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ORIGINAL ARTICLE

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Infrastructure expansion, tourism and electoral outcomes

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Abstract

This paper examines the electoral impact of economic growth through increased foreign tourism using data from Croatia. To identify causal effects, the paper applies an instrumental variable strategy, which uses variation in the ruggedness of the local terrain to estimate the network of least-cost paths. The results suggest that an increase in foreign tourism reduces nationalist voting, and increases the centre-left vote share. In addition, I find that the increase in tourism rates led to population and employment growth, demographic shifts within municipalities, and positive spillovers on manufacturing, providing several potential mechanisms behind the voting results.

JEL CLASSIFICATION

D72; L83; O18; R41; Z32

1 | INTRODUCTION

Economic growth is often uneven between sectors and regions, particularly in countries where specific industries lead the economy. The issue of how concentrated growth in a sector in which the country enjoys a comparative advantage affects political outcomes is an important question in political economy. Tourism—arguably one of the most important service sectors in the world, accounting for approximately 10% of global GDP and supporting over 300 million jobs (Aksoy *et al.* 2022).—is a compelling case. Indeed, many economies, especially in developing and transition countries, are highly dependent on foreign tourism. However, while the economic benefits of tourism are well-known, very little is known about its political consequences.

To investigate this question, I utilize municipality-level data from Croatia covering the period from 1999 to 2019. Croatia offers a useful setting for this analysis, since it is highly dependent on foreign tourism. In Croatia, the tourism sector accounts for around 20% of the country's GDP, which is the highest share in the European Union (Orsini and Ostojić 2018). Over the period studied, the number of foreign tourist nights quadrupled from 21 million to 84 million, with growth concentrated in the country's Dalmatian region along the coast. For the empirical strategy, the paper uses variation in tourism expansion across municipalities to examine how economic growth

driven by tourism affects support for the national conservative HDZ and the centre-left SDP. By linking changes in tourism intensity to local electoral outcomes, the paper contributes to our understanding of how sector-specific growth, especially in post-war, service-driven economies, can shape political preferences. To the best of my knowledge, this is the first paper to study the electoral effects of tourism-led economic growth.

A significant obstacle for any causal interpretation in this context is the endogeneity of tourism rates, since they are likely to be affected by local political decisions. To address this issue, I use the fact that the increase in tourism rates occurred concomitantly with the expansion of an important highway linking northern Croatia with Dalmatia. As the expressway was constructed in multiple phases, there exists year-to-year variation in travel times to various Dalmatian cities. The key identifying assumption is that the new highway decreased travel times, thus contributing to increased tourism. However, recognizing that road construction itself may be affected by political decisions, I do not rely on actual travel times. Instead, I utilize hypothetical least-cost paths (LCPs) between nodal cities in the country, and assume that the construction cost of the expressway increases with the elevation and slope of the terrain surrounding each municipality. This is plausibly exogenous with respect to electoral outcomes, and I show that the travel time to each municipality on the LCP is a strong predictor of that municipality's tourism rate: shorter travel times are associated with higher tourism rates.

I then proceed by applying a dynamic panel model to causally estimate the effects on the HDZ and SDP vote shares from increased tourism exposure. This identification strategy accounts for the endogeneity of tourism rates and the autoregressive dynamics of voting, as well as time and municipality fixed effects. The results suggest that an increase in foreign tourist nights is associated with decreasing support for the nationalist HDZ. A standard deviation increase in the tourist rate decreases HDZ voting by around 0.11 standard deviations, while the vote share of the SDP increases by a similar magnitude. Taken together, these findings indicate that higher tourism rates are negatively related to nationalist voting, and positively related to centre-left vote shares. Importantly, these effects do not reflect an incumbency advantage, since tourism-induced changes in voting persist even when restricting the analysis to periods in which the HDZ itself oversaw infrastructure expansion.

This shifts attention away from electoral reward mechanisms and towards the underlying channels through which tourism-led growth reshapes local political outcomes. I first show that the increased tourism rates lead to broad-based local economic expansion: a one standard deviation increase in tourism results in a 4.9% increase in population and a 3.2% rise in the employment rate. In addition, the increase in tourism led to spillovers to manufacturing employment. This finding is expected, given that several previous studies have shown that services liberalization, such as through lower barriers to tourism, increases local manufacturing output (Fernandes and Paunov 2012; Arnold *et al.* 2016; Faber and Gaubert 2019). This is also consistent with previous research on the importance of economic factors in explaining the growth in right-wing voting (Fetzer 2019; Bó *et al.* 2023).

Additionally, I show that the increase in tourism led to a decrease in the ethnic Croat population in tourism-dependent areas. This is likely to be an important channel behind the voting results, since ethnic Croats, as opposed to Croatian citizens belonging to ethnic minorities, are more likely to vote for a Croat nationalist party such as the HDZ. This finding is consistent with broader research highlighting the significance of compositional amenities in shaping political outcomes at the municipal level (Card *et al.* 2012; Barone *et al.* 2016). It is also consistent with evidence from Croatia, which shows that residential displacement increased in tourism-dependent communities following the surge in tourism to the country in the early 2000s (Stojčić *et al.* 2024). Taken together, these findings suggest that tourism-led growth contributed to a process of political normalization in post-conflict countries, operating not through electoral rewards for infrastructure provision, but rather through broader economic and demographic transformations that weaken the appeal of nationalist politics.

This paper makes a number of contributions.

