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THE IMPORTANCE OF TECHNOLOGY ON FDI IN THE TOURISM INDUSTRY IN CROATIA

Undergraduate thesis

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Course: Informatics

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Abstract

Talking about the present time we should admit that the tourism industry has significant source of growth. There are a lot of countries for which this industry is capable way to reach economic development. This industry is recognised as the fastest growing one on the market. Many countries also expect from this industry the increase in the export of earnings. Taking into the consideration the FDI, we can say that there are a lot ways to develop tourism industry through it. FDI and tourism show special challenges in order to improve and increase the world's economy. However, this sector is being valued as a definition of increasing revenues from export, having job generation and increase the promotion of economic diversification, in order to help reviving the decrease of different urban areas and cultural activities. Since Croatia belongs to the group of countries which have small and open economy, it is important to have a connection with other foreign markets. Special goals and aims that Croatia wants to fulfil are: economy that is oriented on the market needs, stable economic growth, increase in employment level, ect. Greenfield investments have small shares, this is the reason why there is an absent of the expected results that should be positive. If we analyze new investment cycle, we can consider the poorness of the domestic saving that are available and new investment cycle in larger part rely on direct foreign investment, which makes additional capital for the technology and knowledge development and progres.

Key words: foreign direct investments, technology, tourism

1. Introduction

Croatia has very strong competition regarding the attraction of the foreign direct investment. For many years, the Republic of Croatia has been facing the need to restructure its economy and increase specialization and competitiveness. We can define the sector of tourism as one of the fastest growing one.. Many developing countries see it as an opportunity to increase export earnings. Capacities in Croatian tourism are significant and the seasonal restriction of tourism is sometimes a problem for investments. Croatian tourism is characterized by modest capacities, insufficient utilization, low level of services, unprofessional staff and more. The Republic of Croatia became interesting to foreign investors only at the end of the last century, when larger foreign direct investments entered. Such inflows have been spurred by a large wave of privatization of state-owned enterprises. Although at the very beginning of the transition, Croatia was not attractive as a potential destination, but over the years the situation began to change. After the Croatian Tourism Strategy adoption in 2020, one of the goals is to invest as much as 4.3 billion euros in Croatian tourism in the period from 2013 to 2020. It is therefore necessary to improve the quality and structure of accommodation, increase the number of 4 and 5 star hotels due to the content they offer and which allows both to extend the season and reduce unemployment. Apart from being an attractive tourist destination, in order to get highly competitive on the worlds market, Croatia should improve the offer quality of services and products in order to increase its level. The most attractive counties for investments mentioned in the paper are the County of Split-Dalmatia, the City of Zagreb and the County of Istria.

When it comes to the economic growth of developing countries, including Croatia, it is necessary to reach a certain level of development so that they can take full advantage of FDI inflows. Important preconditions that the Republic of Croatia must meet are the improvement of legal regulations in order to remove administrative barriers, adjust tax policy and reduce corruption. Main goal of the Republic of Croatia should be to build a transparent, stable and motivating business environment. So far, investments in tourism have been focused on rebuilding existing capacities. The dominant Croatian tourist products are are all natural resource. They include: nautical, business and cultural tourism, while other products and services are insufficiently developed and differentiated, which is why there is a lack of innovative and better content to extend the tourist season. Today, Croatian tourism depends

on the acceptance of product diversification policy and the tourism new forms of development.

The purpose of the final paper would be the analysis of the role of foreign direct investment in the tourism of Croatia. The purpose of the final work is the importance of direct investments for the tourism of the Croatia. Globalization has had a major impact on changing the stands of different countries regarding the importance of FDI. Countries that are more developed have no longer any doubt. On the contrary they do their best in order to create special conditions for business that will stimulate and attract foreign investors.

2. Tourism industry

2.1. Definition of tourism

Tourism is on the one hand a journey, and on the other hand it is a temporary stay in a tourist destination. It is said that "every tourist is a traveler, but every traveler is not a tourist."¹ And in order for a traveler to become a tourist, he must go outside his place of permanent residence and stay there temporarily. Temporary stay takes place in a tourist destination that is rich in natural and anthropogenic resources, and they are the reason for coming to that destination. At the end of the definition there is a component that emphasizes that the tourist must not perform any economic activity where they have the opportunity to make economic profit.

Defining the criteria tourist we can say that it can be any person who is at least one night in a place outside his residence in a catering or other accommodation facility. The purposes are: rest, health activities, sport, family, business, public missions and gatherings. Every place should register tourist where he stays and therefore, the event of a change of place or facility, it is re-expressed, and thus duplicity in the data. Therefore, statistics record the quantity of tourists that are arriving, not the quantity of tourists.²

The tourism market is a relation of supply and demand in the field of services where tourism need should be met in particular area. It can be said that tourist demand always travels to the tourist offer. The tourist offer communicates with the demand market, either directly or indirectly, through tourist intermediaries. The place where tourist demand and tourist offer meet are receptive tourist countries, ie tourist destinations. It used to be a spa and bathing place in the continental areas, and today it is most often somewhere along the coast or a famous city. A tourist in a tourist destination uses various services (accommodation, food, trade) and pays for them with the money he earned in another place. The time in which the tourist market operates is the period of 2 seasons, the summer season (6th month) and the winter season (1st-3 months). In these periods, the largest part of the total annual tourist traffic is realized. Of course, tourists also travel in other months of the year with various

¹ Pirjevec, B., Kesar, O. (2002) Počela turizma. Zagreb: Mikrorad d.o.o., pp. 5.

² Pirjevec, B. (1998) Ekonomska obilježja turizma. Zagreb: Golden marketing, pp. 22.

tourist motives, such as "third age" trips or school trips. Congress activities are usually held in the period from September to May.³

Those economic, socio-cultural, nominal definitions of tourism were frequent. In recent times, more and more often those that reflect the complexity, set of activities and complementarities, interdisciplinarity of tourism based on a number of definitions that can include all these categories (eg those universal definitions due to their comprehensiveness). For example, tourism is a set of economic activities with the characteristics of the complexity of the structure, seasonality of business, unproductive work and the specificity of the market in the pursuit of realization (realization) of the tourist experience while creating a number of direct and indirect, primary and secondary influences. Tourism is a complex phenomenon because the modern tourist is eager for different new experiences and the boundaries of the same, ie expectations of realization are difficult to determine (the gap between expected and realized).

