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CONTRIBUTION TO CROATIA'S NEW TOURISM POLICY FRAMEWORK

Abstract

This paper provides analysis of the impact of global economic downturn and recession on tourism development in Croatia. It researches causes and consequences of pronounced seasonality of Croatia's tourism and compares it to its competitive environment. Although research confirms significant investment opportunities that are assessed between Euro 9.5 and 12 billion they fail to be realised due to many obstacles to foreign direct investments and uncompetitive business environment. Significant improvements are not to be expected unless Croatia formulates tourism policy with clear objectives and develops strategy that will define measures by which said objectives will be achieved.

Keywords: *economic crisis, seasonality, investment in hotel industry, tourism policy in Croatia*

1. INTRODUCTION

This paper is based on research and documents prepared for a conference held at the Faculty of Economics and Business in Zagreb on 26th October 2010 marking Faculty's 90th anniversary. Given that education for the purposes of tourism was initiated, among the first in the world, at Zagreb's Faculty of Economics and Business in 1962 under the leadership of academic Mijo Mirković and as this Faculty has generated most scientists and experts in the field of tourism members of the Department of Tourism initiated and organised a conference entitled "What kind of tourism do we really want and are able to develop in the Republic of Croatia". With selected topics the authors provided a discussion framework that involved a number of other participants including former graduates from the Faculty of Economics and Business now scientists and respected practitioners.

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Some of the topics had already been problematized by Professor Dragutin Alfier and Srđan Marković, Ph.D, the doyens of our tourism science. Their recommendations regretfully had not been followed. Hence one of the objectives of this paper is to point to the necessity of closer links between the theory and practice but also to warn experts and professionals that new ideas cannot be generated without understanding issues that previous generations of scientists warned about and on whose findings we are building our scientific future and our own identity in the world. These gurus of tourism scientific thought and their followers have bestowed new generations of scientists with a task to develop theory that would help tourism development in practice. It has been confirmed long time ago that theory cannot survive without its practical application just as practice cannot successfully develop without using new scientific theories.

Aware that the Croatian tourism is faced with many challenges especially now amidst economic crisis and recession we focus only on the highest hurdles related to tourism's development. Therefore the impacts of the economic crisis and recession in generating countries on tourist demand and consumption in Croatia were analysed. We also examined the causes and consequences of pronounced seasonality of Croatian tourism and also point to the lack of capital investment in tourism in Croatia.

2. THE IMPACT OF ECONOMIC CRISIS AND RECESSION ON CROATIA'S TOURISM

Economic crisis and recession negatively impact all economic activities including tourism. The tertiary sector as the most vulnerable is particularly affected. Reduced income in tourism generating countries impacts demand and results in lower consumption in tourism destinations.

The impact of global economic downturn was already felt in Croatia in 2009 when receipts from international tourism decreased. This interrupted a trend of slow increase of tourism activities that started in 2000 when post-war conditions stabilised (Bartoluci, Hendija, Budimski, 2010:233). In 2009 overnights dropped by 1.2% and arrivals by 1.8%. Until 2008 overnights steadily increased every year and by 2008 the total number of overnights had increased by 31% and arrivals by 44% (BIST 2010). Tourism receipts went up as well. In 2007 international tourism receipts reached Euro 7.4 billion and its share in GDP was 15.7% (Ministry of Tourism, 2010). Although currently financial data is not available, drop in tourism revenues in recessionary 2009 was 13% as revenues were estimated at Euro 6.4 billion (Croatian National Bank, June 2010:180). If tourism receipts were to remain at this level it is anticipated that tourism's share in GDP would drop to 14% (State Office for Statistics, Croatia in numbers:8).

The impact of global economic downturn is just one factor of crisis in Croatian economy and in tourism as well. There are many other factors affecting Croatian economy in particular in the areas of exchange rate policy, monetary and fiscal policies (tax, public expenditure) and especially in the domain of public debt (Družić, 2007).

For Croatian economists the reasons for economic crisis in the country mainly lie in inadequate economic policies in the period from 1993 up till now (Domazet, 2007:279; Sever 2009:221). Despite different opinion, there is a strong consensus on the fact that the economic crisis and recession in Croatia was only partly caused by the global crisis, whereas other causes range from inadequate economic policy to the lack of adequate development strategy. The level of public and businesses debts is a particular problem. This leads to lower

production in almost all sectors, decline in exports and increased unemployment which directly affects tourism. Exchange rate stability cannot be achieved in the long term with low growth rates which Croatia has been recording over the last several years. All of this has direct impacts on tourism and manifests itself negatively on the preparation of tourist season, employment, investments, upkeep of tourism facilities, promotional activities. In addition there are inherited problems as a result of war activities in the 90s like: ten years of low tourism activities, marked seasonality of Croatian tourism, title issues with land and hotel facilities, grey economy, high indebtedness of hotel companies, illiquidity, and absence of new investments. All these problems became even more pronounced during recession and negatively affect tourism in Croatia.

