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The role of the FDI in Croatia's tourism sector

JEL Classification: P29

S U M M A R Y

Croatia has a significant comparative advantage in tourism sector in terms of unspoilt nature, a unique geographic landscape with more than 1,000 islands, high quality and clarity of sea and friendliness of the local people. But after the deep fall in international arrivals and overnights during the war period, Croatia has not achieved yet some before-war figures. During the period of the war, the main Croatia's competitor evolved to meet changing consumer demands, investing in new infrastructure, diversifying their tourism products and strengthening their presence in markets were once Croatia's main international sources. Croatia offers significant potential for development tourism in different segments like rural, wine, sport tourism, but also can meet the sophisticated demand of small elite group of tourist. In spite of a great potential, Croatia's attractiveness to foreign direct investment was not very high. During the last ten years, tourism sector in Croatia has attracted about 4 per cent of total FDI. In this paper we analyze the operating system and results of companies before and after FDI aiming to evaluate the role of the FDI in the Croatian tourism sector.

Key words: tourism arrivals, tourism model, FDI, productivity, Croatia

1. Introduction

The prevailed tourism model in economic literature is demand rather than supply side model and is opposite of the Traditional Trade Theory which stresses comparative advantage as a main generator of merchandise exports flows. The tourism demand model is concentrated on variables which could be divided into two groups, development level of countries which send people and price factors which include all price elements such as price of services as well as exchange rate and cost of living. Price competitiveness affects the attractiveness of a destination as changes in tourism prices influence the amount of expenditure undertaken. Mentioned tourism-demand model ignores the supply-side element like comparative advantage and the level of competitiveness. According to Traditional Trade Theory as much as New Trade Theory, those elements have become the most important in generating exports trade flows, so that in this paper we analyze the FDI inflows and their impact on whole operating system in tourism companies in Croatia and the influence on the competitiveness level.

The FDI represents investment in facilities in a foreign country for different purposes like production, distribution, marketing purposes, R&D, etc. It should be stressed one very important element of the FDI and this is control. However, even 100% ownership does not guarantee total control. So, the definition is not straightforward and unique because it is difficult to define “control”. Consequently, countries differ with regard to the minimum percentage of equity ownership that they consider as opposed to portfolio investment.

When foreign investors make a decision where to invest they collect all necessary information about policy framework like: economic, political and social stability; international agreements on the FDI; privatization policy; trade policy; tax policy and etc. Economic determinants depend on the type of the FDI or in other words, depend on investor’s motives. So, we can talk about market-seeking; resource (asset) seeking and efficiency–seeking FDI and their main determinants.

In 2003, global inflows of foreign direct investment were declined for the third consecutive years but at country level situation for some individuals were different. The FDI to developed countries continued to decline in mentioned year, despite sings of a small recovery, while the flows to Central and East European countries fell sharply. Despite the noticed trends in CEEC, Croatia recorded rising growth rate of FDI inflows.

How the FDI affects the host country is an important question, and in this paper we try to provide its answer on the case of Croatian tourism. The paper proceeds as follows. We present a brief theoretical background of the tourism demand model. Then, we discuss the theoretical approach of the FDI and empirical evidence in Croatian economy. The subsequent sections describe the brief history of the FDI Theory, motives and main classify, the data and empirical analyses. In the next section, we analyze the impact of the FDI on Croatian tourism industry and operating system and we conclude by identifying the major characteristics of the FDI in researched case, implication and motives.

2. **Characteristics of tourism sector and tourism-demand model**

According to World Tourism Organization (WTO) statistic, every year more than 700 million people travel from their residential countries to some tourism destinations for different motives and at the first place are: leisure and business business. Tourism growth has been impressive during recent years. The number of tourist arrivals in all countries increased from 69 million in 1960 to 451 million in 1990. As data in table 1 shows, the number of tourist arrivals has been increasing world wide, especially during the 1990s, but also after 2000 with a slower rate. In 2003, three negative elements came together and those factors (the Iraq conflict, SARS and a persistently weak economy) impacted negatively to the international arrivals which slide by 1.7% to 691 million. (WTO, 2004). By the same source, 2004 recorded 760 million international tourist arrivals which is 10% more than in the year before or nearly 69 million of new arrivals. The last time when a comparable percentage has been recorded, was 20 years ago in 1984, when international tourism recovered from the persistently weak economy of the early 1980s due to the second oil crises (WTO, 2005). So, after the three years of stagnation, in 2004 all regions recorded a remarkably growth. It was particularly strong in Asia and the Pacific, 29% and in the Middle East, 20%. In the same period, Europe was experienced a growth rate significantly below world average, nearly 4% but it was still better than the results of the previous year. If we compare the marginal arrivals by region, at the first place is Asia and the Pacific, attracted a half of the new arrivals, following Europe with 23% and America with 15.9%. A number of reasons can be noticed but the main should be the recovery of the world economy, and especially of some American and European generating markets, as well as the strength of the Asian economies.