First, the paper contributes to the growing literature on the impact of infrastructure projects—such as the expansion of roads and railroads—on economic and political outcomes (Duranton *et al.* 2014; Faber 2014; Campante and Yanagizawa-Drott 2018; Gibbons *et al.* 2019; Asher and Novosad 2020; Banerjee *et al.* 2020; Voigtländer and Voth 2026; Akbulut-Yuksel *et al.* 2024; Söderlund 2024; Calamunci and Lonsky 2025). This literature can be broadly categorized into two strands: one focusing on optimal infrastructure design (such as network optimization and planning efficiency), and another using reduced-form strategies to estimate the causal effects of infrastructure on economic activity. This paper aligns with the latter strand, exploiting exogenous variation in terrain to construct a plausibly exogenous instrument for tourism-related infrastructure access. A related body of work explores the long-term consequences of historical infrastructure expansions, including those in colonial contexts (Jedwab and Moradi 2016; Donaldson 2018) and in Western nations (Haines and Margo 2008; Hornung 2016; Donaldson and Hornbeck 2016; Berger and Enflo 2017; Büchel and Kyburz 2020; Andersson *et al.* 2023; Berger and Prawitz 2024). In contrast to much of the existing literature, the infrastructural investment studied here forms part of a post-war reconstruction effort, rather than a conventional growth policy. In this sense, the setting is more comparable to contexts like the post-Second World War Marshall Plan, as analysed by Bianchi and Giorcelli (2023). I show that the construction of the highway connecting northern Croatia with Dalmatia substantially increased tourism in coastal municipalities, particularly in areas with good access to the A1 highway, demonstrating how reconstruction-era investments can generate sector-specific growth.

Second, the paper contributes to the broader social science literature on the consequences of tourism. A wide range of studies has shown that tourism is positively related to economic growth (Ghali 1976; Durbarry 2004; Sequeira and Nunes 2008; Gawande *et al.* 2009; Ahmad *et al.* 2020; Nocito *et al.* 2023), and that this effect is larger in magnitude in developing and transition economies, compared to developed countries (Lee and Chang 2008). Similarly, a number of recent papers have studied the effect of tourism on, for instance, CO_2 emissions (Gao *et al.* 2021; Zhang and Zhang 2021), entrepreneurship (Thomas *et al.* 2011) and migration (Santana-Gallego and Paniagua 2022). Many of the conclusions reached within this literature can be applied to the service sector in general, since tourism is an important part of trade in services (Breinlich and Criscuolo 2011; Canova and Ciccarelli 2012). I extend this literature by examining the role played by increased foreign tourism in shaping electoral outcomes.

Finally, the paper contributes to the literature on nationalist and radical-right politics. Much of the existing research has focused on Western Europe and the USA, where the rise of far-right parties is often attributed to economic grievances linked to globalization, such as low-skilled immigration (Halla *et al.* 2017; Dustmann *et al.* 2019) or import competition (Colantone and Stanig 2018; Autor *et al.* 2020). Other work finds that far-right support decreases in response to high-skilled immigration or increased export exposure (Moriconi *et al.* 2019; Dippel *et al.* 2022). This paper complements these findings, but highlights a fundamentally different historical context. In Croatia, nationalism has deep roots in ethnic cleavages and the legacy of the 1991–1995 war, not only economic insecurity. The main contribution here is to show that economic reconstruction, specifically tourism-led growth enabled by infrastructure, can contribute to the normalization of the political landscape, reflected in declining support for the nationalist HDZ party. Unlike in many settings where infrastructure investment boosts incumbent support, I find no evidence of a classic 'incumbency advantage', suggesting that in post-conflict settings, economic recovery may temper political extremism rather than reinforce it.

The rest of the paper is structured as follows. Section 2 provides some historical background to Croatian politics, as well as to the Croatian tourism industry. Section 3 describes the data. Section 4 presents the empirical strategy, as well as the results. Section 5 discusses potential mechanisms, and Section 6 concludes.

2 | SETTING

2.1 | Political background

After the Second World War, Croatia became part of the Socialist Federal Republic of Yugoslavia, which was a one-party state under Josip Broz Tito, consisting of five constituent republics in addition to Croatia, namely Bosnia and Herzegovina, Macedonia, Montenegro, Serbia and Slovenia. The death of Tito in 1980 created a power vacuum in the country, especially since he had no clear successor. Croatia, as the wealthiest republic alongside Slovenia, sought increased autonomy. However, 12% of the population consisted of ethnic Serbs,[1] most of whom strongly opposed any Croatian secession from Yugoslavia, primarily due to historical reasons. During the Second World War, the occupying Axis powers established a puppet state in Croatia and Bosnia-Herzegovina, led by the so-called Ustaše regime. This regime was responsible for the deaths and deportations of hundreds of thousands of non-Croats, chiefly Serbs, Roma and Jews. Consequently, any Croatian nationalist tendencies were met with scepticism in areas dominated by Serbs. Conversely, many Croats feared that the Serbian Communists, led by Slobodan Milošević, intended to annex parts of Croatia in order to establish an ethnically cleansed 'Greater Serbia' (Stabreit 1993). These fears were exacerbated by Milošević's frequent use of Serb nationalist rhetoric.[2] The internal quagmire in Yugoslavia coincided with the downfall of communism in Eastern Europe, and increasing popular demands for democracy in the Eastern Bloc.

The HDZ (*Hrvatska demokratska zajednica*, or Croatian Democratic Community) was formed in 1989 by Franjo Tuđman, a former historian and Yugoslav Army general. In 1990, the first multi-party elections were held in all constituent republics in Yugoslavia, including in Croatia. The HDZ won 205 out of 356 seats, enough to gain a majority, whereas the ruling Communists became the second-largest party. The HDZ success was not well received in Serb-dominated areas, with many regarding the party as the successor to the Ustaše movement. In the months following the election, the political situation in Croatia deteriorated, with violent clashes between Croatian police and Serbs. Croatia declared independence in 1991, following a referendum boycotted by the Serbs. A few months later, the Serb-dominated areas seceded from Croatia by declaring independence. These events triggered the Croatian War of Independence, which lasted until 1995, ending in the defeat of the Serbian separatists.

