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## THE ROLE OF TOURISM IN SLOVENIA'S STRATEGY OF INTERNATIONAL ECONOMIC RELATIONS

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This paper explores the idea of sustainable tourism as a criterion for long-term global planning that takes the economic, sociocultural and environmental benefits of tourist products into account. The paper also discusses what Slovenia's strategy of international economic relations, together with the Law on tourist activities have contributed to the subject.

Key words: Slovenia, tourism, strategy, policy, law

### 1 INTRODUCTION

The process which led to the independence of the Republic of Slovenia has certainly brought a number of positive effects on social climate of the country: the reinforcement of national feeling and the enthusiastic participation of the people; the acceleration of the process towards qualitative, organizational and behavioral patterns of modern countries.

But at the same time this process had to cope with a sudden and important "forced" worsening of economic situation.

This unexpected situation has been caused by different factors, the most important ones are the following:

- the worsening of the trade relations with the countries of former Yugoslavia, the past main economic partners of Slovenia;
- the atmosphere of extreme uncertainty since the war in the Balkans has spread abroad between investors, companies and consumers (particularly visitors) and which has restrained the exchanges between the western and Slovenian economic systems;
- the cycle of international economy which in the first three years after independence has probably known the worst phase in the nineties.

Tourism has immediately and considerably suffered from this situation, recording a great decrease in the number of foreign visitors and reducing its participation to the GDP as a whole. In the years just following 1991 the tourist sector has indeed shown an autonomous capacity to recover, still without any specific supporting policies. The same can not be said for the key sectors of the Slovenian economy, which have met much more difficulties on their way to recovery.

The great reacting behavior of tourism in Slovenia is emblematic of the potentialities of this sector, which give it the chance to play a role anything but marginal in the future of the economic structure of the country.

At present, the tourism potentialities come from the outstanding heritage of natural resources, mostly untouched, the lucky geographic position of the country - neighboring or bordering on countries producing a great outgoing tourist flow - and the quality/price ration which is still favorable.

However it is impossible to ignore the lacks which still remain in supply side and commercialization and which may become a major obstacle in keeping the positive trend of tourism in Slovenia.

The process of strengthening and positively exploiting the tourism potentialities has therefore to be faced with a clear understanding of the opportunities and the factors of weakness and with a modern marketing approach, aimed both to support the product and the image, in order to make Slovenia fully competitive among the tourist destination countries.

Otherwise the positive evolution of the arrivals, as well as good economic prospects, are bound to be short period and risk to stop as the situation in the Balkans is normalized and important competitors turn up again in the same geographical and cultural area.

This paper has the aim to define the strategical objectives of the tourism policy of Slovenia and represents the necessary premises for the specific actions and the programs which will have to be implemented.

## **2 INTEGRATION OF SLOVENIA TO INTERNATIONAL SERVICES' SECTOR**

Slovenia's role in the international flows of services is below average (Bobek et al., 1996, p. 64). It also lags behind the developed economies with regard to its structure of exported service as it does not follow the trend of expanding trade in services based on market presence in a foreign country but still relies upon traditional cross-border trade. Services account for around 22 % of the world trade of goods and services, whilst they represent around 20 % in Slovenian trade. "Other services" (excluding transport and tourism) account for 40 % of world services exports, whilst

they represent only 23 % of Slovenian exports. In the early nineties, half of the world foreign direct investment was directed to services whilst in Slovenia only one quarter.

Although Slovenia has a surplus in the services balance, this is primarily a result of net inflows from traditional services such as, tourism, transport and construction. The greatest net outflow is generated by various business and technical services (leasing), rights and licenses, computer and information services. As these imports are expected to increase in the future, new services need to be added on the export side and in particular knowledge and skill-intensive services. Otherwise, the surplus in the services balance might not be large enough to compensate for the deficit in the trade balance.

Trade in services is expected to grow faster than in goods and will have to support exports of goods to an even greater extent than in the past. The efficiency of services needs to be raised and this will increase their competitiveness in international markets, as well as the competitiveness of exported goods. So far, certain service suppliers have been protected from foreign competition and competition was impossible in certain sectors due to natural monopolies (for example financial services, telecommunications, etc.). Gradual deregulation began at the end of the eighties (along with the emergence of private enterprises and the process of externalization of services), however, it has proceeded at too slow a pace.

It was therefore of crucial importance for Slovenia to have become a member of GATS and that it must under the Association Agreement with the EU proceed with the deregulation and liberalization of services, enhancing their efficiency (lower prices, better quality, greater diversity of services). In accordance with its obligation under GATS Slovenia will adhere to the non-discriminatory principle, increase the transparency of its regulations concerning services, gradually liberalize foreign trade in services and allow foreign competitors access to its market and grant them a national treatment. The existing barriers in trade in services relate to the presence of foreign competitors on the market (through provisions regulating the establishment of enterprises and the terms of their operations).

