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University of Zagreb
Faculty of Economics & Business
Bachelor Degree in Business

**CROATIAN TOURISM AT THE CROSSROADS AND THE ECONOMIC
CONSEQUENCES: THE CASE OF ISTRIA**

Undergraduate thesis

Marko Kolobarić

Zagreb, September 2020

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CONSEQUENCES: THE CASE OF ISTRIA**

Undergraduate thesis

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Zagreb, September 2020

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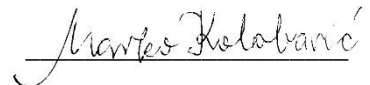
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In Zagreb, 21 September 2020

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Student:

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SUMMARY

Tourism is one of the most important elements of Croatian economy, as there are a lot of workers employed in the tourist industry with large infrastructure and facilities. Tourism amounts for almost 18% of the Croatian GDP, which is the highest share in all EU countries. Croatia has a long history in tourism, which dates back to the first facility opened in Opatija in the 19th century. In today's age, many businesses are designing new and innovative ways of generating energy-efficient power, including solar and wind power among others. Sustainable business models are used to drive sustainability and innovation by building and running sustainable business models that set short and long-term goals for people and the environment. The advantages of developing a sustainable tourist location are resource management, waste management and local economic growth being some of the most important. Legislative, political, technological, business, environmental, or social obstacles usually represent the largest disadvantages in developing this system. The Istria county is the most visited county in Croatia. It has a large tourist infrastructure with a rich offer in coastal and inland parts. Istria can be used as a good example for developing a sustainable tourist location.

TABLE OF CONTENTS

1. INTRODUCTION	1
1.1. The objective of the thesis	1
1.2. Data sources and methods of collection	1
1.3. Content and structure of paper	2
2. TOURISM IN CROATIA	3
2.1. Tourism supply and demand in Croatia	3
2.2. Infrastructure	6
2.3. Labor	8
2.4. Hospitality sector analysis	10
3. ECONOMIC IMPORTANCE OF TORISM IN CROATIA	12
3.1. Croatian tourism through history	12
3.2. Key market trends shaping the tourism industry	13
4. SUSTAINABLE TOURISM	18
4.1. Applications	18
4.2. Advantages	18
4.3. Disadvantages	19
4.4. Spatial planning and ecological sustainability	19
5. SUSTAINABLE TOURISM IN CROATIA: THE CASE OF ISTRIA	21
5.1. Tourism in Istria	21
5.2. Challenges with implementing the sustainable process	22
5.3. Drivers of innovation	23
5.4. Costs of implementing the sustainable process	24
6. CONCLUSION	27
REFERENCES	28
Books and articles	28
Internet sources	30
LIST OF FIGURES	32
LIST OF TABLES	33
BIOGRAPHY	34

1. INTRODUCTION

1.1. The objective of the thesis

Tourism is generally considered as travel for pleasure of business and it is considered as one of the main factors of a local or national economy. For instance, in 2016 about 18% of the Croatian gross domestic product (GDP) was attributed to the tourism industry, which was the biggest in the European Union (EU). Moreover, in the last 15 years a growth trend in the number of overnight stays can be noticed, with the exception of 2009 (HGK, 2017). Tourism is generating a lot of business offers, income and employment and it is an important part of the Croatian culture. However, the COVID-19 pandemic in 2020 also slowed down the tourist numbers not only in Croatia, but in the whole world.

This thesis will focus on the tourist offer in the Istria region, the most visited region in Croatia with about 27% of all touristic visits in Croatia (Istria Tourist Board, 2018). The thesis will investigate strategies for the development of a sustainable tourism offer.

1.2. Data sources and methods of collection

In this thesis, professional literature in the field of tourism in Croatia was used as the main source of data. As this paper deals with the Croatian tourist industry, some of the literature is taken from official reports. The reports have been issued by government bodies such as the Central Bureau of Statistics of the Republic of Croatia (Croatian: Državni zavod za statistiku, DZS), the Government of Croatia (Croatian: Vlada Republike Hrvatske, VRH), the Croatian National Tourist Board, with its local sectors (Croatian: Turistička zajednica Republike Hrvatske, HTZ), the Croatian National Bank (Croatian: Hrvatska narodna banka, HNB), Financial Agency of Croatia (Croatian: Financijska agencija, FINA) and some professional societies and bodies, such as the Croatian Chamber of Commerce (Croatian: Hrvatska gospodarska komora, HGK). Some of the literature was downloaded from the Internet, from the official websites, where it is was possible to find a good source of information about the tourist industry and the impact it has on the economy of Croatia.

1.3. Content and structure of paper

The thesis is divided into 6 chapters. The first chapter is an introduction, where the subject and objectives of the paper, the sources of data and methods of collection, and the content and structure of the paper are presented.

The second part is overview of tourism in Croatia, which shows the tourism supply and demand in Croatia, infrastructure, labor indicators and the analysis of the hospitality sector.

The third part presents the economic importance of tourism in Croatia, where the history of Croatian tourism and its impact on Croatia today is shown, as well as key market trends shaping the tourism industry.

The fourth part of this paper presents the topic of sustainable tourism with its applications, advantages, disadvantages and spatial planning and ecological sustainability.

The fifth part deals with the topic of sustainable tourism in Croatia, with a reference to the Istria region. In the fifth part the Istrian tourism, hospitality sector and challenges are described. Also, a special part is dedicated to the drivers of innovation and costs of implementing the sustainable process.