Since the war, the HDZ has dominated Croatian politics. While it has gradually adopted a more pro-European stance, abandoning most of its nationalist rhetoric, it is still the most right-wing mainstream party in the country, and DellaVigna *et al.* (2014) describe the modern HDZ as 'moderately nationalist'. The HDZ has led every government except for 2000–3 and 2011–15. During these periods, the government was led by the SDP (*Socijaldemokratska partija Hrvatske*, or Social Democratic Party of Croatia), which is the successor to the Communist Party, and is the main centre-left party. In total, these two parties tend to receive around 60–70% of the national vote.[3] Besides the HDZ and SDP, the Croatian political landscape is relatively fragmented, characterized by the frequent emergence and dissolution of new parties. However, these parties are all relatively small in comparison to the HDZ and the SDP.

2.2 | The Croatian tourism industry

In 1990, the year prior to the outbreak of the war, Croatia welcomed approximately 5 million foreign visitors. Together, these tourists realized about 31 million nights. By 1996, amid the devastating consequences of the war on the country's tourism industry, the number of foreign visitors had plummeted to only 2.6 million.[4] However, in the late 1990s, the Croatian tourism industry started a gradual recovery. In particular, the country was promoted as a cheaper alternative to

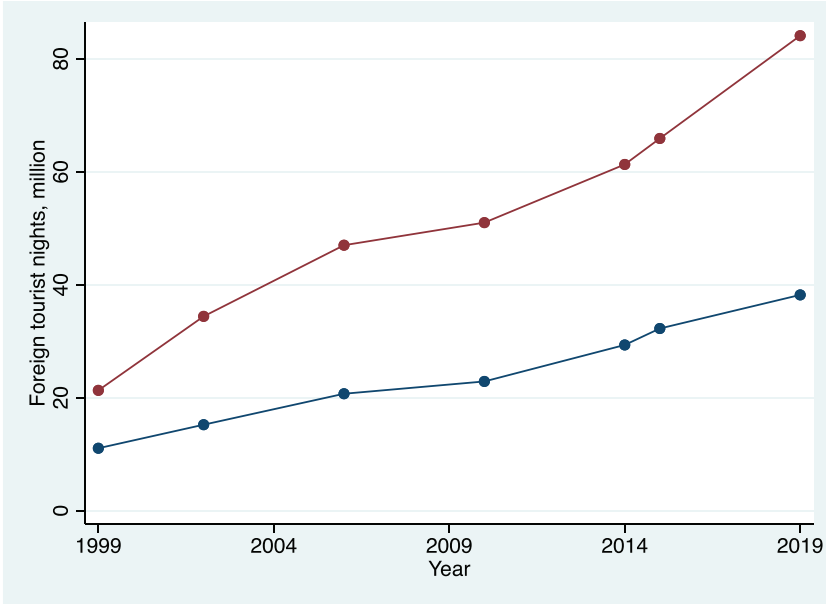

FIGURE 1 Growth in foreign tourist nights in Croatia and Dalmatia, 1999–2019. *Notes*: The number of foreign tourist nights in Croatia (in red), and the number of foreign tourist nights in Dalmatia (in blue), for each election year between 1999 and 2019.

more traditional Mediterranean destinations such as Greece, Italy and Spain (Svedlund 2004). By 2019, the total number of foreign tourists had increased to 17.4 million, who stayed for a total of 84.1 million nights. The region of Dalmatia accounts for around half of the total tourist nights. Figure 1 illustrates the growth the number of foreign tourist nights in Croatia overall and in the region of Dalmatia specifically.

During the late 1990s, a major obstacle for any significant growth in tourism numbers was the country's dilapidated infrastructure. For instance, there was no southern railway beyond Split, the capital of Dalmatia, and there still is none today. Additionally, the second-largest airport in Dalmatia was damaged by artillery fire during the war, and in 1996, the Croatian four-lane highway network extended only 395 km (245 miles). Since a majority of tourists were from countries with close road proximity, expanding the road network became a key priority.[5]

A typical route for tourists to Dalmatia coming from northern and central Europe involves passing Zagreb, the capital and an important nodal city for road traffic, before continuing southwards. A highway section linking Zagreb to Karlovac, 55 km (35 miles) to the south, was built in the 1970s. The city of Karlovac is an important nodal city for traffic from Italy, as travellers entering Croatia via the Slovenian border often connect there before continuing southwards. However, reaching Split and the Dalmatian coastline demanded an additional 300 km (185 miles) on a congested, single-lane highway. To address this problem, construction began on a new southward highway, the A1, in 2000. The first stretch, between Karlovac and Split, opened for traffic in 2005. Additional sections along the Adriatic coast were built in subsequent years. This expansion significantly shortened the travel time between Zagreb and the coastal regions. For example, the journey from Zagreb to Makarska, one of the most visited towns in Dalmatia, decreased from over 6 hours to just 4.5 hours by 2013. As of 2025, the A1 has reached the border with Bosnia and Herzegovina, just north of the city of Metković. The overall distance from the northern node, Karlovac, to Metković is approximately 450 km (280 miles).

3 | DATA

3.1 | Tourism data and construction of the instrument

Croatia consists of 20 counties, four of which are located in Dalmatia. In turn, Dalmatia consists of 131 municipalities, of which 80 are coastal, and 51 are inland municipalities. Since the region constitutes a significant portion of Croatia's coastline, it attracts almost half of all foreign tourist nights in Croatia, despite having less than one-quarter of the country's population. The tourism data cover the total number of nights spent by foreign tourists in hotels, apartments, hostels, private lodgings and camping sites. As foreign tourists to Dalmatia are primarily beach tourists, cities and villages located further offshore have limited potential to attract tourists. This creates significant variation in tourism exposure among municipalities. For instance, in 2019, out of the 131 municipalities, 13 had no recorded foreign tourist nights, while the city of Dubrovnik, which has a population of 40,000, recorded over 4 million foreign tourist nights.