Table 1: International tourist arrivals in million, 1990-2004

	1990	**1995**	**2000**	**2001**	**2002**	**2003**	**2004**
WORLD	**451**	**545**	**686**	**684**	**703**	**691**	**760**
EUROPE	277,2	316.3	389.6	387.8	397.3	398.8	414
Western Europe	113.8	112,.2	139.7	135.8	138.0	136.1	139
CEEC	37.1	60.0	35.3	63.5	65.3	67.8	152
Asia and the Pacific	57.7	85.6	114.9	120.56	131.1	119.3	153
Americas	91.7	109.0	128.2	122.2	116.6	113.0	124
Africa	15	20.7	28.6	29.2	29.9	30.8	33

Source: World Tourism Organization, www.world-tourism.org

European countries represent the main generating as well as recipient markets with more than 50% in international tourism. However, with 15% of the world population and one-third of the world GDP, the European countries are the largest participants in world tourism, receiving nearly 50% of total arrivals (in 2003, Europe attracted 57.7% of all tourism arrivals) and more than 50% of total tourism receipts. During the first decade of the 21st century, the top main destinations remain France, Spain, the United States, Italy, and the United Kingdom, but figures show the very faster growth of Chine which has overtaken the UK to take fifth place in 2000, and remained also at the same position in 2003.

Current evidence suggests that there are some countries more successful tourism destinations than others. What are the main reasons? It has been argued in the economic literature that tourism is a demand phenomenon rather than supply driven industry. Tourism can be measure by the number of people move from origin to tourism countries or by tourism receipts (money flow). In a more general sense, according to economic literature (Crouch, 1994; Lim, 1997), tourism flows depend on following factors:

- Level of national income (of the tourism original country)
- Number of inhabitants (in the tourism original country)
- Price of tourist product
- Relative terms of the cost of living (rate of the inflation or consumer price index (CPI) ratio between original and destinations countries)
- Distance between two countries and transportation costs
- Currency exchange rate
- Other price factors
- Quality of the product and the ration between quality and price

Mentioned tourism-demand model is focused primarily on income, changes in relative prices, transportation cost and exchange rates between the origin and destination countries and it can be suitable to estimate the tourism demand for a destination country at its main tourism market in the short run. But, this demand model does not include the comparative advantage of tourism destination countries, diminishes sometimes very active role that government or tourist companies play in attracting tourism flows. The tourism demand model ignores also improvement in tourism services, higher competitiveness and development of tourism destinations.

In order to determine and improve the competitiveness level of supply-side, aim to meet the growing demand, there are three main fields which policymakers and management need to consider: infrastructures, education and safety. In infrastructure, we include accommodation capacities, electricity and water supply, but the key factor is transportation facilities as road and public transport system. So, the development of the infrastructure depends, in a great extent, on investment. Croatia as developing country, with a low level of national saving, has strong necessity for foreign capital that can be used to augment domestic savings and, at the same time, enable country to increase the rates of capital accumulation. In recent years, Croatia has improved its road facilities and raised the level of accommodation units, and in this paper, we analyze the role of the FDI in those process. As we know, safety is usually a highly appreciated element in tourism demand, and Croatia in tourism magazines and research is valued as very safety destination. In my opinion, education is a necessary condition for the potential employment of local people and especially there are requirements for a particular knowledge like communications skills, languages, caterings, and management skills. Economists are agreed on the arising necessity for private investments and their importance in the process of improving competitiveness of companies. As it is known, a political reason was the main factor of sharp decrease of tourist arrivals and overnights in Croatia at the beginning of 1990s, and those were years of continues losses, so, tourist companies had not money for investment and the companies have seen the solution of above described situation in the FDI inflows.

3. Theoretical approach of the FDI and empirical evidence on the FDI in Croatian case

The overall international business could be divided into two parts: export and imports of goods and services and investments which cover two different types: foreign direct and portfolio. Foreign direct investment (FDI) is investment of foreign assets into domestic structures, equipment, and organizations and it does not include investment into the stock market. In economic theory, the overall opinion is that FDIs are more useful to a country than investments in the equity, we known as portfolio investments because they are potentially "hot money" which can leave at the first sign of trouble, whereas the FDI is durable and generally useful whether things go well or badly. Portfolio investment, which is not discussed in this paper, is the supply of capital from a lender to a borrower in an agreement which requires borrowers to pay back the 'loan' plus interest over a number of years.