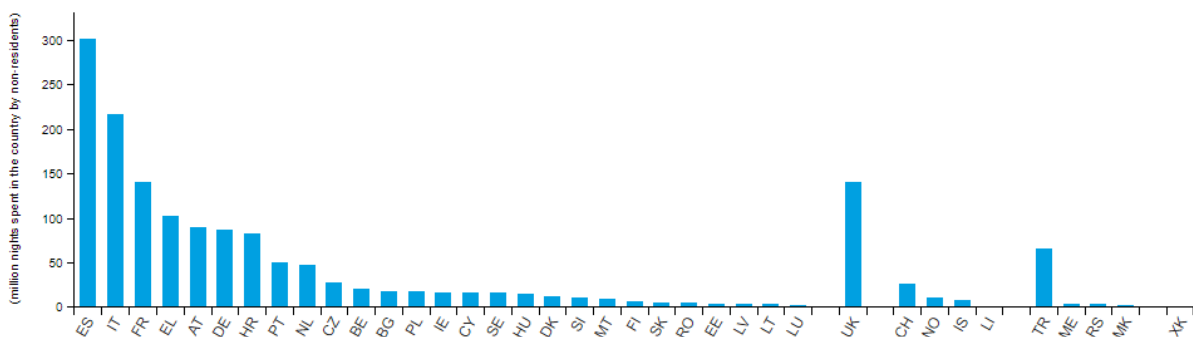
The paper ends with the sixth part, where conclusions on the topic are presented.

2. TOURISM IN CROATIA

2.1. Tourism supply and demand in Croatia

In the past years, Croatia has turned into one of the most attractive tourist destinations in the EU. By the nights spent at tourist accommodation by non-residents, Croatia was at the 7th place in the EU in 2018 (Figure 1, Croatia marked as HR). According to these data, Croatia had 83.1 million overnight stays by non-residents in 2018. So, we can say that Croatia is outperforming its competitors and famous touristic destinations such as Portugal, Cyprus, Malta and even Turkey (EUROSTAT, 2019).

Figure 1. Nights spent at tourist accommodation establishments



Source: European Commission, available at: https://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism_statistics

Moreover, Croatia is trying to attract new tourists by expanding its tourist season and starting to provide entertainment and attractions for domestic tourism (VRH, 2017). However, there are several problems with the tourism offer in Croatia. Starting with it being highly seasonal.

The bulk of the tourism offer at the moment is situated on the coast. Lack of skilled labor, unsustainable and unorganized processes, underdeveloped infrastructure and more will be explored in this study. The main part of econometric examination on the drivers of the travel industry depends on the customer conduct hypothesis. The interest for the travel industry (characterized regarding appearances, expedites or genuine consumption) is regularly demonstrated as a component of the buying power in the spot of beginning and the travel industry costs in the objective comparative with costs in the spot of beginning. A few examinations likewise incorporate costs of the travel industry administrations in contending objections (for example the costs of conceivably elective areas) and transportation costs (Song

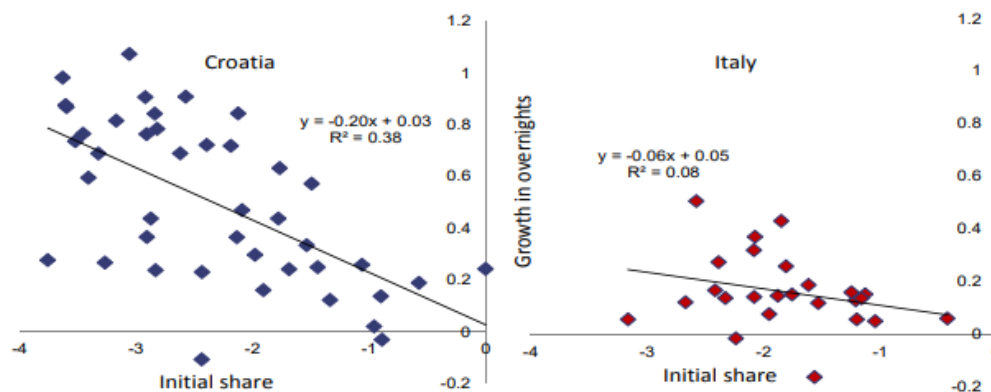
and Li, 2008). Pay is proxied by Gross domestic product, modern creation or, at times, compensation, while relative costs are proxied by the overall cost level or some sub-record.

Contrasts across Croatia in the travel industry models are prone to be reflected in various affectability of request to salary and costs. Experimental examinations have affirmed that travel industry is a "luxury good", for example its interest expands more than relatively with regard to salary. Value flexibilities are generally negative and the scope of variety across accessible considers is regularly enormous (Song et al., 2010).

Available studies on the demand for Croatian tourism services have typically found high income, but weak price elasticity. Despite the importance of the tourism industry in Croatia, there is relatively little quantitative analysis of its determinants. Most available studies find that Croatian tourism demand is more responsive to changes in the income of origin countries than to changes in prices, exchange rates and transportation costs. Tourism demand is modelled as a function of purchasing power in the EU, the relative price of tourist services and travel costs for each destination country (Mervar and Payne, 2007; Škuflić and Štoković, 2011).

A high-income elasticity can be seen in the fast growth of in previously untapped markets. The Croatian tourism is penetrating into new markets (Figure 2). The relationship between the growth in overnight stays between 2003 and 2016 and the initial position by origin country (measured as the logarithm of the share of total overnight stays by origin country in 2003) is strongly negative in the case of Croatia. This means that growth of Croatian tourism is to a large extent driven by expansion into (previously) marginal markets, rather than an increased weight in well established markets (Orsini and Ostojić, 2018).

Figure 2. Correlation between initial market share and growth in overnight stays in Croatia and Italy (2003 – 2016)



Source: Orsini and Ostojčić, available at: https://ec.europa.eu/info/sites/info/files/economy-finance/eb036_en.pdf

When discussing supply and demand of any given product or service it is necessary to have a well gathered data set from which we can draw conclusions. However, due to a developed “shadow economy”, which affects the data gathered by governmental agencies in the region it is hard to state for a fact what the actual numbers of tourists and income has been generated. Đukec states: *"One of the most fundamental needs for further development of tourism is demand forecasting."* Her work on the tourism demand for Croatia has been modelled using Box and Jenkins seasonal ARIMA methodology, that refers to a *set of procedures for identifying and estimating time series models within the class of autoregressive integrated moving average (ARIMA) models.* (Đukec, 2019). The data collected was on monthly tourist arrivals between January 2010 and September 2018, which showed the seasonality variance in tourist arrivals.