As argued previously, tourism rates are likely to be influenced by local political decisions, and consequently are endogenous.[6] To account for this, I use the construction of the A1 as an instrument for the tourism rate. To avoid potential concerns about the highway construction being affected by political decisions, I do not use the travel times directly. Instead, I employ terrain data to compute the LCPs between Karlovac and Split, and between Split and the southern node of Metković, situated on the border with Bosnia and Herzegovina. Following standard practice in the literature (e.g. Faber 2014; Donaldson 2018), I model construction costs as increasing in slope gradient and elevation. This reflects the higher engineering and financial challenges of building roads through rugged mountain areas. Using a geographic information system, I then generate a terrain-adjusted cost surface. The LCP is calculated using the Dijkstra (1959) algorithm to identify the lowest-cost route between the nodal cities of Karlovac, Split and Metković. This procedure models two types of roads: highway and non-highway, allowing us to compute the travel time T from Karlovac to the municipality on the hypothetical LCP. To calculate the travel time, I use the legal speed limit 130 kmh (80 mph), for the highways, and 80 kmh (50 mph) for non-highways. For municipalities that do not lie directly on the LCP, I also take into account the local road network in calculating the travel times. The inverse of this travel time, T_{mt}^{-1}, which I label the 'tourism potential' for municipality m and election year t, serves as the instrument for tourism exposure. Formally,

$$\text{Tourism potential}_{mt} = \begin{cases} T_{mt}^{-1} & \text{if coastal municipality,} \\ 0 & \text{if inland municipality.} \end{cases}$$

Thus for coastal municipalities, a reduction in travel time will increase the tourism potential of that municipality. The instrument also acknowledges that inland municipalities inherently possess minimal potential to attract beach tourists, irrespective of any reductions in travel time. Empirically, the average tourism rate in coastal municipalities is more than 100 times larger than the average tourism rate in inland municipalities, the latter being only slightly above zero.[7] However, in a robustness check, I will relax this assumption, allowing tourism potential to decline with distance from the coastline.

The LCP-based instrument incorporates year-by-year variation in travel times based on the phased construction of the A1 highway. For each election year t, I determine the 'active' portions of the LCP by comparing them to the actual timeline of highway completion. Specifically, a road segment is considered active in year t if it was completed prior to the preceding year. For example, in the 2015 election, a segment completed in 2013 is treated as active (contributing to reduced travel times), whereas it would not be considered active in the 2011 election. This rule ensures that the instrument reflects only the infrastructure that was operational in the period between the

FIGURE 2 Actual A1 highway and terrain-based LCP. *Notes*: Approximate map of the actual A1 highway (in red) and the LCP (in blue). The black dots represent the nodal cities of Karlovac (in the north), Split, and Metković (in the south).

previous election and the current one, consistent with the idea that changes in travel times, and thus tourism potential, must precede electoral outcomes.

Figure 2 displays the LCP network connecting the three nodes: the northern node of Karlovac, the regional capital Split, and the southern border town of Metković. Note that the road was built in several phases from 2000 onwards, from the north towards the south. Thus while the distance to the LCP does not change over time, there will still be year-by-year variation in travel times, as there was a gradual decrease in travel times as the highway approached.

Figure 3 provides an illustration of the first stage, plotting the relationship between the tourism potential and the actual tourism rates. Visually, there exists a clear relationship between the endogenous variable and its instrument, both in levels and in differences.[8] But a few caveats apply in this particular setting. While using LCPs based on terrain is well established in the infrastructure literature, the LCP in Croatia runs largely parallel to the coastline, and tourism is

