

A MIXED METHODS APPROACH IN ANALYZING THE PERSPECTIVE OF CROATIA'S ECONOMIC RELATIONS WITH THE U.S., RUSSIA, AND CHINA

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ABSTRACT

This study explores the relationship between Croatia and the U.S., Russia, and China, providing a comparative qualitative analysis of trade and investment flows between these countries. Using a Mixed Methods approach combined with a literature review, evaluation of a range of data sources, analysis of bilateral trade data and foreign direct investment flows, and other economic indicators, the study analyzes the drivers and implications for economic ties between Croatia and these countries. The study also examines the impact of economic sanctions on Croatia's relationship with Russia. The research finds that the U.S. is Croatia's largest trading partner, while Russia and China are important sources of foreign direct investment. Finally, the study provides recommendations for future research, highlighting the need for a greater focus on trade in services, investment flows, and comparative analysis with other countries in the Balkans region. Overall, the study contributes to understanding the complex economic relationship between Croatia and the U.S., Russia, and China and offers recommendations for greater diversification of Croatia's trade and investment partners and the importance of monitoring the political and economic risks in economic cooperation.

Keywords: Croatia; Russia; China; United States; bilateral trade; FDI; economic sanctions; economic cooperation; trade diversification

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INTRODUCTION

Croatia is considered one of the best nations for doing business in the Balkans among the

countries of the former Yugoslavia. Since joining the European Union in July 2013, Croatia has made significant progress in simplifying business

regulations, reducing the time and cost of starting a business, and streamlining the process of obtaining construction permits. It also has a relatively stable political and economic environment. The country is a member of the European Union, which provides access to a larger market and increased opportunities for foreign investment. The country offers a stable and growing economy, a favorable business environment, a competitive tax system, and a skilled workforce, making it an attractive destination for businesses looking to expand their operations in the Balkan region (Jurčić et al., 2020).

Foreign trade aims to stimulate economic growth and development that affects country economies. Historically for decades, the U.S., Russia, and China have been vital economic partners for the region outside the European Union. The Balkan nations' trade relationships with the U.S., Russia, and China are complex and evolving, with varying levels of economic, political, and strategic interests involved. Croatia's economic relations with the U.S., Russia, and China have grown in recent years, with each country presenting different opportunities and challenges for the Croatian economy.

The Russian invasion of Ukraine, however, and the sanctions placed on Russia by third parties (notably the United States and the European Union) have impacted the merging of Europe's economies. The direct effects of the war are forecast to vary by country, depending on the strength of economic ties with Russia and Ukraine. Key determinants include the share of exports and imports, remittances inflows, tourism, and FDI. (Fisher, 2022)

The U.S. is an important economic partner for Croatia, with bilateral trade between the two countries reaching over \$1 billion in 2019. However, Russia has been an important energy supplier for Croatia for decades, providing about 40%-60% of its natural gas imports. Croatia's relationship with Russia has been complicated, though, due to geopolitical tensions in the region, especially after Russia annexed Crimea in 2014 and its 2022 full-scale war in Ukraine. China, on the other hand, is becoming an increasingly important economic partner for Croatia. As part of the Belt and Road Initiative, China, through its state-owned companies, has won the bidding for infrastructure projects in

Croatia, such as the Pelješac Bridge and the Rijeka-Zagreb railway line, two of the largest EU-funded projects in Croatia. However, concerns about the quality of Chinese investments and potential security risks associated with Chinese companies' involvement in critical infrastructure projects exist (McBride et al., 2023). Analyzing research questions from the perspective of Croatia's economic relations with the U.S., Russia, and China is crucial because it can provide valuable insights into these relations' economic, political, and social implications, help fill research gaps, and provide a comparative perspective. In this case, we examined if America presents a specific interest as a key partner for Croatia from a political standpoint.

For this reason, the authors formulated the main research questions - **How can increased trade relations with the U.S. impact Croatia's GDP growth, job creation, and foreign investment inflows?** Meanwhile, the secondary research question is based on ongoing trade tensions and geopolitical rivalries between the U.S., Russia, and China, which could significantly impact Croatia's economic relations with these countries. For this reason, this study aims to answer the question - **How may Croatia need to navigate the dynamics of cooperation with the U.S., Russia, and China to maximize economic benefits?**

In the literature review, we noticed a need for more academic research on foreign direct investment analysis. Statistical data on it often is incomplete or difficult to obtain, particularly in the case of investment outflows and trade of services. Also, the reliability of the available data may be a concern, particularly in the case of trade and investment flows with Russia, which has been subject to international sanctions in recent years. Discrepancies also were noticed in the reported statistics among various agencies. Therefore, analyzing the perspective of Croatia's economic relations with the U.S., Russia, and China is essential for understanding the potential benefits and risks associated with expanding economic ties with these significant global powers. It can also help policymakers to make informed decisions about economic policies, trade agreements, and foreign investment strategies.

