

# Mental-Verbal Model for Synergistic Relation between the Economy and Tourism in Croatia

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*Abstract:* - This scientific paper proposes a mental-verbal model for the present and future synergistic relation between the economy and tourism in the Republic of Croatia. Modern economy environment gives rise to a number of questions regarding the selection of the model for the development of economy and tourism in the Republic of Croatia. With its considerable share in the gross domestic product (GDP), tourism represents an important segment of the national economy. The trend of the continuous decrease of GDP and the processes of globalisation that have spread across the planet require serious considerations with regard to the future development of Croatia's tourism. In order to assess the impact of the globalisation processes on the development of the tourism in the world as a whole, global tourism trends and tendencies by the year 2030 will be analysed. In addition, activities involved in Croatian tourist services will be examined with the aim of responding as efficiently as possible to the requirements of the Croatian competitiveness within the modern global environment. The impact of traffic on the overall experience that tourists take with them after visiting the Republic of Croatia, as well as trends in tourist arrivals due to the means of transport in the future will be analysed.

*Key-Words:*- gross domestic product, functions, globalisation, market, traffic, management.

## 1 Introduction

Tourism represents a strong link in the chain of international and national economy. It "secretly" affects the economies and facilitates an even distribution of wealth. The state of Croatia's economy is rather grim presently. However, the benefits of tourism are particularly important in receptive developing countries like Croatia, as these countries have good macro-economic indicators that are affected by tourism. The inter-relationship of the economy and tourism can be observed through the balanced foreign trade, stability of the prices and real exchange rate, and the amount of GDP.

The main Croatia's industries include tourism, maritime shipping, shipbuilding, trade, agriculture, food industry, oil industry, textile industry, construction engineering, wood and metal processing, chemical industry, electric power industry, etc.

When assessing the overall economic impacts of tourist spending in a country, it is important to establish the share that the tourism make in the overall gross domestic product of that country. The

more inherent and developed tourism in a country is, the larger is its share in the national GDP. Traffic infrastructure of Republic of Croatia impact the overall tourist experience.

Croatia's tourism makes around 15% of the national GDP and this fact confirms the significance of this lucrative activity but, at the same time, emphasizes the danger of "staking everything on one economic card".

The present and future synergistic relation between the economy and tourism in the Republic of Croatia will be described through the mental-verbal model and scientific discussion.

## 2 Economy of the Republic of Croatia

### 2.1 Croatia's Economy in general

Since its independence in the early 1990s, Croatia has coped with a number of structural reforms that have affected the economy and social community. The transition from the socialist planned economy into the open market economy has resulted in numerous issues. To date, there have been no sound

answers to the issues regarding unemployment, poor economic growth, and similar questions such as how to increase import, improve competitiveness on the international market, and the like.

The national economy as a whole consists of the total of all interrelated and mutually dependent entities engaged in economic activities with the purpose of producing, acquiring, storing, using and spending material assets [1].

Prolonged structural problems of Croatia's economy, fuelled by global economy crisis, have resulted in poor statistical indicators of the country's economy. Due to the growing public debt, inflation and humble share of primary and secondary activities in the overall GDP [10], great expectations are associated with the tourism as the most intensive industry that makes about 15% of the gross domestic product.

## 2.2 Importance of the Gross Domestic Product

Gross domestic product (GDP) is the total monetary value of all the finished goods and services, available for final consumption, produced within a country over a specific period of time, regardless of whether the income for providing these products and services is earned by residents or non-residents of that country. GDP is calculated on annual basis and can be determined in three ways: the production (or output or value added) approach, the income approach, or the expenditure approach. All of them should, in principle, give the same result.

Figure 1 shows the value of gross domestic product per capita. It is obvious that the GDP per person in developed countries is much higher than the GDP in developing countries.

One of the most important ways of assessing the importance of tourist expenditure in a certain country is to determine the share that tourism has in its GDP. In the developed countries, that share is smaller than in the less developed countries like Croatia. Developing countries are almost dependant on the income realised through tourism activities. It is estimated that tourism makes 5 to 20% of the GDP of these emerging economies, depending on whether the corporate income is taken into account without costs or whether the import of tourist product is taken into consideration, etc [11].