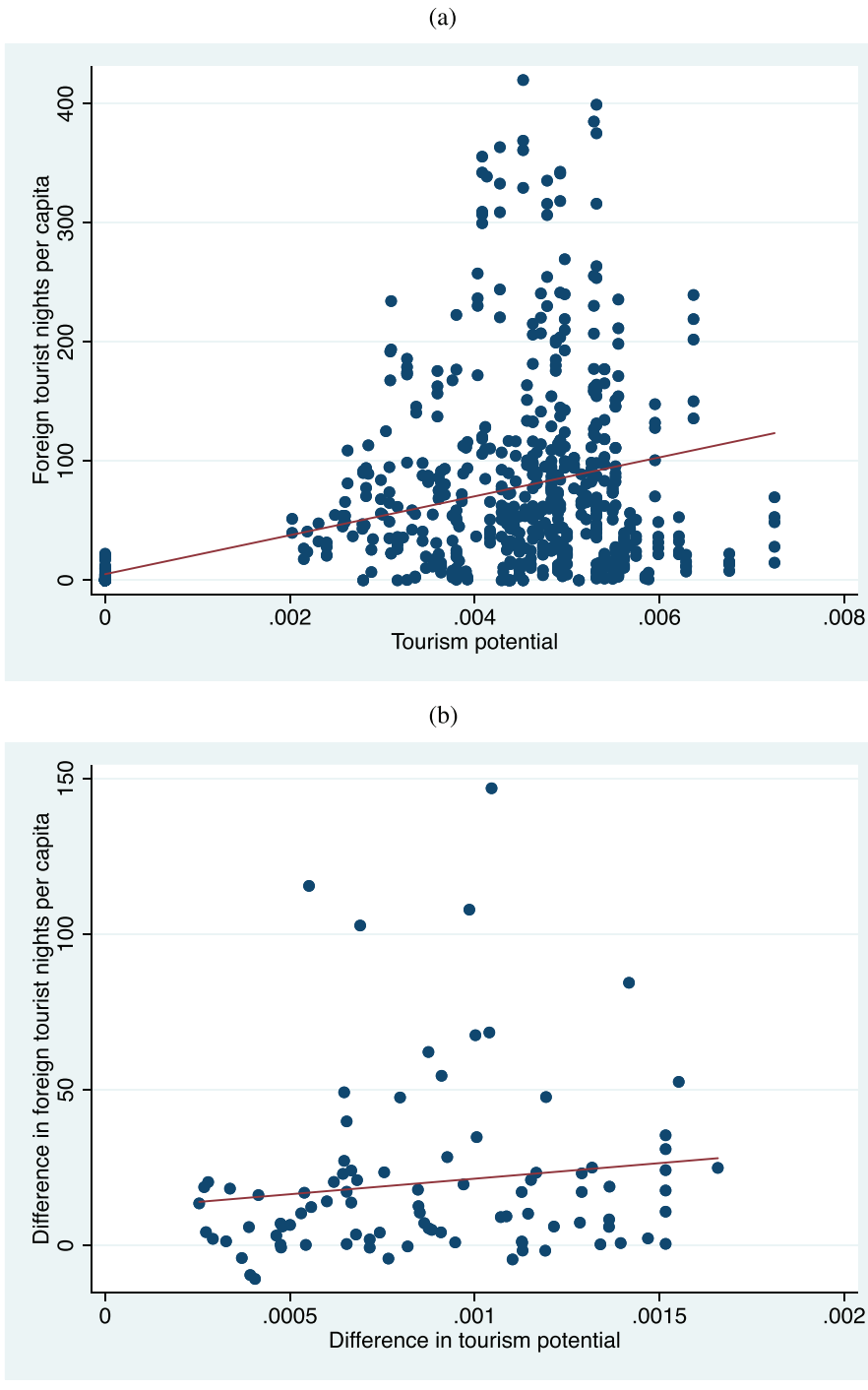

FIGURE 3 Relationship between the tourism potential and the number of foreign tourist nights. *Notes*: (a) Scatterplot of tourism potential (non-standardized) and the number of foreign tourist nights per capita. There are 131 municipalities in total, of which 51 are inland municipalities. (b) Scatterplot of the difference in tourism potential and the difference in the number of foreign tourists nights per capita.

strongly concentrated in coastal areas. This differs from the canonical case, and as a result, some of the variation in the instrument may reflect how far south a coastal municipality is located. Moreover, although the extension of the highway likely followed cost-minimizing and engineering considerations, political motivations cannot be entirely ruled out, particularly in decisions about how far south to extend the road. Finally, even if the instrument is valid for predicting tourism, road construction may also affect voting via other channels, such as improved general infrastructure, symbolic investment, improved public goods or expanded market access. This may raise concerns about the exclusion restriction. I address some of these concerns in Subsection 4.3, after presenting the main results.

3.2 | Election data and data on municipal characteristics

The processing of the election data is straightforward: I use municipality-level results of parliamentary elections, starting in 2000 and ending in 2020. During these years, there were seven parliamentary elections, in 2000, 2003, 2007, 2011, 2015, 2016 and 2020. I proceed by matching the election data with the previous year's tourism outcomes and inverse travel times. In other words, the 2000 parliamentary election results are matched with the 1999 tourism rate, the travel time from Karlovac in 1999, and so on.

In addition to the political outcome variables, I use a number of municipality-specific controls included to avoid any confounding from underlying local effects. These include the population size, the employment rate and the percentage of ethnic Croats, as well as the share of highly educated residents, defined as the number of residents with a tertiary degree divided by the total population. Online Appendix Table A.1 presents the summary statistics for these variables, as well as for the tourism and election data. The tourism rate is shown separately for coastal and inland municipalities. Online Appendix B provides further insights about the data, including the data sources.

4 | EMPIRICAL ANALYSIS

This section outlines the empirical strategy and main findings concerning the relationship between tourism and electoral results. To demonstrate the relevance of tourism potential as an instrument for tourism rates, I begin by presenting the results from the first-stage analysis.

4.1 | First-stage results

Visually, from Figure 3(a), there seems to exist a strong relationship between the tourism potential of the municipality and the actual tourist rate. To test this more formally, I estimate the specification

$$\text{Tourism rate}_{mt} = \gamma\ \text{Tourism potential}_{mt} + \boldsymbol{\theta}'\boldsymbol{X}_{mt} + \rho_m + \xi_t + \varepsilon_{mt}$$

for municipalities $m = 1, \ldots, 131$ and election years $t = 2000, \ldots, 2019$. Recall that the tourism rate and tourism potential are calculated for the year preceding each election year. In this specification, $\boldsymbol{X}_{mt}$ is a vector of time-varying municipality-specific controls, ρ_m is a municipality fixed effect, ξ_t is a time fixed effect, and ε_{mt} is an idiosyncratic error term. The controls include population, employment rate, and the share of highly educated residents, and will also be utilized in the main analysis. I cluster standard errors at the county level; there are four counties in Dalmatia. To account for the low cluster size, I present the results using wild bootstrap adjusted p-values,

TABLE 1 First-stage estimates.

	No controls		Including controls	
	(1)	(2)	(3)	(4)
Standardized tourism potential	0.342**	0.342***	0.213**	0.213*
	[0.049]	(0.076)	[0.037]	(0.109)
Municipality fixed effects	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes
Controls	No	No	Yes	Yes
Standard errors	County	Municipality	County	Municipality
Observations	917	917	917	917
Mean dependent variable	0.000	0.000	0.000	0.000

Notes: Outcome variable: standardized tourism rate. Controls: population, employment rate, share of highly educated residents, and share of ethnic Croats. Columns (1) and (3) give standard errors clustered by municipality, with *p*-values in square brackets computed using wild cluster bootstrap with 1000 replications, with bootstrap weights drawn from the Webb distribution. Columns (2) and (4) give standard errors clustered by municipality in parentheses.
*, **, *** denote significance at the 10%, 5%, 1% level, respectively.

with bootstrap weights drawn from the Webb distribution. This distribution has been shown to perform well when the number of clusters is low (Webb 2023). I also provide the estimates when clustering standard errors at the municipality level.