The seasonality of Croatian Tourist offer creates several issues for the region. First of which is low investment in the seasonal business. What tends to happen is during the summer season coastal cities have many small shops, cafes, restaurants, souvenir stores open, but they close down soon as the season ends and do not reopen until the next summer season. Moreover, with increasing economic and health risks, service providers are becoming less inclined to open their business. On the other hand, most of the owners and employees leave the coastal cities in the fall and move inward towards the country's capital Zagreb and other cities. This in turn makes the small towns lose the income generated in the season. The business owners and employed individuals will not spend as much in the small town in which

they work during the season. The local economy that has generated all this income for the business owners and labor, will not benefit from it in the long run. All over the coast small towns and bigger cities are left behind in the winter and fall season lowering the purchasing power of locals and the offer "off season". However, since 2016 Croatia has been experiencing a rise in tourism demand. According to the number of tourist arrivals and overnight stays, Croatia is continuously breaking records, as stated in the Portfolio analysis of foreign tourist demand in Croatia. Authors of that study analyses the tourist demand in Croatia and its economic development from 2000 to 2010. With a steady growth before the 2008 financial crisis, the demand and financial growth had plummeted in the following years. However, in 2015 we saw a rise in demand and financial growth. Which has been steadily expanding in the last 5 years. (Ivanović, Bogdan and Bareša, 2018).

2.2. Infrastructure

Tourism infrastructure is understood as a complex of structures, engineering and communication networks, including telecommunications, roads, companies related to the tourism industry, ensuring normal access of tourists to tourism resources and their proper use for tourism, ensuring the living resources of tourism industry companies and tourists themselves. These are roads and railways, stations and terminals, road, air, river and sea traffic control systems, heat supply systems, electricity and telephone networks and much more (Weaver, 1999).

Tourist infrastructure is an integral part of the tourism industry that includes two elements. The first element is the catering industry, which should include companies that provide accommodation and catering services. The second element of the tourism economy is the infrastructure component, which is a three-tier system (Weaver, 2000).

The first level of tourist infrastructure is represented by production infrastructure - a complex of existing buildings, buildings, transport networks, systems that are not directly related to the production of tourist products (unlike the structures of the next two levels), but which are necessary to provide tourist services - transport, communication, energy, utilities economy, finance, insurance, security. The second and third levels of tourism infrastructure are formed by companies and organizations that are directly involved in tourism activities and the formation of tourism products. The second level includes those structures that may exist without tourists, but whose activity expands when you are in the places where tourists stay.

These are car rental companies, taxi fleets; cafes and restaurants; sports clubs, museums, theaters and cinemas, exhibition halls, circuses, zoos, casinos, etc (Weaver, 2000).

Table 1. Croatian tourism infrastructure in numbers

Unit	Type	2017	2018	2019	2020
Hotel	Accommodation units	57701	59546	67163	61778
	Number of beds	112348	116339	120926	121032
Aparthotel	Accommodation units	486	560	564	533
	Number of beds	1200	1390	1388	1312
Touristic apartments	Accommodation units	8399	9091	9100	3574
	Number of beds	19926	21799	21852	11002

Source: Ministry of Tourism and Sport, available at: <https://mint.gov.hr/pristup-informacijama/kategorizacija-11512/arhiva-11516/11516>

According to the situation in 2015, Croatia has a total of 1,325 km of motorways, 6,886 km of state roads, 9,703 km of county roads and 8,980 km of local roads. Today, 2,988,796 km of railways have been built in Croatia. Railway infrastructure consists of: 2468 km of single-track railway, 254 km of double-track railway and 980 km of electric line 25kV 50Hz. (Ministry of the Sea, Transport and Infrastructure, 2016).

Table 2. Croatian infrastructure in numbers

Item	Quantity
Roads total	9184 km
Railways total	3702 km
Airports	8
Sea ports	6

Source: Ministry of the Sea, Transport and Infrastructure, available at: <https://mmpi.gov.hr/>

When we compare Croatia's infrastructure to other EU countries it is in the European average. Croatia needs to develop an efficient railway system. But there is more and more investments in the airport systems (Zagreb, Split, Dubrovnik and so on) (Bičak, 2016). Furthermore, Croatia has been characterized not so much by the lack of strategic planning, but by an ineffective operationalization of the strategies adopted (Čorak and Boranić Živoder, 2017). This is one of the most structural important structural issue in Croatia. When implementing any strategy it is hard to standardize it, especially in Croatia with three distinct regions by the cultural and tourism offer. The unavailability and/or inadequate capacity of communal infrastructure; the substandard quality of the transport infrastructure, especially at destination level; the lack of appropriate tourism signage; and a rather poor interpretation of attractions show us the most prominent issues with the current infrastructure (Čorak and Boranić Živoder, 2017).

Figure 3. Roads in Croatia



Source: Ministry of the Sea, Transport and Infrastructure, available at:

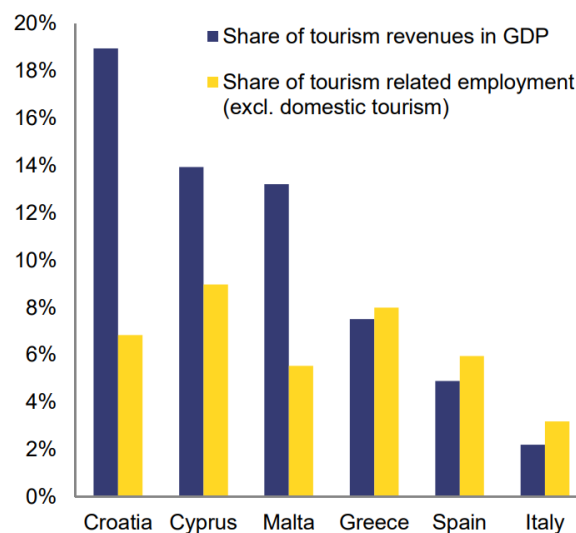
<https://mint.gov.hr/pristup-informacijama/kategorizacija-11512/arhiva-11516/11516>

2.3. Labor

According to the Central Bureau of Statistics, in 2014 the contribution of tourism in GDP amounted to HRK 14.5 billion, or 4.4% of national GDP (DZS, 2015). The total

contribution of tourism to GDP in national terms is still estimated according to the method of the share of tourist income in relation to GDP, and various sources estimate it between 17.2 and 19% in 2016. The direct contribution of tourism in employment - 55,679 employees in 2014, according to the DZS, which is slightly less than 5% of the total number of employees in Croatia; or 57,220 according to FINA data from the annual financial statements of entrepreneurs for 2015 (FINA, 2016). The contribution of tourism to employment: according to Eurostat in 2015, 115,000 or 10.2% of the total number of employees were employed in tourism; while the contribution to investments in tourism according to FINA in the same year amounted to HRK 3.08 billion or 6.6% of total investments in Croatia in 2015, and for 2016 they are estimated at HRK 4.2 billion (EUROSTAT, 2017).