3.1. Theoretical background of the FDI

The most common definition of FDI is related to the compilation Balance on Payment accounts and has been originally provided by IMF (IMF, 1993) and subsequently endorsed by the OECD (OECD, 1996). Foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy (‘‘direct investor’’) in an entity resident in an economy other than that of the investor (‘‘direct investment enterprise’’). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated. We can conclude that foreign direct investment is money invested by a company from one country in a facility or operation in another country and all transaction provides some level of control over the taken company. Countries differ in the threshold value for foreign equity ownership but in many cases this thresholds value is 10 per cent because the fifth edition of the IMF’s Balance of Payment Manual defines the owner of 10 or more of a company’s capital as a direct investor.

The FDI has not attracted any attention in economic literature until the mid-1950s and this first theory model explained three main factors of the FDI (Dunning, 1988) which were pointed out from the Theory of Internationalization, Theory of Location and Product Life cycle. According to the first of the mentioned theories, investors decide to go aboard when they want to exert firm’s advantages which cannot be easily transferred between companies. Sometimes multinational enterprises (MNEs) possess firm-specific advantages embodied in intangible assets (Caves, 1996). In respect with Location Theory, investors try to find better production conditions, which can be expressed through lower labor costs, better quality of infrastructure. Dynamic aspect of the FDI is explained through Product Life Cycle Theory, by comparing the investment time with the time of demand saturation at the “old” market and necessity to explore the new ones (Vernon, 1966).

On the foundations of those first thoughts, in the early 1970s, four new streams of theories were developed. The motives for investment are explained through international competitiveness that could be reached by superior technology, innovative capacity and product differentiation (Caves, 1974 a, b, c) and some other factors stressed in the Theory of competitiveness (Porter, 1990). The next three important theories are Theory of Firm, Portfolio Theory and International Theory. Different streams in a different time have resulted with eclectic Theories of the FDI where the FDI is motivated through three types of advantages, or it is knows as OLI paradigm (Dunning, 1988, 1995). The ownership-specific advantages are presented by "O", which covers technological advantages, scale economies, special qualities of products and other advantages. The "L" advantage captures location and all factors relate with location such as the size of market, factor endowments and others. The firm can find greater benefits combining ownership specific advantages and location conditions by internationalization. (UNCTAD, 1998). According to this, we can classify the FDI into three groups (UNCTAD, 1988):

- Market-seeking which are motivated by access to the new market as well as to increase share in an existing one. As intrinsic motives could be:
  - Market size and per capita income
  - Market growth
  - Access to regional and global markets
  - Country specific consumer preferences
  - Market structure
- Resource (asset) –seeking investors are motivated by provide access to available resources in the host country which are in many cases cheaper. The main factors of this FDI type are:
  - Raw materials and their price
  - Low cost unskilled labour
  - Skilled labour and productivity
  - Technological, innovatory and other created assets
  - Physical infrastructure
- Efficiency –seeking investors aim at neither local markets nor resources, but an opportunity to increase their efficiency by different means, tax incentives and favorable trade policy and others. Motives could be :
  - Cost of resources (land; labour and capital) and

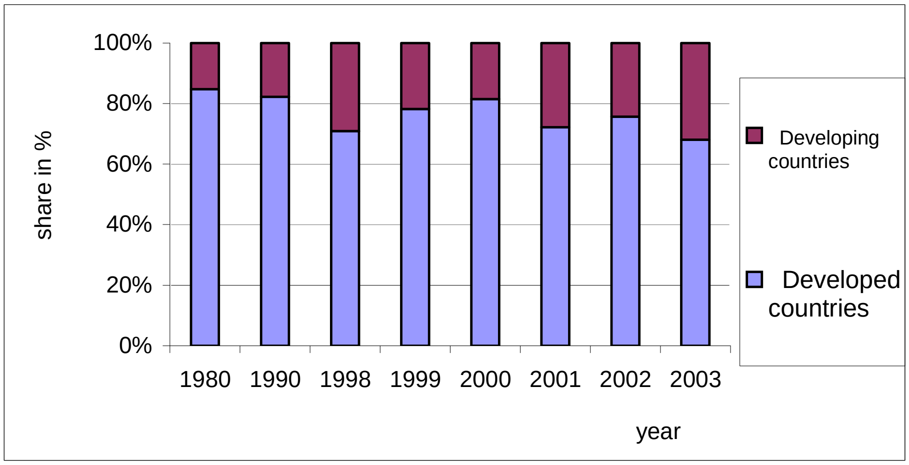
- Membership of a regional integration process.

