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## The Effects of Tourism as *Spiritus Movens* of The Croatian Economy

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### Abstract

*According to the latest data for 2016, Croatian tourism accounts for 18.1% of Croatia's GDP. It puts it in the leading economic activity of Croatia. Tourism by the NKD is not one of the ten categorized classes of economic activity, but is a community of several subsectors and activities which we call tourism. Such shaped tourism as an activity has recently been promoted as a particularly significant Croatian economic activity. Given Croatia's share of GDP, Croatia is in the first place in Europe ahead of Malta 14.0% and Cyprus 12.8%, but it is the result of two contradictory forces, weak industry and economy in general, and high quality natural resources that are put into function as tourism. Here are some questions. If it is known that the effects of tourism can be direct and indirect, the question is how much the overall effects of tourism in Croatia. What is the real role of tourism and what opportunities are opening up, and as a key question is whether tourism can be an economic activity to which the long-term development of the Croatian economy can be based. Therefore, as a research objective it places valorization of the effects of tourism, especially indirect, and the research hypothesis is that tourism can be the spiritus movens of economic development, but not the backbone or foundation of macroeconomic development. In order to prove the hypothesis set up, the research will be done by the desk research method and based on this it will draw conclusions.*

**Keywords:** *indirect effects, macro model, spiritus movens, tourism, tourism perspective.*

Track: *Governance*

Word count: 7.298

### 1. Introduction

The Croatian economy, as well as the economy of European Union member states, has seen a year-on-year increase in GDP, indicating an economic recovery. Economic growth is recorded in almost all the activities in Croatia according to the National Classification of Economic Activities (hereinafter referred to as: NCEA), particularly in the activities under "I", mostly containing the activities related to tourism. According to the GDP, the tourism of Croatia was classified among the top EU member states in 2016. However, although there are two sides to the growth, i.e. the excellent results of tourism performance, both the positive and a less positive one, its growth is an indisputable fact. If we take into consideration the impact of tourism on the overall Croatian economy, its significant contribution is quite visible in practice. This very fact indicates the need for the evaluation of its contribution.

Therefore, a research question has been formulated, which is also the objective of this research paper, as to the extent to which tourism contributes to the economic growth of the

Republic of Croatia. In this regard, the question arises so as to the probability of recognizing tourism as the backbone of the overall long-term economic development at the macro level. Based on the aforementioned research questions, i.e. the research objective, it has been hypothesized that the contribution of tourism, observed particularly through its indirect effects, is significant. The second research hypothesis, remaining within the framework of the professional and scientific debate, states that tourism, regardless of its level of development, cannot be the backbone of economic development at the macro level, although it may be its cornerstone at the local level for specific destinations. It needs to be emphasized that the exact calculation of indirect effects of tourism is impossible, though it may be approximated, which will be demonstrated in this research paper.

## **2. Tourism as a Phenomenon and Economic Activity**

When presenting tourism as a phenomenon of the modern age, it needs to be emphasized that tourism is perceived as a mass phenomenon in this respect, not as a sporadic or an individual one. Historically, leisure travels and resorts of specific dignitaries have been well known, such as the monarchs' country houses, Cleopatra's barge etc., though all the afore-mentioned can be considered tourism since tourism involves an organized and usually a mass travel of people (called tourists) for the purpose of relaxation and entertainment. In that respect, the tourist represents the focus of research as the main subject of tourism. Therefore, tourism is associated with the development of the civil society in which the working people are provided with spare time they start using for the purposes of tourism.

Defining and elaborating on tourism is a complex task, particularly since this is not a classified economic activity, but a phenomenon consisting of several classified activities. According to the NCEA, specified in Section 1, of the Decision on the National Classification of Economic Activities for the year 2007 (Official Gazette – hereinafter referred to as: OG 58/07, 72/07), the NCEA system is elaborated consisting of the following:

- areas – one-letter symbol
- sections – two-digit number
- groups – three-digit number
- classes – four-digit number.

For example, the NCEA for 2007 has 21 areas which are as follows:

A – Agriculture, Forestry and Fisheries

B – Mining and Quarrying

C – Manufacturing

D – Electricity, Gas, Steam and Air Conditioning Supply

E – Water Supply, Sewerage, Waste Management and Remediation Activities

F – Construction

G – Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles

H – Transportation and Storage

I – Accommodation and Food Service Activities

J – Information and Communication Activities

K – Financial and Insurance Activities

L – Real Estate Business Activities

M – Professional, Scientific and Technical Activities

N – Administrative and Support Service Activities

O – Public Administration and Defence, Compulsory Social Security  
P – Education  
Q – Health Care and Social Care Activities  
R – Art, Entertainment and Recreation  
S – Other Services  
T – Activities of Households as Employers of Domestic Personnel, Undifferentiated Goods-  
and-Services-Producing Activities of Households for Own Use  
U – Activities of Extraterritorial Organizations and Bodies.