Tourism, tourist, tourist needs and tourist travel are in a causal relationship, ie the need initiates tourist mobility, and vice versa. We connect tourist needs with tourist motivation, which consequently causes tourism activity influenced by individual and external influencing factors.⁴ Individual influencing factors are: income, time, age, physical condition, psychological factors; hobbies, lifestyle, education, family. External environmental factors are: group, family and social atmosphere, overall industry development. The perception of the destination by the visitor affects the motivation to visit, its attractiveness and the desire to come again. For example, the international garden route Garden route through four countries is a tourist route funded by the European Union. It connects Croatia, Slovenia, Hungary and Austria. Furthermore, the Pula City Tour (virtual city experience project) and the olive oil house are examples of innovation and creativity in the tourism of this city. Both offers their attractions (as a result of successful attraction management) attract visitors.⁵

³ Pirjevec, B., Kesar, O. (2002) Počela turizma. Zagreb: Mikrorad d.o.o., pp. 62.

⁴ Holloway, J.C. (1994) The business of tourism. London: Financial Times/Prentice Hall, pp. 10.

⁵ Gržinić, J. (2019) Uvod u turizam – povijest, razvoj, perspective. Pula: Sveučilište Jurja Dobrile u Puli, pp. 20.

2.2. Driving factors of tourism

In order for a person to make a tourist trip, it is necessary to make a decision about visiting a place or going on a trip, in addition to the time intended for leisure and the necessary funds. In order for that decision to be made, one must feel the need and must be motivated to satisfy that need of his. The reason for making a tourist trip is a monotonous everyday life in which a person is nervous, exhausted or tired.

By the 20th century, few people traveled for pleasure. Travels were held for trade, pilgrimages, or education. When tourist needs arose, however, there should have been an internal incentive for a particular activity-motive, i.e., a tourist motive. Nowadays, tourist motivation is more complex and includes several reasons for traveling, ie there is a mix of motives. The most common reason for traveling, and therefore the motive, is vacation. There are many more motives so they even determine the types of tourism. Motives are usually hunting, nautical, gastronomy, visit to the sanctuary, music events, various exhibitions. Types of tourism include residential tourism, hunting tourism, religious tourism, nautical tourism, etc.⁶

In the TOMAS survey from 2010 to 2014, stagnation of passive rest, growth of new experiences from 25% to 30% and further growth of gastronomy from 22% to 26% are visible.⁷ The motives for the arrival of tourists in Croatia in 1997, at the very top were rest and relaxation at sea and getting to know the natural beauties, and in nowadays, apart from holidays, entertainment, new experiences and gastronomy are highly ranked. Croatia's tourist offer must follow trends in order to attract tourists with new motives to spend their free time in Croatia. Recreation is a fundamental tourist need, because a person temporarily leaves his place of permanent residence precisely because of the renewal of his abilities, his general condition, therefore both mental and physical, expecting all kinds of "recreation" and thus new incentives and strength to meet daily obligations. Recreation can be divided according to the degree of involvement of the individual in the activity (active and passive) and according to the place of realization (static and dynamic). A person can recreate in a place of permanent residence, then it is a static recreation, which can be active or passive. When a person leaves

⁶ Gržinić, J. (2019) Uvod u turizam – povijest, razvoj, perspective. Pula: Sveučilište Jurja Dobrile u Puli, pp. 20.

⁷ Čorak, S., Marušić, Z. i sur. (2015) Tomas ljeta 2014. Zagreb: Institut za turizam, pp. 4.

the place of permanent travel, or when he goes on a trip to meet their tourist needs, then we are talking about activities related to dynamic recreation.⁸

The visitor creates a mosaic of impressions in the process before, during and after the trip. The power of involvement grows with the acceleration and routine of work processes and the orientation of modern society towards "wild" persistence and dedication to work. It is also the source of humanity's need for rest, relaxation, renewal of mind and body, entertainment (eg festival guests are most often Millennials; born between 1980 and 2000, combining business and private pleasures (new concepts of merging used with pleasure so-called Bleisure, a combination of the words business and leisure), as well as a combination of these elements (eg Disney cruising), etc. Given the previously described characteristics of tourism gender (offers and demand) it is necessary to recognize the whole spectrum of tourist needs, namely: the need for rest, recreation, getting to know other cultures, people, customs, the need for entertainment, learning about gastronomy, the need for "consumption" of specialized hotel accommodation (eg heritage hotel, bike hotel, etc.), the need to visit destinations due to the attractiveness of transport (which may be the primary need expressed through modern transport; by fast train through the Swiss Alps, cruising European rivers, etc.).⁹

Travel is intensified not only for rest or recreation, but also away from everyday life, business travel, which is greatly helped by the development of tourist infrastructure and supra structure. Tourism recognizes the motives of travel as physical, cultural (the need for self-affirmation), interpersonal (meeting new people and cultures), prestigious, ie status (the need to prove and belong). Thus, the connection of motives with human needs is clear. Tourist mobility can be caused by subjective factors influencing fashion, imitation of the environment, religion, snobbery and hedonism (sense of importance), etc. Tourism is a part of everyday life, and its development was preceded by a change in working hours of employees. Due to the increase in leisure time and the understanding of the role of rest in business motivation, tourism is experiencing rapid growth.¹⁰

⁸ Pirjevec, B., Kesar, O. (2002) Počela turizma. Zagreb: Mikrorad d.o.o., pp. 5.

⁹ Gržinić, J. (2019) Uvod u turizam – povijest, razvoj, perspective. Pula: Sveučilište Jurja Dobrile u Puli, pp. 20.

¹⁰ Ibidem, pp.22.

