



From “Government Driven Landmine Removal” to “Environmental Land Remediations”

Land Mine Removal

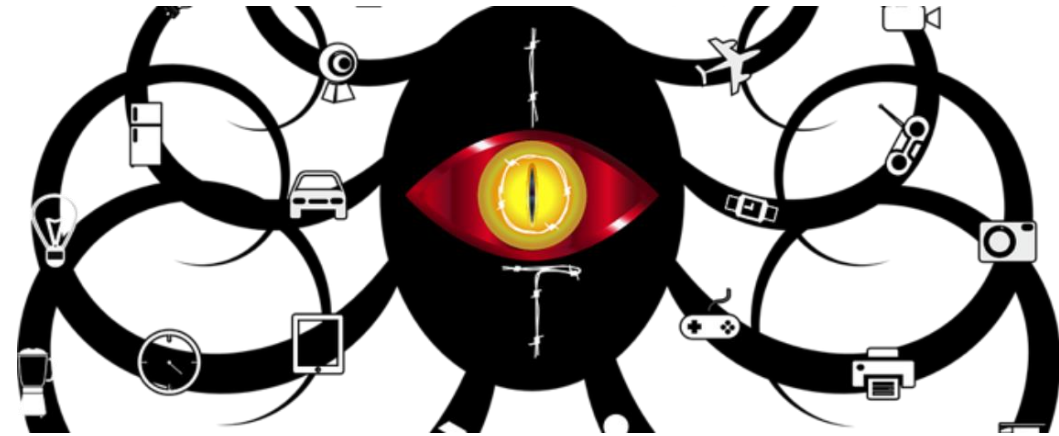


Environmental Land Remediation



From “Cookie Cutter Security Packages” to “Customized Packages”

