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## **TOURISM AS A BASIS FOR DEVELOPMENT OF THE ECONOMY OF SERBIA**

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### **Abstract:**

The place and role of tourism in economic development of Serbia is an important question that deserves special attention and it represents the main subject of this paper. The paper will present data that point out to current condition and degree of development of this activity in the country. The paper will result in the synthesis of theory and statistical data that will show the position of tourism in relation to other activities; based on the analysis of the given data, there will be an attempt to prove that tourism is more important than is now believed. Also, a number of strategic activities will be suggested, with the goal of including tourism in wider economic currents, and, by that, point out its influence on macroeconomic segments, above all employment. The main goal of the paper is to show that tourism can significantly contribute to faster economic recovery of Serbia, and for that reason its development should be well planned, rather than random, which points to the necessity to design an appropriate strategy for development of the economy.

*Keywords:* tourism, economy, development, employment, Serbia.

*JEL classification:* L83; H70

### **INTRODUCTION**

Tourism is recognized in the world as a special branch of economy, its financial effect being the crucial reason. Nowadays, the term tourism industry is used, in order to point out economic significance of this activity. In 2010, tourism brought 1.500 billion US dollars, and, according to WTO estimates, it is believed that by 2020 the world will earn over 2.000 billion US dollars from tourism. This sector employed 238 million people in 2009, and it has to be emphasized that this is at the same time an activity that generates 9.9% of the world gross domestic product. If we look at Serbia's economic development, tourism is a sector of economy through which Serbia faces and communicates with the world most directly, of course in economic, social, cultural and political way. However, in 1990s there were quite unfavorable conditions for development of foreign tourism in Serbia, in the first place due to unstable political and economic situation and wars in the region. Many countries that based their comparative advantages on ownership of certain natural resources are becoming more and more

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aware of the limitations of these resources and are preparing for the time when these resources will not be present in the amount that can guarantee a high degree of economic prosperity. Already, those countries are investing large means into employment of as many highly educated employees as possible, because in the near future creativity and knowledge of human resources will be the basis for successful economic development. Movement of macroeconomic aggregates and financial potential, as well as relatively high number of the unemployed with unfavorable qualification structure reflect a prominently stagnant condition and point to the necessity for restructuring of the economy and its elevation to a higher level of reproductive ability. Serbia is entering a new socio-economic and market system of great competition and constant changes, as well as one of economic and social insecurity. Increase in employment is a synthetic strategic and developmental goal considering that the employment level is the synonym for the level of economic development, standard of living and social security. Apart from high number of the unemployed (and unemployment will increase from the contingent of new workers from population growth, with the existing qualification structure of the employed), that can be fertile ground for radicalization of unwanted social movements. Through development of tourism activities, large unemployment will be significantly amortized. Based on empirical research, coefficient of the employed in relation to the number of beds is around 2.5.

The paper deals with current issues in the world, which are the place and role of tourism in economic development. The paper will, in a concise way, try to approach the issue, actually define key phases and factors that create an issue, and the goal is to point out to enormous importance of this activity in general development of the society and suggest some correctional measures to move this activity to a higher degree in economic development of Serbia. The emphasis is on the importance and role of tourism in employment of human capital.

## **LITERATURE REVIEW**

In all phases of its development, tourism was and will remain a function of general social and economic development. Economic and non-economic functions of tourism make its dual nature, but it has to be emphasized that these two sides of tourism can never be opposed as positive and negative. The contents of non-economic functions are made of satisfying tourism needs of people, focusing tourism on motives that stem out of those needs, and are in the base of tourism consumption as its initiators, routers and regulators (Bowen, 1991). However, in the right ratio with transformation of tourism from newfangled phenomenon to its dynamic development, the number of economic functions grew; their main qualities are: economic activation of human resources, conversion effects, economic development of receptive areas, intensification of economic development of emissive areas, adjustment of commodity and cash flows and balancing of the market, inductive effects, stabilization of balance of payments, as well as improvement of international economic exchange (Wood 2004). In the following period, all problems that accumulated over years became obvious, and they created a very unfavorable constellation for development of economy as a whole. Serbia then started having problems with its undefined place and role on the world tourism market. However, the reasons for worsening of Serbia's position on international tourism