LITERATURE REVIEW

A comprehensive literature review was conducted to identify existing research and publications on Croatia's economic relations with the U.S., Russia, and China. Unfortunately, a search indicated limited academic research on the analysis of Croatia's economic ties with these three countries, although several studies have provided insights into each country's relationship with Croatia and the opportunities and challenge these economic ties present by assessing each country's role in influencing Croatian democracy and economic reforms. Selected publications provide valuable insights into the complex and evolving relationship between Croatia and the chosen countries.

Croatia-USA Trade Relationship Review

Numerous academic studies on the Croatia-USA relationship cover topics such as politics, economics, security, and culture. When analyzing economic cooperation, they often look at this topic through the role of the transatlantic relationship in Croatia's accession to the European Union and NATO.

A study by Hamilton D. and Quinlan J. (2021) published by the American Chamber of Commerce in Croatia noted that the U.S. is a significant source of foreign direct investment for Croatia, with U.S. companies investing in pharmaceuticals, software development, and renewable energy. The study also highlighted the potential for more significant economic ties, especially in the tourism sector, where Croatia has considerable strengths. Bonciu (2013) provided an overview of the economic relationship between Croatia and the United States, including trade, investment, and tourism. In addition, the article evaluated the political, economic, and security aspects of the U.S.-Croatia relationship, including trade and investment ties.

Simoni (2013) analyzed the transatlantic relationship and the relationship between the U.S. and Croatia, including the history of the US-Croatian political relationship regarding the post-1991 Yugoslavian war effect since Croatia proclaimed its independence. Anna Péczeli (2019) argued that U.S. relations with Croatia are dependent on Washington's regional policy, and they are "less sensitive to what the U.S. is doing outside of the region" (p. 223). Moreover, the U.S.

especially "considered Croatia as a model" to reduce Russian influence in the region" (p. 225).

Mlinaric et al. (2023) used an applied gravity trade model and concluded that the dependence problem between diplomacy representatives was solved by constructing individual regressions. Their hypothesis stated that diplomatic representation positively and significantly affected Croatia's bilateral trade flows (imports and exports). Furthermore, the analysis results have shown the high value of the U.S. economic and diplomatic representation via the U.S. Embassy in Zagreb as a relevant trade-enhancing factor. Imre (2014) discussed how global communications from the West affect Croatia. Results indicated that American television programs do not influence Croatian values as much as Croatian culture, however as this study shows, exposing foreign cultures to American television programs hardly leads to cultural homogenization based on Western values.

Josic and Nikic (2013) examined trade patterns based on distances between countries through the gravity model approach. This research highlights some of the regularities in international trade that arise and are concordant with the rank-size rule. An empirical study was conducted on static data in Croatia in 2012 to test Zipf's law's validity based on geographic distances between the Russian Federation and the United States. The study finds that geographical proximity and historical ties are essential determinants of trade and that Croatia's trade with the E.U. is more important than its trade with Russia and the U.S.

Russian Federation's trade influence

Regarding the Russian Federation, most peer-review articles have been written based on analyzing the Russian investment into energy projects and evaluating the influence of Western sanctions due to the war in Ukraine. Croatia's relationship with Russia is complicated by geopolitical tensions in the region, especially following the annexation of Crimea. The E.U. sanctions against Russia have affected Croatian companies doing business with Russia. Russian investments in the Western Balkans are mainly concentrated in the energy sector. Croatia must diversify its energy sources to reduce its dependence on Russian natural gas. For example, "Croatia: Lukoil – 48 gas stations and oil

terminals; Sberbank; purchases of houses, restaurants, and hotels (private investment)" (Felberbauer & Jureković, 2015 p. 79). "Croatia's trade with Russia both in terms of exports and imports fell significantly, by 35% and 49% respectively." (Felberbauer & Jureković, 2015 p. 76).

Dimitar Bechev (2021) provides a range of perspectives on Russia-Croatia relations, from historical and geopolitical analyses to examinations of soft power and foreign policy. This book examines Russia's relationship with the Balkans, including Croatia, and how it has changed with time. It explores the impact of historical ties, geopolitical factors, and economic interests on Russia's engagement with the region. Especially, the energy sector, as a key area for economic cooperation between Russia and Croatia, is to lessen European energy dependence on Russia, which has strategic implications for European energy security. According to Syturin et al. (2019), Russian businesses operating in Croatia include their motivations for investing in the country's energy sector and their challenges. In the example of the Lukoil case, his paper sheds light on factors influencing the investment strategies of Russian MNEs.

To further address the issue of the energy sector development within Croatia, Zubovic (2019) discussed the Three Seas Initiative, a project launched in 2015 by the Republic of Croatia and the Republic of Poland aimed at the development of cooperation and relations between its 12 member states in the fields of energy, digitalization, and transport. The activities of these 12 states have attracted the attention of both E.U. member states and the United States, however Russia aims to play a dominant role in Russia-Croatian economic cooperation (Zubovic, 2019).

