



Ministry of Foreign Affairs

The youngest EU Member State on the path to business opportunities

Commissioned by the Netherlands Enterprise Agency

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International.*

Pearl 1: The youngest EU Member State on the path to business opportunities

Croatia, a Mediterranean country of 4.3 million inhabitants, has been the youngest Member State of the EU, joining the Union in July 2013. The country is placed at the crossroads of Central Europe, the Balkans and the Adriatic Sea. The country is a member of NATO, IMF, WTO and IBRD. In 2017, Croatia started the process of acceptance to the OECD and stated the intention to become a member of the Eurozone. Croatia is appealing to all those looking for diversity, time out and business opportunities. It can be enjoyed throughout the year. Thanks to Croatia's beautiful nature, great weather and abundance of tourist attractions, it's *the* country to unite business and leisure.

Croatia's two decades prior to the EU accession were marked by the proclaimed independence from Yugoslavia, transition periods associated with the war and preparations for the EU accession. In that period, Croatia has progressed towards a market economy and, after the six year's recession that lasted until end of 2015, is on a path to achieve a macroeconomic stability. In 2016, a GDP growth of 2.9% was recorded. The Croatian GDP per capita is 11.000 euros. The local currency Kuna is stable and closely tied to the Euro. The inflation rate has been low. However, due to a high public and private debt, Croatia is experiencing excessive macroeconomic imbalances.

Main generators of growth are tourism and investments supported by EU funds, along with exports and private consumption. Since accession, the country has placed a great deal of emphasis on securing structural and cohesion funds for investments in various sectors. In total, Croatia is entitled to 10.6 billion euros from EU Structural and Cohesion Funds 2014-2020. In view of these developments, opportunities also arise for the Dutch business community.

The structure of the Croatian economy is dominated by the service sector, primarily tourism contributing to the GDP with about 20%. The industrial sector, dominated by shipbuilding, accounts for 25% of Croatia's GDP. Other main industrial sectors are the food processing and tobacco industry, the chemical and oil industry, metal industry, agriculture and IT.

Positioned along the Adriatic coast, Croatia and Slovenia are appealing to be considered as a joint market for Dutch business people - **Kansen aan de Adriatische kust - Kroatie en Slovenie - <https://www.rvo.nl/file/kansen-aan-de-adriatische-kustpdf>*

Everyone speaks at least basic English. Croatia and its cities are easy to reach. Trains are relatively slow, but the highway-infrastructure is excellent and any city can be reached in a few hours. There are over 8 airports in Croatia, at least one for every big city. Domestic flights are easy and cheap. Climate is pleasant and not extreme.

Other info:

Attachment: *Marktkenmerken Kroatië*

Attachment: *Do's-and-don'ts in Croatia*

Interview with former Croatian Ambassador to the Netherlands -

<http://www.diplomatmagazine.nl/2014/06/01/croatia-youngest-eu-member-traditional-business-partner-dutch-businesses/>

Pearl 2: **Tourism and ICT solutions in tourism as a niche opportunity in Croatia**

Croatia, with blue sea, spectacular national parks and soaring mountains, 1185 islands (but only 66 populated), good wines and food, along the coast you will find glorious white stone, which is used for a wide range of constructions: from Diocletian's Palace to the White House in Washington DC is a country appealing to all those looking for diversity, time out but also business opportunities. It is the country that can be enjoyed throughout the year and where business and leisure can be united.

The tourism sector, although still mostly seasonal, makes for an interesting potential export market for Dutch companies and investments. Not in the least because of the fact that Croatia is a net importer of food and other products. According to the Croatian Tourism Development Strategy until 2020, Croatia strives to develop a globally recognized and competitive all-year-round sustainable tourist destination. A segment that needs to be further upgraded are high and luxury accommodation. Croatia needs several hundred new hotels, of which over 100 four and five-stars hotels is foreseen still lacking.

The structure of the Croatian economy is largely dominated by tourism contributing to the GDP with about 20% (EUR 11,5 billion). In 2017, 18,5 million tourists visited Croatia, making 103 million overnight stays. Amongst, 390.000 Dutch tourists, accounting for 1,25 million overnight stays (2016). In 2017 The Dutch Thomas Cook Dutch for the first time introduced a tour operator program and its own charter flight to Split once a week. The agent already has a strong co-operation with Transavia's airline, which in a season connects daily Rotterdam with Split. Furthermore, in 2017 KLM introduced flights from Amsterdam to Split (first 2 and then 6 times a week). The prospects for 2018 are positive.