Slovenia needs to accelerate the development of services. In addition to capital, which is lacking, a highly qualified labor force is the precondition for the further development of the service sector, and in particular, of those services with a high information component. A modern information-communications infrastructure is also of crucial importance as it is a precondition for the introduction of new technological improvements in a services sector.

Greater integration of Slovenia in international services trade also means a rise of imports of services. Preference should be given to services which involve a transfer of modern technology and specific knowledge and are long-term (via foreign direct investments in services sector). This would positively affect the domestic service sector. In the area of exports of services accelerated harmonization to technical standards and rise of quality standards is necessary. Exports of traditional services need to be upgraded (for example, health care tourism in addition to health resort tourism), services with higher value added introduced and exports increased

through various forms of market presence abroad, either independently or in connection with exports of goods.

## **2.1 Rapprochement of Slovenia with the EU in the services sector**

Services account for the greatest share in the value added (56 %) and in total employment (around 50 %). Increasing importance of services is reflected in the faster growth in exports of services than goods, particularly important in the light of Slovenia's participation in the liberalization of international trade in services on the regional (Association Agreement with the EU) and global level (GATS). Like certain other small European countries, Slovenia has in the long-run comparative advantages in the provision of services (compared to larger economies).

In view of liberalization of international trade in service, market services are of paramount importance. In 1994, they accounted for 42 % of value added and 35 % of total employment. Slovenian lag behind the EU average is the largest with respect to market services. In the EU on average these services account 49,5 % of value added and 45 % of employment (1992 figures). The lag is the greatest in financial and various business services (Bobek et al, 1996, p. 64).

A more rapid growth in exports than imports of services, and the provision of new services is necessary for the achievement of a balanced balance of payments in the long run. Traditional services (trade, tourism, transport and communications, construction) dominate Slovenia's trade in services. The importance of other services is increasing, but their starting position is significantly lower.

The Association Agreement calls for further liberalization of international trade in services and a right for foreign legal and natural persons to establish enterprises and branches in Slovenia. This means that not only will international cross-border trade increase but so will the direct presence of the EU service suppliers in Slovenian market through direct investment. Increase in competition on the domestic market is expected, and in particular, in the area of financial, transport, information and business services.

The domestic services sector must develop more closer ties and strategic alliances with EU partners in order to as soon as possible acquire the technical and quality standards applicable to services. This would make it better prepared for competition and would at the same time increase its efficiency.

Greater competition amongst the various providers of services will raise the quality, lower prices, increase the diversity of services and promote the use of new technologies. Since services are a growing input in industry, agriculture and the services sector itself this will also improve the efficiency and competitiveness of the economy as a whole. The greatest difficulties and costs of adjustment will be experienced by sectors which have so far enjoyed high levels of domestic protection.

Balance between competition and temporary protection of selected sectors will have to be found. Postponement of deregulation and liberalization may, however, cause additional difficulties and costs in the future. Adjustments to be undertaken by the government under the AA of harmonizing legislation and by enterprises are only the beginning of the fundamental changes awaiting the services sector in the process to full membership in the EU.

### 3 INSTITUTIONAL APPROACH - POLICY RECOMMENDATIONS

The European Union's 1995 Green Paper on tourism and the environment in Europe states that it is essential to observe the principles of sustainable tourism in order to ensure that both the tourist industry and tourist satisfaction endure.

Sustainable tourism itself involves effectively undertaking a series of lasting planning measures which are based on both physical and perceived carrying capacity. These measures must link the local tourist industry to its economic, sociocultural and environmental context in order to safeguard resources and maintain a balance between human beings and their habitat, ensuring satisfactory tourist experiences that will make the destination increasingly attractive and enable it to register long-term profits.

Thus enactable, long-lasting measures are proposals that can be applied to a particular place and population, be translated into legal regulations, put into practice by local public and private institutions and maintained over time.

Other measures must be pacted between all groups interested in developing a particular destination - permanent residents, weekend and holiday residents, occasional visitors, transients, local and non-local tourism-related and other businesses, public administrations and institutions. The resulting strategy is thus dynamic, different from competitors' strategies and will take due account of the destination's particular physical and perceived carrying capacities.

Global measures must address three issues: the business carried out in the destination, natural and sociocultural resources, and the environment (Valls, 1997, p. 7). The idea of sustainability continues to be viewed almost exclusively in terms of environment, although it is equally essential to both business and resources. A balance must be struck between the three: the model selected should permit profitable business operations, assure the survival of natural and sociocultural resources and conserve the environment so that human beings live in balanced harmony with their habitat.