Therefore the NCEA for 2007 has identified 21 fundamental economic activities listed in alphabetical order from A to U, containing numerous specific activities classified into sections, groups and classes. As for the interpretation of the term *tourism balance* (Vukonić, Čavlek, 2001a) specific activities must be identified which can be classified under the term of tourism. For this purpose, we can use tourism revenue. As stated previously, the concept of tourism balance includes the revenue of restaurants obtained based on the stay of foreign tourists, the revenue obtained from other forms of accommodation activities and services used by foreign tourists, revenue from food, beverage and similar services of other types of catering industry, revenue from the transportation of foreign tourists using local transportation capacities, revenue from the transit transportation, revenue from the specific tourism activities associated with the stay or requests of foreign tourists, revenue from specific trading companies operating in the area of tourism, as well as the revenue of the State authorities obtained from the international tourism. Domestic tourists are to be included here as well, not only the international ones. According to this elaboration, the NCEA for 2007 has included all the activities pertaining to the area under "I" into the tourism activities, as well as the agency services indicated in Section 79. In addition to the afore-mentioned activities pertaining to the area of tourism, i.e. the area under "I" and the Section 79, some surveys include the three-digit group indicated in the NCEA812 – cleaning activities as well. Therefore, when elaborating on tourism as an economic activity, it needs to be considered as a group of activities associated with tourism as a service, noting that the designed tourist products are made to sell customer satisfaction. According to the definition accepted by the Association of Scientific Experts in Tourism (AIEST) and the World Tourism Organization (WTO), tourism is *a group of relationships and phenomena related to the activity of persons who travel and stay outside their place of residence, without interruption and up to one year for the purpose of spending their free time, for business or other reasons* (Vukonić, Čavlek, 2001b). According to the afore-mentioned, the tourist as an individual has become the focus of tourism, which has resulted in the emergence of new concepts related to the movement of persons, such as visitor, excursionist, traveller and similar concepts, and the concept of a traveller has been categorized, distinguishing between what is considered to be the definition of a tourist and what is not (Šamanović, 2002). All the afore-stated is crucial in defining the tourist traffic which is presented in three different ways which are as follows: (a) the number of arrivals and overnights compared to the year before, (b) financial results achieved by tourist arrivals, and (c) the volume of business of a company that has been achieving its primary economic interest on the tourism market (Vukonić, Čavlak, 2001c).

Since Croatia has been regulating its economy through a system of laws and bylaws, the Law on providing services in tourism needs to be mentioned which defines what is classified as tourism service, as well as who can and in what way provide tourism services. Therefore, a specific chapter and analysis must be devoted to this aspect of tourism.

If we observe the tourist flows, i.e. the main routes, they depend on the roads, as well as air and water/sea transportation routes. Research has shown that as many as 88% of tourists arrive to Croatia by road, while 11% of them uses air transportation, taking into consideration the fact that air transportation is on the rise (Institut za turizam, 2015). All of the afore-mentioned indicates that Croatia as a receptive tourist destination has been predominantly oriented towards the road transportation which has connected it with the emissive European destinations.

Regardless of the fact that tourism is a global phenomenon, the emissive tourism market must be distinguished from the receptive one, which is associated with the tourism share in the overall economy of a specific country. According to a professional agreement, the tourism of the country in which tourism constitutes more than 4% of the GDP is considered a receptive macro market.

On the Internet, when speaking about the growth of Croatian tourism, texts may be found indicating the main reason for the large percentage of tourism generated GDP indicates a poor overall economic situation. This is only partially true.

