FOREIGN CAPITAL IN THE DEVELOPMENT OF CROATIAN TOURISM

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Abstract: Adoption of foreign capital and its orientation onto the most advantageous directions, in order to guarantee both the successful development of Croatian tourism and gain profit for the potential investors, represents one of the crucial factors in stimulating the development of the entire Croatian economy with the particular impact on the development of tourism in Croatia. Consequently, special attention should be paid by the relevant Croatian economic organs to the possibilities of the obtainable economic development and to the positive ways of taking advantage of foreign capital in the social development and the employment of home population, and simultaneously avoiding speculative foreign capital which can cause great damage to the Croatian economic system.

Key words: development strategy, capital, economic system, tourism, integration processes.

INTRODUCTION

Republic of Croatia is situated between the series of Central European countries whose economic system is being developed in the open and free social and market economy with the adequate systems of ownership relations, enterprising management, economic and political democracy, law abiding system, and of a certain level of social protection and human rights, as well as with different other civilization and cultural accomplishments of the developed Western world.

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Closely connected and interactive appears the need for the even quicker comprehension into the European and the world economy trends and the contemporary integration processes. But the successful accomplishment of the stated goals induces the necessity of the processes needed for the stimulation of development within all the spheres and activities of the Croatian society, with special attention given to the sphere of ownership, market, enterprising management, organization and management of economic and other subjects, and the state as a whole.

In order to accomplish such enormous changes, along with the adequate modern knowledge, capability and skills, human capital, i.e. undertaking and innovation, as well as new, fresh financial capital are needed. At the moment no disposable capital for the realization of the conceived conceptions is available within the Croatian economy, and it will not be disposable for a long time yet in the amount and the quality needed at the beginning.2

The situation is slightly better in tourism, where the foreign investors’ desires of investing into individual tourist objects or their intentions to redeem the majority stock packages in the attractive tourist objects can be observed.

Consequently, with the further Croatian economy development, and especially tourism development, we start with the conviction that beside the lacking amount of local capital, the foreign capital will be needed.

Moreover, while designing the further Croatian economic development, such hypothetic postures along with the possible future strategic goals necessary to bring about make a starting point in order to enlarge the prosperity of all the citizens of Croatia, their material and spiritual wealth, and the quality of their lives. This should be founded on successful natural, technical, and human resource economy, as well as on economic and social efficiency and the development possibilities of economic subjects, and on national economy as a whole.

In the eighties of the previous century Croatia reached the economic level and the general development level in the world commonly accepted as a lower middle-developed industrial-agrarian country, and was lagging behind the most developed European countries in approx. 30 developing years. In addition to this, the end of the nineties brought to the great economic and social crisis in the former country, which in the end led to the general stagnation with the overall signs of the stagflation and, finally, to the state of war.

After years of conflicts, the independence and sovereignty of the Republic of Croatia was achieved and favourable conditions for its quicker and high-quality further development were created.

Consequently, the need for the radical transformation in technical field, technology, organization, management methods, and in the overall economical and employment structure was necessary, particularly within the enterprise management.

2 A. Dragicevic, Osnove razvojne strategije turistickog sektora Hrvatske, Turizam, No. 5-6, 1992., p. 112.
Such changes were possible only by use of foreign knowledge, foreign technique, foreign technology, and foreign capital.

Without these and further similar changes, and without creative acceptance of the necessary world achievements from the developed countries, the equal and successful integration into the international economic flows and into the European economic and political integrations, even with Croatia achieving their membership, would not be possible. Naturally, the membership in the European integrations could essentially contribute to the successful economic development of Croatia.

1. THE NEED FOR NEW CAPITAL INVESTMENTS INTO ECONOMICAL AND TOURIST ACTIVITIES

The further significant development of the Croatian economic system, particularly of its tourist economy, cannot be realized without the additional fresh capital. Since the required amount of capital is not available, and it will certainly not be available in the foreseeable future, or, at least not in the sufficient amount, the admittance of foreign capital into the country is necessary.

Simultaneously, such economic relations should be established in the country according to which the majority of the national reality within the area of tourist-economic activities remained the propriety of the Croatian citizens. This is particularly important within the real estate area. According to this, the total amount of foreign investments into Croatia should be pondered upon, as shown in the Table 1.