Besides the classification based on motivation factors, in economic literature there is distinguish between the FDI types in respect with the means by which the FDI are made. When the FDI are classified by investment type, we differ: Greenfield investment, when investors choose to build completely new factory; Brownfield investment, when investors decide to buy but at the same time expand the existing enterprise; Expansion investment, investor aims to expand its own operating facility; Acquisition is motivated by acquiring full or partial managerial control in an existing enterprise while Joint venture has a main goal to share managerial control with one or several local majority shareholders and for this reason investor buy enough shares.

3.2. Trends in the overall FDI inflows

Total world FDI inflows increased significantly between 1970 and 2000, and reached more than 1,380 billion of US $. Afterwards, the FDI inflows have been decreasing continuously, so that in 2003 FDI inflows were a twice smaller than three years before, 559 billion of US $. If we research the FDI inflows by host group of countries, there are noticed the similar trends and the only difference is in the average growth rate of the FDI. Generally speaking, higher growth rates were recorded developing than developed countries, figure 1 and it is with respect to the Theory of the FDI and motives of investors.

Figure 1: Distribution of the FDI inflows by region, 1980-2003



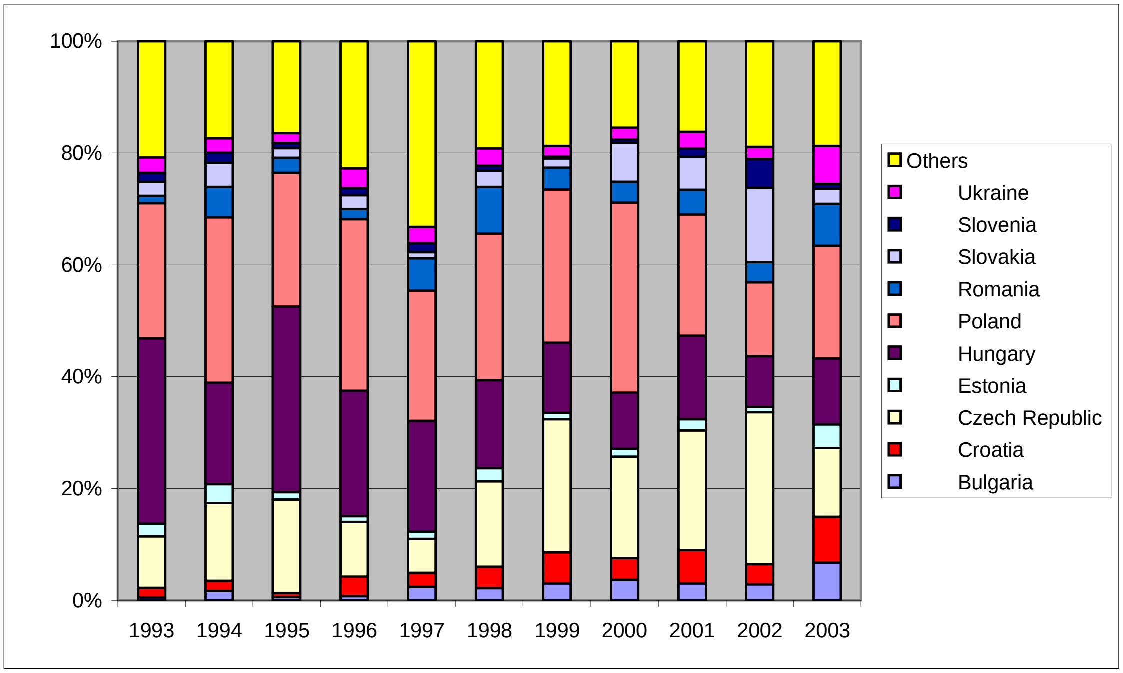
Source: UNCTAD, http://www.unctad.org/sections/dite_dir/docs/wir_inflows_en.xls

For foreign investors, the most interesting sectors are services, but in some least developing countries also natural resources exploitation and production. The FDI in manufacturing and agriculture production legs behinds services and manufacturing industries, with some expectation. But, the overall world's trends show that the FDI in the service industry has increased substantially in recent years. In the case of developing countries, the FDI in service sectors could provide some different kind of services that domestic firms do not supply or could improve them as well as intensify domestic competitions.

3.3. The FDI inflows to the Croatian economy

Croatia as a small European country should be analyzed in the framework of the CEEC, but it is necessary to stress its specific moments. The Croatian economy in the 1990s had several features that made it an attractive setting, transitional economy with a great future potential as a leadership in the South East Europe, but the main disadvantage which had intrinsic influence of the FDI inflows was political situation and war risk. On the other hand, the FDI is very important for less developing countries and as well as transitional economies because the FDI is a quick way of transferring technology and efficient management practices, thus benefiting the entering of domestic firm into world's market. As data in table 2 shows, Croatia became more attractive since 1998 but it has been receiving a very small part of total FDI inflows to Central and East European countries, region that it belongs. As figure 2, shows, for the foreign investors, the most attractive markets were Poland, Hungary, Czech Republic, while Croatia represented only average 4 per cent of total FDI flows to this region. Croatia increased its share after 1997 and in 2003 it noticed the share of 8.2% per cent in total FDI inflows.