market should not be sought in the movement of international tourism consumption (Romelić et al. 2001). Namely, it is certain that strengthening or weakening of that position depends, in the first place, on the development dynamics of tourism offer (by that we mean complete tourism offer), its quality level and competitiveness on the tourism market (Petrovic 2002). As a complex economic activity, development of tourism is conditioned by development of other branches of economy that compose the elements of its importance. Dynamics, scope and structure of tourism economy impose a rhythm on the whole tertiary economy, which it has to follow; at the same time, tourism influences the development and growth of tertiary sector. Tourism is means of rational exploitation of available working force (has the power of direct engagement and indirect activation of human resources). In other words, this activity is a sector inseparable from other branches of economy, so, in that way, it affects the problem of unemployment in the economic system of emissive and receptive zones. The reasons for stagnation, i.e. great lag in tourism turnover growth and average foreign currency income per overnight stay of foreign tourists should be sought in a very unfavorable structure of tourism offer, in shortcomings in quality and contents of the existing tourism offer, inadequate assortment, quality, scope and structure of consumer goods that do not encourage the increase of foreign tourist consumption (Oppermann 1997). A special aspect that has great macro- and microeconomic meaning is the function of tourism as an invisible exporter. Almost third of the food items that are exported in a traditional way have been exported through tourism (Hall 2007). At the same time, invisible export through tourism has two to three times more affordable prices than trade, and is also enabled with lower product standards as well. Intensifying of arrivals and consumption in the gross domestic product was interrupted in the 1980s, with worsening of economic and political conditions (Gajic 2009).

In 2009, priority of investment into tourism activity was suggested, which includes construction of information systems, increase in the number of employees, improvement of all types of tourism, as well as promotional activities which are currently being financed solely through sojourn taxes. The interest for the offer abroad shows that tourism in Serbia is expanding, so, in 2008, about 80 brochures were published in foreign press, and Serbia, as a desirable tourism destination, was in even 30 world brochures. Further tourism development depends the most on investments into development of tourism offer (Blagojevic 2008). Tourism development strategy includes a complex of coordinating development projections for a predetermined time period, which lead to fulfillment of basic goals of economic and social development. Clearly defined development concept increases the knowledge of possibilities, brings future closer and motivates the much needed development effort, as well as makes the process of developmental decision making more democratic.

## **SHORT ANALYSIS OF TOURISM DEVELOPMENT INDICATORS IN SERBIA**

Tourist turnover is the most reliable indicator of current situation and exploitation of conditions and factors of tourism development, and, on the other hand, determination of types of tourist movements that come out of tourism potentials. Data on the number of tourists and overnight stays (table 1—tatistical Yearbook of the Republic of Serbia)

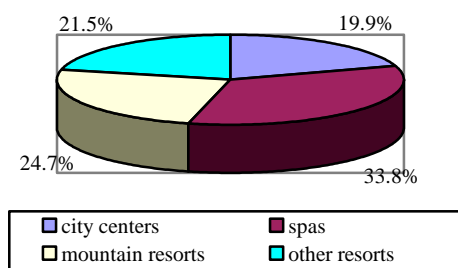
especially foreign, point to the fact that not all potentials and resources of the country have been exploited enough.

Based on statistical data from table 1 a prominent regional unevenness of tourism development in certain regions of Serbia can be seen. Regional constellation of Serbia is marked by many varieties and very heterogeneous degree of economic development of narrow areas. Regional disproportions are a consequence of natural and historic conditions for development, degree of use of natural resources, economic structure, distribution and development of production forces. Significant differences in achieved degree of economic development of certain regions are not only socially unacceptable, but are also becoming an obstacle for general development, so more attention is being focused on achieving a more balanced regional development, as a condition for optimal development of not only certain areas, but also Serbia as a whole as well.