**Table 1.** Foreign exchange earnings from tourism and GDP of EU member states in 2015 (in \$ billion)

Nr.	State	Foreign exchange earnings	GDP	Tourism GDP (in %)	Nr.	State	Foreign exchange earnings	GDP	Tourism GDP (in %)
1	Denmark	6.6	295.1	2.2	16	Latvia	0.9	27.0	3.3
2	Finland	2.8	232.1	1.2	17	Lithuania	1.1	41.2	2.8
3	Ireland	4.8	283.7	1.7	18	Poland	9.7	474.8	2.0
4	Sweden	12.2	493.0	2.5	19	Romania	1.7	178.0	1.0
5	UK	45.5	2,858.5	1.6	20	Slovakia	2.4	86.6	2.7
6	Austria	18.3	374.3	4.9	21	Croatia	8.8	48.9	18.1
7	Belgium	11.7	454.3	2.6	22	Cyprus	2.5	19.3	12.8
8	France	45.9	2,402.2	1.9	23	Greece	15.7	195.3	8.0
9	Germany	36.9	3,365.3	1.1	24	Italy	39.4	1,815.8	2.2
10	Luxemburg	4.2	57.8	7.2	25	Malta	1.4	9.8	14.0
11	Netherlands	13.2	750.7	1.8	26	Portugal	12.6	199.0	6.3
12	Bulgaria	3.1	49.0	6.4	27	Slovenia	2.5	42.9	5.9
13	Czech Republic	6.0	185.2	3.3	28	Spain	56.5	1,199.7	4.7
14	Estonia	1.5	22.7	6.6					
15	Hungary	5.3	120.6	4.4		European Union	373.4	16,300.4	23

Source: UNWTO/ MMF; analysis performed by the Croatian Chamber of Commerce

In other words, some tourism-oriented countries, such as Italy and France, their GDP amounting to less than 4%, do not belong into the receptive tourism countries, which indicates the strength of their economies reducing the relative amount of tourism earnings in the national economy. Therefore, tourism is to be viewed in a comparative perspective and within the context of the overall economy. An aspect of the position of tourism in the national economy is that tourism-generated GDP has a high proportion when the economy is weak, but this point of view is not an absolute one since, for example, the economy of a number of states such as Bulgaria, Slovakia, Poland and other economies in transition is not developed and the share of tourism in their GDP is not high at all. Therefore, the analysis of the strength of tourism is to be observed selectively since each economy is specific and requires a specific analysis to be performed.

### **3. The position of tourism in Croatian economy**

Therefore, how important is tourism to Croatia and its economy? Furthermore, can it be the backbone of the economic development from a long-term perspective? What is its actual role in the Croatian economy? All these are current issues which are to be addressed.

The fact is that the current state of the economy in Croatia has seen an annual growth rate of GDP following many years of economic downturn. Such growth is partly the result of the rise in most EU member state economies, although it is still partially a result of the rise in Croatian economy, particularly tourism. In other words, the effects of tourism, observed through the structure of GDP with 18.1%, constitute a significant part of the Croatian economy. With respect to the aim of this research, direct effects must be distinguished from the indirect ones, and as research has shown, the indirect effects are even greater than the direct ones, considering the difficulty of the exact measurement. I.e., the difficulty of the measuring of tourism impact results from the characteristics of the tourist products which are intangible in part and therefore it is not possible to measure them exactly either by means of physical or financial indicators (Hara, 2008). Still though, the direct and indirect effects of tourism need to be evaluated at least approximately, which is to be elaborated hereafter. In order for us to be able to address the issue of the positioning of tourism in Croatian economy, let us observe the data obtained by the Croatian Chamber of Commerce (hereinafter referred to as: CCC). According to the data obtained in 2016, the largest group of economic activities is the following: *Wholesale and retail trade; Transportation and storage; Accommodation, and food preparation and servicing* with 18.9%, within which tourism is included, i.e. a large portion of tourism.

**Table 2.** The structure of GDP in 2016 according to the NCEA

Nr.	Group	Structure of GDP (in %)	NCEA groups
1	Wholesale and retail trade, transportation and storage, accommodation and food preparation and servicing	18.9	G, H, I
2	Manufacturing, mining and quarrying, and other industries	17.8	B, C, D, E
3	Manufacturing	12.8	C
4	Construction	4.4	F
5	Information and communication	3.7	J
6	Agriculture, forestry and fisheries	3.4	A
7	Financial and insurance activities	5.3	K
8	Real estate business	8.4	L
9	Professional, scientific, technical, administrative and support service activities	6.7	M, N
10	Public administration and defence, education, health care and social care	12.5	O,P,Q
11	Other service activities	2.6	R,S,T,U

Source: CCC, Economic trends 9/10 2017, pp. 78 and 79

In addition to the positioning of tourism, another question arises so as to its overall effect onto the economy as a whole. For the moment, we are going to highlight only one of its effects, which is related to consumption, i.e. the artificial increase of the direct consumption.