Figure 2: The FDI inflows in Central and East European countries, 1997-2003



Source: UNCTAD, http://www.unctad.org/sections/dite_dir/docs/wir_inflows_en.xls

As data in figure 2 shows, Croatia had received very small part of total FDI flows towards CEEC, and we can explain this through (OECD, 2000):

-inherited economic structures and institutions;

-non suitable policies for increasing FDI

-disintegration, war and ethnic conflict

-economic and institutional underdevelopment but also

- the absence of Association Agreement with the EU.

The distribution of the FDI by economic activity is not very well documented for South East European countries while for CEEC investigates emphasize the importance of the electronics and car manufacturing branches which have a great impact on production transformation and export structure because they are primarily export-oriented. In table 2, we use a detailed breakdown by NACE categories for Croatia.

In table 2, we use a detailed breakdown by NACE categories of the total FDI inflows for Croatia. In 1995, Croatia received 114 million of US $ of the FDI inflows, and already the year later, this amount was fifth time higher. As data in table 2 shows, during the period of 1995-2003, Croatia has been attracted nearly 670 million US $ per year and in the last fifth years FDI inflows were above mentioned average amount.

Looking at the distribution of the FDI by economic activity, the research led to the following observations:

-manufacturing is the most important activity for investment with about more than 45 per cent of the invested capital

-further favored activities are trade, telecommunications, financial sectors and construction

- Investment in tourism sector represent less than 5% on average level during the period over analyze.

Table 2: The FDI inflows to Croatia, 1995-2003, by activity in million of US $

Economic activity	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Extraction of crude petroleum and natural gas; ser	0,00	5,92	13,75	37,27	45,85	32,23	12,94	9,28	19,41
Manufacture of food products and beverages	8,32	22,24	23,14	5,22	43,90	30,57	14,53	15,03	26,51
Tanning and dressing of leather; manufacture of lu	0,00	0,00	0,00	0,00	1,46	0,00	0,05	2,55	5,76
Manufacture of pulp, paper and paper products	0,63	0,00	0,80	6,02	7,62	0,08	1,19	0,81	8,68
Publishing, printing and reproduction of recorded	0,50	0,18	0,00	30,28	0,49	0,94	7,66	3,91	3,64
Manufacture of chemicals and chemical products	1,79	287,17	14,30	377,96	52,00	17,50	-16,30	13,37	-9,85
Manufacture of rubber and plastic products	0,00	1,89	2,43	1,47	0,00	1,76	8,36	0,70	5,93
Manufacture of other non-metallic mineral products	16,93	46,57	93,68	28,96	36,25	33,29	121,52	-4,45	-29,76
Manufacture of basic metals	0,00	0,00	1,25	2,22	2,09	0,01	1,42	6,42	10,07
Manufacture of fabricated metal products, except m	2,68	2,89	7,28	2,47	0,44	4,76	0,61	0,16	1,02
Manufacture of machinery and equipment n. e. c.	0,00	0,00	3,83	9,50	1,04	5,26	0,73	0,04	1,89
Electricity, gas, steam and hot water supply	0,00	0,00	5,30	11,16	4,82	6,23	13,04	6,90	-1,82
Construction	12,14	0,86	15,83	0,73	1,85	0,60	-3,26	0,84	2,17
Sale, maintenance and repair of motor vehicles and	0,97	11,23	9,88	22,42	2,76	7,24	24,15	0,70	4,47
Wholesale trade and commission trade, except of mo	3,96	4,18	8,30	13,94	11,85	9,05	22,25	13,27	48,30
Retail trade, except of motor vehicles and motorcy	0,78	1,14	2,61	1,16	8,99	10,89	35,88	3,45	71,93
Hotels and restaurants	**5,74**	**3,55**	**12,78**	**5,23**	**32,09**	**54,29**	**22,69**	**73,48**	**-0,85**
Post and telecommunications	0,24	0,47	0,00	0,00	895,57	5,42	450,09	5,38	7,23
Financial intermediation, except insurance and pen	2,43	97,16	102,32	63,92	80,84	428,34	22,80	437,70	40,96
Insurance and pension funding, except compulsory s	0,62	4,10	0,51	9,30	17,01	6,83	16,85	5,98	11,86
Others activities	6,39	9,15	30,24	18,26	45,09	67,97	58,36	82,47	642,19*
		114,21	**510,77**	**363,72**	**636,42**	**1289,56**	**721,81**	**810,56**	**671,65**
Share of tourism sector in total FDI inflows	**5,0**	**0,7**	**3,5**	**0,8**	**2,5**	**7,5**	**2,8**	**10,9**	**0,1**