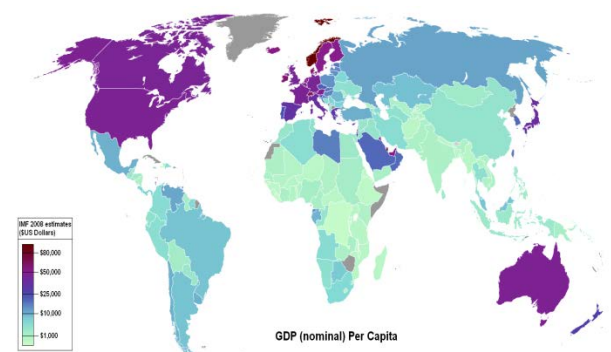


Fig.1. World GDP per capita by country (2008)  
Source: [http://upload.wikimedia.org/wikipedia/commons/5/59/GDP\\_nominal\\_per\\_capita\\_world\\_map\\_IMF\\_2008.png](http://upload.wikimedia.org/wikipedia/commons/5/59/GDP_nominal_per_capita_world_map_IMF_2008.png) (accessed: 2015-09-25)

## 2.3. Present State of Croatia's Economy

Croatia's GDP has been continuously falling since 2009. During the period 2009-2013 the average annual drop rate of the national GDP was 2.5% (Figure 2). The drop of the gross domestic product reduced the level of development of the Republic of Croatia, compared to the pre-crisis period but also compared to the EU member states. The drop of the GDP was affected by all consumption categories, reduction of the import of goods and services, personal expenditure and, above all, reduced investment in fixed capital. Over the entire period the rate of fixed capital investments was falling considerably, with real value being 36.0% lower in 2013 than in 2008 [13]. Croatia's public debt in the second quarter of 2014 amounted to 252.7 billion kuna, i.e. 77% of the national GDP. This means that the debt was larger than in the previous quarter by 664 million kuna, i.e. 0.4% [14].

Croatian Bureau of Statistics [15] announced that, by the end of 2013, the overall debt of the state reached almost 250 billion kuna or 75.7% of the GDP. According to the forecasts calculated by the Ministry of Finance [16], the consolidated overall debt of the state by the end of 2014 might amount to 268.5 billion kuna, i.e. 81.8% of the gross domestic product.

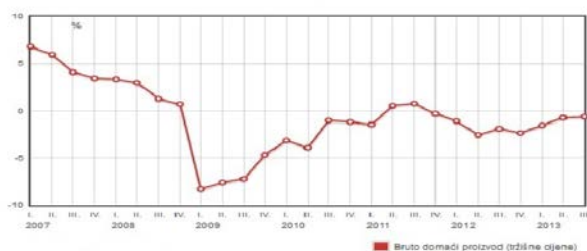


Fig.2. Real growth rate of the GDP  
Source: Croatian Bureau of Statistics, 2015

In addition to the above mentioned problems, major issues include the trade deficit and the growing unemployment. Presently there are more than 300,000 unemployed persons in the Republic of Croatia.

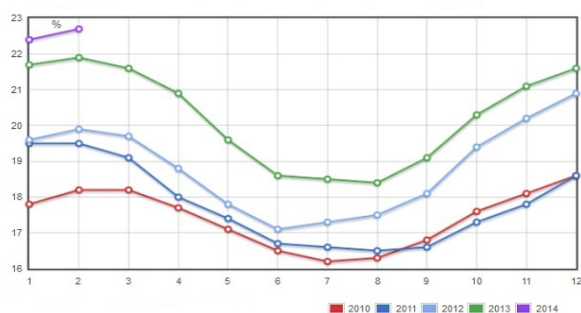


Fig.3. Rate of unemployment in Croatia  
Source: Croatian Bureau of Statistics, 2015

An analysis of Figure 3 shows the fall of the unemployment rate during summer months in all observed years. The seasonal nature of tourism activities results in discontinuity of employment and income. It is a great challenge to design a sound strategy for overcoming these issues.

### 3 Economic Effects of Tourism

#### 3.1. Importance of Tourism in Croatia's Economy

Tourism plays an important role in the economy of many countries. The lack of adequate economic evaluation of the effects of tourism often leads to the underestimation of the benefits of tourism, especially in comparison with other sectors of the economy [4]. The problem of comprehension of its full economic importance results from the fact that tourism is not presented as an individual sector in national accounts.

The relation between the economy and tourism in Croatia is very tight, and this may be observed within a positive or a negative context. The advantage is that tourism ensures very high

revenues and it is expected that this trend will keep growing. On the other side, the fact that tourism makes around 15% of the GDP implies that the economic stability of the country depends on this industry to a large extent.