Therefore, according to the present condition, we must conclude that tourism is extremely important for the Croatian economy. For this purpose, a brief analysis can be performed. In other words, if 91.3 million of overnights were achieved in 2016, we get the following analytical approximation:

91.3 million overnights: 365 days = 250,000 new consumers throughout the entire year x  
 € 100 per day in tourist consumption : EUR 20 of Croatian citizen daily consumption =  
 1,250.000 new Croatian citizens, i.e. approx. 30% more citizens.



If we consider the consumption which is evenly distributed across the entire year, converted into the consumption of approx. EUR 20 per day per Croatian citizen, we get to the artificial increase in the population of the Republic of Croatia by 1.25 million citizens, i.e. approx. 30% of the population. In fact, this concerns the tourism phenomenon which has been recognized a long time ago, and that is its export feature, i.e. the revenue flow from other countries into the national economy of the receptive macro entity, which has been recognized by Thomas Mun (2007) in the 19th century. First of all, this means that the consumption in Croatia has increased significantly, thus changing artificially the demographic landscape of Croatia. In addition to this, tourism has been rapidly stimulating change in the characteristics of all the destinations in Croatia, from Zagreb to Dubrovnik and Split, and small towns along the coast, such as Primošten and Rogoznica, as well as the towns in the hinterland, such as Sinj, Vrgorac and Gorski Kotar. With reference to the high growth rate, all the officially recognized touristic sites in Croatia have been changing their characteristics. At the same time, a number of economic activities, like, for example, agriculture, traffic, construction, trade and other activities, have reported an increase, and it is all because of tourism.

#### **4. The legal framework for tourism and selective tourism types**

The Republic of Croatia has an ample legal framework related to tourism. It consists of the legal sources on which it decides independently, as well as the legal sources it has taken from European Union law (hereinafter referred to as: EU) as the EU *acquis* (FR. *Acquis communautaire*, EN. *Community acquis*, GER. *Gemeinschaftsrecht*). Among the national sources, in the first place, so far as the legal effect is concerned, immediately following the Constitution are the laws, followed by government decrees, regulations adopted by the ministers as the implementation regulation etc. In contractual obligations between traders, trade customs which have been agreed and commercial practice implemented are hierarchically above the dispositive regulations (Klarić, 2009). Among the EU sources, the most significant legal act is the Treaty on the Functioning of the European Union, followed by the regulations Croatia has been adopting with no right to amendments. The regulations are followed by the guidelines, decisions, recommendations etc. The law constitutes the decisions of Croatian courts and of the European Court in Luxemburg as well.

The most important legal basis for the Croatian tourism as an economic activity is the Act on the Providing of Services in Tourism (hereinafter referred to as: APST) in force since January 1, 2018 (OG 130/17). It also represents the legal basis for selective tourist types. The fundamental issues it addresses are the tourism services, the manner and terms of the providing of services, the agreement on the package travel, and the agreement on the linked travel arrangement, as well as the rights and obligations of the seller and user in relation to such agreements. The aim is to create an adequate legal framework for the development of services in tourism through the legal protection of passengers, to minimize obstacles to the initiation of business activity, new employment i.e. self-employment, the diversity and range of tourism services, All the aforementioned should have a positive economic effect onto the number of tourists, the duration of their stay at tourist destinations, the extension of tourist season, and the increase in the revenue from tourism.

The APST has introduced significant innovations, and changed and amended some provisions of the previous Act on the Provision of Services in Tourism (OG 68/07, 88/10, 30/14, 152/14). First of all, it has extensively regulated the provisions related to travel agencies (Art. 12-25). Provisions of the Agreement on the package travel and linked travel arrangements are given in Art. 26-60. The Art. 45 prescribes the *nullity* of the provisions of the agreement on the package travel including or limiting the liability of the tour operator for the potential damage. In other words, if the package travel agreement excludes or limits the liability of the tour operator for the potential damage, it has no legal effect. However, his strict liability is mitigated by a the provision which allows for the agreement on the compensation for the damage caused deliberately by the tour operator, which is not the consequence of personal injury or for the damage the tour operator has not caused deliberately or inadvertently for the amount that is not less than the triple total price of the package travel. The act also prescribes that the tour operator can rely on the exclusion or limitation of liability for the damage prescribed by international conventions bound by EU or legal regulations based on them for service providers. The provisions concerning tour operator services provided by legal and natural persons are given in Art. 61-68. The provisions concerning tour guides, tour managers, tourist animators and tourist representatives are given in Art. 69-82. Tourist services within specific forms of tourist offer are prescribed in the sixth section of the APST (Art. 83-96.) Tourist services included are as follows: a) tourist services in nautical tourism; b) tourist services in health care tourism; c) tourist services in congress tourism; d) tourist services in active and adventure tourism; e) tourist services in fishing tourism; f) tourist services on the farms, fish farms, hunting grounds and forests of forest owners; g) vehicle rental services (rent-a-car) and h) tourist diving services. The services of sports and recreation equipment rental to tourists, as well as service provider obligations are set in Art. 97. The APST also contains the provisions on the main contact point for the administrative cooperation (Art. 98-99), passenger protection (Art. 100), supervision (Art. 100-106) and offences (Art. 107-112).