The results are presented in Table 1. As expected, the first-stage results indicate a positive relationship between the tourism potential and the tourism rate. On average, when including controls, a standard deviation higher tourism potential is associated with around 0.20 standard deviations higher tourism rate. This indicates that the instrument is relevant in predicting the endogenous tourism rate. The level of clustering has little effect on the statistical significance of the estimates; however, clustering at the county level gives slightly more conservative estimates.

4.2 | Empirical strategy and main results

Having established that the tourism potential is a strong predictor of the tourism rate, this subsection presents the main results on the relationship between tourism and HDZ voting. Figure 4 plots the relationship graphically, where the horizontal axis gives the number of tourist nights per capita, and the vertical axis gives the centred HDZ vote share.[9]

There seems to exist a negative relationship between the two variables: higher tourism rates are associated with lower HDZ vote shares. Formally, the analysis proceeds as follows. Since election results tend to be highly persistent between time periods, I estimate the dynamic panel model

$$\text{HDZ}_{mt} = \lambda_m + \phi\ \text{HDZ}_{m,t-1} + \beta\ \text{Tourism rate}_{m,t-1} + \boldsymbol{\Pi}'\boldsymbol{X}_{i,t-1} + \mu_t + u_{mt}, \tag{1}$$

where λ_m is the municipality fixed effect, ϕ is the autoregressive term, $\text{Tourism rate}_{m,t-1}$ is tourism exposure in municipality m at calendar year $t-1$, μ_t is the election year fixed effect, and u_{it} is an idiosyncratic error term. In this model, the endogenous tourism rate is instrumented by the tourism potential described previously. Note that in equation (1), the time index t refers to the *election year*, while the subscript $t-1$ is used in two distinct ways. The lagged dependent variable $\text{HDZ}_{m,t-1}$ denotes the vote share in the *previous election*, which may be held up to four years

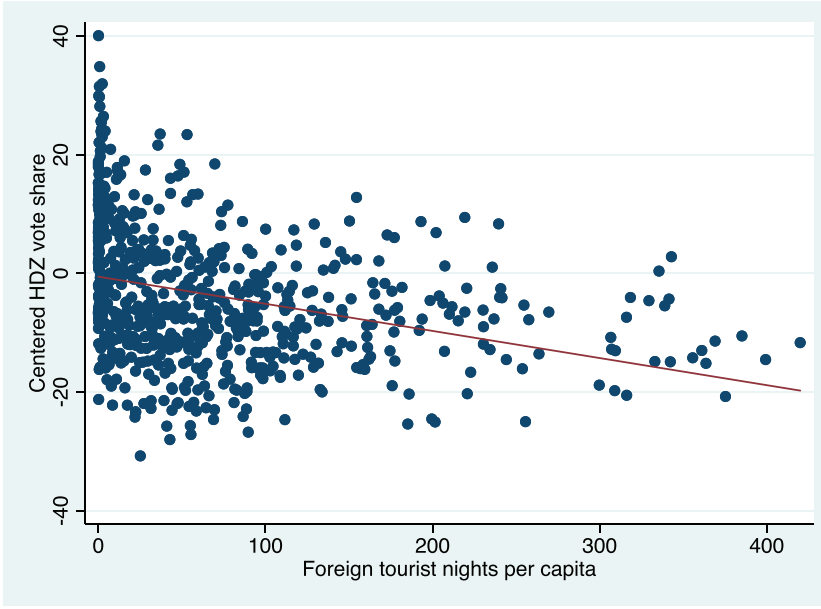

FIGURE 4 Relationship between the number of foreign tourist nights per capita and the centred HDZ vote share.

earlier, depending on the electoral calendar. By contrast, the tourism rate Tourism rate$_{m,t-1}$ and the control variables $\boldsymbol{X}_{m,t-1}$ are measured in the *calendar year immediately preceding the election year t*. This setup ensures that tourism exposure and covariates reflect the most recent pre-election conditions, while the inclusion of the lagged vote share captures persistence in party support across elections. Slightly abusing notation, I retain the subscript $t-1$ for both types of lags for simplicity, while noting that the underlying time intervals differ between electoral outcomes and economic variables.

Table 2 reports the results. We would expect the estimate $\widehat{\beta}$ of β to be negative, as an increase in tourism should contribute to lower nationalist voting. The first two specifications suppress the lagged HDZ vote share, and use only the tourism rate without further controls. Column (1) shows the ordinary least squares (OLS) results, while column (2) gives the instrumental variable (IV) estimates, with the tourism rate instrumented with the tourism potential. Columns (3) and (4) present the system generalized method of moments (GMM) estimates (Blundell and Bond 1998) when including the lagged HDZ vote share; column (3) includes only municipality and year fixed effects, while column (4) includes time-dependent controls for municipality population, employment rates, the share of ethnic Croats, and the share of residents with tertiary education. All GMM specifications utilize the tourism potential as an instrument for the endogenous tourism rate. Regardless of specification, the results indicate that there is a significant and negative relationship between tourism rates and HDZ voting. When including the lagged dependent variable, the results suggest that one standard deviation higher tourism rate lowers HDZ voter support by about 0.11–0.14 standard deviations.

Table 3 displays the results obtained by substituting the HDZ vote shares on the left-hand side of equation (1) with the vote shares of their chief rivals, the SDP. The results indicate a positive relationship between tourism and SDP voting. More precisely, when including the full set of controls, a one standard deviation increase in the tourism rate is linked to approximately a 0.12 standard deviation increase in the SDP vote share. This coefficient is significant at the 5% level. Subsection 4.3 performs various robustness checks related to the calculation of the standard errors.