Russian direct investment strategies in Croatia have been facing challenges as a result of Russia's active search for the opportunity to convince the Croatian government to allow the Russian gas transport company Zarubezhneft to pressure the Bosnia-Herzegovina government to transfer oil through its territory (Tepavcevic, 2015). Another complicating factor is Croatia's efforts to balance its relationship with Russia and the E.U. Due to E.U. sanctions, Croatia has had to follow the imposed trade restrictions, strongly complicating Croatia's economic and diplomatic

relations with the Russian Federation (Blazzevic, 2018).

The reviewed papers discussed Russia's strategic interests in the Balkans, including its relationship with Croatia. It is argued that Russia sees the Balkans as a key area of influence and seeks to maintain its position in the region through a combination of economic, political, and cultural engagement in achieving Russia's strategic goals of again being dominant in the region. However, despite the recognition of Russia's international significance, Croatia, as a member of the E.U. and NATO, still needs to follow their rules and regulations.

The emerging role of China

China is a relatively new player in the region, and there has been a growing interest in academic research on Croatia-China economic relations, particularly since Croatia joined the Belt and Road Initiative (BRI) in 2019. China's economic engagement with Croatia is driven by its Belt and Road Initiative, which seeks to enhance trade and investment flows between China and Europe. Wnukovsky (2020) highlighted the risks associated with Chinese investments in critical infrastructure projects and called for greater transparency and due diligence in assessing the quality of Chinese investments.

While there is significant potential for further economic cooperation between the two countries, particularly in infrastructure development and tourism, there are challenges related to infrastructure, legal frameworks, and cultural differences (Grujić & Šimunović, 2018). For example, as one of the potential challenges for Croatia as a participant in the BRI, with a particular focus on transportation infrastructure and logistics sectors, BRI could be used as another "Chinese diplomacy" instrument to increase its role in the region (Tomaszewska & Dahl, 2020).

Multiple academic articles and research papers have examined various aspects of Croatia-China economic relations, including trade, investment, tourism, and cultural exchanges. These include research primarily focusing on current bilateral relationships (Zhi, 2003) and the future outlook of China-Croatia corporations (Raditya-Ležaić, 2020). Nevertheless, academic research on Croatia-China economic relations is still relatively limited. Still, there is growing interest

in this field of study, particularly as Croatia continues to deepen its engagement with China through the BRI and other initiatives.

Overall, the literature suggests that Croatia's economic relations with the U.S., Russia, and China present opportunities and challenges. While the U.S. is an important economic partner, Russia, despite all the sanctions, still is a key energy supplier to the European Union. But China is an emerging economic partner in the Balkan region with potential risks associated with its investments in critical infrastructure projects. As such, Croatia must carefully balance its economic interests with its strategic priorities to ensure sustainable economic development.

METHODOLOGY

The Mixed Method approach was applied in this project as a research design combining qualitative and quantitative data collection while performing a literature review, evaluating various trade data sources, and analyzing numerous economic indicators. In the case of studying the economic relationship between Croatia and the U.S., Russia, and China, this approach allowed us to obtain a more comprehensive understanding of the phenomenon under study and validate and triangulate findings from multiple sources and perspectives.

Quantitative data were used to examine trends and patterns in the volume and value of trade. In contrast, qualitative data provided insights into the challenges and opportunities faced by Croatian businesses engaged in trade between Croatia and the U.S., Russia, and China as a fundamental step in conducting quantitative data analysis by using statistical analysis techniques to identify patterns and trends in the survey data, such as which of three countries are the most important trading partners for Croatian businesses, which industries are most heavily involved in trade, and which types of products or services are most traded. Integration of quantitative and qualitative findings was a critical step. For this reason, synthesizing the quantitative and qualitative findings to provide a comprehensive overview of the economic relationship between Croatia and the U.S., Russia, and China is a valuable technique. This includes identifying the most significant trends and patterns in the data, highlighting the challenges and opportunities of doing business with each

country, and recommending how Croatian companies and policymakers can best navigate these complex trade relationships.

Despite the effects of the COVID-19 pandemic and sanctions on the Russian Federation during this study research period, we noticed that the Croatian economy experienced a robust rebound of 10.4 percent growth in 2021 and an additional 6.5 percent in 2022. Tourism especially exceeded all expectations, and the sector accounts for as much as 20 percent of the Croatian GDP (Croatia-Country Commercial Guide, 2022). Economic data have been collected and analyzed to evaluate the bilateral trade, and foreign direct investment flows between Croatia, the U.S., Russia, and China. Various (mixed) research methods have been used to understand Croatia's economic relations with those countries comprehensively.

The applied Mixed Methods research also has helped address the potential limitations and weaknesses of using only one research method. For example, relying solely on quantitative data could overlook important contextual factors that influence trade patterns, while relying exclusively on qualitative data could lack the generalizability and reliability of quantitative data.

In conclusion, the Mixed Methods approach gave us a complete understanding of the economic relationship between Croatia and the U.S., Russia, and China.