The analysis of selected indicators clearly outlines the current state of Croatian tourism. For that purpose the activity of commercial accommodation capacities for 2010 was analysed. It is important to note due to official methodology change the above analysis does not contain data on marinas so as to provide mutual comparability of data in earlier years.

According to statistical data there were 55.7 million overnights (State Office for Statistics 2010, 4.4.2/9) until October 2010 and we estimate overnights could reach 56.4 million by the year end if the sector's dynamics are similar to those towards the end of 2009 (BIST 2010). This would be a slight increase in overnights (2.6%) compared to previous year when Croatia had 55 million overnights (excluding marinas) and even a small increase (1.3%) compared to 2008 which was a year when global economic downturn started and when 55.7 million overnights were registered.

Two fundamental features characterise Croatia's tourism: pronounced seasonality and domination of foreign tourists. At the peak of tourist season (July and August) Croatia realises 64% of its total overnights. This is a constant feature of Croatian tourism (BIST 2010). The share of foreign tourists participating in tourist activities is 92%. This is very high and constantly increasing (in 2001 this share was 88%). In addition the structure of accommodation facilities is unbalanced. The sector is dominated by self-catering accommodation and campsites (a share of 74% in the total number of fixed beds) that are mainly geared for seasonal business while hotels and similar facilities, as the highest quality type of accommodation, estimate for only 13% share in the total bed capacity. Unbalanced structure of bed capacities inherited from former Yugoslavia has been a constant feature of Croatian tourism and many local authors (Bartoluci, Hendija and Budimski, 2010; Blažević, Peršić, 2009; Bartoluci, 2008; Ivandić, 2007; Hendija, 2006; Vukonić, 2005; Pirjavec, 1993) have pointed to this problem.

According to 2010 statistics Croatia has 833 000 fixed beds in commercial accommodation capacities (based on August data when total capacity offer is at its peak). Out of this number 382 000 (46%) are beds in self-catering accommodation, 231 000 (28%) are in camp sites (State Office for Statistics, 2010, 4.4.1/8). It should be stressed out that majority of accommodation facilities in Croatia, in particular self catering and camp sites have markedly seasonal operation and therefore have bed occupancy of only 14% that is 17%. On the contrary the best average occupancy rate is achieved by hotels and similar facilities although their share in the total capacities is only 13% (109 000 fixed beds).

Occupancy rates in self catering have shown slight increase over the last five years and in the period 2006 – 2010 the rate was 19%. Occupancy in 2006 was 11.5%, in 2007 12.4%, in 2008 12.4%, in 2009 12.8% and in 2010 it was 13.7%. This increase can partly be

contributed to better legislative framework for self catering sector but also due to stricter inspection controls that has led to grey economy shrinking in that area.

In addition to commercial accommodation capacities a portion of overnights is realised in second accommodation facilities that is holiday homes and flats and accommodation with friends and relatives. This more frequently than not goes unregistered and is the key generator of grey economy. Without primary research it is very difficult to research the volume of this type of tourism turnover, moreover as the exact figures concerning holiday homes and apartments involved in tourism operation still remain unavailable (Opačić and Mikačić, 2009:167).

Renowned Croatian tourism experts keep warning, both in their works and public events, about the seasonality problem. Even from the times of doyen of Croatian tourism Dragutin Alfier, 1970-ies, there have been attempts to find a formula to solve this crucial problem of Croatian tourism (Alfier, 1994:111). So, the question emerges: what measures should be undertaken to reduce tourism's seasonality and mitigate its consequences?

The level of accommodation capacities, their poor occupancy and structure (not only the commercial ones but holiday homes and apartments as well) as well as their territorial spread cause permanently unfavourable concentration of tourism movements in Croatia, both time and space wise. Strategic issue concerning development of Croatian tourism is long term planning development of accommodation capacities accompanied by the restructuring of the existing and building of new capacities to increase hotel capacities and improve the quality of their offer. This is what generating markets demand but there is also a need to enhance competitiveness of Croatian tourism.

