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**TOURISM AND COMMERCE AS DEVELOPMENT DRIVERS OF
EASTERN CROATIA**

**TURIZAM I TRGOVINA U FUNKCIJI RAZVOJA ISTOČNE
HRVATSKE**

ABSTRACT

The economic development of the Republic of Croatia is currently at a standstill as a result of the global economic crisis. Although the effects of the crisis are most visible in the financial sector, it is essentially a structural crisis and the result of the transition from industrial economy to the new information age. Under the influence of globalization on the one hand and the development and application of the ICT on the other hand, the Western World has experienced a major decline in employment opportunities. Consequently, the consumption potential of the population dropped, causing economic stagnation. Today, primarily due to relatively expensive labour, this part of the world is practically unsuitable for any kind of agricultural and industrial production because it is not profitable. In pursuit of low farm product prices characteristic of modern times, almost entire agricultural production is sustained on mass production and the redirection of resources through the system of incentives and subsidies. The industrial production has not fared much better. It does not come as a surprise then that many industries are trying to survive through assistance system similar to the one used for agriculture. Shipbuilding and automotive industry in some countries are good examples of this. In the current situation, neither agriculture, nor large parts of the industrial production are able to survive without government intervention and assistance from profitable sectors. If we take into account that in order to be competitive in the global market, besides having quality products it is necessary to have an adequate quantity of products and competitive prices, a legitimate question arises as to whether the

Western World has industrial products that are able to meet these criteria. If it does not, or if it does not have them in sufficient quantities, it is necessary to identify parts of the economic system that are cost-effective and provide for the survival of modern society. The economic situation in the Republic of Croatia, in particular in eastern Croatia, is much more difficult. It is obvious that, in terms of agricultural and industrial production, eastern Croatia is not competitive in the global market so the question arises as to which economic sectors can provide for economic development.

Keywords: information age, marketing, trade, tourism, knowledge, economic development of eastern Croatia.

SAŽETAK

U Republici je Hrvatskoj, prisutna je stagnacija u gospodarskom razvitku koja je, načelno gledano, posljedica globalne ekonomske krize. Iako se ta kriza evidentno manifestira u financijskom sektoru, ona u svojoj biti predstavlja strukturnu krizu i posljedica je tranzicije svijeta iz industrijskog u novo informacijsko doba. Naime, pod utjecajem globalizacije s jedne i razvitka i aplikacije ICT-a s druge strane, na području tzv. zapadne civilizacije došlo je do značajnog smanjenja broja radnih mjesta, a to je rezultiralo smanjenjem potrošačkog potencijala stanovništva što je direktno utjecalo na gospodarsku stagnaciju. U današnjim uvjetima, primarno zbog relativno skupe radne snage, u ovom dijelu svijeta gotovo da se ništa iz domene poljoprivredne i industrijske proizvodnje „neisplati proizvoditi“. Kada je u pitanju poljoprivredna proizvodnja, zbog načelne suvremene težnje za niskom cijenom poljoprivrednih proizvoda, gotovo se kompletna poljoprivredna proizvodnja održava „živom“ na masovnoj proizvodnji, te na sustavu prelijevanja sredstava kroz sustav poticaja i potpora. No, niti industrijska proizvodnja nije u značajno boljem položaju, stoga ne čudi da se mnoge industrije pokušavaju održati na životu kroz sličan sustav pomoći kakvu ima poljoprivreda. Primjer za to je u nekim zemljama brodogradnja, autoindustrija i slično. Prema tome niti poljoprivreda, niti veliki dijelovi industrijske proizvodnje, u današnjim uvjetima nisu u stanju opstati bez intervencije države i pomoći rentabilnih dijelova društva. Ako se uzme u obzir da je u pravilu za nastup u globalnoj tržišnoj utakmici, osim kvalitetnog proizvoda potrebno imati odgovarajuću količinu, te konkurentnu cijenu, postavlja se realno pitanje ima li zapadna civilizacija industrijske proizvode koji su u stanju zadovoljiti ove postavljene kriterije. Ako nema, ili nema u dovoljnom obujmu, potrebno je prepoznati one dijelove gospodarskog sustava koji su u današnjim uvjetima rentabilni i omogućavaju opstanak suvremenog društva. Situacija s Republikom Hrvatskom, posebice s gospodarstvom njezina istočnog dijela, značajno je teža. Očigledno je kako u okvirima poljoprivredne i industrijske proizvodnje istočna Hrvatska nema globalnu konkurentnost, stoga se nameće pitanje koji su to gospodarski potencijali koji mogu pružiti ekonomski razvitak.