From the economic viewpoint, tourist travel is a process of spending where the goal is to fulfil tourists' needs. Roughly speaking, the relationship between the tourism and economy is the relationship between the consumers, i.e. tourists or guests, domiciled economic entities that provide tourist service, and the domiciled population. The relationships among these three sides may be direct or indirect, either through local, regional and national, or through international socio-economic systems [5].

Croatia and other countries in transition can benefit from tourism in overcoming numerous economic problems. Although it is difficult to define the exact share of tourism in public revenue, job creation and investment, the economic effects of tourist spending can be divided into indirect and direct effects.

Direct economic effects are measured through [3]:

- growth of GDP,
- balance of payments,
- public revenue growth,
- fluctuation of prices of products, services and real estate,
- fluctuation of national currency exchange rate.

Direct effects arise as the direct consequence of the contacts between tourists and service providers. Indirect effects are all other effects that stem from tourism activities. Indirect economic effects of the tourist spending are measured through the growth of employment and through the transformation of the labour market.

Due to the synergistic effects, a number of variables for measuring the impact of tourism on economic development have been disputed. Nevertheless, there are reliable methods of assessing the effects of tourism [5]: functional analytic method, descriptive method, cost-benefit method, normative method, factor method and integral method.

#### 3.2 Tourism functions within Economy

The economic functions of tourism arise from its multi-functionality. If the analysis is focused on tourist spending, i.e. the acquired revenue or the profit as the ultimate goal, the economic functions of tourism include [5]:

- multiplicative function,
- inductive function,
- acceleratory function,
- conversion,
- function of promoting the development of underdeveloped areas,
- function of employment growth,
- function of harmonising material-financial relationships, and absorption.

Multiplicative function is described as the influence of tourism on consumption in various branches of economy within or outside tourism. The tourism multiplicative effects arise when the money, which is created by tourist spending in the receptive tourist country or destination, circulates through a number of transactions in the national or local economy, contributing to the wellbeing of all participants through increased income, job creation, etc [17].

The economic effects created by circulation, i.e. multiplication of money are direct, indirect and induced. Direct effects refer to using goods and services within tourism activities, whereas indirect effects refer to the goods and service that are created outside tourism. Induced effects are the effects triggered by the growing purchase power of the residents of the tourism region or destination.

Inductive function is caused by multiplicative function. The growth of tourism service induces increased revenues in associated economic activities (e.g. bakeries, shops, restaurants, etc.).

The acceleration function describes the power of tourism to foster other economic branches and sectors by accelerating the processes of development and progress (e.g. wine production, olive oil production, fisheries, etc.).

The conversion function explains the inclusion of natural and historical heritage in economic streams. Merging cultural and historical heritage of a state with its tourism service through tourist rents brings benefits to the national economy.

The function of promoting the development of underdeveloped areas is also called the compensation function: tourism compensates for all non-developed and negative aspects and activities of a tourist destination, and accelerates its development.

The function of employment growth is two-fold: tourism directly generates employment in tourism activities and, indirectly, in other activities as well.

The function of harmonising material-financial relationships refers to the inflow of foreign currency from the developed areas into developing areas, and to positive effects of that inflow on the national revenue of the developing country.

Absorption is the so-called "invisible export", a function that refers to the import for the needs of tourism. It is also called the inflation-deflation function as it describes the ability of tourism to balance the material-financial relationships both in developed and developing economies.

## 4 Impact of Tourist Transport on Tourism of Croatia

It is well known that the quality of tourism of one tourist county depends on the experience that tourists bring with them when returning home. Travel experience starts entering the vehicle in front of his house, and ends coming out of the means of transport upon its return from vacation, again in front of his home when he returned from a tourist trip. All the tourist experience on the way from home to the holiday destination and back significantly affects the travel experience. Thus, the journey should be comfortable, short and safe. The question may arise - how transport infrastructure and superstructure affect the travel experience by visiting some tourist destinations in Croatia?

Today, the state of transport infrastructure in Croatia is much better than a decade ago. A network of modern highways is built, which is in its length, in kilometers, above the EU average. Currently, the state of national, regional and local roads is at an unsuitable level, compared to the expectations of modern tourist nomads. Facilities on such roads, as opposed to those on the highway, also are not at the required level. This is primarily related to: traffic and tourist signalization, various restaurants along the road, information points, etc. Present are significant problems with the organization and functioning of traffic in tourist destinations, especially when it comes to public transport, cycle paths, pedestrian zones, etc. Present are problems with "bottlenecks" in approaches to coastal cities, organization and accommodation facilities stationary traffic, especially on the islands and in the coastal cities.