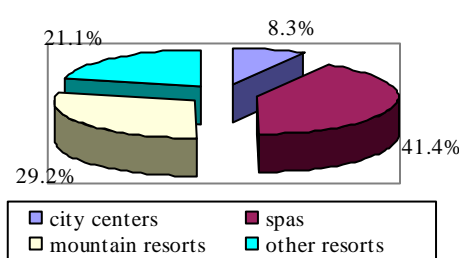
**Table 1.** Tourist turnover, as well as overnight stays in Serbia for the period of 2003–2009 (thousands)

Year	Total	arrivals		Total	overnight stays	
		Central Serbia	Vojvodina		Central Serbia	Vojvodina
2003	1998	1752	246	6685	5999	686
2006	2006	1739	267	6592	5869	723
2009	2019	1729	290	6762	6000	762
Domestic tourists						
2003	1659	1462	197	5893	5318	575
2006	1537	1348	189	5577	5019	558
2009	1373	1182	191	5293	4573	540
Foreign tourists						
2003	339	290	49	792	681	111
2006	469	391	78	1015	850	165
2009	646	547	99	1469	1247	222

Serbia has, considering natural conditions, basically poorly explored possibilities for tourism development, while it represents an offer of high natural quality that is competitive to a large number of European countries.



**Figure 1.** Achieved tourist turnover according to destination



**Figure 2.** Domestic tourists

Unevenness of regional tourism development in Serbia is also illustrated with data in Figure 1 and 2. It can be seen that spa centers are most visited (33.8%), and then mountain resorts (24.7%) where, of course, those are seasonal tourist movements. The largest percentages are domestic tourists, and their participation can be seen from the data in Figure 2. Quantitative and qualitative development of certain regions can be realized only as a part of general development of economy and society as a whole. Degree of concentration of accommodation capacities in certain narrow territories is already such that quality development is possible in the first place by enrichment of the tourism offer contents and increase of tourism consumption, and less by spatial expansion of construction. Possibilities are numerous and underexplored, and use of those very possibilities should be encouraged by different measures of planned active policy of regional development, with the goal of achieving a more balanced regional development of tourism.

### **TOURISM INFLUENCE ON SOME IMPORTANT MACROECONOMIC SEGMENTS**

Some theoreticians point out important characteristic of tourism, which is that tourism, is viewed as an activity with dual nature. It has to be emphasized that it is based on the weaker determinant of its development (surplus of free time), and the other characteristic is unilateral directionality of its effect on human individuals, and, through them, only in the conditions of tourism transformation into a mass phenomenon, it is transferred by induction to social community of a concrete destination as a whole. Its effect in the area of culture, politics, education and other parts of social superstructure is not directly visible, it is not felt, and, unlike economic, it cannot be quantified, although primary functions were and still are of non-economic character (Barry 2004). It is a known fact that economic functions of tourism are very important from the point of view of economic development, but they are directly conditioned by and dependant on non-economic functions.

Human urges that initiate tourist movements are, in their core, non-economic, conditioning activating of activities that personify economic functional segment of tourism. Multiplicative function of tourism in the area of economy comes down to movement of means of tourism consumption in various branches of economy with influence on its pulsation and development that continues after the phase where the means of tourism consumption have already performed its basic circulation (from the place of their creation to the place of their consumption). It is a continuous process, initiation of new or increase of existing economic activities in the function of tourism (elements of economic component of tourism economy) through revenue flow from 'hand to hand' of economic subjects, just like between economy and non-economy (Bakic 1997).