Ključne riječi: Informacijsko doba, marketing, trgovina, turizam, znanje, gospodarski razvitak istočne Hrvatske.

1. Introduction

Since the World War II, few countries in Europe have experienced so many significant changes as the Republic of Croatia, going through both social and economic transformations. Literally, in the period from the World War II until now, the Republic of Croatia has gone through various social transformations—from fascist dictatorship, over etatism and socialism similar to the one in the former Soviet Union, followed by experimental and unique self-

management and socialism, to subsequent re-establishment of pluralism and democracy. During that period the population of Croatia literally lived in various forms of dictatorship. In addition, when the country left the Socialist Federative Republic of Yugoslavia, this led to the Homeland War, bringing devastation to the Croatian territory. Economy has experienced even more significant transformations, starting with the capitalist economy that was present at the end of the World War II, which was forcibly transformed into a socialist form of the planned economy equivalent to the one in the former Soviet Union at that time, by means of ownership expropriation by the state. The conflict between the leadership of the former state and the former Soviet Union and inefficiency of etatism and planned socialism also contributed to changes in the economy as well as partial solution to the situation among the republics constituting the former state that are now independent countries acknowledged after the break-up of that state. State ownership was replaced with the so-called social ownership and strict forms of the planned economy were replaced with the so-called consensus economy, where market mechanisms nevertheless played a significant role. This form of economy survived until the beginning of the great transition in the 1990-ies that took place in the countries of the former Eastern block, spreading also to the former Yugoslavia, both in political and economic sense. All these events that took place in the period of only fifty years have had strong effects not only on the awareness of the people of the Republic of Croatia, but also on business culture, ethics and, consequently, ways of doing business in the period during and after social and economic transition.

The fact that the economy of the former state was self-reliant and lacked any serious competition resulted in poor competitiveness of the Croatian society at a global level. Consequently, the Croatian economy was unable to survive in the market against the more competitive foreign products. After gaining independence, the Republic of Croatia opened its borders to free trade, resulting in a large number of cheap products literally finishing the domestic uncompetitive production. However, regarding industrial products, the Republic of Croatia was not the only one facing problems with foreign, more competitive products. Industrially developed countries were facing the same problem, as a new industrial giant emerged at that time. China as well as other countries in the Far East started marketing large quantities of cheap industrial products, owing to extremely cheap labour force, but also to illegal industrial production, illegal copying of global brands, and similar activities. Such products were particularly difficult to resist in a country that was "hungry" for products and where the population's purchasing power was very low. Strong import lobby and uncompetitive industrial production inherited from the period of the federal state were the key drivers to the downfall of the industrial production in the Republic of Croatia. Considering the circumstances, the attempts to encourage consumption of home-produced goods through the appeal to the public to "buy Croatian products" was almost symbolic or futile. In addition, the Homeland War affected industrial production, particularly in terms of the fact that large part of the Croatian territory was occupied and devastated during the occupation. The unoccupied parts of Croatia also suffered during the war as they were exposed to immediate war danger, suffered from isolation as some of the roads went through the occupied area, and some of the skilled labour force was lost as people were involved in defending the country. Further, privatisation that took place during the war presented another source of problems, as companies were bought by people who were not interested in maintaining production, but in turning assets into money. The policy implemented by the Croatian governments at that time was often inconsistent and did not provide support to either entrepreneurs or workers. The governments were often focused on finding ways to increase government spending on investments, often in unfeasible and socially questionable projects. Consequently, the state became the key investor, but also a key generator of insolvency, primarily focused on finding

ways to force tax payers to meet their obligations toward the state, whereas the state did not meet its obligations toward economic operators, or it did so with a considerable delay. The constant insolvency of the state was occasionally solved by selling off family silver, i.e. those economic operators that were a profitable part of the society. There is a lot of irony in the sale of Croatian banks that had been previously restored to financial health with taxpayers' money. In addition to the above described main causes of economic deterioration of the Republic of Croatia, there were also others, such as theft, abuse of power, elitism, incompetence, negative selection, corruption, etc.