In the tourist rush hour, particularly in the coastal cities in which there are ferry ports, there is a general collapse of city transport. Public transportation or special services, such as ambulance, fire brigade, police and so on are not functioning. Therefore it is necessary to displace transit traffic from the center of the coastal cities and tourist sites. This especially applies to the relocation of truck and bus traffic. This is a very important aspect of the protection of air quality,

noise reduction, etc. in the coastal towns and villages. Tourism quality can be significantly compromised by inadequate organization and functioning of the transport sector.

The situation in rail transport is significantly less favorable. Railway transport in the Republic Croatia is in such a state, that it is due to the poor state of the network and low-speed driving, significantly below 1% of all tourists who visit Croatia. As for marine transportation, the biggest problem is the insufficient number of departures of ferries, obsolescence of certain ferries, insufficient speed, insufficient capacities of speed passenger craft in the coastal line transport, lack of space for stationary traffic in the ferry ports, often in the absence of passenger terminals in the ports and there is no line between the islands.

In air transport the situation is better. Croatia has eight airports and four of them are on the coast: Pula, Zadar, Split and Dubrovnik, two on the continent: Zagreb and Osijek and two on the island of Krk (Rijeka) and Brač. Air transport offers good access to all tourist destinations in Croatia. Massive investments in Zagreb Airport (old passenger terminal) and Dubrovnik and Split (insufficient capacity of the passenger terminal) are required. All this significantly affects the impression that tourists bring with themselves from Croatia [9].

## 5 Future Impact of Tourism on Croatia's Economy

### 5.1 Global Impact on the Tourism in Croatia

As the fastest growing industry in the world, tourism features huge potentials that arise from the globalisation processes. Croatia and other developing countries have to adjust to the globalisation process requirements as soon as possible, in order to compete under the terms of sustainable development. In April 2013, aware of the challenges resulting from the globalisation processes, the Government of the Republic of Croatia designed the Croatian Tourism Development Strategy until 2020.

Over the past several decades, tourism has become one of the fastest growing economic sectors in the world, leaving behind other powerful industries in the international trade, including food production, car industry, even oil industry [18].

According to the estimation of the United Nations World Tourism Organisation (UNWTO), the number of tourist arrivals in the 1980s amounted to around 250 million. Twenty years

later there were approximately 700 million arrivals, while ten years after that the number of tourist arrivals reached the stunning 900 million (Figure 5).

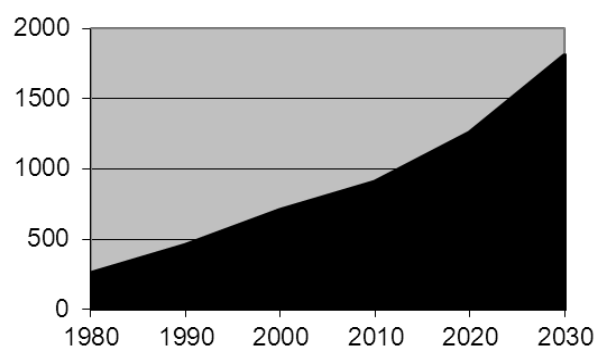


Fig.4. International tourist arrivals, in million  
Source: UNWTO, *Tourism towards 2030, 2011*

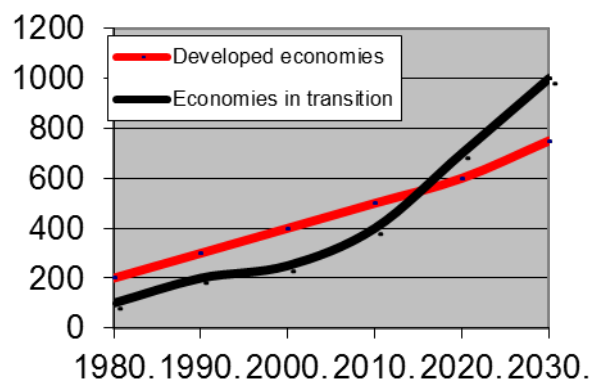


Fig.5. Developed economies compared with emerging economies – tourist arrivals, in million  
Source: UNWTO, *Tourism towards 2030, 2011*

The World Tourism Organisation carried out a scientific-research project with the aim of making long-term forecasts for the international tourism industry [19]. According to the research results, a 3.3% increase in international tourist arrivals is expected in the period 2010-2030 worldwide. It is interesting that the emerging economy destinations are expected to surpass advanced economy destinations in 2015 (Figure 5).