Tourism services in nautical tourism set out in the APST are separately regulated by the new definition of nautical tourism, the corrected and amended types of tourism services, the new facilities providing the tourism services etc. Pursuant to Art. 84, we cite the following: *The nautical tourism implies the navigation and stay of tourists (sailors or passengers) onboard the vessels (yachts, boats or ships) for personal use or for the purpose of business, as well as the stay at the nautical tourism ports and the parts of the nautical ports open to public transport for the purpose of relaxation, recreation or cruising.* Therefore, the innovation concerns the integration of nautical ports open to public transportation (significant county and local ports) and cruising into the definition of nautical tourism. The Art. 85 provides the list of all the types of tourism services, which are as follows: 1. berthing services, services of the reception and accommodation of vessels with or without tourists/sailors onboard; 2. Charter services – services of using vessels with or without the crew, with or without providing the accommodation and/or food service, for the purpose of relaxation, recreation and cruising of sailors; 3. organizing of package travels or trips onboard the nautical tourism vessels; 4. The reception, storage and maintenance of vessels at berth in the sea or onshore; 5. Furnishing and preparation of vessels, and 6. Other services for the purpose of tourism. Another innovation are the nautical tourism facilities. Pursuant to Art. 86, we cite the following: *(1) Tourist services in nautical tourism are provided at nautical tourism ports – marinas; at other facilities used for the purpose of providing berthing and vessel accommodation services – nautical anchorages, onshore marinas,*



*vessel storages; at nautical ports open to public transportation, and onboard the nautical tourism vessels; (2) The marinas, other facilities used for the purpose of providing berthing and vessel accommodation services, and nautical tourism vessels are classified into the categories according to type, with marinas being classified according to both type and category.* All the facilities used for the purpose of providing nautical tourism services must meet the minimum conditions for the specific type, and marinas must meet the conditions for the type and category. With the prior opinion provided by the Minister in charge of maritime affairs, the regulation of the Ministry prescribes the minimum conditions and categories of marinas, the types and minimum conditions of other facilities used for providing the berthing and vessel accommodation services, as well as the requirements they must meet, depending on the services they provide, the type and minimum conditions of nautical tourism vessels, as well as the manner of the categorization of marinas, with the minimum conditions related to fishing vessels as nautical tourism vessels being categorized with the prior opinion provided by the Minister in charge of fisheries.

As we can see, in the Mediterranean part of the Republic of Croatia the development and tourism activities are affected by the maritime law regulations. The Maritime Code (OG 181/04, 76/07, 146/08, 61/11, 56/13, 26/15) regulates most issues related to the area of maritime affairs, while the Law on Maritime Domain and Seaports (hereinafter referred to as: LMDS) (OG 158/03, 100/04, 141/06, 38/09, 123/11, 56/16) classifies the nautical seaports as special purpose ports with the specific concession model. The concession model of the maritime domain should be, though it is not, harmonized with the Law on Concessions (OG 69/17) as the umbrella regulation for the concessions. As for the navigation safety, there is the Port Authorities Act (OG 124/97), the Waterway Act etc (OG 73/97). In addition to the acts, the issues of tourism are also addressed by the bylaws, such as: decrees, regulations, orders etc.