DISCUSSION

When analyzing the current state of the economies of the countries of the former Yugoslavia based on International Monetary Fund data (see Table 1), we noticed that Croatia's GDP was \$66.5 billion in 2022, which is much more robust compared to other countries in the region. Even though Croatia's 2022 GDP per capita is half of Slovenia's (the 2021 Croatian Bureau of Statistics put Croatia's population at 3.9 million vs. 2.1 million in Slovenia), Croatia presents an advantage in doing business. Even though Serbia is the second more robust economy of the former Yugoslavia, the country is not a member of the European Union. That presents a disadvantage for U.S. businesses, and Serbia's low GDP per capita (half of Croatia's) is a critically negative factor for investors.

Table 1: Economic Development Status of Countries of the Former Yugoslavia for 2018-2022

Country	Years	GDP (billion USD)	GDP per Capita	Inflow FDI (Billion USD)
Bosnian and Herzegovina	2018	20.3	5,189	0.81
	2019	21.8	5,501	0.78
	2020	20.9	5,448	0.64
	2021	22.1	5,641	0.78
	2022	22.9	5,920	0.86
Croatia	2018	54.6	14,307	1.31
	2019	60.7	15,097	3.94
	2020	55.3	14,350	1.25
	2021	61.2	15,271	4.67
	2022	66.5	16,073	4.23 (Sep 2022)
Kosovo	2018	8	4,404	0.43
	2019	8.4	4,588	0.42
	2020	8.2	4,415	0.37
	2021	8.6	4,618	0.46
	2022	9.1	4,832	0.47
Montenegro	2018	5.5	7,515	0.69
	2019	5.8	7,881	0.54
	2020	4.4	7,481	0.36
	2021	4.8	8,267	0.39
	2022	5.2	8,936	0.47
North Macedonia	2018	12.3	6,232	0.31
	2019	13.2	6,544	0.55
	2020	12.1	6,202	0.46
	2021	13.3	6,643	0.42
	2022	14.4	7,032	0.42
Serbia	2018	49.9	6,411	4.16
	2019	53.1	7,037	4.67
	2020	48.1	6,482	3.07
	2021	54.1	7,128	3.84
	2022	59.4	7,685	4.19
Slovenia	2018	51.8	25,848	1.52
	2019	53.3	27,268	1.73
	2020	49.1	26,589	1.45
	2021	55.2	29,530	1.83
	2022	58.1	31,020	1.91

Source: Authors' work is based on International Monetary Fund data.
<https://www.imf.org/en/Countries>

Overview of Croatia's Economic relations with the U.S., Russia, and China

The economic relationship between nations is shaped by various factors, especially geopolitical tensions, domestic policies, and shifting global economic trends. Multiple aspects, including economic interests, historical ties, and geopolitical considerations, shape Croatia's economic cooperation with the U.S., Russia, and China.

The U.S. has been a longstanding partner of Croatia, providing support during its fight for independence and subsequent efforts to join NATO and the E.U. The U.S. is an important economic partner, with bilateral trade and investment flows benefiting both countries. However, there is potential for deeper economic ties, especially in sectors where Croatian companies have strengths, such as tourism, software development, and pharmaceuticals.

The U.S. is also a significant source of foreign direct investment for Croatia, and Croatian companies have invested in the U.S. market.

As indicated in Table 2, in 2022, Croatia was the biggest recipient of U.S. commodities exported to the countries of the former Yugoslavia. The

volume of exported goods exceeds ten times the amount of items exported to Slovenia and twelve times the number of commodities exported to Serbia, showing that Croatia provided a more substantial market opportunity for U.S. goods in the region.

Table 2: U.S. Commodity Export to the Former Yugoslavia Countries

Partner Country	January - January (Value: USD)				
	2018	2019	2020	2021	2022
Bosnia and Herzegovina	1,960,944	3,551,358	666,777	1,642,253	2,508,797
Croatia	28,975,256	63,236,299	47,760,857	44,694,838	115,414,691
Kosovo	2,455,400	533,517	836,602	664,210	551,120
Montenegro	585,174	546,757	1,294,940	470,321	381,626
North Macedonia	3,812,662	2,955,707	4,081,300	4,070,734	7,253,684
Serbia	5,796,127	14,266,147	10,828,561	11,867,901	9,793,996
Slovenia	19,786,379	27,340,273	15,976,338	16,509,865	12,689,795

Source: Authors' work based on the Trade Data Monitor report <https://www1.tdmlogin.com/tdm/default.asp>