When analysing the regions, the most intensive growth of new arrivals is expected in Asia and the Pacific. The forecasts show that the arrivals in the two regions will increase by 331 million and will reach 535 million by 2030 (annual growth of 4.9%).

Likewise, the Middle East and Africa are expected to double their shares in international arrivals, while Europe (from 475 million to 744 million) and Americas (from 150 million to 248



million) will experience a relatively slow growth (Figure 6).

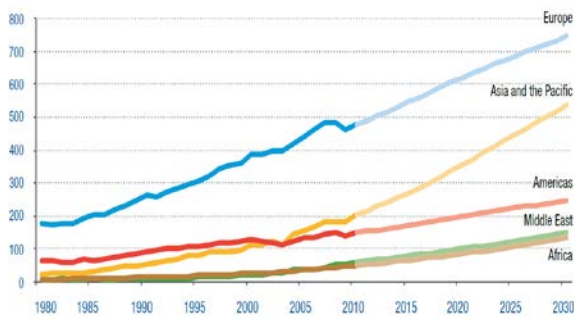


Fig.6. Inbound tourism by continent / region of destination, in million

Source: UNWTO, *Tourism towards 2030, 2011*.

Similar trends are expected in outbound tourism (Figure 7). The outbound regions that will grow most will be Asia (from 200 million to 550 million) and Europe (from 500 million to 850 million), whereas other outbound regions will grow much slower.

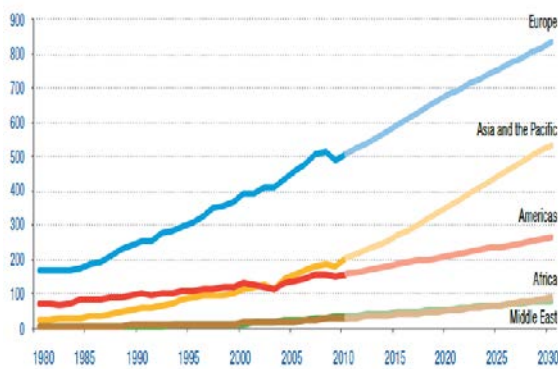


Fig.7. Outbound tourism by continent / region of origin, in million

Source: UNWTO, *Tourism towards 2030, 2011*

As for means of transport, all three categories of passenger transport – by air, by sea and by land – will continue to increase (Figure 8). Planned investments in the reconstruction of airports in Zagreb, Dubrovnik and Split are on the trace of earlier mentioned growth trend of tourists that arrive by the plane.

It is expected that the share of air transport will continue to be larger than the share of surface transport. However, it will continue to increase at a slower pace.

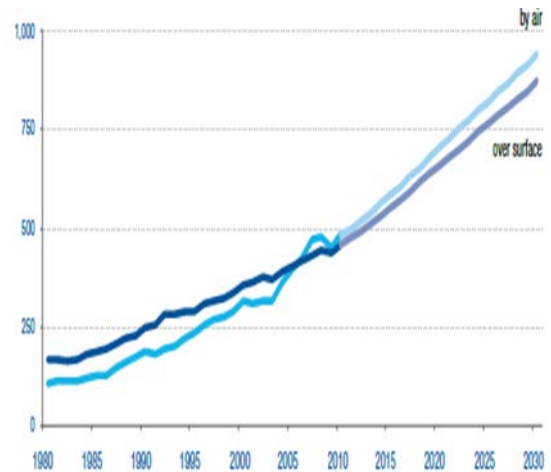


Fig. 8. International tourist arrivals by means of transport, in million

Source: UNWTO, *Tourism towards 2030, 2011*

According to the UNWTO forecasts, the trend of international tourist travels between regions and within the same region will continue to grow, but its share will not significantly change if compared to the previous three decades. It is expected that the share of tourist arrivals by 2030 within the same region will amount to around 80%, while the share of tourist arrivals between regions would remain at 20% of total international tourist travels (Figure 9).