TABLE 2 Relationship between tourism rates and HDZ voting.

	(1)	(2)	(3)	(4)
HDZ_{t-1}			0.608**	0.655***
			[0.011]	[0.000]
Tourism rate	−0.380**	−0.402*	−0.140**	−0.105**
	[0.043]	[0.094]	[0.041]	[0.034]
Municipality fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Controls	No	No	No	Yes
Method	OLS	IV	GMM	GMM
Observations	909	909	778	765
R^2	0.264			
F-statistic of excluded instruments		72.92		
Hansen J-test p-value			[1.00]	[1.00]
Mean dependent variable	0.000	0.000	0.000	0.000

Notes: Outcome variable: standardized HDZ vote share. Controls: population, employment rate, share of highly educated residents, and share of ethnic Croats. The p-values are in square brackets, computed using wild cluster bootstrap with 1000 replications, with bootstrap weights drawn from the Webb distribution.
*, **, *** denote significance at the 10%, 5%, 1% level, respectively.

TABLE 3 Relationship between tourism rates and SDP voting.

	(1)	(2)	(3)	(4)
SDP_{t-1}			0.946**	0.837**
			[0.027]	[0.029]
Tourism rate	0.609**	0.682**	0.063**	0.124**
	[0.040]	[0.022]	[0.024]	[0.039]
Municipality fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Controls	No	No	No	Yes
Method	OLS	IV	GMM	GMM
Observations	910	910	779	766
R^2	0.488			
F-statistic of excluded instruments		72.92		
Hansen J-test p-value			[1.00]	[1.00]
Mean dependent variable	0.000	0.000	0.000	0.000

Notes: Outcome variable: standardized SDP vote share. Controls: population, employment rate, share of highly educated residents, and share of ethnic Croats. The p-values are in square brackets, computed using wild cluster bootstrap with 1000 replications, with bootstrap weights drawn from the Webb distribution.
*, **, *** denote significance at the 10%, 5%, 1% level, respectively.

4.3 | Robustness

4.3.1 | Decaying tourism potential

As a robustness check, I relax the assumption that inland municipalities have zero tourism potential by allowing tourism potential to decay continuously with distance from the coast. Specifically, for the inland municipalities, I replace the baseline instrument 'Tourism potential' with a version in which tourism potential for inland municipalities decays exponentially with distance from the nearest coastal municipality. Formally, we let T_{mt}^{-1} be the inverse travel time from Karlovac to municipality m at time t, as before, and define $T_{c(m)\ t}^{-1}$ as the inverse travel time from the nearest coastal municipality $c(m)$ to inland municipality m. With $d_{m,c(m)}$ the distance (in km) between inland municipality m and its nearest coastal municipality $c(m)$, and δ a constant decay parameter, the adjusted tourism potential can be written as

$$\text{Adjusted tourism potential}_{mt} = \begin{cases} T_{mt}^{-1} & \text{if coastal municipality,} \\ \exp(-\delta\ d_{m,c(m)})\ T_{c(m)\ t}^{-1} & \text{if inland municipality.} \end{cases}$$

The results are presented in Online Appendix Table A.2, using a moderate decay $\delta = 0.2$. The results are nearly identical to those using the baseline instrument, with only slightly lower absolute magnitudes for the effect on HDZ voting. This suggests that the main findings are not sensitive to the assumption of zero tourism potential in inland areas, and that the estimated effects are not driven by discontinuities at the coast.

Online Appendix C presents the results when using an alternative IV strategy proposed by Acemoglu *et al.* (2019), which utilizes changes in regional tourism rates as instrument for municipal tourism rates. As shown in Online Appendix Table C1, the main findings on the HDZ vote share remain robust when applying this method.

4.3.2 | Exclusion restriction of the instrument

Another potential issue with the identification strategy is the exclusion restriction of the instrument. Specifically, the highway-induced reduction in travel times should affect HDZ voting only via its impact on tourism rates. If this requirement is not satisfied, then we cannot causally interpret the main findings of the paper. Such a situation could arise, for instance, if the reduction in travel times following the highway expansion lowers transportation costs for manufacturing firms. This reduction could boost production and employment, which, in turn, might influence voting outcomes.

To examine this, I instrument the actual travel time from Karlovac to each municipality with the travel time when using the LCP. As outcome variable, I use the percentage change in the number of residents employed in manufacturing in each municipality for each election year. If there were an effect of travel times on manufacturing employment directly, then we would expect a negative coefficient, since a decrease in travel times would increase manufacturing employment. The results of this regression are presented in panel A of Online Appendix Table A.3. The coefficient estimates are close to zero in magnitude and statistically insignificant, which also holds after the inclusion of the full set of controls. Alternatively, I utilize the first difference of the unstandardized travel times as the independent variable, where a one unit change represents a one minute reduction in travel time. These findings are presented in panel B of Table A.3. Once again, the coefficients are small in magnitude and statistically insignificant. Taken together, these results suggest that we cannot assert that the construction of the highway directly led to increased manufacturing employment, which also implies that this channel is not likely to pose a substantial threat to the exclusion restriction of the instrument.

Another concern is that the timing or routing of the highway expansion may have been politically motivated, particularly if the governing party strategically extended infrastructure to areas where it expected electoral gains. As an additional robustness check, I re-estimate the main specification using only the election periods during which the HDZ was in government. This approach removes variation in the political party overseeing infrastructure construction, focusing solely on periods when HDZ directed the expansion. The results are presented in Online Appendix Table A.4. The results remain robust; the coefficient for tourism rate remains significant at the 5% level, and its magnitude is changed only marginally.