Table 1. Direct foreign investments in Croatia for the period 1993-2005, and for the year 2006

<table>
<thead>
<tr>
<th>period/year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-2005</td>
<td>14.2 billion</td>
</tr>
<tr>
<td>2006</td>
<td>2.8 billion</td>
</tr>
</tbody>
</table>


Through experience of other transitory states the goal of the foreign capital can be apprehended of effectuating an even greater individual profit, regardless of future possible consequences on natural and various other ecologic resources. In consideration of this, foreign capital investors’ interest should provide for the long-term tourist development of a destination in which the capital is being invested, with their profit achievement not colliding with the local interests. In view of this, in Table 2 the survey is given of the structure of foreign direct investments in Croatia for the period of 2000-2006.
Table 2. Direct foreign investments in Croatia for the period 2000-2006

<table>
<thead>
<tr>
<th>Year</th>
<th>Personal investments Retained income</th>
<th>Other Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Resources Obligations Profit Resources Obligations</td>
<td>Total</td>
</tr>
<tr>
<td>2000</td>
<td>0.0 748.3 87.3 0.0 302.9</td>
<td>1,138.5</td>
</tr>
<tr>
<td>2001</td>
<td>0.0 899.4 188.4 0.1 414.5</td>
<td>1,502.5</td>
</tr>
<tr>
<td>2002</td>
<td>0.0 712.1 161.8 -0.3 323.3</td>
<td>1,196.6</td>
</tr>
<tr>
<td>2003</td>
<td>0.0 756.2 588.9 -1.5 440.9</td>
<td>1,784.5</td>
</tr>
<tr>
<td>2004</td>
<td>-2.8 316.4 291.4 -17.4 402.7</td>
<td>990.3</td>
</tr>
<tr>
<td>2005</td>
<td>0.0 778.2 568.2 1.5 73.3</td>
<td>1,421.2</td>
</tr>
<tr>
<td>2006*</td>
<td>-0.1 665.7 696.0 16.8 377.1</td>
<td>1,755.5</td>
</tr>
<tr>
<td>Total</td>
<td>-2.9 7,656.0 2,726.4 -21.3 2,793.5</td>
<td>13,151.8</td>
</tr>
</tbody>
</table>

* for three month

In accordance to this, not only the import of foreign capital into Croatia is important, but the global relation between the foreign and local capital sources, in the correct deployment of so called social costs and corporate taxes, in the use of contemporary technical and technological components and the “know-how” marketing, as well as in the further conquering of the world tourist market.

Whenever possible, joint investments with foreign investors based on soundly conceived development policy within the tourist economy must be entered.

Simultaneously, with foreign capital entering into possession of any Croatian economical object, the realistic valorisation of the Croatian deposit share, formed primarily of the price and the position site of the premises as the Croatian owners’ share should be established, and should, as a rule, remain the property of Croatian citizens. In the same context the consideration should be pondered upon that pieces of land, at least premises in high-quality riverside and especially seaside coastline should not be sold but given on some form of long-period lease under condition that the modern, present-day international technological achievements and knowledge are imported and with obligatory preservation of environment.3

The successful realization should be achieved by the special system of particularly worked out mortgage loans applied to the areas of tourist activities, with obligatory inclusion of foreign capital owners of Croatian origin.

In regard of this, the need to define the role of state capital arose. In the former system, state capital was present in all the segments of the economical life throughout the country, with investments into large infrastructure objects, ecologic systems and so called public companies exclusively within the authority of the state.

3 A. Acimovic, Meduzavisnost trgovine i turizma, Susreti na dragom kamenu 87., Pula, 1987., p. 52.
Wherever possible, economic policy within the new capital market system must be managed in order to transform former public companies into private enterprise managed firms as soon as possible, with state helping such transformation in any way possible.

Consequently, the state of Croatia will probably remain one of the main participators in investment and managing some of the key infrastructure activities, but it should not remain in the absolutely dominant role too long. So the admission of private capital must be made possible, provided that the state control remains, because citizens, for instance, cannot remain without water or electricity because the private investor didn’t realize their planned profit.

The future tourism development on the seaside or riverside coastlines depends on law regulations regarding the so-called public maritime propriety. Besides its economic value which can be presented in figures, it consists of non-economic elements of extreme national significance.

As through previous additional capitalizations considerable devastations took place, additional capitalization in Croatia, particularly within tourist economic systems, must be changed essentially.

The effects obtained through additional capitalization processes on the overall Croatian economic system so far imply the inadequate comprehension in the additional, whether local or foreign, capital use, essential for the internal technical-technological, organizational and managing reconstruction of the economic system. According to the leading statesmen explanations, this was the aim of the financial capital obtained by shares sold in the transformation process of former social companies into joint-stock companies. But, nevertheless, in most cases real effects faded away.

In consideration of some cases of negative experience with share repurchase so far, current trends indicate that the capital owners, whether local or foreign, prefer to buy single smaller tourist objects then to invest into share purchase, with no consideration on the former company status.