Graph 1. Tourism revenues and employment in Croatia in 2016



Source: Orsini and Ostojić, available at: https://ec.europa.eu/info/sites/info/files/economy-finance/eb036_en.pdf

When discussing labour, the most prominent issues include a lack of skilled labour, poor quality of the working environment, little to no ability for improvement etc. Bartoluci and Hodak (2017) claim that seasonality affects all aspects of the tourism offer, as well as the labour market, where the labour demand is increased during the summer, leading to seasonal employment. Since the work is seasonal so are employment opportunities and they are less often. This is one of many reasons for which there is a lack of labour in the coastal area during the summer season for example. In addition to having a bad reputation with most workers in the hospitality industry. However, there is a constant supply of labour whether it

be from neighbouring countries or new generations finding work each year. The main issues here being the fact that the work is seasonal can mean that there will be a low level of innovation since the employees cannot really affect the working environment in the long run. Furthermore, due to a rise in labour demand, there is a tendency to hire low skill workers to fill the service positions, which further decreases the service offer (Bartoluci and Hodak, 2017). Having low skilled workers covering highly demanding jobs, in addition to low quality working conditions is difficult to present as quality service overall. The problem with the lack of workforce is usually resolved by hiring seasonal workers from continental Croatia (often from the Slavonia and Krapina region) and other countries such as Bosnia and Herzegovina, especially the close Herzegovina region. But, a large problem remains the legal status of these workers, as they are often neglected and with low legal rights. They are often a part of the shadow economy (Paparella, 2020).

2.4. Hospitality sector analysis

Tourism The hospitality sector consists of a range of different services. The ones we will be focusing on are hotels, apartments (travel agency), bars and restaurants. Starting with the increasing number of mid to high-end hotels on the coast. As with many aspects of the tourism offer, the hospitality sector is lacking innovation and reinvestment. As previously mentioned, due to seasonality it is difficult to innovate, and there is almost no motivation to reinvest and expand on the current services. This is a disadvantage of small locally owned businesses, relying on a new workforce and tourists every season. Same can be said for the food and service sector of the overall hospitality industry. Even though we have seen development in this sector in cities like Zagreb, Rijeka and Dubrovnik, Istria and its largest cities are falling behind keeping with the same or similar offer over the past decade and still increasing their prices is not a well conducted strategy.

With a developing economy, Croatia has been recording a developing number as far as incomes and interests in the neighborliness business. In Q4 2018, the GDP developed by 2.3% (DZS, 2019), which was an eighteenth sequential quarter of financial development and the nation made 2.6% development in generally speaking GDP for 2018. This positive development in the economy assisted the accommodation business with drawing in more financial specialists and a decent number of arrangements in the business for the very year. The quantity of guests to the nation is on the ascent and the general development number is spurring growing speculators to put resources into the district in the neighborliness business.

The cordiality business in Croatia is pushing ahead in a moderate yet consistent way. The business appears to be more ideal for the European conceived brands than the worldwide investors and because of tough approaches, consequently overwhelmed to a great extent by a large portion of the European brands yet the inn ventures development pipeline looks encouraging as it is being overwhelmed by global players. Indeed, even with the current inns, International brands are generally confined to Zagreb and a couple of other significant urban communities along the Adriatic coast.

The hospitality industry in Croatia is dominated by domestic investors and covers almost 70% of the market. The main barrier for medium international players to enter the market is majorly the stringent policies (Croatia stood at 123rd place in ease of doing business rankings and 159th in dealing with construction permits) and the high seasonality tourism. Whereas Croatia stood at 27th place in the travel and tourism competitiveness index which is motivating a majority of the investors to spread their operations in the region (Mordor Intelligence, 2020).

3. ECONOMIC IMPORTANCE OF TORISM IN CROATIA

3.1. Croatian tourism through history

The primary traveler object in Croatia, was opened in Opatija in 1844 (Figure 3). In 1868 on the island of Hvar, a sterile society was established, and this year is viewed as the time of the start of tourism on the island. Other facilities opened in Crikvenica and Dubrovnik. As right on time as 1914, Opatija recorded over a large portion of a million short-term stays, and vacationers went through 20 days on normal in the city (Vuković, 2006).

Social advantages of the travel industry have continuously started to be perceived so the enactment in the travel industry and providing food was presented. The lodging limits of the time between the two universal wars were essentially possessed by outsiders, and 80% of unfamiliar traffic was made by sightseers from Czechoslovakia, Hungary, Austria, Germany, Italy and the United Kingdom (Vuković, 2006).

Critical advancement of the travel industry in Croatia started in 1952, however despite the fact that the general number of traveler was developing, Croatia lingered behind its opposition regarding benefit, and the nature of administrations diminished. After WWII, Croatia was a government comprise of SFR Yugoslavia so the general traveler offer was evaluated as ominous as indicated by the "value for money" measures. Instructed individuals were leaving the nation for better-paid positions abroad, and under such conditions, little private tenants created, and the Croatian coast become an objective for mass the travel industry, which was especially visible during the 1980s. The extension of the travel industry limit building went on until 1975, at a development pace of 11.4% for essential limits and 9.7% for integral limits. In that period, 69% of the essential and 72% of integral limits that were offered by Croatia on the travel industry market in 1990 were constructed. 68.2 million short-term stays were recorded in 1986, while in 1987 there were 10,5 million guests, speaking to the biggest number of for the time being stays and guests up until Croatia's freedom from SFR Yugoslavia in 1990. In that period, Croatia represented about 75% of unfamiliar traveler incomes of Yugoslavia (Vuković, 2006).