Investments in tourism are growing from year to year. According to the Global Tourism Locations of the Future 2017/2018 by Financial Times, Croatia is the 7th of 43 destination as per the investment potential in tourism. In addition, Croatia, was awarded the "Editor's Choice Awards" as one of the countries with the greatest improvements in the field of tourism infrastructure, accommodation, incentives for tourism development and investments in hotels and cruising, also mentioned as a particularly prominent destination for film tourism (see Pearl 4).

In 2017, tourism sector in Croatia attracted 850 million euros of investments, with bulk of those investments being from the private sector. Some of the major investments included tourist development project Kupari close to Dubrovnik, Hotel Park in Rovinj, Resort & Spa Wellness hotel Costabella in Rijeka, Frapa Resort Medine in Rogoznica, Auto-Cap Punta Nova in Zadar. In 2018, investments are expected to rise to 950 million euros (620 million euros / private sector and 311 million /public sector) and can go higher to a billion euros provided that planned investments in health tourism kick off. Realization of some of the major tourist investments is expected, like the construction and reconstruction of Hotel Belvedere in Dubrovnik, the Four Seasons Hotels and Resorts in the bay of Brizenica on the island Hvar. A large number of investments are planned in Istria where Valamar company is investing in the construction of the Maro Hotel in Girandella Resort in Rabac or in reconstruction of the existing Pinia Suites in Poreč. Other hotel companies are investing in renovation of their hotels and camps. Not only on the coast, but investments have been announced in the continental part of Croatia too.

Tourism, furthermore, offers plenty of opportunities in ICT. The sector is in a need to shift and apply innovative digital solutions, which should also include those for the optimization of business. Hotel chains are faced with shifting to blockchain, introducing new fintech payment methods, using chatbots in human resources, using artificial intelligence for data collection, introducing martech, etc. As of this year, tourism sector is also faced with a new requirement to harmonize their business with the EU's GDPR regulation. Regardless of the fact that the leading IT positions in tourism are taken over by global companies (Uber, Booking.com, Airbnb), there's plenty of opportunities for other local and foreign ICT service providers to tap into the above mentioned market niche.

Another service niche for the Dutch entrepreneurs in Croatia – a destination marketing, including content convergence, festivals, emphasizing the experience for creating brands, etc. Croatian

destinations need to further work on emphasizing authenticity, live as a local experiences, reveal atypical and informal spaces and offer local domestic food. Transfer of Dutch experiences, like for example Mr Holland, could be a business opportunity for the Dutch partners in the above segments.

Other info:

Leading hotel groups on the Adriatic Coast - <https://www.total-croatia-news.com/travel/21037-which-hotel-groups-dominate-the-adriatic-coast-here-are-the-top-10>

Dutch investments in tourism:

Park Plaza - <https://www.parkplaza.com/pula-hotel-hr-52100/hrvppap>

Leaflet about the Croatian tourism by the Croatian Chamber of Economy - http://www.investincroatia.hr/wp-content/uploads/2016/12/Tourism_V2.pdf

<https://www.fdiintelligence.com/index.php/Sectors/Hotels-Tourism/fDi-Tourism-Locations-of-the-Future-2017-18-Thailand-triumphs-in-inaugural-awards>

Zadar voted best European destination for 2016:

<https://www.total-croatia-news.com/travel/2439-zadar-voted-best-european-destination-for-2016>

Zagreb voted best Christmas market in Europe:

<https://www.total-croatia-news.com/travel/2439-zadar-voted-best-european-destination-for-2016>

Pearl 3: Opportunities in Croatia in digital transformation

Croatia is not amongst the leading countries in digital transformation (IT integration, business process automation, telecom infrastructure) but still offers plenty of space and business opportunities for local and foreign players.

Leaders of the digital transformation on the Croatian market are global companies (Uber, Booking.com, Airbnb), banking and financial industry, media, retail and tourism. In the past years, several excellent examples of Croatian digital products and startups were created with the intention of expanding to the global market (Teddy The Guardian, Bellabeat LEAF, Photomath, Microblink, Agrivi).