2.3. Tourism industry in Croatia

Since the 1960s, international tourism has seen steady growth having the quantity of foreign tourists, its share in the national economy and global industry of tourist countries.¹¹ Along with the increase in international tourism, there is also an increase in global terrorism, military interventions and attacks on foreign tourists, which means growing insecurity at the local, national and global levels. The industry of tourism is one of the world's biggest ones. It is an economic activity whose supply and demand are most sensitive to negative external factors such as violence in the form of terrorism and wars, crime, civil unrest and natural disasters. These factors are referred to as tourism crises that have the “potential to completely disrupt the tourism industry”.¹² Therefore, the generally accepted precondition regarding the development of the quality of the individual tourist location and the overall tourist development of a country is security. The relationship between security and tourism, ie the issue of security of the tourism industry is gaining global significance after the terrorist attack on the United States. From this event, theory and practice seek to find effective solutions to mitigate all incidents that have a negative impact on the perception of safety and real safety of tourists and a particular tourist destination.¹³

After the establishment of state independence, Croatian tourism has gone through a 20 years process of transition that is burdened with the country's contradictions of the social and economic expansion. With the help to the huge interest of foreign markets, tourism of Croatia shows the country's attractiveness and, in particular, the resilience of tourism. Besides the hardships of the past, tourism has a significant improvement in the business results. I would like to mention especially the period since 2000, and during the global crisis of the past few years has shown high resilience, as evidenced by higher growth rates than those achieved by countries in competitive Mediterean environment. However, Croatia joins the European Union, having new gages, and getting new opportunities in tourism. Croatia was recognised

¹¹ Gurtner, Yetta. 2007. Tourism crisis: Management and recovery in tourist-reliand destinations, u: King, D. i Cottrell, A. (ur.): Communities living with hazards. Townsville: Centre for Disaster Studies with the Dept. Of Emergency Services, pp. 82-101.

¹² Henderson, J. C. (2003) Terrorism and Tourism: Managing the Consequences of the Bali Bombings, *Journal of Travel & Tourism Marketing*, 15 (1), pp. 41-58.

¹³ Matika, D., Gugić A. (2007) *Turizam i sigurnost*. Zagreb: Adriatica, pp. 5.

by EU as a special destination that has great potential to move to the highly sustainable situation.

Tourism can be viewed as a separate system and can also be viewed as part of a broader economic social system. In the Croatian case, it is important to emphasize that tourism as part of a wider system is a very significant budget item at all levels. Central Bureau of Statistics has published the data in February 2018 that was second year in a row in which there has been an increase in tourist arrivals and overnight stays. The announcement states that over 18.7 million tourist arrivals were realized in the past year, of which 16.6 million were foreign, which is an increase of 6.7% compared to the data from 2017, and as the most numerous foreign tourists stand out those from Germany. Croatian Chamber of Commerce has latest analysis where it states that for the first fifteen years in the 21st century, Croatia recorded a growing trend of tourist overnight stays. The only exception is 2009, when the rest of the world is feeling changes of the economic crisis that are in a big number of sectors. Along with the growth of this indicator, the growth of foreign exchange income from tourism is also mentioned, which also falls only immediately after the crisis.¹⁴

Croatia as a tourist country on the world map could be located as early as the 1960s, when mass tourism was in its infancy. From the earliest years, the number of tourists in Croatia has grown by 5.4% per year, and their consumption in US dollars has increased by over 19% each year.¹⁵ The number of foreign visitors fell sharply in the early 1990s due to the Homeland War. Already after the first military actions, Croatia became an undesirable tourist destination, but due to the Homeland War, other tourist countries such as Spain, Greece and Turkey benefited. In terms of security, they had a comparative advantage over Croatia, which is losing the status of a safe tourist state due to armed conflicts on its territory. However, as the war drew to a close, the level of risk decreased, and the number of foreign tourist arrivals gradually increased.¹⁶ If we take into account the fact that from the end of the war until the economic crisis the number of foreign visitors was constantly growing, the tourism sector in Croatia recovered relatively quickly and extremely successfully from the negative image of the early 90's.

¹⁴ Strelec, D. (2019) Sigurnost i turizam u Hrvatskoj, Forum za sigurnosne studije, 3 (3), pp. 95-115.

¹⁵ Orsini, K., Ostojić V. (2018) Croatia's Tourism Industry: Beyond the Sun and Sea. European Economy, Economic Briefs, 36 (1), pp. 1-10.

¹⁶ Currie, D. I sur. (2004) The Impact of War on Tourism: the Case of Croatia. Palma de Mallorca: Conference on Tourism Economics, pp. 5.

Croatia is one of the countries that attracts tourists mostly because of its wonderful nature rather because of the good quality and service. It has big space that is just nature which includes very interesting historic atmosphere and story. Beside very beautiful natural attractions, the most important place is the sea coast and Adriatic sea. What is interesting to know is that Croatia has more than 3000 islands. Most of them are wild. Talking about economic situation I would like to mention that in contrast to Montenegro for example, Croatian government does not allow to sell their „nature“ and place. Except the sea coast it has also greenery and forest cover which is a large part of the territory. Taking into consideration the whole space that belongs to Croatia it has an extremely big quantity of tourist-attractive protected natural areas. If we talk about the biodiversity, we can say for sure that it is at the top in Europe. Big future is expecting tourist areas that are not so developed. It is the tourist valorisation of the area along the Danube, Sava, Drava, Una, Kupa, Cetina and other rivers, as well as lakes and other inland waters. Besides the natural beauty attractions that are related to the sea such as Brijuni, Kornati and Mljet National Parks, Croatia has a big quantity of attractions that are connected to karst phenomena such as waterfalls and travertine barriers of Plitvice Lakes and Krka River, Velebit rocks, caves, and other karst attractions. It also has large number of unique national parks and nature parks in the continental area such as, among others, Risnjak, Žumberak, Lonjsko polje, Papuk and Kopački rit. Several national parks also offer the hotel accommodation. It is organised in Plitvice Lakes, National Park, Brijuni National Park and Mljet National Park. What is also interesting to mention that there are a large number of cultural assets that are under protection of UNESCO. For example:, Diocletian's Palace in Split, historic centre of Dubrovnik, Šibenik Cathedral, the historic center of Trogir, the Euphrasian Basilica in Poreč and Starogradsko polje. Besides these one which are the most famous, it also includes the Pula amphitheatre, the historical core of the town of Hvar, the walls of Ston and a large number of individual buildings which are located in well-preserved historical units of Zagreb and many other Croatian cities. What we cannot forget is that Croatia beside rich natural and culture offer has more than a thousand castles, manors and fortifications. They have a special potential to be developed, hope in the near future. Additionally, Croatia has the highest intangible heritage which is under UNESCO protection which is situated in Europe. When are looking on the global list, only China and

Japan are behind. Beside the complete richness of all these different types of locations, only small quantity of them have been valorised by tourists and has included destination offer.¹⁷

Besides a big variety of natural attractions that Croatia has, there have been created big amount of touristic attractions. It includes centres for congress, amusement parks, courses for golf, visitor centres. They are all very well-designed thematically. Without all above mentioned it would be very difficult to establish the preconditions for the expansion of the internationally recognized production combination, the continental area of tourist activation includes the coastal hinterland and the season extension.