* In 2003, manufacture of coke and petroleum products was attracted 513 million of US $ FDIs

Source: Croatian National Bank, Zagreb

The sectors that have proven most popular with foreign investors, table 2, include post and telecommunications, (26.6% of total foreign direct investment within 1995-2003 period), financial intermediation (mainly banking, 24.9% of total), manufacture of chemicals and chemical products (14.4%) and the manufacture of other non-metallic mineral products (6.7%). Tourism industry has not been very attractive for foreign investors because it recorded only 4% of total foreign direct investment within 1995-2003 periods. During the whole period under analyze investment in tourism was very unstable, while the FDI inflows at overall level were noticed relatively stabile trends since 2001, at some 700 mln US $. Total FDI stock in tourism up to 2003 was hardly 200 million of US $. Tourism sector received higher level of the FDI inflows than average in 2000 and 2002.

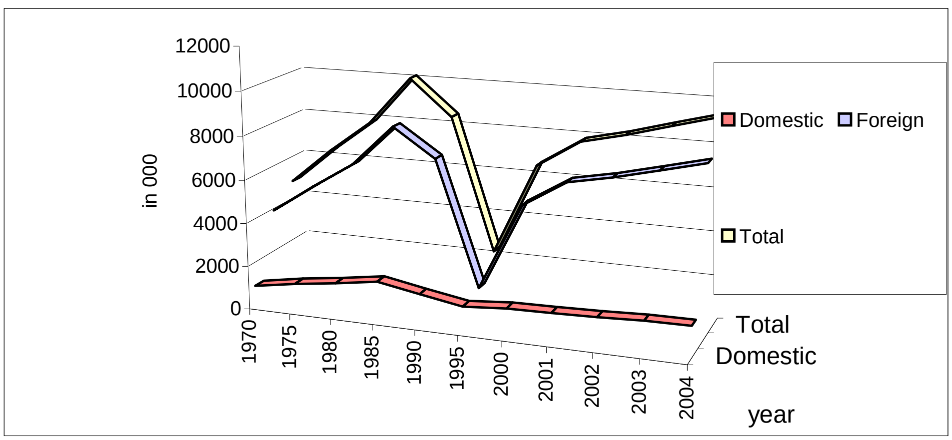
The absence of Association Agreement with the EU may have been detrimental to the FDI inflows in Croatia, but particularly in tourism sector, which is extremely volatile and demand-pull industry. We should stress, that investors were also deterred by high political risk in the early 1990s, and tourism companies that were being privatized were left with complicated capital structures, high losses, with investors who found themselves in a negotiating position with a wide range of owner groups with different objectives and very ambiguous legal framework.

Generally, foreign investment in Croatia has not brought a significant new capital into the enterprise sector since, but moreover contributed to the public revenues, especially privatization of telecommunication. As no surprise, the FDI concentrated in the sectors where return on capital is fast, due to a strong market position, with clear perspectives of profitable business conduct (Jurlin, Galinac, 2001).

4. The impact of the FDI on the Croatian tourism

Croatia has a significant comparative advantage in tourism sector in terms of unspoilt nature, a unique geographic landscape with more than 1,000 islands, high quality and clarity of sea and friendliness of the local people. Croatia offers significant potential for development tourism in different segments like rural, wine, sport tourism, but also can meet the sophisticated demand of small elite group of tourist. But, the collapse of centrally planned economic system in Croatia, and the subsequent process of economic liberalization, brought about important transformations in terms of how to do business, external trade, but also had a great implication on tourism sector. Breaking of the ex Yugoslavia, the openness to the world market and progressive reorientation of Croatia towards the EU, parallel with war, coincided with a decline in number of arrivals and overnights in this country and especially the sharp decrease in foreign arrivals. During the 1970s and 1980s, Croatia became increasingly important tourism destination which recorded a rising number of arrivals. In 1970 Croatia realized 4.8 million of arrivals and in 1985, over 10 million of tourist arrivals, and domestic tourist represented 17.8 % of total. In 1995, this number was fourth time less, and Croatia realized only 2.5 million of arrivals, where 45.6 per cent were foreign tourists. In 1995, Croatia reached the bottom of the recession in tourism arrivals and the recent growth in the sector has brought this industry in the better position but it is still not reach the level it had some 15 years ago, figure 3.