Also, online shopping is developing fast. According to the Central Bureau of Statistics, in 2016, 33% of respondents in Croatia were shopping online. The sales volumes are still relatively low but the trend is growing. About 20% of Croatian companies offers online sales. Despite the growth and the relatively large number of companies selling their services or products online, the total online sales share in Croatia is estimated at only 1-3%. More and more good examples of e-commerce solutions are being offered on the market (AutoZubak selling cars over the Internet, e.g. intuitive tools for a detailed review of used cars, very similar to "physical" experiences in the car salon). What remains a challenge on the market in Croatia is to develop a multiple-channels for customers, a simple transition from one channel to another (for example on how to start an online purchase and end up in a physical store).

Furthermore, Internet of Things is present in limited form in Croatia, but is gaining a momentum. It is used in production environments (for example in distance measurement of consumption, identifying unusual consumption patterns in energy flows, remote control of movable property, smart home, information systems for free parking places). Although there's a long-standing practice in the use of internet and mobile banking, a level of intuitive digital user's interfaces is exceptionally low.

Drones are being used for commercial purposes (for example in surveillance of inaccessible areas, surface spraying, geodesy, tourism and entertainment). The first projects of the use of artificial intelligence and machine learning are being piloted in the form of virtual assistants responding to customer's questions), OCR solutions for sample or text recognition are slowly being introduced on the market, and several companies announced to introduce blockchain technology in fintech projects.

In terms of availability of digital public services Croatia ranks badly in comparison to other countries. Progress is slow, mainly attributed to the E-Citizens Service that contributed to the increased number of users of digital public services. Majority of available public e-services still imply a one-way interaction that ensures the availability of forms in electronic form. There's lot of room to share the knowledge and experience with public authorities to introduce new e-based services. For that purpose the private sector in Croatia has initiated a new platform "" The Digital Croatia". Founding members are Tele2, Uber, M+ Grupa, DOK-ING and HUB 385, Bellabeat, STEMI, Hangae 18 etc (<http://www.digitalna-hrvatska.hr/naslovnica.html>)

Pearl 4: Croatia as a film making and tourism destination. Smart city concept arises as a niche

Croatia is a great location for film-making with still many hidden gems, and could also be interesting for the Dutch entertainment industry.

Game of Thrones has put Croatia back on the film map of the world, where it has been recognized as a giant film set that offers beautiful landscapes - inlands as well as on the coast and the islands - authentic cities and impressive architecture, and this comes together with VAT returns and positive financial conditions for investors. Jamie Foxx in Dubrovnik, Ridley Scott on Pag, Pierce Brosnan and Meryl Streep are currently on Vis, a new Hollywood crew is set to arrive to the island of Hvar next spring to record Adam Wright's thriller "Black Money Games" with Tom Hanks. Rumors are that new James Bond will next year be filmed in Dubrovnik. Also the recording of the film "Rafael" in a Dutch-Croatian co-production started this autumn on several locations in Istria. Apart from the sceneries and cities the attractiveness of Croatia as a filming location is also due to the cash rebates refund system in Croatia, according to which teams that receive approval and fulfill certain conditions, such to employ certain percentage of Croatian workers, are entitled to a refund of 20 percent of spent budgets in Croatia.

The entertainment industry offers opportunities for Dutch expertise on a.o. digital media and music. Also, Croatia could utilize the experiences of the Netherlands in the tourism management.

With world renowned filmmakers filming in Croatia, the country gained great publicity. Numerous articles and publications in the media, posts and events on social networks and portals promoted Croatia not only as a filming but also as tourism destination. This huge interest for Croatia from the film industry and accompanying tourism comes with a certain price. In particular, cities and areas and especially Dubrovnik, have to cope with a raising number of tourist disrupting the normal life of residents. City authorities are challenged with finding solutions to protect the cultural sights and environment, regulate traffic and ensure sustainable living for the residents. Here, the experience of the City of Amsterdam could be transferred. In addition, NL as the country renowned for its development of the concept of smart cities and smart solutions in the area of the ICT, transport, logistics can connect to present solutions.

All-in all, there is a need for qualified engineers, programmers, makers, hackers, designers, artists and creators, who can help develop Smart Cities in Croatia. Indicators show that the ICT sector has a potential to open at least 5,000 new jobs by 2020. That's why hackathons, such as Hackathon Dubrovnik, is a perfect event to gather everyone interested in building smart cities.



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