Bilateral trade data of Croatia with the U.S., Russia, and China

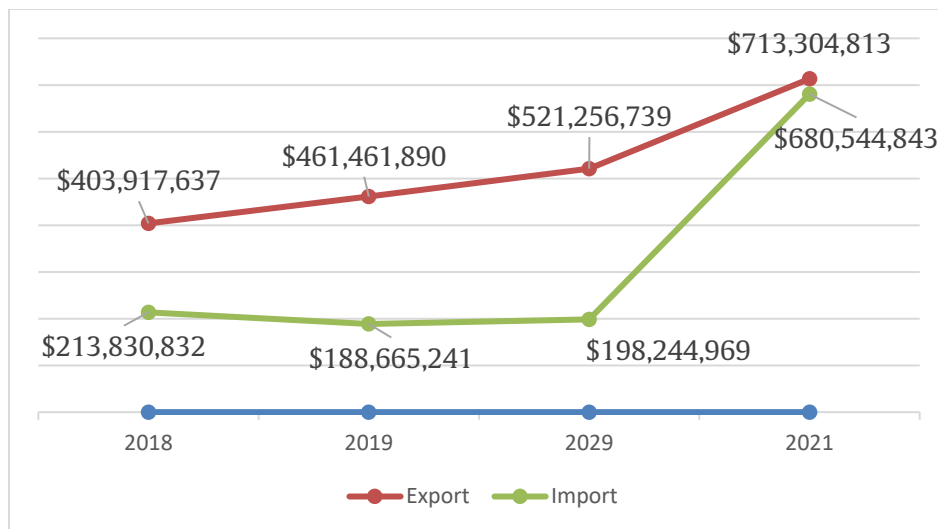
Croatia's global trade balance for 2021 was \$-1.01 billion, a 74.87% decline from 2020. The country's trade-to-GDP ratio for 2021, however, was 104.03%, a 14.04% increase from 2020. Exports for 2021 were \$35.36 billion, a 48.31% increase from 2020. But by the end of 2022, Croatian exports bounced back to \$35.36 billion, up 51.28% compared to 2021.

According to the World Bank (2020), the U.S. was Croatia's 17th largest export destination representing 0.7% of Croatia's total exports. The U.S. was Croatia's 24th most prominent import source, equating to 0.7% of Croatia's total imports.

As indicated in Graph 1, in 2021, the total value of goods traded between Croatia and the U.S. was \$1,394 million; Croatia's exports to the U.S. were worth over \$713 million, while its imports from the U.S. were worth \$680.5 million, representing a positive trade balance with the U.S. The top exports from Croatia to the U.S. included medicaments, passenger cars, and essential oils, while the top imports from the U.S. included aircraft, machinery, and pharmaceutical products.

Russia has historically been an important economic partner for Croatia, especially in the energy sector. However, tensions between the E.U. and Russia following the annexation of Crimea have complicated Croatia's relationship with Russia. E.U. sanctions against Russia also have affected Croatian companies doing business with Russia, and there is a risk that further deterioration in relations between the E.U. and Russia could harm Croatia's economy. Nevertheless, the energy factor remains important, and Croatia is working to diversify its energy sources and reduce its dependence on Russian natural gas.

According to the World Bank (2020), Russia was Croatia's 7th largest export destination, accounting for 2.1% of Croatia's total exports. Regarding imports, Russia was Croatia's 5th most extensive source of imports, accounting for 4.3% of Croatia's total imports.

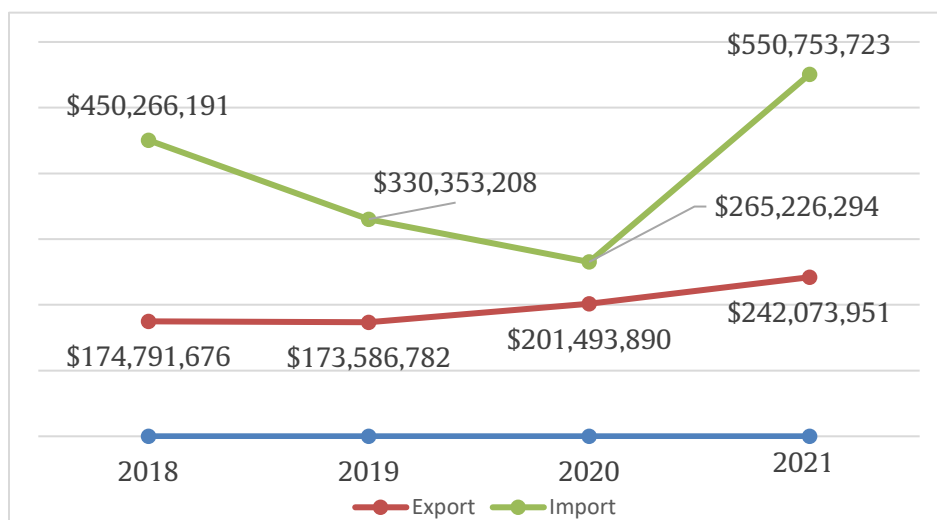


Graph 1: Merchandise Import-Export Balance Between Croatia and U.S.

Source: Authors work based on the data from U.N. Countertrade Database
<https://comtrade.un.org/data>

As indicated in Graph 2, the total value of goods traded between Croatia and Russia was \$792.8 million. Croatia's exports to Russia were worth \$242 million, while its imports from Russia were worth \$550.8 million. Unfortunately, contrary to

the case with the U.S., imports from Russia were twice Croatian exports to Russia. The top exports from Croatia to Russia included medicaments, petroleum oils, and machinery, while the top imports from Russia included petroleum oils, coal, and fertilizers.