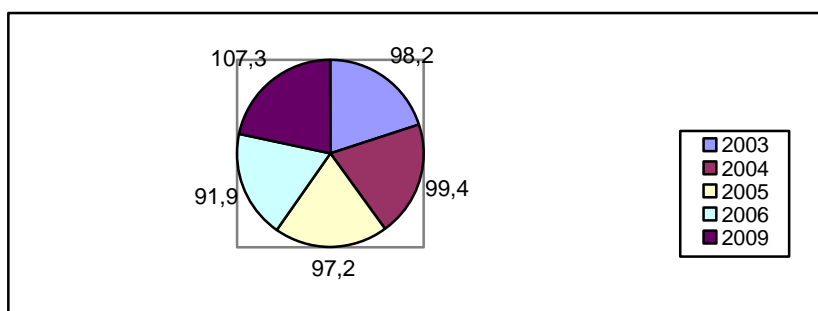
**Table 2.** Modern structure of tourism consumption (main phases and important items of tourism consumption)

Introductory consumption in emissive area	Inter-consumption in transit area	Main consumption in the receptive place
Purchase of tourist equipment: expendable (photo material, seasonal footwear, clothes); permanent (camping, caravanning and sport equipment, etc.)	Accommodation costs	Board expenses: complete or partial, depending on the size of consumption segment; accommodation expenses; food expenses; other board expenses
Purchase of tourist package	Food costs	Non-board expenses: excursion; souvenir; entertainment ; rental of sports and other equipment; purchase of liquor, food, goods and other products;
Purchase of transportation documents	Souvenir purchase	
Costs of vehicle, passenger, equipment insurance	Other transit expenses	
Purchase of spare parts, fuel and traffic equipment		

Tourism significantly contributes to diminishing global disturbances of national economy. Stabilizing effects of tourism are determined by goals: contribution to achieving and maintaining employment rate, decrease of regional disproportions in economic development, exploitation of positive tendencies in the movement of tourist demand and tourism consumption, etc. Tourism never appears as an independent activity, so it is not possible to define tourism economy as an individual and independent unit. Tourism, isolated and left to its own resources cannot nearly achieve the positive effects and influences that it could have in an organized and economically motivated connection with other economy. Its significant propulsive and integrative character, as well as its role of a multiplier and accelerator of global economic flows have been minimized in Serbia, even though that is a big mistake, because in that very area tourism can give great contribution to the whole economic development. In modern conditions of extremely complicated economic situation, tourism, especially foreign, is counted as an important and long-term stabilization factor of all economic flows of a country. When we talk about creating revenue within tourism economy, it should be pointed out that, due to permanently unfavorable economic position, which is conditioned by administration, as well as due to price policy, which is limited by market competition, this economic activity does not have favorable long-term perspectives. Particular obstacle for development of this activity is inability to connect with other activities on the basis of labor and means association, which should be an important potential factor of long-term improvement of financial position. Starting with the fact that tourism is a part of an existing system where a country, through its organs, regulates all socio-economic relationships and, by that, expropriates autonomous rights, alienates revenue and monopolizes disposition of labor surplus, it is clear that widening of material base of labor is not based on growing accumulative and reproductive ability of organizations of joint labor. Tourism is an activity that is not essentially of productive character, but it comes as a very important factor of creation of domestic product and national income. Tourism provides this important function through turnover of foreign tourists, through which, with the help of foreign currency tourism

consumption, there is direct overflow of foreign accumulation into tourist destinations and economy of countries that offer corresponding services. That is the essential advantage of foreign tourism over domestic, which redistributes monetary means within borders of a country.

**Figure 3.** Tourism and catering share in value structure of gross domestic product from 2003. to 2009. (Statistical Yearbook of the Republic of Serbia)