The nautical tourism ports represent a significant part of the Croatian tourism offer, and are located on the maritime domain which represent high quality natural resource. This arises the question of property law. Pursuant to Art. 3, par. 2 of the LMDS, we cite the following: *The maritime domain consists of the sea and the territorial waters, their bottom and underground, as well as a part of the land the purpose of which is general use or it has been declared as such, as well as all which has been permanently connected with this part of the land on the surface or underneath the surface.* The concept of the maritime domain is linked to the concept of the Coastal Protected Area (CPA). The total area of the Croatian coastal waters, including the internal and territorial waters, amounts to 31.479 km<sup>2</sup> constituting more than one third of the overall state territory amounting to 87.661 km<sup>2</sup>. The protected ecological and fishing zone (eng. EFZ, cro. ZERP) is to be added to this, amounting to 23.870 km<sup>2</sup>, declared in 2003, in which the Republic of Croatia has exercised *sovereign rights* for the purpose of the following: a) research, exploitation, protection and management of living and non-living natural resources, and b) the production of energy using the sea, sea currents and winds. According to the Law on Spatial Planning (OG 153/13, 65/17), the CPA represents the zone in which special rules on the planning and construction apply. It is a strip of land and islands which is 1000 m wide from the coastline separating the sea from the coast, and the strip of the sea which is 300 m wide from the coastline.

Therefore, the maritime domain and CPA are not synonyms. Real estate property within the maritime domain cannot be sold and is excluded from legal transactions (*res extra commercium*)(Vuković, 2016), while the real estate property within the CPA can be sold and the

right of proprietorship can be acquired for them, as well as other rights *in rem*, except in the area of the maritime domain. The third category of the real estate property on which tourism activity is performed is the category of tourist land. According to the Croatian Privatization Fund estimate, at campsites only, more than 22.000.000 m<sup>2</sup> of such land have not been assessed and entered into the company equity. This figure has been increasing significantly if we take into consideration the fact that, excluding the afore-mentioned case of the campsites, there are numerous other cases in which the value of tourist land has neither been estimated in terms of the social capital for the companies undergoing the transition or privatization process, and the total figure is estimated at almost 100.000.000 m<sup>2</sup>.

Tourist land is defined in Art. 2 of the Law on the Tourist and Other Construction Land Not Assessed During the Transition and Privatization Process (OG 92/10), we cite the following: *The tourist land defined in this Law is the construction land the value of which has not been estimated in terms of the social capital of the social company subject to the transition procedure, i.e. the land which has not been registered and part of the equity of the company undergoing the privatization process, for which the spatial planning documentation has been used for determining the tourism and hospitality purpose on the date this Law has entered into force, as well as the land on which tourism and hospitality facilities (such as campsites, hotels and tourist resorts) have been built, for which social companies had acquired the right of management, use and disposal.* Unlike the maritime domain which represents a general use domain, the tourist land has its owner (the Republic of Croatia, social companies, trade companies, local government units).

The risks threatening tourism development are particularly visible on the Adriatic Sea. They arise from the extreme litoralization, increased tourism and maritime transportation development, climate change, excessive urbanization of the coastline and other contemporary threats. In this regard, it is worth citing the academician Barbić (2017): *For an effective protection of the sea, the seabed and coastline, it is not sufficient to adopt the regulations, but they must be regularly implemented treating everyone equally. In order to achieve this, a constant and efficient supervision of the application and implementation of national and international regulations on the protection of maritime environment is required. Based on this regulation, sanctions are imposed upon all the ones who do not comply with the regulations. The people mostly fear the imposing of sanctions, being compelled to act in compliance with the regulations, though only if they are aware that the supervision is such and that it is quite possible that they will be caught in the act of violating legal norms. The very sanction, no matter how drastic it is, will not be effective if the perpetrator is aware that it is not likely that he or she will be caught. This is why the functioning of supervisory authorities is important.*

## 5. The effects of the Croatian tourism

As presented previously, the effects of tourism are an undeniable fact. They are both direct and indirect. The overall, statistically calculated effects are quite measurable and for the year 2016/5 they have been presented with a high percentage in the GDP amounting to 18.1%, and have been increasing since. At the same time, the development of indirect effects is expected that both theory and practice consider to be difficult to measure. This is what we need to elaborate more in detail. According to the interpretation by the Croatian Chamber of Commerce (mail, 19 January 2018), the tourism in the GDP is considered an "activity of providing accommodation and food preparation and catering service", i.e. the gross added value of this activity is expressed.