Small capital owners, primarily speaking of Croatian citizens, who gained their capital abroad, could successfully invest into smaller tourist companies, which would, on the whole, be of great significance in the revival and development of tourist flaws in all Croatian tourist destinations.

Foreign and local investments must be accompanied by a harmonic relation of the overall economic and law system of the country, as well as by the successful impact of various financial institutions, where the investors can obtain specific exemptions and guarantees customary in the developed market economy countries, as: tax and customs exemptions, quick profit transfer possibilities, various mortgage effectuations, etc.
In order to gain a profit equal to that obtained in other competitive surrounding countries, equal chances must be created and rendered to all capable investors.\(^4\)

Within the present economic conditions, the consideration is adopted and developed of “depending on one’s own power”. Nevertheless, such way of reflection should not reduce the intention of stimulating the foreign capital entry into the country, in order to attain further and quicker development of tourism and other economic activities. The national origin of invested capital is nowadays even less important within the international economic system, the essential being the successful development of various functions of the overall society development and citizen welfare. It should function in the same manner within the tourism economy activity.

2. FOREIGN CAPITAL AS THE FUNCTION OF TOURISM ECONOMY DEVELOPMENT

From a point of view of developing interest and needs, to Croatian economy, especially tourism as its most attractive part, all formerly mentioned forms and sources of foreign capital are acceptable. From the long-term point of view, the most acceptable for the development of all the economic system forms would be loan capital bringing interest or investment, i.e. profitable capital.

After a period of time, with the securities exchange market established, greater inflow of portfolio capital can be expected in the economic structure of Croatia. The need for public state-owned or international public capital, as for all the other forms of private capital, must particularly be stressed.

The experience in dealing with the foreign public capital indicates its trends of investing into infrastructure objects so far, particularly into roads and harbour equipment, being of wider European interest, as well into metallurgical industry, shipbuilding, and chemical industry; consequently, into parts of economic structure still mostly under state government, which can give certain guarantee and security to the foreign capital.

The orientation of foreign capital towards tourist economy and the wish to invest in those economic spheres that represent certain Croatian advantage must be particularly accentuated.

In order to invest in certain particular spheres of the economic system, loan capital is essential for Croatia. But, according to the experience from other transitional countries as well as to the local experiences from the previous periods, dealing with loan capital requires a lot of attention as these investment forms usually tend to switch the risk onto the local economic subjects. In most cases such investments cannot be managed efficiently, and, most difficult for such economic subjects, such invested

capital must be returned within fixed terms, with interests, while the investment location and the efficient use of the loaned capital represents the exclusive responsibility of the local subjects.

On the other hand, by using the foreign investment capital complete or partial investment risk is overtaken together by the foreign investor and the local subject. With such co-operation of both local and foreign investors, the foreign investor is expected to engage, alone or in collaboration with the local subject, in opening of new markets, in positive impact on the change of ownership structure, in introducing new technological solutions, organization and management, in mutual actions to improve the qualification structure of the employees, and especially in the prompt development of the entrepreneurial and managing personnel.

Simultaneously, the quick and considerable fructification as the very nature of capital must not be overseen. For a short time period and in the phase of developing restoration of the Croatian economy this corresponds with the interests of economic subjects in Croatia. On the other hand, in the long run, and if the modern scientifc and technological knowledge is not applied, it can cause considerable damage.

Moreover, responsible Croatian subjects must examine closely their capability and use the cooperation with the foreign capital as a starting point in ascending to the higher development level. Such higher development level will probably not be obtained soon in all the economy system levels, nor will the proper high technology be originated sometime soon. On the other hand, it may even not be necessary. But in spite of that, by producing a certain properly chosen segments of the so called global international produce, Croatia must accomplish its peaks clearly recognizable in the whole world. There is no reason such accomplishments should not be realized within some service activity in the tourist economy.

Special attention must therefore be paid to investments into human capital for the development of the Republic of Croatia and its economic and other subjects. It must be stressed that Croatia has educated personnel and other manpower, which represent great developing potential, but knowledge and skills they dispose of are partially out of date, especially from the aspect of the contemporary needs and demands of the market economy and the forthcoming information society.