Graph 2: Merchandise Import-Export Balance Between Croatia and Russia

Source: Authors work based on the data from U.N. Countertrade Database
<https://comtrade.un.org/data>

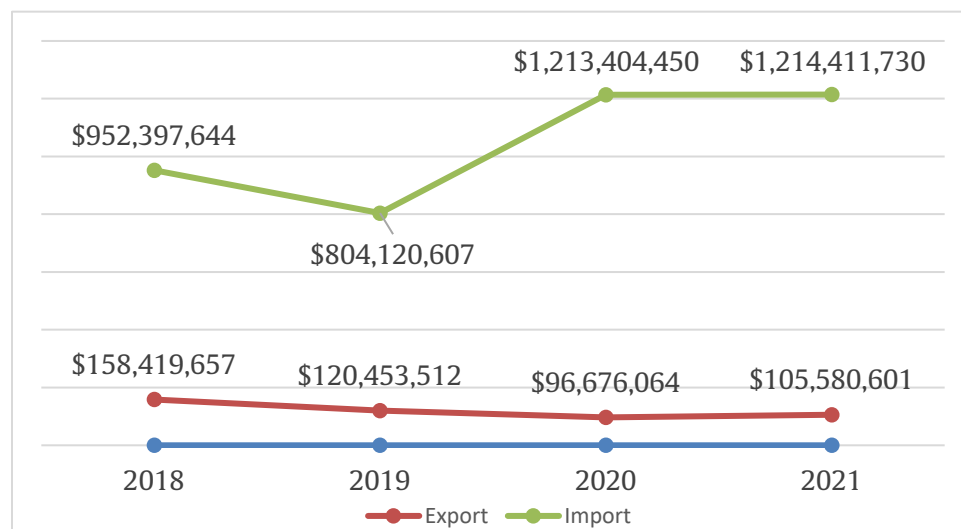
China's growing economic presence in Croatia is driven by the Belt and Road Initiative, which seeks to enhance trade and investment flows between China and Europe. China has built infrastructure projects in Croatia, such as the

Pelješac Bridge and the Rijeka-Zagreb railway line. There are concerns about the quality of Chinese investments, however; some argue that China's economic engagement with Croatia is part of a broader geopolitical strategy to expand its European influence. As such, Croatia is trying

to balance the benefits of Chinese investment with the potential risks of Chinese involvement in critical infrastructure projects.

China is an emerging trade partner for Croatia. According to the World Bank (2020), China was Croatia's 14th largest export destination, accounting for 1% of Croatia's total exports. Regarding imports, China was Croatia's 10th most significant source of imports, accounting for 1.8% of Croatia's total imports.

As indicated in Graph 3, the total value of goods traded between Croatia and China was \$1.3 billion. Croatia's exports to China were worth \$105.6 million, while its imports from China were worth \$1.2 billion. The top exports from Croatia to China included passenger cars, wine, and medicaments, while the top imports from China included machinery, textiles, and furniture.



Graph 3: Merchandise Import-Export Balance Between Croatia and China

Source: Authors work based on the data from U.N. Countertrade Database <https://comtrade.un.org/data>

It is worth noting that these figures represent the total value of merchant goods traded between these countries and do not take into account trade in services or foreign direct investment flows. Additionally, bilateral trade data may be subject to some limitations, such as underreporting or misclassifying goods.

Overall, the U.S. is an important economic partner and source of investment for Croatia and presents both opportunities and challenges as Russia is a key trade partner and energy supplier. Megits (2016) stated that the Russia-China trade relationship directly influences the U.S. economy and may indirectly reflect the U.S. economic relations with Croatia and other former Yugoslavia countries. China's economic presence in Croatia is still relatively small but has grown in recent years, however, geopolitical tensions and concerns about the quality of investments from Russia and China mean that Croatia must carefully balance its economic interests with its strategic priorities.

Foreign direct investment (FDI) flows to Croatia from the U.S., Russia, and China

As shown in Table 2, 2021 FDI net inflow accounted for 6.49% of the country's GDP, which bounced back and slightly increased compared to the pre-COVID period, indicating that Croatia is still attractive to foreign investors and is a healthy and stable economy.

Table 2: Croatia Foreign Direct Investment - Historical Data

Year	Inflows, U.S. \$	% of GDP
2021	\$4.48B	6.49%
2020	\$1.18B	2.05%
2019	\$3.90B	6.26%
2018	\$1.32B	2.12%

Source: Authors work is based on the World Bank data.

<https://www.macrotrends.net/countries/HRV/croatia/foreign-direct-investment>.

Chart 1 below illustrates how the inflow of FDI shares is divided among the discussed nations in 2021. The graph shows an investment when foreign owners acquired a minimum of 10% interest in the equity capital of a company as a non-resident investor in the Croatian economy.



Chart 1: FDI inflow to Croatia in 2021. Croatian National Bank

Source: <https://www.hnb.hr/en/statistics/statistical-data/rest-of-the-world/foreign-direct-investments>

Chart 1 indicates that in 2021 the U.S. played a key role as an investor in Croatia, as it is a substantial foreign direct investment (FDI) source outside of the European Union. According to the Croatian National Bank, the U.S. was the 9th most significant source of FDI in 2021, with a total stock of \$242 million, representing 70% of the investment volume of the three countries, accounting for 1.1% of all FDI in Croatia. Croatia's largest sectors for U.S. FDI are finance and insurance, wholesale and retail trade, and manufacturing.