The Gross Added Value (GAV) is the market value of all the manufactured goods and services reduced by the value of the intermediate consumption (GAV + taxes on the products – subsidies on the products = GDP). The Gross Added Value of the accommodation and food preparation and catering business activity in 2015 amounts to 4.7% of the GDP (according to the recent data available). Since the "activity of providing accommodation and food preparation and catering service" has a much greater impact, the World Travel and Tourism Council Organization states that the "direct" effect, such as travelling, accommodation, retail trade etc. for Croatia in 2016 amounted to 10.7% of the GDP, and the overall contribution including the investment in tourism, the consumption of the persons employed in tourism, etc. amounts to 24.7% of the GDP, with the percentage of 18.1% of the GDP which is used refers to the current exchange revenue from tourism, and is calculated in US dollars in the percentage of the GDP. It is calculated for the year 2015. On the other hand, for 2016 it amounts to 19%. In other words, the foreign exchange revenue from tourism is not an integral part of the GDP, but the afore-mentioned ratio of the foreign exchange revenue and the GDP is used in the international comparison so as to present the importance of tourism for the economy at the macro level.

**Table 3.** Foreign exchange revenue from tourism and the percentage of GDP for the period from 2014 to 2016

Year	Foreign exchange revenue from tourism in mil. EUR	GDP in mil. EUR	Foreign exchange revenue from tourism as a percentage of GDP in %	Foreign exchange revenue from tourism in mil. USD	GDP, in mil. USD	D Foreign exchange revenue from tourism as a percentage of GDP in %
2014	7,402.3	43,416.0	17.0	9,866.2	57,080.0	17.3
2015	7,962.0	44,546.0	17.9	8,834.2	48,922.0	18.1
2016	8,635.0	46,309.0	18.6	9,633.7	50,731.0	19.0

Source: CCC, MMF; calculation made by: CCC

It needs to be emphasized that such interpretation is the result of the fundamental statistical methodology of the CCC, while the actual state is somewhat different. For this purpose, our first step in the process is to use the research published in 2011, which, using the input-output model and the satellite account of tourism, shows very well the overall contribution of tourism onto the Croatian economy (Šutalo, Ivandić, Marušić, 2015). In addition to the well-known input-output analysis, the satellite account is to be described briefly which represents the instrument of measurement of the direct contribution of tourism onto the economy. Such measurement takes into consideration the content and the integration within the national accounting system, which represents an officially acceptable basis for defining and implementation of the model which enables the observing of the overall contribution of tourism.

The methodology of the drafting of the satellite account of tourism requires and assumes that the categories of tourism expenditure reflect the expenditure and consumption of tourists, which is determined by means of the survey or other methodology implemented. The observation of the offer, as seen through the products and activities characteristic of tourism, must be consistent with the national accounts. Using the data obtained for the year 2005, the obtained results are presented in the table below.

**Table 4.** The estimate of the directly and indirectly generated tourism added value (GDP expressed in basic price, in millions of Croatian kunas) for 2005

Economic activities	Overall production	Overall tourism consumption-	Percentage of the added value in	Added value generated by	Structure of the added value
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**Table 4.** The estimate of the directly and indirectly generated tourism added value (GDP expressed in basic price, in millions of Croatian kunas) for 2005

		generated production	production per activity in %	tourist consumption	generated by the tourist consumption
Agriculture and forestry	28,067	4,354	0.525	2,284	6.9
Mining and industry	125,737	15,624	0.328	5,122	15.4
Energy supply	21,422	3,853	0.283	1,091	3.3
Construction	48,180	2,566	0.347	891	2.7
Wholesale trade	37,515	4,196	0.504	2,144	6.3
Retail trade	18,727	2,682	0.553	1,482	4.5
Hotels and restaurants	17,322	16,397	0.561	9,193	27.6
Road traffic	13,391	2,295	0.537	1,232	3.7
Water traffic	3,465	734	0.435	319	1.0
Air traffic	1,612	1,041	0.244	254	0.8
Market services	94,595	10,239	0.635	6,505	19.5
Culture, sports, recreation	8,191	2,190	0.456	999	3.0
Non-market services	55,540	2,838	0.640	1,816	5.5
Total	473,766	69,007		33,304	100

Source: Šutalo, I & Ivandić, N & Marušić Z. Total contribution of tourism to Croatian economy: input-output model and tourism satellite account, Ekonomski pregled, Vol 62 No 5-6 July 2011.