Figure 4. Villa Angiolina in Opatija



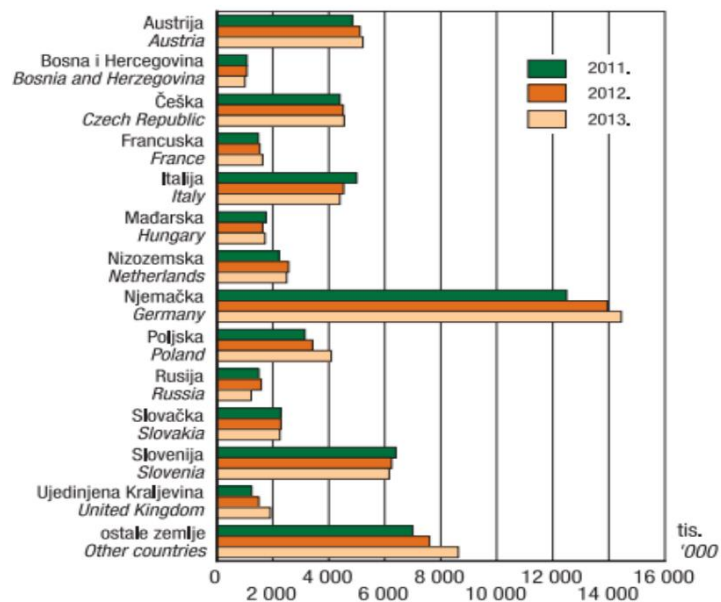
Source: City of Opatija, available at: <http://www.opatija.net/hr/atracije/villa-angiolina>

During the Croatian War of Independence (1991–1995), the travel industry deteriorated in Istria, while in a lot of Dalmatia and the zones influenced by the war definitely fell. Somewhere in the range of 1990 and 1995, the quantity of vacationer appearances was lower by as much as 69.3%, while the quantity of overnight remains fell by 75 percent, so the numbers were near those recorded during the 1960s (Stipanović, 2006). Since 2000, a number of tourist overnight stays has been rising continuously (downfall was recorded only in 2008 due to the global financial crisis). The record tourist season with the best results in Croatia's history was recorded in 2017 when Croatia was visited by 17,400,000 tourists who had 86,200,000 overnight stays. That same year Croatia's tourism revenues amounted €9.5 billion.

3.2. Key market trends shaping the tourism industry

Bringing a large amount of the national GDP, and creating employment opportunities has set tourism as one of the most prominent industries in Croatia. However, increasing costs of travel and the overflow of tourists will affect the industry in challenging ways. Because, tourism is the country's detrimental service it is important to rethink the way we operate our tourism offer. With the vast expansion in technological advancements, changes in consumer behavior and new global emission targets Croatia has to face new challenges in these sectors.

Graph 2. Overnight stays of foreign tourists by country of residence from 2011 to 2013



Source: Jurešić, 2015 available at:

<https://repozitorij.unipu.hr/islandora/object/unipu%3A330/datastream/PDF/view>

Most overnight stays in Croatia come from German tourists that are guests who are familiar with the Croatian culture (Graph 3) (Jurešić, 2015). From the state of the balance of payments of the Republic of Croatia it can be concluded that the Croatian economy faces numerous problems and the balance sheet is in constant deficit, however in 2013, the first surplus was achieved after a long time, and in large part this can be attributed to tourism, because in general the balance of services is always in surplus and records a constant growth, in line with the growth tourist arrivals. The most favorable tourist traffic, and at the same time the time when they are realized the largest inflows are in the third quarter of each year, which indicates the seasonality of the Croatian tourism. According to Eurostat, the EU28 balance of payments has a surplus of EUR 15.8 billion, with the largest surplus realized in trade in goods, and on the primary income account (Graph 4). As for trade in services, which includes tourism, there is also a surplus. Comparing balance of payments of Croatia and the EU, it can be said that in both balances there is a surplus in the current part of the account (Jurešić, 2015).

Table 3. Share of tourism in national GDP in some EU countries

Country	2013	2014	2015	2016
Austria	5%	4.8%	4.9%	5.0%
Belgium	2.1%	2.1%	2.2%	2.3%
Cyprus	5.2%	5.3%	6%	6.9%
Greece	6%	6%	6%	6.4%
Croatia	11%	12.1%	14.2%	17.8%
Portugal	5%	5.2%	5.3%	5.7%

Source: EUROSTAT, available at: https://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism_statistics

Revenues from tourism have been steadily increasing since 2011 in the Republic of Croatia. In 2019, revenue in services reached their peak with more than EUR 15.3 billion (Table 4) (HNB, 2020).

Table 4. Revenue in international services from 2011 to 2019

Country	2011	2012	2013	2014	2015	2016	2017	2018	2019
Germany	1.369,7	1.448,4	1.683,3	1.861,3	2.205,6	2.204,5	2.340,5	2.560,8	2.871,7
Italy	852,4	803,7	894,6	991,4	971,7	1.254,5	1.125,6	1.312,4	1.187,6
Austria	812,1	830,7	784,4	878,8	951,2	985,3	1.048,9	1.083,1	1.214,7
Slovenia	573,5	703,6	609,8	561,7	709,7	713,9	810,7	993,5	966,5
United Kingdom	232,9	219,5	271,7	436,4	488,3	606,7	609,2	1.009,9	995,8
Switzerland	334,0	329,2	362,3	403,9	379,3	425,7	452,9	515,8	585,0
Bosnia and Herzegovina	343,9	333,1	359,6	362,3	373,2	382,0	406,9	386,2	436,8
Total	8.673,6	8.727,5	8.788,9	9.375,5	10.534,3	11.734,6	12.904,5	13.867,3	15.351,8