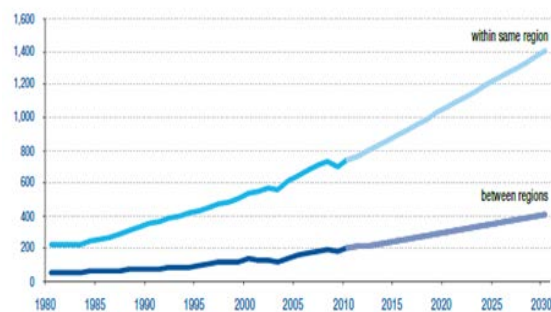


Fig.9. International tourist travels, in million – within the same region and between regions

Source: UNWTO, *Tourism towards 2030, 2011*

Likewise, no major changes are expected with regard to the structure of tourist needs and their purpose of visit. Leisure and recreation will remain dominant motives, followed by health and religion, while the third category includes motives such as work and education (Figure 10).

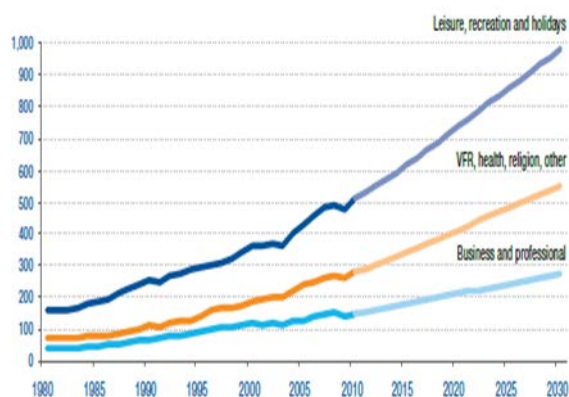


Fig.10. International tourist travels, in million – by purpose of visit

Source: UNWTO, *Tourism towards 2030, 2011*

Although the statistical analysis of Croatia's tourist season 2014 indicated a 5% annual growth of tourist arrivals, it is clear that major Mediterranean destinations experienced a higher growth rate of tourist arrivals than Croatia. The competition on the tourist market is becoming increasingly fierce, not only within the region, but also globally, between the regions.

## 5.2. Future of Tourism in the Republic of Croatia

Tourism is one of the key elements of the development of Croatia's economy and it represents the country's major export product. In the years of recession, it supported the economy and encouraged its growth.

The future of tourism in the Republic of Croatia should be viewed within the context of a well devised strategy. Taking into account past and present constraints, such a strategy will be able to develop the framework and conditions for increasing the competitiveness in the European and global markets.

In that sense, global market trends require investments such as [8]:

- new markets opening up – penetration into new geographical markets and attracting new consumer segments, either demographic or psychographic. Focusing on targeted new markets and specific clientele,
- product development – meaningful improvement of the existing and creation of new products in line with the needs of varied consumer segments,
- taking the ecologically responsible stands - implies proactive policy towards preservation of the biodiversity, natural and social resources,

- development of new communication and sales competences – application of new information technologies in attracting customers,
- development of new and improvement of the existing business and management models – strategic management at local level and networking (clusters) as the prerequisite for an increased efficiency of the private and public sectors.

## 6 Conclusion

The mental-verbal discussion on the present and future synergetic relationship between the tourism and economy of the Republic of Croatia confirms that tourism is the fundamental component of Croatia's economy development. Tourism has a huge impact on export growth through the consumption performed by foreign tourists, it restrains inflation, reduces deficit in the balance of payment, and strengthens the stability of the national currency. However, the economic stability of the country depends on this industry to a large extent, and this is not a desirable situation.

As a global phenomenon, tourism exerts a considerable influence on tourist receptive economies such as Croatia. It results in stability and brings positive economic effects (export of commodities and services through tourism, investments, employment, etc.). Tourist consumption affects the development of economy in a direct and indirect way.

Croatia is facing a long and intensive process of adaptation. The tourism has to be recognizable, which implies innovation and diversification of tourism service, development of customised services according to individual needs, extension of the season i.e. development of year-round services, introduction of tourism facilities and services throughout the country, and investment of considerable assets in marketing, in order to turn Croatia into a brand. The most important aspects include hospitality, quality, authenticity, diversification of services and experience, and safety.

It is particularly important that tourists travel quickly, safely and comfortably. Transport infrastructure and superstructure in Croatia must meet the expectations of tourists, who are always on the level or even higher than those in their home countries.