Although economic crisis and recession in Croatia and in the world directly impact some of tourism's economic outputs tourism still remains resilient and recovers faster and better than some other business activities (Čavlek 2010:52). Croatian tourism which had a drop in turnover and lower performance levels than in the record 2008 is not different. Compared to some economic activities in the primary and secondary sectors tourism results are still better (Sever, 2010:220). Based on findings of this paper as well as numerous researches related to Croatian tourism it is possible to conclude that in Croatia's economic development tourism has no alternative (Bartoluci, 2010:14). This thesis is based on the economic functions of tourism industry: exchange rate function, employment, multiplicative, conversional and other functions. Economic functions of tourism generate many economic benefits that cannot be achieved in any other sector or economic activity. In addition over past 50 years a number of hospitality, infrastructure and other tourist facilities have been built in Croatia and they cannot be substituted by any other economic activity. For this and many other comparative advantages tourism has an irreplaceable role in Croatia's economic development.

3. THE CHALLENGES OF PRONOUNCED SEASONALITY OF CROATIAN TOURISM

Business activities in majority of sectors, irrelevant of their type and environment in which they take place, are based on irregular demand during the calendar year. This business dynamics requires from development experts and managers additional efforts to find optimum business, investment, human resource and other solutions. Tourism is not an exception to this. Moreover due to the structure of its direct or indirect activities seasonality is one of its largest issues (Cooper *et al*, 2008:115) dictated by a swathe of factors both on the demand and the supply side.

Seasonality of tourism in Croatia is determined by geographical features of its most attractive and most visited receiving areas. One of the features is climate (Cicvarić, 1980:251) which explicitly dictates the exploitation of tourism resources (e.g. the Adriatic Sea). On the other hand one of the critical factors in the exploitation of the said resources is established pattern of holiday making in some European countries that generate the highest demand for Croatian tourism product. Other factors that influence seasonality are for example changes in behavioural trends of tourists (taking more shorter holidays instead of one or two long ones), the influence of intermediaries on the choice of destination and type of travel (exciting travel packages unrelated to traditional summer holidays), market conditions of the main generating markets (recession, inflation, exchange rates, etc), transformation of mass tourism towards specific forms of tourism offer (demand market segmentation), specialised tourism offer etc.

On the other hand, many problems are the consequence of seasonality. One of them is uneven realisation of economic and other effects which on destination level and for businesses that directly deal with tourists causes additional operational costs linked for example to hiring seasonal workforce, preparation for the tourist season, covering fixed costs of unoccupied capacities, etc. Seasonality also distorts the picture of tourism economic potentials for which only direct economic effects arising from direct sale of services to tourists are attributed to tourism while other indirect effects arising from the sale of different goods, semi-finished products, products and services within supply chain and logistical support are not attributed to tourism outputs as a rule. As a result of such distorted picture of tourism's overall economic potential seasonality causes tourism to be underestimated and its importance is misunderstood in timely and adequate financial and institutional support of its development. One of the key issues related to seasonality is over extensive exploitation of some tourism resources that are overvalued during several months of tourism season while for the rest of the year they are exploited either on the edge of profitability or below it (Baum and Lundorp, 2001:5). Tourism seasonality is also reflected in the functioning of the public sector. Some of its sectors are in one part of the year expected to be highly prepared, organised and engaged in managing destinations while for the rest of the year their management is reduced to preparations for the forthcoming tourism season. In that respect extra expenditures for both public and business sector are incurred as it is imperative to secure, physical, financial and human resources in order to have a comprehensive structure of supply and support for temporary visitors. Uneven demand during the year makes anticipation of the future demand trends difficult as well as assessing input costs generated in the "production" of tourism services. Naturally there are other seasonality consequences but it is sufficient enough to fully comprehend the above mentioned in order to gain insight into the complexity of the issue but also challenges in finding solutions to prevent seasonality which can be declared as one of the top development priorities for Croatia's tourism.