Source: HNB, available at: <https://www.hnb.hr/statistika/statisticki-podaci/sektor-inozemstva/razmjena-usluga-s-inozemstvom>

The biggest problem Croatian tourism was facing in 2020 was the SARS-CoV-2 pandemic. Due to the COVID-19 pandemic, most businesses had to close down, follow strict measures that are sometimes unmanageable. The fall in tourist movement has affected the tourism offer in Croatia substantially. Even though we still do not have definitive empirical data, we can safely say that the 2020 summer season has underperformed this year compared to last. As an industry, being in "survival mode" has also decreased the diversification of the tourism offer on the coast. Some service providers are choosing not to open this season due to a high risk of no return or low return on investment. Europe being widely hit by the pandemic due to the ease of travel among the EU countries. However, recent development has shown that most EU countries have found how to handle a pandemic. Croatia has had a rise in cases in July and August of 2020, but this can be attributed to poor implementation of social distancing measures. This was minimized with an introduction of a curfew for bars and nightclubs. However, there is still a lot to be determined, the way the hospitality industry will continue going forward will have to change. The changes in the Croatian economy can already be visible (Table 5).

Table 5. Comparison between June of 2019 and 2020

Indicator	2019	2020
Employed	1 506 962	1 546 999
Unemployed	112 169	157 839
Rate of unemployment	7,2%	9,5%
Employment in services	19 000	17 778

Source: DZS, available at https://www.dzs.hr/Hrv_Eng/publication/2019/09-02-01_06_2019.htm

4. SUSTAINABLE TOURISM

4.1. Applications

The general concept of sustainable development is that it attempts to make a low impact on the environment and local culture while generating income, employment and conservation of local ecosystems. It is both ecologically and culturally sensitive. The concept of sustainable development provides an organizing concept for the development of ecotourism initiatives. Furthermore, it creates a template each tourist should follow when visiting somewhere. A tourist being mindful of their impact on the environment, society and economy should be the norm (Hunter, 1997).

The applications of sustainable tourism would bring to conserving resources, supporting local economies and acting in an environmentally sustainable way. These 3 factors are important for the further development of a truly sustainable tourism offer. Starting with the technical aspects, operating with sustainable resources, like solar power. Creating sustainable business processes such as reducing waste. Finally creating a broader offer giving consumer incentive to support local economies. With the recent shift in consumer behavior and their ability and motivation to find an ethical and sustainable business to support, it is becoming detrimental to start learning about the applications of sustainable business development (Hunter, 1997).

4.2. Advantages

There are many advantages to having sustainable processes, which can be categorized into following: resource management, waste management and local economic growth being some of the most important. Focusing on these three aspects of the sustainable process we can, for the purpose of this study, provides an example of how these aspects of the tourism offer could be improved on and further developed. Alongside economic benefits, cost reduction and overall environmental protection, we have to acknowledge the health factor it would have on consumers. With sustainable processes, we can grow healthier produce, offer better quality foods and beverages and create a self-sustaining system that is based on the area in question (Liu, 2010).

4.3. Disadvantages

There are many disadvantages in developing a sustainable tourism environment. In their analysis of international examples of sustainable business practices, the authors state that *pioneers frequently encounter legislative, political, technological, business, environmental, or social obstacles while implementing new ideas* (Liburd et al, 2007). Stakeholders often ask themselves is it worth it to take time, funds and effort in creating such a process? This is a process with many obvious hurdles. Creating a service or product that is mindful of the shared environment and appealing to consumers will be imperative in the future.

4.4. Spatial planning and ecological sustainability

In their research authors Ivandić, Kunst and Telišman-Košuta (2016) described specific spatial planning strategies. They first divide a given area into zones. A zone would have to have their offer or have a group of smaller zones that together create a tourism attraction. In our case, we have 3 standalone zones: the largest coastal cities in Istria Pula, Rovinj and Poreč. When discussing any tourist area, we must consider the number of people said area can support. In most cases what tends to happen is that these areas that are highly attractive to tourists are overflowed. Which is another example of prioritizing economic gain to environmental safety. The issue here is the lack of understanding that the resources in these areas might be depleted over time with constant usage. But this does not mean we need to stop living in those areas or stop visiting them. We should create a strategic outline of how to manage certain systems in those areas and allow time for those resources to replenish themselves.

It becomes clear that the expansion and extension of the travel industry markets, additionally the formation of bigger and more various vacationer locations, or the development of the general the travel industry which is relied upon to progress in the coming a very long time as at no other time, will cause tremendous consequences for the economy, social personality, just as on the physical condition. It is required on a worldwide level, to sufficiently disperse the advancement of the travel industry resorts and objections, just as to manage the risks that can emerge and are identified with congestion which can cause unreasonable improvement of the most visited and most appealing the travel industry places. The point of the paper is to introduce the significance of the contemporary changes in the

travel industry which requires transformation of all members in the production of the travel industry offer in given objections. The objections begin to be considered as mind boggling wholes with a plan to guarantee seriousness on the travel industry market. Economical the travel industry has gotten a different classification of particular the travel industry offer. Objections become to be a lot of joint the travel industry items and administrations, which infers the dynamic interest all things considered. New ideas for accomplishing intensity have been grown, for example, improvement of practical objections, objective administration arranging and execution of incorporated quality administration (Risteskia, Kocevskia and Arnaudov, 2012).

There are some research that can be transferred into the Croatian case. Numerous noteworthy port urban communities have in ongoing decades experienced redevelopment for new "post-modern" utilizes, frequently identified with the travel industry. Such uses may offer the potential for making more supportable and livable urban areas, for example by methods for more prominent blending of employments, and re-utilization of empty or under-utilized land. Similarly, nonetheless, they may prompt issues, for example, disintegration of legacy, and loss of luxury through blockage and contamination. Such issues are vital to the eventual fate of numerous Mediterranean port urban areas, since expanding pressures for the travel industry-based utilizations in the district are fueling clashes between financial turn of events and legacy conservation in numerous urban areas (McCarthy, 2003).