Tourism as a special segment of final consumption is important, as a market, for a large number of products and services. However, in the case of disturbed reproduction flows, it loses a significant part of its importance, as do other types of consumption. Therefore, in the current situation, its function as an export sector is much more prominent, due to its high net efficiency of foreign currency; it enables a more successful way out to international market for other sectors (Gajic 2009). The decision for more intense tourism development in development strategy of Serbia came, above all, as an expression of economic necessity for more intense inclusion of Serbian economy in international division of labor, starting there from permanent export orientation. Encouraged by numerous stimulative measures of economic policy, tourism, especially foreign, started developing more intensely, achieving higher growth rates of physical turnover and consumption, especially of foreign currency cashflow. There are other interests for tourism development, such is widening of possibilities to market products and services, need for a more balanced regional development, need for development of domestic tourism, as well as widening of employment possibilities, which should by no means be integrated with the abovementioned interest in export through tourism, but their effect, viewed separately, is too weak in given conditions to solve key developmental questions of this sector as a whole. At the same time, with the use of joint means and adequate credit policy, a significant part of the solution has to be found to strengthen the economic position of activities that base their business on providing tourist services, since those are mostly labor-intense activities.

According to its subject and character of work, tourism is in the group of activities that enable, on a permanent basis, direct engagement of working population from all social, age and sex groups, as well as different levels of education. This circumstance should be viewed in the light of deciding role of live labor in fulfilling different needs of tourists, as well as the fact that in the sector of tourist services, like in other tertiary activities, possibility of replacing live labor with modern technologies is relatively limited. On one hand, it decreases the unemployment problem of young and educated

generations, as well as stimulates employment of parts of working contingent that are freed of activities in other branches of economy, which actually represents socio-economic effect of tourist movements. Tourism employees earn income based on their work, and in that way become subjects of demand and consumers capable to obtain material goods that satisfy their needs; this points to economic effects of this sector (Deighton 1984). When it comes to Serbia, it has to be noted that there is a prominent discord between the number of working population and realistically available number of work positions in economy, which increases the percentage of the unemployed. It is believed that this problem can be solved by stimulation of working population employment in tertiary sector. Nowadays in the world over 150 million people work as providers of tourist services, from which about 10 million are in Europe, as the most powerful receptive market (Goodwin 2007). When we add all the people who participate in other activities, completely or partially, in providing all kinds of tourist services and by that earn personal income, as well as the ones that are in so-called homemade business and also earn a living by providing accommodation and catering services, to the number of employees in the areas of tourism, hotel management and catering, only then we can have an insight in total effects of tourism development on employment of population. Of course, we cannot omit the fact that seasonal workers in tourism, as well as in other activities that are induced by tourism often have to be added to the number of employees. Discontinuity in employment brings negative effects, because workers' incomes are seasonally defined. The biggest fall could be felt during the 1990s, due to already mentioned troubles that the country and former republic found themselves in. Engagement in tourism in Serbia is lower or has an unsatisfactory position, so there is no impression that tourism is primary branch, even though tourism is declaratively mentioned in developmental documents. There are also important differences in the number of employees in hotel management and tourism, where it is, of course, obvious which branch employs more population.

**Table 3.** Number of employees by type of activity 2009 (Statistical Yearbook of the Republic of Serbia)

Sector	Total number of employees	Average gross earnings	Average net earnings	Indexes of monthly gross earnings	
				nominal	real
Agriculture, forestry	623223	38421	27582	104.3	96.0
fishery	2094	27147	19589	94.2	86.7
mining	26814	61226	43650	110.0	101.3
Processing ind.	451281	35166	25539	105.5	97.1
Production of electrical en.	46958	62227	44239	107.5	99.0
construction	136779	37897	27175	103.3	95.1
trade	371847	32746	23757	118.7	109.3
Tourism	73173	24895	18176	123.9	114.1
traffic	149496	51350	36880	108.3	99.7
Financial intermediation	54804	94568	67899	109.8	101.1
Real estate	91858	46840	33851	110.8	102.0
Government management	128792	55363	39494	102.0	93.9



Table 3. (continued)

Sector	Total number of employees	Average gross earnings	Average net earnings	Indexes of monthly gross earnings	
Education	153162	49958	35666	103.8	95.6
Health	175156	50444	36030	104.7	98.4
Communal services	123110	42267	30335	108.2	99.6
Total	2616437	44147	31733	108.8	