Stereotypes are among the greatest problems and obstacles to the development of the Republic of Croatia, as they are uncritically accepted by both local and global levels of the government. Considering the scope of the stereotypes, this research is focused on Eastern Croatia and stereotypes referring to development, which are present in this part of the Republic of Croatia. These primarily include stereotypes referring to investments in agriculture and industry, followed by demonisation of trade and neglecting of tourism, which are supposed to be the potential development drivers in Eastern Croatia. Problems are caused by the attitude toward knowledge. Knowledge is a key factor of the modern age that the world is currently entering into - the so-called information age, or, more precisely, the knowledge age. The Croatian society will soon have to go through another transition. Therefore, unless it becomes aware of the transformation of the global society from physical into virtual forms of business, it is not very likely that both the Croatian society in general and Eastern Croatia will be able to find their way out of the omnipresent crisis.

2. Research methodology

Modern science describes the transition into the 21st century as the moment of leaving the industrial age and entering the new information age. Information age or knowledge age is the age characterised by a decreasing proportion of physical business, and an increasing proportion of virtual business. Although the modern consumer is a centaur, i.e. partially living in the physical world and partially acting in the virtual world, the fact is that such a consumer will not continue to exist for long, as there are new generations of young people who are growing up with the modern information and communication technology, and who will grow from mixed consumers into mainly virtual consumers. Consequently, anyone who is thinking about the future through a prism of the modern times is certainly making false conclusions and has no chance of surviving in the modern virtual business conditions that have changed. What makes virtual business different are global competition 24 hours a day, 365 days a year, and the use of virtual money. Physical borders as well as today's world in its current form are losing their purpose. Therefore the modern world, i.e. the world that will arrive very soon and will not spare any oases of the physical world, is the world that the modern man has to adapt to. Preparations for entering this world demand high levels of knowledge in a society and give priority to those business forms that require most innovative and creative approaches to work, because, as experience has shown so far, a modern computer-driven robot is able to replace a man efficiently in all reproductive jobs. It can be said that in the future a machine will probably be able to play a Chopin's Etude better than a man, but the real question is whether and when a machine will be able to compose such an Etude. Being taught a lesson, developed economies are making preparations for the transition into a new virtual age and are making significant efforts in transforming their own strategies from the industrial point of view to the view embedding the principles of knowledge society. Unfortunately, monitoring the political and macroeconomic scene in the Republic of Croatia, it is clear that the mind of politicians and macroeconomists supporting the political elite correspond to the past times, to the

industrial age. This transition that the Republic of Croatia will have to make soon has not been recognised yet, and this can be detrimental to the survival of the Croatian economy in the long run. It should be pointed out that the situation in Eastern Croatia is even worse, as this part of Croatia is globally recognised as a region of agricultural production, which is generally unprofitable, i.e. it cannot survive without state intervention in the form of premiums, subventions, subsidies, and even protection levies. A good rational view of the development of the Croatian society, including Eastern Croatia, requires looking ahead to the future and choosing a core business. This should then be used as a base for application of marketing principles in business, branding Croatia in the global market and, ultimately, making specific development plans to invest in the activities accompanying the core business, thus setting the entrepreneurial spirit in the Republic of Croatia free. Expecting that something will be solved by creating a good environment for entrepreneurs without strategic planning and state intervention is a utopia. As the Republic of Croatia is recognised as a tourist country at the global level, tourism should be one of the key factors of success of the Republic of Croatia in the global market. However, considering the potential of the Republic of Croatia and the quantities that can be produced, without developing own strategic offer in a virtual environment, i.e. without organising Croatian producers in a trade cluster, it is hard to expect that Croatian products will find their place in the global virtual environment created by the Internet today. Accordingly, the following hypothesis can be set:

Tourism and trade can and should be the development drivers of Eastern Croatia.

The aim of the research is to show that tourism and trade can be the development drivers of Eastern Croatia. The research results should therefore be presented as a descriptive model for the development of Eastern Croatia, based on the prerequisite that tourism and trade can be the drivers of economic development.