5. SUSTAINABLE TOURISM IN CROATIA: THE CASE OF ISTRIA

5.1. Tourism in Istria

Istria is the largest Croatian peninsula and the largest on the Adriatic. It is located in the northern part of the Adriatic, in Croatia, Slovenia and Italy. For the purpose of this thesis, the Istria county will be analyzed as an administrative unit of the Republic of Croatia, which includes about 2820 km² of terrain located in the Western part of Croatia. The biggest cities are Pula, Poreč, Rovinj and Umag. Those usually represent the major touristic locations.

In the 1980s, Istria had an average of 30 million bed-nights per year, therewith becoming – together with the Mediterranean coasts of Spain – one of the most popular Sun, Sea and Sand destination of the Mediterranean. The contemporary image of Istria, being a Sun, Sea and Sand Mediterranean destination was completed in 1975. The major results of the construction era of the 1960's and 1970's are mega-hotels and resorts in Poreč, Umag, Vrsar, Pula and Rabac (Gosar, 2014). So, there was a development in the touristic offer first in the western coastal part of Istria and the cities based around the Adriatic Sea. That continued through a lot of years in the 1990s and 2000s. But lately Istria has been developing the inland tourist offer with an increasing number of arrivals and stays in the whole Istria county (Table 6). People are finding more and more about the inland of Istria. Tourists that visit this part are often looking for a rustic vacation with local customs and gourmet offers. Motovun and Grožnjan present one of the most visited parts in inland Istria.

Table 6. Number of arrivals and stays in the Istria County (2015 – 2019)

Indicator	2015	2016	2017	2018	2019
Arrivals	3.570.668	3.852.114	4.223.233	4.456.792	4.609.820
Stays	23.668.568	25.010.890	27.511.615	28.443.129	28.709.938

Source: Istria Tourist Board, available at: file:///C:/Users/Korisnik/Downloads/istra_2019.pdf

The number of hotels and other types of touristic objects is visible in Table 7.

Table 7. Hotels, aparthotels, tourist places and tourist apartments in Istria (data up to date to February 2020)

Object	Accommodation units	Number of beds
Hotel	14053	27567
Aparthotel	60	164
Tourist place	4815	11892
Tourist apartments	2643	8477

Source: Ministry of Tourism and Sport, available at: <https://mint.gov.hr/pristup-informacijama/kategorizacija-11512/arhiva-11516/11516>

When it comes to strategic planning and implementation of sustainable processes it is difficult to follow one general strategy. Each location being distinct in what resources it contains and how it is developed. Dvarskas (2017) states that the key challenge for coastal zone management is balancing the needs for economic development with the preservation of the underlying natural resource assets. In most cases, economic development has been first in many businesses and people's agendas. Without considering the long-term effects of depleting the resources that create economic development. That is why coastal tourism provides a useful context for investigating the tradeoffs between the coastal environment and economic needs of the coastal communities, since it is an area where both economic sectors and environmental systems interact. This brings us to Istria, an example of a tourist region in Croatia, that has had little innovation and investment in the last decade, compared to global hospitality services.

5.2. Challenges with implementing the sustainable process

Sustainable tourism is still a relatively new concept in Croatia, specifically its tourism offer. Even with global success in the sustainable tourism offer, Croatia still doesn't have well-developed goals for the pursuit of sustainable tourism development as involving the balancing of social, economic and environmental goals. True innovation in tourism businesses is difficult and often inspired by external forces such as changing customer needs, demographics, technology, government policy, environmental conditions or social

imperatives. It can take the form of product, process, management, logistics or institutional innovations and may be a disruptive or an incremental process. But the question of how to achieve this remains an object of debate. Each place has its own advantages and disadvantages, differences in terrain, space, the distance between public and private areas, etc. Which in turn means that we would need to adapt every sustainable process to fit within the cultural, environmental and legal aspect of a certain service or product.

Implementing any process is difficult especially if it requires a change in the behavior of consumers and in this case of the service providers as well. These processes are difficult to set up and require a change in the lifestyle of consumers. If we are more sustainable in our business processes that might mean we are less convenient. However, no matter how challenging, local resources and capabilities combined through organization and strategic actions result in competitive advantages.

Globally a major issue has proven to be that between governments, citizens and the private sector. It has been almost impossible to reach an agreement on sustainability and climate change issues. However, more and more we are seeing private companies taking the initiative themselves to create a sustainable process. While advocating for sustainable practices is a challenge of its own, one of its many barriers is ensuring appropriate management and coordination efforts from all parties involved. Several systemic barriers were identified such as the availability and reliability of data, lack of political will, weak capacity and technical know-how, inadequate mechanisms, lack of structures to recognize financial opportunities and access to available financial resources. Furthermore, even when these systems are put in place the challenge is to have all parties involved in the market to follow them.

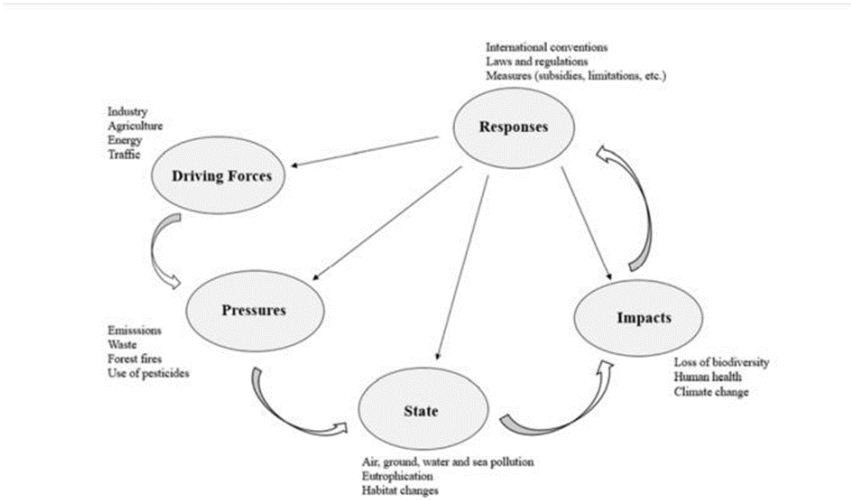
Accelerating the implementation of Agenda 2030 also requires mobilizing more channels for funding sustainable development. Investors and financial institutions are the most adept at tackling this challenge. This is a daunting task since it would require oversight of many moving parts. Creating a sense of accountability and processes to measure performance is the key to tackling these issues.