Russia's diminishing role can be explained by the E.U. sanctions limiting economic cooperation. Russia has also invested in Croatia, primarily in the energy sector, however, the amount of Russian FDI in Croatia is relatively small. According to the Croatian National Bank, Russia was the 22nd most prominent source of FDI in Croatia in 2021, with a total stock of \$74 million, accounting for 0.3% of all FDI in the country. The largest sectors for Russian FDI in Croatia are manufacturing, real estate, and construction.

China's FDI in Croatia is still relatively small but has grown recently. According to the Croatian National Bank, China was the 23rd largest source of FDI in Croatia in 2021, with a total stock of \$28.4 million, accounting for 0.1% of all FDI. The largest sectors for Chinese FDI in Croatia are wholesale and retail trade and manufacturing.

It is worth noting that various factors, including political and economic stability, regulatory frameworks, Covid-19, and sectoral opportunities, have influenced FDI flows. Additionally, these figures represent the total stock of FDI in Croatia and do not consider FDI outflows from Croatia or other forms of financial flows.

Other economic indicators of Croatia's Economic relations with the U.S., Russia, and China

Additional indicators of Croatia's economic relations with the U.S., Russia, and China are tourism, which is a critical sector for Croatia's economy. Croatian tourism in 2021 contributed 23.5% of total exports. A total of 10.641 million tourists visited the country in 2021, with a significant number of visitors coming from the U.S., Russia, and China. In 2020, Croatia welcomed over 264,000 visitors from the U.S., over 133,000 visitors from Russia, and over 111,100 visitors from China, according to the Ministry of Tourism Republic of Croatia.

On the other hand, Russia was and still remains a significant energy supplier to Croatia; around 40% of Croatia's gas imports had come from Russia until 2021. Croatia has been working to diversify its energy sources and is exploring opportunities to develop renewable energy sources, including investment in liquefied natural gas (LNG) terminals. As a geopolitical factor, Croatia 2020 signed an agreement with a Chinese consortium that acquired a stake in the Peljesac Bridge project, a major infrastructure project in Croatia.

The effect of sanctions on Croatian economic relations with Russia

The U.S. and European sanctions on Russia have significantly impacted Croatian economic relations with Russia. In 2014, following Russia's annexation of Crimea and its involvement in the conflict in eastern Ukraine, the U.S. and the European Union imposed multiple sanctions on

Russia, including restrictions on trade, investment, and financial transactions. These sanctions have a ripple effect on Croatia's economic relations with Russia, as Russia is a key trading partner and source of investment.

One of the major impacts of the sanctions has been on Croatia's energy sector. Russia is a major natural gas supplier to Croatia, and the sanctions have disrupted energy flows and increased costs for Croatian businesses and consumers. This has caused the need for investment in the diversification of energy sources. The sanctions have also affected trade between Croatia and Russia. In 2014, before the sanctions, bilateral trade between Croatia and Russia amounted to \$3.3 billion (Kuczerawy & Petrov, 2019).

By 2020, however, this figure had fallen to \$2.3 billion, with Croatia's exports to Russia decreasing by 30% and imports from Russia decreasing by 10%. This trade decline has negatively impacted Croatian businesses, particularly in the agriculture and food sectors, which were previously major exporters to Russia.

In addition, the sanctions have made it more difficult for Croatian companies to do business in Russia, as they face restrictions on access to finance and technology. This has reduced FDI flowing from Russia to Croatia, making it more challenging for Croatian businesses to export to Russia.

Overall, the U.S. and European sanctions on Russia have significantly impacted Croatian economic relations with Russia. While Croatia has sought to diversify its energy sources and trading partners, the sanctions have disrupted longstanding economic ties and created new challenges for Croatian businesses.

Covid-19 impact on trade

According to Megits et al. (2020), the pandemic has caused disruptions to global supply chains, including those that traded with the U.S., Russia, and China. The lockdowns and border closures imposed by countries to contain the spread of the virus have led to delays in shipments and reduced demand for certain goods. Also, the pandemic has led to a decline in global trade volumes, and Croatia has not been immune to this trend. According to the Croatian Bureau of Statistics, Croatia's exports to the U.S. declined by 17% in 2020 compared to the previous year.

Similarly, exports to Russia decreased by 18%, and exports to China fell by 5%. In addition, the pandemic has led to shifts in consumer demand, as people have changed their spending habits in response to the crisis. This has affected Croatia's exports as some products have become less in demand while others have become more popular.

However, the pandemic has created opportunities for new types of trade, such as the export of medical supplies and personal protective equipment. Croatia has been able to capitalize on some of these opportunities by exporting masks and other medical supplies to China.