To provide the most authentic and reliable conclusions and knowledge, a greater number of scientific methods were used for the purpose of scientific research. The scientific methods used in the research include induction and deduction, analysis and synthesis, abstraction and concretisation, observation, generalisation and specialisation, causal inference, classification, comparison, systematic approach, historical method, methods of proof and contradiction, descriptive modelling, compilation and empirical method. However, the most important method applied in the research is the method of thought experiment. The starting point in the paper is deductive and logical method of researching the relevant foreign and Croatian literature about the experience of other economies related to the principles of economic development.

The method used in this paper is the method of thought experiment, as the descriptive concept model that will be presented in this paper cannot be tested in the real-world conditions. Generally, this method is mostly used by theoretical physicists for analysis and testing of those physical models that cannot be verified in the real-world conditions. Due to the predetermined length of the paper, only the final research results will be presented here.

3. Research results

As it was already pointed out in the introductory part and later in the paper, the entire world, including the Republic of Croatia, is facing another large transition, the transition from the physical world with physical forms dominating the business world to the so-called virtual world. This transition will mark the beginning of a great new era in the development of the human society, known as the information age or the knowledge age. Considering the

importance of the social changes brought about by the information and communication technology, i.e. considering the general social significance of the new era, this new era can be also called the information society, i.e. the knowledge society. This "information society is a society where the creation, distribution, use, integration and manipulation of information is a significant economic, political, and cultural activity. This type of society is characterised by the central position of the information technology in the field of production, economy and society as a whole. The information society is considered to be a successor to the industrial society. Closely related concepts are post-industrial society, post-fordism, knowledge society, telematic society, information revolution and network society. Information and communication technology brings changes to the way of life of individuals and social community." ("Informacijsko društvo", n.d.) Starting from this definition, it is clear that the new society transforms not only the forms of communication, but it also transforms the overall social habits. Even the encyclopaedia that was used in the process of defining the term information society belongs to the concept of the so-called Web 2.0, i.e. the concept marked by creation of virtual communities in the virtual Internet environment. Such communities change human habits to a great extent, and the number of people who are replacing physical forms of social interaction with virtual forms through various forms of social networks is growing. These networks allow for a very wide outreach and immediate interaction among people who are in different places, both on this planet and in the Universe, limited only by the range of communication systems. Therefore, this technology has enabled significant changes in the system of human activities. A predecessor to the social networking in the virtual environment was the so-called Web 1.0, i.e. "the Presentation Web", where the content creator was at the same time the content owner, allowing only one-way communication, from content creator to content consumer. Social networks have changed this and today's communication is two-way communication. As virtual content is becoming increasingly dominant over physical content, in the near future it can be expected that up to 80% of products will be consumed in the virtual form. For this reason it is understandable that the virtual environment is a significant driver, both in terms of creation of the new content and its exchange and distribution. In addition to exchanging the virtual content in the virtual environment, the so-called electronic market is created in the virtual environment. According to its basic principles of functioning, it corresponds to the physical market. Electronic market is the place where electronic trade takes place, and this trade is often identified with electronic business. The reasons that the terms e-Commerce and e-Business are confused are given by Tepeš. "It is generally accepted that the terms "e-Business" and "e-Commerce" have the same meaning. Such a belief arises from the premise that any business ultimately leads to buying or selling. E-Commerce is about selling and buying products through the Internet, but e-Business is much more than that." (Tepeš, 2008, 25)

Panijan gives the following definition of the term e-Business: "E-Business is a modern form of organising business, involving intensive application of information and, in particular, Internet technology when performing the key or core business activities." (Panijan, n.d.) A simpler, but complete definition of e-Business is given by the Financial agency (Fina), and it says that "e-Business is a simple way of communicating among business partners through electronic means of communication." ("Elektroničko poslovanje - e-poslovanje", n.d.)

In the structural sense, electronic business can be defined by the following formula: (Strauss, El-Ansary, Frost, n.d.)

$$eB = eC + BI + CRM + SCM + ERP$$

where abbreviations mean the following:

- eB - e-Business;
- eC - e-Commerce \approx trading through the Internet;
- BI - Business Intelligence;
- CRM - Customer Relationship Management;
- SCM - Supply Chain Management;
- ERP - Enterprise Resources Planning Systems.