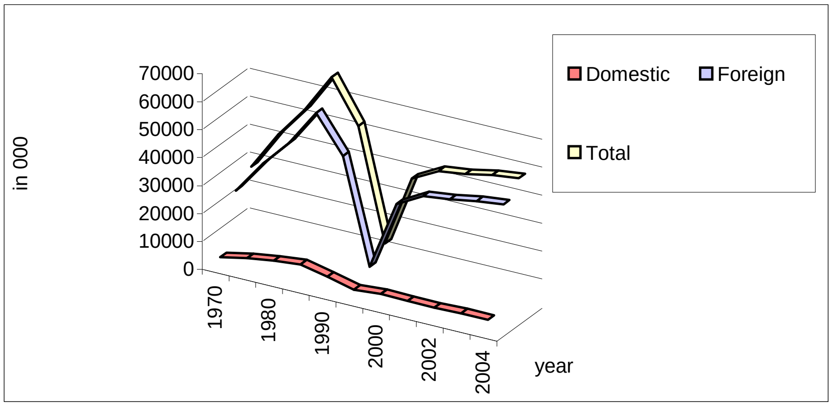
Figure 3: The number of tourist arrivals in Croatia in 000, 1970-2004



Source: Croatian Bureau of Statistics, Zagreb

Figure 4, shows the number of overnights stays in Croatia and it is also “U” shaped curve. Croatia underwent from some 67 million overnight stays in the mid- 1980s to a mere 10 million at the beginning of the 1990s. The recovery of the extremely depressed turnover in the war conditions became after 1995 and in the 2004 Croatia realized still 20 million overnights less than 20 years ago.

Figure 4: Number of tourist overnights stays in Croatia in 000, 1970-2004.



Source: Croatian Bureau of Statistics, Zagreb

Revenues that realized tourist sector showed the same characteristics as physical indicators, number of arrivals and overnights, table 3. After 1995, tourist revenue has been increased until 1999 with average rate of 127.8%, and it decreased in 1999 by 11 per cent due to primarily decreasing in tourist demand on the world's level. In the last five years the average growth rate of tourism revenue was 25 per cent if it is in euro or US $, but with different rates amongst years. So, we can conclude that the exchange rate has really significant impact on the tourist revenues.

Table 3: Tourist receipts in Croatia, 1993-2004

Year	Revenues in million of US $	Growth rate in %	Revenues in million of euro	Growth rate in %
1993	1.309,8			
1994	1.801,4	137.5		
1995	1.349,1	74.9		
1996	2.014,0	149.3		
1997	2.523,1	125.3		
1998	2.733,4	108.3		
1999	2.439,4	89.2	2.351,9	
2000	2.758,0	113.1	3.011,8	128.1
2001	3.335,0	120.9	3.749,3	124.5
2002	3.811,4	114.3	3.960,8	105.6
2003	6.376,4	167.3	5.686,5	143.6
2004	6.972,9	109.4	5.687,0	100

Source: Croatian National Bank, www.hnb.hr.

Because tourism is highly volatile to political and security risks within country but also in the region, Croatian interest is primarily to facilitate security and stability in Southeast Europe but also to integrate in the EU. With respect to our hypothesis, absence of the stronger approach to the EU, had a huge impact on investment policy in Croatian tourism sector and level of the FDI inflows and finally the result such as improvement of whole operating system and higher productivity has absented.

Caves (Caves, 1974b) suggests that the FDI improves the host country productivity in two ways. On the first place, by stimulating better resource allocation among firms and industries, and second, by transferring technology and know-how from the foreign firm to local company in the host country.

Table 4: Key figures for Croatian tourism, 1998-2004

	1998	1999	2000	2001	2002	2003	2004*
Average size of rooms	238	245	229	217	232	226	226
Average room occupancy	40.8	35.7	42.3	45.1	45.4	46.7	48.9
Average room rate (Euro)	32.99	31.39	35.51	38.68	42.67	46.01	50.52
TR per available room (euro)	67,048.8	58,374.8	71,995.9	83,282.6	89,806.4	97,749.5	110,936.9
TR per worker (euro)	n/a	5.9	7.3	9.2	9.6	13.9	13.9
Overnights per worker	n/a	0.13	0.16	0.19	0.20	0.22	0.23
Gross operating profit (% of TR)	13.9	8.5	21.7	29.3	26.5	28.4	32.4

*plan

Source: Horwath Hotel Industry Survey Croatia (2003) and Horwath Hotel Industry Survey Croatia (2004) and Central Bureau of Statistics

According to the data in table 4, several results stand out. First, the average size room rose with the higher activity of foreign investors. Second, the average room occupancy has continually risen except 1999, from 40.8% to 48.9% and it could be result of the better marketing and selling policy. Croatian tourism revenues have been increasing by expanding number of tourists but, in our opinion by increasing the value of tourist product. The FDI had a significant impact on the financial results and average room rate in euro increased from 33 to nearly 51 euro.