On my opinion what would be good for Croatia and what can be improved- is mountain and sports tourism. This country has a very rich nature and a great potential to highly increase the supply and demand offer. For example it would be good to increase the quality of bike trails which also includes all necessary infrastructure and superstructure. It would be also good to develop diving and sailing centres and other facilities that are necessary in order to create and keep perfect quality for long-term output that leads to sustainable market positioning in the market of special interests.¹⁸

¹⁷ Vlada Republike Hrvatske (2013) Strategija razvoja turizma Republike Hrvatske do 2020. godine. Zagreb: Vlada RH, pp. 5.

¹⁸ Ibidem

3. Foreign direct investments

3.1. *The concept of foreign direct investments*

I would like to describe the concept of foreign direct investments.

Let's start from the balance payment which consists of foreign direct investment and it includes: capital investments, profit relations, debt relations that are retain profits and debt relations between capital-related residents and non-residents. Let's more detailed look into direct investments.

So, the owner should get at least 10 percent of the share capital in order to have direct investment. Talking about the survey of the the Croatian National Bank's on foreign direct investment that was started 1977, we can see that there is no data on retained earnings and other direct investment. Only after that research investment, capital that was divided into debt relations has become available.

External statistics regarding the debt data shows the debt relation within direct investment that has been recorded on the basis external debt records at the beginning of 1999. The transactions that have relation to the sale of real estate are also part of direct investments. In 2007 the CNB Statistics Directorate has launched a research that is connected to the real estate sale in the Republic of Croatia by non-resident parties whose notaries are the one who study such type of transactions. Real estate data by foreign residents of Croatia that live abroad was collected within the international payment system till its abolition at the end of 2010, and since 2011 these data have been collected on the basis of the Report on Real Estate Abroad.¹⁹

On the graph below, you can see more in details how does GDP behave during the period from 2000 to 2017.

It perfectly shows the highest possible increase and decrease in the GDP.

As we can see, during 2009-2010 it was the lowest result due to the economic situation in the world.

¹⁹ HNB, Inozemna izravna ulaganja, available at: <https://www.hnb.hr/statistika/statisticki-podaci/sektor-inozemstva/inozemna-izravna-ulaganja> (accessed: 1.9.2021.)

Figure 1. GDP growth, 2000-2017 (year-on-year percentage rate in constant prices)

Source: <https://www.oecd-ilibrary.org/sites/39e6df56-en/index.html?itemId=/content/component/39e6df56-en>



Additionally, as of 31 October 2014, the Croatian National Bank started publishing data in the field of foreign relations statistics (balance of payments, external debt and international investment position) in accordance with the methodology prescribed by the sixth edition of the Balance of Payments and International Balance of Payments Manual. Investment Position Manual, BPM6). In accordance with the new statistical standard application, the direct investment presentation form is also changing. Direct investments classification is not anymore regarding so-called directional principle in Croatia and outside, but according to the BPM6 standard, the so-called Assets / Liabilities principle. Additionally, direct investment is divided into:

- direct investment enterprise that includes direct investment
- Reverse investments - these are investments in which the recipient which is original has an investment fewer than 10% in the capital of its direct investor or gives him some form of loan (credit, debenture).
- investments between horizontally connected companies. This form of equity direct investment implies investments in which the investor owns less than 10% of the share capital, if in the reporting entity the same group of companies has an investor. Then, a number of companies that includes legal entities over which direct or indirect management is performed by natural person. In comparison with the methodology

that was before, this type of direct investment was included into the data but was not singled out.²⁰

The motives of the recipients of foreign direct investment conclude the comparison of the social costs and benefits that are reason by foreign direct investments. FDI includes social benefits and gains that are catching out through different positive impacts. The generation of profits by a multinational company, which is taxed, is providing important inflows into the state budget. On the other side, we have common fiscal measure in order to attract international investments. There is also a possibility to create new jobs, in order to transfer all kinds of skills and knowledge. If foreign companies have an access to manufacturing sector it can result the increase in competition, which causes the pressure increase on more efficient operations of the rest sector. A very important reason to the recipient country is the fact that FDI that is coming is not included in the foreign debt. That means that they have an additional motive to take as much as possible of direct investment, given other products into financial account of the balance of payments. Foreign direct investments can have potential social costs that can be a reason of the decrease in employment due to the workforce realization in the acquired company. Labour market distortions may come over, i.e. the quantity of “good” work may decrease and the quantity of “bad” work may increase (distinction in wages of workers that have the same skills or readiness change due to FDI and imperfections that are happening in labour market.). If we are talking at the macro degree, it can include the current account deterioration of the balance of payment in hosting country.²¹

Foreign investment competitors often point to fears the growing influence of the companies that are multinational on the countries stability and achieving a monopolistic relationship between the countries that are multinational and the recipient one. The reason of the recipient countries of FDI are the social benefits that should be realized, and are reflected in the transit of technology, skills, their positive influence on the growth in economy, employment, foreign trade, investment and the protection of environment in the country of the host.²²

²⁰ HNB, Inozemna izravna ulaganja, available at: <https://www.hnb.hr/statistika/statisticki-podaci/sektor-inozemstva/inozemna-izravna-ulaganja> (accessed: 1.9.2021.)

²¹ Petrak, Ž., (2000) Izravna strana ulaganja i razvitak. Zagreb: Ministarstvo vanjskih poslova Republike Hrvatske, pp. 10.