Analysing the key tourism development indicators over the last ten years and more (State Office for Statistics, 2010:413) it seems that prevention of seasonality is one of the main challenges of the future development as negative trends are unfortunately increasing. Taking into consideration that in 2009, between April and September, Croatia realised 94% of total overnights and during the same period 86% of receipts from international tourism were recorded (international tourism makes up 90% of overall tourism turnover) it becomes evident that concentration during specific time period does not favour more efficient exploitation of tourism receiving capacities. Moreover it leads to their maximum exploitation during the season's peak. In order to halt these negative trends and to create mechanisms to successfully fight seasonality it is necessary to secure implementation of the following specific measures:

- modernization of destination's tourism products based on development of the specific forms of tourism (conference, cultural, eco) which requires drafting the new development strategy which needs to redefine the existing strategy or design a new development role for every part of Croatia;
- market orientation of every single destination and specialised set of products selected on the basis of narrow segmentation of demand (e.g. nautical tourism, wine tourism, senior citizens, athletes, corporate etc) thus avoiding mediocre offer and regional competition;
- engagement of tourism intermediaries to fill capacities in pre and post season which should lead to a compromise solution regarding the sale of services during the main season;
- improvement/branding of hotel offer which implies integration with large hotel corporations and attracting of foreign investment which should lead to improved competitiveness, international recognition and higher quality when providing hotel and related services;
- unconditional embargo on further building of self-catering apartments, holiday homes as it is an area difficult to supervise. This would reduce grey economy and increase public revenues;
- strengthening tourism inspections in order to fight unfair competition among providers of accommodation especially in self catering area;
- comprehensive systematisation and certification of jobs in tourism. This would ensure higher service quality, more satisfied customer and eventually increased spending;
- redesign of tourism education system that should ensure optimum labour market demand for specific employee profiles and their permanent professional development;
- gradual but radical change in attitudes of economists and representatives from public sector, in particular, regarding the role and significance of tourism for national economy. This should facilitate in creation of platform for design of relevant future strategy for development of Croatian tourism.

4. CAPITAL INVESTMENTS IN CROATIAN TOURISM

Croatian economy in 2010 was marked by negative GDP growth, rising unemployment, difficult investment climate, dip in foreign direct investment, falling exports figures and unfavourable bank loans (Mađarević Šujster, 2010; Šonje 2010; Bičanić 2010). As a consequence investment risks have increased and all sectors are experiencing lower level of investment. According to analysts prolonged recession, continuing difficult investment climate and further decline in foreign direct investment should be expected (Mađarević, Šujster, 2010). Hitherto, growth in Croatia was based on capital infrastructure investments, consumption and imports. Future growth should be based on private investment and exports. Long term sustainable growth cannot be achieved through state investing in capital projects as after a short period of time they negatively affect growth (Bičanić, 2010; Šonje, 2010). The main obstacle in maintaining positive investment trend is difficult business and investment climate. In a global and competitive world investments flow to countries that provide legal security, macroeconomic stability, better macro-economic conditions and better market

potential. Croatia's tourism has the resources and potentials to attract foreign investment but compared to other European countries (especially in South-East Europe) does not offer competitive business environment.

In Croatia there are many public initiatives to present investment projects among which investments in tourism have important place. Total of tourism investments presented in these initiatives is valued at Euro 5 billion (Government of the Republic of Croatia, 2010; Croatian Chamber of Construction Building Engineers, 2010; Agency for Promotion of Foreign Investments, 2010). Long term sustainable investment model implies investment structure directed at creating added value. If accommodation capacities in tourism are analyzed hotels contribute to GDP most since they are the most intensive area of tourism investment as well as the segment with the highest productivity. In Croatia hotels whose share accounts for only 13% of all accommodation capacities yield 32% of the total overnights, and according to estimates, 48% of all revenues. At the same time investments in the hotels are intensive and according to Horwath Consulting, average investment in a five star hotel was Euro 209 000 per room (Čižmar, Vlahov, 2010).

In Croatia there are many hotel investment projects as well as tourism infrastructure projects that cannot be undertaken due to many investment obstacles. In the last ten years several significant hotel investments were undertaken. They contributed to the repositioning of the destination and investors undertook a large investment risk. Today returns from these investments are on average 4-5% while some are in financially very shaky position as cash flow is not adequate enough to cover loan repayment.

More intensive investment cycle in Croatian hotel industry started in 2000. Incentives for small and medium enterprises led to the opening of a number of small mainly four-star hotels. For the rest of the industry investments were mainly in refurbishment. A limited number of hotels with 100 or more beds have been built. Between 2001 and 2009 average investment rate in Croatian hotel industry was 22.6% (State Office for Statistics, 2010). In 2010 Croatia had a 65% drop in comparison to previous year.

Investments in hospitality sector are insignificant compared to other sectors. This is evident from the following: only 5% of total investments in period 2000-2009 went to hospitality sector and in period 1993-2009 it was only 2.5% of the total investments in Croatia (State Office for Statistics, 2010).