Cookie Cutter Security Packages for Mass Market



Customized & Integrated Cyber Packages for Companies

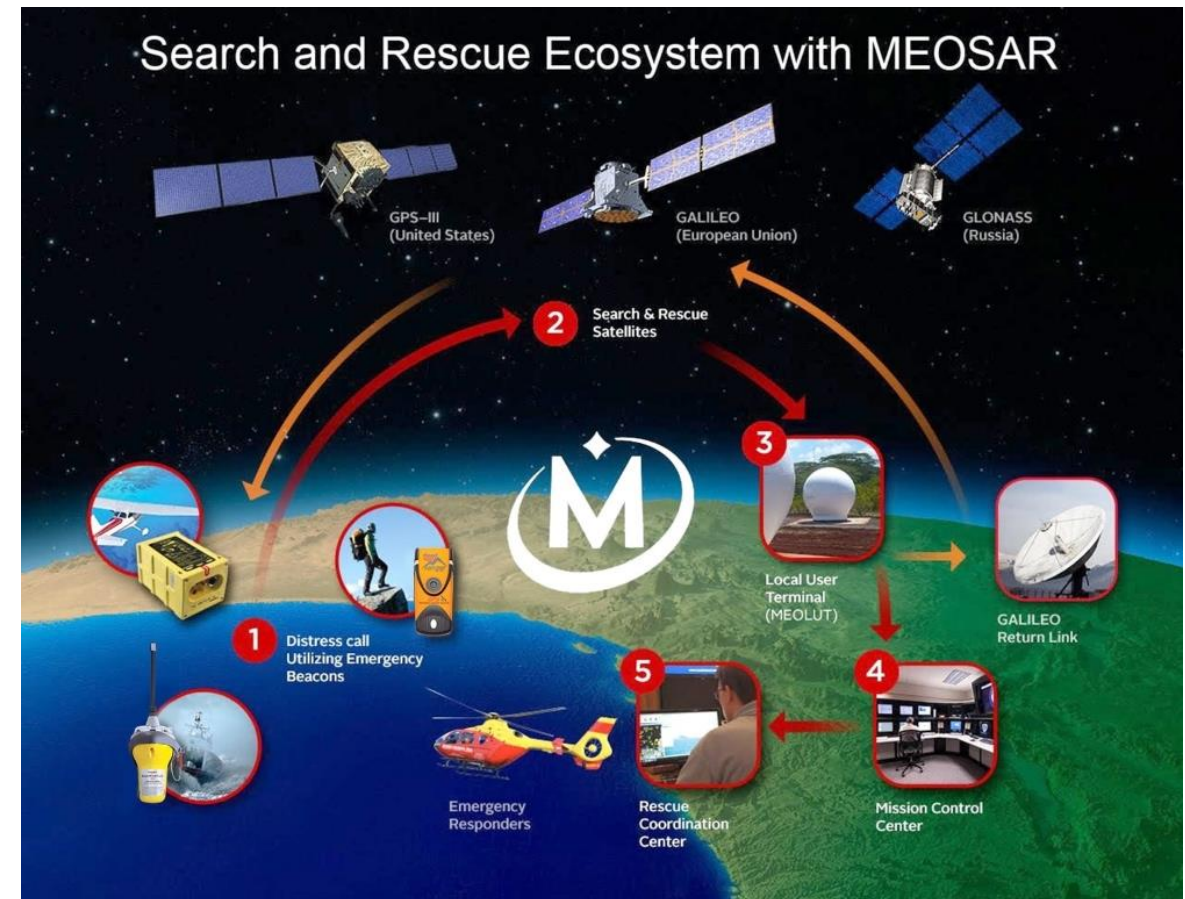


From “Personal Protective Equipment” to “Coordinated Search and Rescue Operations”

Standalone Personal Protective Equipment



Coordinated Search and Rescue Command Center and Response Teams

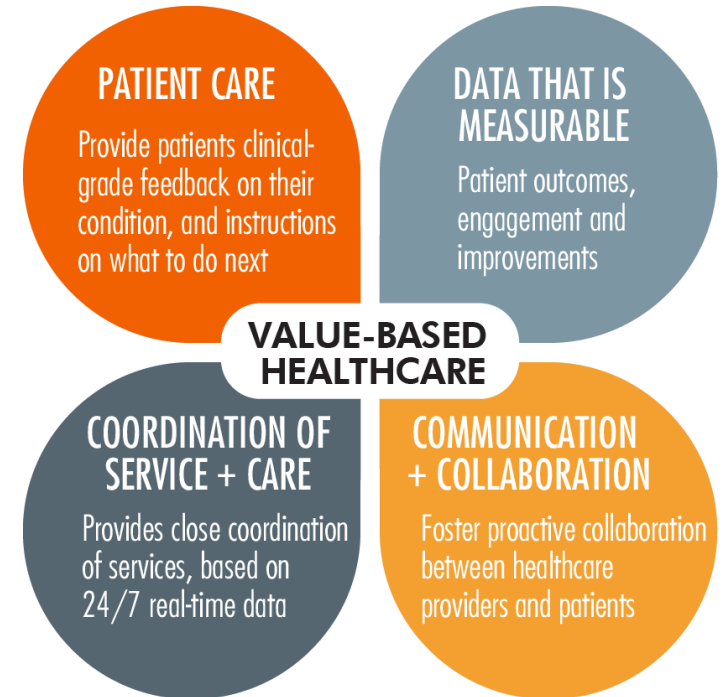


From “Acute Fee-For-Service” to “Value Based Healthcare for Chronic Diseases”

Wasted & Uncoordinated Expenses with limited Results



Data-driven Health Specialists rewarded for Outcomes



$$Value = \frac{Health\ Outcome}{Costs}$$

From “Generic Pharmaceuticals” to “Networked and intelligent healthcare”

Pharmaceutical products



Networked and intelligent health products



From “Generic Supplements” to “Diagnosed Ailments and Personalized Solutions”