As shown in the calculation of the satellite account, the overall tourist consumption generates a gross added value for the entire economy amounting to 33.3 billion kunas, representing a percentage within the overall added value amounting to 14.7%. These data can be interpreted as an approximately estimated amount of the tourist consumption for the overall economy. It needs to be emphasized though that, taking into consideration the limitation of statistical sources necessary for the calculation of direct and indirect effects of tourism onto the economy, tourist consumption does not include the elements of gross investment and collective state consumption. Including these elements of the final consumption may increase the contribution of tourism to the overall economy. Furthermore, the direct effects, considered as the "Hotels and restaurants" activity, constitute 27.6% of the structure of the added value generated by tourist consumption.

Therefore, if these data and research are implemented for the period we have been researching, meaning the year 2016, it might be approximated that the percentage of GDP of tourism in the economy for 2016, which has been calculated at the macro level and it amounts to 18.1%, in reality it may be several times higher. In other words, the ratio of the direct and indirect effects of the Croatian tourism is at least equal, if not larger. Besides, it needs to be highlighted that tourism has also a seasonal character, i.e. the *high season* when almost all the economic activities are associated with tourism, thus increasing their impact, particularly at the regional level. According to the statistical indicators, the quarterly chain indices in all the activities except in tourism which increases extremely per quarter towards the high season, in the second quarter of 2016 show the growth rate of min. 30%, and then another min. 10% in the third quarter with respect to the second one. It also needs to be emphasized that with important

tourist destinations, such as Dubrovnik, where the GDP from tourism can reach up to 80%, and since the European concept of development is based on the local and regional self-government, this feature is crucial. As statistical data have shown, the tourism season has become ever longer, and at some destinations it lasts almost the entire year. This very fact multiplies the actual indicators of the tourism impact on the economy. However, the question arises so as to whether the performed calculations show all the effects and contribution of tourism on the development of the Croatian economy or not. Certainly not. The shown impact of tourism on the development of other economic activities of the Croatian economy has a crucial aspect, which is the development of small and medium enterprises. Since Croatia, except for a small number of large industrial entities, bases its economy on the small and medium enterprises, usually including approx. 65% of the employed working population, these favorable conditions enabled by tourism must be taken advantage of for the purpose of developing small and medium enterprises. In doing so, the quality of the SME base is to be improved, i.e. of the entities, that is owners and managers, which has so far been below the level of the one of the developed European countries (Luković, Šperanda, Kovač, 2017). Tourism has the power of developing the factors moving the managers onto the higher level of quality, in terms of foreign language proficiency and the proficiency in the utilization of e-communication technology.

The final question left is whether tourism can, from the long-term perspective, be the backbone of economic development in Croatia or not. Tourism is a service industry, which is the fundamental reason why all the economists throughout the history agree on the fact that a service industry cannot be the backbone of the macro economic development, but that this role belongs to the production industry. Certainly, tourism results of Croatia are positive, as well as the role of tourism operating all the other economic activities. This fact is of vital importance in the situation of economic transition, i.e. the transition of the Croatian economy and all the rest, as well as the transition onto the market-oriented economy and civil society encouraging and promoting the individual and his creativity. Besides, tourism analysts and sociologists have been ever more pointing to the possibility of tourism disappearing as a phenomenon of a dynamic movement of tourists. Therefore, the right and the only true role of the Croatian tourism is its role as a *spiritus movens* of the Croatian economy. The revenue from tourism must be oriented towards the development of the primary sector activities of the failing Croatian economy. We should not forget about the agriculture, particularly in the region of Slavonia which has been increasingly oriented towards tourism, but agriculture has a particularly important and crucial national and strategic role for each national economy. Therefore, the success of Croatian tourism, regardless of its many unfavourable comments, is important, but it should be accepted not only as a break in the transition to the market-oriented economy, but, before all, as a *spiritus movens* of the primary economic sector.

## 6. Conclusion

The research carried out, which has used combined methods and indices, has shown that all the methods used to calculate have confirmed that the indirect effects of tourism are one, even two times bigger than the direct ones. This fact brings tourism in the position of the most important activity of the Croatian economy, at least for the time being. Its contribution to the economic development is vital, but it is to remain within the domain of the *spiritus movens* of the economy, i.e. tourism is to be the driving, though not the fundamental economic activity on which to base the development of the national economy. The economic break that tourism has



provided to the Croatian economy is to be seen as the period of spurring the development of other economic activities, industry in particular, as well as of a better integration of agriculture into the market consumption and development flows.

We must conclude that research hypotheses have been confirmed, i.e. the contribution of tourism to the development of the Croatian economy is significant. The long-term development is to take place through the development of industry, and the small and medium enterprises in particular which have not been developed so far to the extent so as to meet the needs and requirements.

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