Therefore, electronic commerce is one of the development drivers of any community, including the development potential of Eastern Croatia. As an inseparable part of e-Business, e-Commerce produces evolution of the concepts related to e-Business, which were presented by the formula above. All the mentioned concepts are based on knowledge. Therefore, the development of electronic commerce, i.e. e-Business should ultimately produce an evolution of knowledge in the society, and knowledge is the capital base of the modern age. Accordingly, today when education is of secondary importance, it would be crucial for the development of the Republic of Croatia, particularly its eastern part, to make efforts to build and retain human potential that would ensure the application of the concept of e-Commerce and of the transition from physical to electronic business, i.e. from physical to virtual society.

Nevertheless, physical commerce can and should be a development driver not only for Eastern Croatia, but for the entire Republic of Croatia. However, commerce in today's form actually makes Croatia poorer, because that form of commerce, particularly in the field of industrial products, mostly consists of imported products, and target customer group are the people of the Republic of Croatia. The situation should be changed in the way that wholesale trade as well as retail trade becomes primarily oriented toward the Croatian product and foreign consumers of the Croatian product. In terms of e-Commerce, there are no significant obstacles for the realisation of this concept, as the entire Internet is actually a virtual international market. The problem primarily lies in the possibility of selling Croatian products to foreign consumers through a retail trade system. Apart from exceptions referring to the expansion of the Croatian retail trade chains to the surrounding area of the former Yugoslavia, there are few examples of Croatian products being marketed in a foreign market through physical retail trade. However, it would be wrong to say that there are no possibilities in this area, as tourism is a specific social phenomenon acting as a foreign market in the home territory.

In addition to commerce and e-commerce in particular, and according to the above assumption, tourism should be another development driver for both the entire Croatia and Eastern Croatia. According to the World Tourism Organisation (WTO), tourism is "a group of activities when people travel to and stay in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes..." (Marušić, 2012, 2). Whereas commerce in Croatia could be primarily seen as a means of transition from the physical into the virtual environment, tourism could be seen as a physical form of social activities with special form of activities, because, as already stated, it creates the foreign market in the home territory. Tourism is primarily a social phenomenon and it provides benefits to the service and catering industry in the first place, but also to other activities in the function of tourism. However, Croatian tourism has some weaknesses. These include orientation on the coastal area and limitation to two to maximum five months a year, due to the specific character of summer tourism. Unlike the coastal area, tourism in the continental Croatia can be pursued year-round, aiming at a different consumer niche and being primarily oriented toward cultural and gastronomic offer.

As elaborated above, relying on agricultural production as a component of strategic development and on industrial production in today's circumstances makes no sense. Since society is focused on cheap food, agriculture is by definition supported through subsidies, and most of the industry is uncompetitive, so the question is what can be used as the development driver of the Republic of Croatia, in particular in its eastern part. Agricultural products cannot be competitive in the global market, as they lack proper branding, have inadequate prices and cannot be produced in sufficient quantities. However, marketing agricultural products through the catering industry benefiting from tourism is something quite different. As a rule, if offered adequate experience (through adequate promotional activities), a visitor is willing to pay a higher price for autochthonous cuisine. If tourism is used as a strategic backbone, agricultural production can be kept alive as an accompanying industry based on the core business - tourism. The same applies to industrial activities. Another significant accompanying activity involves services that require a high level of knowledge, provided that these services are offered at prices that would be acceptable to a foreign guest. This primarily refers to the potential of the Croatian health care, as it is known that the Croatian health care system provides high quality services at prices that are lower than the prices in the developed countries. Another goal would be thus achieved – improved job offer would encourage highly qualified labour force to stay in Croatia. Now the trend is opposite – after expensive education provided for free and paid by the state, highly qualified labour force leaves the country without repaying the cost of their education to the society.