Sustainable tourism will be able to satisfy tourist demands now and in the future and can even spur the creation of new tourist products, which must necessary be more personalized, include more activities, be more authentic and which must acknowledge the fact that tourists are increasingly cultured and experienced (Jansen-Verbeke, 1996; Anton, 1996)

No tourist destination, product or business can be truly competitive if it is incapable of benefiting not only the business community but also protecting and enhancing the natural, sociocultural and environmental assets of the entire area. Indeed, among the major investments required for sustainability are those designed to maintain and protect the resources used by tourist industry.

While short-term investments in non-sustainable tourism will probably pay off later, their life cycle will be increasingly short and in the medium and long-term returns will decrease to the point of negligibility or even loss. In contrast, investments planned for the long term and in accordance with criteria of sustainable tourism will probably yield lower short-term earnings, but returns will be higher in the medium and long term and the distinctive qualities of the entire area will be preserved. This in turn will make the area an increasingly attractive tourist destination, generating revenue over a longer period of time and ensuring that local natural assets will survive for future use.

#### **4 LAW ON TOURIST ACTIVITIES**

Slovenian tourism has waited a long time to be legally enshrined. At the end of 1994, however, first the development strategy of Slovenian tourism, which has been in preparation for some years, was confirmed, then the Law on the catering industry was adopted, and at the beginning of 1995, the working draft of the Law on tourist activities (The Law) was drawn up. The Law defines the resorts and regions of tourist interest, distributes the activities among associations, organizations and bodies which deal with tourism, specifies the conditions which have to be fulfilled by legal persons who represent tourist offices and travel agents, the financial sources, and how the funds are going to be spent.

According to the working draft, a tourist resort is supposed to be a place with a minimum 500 bed available for tourists. Tourist resort are therefore, on the basis of the data on the facilities, and based on statistical data for the last three years, as well as on the basis of the impact made on the entire catering industry, classified into three categories: I. II. and III., while a tourist region is defined separately as a region which has minimum of 5,000 beds in different types of facilities available for tourists, which has various infrastructure facilities and centers, organized tourist information services and widespread promotion of tourist offers.

A new financial source would be a tourism contribution paid by legal and physical persons who have offices in the tourist resort, where they make their profits from the sale of goods and market services. The amount of the contribution should be determined with regard to the total income, while the money will be collected in the Institution for Promotion. Apart from tourism contributions, a tourist tax, a fee paid by the tourist for each day of his temporary residence, i.e. away from his permanent residence, will also remain.



An important issue introduced by the working draft of the Law on Tourist Activities is that the tourist tax will be included in the municipality budget and not in the state budget as practiced so far, so that the municipality can use this money for developing tourism in its own region. The amount of the tax will depend on how a tourist resort is classified.

Travel agents will be allowed to perform their activities, if they fulfill the minimum technical conditions related to business premises and equipment, if the employees and the managers have a minimum required level of education, and if they pay a calculated amount into the guarantee fund. This fund is a new invention which has been unknown to Slovenian travel agents so far and which, if legalized, will cause the disappearance of some travel agents. With the guarantee fund, into which a definite amount of money will have to be paid, the authors of the proposed working text of the Law want to protect the consumer against the travel agent's failure to perform, or inappropriately perform his activities/services which the consumer was offered by him.

As soon as it was presented, the draft Law was subject to many proposals and remarks. Some estimate that the Law is about to face a difficult time, maybe for several years, until it is passed.

## 5 CONCLUSION

The great reacting behavior of tourism in Slovenia is emblematic of the potentialities of this sector, which give it the chance to play a role anything but marginal in the future of the economic structure of the country.

The process of strengthening and positively exploiting the tourism potentialities has therefore to be faced with a clear understanding of the opportunities and the factors of weakness and with a modern marketing approach, aimed both to support the product and the image, in order to make Slovenia fully competitive among the tourist destination countries.

Sustainable tourism itself involves effectively undertaking a series of lasting planning measures which are based on both physical and perceived carrying capacity. These measures must link the local tourist industry to its economic, sociocultural and environmental context in order to safeguard resources and maintain a balance between human beings and their habitat, ensuring satisfactory tourist experiences that will make the destination increasingly attractive and enable it to register long-term profits.

Tourism is not only essential to development but also serves as a bridge between different cultures and societies, fostering mutual learning and contact. It is therefore important that tourism is viewed as a cultural product, a means of fostering

dialogue and an industry that can be successfully combined with other industry. So investments in sustainable tourism will yield long-term benefits not only for tourism but for other industries as well.

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## Sažetak

### ULOGA TURIZMA U STRATEGIJI MEĐUNARODNIH EKONOMSKIH ODNOSA U SLOVENIJI

U radu se istražuje ideja održivog turizma kao kriterija dugoročnog planiranja, koji uključuje ekonomske, sociokulturne i ekološke koristi. Posebno je istaknut doprinos strategije međunarodnih ekonomskih odnosa Slovenije i zakona o turističkim aktivnostima toj problematici.

Ključne riječi: Slovenija, turizam, strategija, politika, zakon