²² Ibidem

3.2. The impact of foreign direct investments on the development of the recipient country

We can see that at the beginning of 1990th it was on one side a period of new demanding challenges such as political and social but on the other side it is was also a period of unique opportunities for economic development and investment. FDI has become vital for the development of transition countries, as they became very open to international to the international business. The influence of FDI and multinational companies on recipient countries is numerous. Companies that are multinational possess numerous ways that help the particular country to grow and develop. The resources that are included: technology, management, skilled workforce, network of international production and famous brands. Companies that are multinational also raise the development in a way that it increases the level of investment stocks in the host country. On the other side, multinational companies may cause a negative impact on the development of the country. The introduction of big amount of companies that have efficient internal markets can be more expensive than regular ways of adopting the funds that the transnational companies can provide. In addition to the effects that foreign direct investment can have on investments, employment, foreign trade, we will also look at the effects they have on economic growth and competitiveness, i.e. technology and innovation.²³

3.3. The influence of FDI on economic growth and technological convergence

At this moment the connection link between FDI and the growth in economy does not yet exist, but the latter is developing more and more studies that speak of a positive correlation between FDI and the growth in economy. Recent experimental research has focus on the foreign direct investment potential to accelerate technological convergence and positively impact economic growth prospects. Based on exploration that was conducted in the end of 20th century and based on projects of Barr's regression equations of growth for a large number of countries, it can be concluded that rapid growth is, among other things, associated with high savings and investment in human and physical capital, a well-educated workforce, and therefore with the ability to bridge the technological gap to countries that are at an

²³ Bilas, V., Franc, S. (2006) Uloga inozemnih izravnih ulaganja i načini poticaja. Zagreb: Ekonomski fakultet u Zagrebu, pp. 1-16.

advantage in this regard. Therefore, growth rates in developing countries can be partly explained by the extent to which it manages to keep pace with developed industrial countries in the adoption and application of modern technologies.²⁴

FDI can also include broadcast of intangible assets as modern technology. In this way, foreign companies may have a significant impact on the growth of production. Therefore, foreign direct investment by multinational companies is considered as basic channel through which countries that are developed enough reach an access to state-of-the-art technologies which plays an important role in defining economic growth. The same production has developing and developed countries. The difference includes the technology that is outdated, and some goods are not produced at all because of the deficit of technological knowledge in developing countries. Taking into consideration that similar technologies also exist, developing countries do not use them very often because they do not have needed skills. Contrary to neoclassical growth models, it has been concluded that technology is not a free good that is available to all businesses in all parts of the world. Moreover, certain technologies are not available unless their owners choose to license them.²⁵

Giving the huge attention to the economic growth investment, it is serious to determine whether the FDI inflow causes an increase in total investment in the country or a decrease in it. If foreign direct investment enters sectors where there is already competition from domestic companies, a competitive struggle is possible, the consequences of which are a reduction in inventories and a delay in investment, as well as the exit of some companies from the sector. This can reduce overall investment in the sector, and thus in the economy as a whole. If, however, foreign direct investment enters a new sector, there is a great opportunity for total investment to increase.²⁶

The impact of inward foreign investment on foreign trade and employment depends on substitution of the FDI, exports prevails, or If substitution and imports prevails. If the integration of foreign direct investment prevails, due to foreign direct investment, exports will also increase, which will also expand domestic employment. This is therefore a advantageous situation for employment. The situation is transformed with the substitutability

²⁴ Ibidem

²⁵ Bilas, V., Franc, S. (2006) Uloga inozemnih izravnih ulaganja i načini poticaja. Zagreb: Ekonomski fakultet u Zagrebu, pp. 1-16.

²⁶ Ibidem

of foreign direct investment, where the export sector which includes employment comes apart to employment in the economic sector to the recipient of foreign direct investment. On the other hand, If we take into account that the substitutability of foreign direct investment prevails, employment can be increased due to the foreign-invested company which can offer previously imported products in domestic market.

The effects of foreign direct investment, i.e. the entry of different companies, can be separable. It depends on recipient countries if they want to esteem the potential benefits and costs. Taking into consideration the fact that the countries of transit are not wealth enough in order to encourage their own technological progress, in most of the cases they will count on foreign companies to help them in this situation. A well-developed and tailored long-term strategy for attracting foreign direct investment is extremely important and is a condition for optimizing the positive effects that these investments can have on the national economy development.

Having the growth in competition between developing countries in attracting foreign investment, meeting the basic economic preconditions is no longer enough to encourage entry of foreign investors. In addition to policies to improve the country's basic economic conditions, governments must also develop selective measures to encourage foreign investment.²⁷

Foreign direct investment is most often attracted by very measurable self-interest; or a large domestic market, or lower production and overall operating costs, which provide an advantage over competitors and enable export-oriented production. That is why overall competitiveness must remain one of the core areas that governments seek to ensure in order to attract foreign direct investment. A free and open market is a prerequisite, but due to its disturbances and a kind of anarchy it is not enough. Cheap labor remains a competitive advantage in attracting foreign direct investment, but its importance is declining, as it alone is not sufficient to ensure sustainable growth or attract foreign investment. It is similar with natural resources whose importance is also declining.²⁸

²⁷ Bilas, V., Franc, S. (2006) Uloga inozemnih izravnih ulaganja i načini poticaja. Zagreb: Ekonomski fakultet u Zagrebu, pp. 1-16.

²⁸ Ibidem

In conditions of full awareness of the importance of foreign direct investment for development and open fierce competition in attracting foreign investors, many countries create special benefits that seek to influence decisions on the choice of foreign investment destinations.

In doing so, some countries are more or less successful than their direct competitors, but before that they must meet certain precondition without which there is no foreign investment or at least no one whose orientation is long-term. In order for a country to be able to think about attracting foreign investment at all, ie to be able to compete with competitors, it is necessary to meet some criteria that are the basic prerequisites for the attraction of foreign investment:

- Political stability which we can explain as capital of long-term conditions, ie the host country development that can be a result of investment, has no connection with politically whirling areas. Political instability is most often attracted by speculative and "dirty" capital which, due to increased risk, expects high earnings in the short term.
- Stability of the national economy - unstable economy, social unrest, currency that is not stable and generally volatile and volatile business conditions are definitely not an environment that will stimulate foreign investors.
- The construction of infrastructure – market liberalisation that has established market institutions in order supply free market competition; developing legal infrastructure that has good company, employment, incentive and anti-corruption laws, etc. The building of infrastructure of telecommunications significantly enhances government efforts to attract foreign investment. Equally serious is workforce that is well educated, mobile and adaptive to new technologies and new technological and organizational processes.
- Credibility of government policy - credible government is also a prerequisite for a more significant arrival of foreign capital. Investors coming in the long run certainly want to be sure that they can trust the government's policy and that they can confidently anticipate its future moves. Transparency and predictability of

government policy, i.e. predictability of the development of the entire socio-political system are extremely important.²⁹

Simply put, there are two basic prerequisites that must be met for a country to become attractive to foreign investors: stability and profitability. If the country with its overall policy provides an environment in which there are stable conditions for smooth and profitable operation, foreign direct investment comes almost automatically. In the last two decades, FDI has had an increasing effect on the development of developing countries.