As already stated, in addition to tourism, trade should be another integrator and driver of the economic recovery of the Republic of Croatia. However, to be able to market products in the world market, the Republic of Croatia should first provide sufficient quantities of goods. For example, most retail trade chains in the world are not interested in high quality Croatian wines due to limited quantities of produced goods. The reason for this can be found in the absence of strategic determinants in agricultural production, because it is primarily focused on grains, whose prices are commonly lower in the world market. On the other hand, there is high production diversity and products are produced in small quantities that are insufficient to create a more serious offer in the foreign market. In such cases trade should be used as a factor of cohesion for integration of producers in clusters, to ensure this basic requirement of the global market faced by the Croatian producers of agricultural products. In that sense, while accepting the necessity for the transition of trade to the virtual environment, the Croatian trade should be integrated in the virtual environment and a master brand should be created by presenting the Republic of Croatia as a kind of a corporation, to present Croatia in the virtual environment under this master brand. Creation of such a brand would require a systematic approach and establishment of corporate business principles for economic operators in the Republic of Croatia. The role of the corporation's leadership would be to define the vision and mission of joint businesses, organise joint marketing and joint research of foreign markets, coordinate efforts in systematic branding of the Croatian autochthonous products and production planning, ensure joint presentation in foreign markets and protection of common interests of all economic operators involved in the joint venture. Although some of this work should be carried out by the Croatian Chamber of Economy and the Croatian Tourist Board, these organisations have lost their significance and reputation in the business environment due to the manner in which they used to obtain funding and hire people in the past. The solution would then be to establish a profit-oriented organisation that would be able to coordinate economic activities, particularly the export-oriented ones, at least in the eastern part of the Republic of Croatia.

Such a system would result in the creation of the Croatian trade cluster in both physical and virtual environment, which would provide Croatian producers with access to the world's physical and virtual market. Croatian producers should seek their place in the potential offered by modern concepts, primarily in production for a known buyer, i.e. custom-made products. For this purpose a global integrated information system should be developed, oriented towards customer relationship management (a global CRM system) and used for the benefit of all producers in the Croatian territory. As the Republic of Croatia is currently unaware of new trends, it would be beneficial if at least Eastern Croatia recognises the importance of defining the "core business" and integrating all business factors to ensure economic development. Otherwise there are small chances that the global investment policy that is currently proclaimed in the Republic of Croatia will have any significant effects on economic development.

4. Conclusion

Until the 1970-ies, Eastern Croatia was seen as a promised land, compared to the rest of the Republic of Croatia. Development potential was based on agricultural production and processing industry, but also on industrial production which was technologically more advanced at that time than in other parts of the Republic of Croatia as well as the entire former Yugoslavia. However, many crises that affected the former Yugoslavia and development of tourism have significantly changed this and since the 1970-ies Eastern Croatia has been constantly lagging behind in economic development. The Homeland War that directly affected this part of Croatia, privatisation that was mainly unsuccessful, and lack of competitiveness in foreign markets resulting from the self-reliance of the former state, have all led to the situation that Eastern Croatia is today one of the most undeveloped areas of the Republic of Croatia. Attempts to develop small entrepreneurship in this area in the period after the war at the end of the last and the beginning of this century failed to produce any significant result. Therefore, agriculture continues to be a significant backbone in the economy of Eastern Croatia. However, today's agriculture, which is based on incentives, subventions, premiums and other forms of government protection cannot be a key factor of economic development. Therefore, new key factors have to be found.

In that sense, as emphasized during the presentation of research results, the general strategic backbone of economic development ("core business") should be established and used to create attractors that will be the foundation and the backbone for the development of strategic business activities. In that sense tourism in the physical world and trade in both the physical and the virtual world can be used as basic attractors and drivers of economic development, primarily in Eastern Croatia, but also in other parts of the Republic of Croatia. Certainly, these are not the only attractors in the entire territory of the Republic of Croatia, but in Eastern Croatia they are the dominant factors of development. Therefore, the usual theses about reindustrialisation of Eastern Croatia should be abandoned as soon as possible and focus should be shifted to those areas that can become drivers of economic development.

Due to the predetermined space for presentation of the research results in this paper, the focus was set on the analysis of dominant issues of economic development and conditions in the eastern part of the Republic of Croatia, attempting to provide reasons for such a situation. In addition, business conditions that are expected to occur in the near future were considered and used for identification of the strategic backbones of both the virtual and physical economic development of Eastern Croatia in the form of trade and tourism. Further research efforts of the authors will be focused on the transformation of this conceptual descriptive model of

development potentials of Eastern Croatia, with tourism and trade as development drivers, into a specific structural model that will be used to identify business activities and parts of the economy that could be successfully developed in such conditions.

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