In regard of this, foreign investments must be continuously used, in terms of using available new knowledge and educational programmes from all the levels of educational activity, which should be necessarily innovated in accordance with the necessities of the future development. It is essential to know that even contemporary knowledge becomes quickly outworn. Therefore the principle must be inspired upon the education attendants of instilling the knowledge, but of the independent knowledge gaining as well, making good use of it and innovating it continually, which is especially important in tourism.
3. FOREIGN INVESTMENTS INTO PRODUCTION AND SERVICES WITHIN THE GLOBALIZATION PROCESS

When closely observing the global processes according to investments, the conclusion can be drawn of the successful international produce of goods or services (tourism) which represents the centre of the global processes, with trans-national firms being the main organizers and bearers of the international production. Production efficiency of such an international system is measured in a number of active trans-national firms, and the number of their regional branch offices, in addition to which the flows of high-quality direct foreign investments into a certain state, region or integration must be ensured.

Along with the presented factors, the factors with impact on the multinational firm management have great influence. To get a clearer opinion on the successfulness of an individual multinational firm on the level of a single state, the comparison of direct foreign investments with the national produce flaws of a single state, and with the gross national capital formation, foreign trade flaws, management successfulness, and the impact of the multinational branch offices in the other state are needed. Some authors speak about a number of approx. 60,000 multinational firms with approx. 508,200 branch offices at the end of 2000.5

Besides such an elaborate network correlation, a large number of different contractual relations in the quality of sub-contractors, suppliers, different logistics, etc are obtained. Although such large companies deal within their specific economic spheres, majority invest their own financial resources into tourist activity in different countries, as well as into the world largest tourist destinations.

Multinational companies have an important impact on forming of two different trends. The first trend is manifested as the appearance of a multitude of small and middle-level companies connected to the main large company. This occurs as the result of ever greater interacting competition within the newly created conditions of the world liberalization. The multinational companies hurriedly link up personal resources, their own capital and technologies, with other resources like natural resources or working power, all of them frequently on different parts of very remote produce or service locations, becoming particularly evident through business operations in forming the tourist logistic within tourism.

The second trend is manifested in powerful increase of service “produce” (the most powerful of them being in tourism), through direct foreign investments, particularly on the global level. Direct foreign investments into services, particularly in tourism, grow much quicker than the investments into other parts of economic system. This particular manifestation occurs in all developed countries, with even greater impact in those non-developed as well. Direct foreign investments in non-developed countries, for instance, are most important particularly in the parts of the secondary economic system, i.e. in the service sector, particularly in the tourist sector. On the

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other hand, the figures of the developed countries show the inflow from direct foreign investments that grew from 45% in 1988 to 56% in 2000.6

Simultaneously, it must be stressed that multinational companies (including hotel chains and other tourist contents) as the bearers of direct foreign investments into a large number of non-developed countries, acquire an even more important role in financing the worldwide economic development and become directly responsible for the worldwide production of different produce and services. Moreover, the part of direct foreign investments into the economy of other, mostly non-developed countries, into ground means presented without replacement costs grew from 3.5% in 1991 to 20% in 2002.7

In order to achieve the best possible personal actions, multinational companies tend to link different resource types on the world level. Resource shortage or surplus represents no obstacle for the successful business transactions of the multinational companies, but they form a strong driving force in future impacts. In respond to those challenges, national markets get even more integrated and form a new economic system, global international economy, with tourism representing the appropriate role.8

According to some authors, the productive part of the new globalizing system has already been formed and operates successfully. By estimate, multinational companies control directly approx. 25% of the world produce and service production. The impact and the stock sale of their branch offices in the securities market have already surpassed the value of the overall world export.9 Different forms of international enterprise investments within the service sector economy fit in clearly, as presented in Table 3.

**Table 3. The forms of international enterprise investments into service sector economy**

<table>
<thead>
<tr>
<th>Forms</th>
<th>Capital inflow</th>
<th>Financial outlays</th>
<th>Technologies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Accessibility</td>
</tr>
<tr>
<td>Contracting management</td>
<td>no</td>
<td>indemnity</td>
<td>yes</td>
</tr>
<tr>
<td>Franchising</td>
<td>no</td>
<td>tax</td>
<td>yes</td>
</tr>
<tr>
<td>Direct foreign investments</td>
<td>yes</td>
<td>profit</td>
<td>yes</td>
</tr>
<tr>
<td>Subcontracting</td>
<td>no</td>
<td>indemnity</td>
<td>yes</td>
</tr>
<tr>
<td>Time sharing</td>
<td>possible</td>
<td>provision</td>
<td>no</td>
</tr>
</tbody>
</table>


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7 Ibidem, p. 156.
If the presented figures are compared, the fact that international distribution becomes available to an ever larger number of managing subjects and their investments becomes evident. Along with the new forms of international work distribution, work distribution between different multinational companies appears even more, with even more possibilities for their investments. Scientist Streeten pointed out the phenomenon in his works from the eighties of the previous century.10

He observed the regularity in functioning of business collaboration between multinational companies, as well as within the multinational companies themselves, in the future investment possibilities. He represented the idea of traditional work distribution, in consideration with comparative costs, appearing in new forms as the resources, i.e. production factors, capital, technology, and organization, within the main state become especially important in the specialization within the areas of interest of the country the multinational company is situated in.