As data in table 4 shows, tourism sector has been recovered in recent years and as we measure productivity as number of tourist arrival per worker or by total tourist revenue per worker, Croatian tourism has been experiencing improvement in productivity but it is hard to make distinguish is it exclusive result of the FDI.

As investigates shows (Jurlin, Galinac, 2001), the FDI companies in tourism sector employed 7.1% of the sector total in 2001, while there is no detailed data on export performance. Net wages in the sector were significantly below the country average, so the impact of the FDI on tourism sector in Croatia is very ambiguous.

In spite of recovered tourism revenues after 1998, and according to tourism capacities and occupancy rate, we believe that there is the existence of space for further incremental and improvement, as income converges and economic reforms consolidate in Croatia and it became a candidate country.

5. Conclusion remarks

Tourism is a very important sector for Croatia because it covers with tourism receipts a great part of merchandise deficit and it may contribute significantly to both economic growth and employment. However, tourists usually demand following products in a destination: accommodation, food, transportation facilities and entertainment services. To satisfy this demand, Croatia has to increase the current level of competitiveness especially quality approach and opposite, tourist demand opens a new market for agriculture products and many others goods which is important for a small country like Croatia. As research shows, some countries have better results than others, and there are several reasons. According to the World Tourism Organization, the majority of all international tourists in the world travel to or within Europe. Thereby, the macro location of Croatia is good; its natural resources boost its comparative advantage, so the supply side and demand side represent a positive framework for developing tourism sector in this country. But, how can Croatia exert its natural potential and transfers comparative in competitive advantage. The significant increase in the recent years brought the Croatian tourism sector close to the pre-war level when it recorded nearly 20 million of overnights. However, the world turnover in tourism increased significantly in the last 15 years, so the share in total world's overnights was less than a half of the pre-war outcome.

The FDI brings new management skills, better marketing and selling techniques, new ways of doing business and more efficient use of available resources, which could all make many

Croatian destinations superior to other European and Asian competitors. According to supply side approach, to become more attractive in tourism industry means to be more competitive. Competitiveness is a general concept that encompasses price differentials coupled with exchange rate movements, productivity levels of various components of the tourism industry and qualitative factor affecting the attractiveness or otherwise of a destination. According to tourist managements and some Croatian economists, kuna is appreciated, which may have only negative impact on tourism demand. But, at the same time it is necessary to analyze the US dollar/euro and British Pounds/euro exchange rate. In recent years, mentioned exchange rates also shaped the distributions of flows within Europe, with euro-zone countries loosing competitiveness to other destinations given the comparatively rising prices due to the continuous appreciations of euro. Croatia is the country that has benefited from this redistribution. So, the exchange rate movements in Europe brought price benefits for Croatia.

We can conclude that the price competitiveness element related with exchange rate was positive in the period under analyze, also the attractiveness of the location which together bring a relatively good results. Croatia has not received a great amount of the world's FDI inflows, and the foreign investor has not found tourism sector one of the most attractive. This sector has attracted hardly 4 per cent of total Croatian FDI inflows. The empirical assessment of determinants of the FDI suggests that international investments are mainly determined by host country characteristics such as its dimension, potential demand, openness to world trade and lower relative labor compensation levels (Caetano, J. Galego, A., Vaz, E., Vieira, C., Vieira, I., 2002). This statement explains the lower level of FDI inflows towards Croatia in the past, but also this country could have problems in attracting foreign investors in the future. As results show, the FDI in Croatian case, was primarily acquisition not Greenfield investment, so the economic growth and positive impact on the employment is missing. As we know, tourism sector tends to be labor intensive, so an increase in production is normally achieved an increase in employment. This is very important, when we know Croatian's needs to decrease unemployment. Tourism growth produces also a shock in the job market, rising wages in there service sector, including mobility across sectors. According to historical experience, the FDI is a powerful tool of export promotion in manufacturing field as well as in services.

The previous research has shown rather weak evidence of the contribution of the FDI to restructuring within the tourism sector and creation of exports revenue and in creation of new jobs in Croatia. During 1990s, the FDI in Croatia has been primarily made through acquisitions while some foreign investors essentially bought monopolies in the local market (telecommunication), so we can conclude they have made market-seeking FDI. As results obtained from analyze show, we can draw an exactly positive impact of the FDI on tourism sector. However, in economic literature, the role of the FDI in a national economy is ambiguous and depends on the motive behind such investment. In Croatian sector, the FDI was motivated by market size because Croatia is one of the very significant Mediterranean destinations, so the impact of the FDI on Croatian tourism is very ambiguous.

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