## CONCLUSION

Starting from experiences and present tourism development, as well as evaluations of some important elements of that development, it can be determined with great certainty that tourism (domestic and foreign) developed strongly, not only as an economic activity, but that it also had certain implications on total economic currents. A large part of those implications had undoubtful positive reflections on movements in national economy (balance of payments, employment, more uniform regional development), and negative implications that existed (insufficiently efficient investments, low productivity of production factors, endangering of natural resources and ecological balance) could not significantly affect development and stability of the total economy of the country. The abovementioned positive and negative implications happened in conditions of extensive, spontaneous, insufficiently planned and inadequate tourism development. In the 1990s, tourism developed more or less on the verge of all movements of economy, from which it mostly received negative general impulses (inflation, restrictions, etc.). Such conditions were a consequence of absence of not only an appropriate consistent and long-term policy of tourism development, but also of such policy that would incorporate tourism development in clearly defined goals of general socio-economic development of the country. Dynamic tourism development, encouraged by such a strong social motive, such is increase of export abilities of a country, for the most part blurred the needs for development that are created through effects of other social motives, such are needs for growth of domestic tourism, more uniform regional development, solutions for employment problem, etc. After the decision about a more intense development of tourism in Serbia, the arsenal of incentives was uniformly directed exclusively towards construction of catering accommodation facilities, while neglecting all other equally important contents. Due to the lack of that offer, the total tourist economy was characterized as impoverished on international tourism market, which significantly weakens its position in competitive fight. Also, expensive and irrational construction of tourist and catering facilities is not a rare occurrence; additionally, they are, as a rule, burdened by construction costs of expensive infrastructural facilities as well. Smaller effects of investments in tourism are the consequence of the fact that an appropriate production structure, which would not only follow the movements of demand and requests of tourism market, but also encourage growth, demand and increase of average, as well as total consumption, by wealth of offer and services, was not created or directed simultaneously with development of tourism and increase of tourist demand. Potential of tourism market, otherwise very interesting due to the scope of consumption that characterizes it, has been largely unexploited due to lack of a number of products and services that are

usually offered in other tourist countries in the scope and whose consumption could and can increase total effects of investments in tourism development twofold. In those conditions, high expenses of construction of tourism facilities, increased by additional expenses for infrastructure, with inadequate financing conditions, as well as price fluctuations of auxiliary goods and services included in tourism consumption, acted in the direction of gradual erosion of material and personnel substance of tourism economy. Some of the suggested measures for improvement of tourism development of Serbia can be viewed in several following points: as a primary task, it is necessary to view the place and influence of tourism as a complex in creation of reasons and causes of global economic disturbances, as well as on the search for appropriate solutions; it is necessary to determine long-term causes for the unfavorable situation, and view the possibilities for their removal; to view basic characteristics of present development and current condition of tourism economy of Serbia, with emphasis on its orientation on international market; to critically consider conditions under which tourism economy has been developing; to evaluate stabilization role of tourism in settlement of economic problems; to determine unused possibilities of tourism that will contribute to stabilization; to define goals, basic solutions and measures with which tourism could more strongly contribute to stabilization and accelerate its effects; that evaluations and suggestions associated with tourism development have to be based on important specific quality of tourism business, which stems out from the fact that it is a complex activity. That fact is especially manifested in the character of tourism market product, which is complex: from the output viewpoint, i.e. final product, with which tourism appears on the market, that product consists from a number of individual services (economic, non-economic), but which have to act on the market as a single and complex service. From the input viewpoint in creation of each of the individual services, which requires participation of a large number of manufacturers of goods and services, without which a quality market product cannot be created.

Stabilization goals are directed not only towards further economic growth, but also towards the quality of that growth. Such development cannot rely only on new investments and employment, but it pays more attention to productivity of production factors and efficiency of business, as well as economic relations with foreign countries. Qualitative changes are not possible without changes in the sources of economic growth. Tourism development, besides its contribution to accelerated economic development, also enables qualitative changes in other sectors.

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