Accordingly, it can be concluded that the competition, i.e. the struggle to attract foreign direct investment between these countries is getting stronger and harder. The governments of developing countries face a difficult task improving the basic economic conditions in the country, devising additional incentives to encourage foreign investors to invest in their country.

The most widely accepted principle of business of foreign and domestic investors are rules of national and equal treatments. Additional incentives are not only an important stimulus in attracting foreign direct investment but are also a means by which governments can very effectively channel these investments into specific sectors or regions.

The choice of incentives depends primarily on the goals that the government wants to achieve in the short term with the development of the national economy. Additional incentives usually consist of exemption from certain fiscal benefits for a certain period of time. In many cases, governments set different conditions and requirements related to the realization of incentives to ensure the expected positive effects of foreign direct investment. Some of these requirements can be: setting a minimum amount of investment, a requirement for participation of the domestic sector, requirements related to employment, requirements related to technology transfer, etc.³⁰

²⁹ Bilas, V., Franc, S. (2006) Uloga inozemnih izravnih ulaganja i načini poticaja. Zagreb: Ekonomski fakultet u Zagrebu, pp. 1-16.

³⁰ Bilas, V., Franc, S. (2006) Uloga inozemnih izravnih ulaganja i načini poticaja. Zagreb: Ekonomski fakultet u Zagrebu, pp. 1-16.

4. The impact of tourism industry on FDI in Croatia

4.1. FDI in Croatia

In the case of FDI, it is very important to mention that common interests have recipient and provider. Foreign direct investment is a process where a non-resident of one country (the investing country) acquires full or partial ownership of the assets of an enterprise of another country (recipient country) for the purpose of expanding the business or rebuilding an existing enterprise. Croatia has benefited from foreign direct investment not only in opening new production facilities, expanding an existing company or procuring better equipment, but also in transferring modern technology from more technologically advanced countries.

FDI increases accumulation of the capital in recipient country, knowledge level through capital education, increases in the competitiveness of domestic economy. The effect of FDI on the growth of economy in the country depends on economic and technological development of the recipient country.

The most important factors that are taken into account when determining the location of investment are: the rate of GDP growth, purchasing power of the population, market size, quality human resources, stable political and business environment.³¹

When it comes to the economic growth of developing countries, including Croatia, it is necessary to reach a certain level of development so that they can take full advantage of FDI inflows. Important preconditions that the Republic of Croatia must meet are the improvement of legal regulations in order to remove administrative barriers, adjust tax policy and reduce corruption.

The purpose of stimulating investment is economic growth and the goal to involve Croatia in international trade, as well as increasing competitiveness. The goal of the Republic of Croatia should be to build a transparent, stable and motivating business environment. So far, investments in tourism have been focused on rebuilding existing capacities. The most important „products“ in Croatia are sea and sun. It is nautical, business and cultural tourism, while other products and services are insufficiently developed and differentiated, which is why there is a lack of innovative and better facilities to extend the tourist season. Today, the

³¹ Javoran, R. (2017) Inozemna izravna ulaganja u turizam Hrvatske. Pula: Sveučilište Jurja Dobrile u Puli, pp. 45.

tourism in Croatia depends on the development of the diversification of production in the new forms of tourism.³²

Global indicators and development trends are very important for analyzing real indicators, trends in the tourism. National, cultural and others particularities in the context of globalization have an additional appeal. As a receptive tourist market located in the middle of the Mediterranean and Europe, Croatia accounts for more than 50% of the global tourism product. One of the key advantages of Croatia as a tourist country has certainly contributed for becoming the target of the big quantity of tourist's transformation. Primary motives for investing in Croatian tourism are always excellent geographical location, Mediterranean climate, preserved and beautiful coastline.

Quality infrastructure, good connections between eastern and western and southern and northern Croatia are also an advantage and motive for investing in the sector of tourism in Croatia. Specification of the tourism sector is reflected in the almost unlimited number of factors that affect the demand for a tourist product.³³ Measures that the Republic of Croatia will take to increase investments in tourism:

- greater marketing activities and product development;
- investing in the development of human potential (harmonization of curricula with the needs of the economy, technical equipment of vocational schools, establishment of specialized business colleges, tourism as part of the primary education program, connection with world educational centres' of excellence);
- tourism management of policy;
- creation of a stimulating investment environment, that is focused on the removal of restrictions on entrepreneurial and investment activities;
- decrease of fiscal pressure (VAT, profit tax, tax on salaries and other incomes, contributions to and from salaries);
- implementation of the incentive system (lending of investment projects through HBOR);

³² Javoran, R. (2017) Inozemna izravna ulaganja u turizam Hrvatske. Pula: Sveučilište Jurja Dobrile u Puli, pp. 45.

³³ Ibidem, pp. 32.

- Management establishment of new rules in hotel complexes / resorts (sale of all accommodation units (apartments), provided that the sold capacities remain in hotel use).³⁴

Observed by individual years during the entire period from the independence of Croatia until today, the share of foreign direct investments in the hotel industry in total FDI in Croatia significantly oscillated. Since independence, Croatia has received over 27 billion euros in FDI, of which about 700 million euros, or 2.6%, went to the hotel industry. Investments started to grow slightly in 2007 and reached their peak in 2008 and 2009.

Investments in 2012 decreased compared to previous years, but began to grow again in 2013, and in 2013 investments amounted to EUR 49.3 million. Investments in 2015 and 2016 started to increase again.