Investment opportunities exist. According to the most recent assessments (Dragičević, 2010) they are:

Table 1: Investment opportunities in Croatian tourism

Investment opportunities	Investment potential (short to long term)
Existing operating companies	€ 2-3 billion
Companies in majority state ownership	€ 400-450 million
Inactive state property	€ 2-2.5 billion
Greenfield projects	€ 5-6 billion
Total	€ 9.5 – 12 billion

Source: Horwath Consulting Zagreb estimate

In order to realize these potential investments it is imperative to minimize the level of many hurdles to investments, such as: land registry, slow urban planning processes, overvalued privately owned land, conflict of vested interests, red tape and corruption, waiting strategy

(privatization), fragmented management of inactive state-owned property as well as its legal and planning status.

To move ahead it is necessary to engage all stakeholders involved in the investment-related decision-making process.

5. CRITICAL VIEWS AND PROPOSALS FOR NEW STRATEGY OF CROATIAN TOURISM INDUSTRY

In this chapter we provide excerpts from conference discussions.

Professor **Boris Vukonić** underlined that in the Republic of Croatia the same old topics have been discussed since 1962 and that no essential changes have occurred except that the actors are different. Where does the misunderstanding lie? Is it a general one or is it that we lack adequate knowledge? The misunderstanding is in the politicians' heads! After generations of graduates universities still do not have political support. Professor Vukonić thinks that the Ministry of Tourism should bring together academic community and different voices should be heard. For him, despite many strategic documents that have been drafted it is difficult to predict the future of Croatian tourism. Nowhere in the EU are there so many development strategies as there are in Croatia, but a single one has been implemented. He also underlined that it is not possible to talk about the future of tourism in isolation as tourism should be viewed as a system! The first and foremost step is to formulate a comprehensive tourism policy which should be followed by a formal strategy. It is important to educate and train our own people and provide a legislative framework that would protect tourism resources and investments.

Professor **Boris Pirjevec** pointed out that when we talk about Croatian tourism statistics connotations are slightly different. He emphasised that in 2010 overnight figures will be lagging behind those from 1986 and 1987 by ten million overnights. At this stage the overnights level is at the same level as in 1980s, that is at the level of performance from twenty years ago.

Professor **Zdenko Cerović** asked what the way forward for Croatian hospitality sector was, and presented the following information. In Croatia 7650 accommodation units are blocked; they are mainly in the former army facilities; Croatian hotel industry employs 37000 people and if the above mentioned units were to be put to use 4000 new jobs and fresh revenue would be generated but on condition that these units are refurbished and modernized. He agreed that stable climate for foreign investments should be provided, but warns that Croatia should not permanently lose ownership of its land.

Željko Trezner, the Director of the Association of Croatian Travel Agents, underlined that, due to changes in tourism policy, travel agents are receiving more attention. He thinks that the self-catering sector should be better organised, branded and insists on the certification of jobs in tourism.

Professor **Tanja Mihalič** from the Faculty of Economics in Ljubljana underlined that until the 90s tourism in Slovenia was mainly viewed through economic lenses. After that the talk on sustainable tourism began. But not much changed until the appearance of the global economic downturn. When the numbers went red in 2009 they started looking for alternatives and they were found in the sustainable development. In Slovenia this is Green Tourism and

their promotional slogan is: "Slovenia is green, Slovenia goes green, Slovenia promotes green."

Professor **Stjepan Češljaš** underlines that strategy is only a part of a comprehensive plan. Everybody plans but the plan functions differ and we should know what we want to achieve. We must set out quantity and quality goals. Only then is it possible to talk about strategy that would achieve the said goals. Strategy is nothing without goals. It is necessary to discuss development concept and development as an idea. Strategy comes at the end - it imposes itself as a consequence. The Republic of Croatia's tourism and economic policies are passive. It is necessary to have pro-active policies so we can anticipate measures and reach the designated goals. In order to understand what sort of tourism industry Croatia wants and is **able** to develop it is necessary to undertake a number different analyses and not to work intuitively and without thinking things through. He also underlined that tourism should not take precedence over general development but it should be the reflection of that development. There are methodologies that could derive realistic possibilities of tourism development. The elements of possible tourism development are: area, social values and market demand, i.e. these are the pillars that have to be analysed in order to serve as the base for the goals. The current tourism industry in Croatia will not pull us out of the economic crisis as it is not using development of other sectors. There is a discontinuity problem between blue and green Croatia. Synchronizing agriculture and tourism is possible, but this idea has been completely neglected. The results of Croatia's tourism are not what they could be. Croatia should carefully consider the exploitation of its tourism resources as they are very limited.