5.3. Drivers of innovation

The increasing awareness of climate changes and its effect on the environment is globally the main driver for innovating poorly managed processes. What makes it interesting

for us is that tourism is in itself a pollutant. Starting with transportation, accommodations, mismanaged waste, etc. However, there are ways of travelling and experiencing different cultures without causing harm to the surroundings we wish to visit. In addition to climate changes, tourism as an industry has risen exponentially in the past 20 years. Travel has become more accessible with globalization and has had an increasingly high demand.

Figure 4. Drivers of innovation



Source: Bossink, 2004

From the above figure we can see a simplified example of what is driving the current necessity for sustainable development in every aspect of business. The global implications of leaving said driving forces to keep depleting natural resources will not be sustained for a lot longer.

5.4. Costs of implementing the sustainable process

The costs associated with implementing such processes is high, not only because the technology is not yet widespread but because it requires a learning curve with the processes and why they are being implemented. However, we have to consider the costs of not implementing these strategies in the day to day processes.

We can take Pula as an example, a coastal town in Istria that has a developed industry and tourism offers. Seemingly Pula has developed the most outside of tourism than its neighboring cities. With a rich roman history, culture and entertainment Pula has become an attraction to both foreign and domestic tourists. In the research conducted by Gržinić and Vojnović (2014) in the city of Pula, they have concluded that it is problematic that a city company, which is financed by the citizens' taxes and contributions, without any monetary compensation, cleans and maintains green surfaces on which mass events, organized by private entrepreneurs, take place. Their research was based on event tourism in Pula and its effects on the local economy. This example was one of many that were astonishing for the authors. Having no costs for private business to operate events in Pula and subsidizing the clean up of these events with local funds that would better be implemented in healthcare, education, etc. However, at their disposal cities have various domestic and international sources of funding. And as we have seen projects based on sustainability it is a lot easier to get funding.

Such a change requires active cooperation between citizens, city management and the economy. Citizens should be better informed, and aware of the importance of the sustainable use and preservation of the environment and natural resources, which also includes encouraging people to change existing behavioral patterns. This means that the patterns for gaining sustainable production and consumption should be implemented on all levels: corporate, social and personal. This is the most difficult part of the process, implementing change in three different aspects of a person's life. What is more, this needs to be done on a large scale if it is to succeed. Communicating the message clearly to consumers and service providers is key to managing these types of changes.

Each city represents a unique system that has been built during the years. These systems have different agents such as city management, communal companies, and citizens conducting many activities, and creating complex interactions and interdependencies. Taking into consideration that tourism impacts the ecological and social context of a city, its priorities, as well as its history and specific features, it is necessary to implement strategic urban planning that can enable finding the optimal route towards the final goal: a sustainable city. In addition to meeting ecological and economic needs, the cities in Croatia need to take care of their citizens' social needs, as well (Nižić-Krstinić, Trinajstić and Šverko Grdić, 2019).

This should be their primary goal, to increase the quality of life of its citizens and for cities to evenly develop on their path towards sustainable development. What is more, it is important to continuously increase the levels of knowledge and understanding of the principles of sustainable development while building the skills required to implement them. Croatian cities should be transformed in such a way that they become more efficient, more pleasant to live in and sustainable, both in the short and long term. Tourism contributes to the implementation of the concept of sustainable development by facilitating economic growth and efficiency, and by enabling a better life for its citizens. As drivers of economic development, cities have to be prepared to tackle urban challenges, in order to secure smart and sustainable growth (Nižić-Krstinić, Trinajstić and Šverko Grdić, 2019).

6. CONCLUSION

Tourism is one of the most important parts of the Croatian economy, as there are a lot of workers employed in the tourist industry with large infrastructure and facilities. Tourism amounts for almost 18% of the Croatian GDP, which is the highest share in all EU countries. In today's age, many businesses are designing new and innovative ways of generating energy-efficient power, including solar and wind power among others. Sustainable business models are used to drive sustainability and innovation by building and running sustainable business models that set short and long-term goals for people and the environment. Furthermore, businesses that build sustainable products and services widen their revenue pools because they end up using fewer resources. This will in turn reduce the costs of production.

Since the main goal of a for-profit company is to reduce costs, more and more companies are realizing that creating sustainable business models is profitable. Even more so it has added benefits with consumers preferring brands that are operating at a sustainable level.

Although the development of sustainable tourism can have its advantages and disadvantages, the most popular Croatian county – the Istria county, can be a good example of why it is necessary to make decisions in the way of implementing a sustainable tourist environment. Istria is more and more attractive to tourists with its coastal and inland tourist offer, so it is a good place to start with the implementation of a sustainable tourist project.

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LIST OF FIGURES

Figure 1. Nights spent at tourist accommodation establishments	3
Figure 2. Correlation between initial market share and growth in overnight stays in Croatia and Italy (2003 – 2016)	5
Figure 3. Roads in Croatia.....	8
Figure 4. Villa Angiolina in Opatija	13
Figure 5. Drivers of innovation	24
Graph 1. Tourism revenues and employment in Croatia in 2016.....	9
Graph 2. Overnight stays of foreign tourists by country of residence from 2011 to 2013... ..	14
Graph 3. Balance of payments of the Republic of Croatia from 2000 to 2019 in millions of EUR	15

LIST OF TABLES

Table 1. Croatian tourism infrastructure in numbers.....	7
Table 2. Croatian infrastructure in numbers	7
Table 3. Share of tourism in national GDP in some EU countries	16
Table 4. Revenue in international services from 2011 to 2019	16
Table 5. Comparison between June of 2019 and 2020.....	17
Table 6. Number of arrivals and stays in the Istria County (2015 – 2019)	21
Table 7. Hotels, apart-hotels, tourist places and tourist apartments in Istria (data up to date to February 2020)	22

BIOGRAPHY

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