Croatia stands out as a potential Mediterranean and a very interesting sector, however, although there is a lot of interest, there is not much progress. So far, investments have been focused on the renovation of existing capacities, which can be understood because the existing capacities are located mainly in the most attractive locations. Through privatization and foreign investment, much of the existing capacity has been thoroughly renovated.³⁵

Croatian tourism and its future depend on the acceptance of product diversification policies and the development of new forms of tourism. The lack of congress centers, golf courses, health and wellness facilities prevents global competition in new products.³⁶

The high demand of wealthy population has increased 4 and 5 star hotels. The introduction of new products, greater direct and indirect benefits from tourism can be achieved (higher level of supply, higher quality, prolongation of the tourist season, reduction of the unemployment level, increase of the standard living). In order to have good competition on the market, Croatia should have high level of quality. Since without that it would be impossible to reach such results. It is important to take into consideration all changes and improvements that are happened in the market of international tourism.

Croatia's market position can be improved only if the offer and the way it enters the market are adapted to modern developments in the world tourism market, especially in the European

³⁴ Ministarstvo turizma i sporta (2017) Strategija razvoja turizma do 2020 godine, available at: <http://www.mint.hr/UserDocImages/Strategija-turizam-2020-editfinal.pdf> (accessed: 1.9.2021.)

³⁵ Ibidem

³⁶ Ibidem

Union because these countries include the most important emitting countries, but also the strongest receptive countries of international tourism.

Various measures introduced by EU member states (abolition of internal borders, encouragement of tourist propaganda, harmonization of measures, policies and standards in transport, introduction of information systems, etc.) significantly change the situation on the European tourist market by imposing behaviour on Croatian tourist providers market.

Croatia offers lower quality and diversified catering offer and services than the main competitors (Italy, Spain, Greece, Turkey, etc.) and regardless of the high quality of the overall characteristics, only by improving the quality of the overall offer can encourage a faster return to the tourism market.

The first and important advantage of encouraging investment is certainly the favorable geographical position and good transport connections and Croatia's entry into the EU. One of the biggest weaknesses is the existence of administrative barriers to investment, which discourages investors.

There are many opportunities for investments, one of them is certainly the use of EU funds, various incentives, technology development, adoption of new knowledge and technological advances, investment in employees and more. Challenges to be faced are global changes, crises, instability of the political situation, illegalities in tourism management.³⁷

4.2. Influence of tourism industry in Croatia on foreign direct investments

Due to the big potential in economy and employment, and its influence on the society, tourism has a big impact in EU. Reports in the field of tourism are used to monitor EU tourism policy and to monitor its regional and sustainable development policy. During 2014, every tenth company belongs to tourism in the non-financial economy of Europe.

What is interesting to mention is that more than 2 million people got job in more than 2 million companies. Industry enterprise that has tourism-related activities employed more 9% of people in the non-financial economy, and more than twenty one percent of people got a job in the sector of services. The analysis regarding the tourism in Croatia is based on the index of tourism and competition.

³⁷ MINT (2014.) Strategija razvoja turizma do 2020. godine, available at: <http://www.mint.hr/UserDocImages/Strategija-turizam-2020-editfinal.pdf> (accessed: 1.9.2021.)

The Travel and Tourism Competitiveness Index measures “expensive factors and policies that enable the sustainable development of the travel and tourism sector, which contributes to the development of a country's competitiveness”.³⁸ The index of tourism competitiveness allows working together the stakeholders in order to improve the competitiveness of industry in the national economies.³⁹

The FDI statistics is largely driven by the need to understand the importance of FDI flows for economic development and to determine the extent to which a country has succeeded in attracting this source of funding. Globally accurate and international comparable data are provided by UNCTAD, including manuals, publications, and through online databases. UNCTAD statistics track the countries of the world classified into three main groups:

- developed countries,
- transit economies
- developing countries.⁴⁰

The countries that were selected for the research as developing: Croatia, Slovenia, Italy, Portugal, Greece, Malta and Cyprus. While the transition countries were: Albania, Montenegro and Bosnia and Herzegovina.⁴¹

FDI in tourism has affected the increase of the production in tourism sector and the increase in the quantity of employees. The increase in tourism production in past years shows that Croatia is on the way to become an active producer of economic development. In order to monitor modern trends, it is important to take a place in the market competition.

Great potential and upward trend of success would be a brief description of the current situation in Croatian tourism. The presented strengths, weaknesses, threats and opportunities should enable the improvement of the situation in Croatia, adjust and enable the attraction of as many investments as possible in tourism and other branches of the economy. Croatia is a country with countless potentials and opportunities for development. By removing all weaknesses that threaten it and strengthening its capabilities and strengths, Croatia and

³⁸ Pletikosa, D. (2015) Utjecaj inozemnih izravnih ulaganja na uspješnost poslovanja u hotelijerstvu. Zagreb: Ekonomski fakultet u Zagrebu, pp. 37.

³⁹ Ibidem

⁴⁰ Ibidem

⁴¹ Ibidem

Croatian tourism can provide a large number of investments that would enable the improvement of the quality and offer of accommodation, events, development of selective forms of tourism.

In the tourism of Croatia the investment level was not satisfactory during past years due to numerous restrictions and obstacles. There was too little greenfield investment by new investors. Larger hotel tourism companies have invested modestly, mostly only in renovating the facilities that already exist.

During the same period, that phenomenon usually occurs outside of tourist areas; insufficiently controlled the building of apartments and homes for holidays. It has created an impression of excessive concreting of the coast. The accent is on the part that there were almost no investments in tourism development. The Government plans the launch of the concrete development and investment projects of international recognition. The goal of these development and investment projects is to be able to attract new segments of tourist demand with their qualitative characteristics, raise the quality and / or diversity of the destination offer, prolong the season and make contribution to the improvement of the international image of Croatian tourism.

The establishment of environment of the investment leads to strong connection of public administration including the preparation of different conditions for improving the competition in tourism, and developing different projects regarding investment. It is also planned to launch a number of measures aimed at creating conditions that will ensure long-term market sustainable business and investment. Special attention will be related to the development of marketing, human resources, destination management.⁴²

⁴²MINT (2014.) Strategija razvoja turizma do 2020., available at: <http://www.mint.hr/UserDocImages/Strategija-turizam-2020-editfinal.pdf> (accessed: 1.9.2021.)