Based on our analysis, we have demonstrated that the U.S. is Croatia's number one trading partner, the U.S. presents a substantial market opportunity for Croatian businesses, and the U.S. is a leading foreign direct investment (FDI) source. Croatian companies have invested in the U.S. market in pharmaceuticals, software development, and renewable energy sectors, positively impacting Croatia's economy in terms of GDP growth, job creation, and foreign investment inflows. Croatia has also benefited from U.S. support in its efforts to join the European Union and NATO, although there is room for further improvement, especially in attracting more American investors to Croatia.

Meanwhile, Croatia also has been working to leverage the impact of Western sanctions on Russia and the U.S. – China political tension. The country strives to improve its trade relations with Russia and China. However, the competition for the Croatian market is driven by its strategic location, natural resources, well-developed infrastructure, strong tourism industry, E.U. membership, and political influence. While it is true that Croatia can benefit from doing business with China, Russia, and the United States, there are several reasons why the Croatian government should exercise caution when engaging with these countries. China and Russia have been involved in political tensions with the West, particularly with the European Union and the United States. This has led to concerns about the motives of these countries when doing business in Croatia. Also, China and Russia have been criticized for their human rights record, particularly in relation to freedom of speech, media, and assembly. The Croatian government should be cautious when engaging with these

countries to avoid any potential negative consequences on the country's reputation. In addition, there have been concerns about unfair trade practices by China, particularly in relation to intellectual property rights and subsidies for state-owned enterprises. The Croatian government should be careful when negotiating trade deals with China to protect the country's interests. The cybersecurity and ongoing geopolitical tensions between the United States and China and Russia and the West can have significant economic consequences. The Croatian government should know the potential risks of doing business with these countries.

In summary, Croatia's economic relations with the U.S., Russia, and China present opportunities and challenges. While the U.S. is an important economic partner and source of investment, Russia is a crucial energy supplier but is also subject to E.U. sanctions. China is an emerging trade partner, but there are concerns about the quality of investments and potential security risks associated with Chinese involvement in critical infrastructure projects.

CONCLUSION AND RECOMMENDATIONS

Future of the Croatian economic relationship with the U.S., Russia, and China

The U.S. is an important economic partner for Croatia, particularly in terms of trade and investment. U.S. companies have invested heavily in Croatia in recent years, particularly in the technology sector. The U.S. also is a key market for Croatian exports, particularly in the pharmaceuticals, machinery, and food sectors. Looking ahead, the Biden administration has signaled its commitment to strengthening ties with European allies, which could create new opportunities for Croatian businesses. However, there are also risks, such as potential trade disputes or changes in U.S. immigration policy, that could affect Croatian companies that rely on skilled workers from abroad.

On the other hand, the Russian invasion of Ukraine and the sanctions placed on Russia will continue to affect the region's economies by restricting exports and imports and changing terms of trade. Russia remains an important trading partner for Croatia, however, particularly in the energy and tourism sectors. Looking ahead, the relationship's future will depend mainly on political developments, including whether the sanctions are lifted or eased. If

sanctions are lifted, there could be opportunities for increased trade and investment between the two countries, but if tensions continue, Croatian businesses may need to focus on finding new markets and partners.

China, too, is an increasingly attractive economic partner for Croatia, particularly in terms of investment. Despite Chinese dominance in trade, its companies have invested in various sectors in Croatia, including infrastructure, energy, and tourism. China should be considered a growing market for Croatian exports, particularly in the food and wine sectors. Looking toward the future, the relationship between the two countries will likely grow as China seeks to expand its presence in Europe, and Croatia looks for new investment and trade sources. But there are also risks, such as the concern of E.U. nations about intellectual property theft and potential political tensions between China and other countries, which could affect the relationship.

Overall, the future of Croatia's economic relationship with the U.S., Russia, and China may be shaped by new factors and likely will involve a mix of opportunities and challenges for Croatian businesses. While there are potential benefits to doing business with China and Russia, the Croatian government should exercise caution and carefully consider the potential risks associated with engaging with these countries. The government should protect the country's interests and ensure fair and equitable agreements.

Recommendations for future research on the Croatian economic relationship with the U.S., Russia, and China

This study highlights the complex dynamics of Croatia's economic relationships with the U.S., Russia, and China. It suggests that future research should take a holistic approach considering various economic, political, and social factors. If more statistical data becomes available, there are several areas where future research on the Croatian economic relationship with these nations could be focused.

First, more research on trade in services is essential. A lack of data on trade in services such as consulting, financial, educational, legal, and engineering limits our understanding of the complete economic relationship. Future research could explore the extent and nature of services trade and its implications for broader economic

ties. Also, Croatian academic institutions and government economics agencies should perform a more comparative analysis. While research on the Croatian economic relationship with the U.S., Russia, and China is emerging, it still needs to be expanded by multiple factors. Future research could benefit from comparative analysis with other countries in the region and more developed economies to provide a broader perspective on the dynamics of economic relationships.

Overall, future research on the Croatian economic relationship with the named important economic players should take a holistic approach, considering a range of factors that shape the economic ties between countries. By doing so, researchers can provide a more nuanced understanding of this vital relationship and help inform policy decisions at the national and international levels.

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