The international production division realized in such a way subsequently becomes the production activity division between various multinational companies, or within one multinational company alone. Division of labour between more multinational companies was naturally preceded by a division of labour within the single multinational company. According to this regularity, and confirmed by life experience, states or economic subjects remaining out of the process of the multinational work division, will have great difficulties in finding their place in the international production cycle, and will especially observed with foreign investments.

Developed markets become even more saturated by investments from other countries, their natural resources become mostly consumed or insufficient for the further economic development, so foreign investors turn even more to the non-developed countries markets. Within such a trend of displacing foreign investments towards lower-developed countries already possessing certain natural resources, Croatia can count on getting its part of the foreign capital.

4. INVESTMENTS INTO CROATIAN TOURISM

Apart from and after 1990, the year 2006 was the best tourist year for Croatia. The Croatian tourist services were used by over ten million of tourist in 1990, with the tourist economy income of the first nine months mounting to approx. 5.8 billion kuna, approx. 4% more than the achievement of 2005. By the end of 2006 the survey was carried out by the Ministry of tourism on the necessary total investments into tourist economy and its contents for all the Croatian countries. According to the obtained figures, the investment of 13.6 billion kuna is expected into Croatian tourism in 2007.

The largest investments will be realized in the Istarska country, with more than two billion kuna likely to be invested into construction of new capacities, most of it, in the amount of one billion kuna into a hotel complex Kempinski Adriatic. In Table

the overall planned investments into Croatian tourism through the year 2007 are presented, among which the foreign investors investments as well.

Table 4. Planned investments in tourism per country in 2007

<table>
<thead>
<tr>
<th>Countries</th>
<th>Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Istarska</td>
<td>2.4 billion kuna</td>
</tr>
<tr>
<td>Primorsko-goranska</td>
<td>1.2 billion kuna</td>
</tr>
<tr>
<td>Ličko-senjska</td>
<td>196 million kuna</td>
</tr>
<tr>
<td>Zadarska</td>
<td>1.5 billion kuna</td>
</tr>
<tr>
<td>Splitsko-dalmatinska</td>
<td>1.4 billion kuna</td>
</tr>
<tr>
<td>Dubrovačko-neretvanska</td>
<td>1 billion kuna</td>
</tr>
<tr>
<td>City of Zagreb</td>
<td>4.8 billion kuna</td>
</tr>
<tr>
<td>Six continental counties</td>
<td>802 million kuna</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13.6 billion kuna</strong></td>
</tr>
</tbody>
</table>

Source: Ministry of tourism research for 2007

Approx. 802 million kuna will be invested into six continental counties, with the majority of the amount of 505 million kuna invested by individual counties themselves. Hotel companies, with investments of only approx. 50 million kuna, show no particular interest in the investments into continental hotel capacities.

CONCLUSION

The necessity for the accelerated development of the overall Croatian economic system indicated the need for the quicker development of the tourist economy within the country, in proportion with the contemporary needs and demands on the local, as well as on the foreign tourist market.

Such a form of social development should be founded on the scientific approach and research in order to include the area of tourist, and especially hotel activity. The strategic development planning of the future tourist subjects’ development should be added, together with its programming, working and financial correlation, together with the integration into new organizational forms developed on new grounds.

Simultaneously, the important place in such a development must be obtained by state, which should, with reinstatement of the efficient administrative regulation, secure the abiding of law, free functioning of economic and market patterns, and resist any monopoly.

In order to achieve the stated needs and demands considerable initial investment capital is indispensable, which should be obtained from either local or foreign sources. In the present moment of its weary and devastated economy Croatia disposes of no indispensable capital.
On the other hand, Croatia still disposes of sufficient unused and unpolluted tourist resources and potentials whose activating can attract a large amount of foreign capital obtainable from different foreign resources, as well as in different forms.

Foreign capital entrance into the country depends on the capital itself, as well as on the conditions for its efficacious acceptance and activity. The experience of other countries shows that euphoric expectations and various fact manipulations suggest great expectations without real foundations. However, no passive expectations of destiny are advisable.

Consequently, it must be stressed out that only by appropriate commitment established within the country the total favorable surroundings for the entry of foreign capital of any form or assignment can be obtained.

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