5. The importance of the technology on FDI in Croatia

5.1. The importance of technology in foreign direct investments

I would like to take into consideration the study about the importance of the technology in FDI of the receiving countries that was defined in 2013 by Bodman and Le. They found out the new way of how research and development sources show whether FDI is leading to better labour force.

They claimed about the countries that are more open to international investments usually are developing pretty faster than other ones.

It is said that since FDI also conveys the knowledge about technology and are open to the direct investments and trade, it leads to the growth of economy. Beside the importance of the capital, they said that it is also important to study from the sources of foreign technology.

Another researcher Todaro has discussed about the fact that FDI has an influence on the competitiveness of the country due to increase in capital production. He has also added that it allows the host country increase capital in fortunate conditions.

Several years later, another researcher Mr. Swenson claims about FDI that the increase of the competition through the transfer of technologies can change the economic volume of the country.

5.2. Role of technology in FDI in Croatia

During first period before joining the European Union, FDI in Croatia were mainly related to finance and insurance, telecommunications, retail, real estate, media, and partly in tourism, energy and the food and beverage sector. These foreign investments were primarily oriented towards the provision of services or production for the internal domestic market. According to its characteristics, it was largely the so-called "Brownfield" investments, i.e. they were realized through the acquisition of existing companies. After Croatia's accession to the EU, there was a visible increase in the interest of potential international investors for other types of investments, those focused primarily on production or provision of services for large European or global markets, by joining global value chains.

These investments are more often the so-called "Greenfield" type, i.e. investments that were established and the construction that brings to the new companies more significant job creation and greater stability to the economic growth of the host country given its broader export orientation. One part of this type of investment was realized, mostly in the northwestern part of Croatia and the area of Istria and the coast, in production and service activities where the IT sector proved to be the most dynamic, especially in software development activities.

The results of investments in manufacturing can also be seen through their contribution to the growth of the share of exports of goods in GDP, which has grown faster since 2013 and has become higher than the share of tourism in Croatia's GDP.⁴³

Interest and opportunities for attracting new investments of this export-oriented type still exist, among other things due to the saturation of traditional countries-locations with already realized investments, but it is necessary to prepare and work in a targeted and active way to attract them.

Experience and research show that the following criteria are key when making a decision on choosing a location for investment to potential investors:

- Availability of employees with different skills - including regional and educational structure of potential employees, education system, knowledge of foreign languages, work and cultural compatibility.
- Cost competitiveness - including total staff costs, infrastructure use costs, tax and regulatory costs as well as available incentives for new investments.
- Business environment - an assessment of the business environment related to the transparency of business regulations and their application, the speed of investment, predictability of business conditions and legal certainty (eg intellectual property protection, data protection and competition regulations). The development of infrastructure is also important, such as the availability of business premises and transport connections, but also the perceived business compatibility, standard of living and safety of a particular location.

⁴³ American Chamber of Commerce in Croatia (2021) Privlačenje ulaganja u Republiku Hrvatsku. Zagreb: AmCham, pp. 6.

- Digital readiness - the latest criterion within which the existing digital infrastructure is assessed, the general level of digital skills, the level of use of digital tools and processes in the public and private sector and the level digital security.

Currently, the Republic of Croatia can be competitive in:

- Potential availability of required employee profiles, in part due to the still smaller number of realized investments;
- Parts of operating costs and investment incentives - where employee labor costs, as an important element of site selection, can be assessed as generally competitive compared to the so-called. mature investment locations and as higher, but with a tendency to approach the so-called. New generation locations in the Eastern European and Central parts.
- One part of the business environment related to membership in the European Union, partly infrastructure, compatible approach to work and business, positive living standards and security;
- Parts of digital readiness - such as digital skills in young people and partially digitized processes and services.⁴⁴

⁴⁴ American Chamber of Commerce in Croatia (2021) Privlačenje ulaganja u Republiku Hrvatsku. Zagreb: AmCham, pp. 6.

6. Conclusion

To conclude I would like to briefly summarize what I have mentioned in these paragraphs.

So, let's sum up what has been defined regarding tourism, foreign direct investments and its impact of technologies.

Basically Croatia as a touristic country has become very attractive to foreign investors only at the end of the last century, when larger foreign direct investments have entered the market.

On one side talking about tourism as an integral part of the economy, we see that it is the complexity of the structure, seasonality of the business, unproductive work, and the specificity of the market in the pursuit of the realization of the tourist experience while creating a number of direct and indirect, primary and secondary influences. The definition of tourism explains that it is a complex phenomenon because the modern tourist is eager for different new experiences and the boundaries of the same, i.e. expectations of realization are difficult to determine. It is basically the difference between expected and realized. We can see that travel is intensified not only for rest or recreation but also away from everyday life, business travel, which is greatly helped by the development of tourist infrastructure and superstructure.

The increase of the tourist product in past years explains that Croatia explains that tourism is becoming an active producer of economic development.

On the other side when it comes to the economic growth of developing countries, including Croatia, it is necessary to reach a certain level of development so that they can take full advantage of FDI inflows.

To summarize the main information regarding foreign direct investment we can say that it is consisted of the balance of payments and includes capital investments, retains profits and debt between capital-related residents and non- residents.

I would like to add that intangible assets and transfer of modern technology are also components of FDI. This is the reason how foreign companies have influence on long-term economic growth in recipient countries.

The input on foreign investment on employment depends on whether the substitution of FDI and exports prevails.

This was a reason why foreign direct investment is one of the basic channels.

Croatia had a benefit from FDI not only in opening new production facilities, expanding an existing company or procuring better equipment, but also in transferring modern technology from more technologically advanced countries.

Talking about the earliest period during the time when Croatia joined European Union, FDI in Croatia was mainly related to finance and insurance, telecommunications, retail, real estate, media, and partly in tourism, energy and the food and beverage sector. These foreign investments were primarily oriented towards the provision of services or production for the internal domestic market

After Croatia's accession to the EU, there was a visible increase in the interest of potential international investors for other types of investments, those focused primarily on production or provision of services for large European or global markets, by joining global value chains

So, observing by individual years during the entire period Croatian tourism and its future, we can conclude that it depends on the acceptance of product diversification policies and the development of new forms of tourism. At the same time FDI in the tourism industry that were influenced by IT sector, has affected the growth of the productivity of the tourism industry and the growth of quantity of employees in tourism.

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