Generic Supplements



\$4 each

Diagnosed & Personalized Solutions



You send us a stool sample
(using our kit) and fill out a
questionnaire



We sequence your gut
microbiome DNA



We run it through our
patent pending predictor

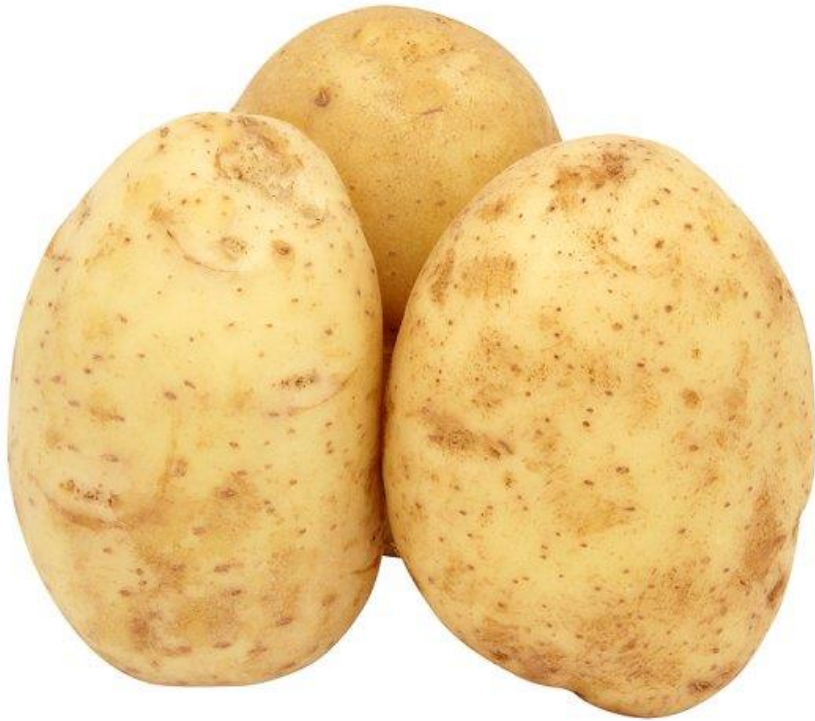


You get your personalized
nutrition app... and much
more

\$300 each

From “Low Value Commodities” to “Fresh Convenience”

Stockable Commoditized Food Products



Freshly Made Convenient Meals that are Ready-to-Eat or Easy-to Prepare



Conclusions for Croatian Industry: Change now

Diminishing returns in traditional segments, but **alternative business models exist for all the sectors studied.**

Croatian firms have no choice but to **embrace these changes** and to compete – on market terms – with these new business models in the Global Value Chains.

Any **efforts to maintain** (via protection or subsidies) the old business models not only **will not prevent their death**, but **will hamper the development on new players** in the new segments.

Conclusions for the policymakers: Implement the action lines now

Two years of intense strategic dialogue between HGK and industry



More than 50 actions lines and policy changes agreed

STPA	Pilot projects	Public procurement of innovative solutions	Institutional infrastructure	Managerial and work skills	Capital access	Regulations, certifications	Collaboration framework
Pharmaceutics	✓		✓	✓	✓	✓	✓
Health services	✓		✓	✓	✓	✓	✓
Nutrition	✓			✓	✓		✓
Energy	✓		✓	✓	✓		✓
Auto/rail			✓	✓	✓		✓
Environment friendly transport solutions	✓	✓	✓	✓	✓		✓
ITS and logistics	✓		✓	✓	✓		✓
Defense dual-use		✓		✓	✓	✓	✓
Cyber Security			✓	✓	✓	✓	✓
Mine action program		✓		✓	✓	✓	✓
Sustainable food production	✓			✓	✓	✓	✓
Sustainable wood production	✓			✓	✓	✓	✓

The industry needs **now** the support of the government in enacting **policies and programs to facilitate the change** of business models

There are no good or bad industries- it's all about strategic change



Harvard Business School

9-795-105

February 15, 1995

The Catalan Leather Industry

In early 1993, Antoni Subira, the Minister of Industry of Catalonia, wondered how to help the local leather tanning industry which was seriously threatened by the upcoming introduction of Spanish legislation to enact European Union (EU) environmental standards. He had just met with a delegation of the major Catalan leather tanners. The industrialists had claimed that a recent upsurge in imports and the resulting closing of numerous local firms had left the industry unable to cope with the stricter environmental standards. They believed the changes necessary to reduce pollution to the EU standard (or face fines of up to 100 million pesetas, or \$800,000), would raise production costs well above those of the competitors'.



In contrast with the “successful” furniture cluster, the leather cluster was considered the “Cinderella of Catalan Industry”. Today is a **thriving technology hub for leather and environment**, serving luxury brands.

Hvala