Ivana Bahunek, the Director of the Association of Employers of Croatian Hotel Industry, thinks that the financial crisis has brought something positive. A number of educational programmes have been initiated. She underlined the importance of establishing permanent communication with academic institutions and what goes on in practical tourism reality.

Ivan Pukšar, the Director of Kompas Zagreb, underlined that as the whole world is fighting seasonality and it is difficult to reduce. But compared with the EU countries Croatia's tourism is the most seasonal. He said: "Croatia is like a ship leaning towards the Adriatic" and that it is important to find solutions to develop continental tourism, spa and health tourism.

Zoran Katić, the owner of a small family hotel underlined that Croatia was still in recession. People have invested all their savings in small hotels and have indebted their children. Small hotels have not emerged from the privatization process but through the use of credit lines and incentives from the Ministry of Tourism. Their advantage is that they are more flexible and market adaptable. They offer individual approach to the clients and particularly focus on ecology and unique experiences. Tourism does not happen in Opatija, Zagreb and Dubrovnik only. It is important to look for solutions in our environment and in the young people. Adequate and stimulative remuneration is the key to the success. He also thought that academic institutions did not provide sufficient level of professional training.

Sanda Čorak, the Director of the Institute for Tourism, underlined that the Institute's many years of research will serve as a platform for drafting tourism policies. She underlined the importance of increasing tourism revenues, average consumption and competitiveness of Croatia's tourism. Creation of new jobs in tourism should be the objective of all stakeholders, and that the function of the product should not be forgotten. Destination tourism has many components and these components are constituent parts of local economies. When drafting and implementing strategy we people with practical experience should be involved.

Šime Klarić, the President of the National Association of Small Family Hotels, underlined that tourism should be exploited in the best possible way. For Croatian small entrepreneurs it means they want the kind of tourism which would develop their potentials, participate in profit making and help increase the level of living standard in Croatia. He thinks that it is possible to involve Croatian entrepreneurs in “the proper business”. In the recent seven years small business people have invested 300 million Euros on the basis of partnerships and clearly defined objectives. The existing entrepreneurial capacities represent one of the most competitive products on the market.

Ivo Mravičić, the Director of Tourist Association of the Municipality of Tučepi, warned that the number of registered overnights in the self-catering apartments was much lower from the real figures due to a huge number of illegal beds offered. It is necessary to liberalize the market and to have strict regulations in order to satisfy the basic standards. He advocates fewer beds in self-catering.

6. CONCLUSION

This paper confirms that the global economic downturn and recession have negatively impacted Croatian tourism. The recession in tourism generating countries had direct influence on tourism demand and affected tourist consumption in destinations. But crisis in Croatian tourism is only partly a reflection of the global downturn. Many problems are inherited and date back to the period before the Homeland War. The problems in Croatia's economy negatively impact tourism which accounts for 15% of Croatia's GDP. This paper has shown that the causes and problems have intensified during the crisis and produced negative influence on tourism results.

Several features negatively influence Croatian tourism. First and foremost is it's the seasonal character which cannot be explained merely through geographical conditions and established trend of holiday making in Europe. The crucial problem is the structure of accommodation capacities which is less favorable than with the Croatian competition. Namely, hotels and similar facilities account for only 13% of total capacities while self-catering and camp-sites account for 74% of total capacities. Their annual occupancy rate is only 13%.

On the other hand changes cannot be expected without significant improvement in creating a stimulating business and investment climate. Croatia's competitiveness ranking is deteriorating on an annual basis. Despite the many investment projects they cannot be realized due to numerous investment obstacles ranging from privatization problems, corruption and red tape to ownership issues, vested interests and slow planning processes.

This leads us to conclude that in order to make a positive shift we need a clearly defined strategy for the local economy that would result from an agreed vision of economy in which tourism is a constituent and vital component. Only thus clearly defined tourism policy that establishes out quantity and quality goals can foster defining a clear strategy to achieve these goals. Any other approach would again lead to drafting tourism strategies that will time and again end up in administrative drawers.

Tourism, as the theory of tourism teaches us, is not a business sector or an activity but a system that requires co-ordinated activities within the entire economy. The co-ordination of activities will both enable tourism to achieve its optimal results and assist other business sectors and activities to achieve multiplying effects that a properly managed system can

generate. Based on these scientific views and critical thinking it is possible to define the new path for developing tourism policy of Croatia.

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