Alternatively, it is possible to use the full sample and include an interaction term between the instrumented tourism variable and an indicator for HDZ-built segments, and formally test whether the interaction coefficient differs from zero. The estimated interaction coefficients are close to zero at 0.048 ($p = 0.144$) and 0.038 ($p = 0.301$) without and with controls, respectively. In both cases, they are statistically insignificant. Taken together, these findings suggest that the effect of tourism on HDZ voting is not driven by partisan control over infrastructure delivery. Rather, the findings are consistent with tourism-led economic growth reshaping political preferences, even when the benefits are delivered by the incumbent party.

4.3.3 | Placebo test

As a falsification test, I re-estimate the main specification restricting the sample to inland municipalities only, where the tourism response to travel time reductions is likely to be low. If the observed political effects are indeed driven by tourism, then we should expect little to no effect in these non-touristic areas.

However, since the instrument is set to 0 in inland municipalities, its effect on voting cannot be estimated directly, since the instrument has no variation in those municipalities by construction. Instead, I apply the variant with decaying tourism potential described previously. Online Appendix Table A.5 presents these results. The estimated coefficients on tourism are close to zero and statistically insignificant for both the HDZ and SDP vote shares, consistent with the interpretation that the political effects documented earlier are driven by actual tourism growth rather than alternative channels correlated with travel time reductions.

It should be noted that this result also strengthens the case for the exclusion restriction: if highway-induced improvements in infrastructure had broader political effects independent of tourism—such as through improved market access, government investments or increased public goods provision—then we would expect to see a similar relationship in non-touristic inland areas. The absence of such an effect reinforces the interpretation of tourism as the key mechanism.

4.3.4 | Further robustness checks

This subsubsection discusses a number of additional robustness checks. It could be of interest to provide the OLS and IV results for the main specification, in which the tourism potential is used as an instrument for tourism rates, and where the lagged vote shares are included as independent variables.[10] Online Appendix Table A.6 provides these results, clustering standard errors by county, as well as applying the Conley (1999) procedure, which corrects the standard errors by adjusting for spatial autocorrelation. All coefficient estimates remain highly significant with these changes, with only slight changes in the magnitudes of the estimated coefficients compared to GMM.

We may also re-estimate the main GMM results with standard errors clustered at the municipality level. For column (4) of Table 2, which includes the full set of controls, this standard error is 0.036, which is equivalent to p-value 0.003. For the GMM estimates of the SDP vote share

in Table 3, the standard error is equal to 0.042 when including the full set of controls, which is also equivalent to p-value 0.003. Taken together, and similar to the first-stage estimates in Subsection 4.1, these results suggest that overall, clustering by county gives the most conservative p-values.

Another potential source of bias arises from the variation in HDZ and SDP outcomes depending on differential levels of pre-highway HDZ vote share levels. To exclude this possibility, I interact year fixed effects with dummies for the quintile of the 2000 HDZ vote share rank of the municipality. Subsequently, these additional variables are incorporated as controls in the primary specification. This process allows for a comparison of municipalities with similar pre-highway levels of HDZ voting. As reported in Online Appendix Table A.7, the inclusion of these controls results in a moderate decrease of the magnitudes of the coefficients. Using the full set of controls, the coefficient estimate $\widehat{\beta}$ for the effect on the HDZ vote share is now −0.05, and for the effect of the SDP vote share, $\widehat{\beta}$ is estimated at 0.07. Both coefficients are still statistically significant.

Online Appendix Table A.7 additionally reports the results of several subsample exclusion tests. First, I exclude all municipalities where Croats are the minority. In areas dominated by Serbs, there is greater variation in the HDZ and SDP vote shares, which is likely to attributed to the frequent formation and dissolution of Serbian-minority-interest parties.[11] Removing these municipalities changes the coefficient estimates only marginally, and the main results continue to hold. Second, I verify that the results are not affected by war-era dynamics, by removing municipalities that were under rebel control at some point during the war.[12] Removing these municipalities increases the absolute value of the estimated coefficients $\widehat{\beta}$ for both parties, particularly for the SDP. This suggests that the decrease in the HDZ vote share and the rise in the SDP vote share due to increased tourism are partially attenuated by the remembrance of the war.

5 | INTERPRETATION AND MECHANISMS

This section interprets the empirical evidence and discusses the most plausible mechanisms suggested by the results. While the analysis is not designed to separately identify each mechanism, the pattern of results supports a specific interpretation of how tourism-led growth reshapes local political preferences. In particular, the evidence points to broader economic normalization and demographic compositional changes as the primary channels. This aligns with earlier results that rule out direct electoral rewards for infrastructure provision.

5.1 | Population and job growth

First, I examine the impact of tourism on population growth and overall employment, using the main specification in which tourism rates are instrumented with travel times. As reported in columns (1) and (2) of Table 4, a one standard deviation increase in tourism leads to an increase in total population.

This pattern is consistent with the mechanism that economic expansion in post-conflict regions contributes to political normalization, as newly arrived residents may hold more moderate and thus less nationalist views. In addition, beyond direct employment in the hospitality sector, tourism may also stimulate broader local economic growth. To assess this, columns (3) and (4) of Table 4 present results from regressing the percentage change in the total employment rate on the instrumented tourism rate. The findings suggest that a one standard deviation increase in tourism is associated with a 3.2% increase in the employment rate. Taken together, these results indicate that tourism not only attracts new residents to high-tourism areas, but also contributes to the expansion of overall economic activity. This broad-based growth provides a plausible foundation for the observed shifts in political behaviour.

TABLE 4 Changes in population and employment in response to tourism.

	Percentage change in population		Percentage change in employment rate	
	(1)	(2)	(3)	(4)
Tourism rate	2.151	4.904**	−0.847	3.229*
	[0.267]	[0.046]	[0.457]	[0.081]
Municipality fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Controls	No	Yes	No	Yes
Method	IV	IV	IV	IV
Observations	786	786	768	768
F-statistic of excluded instruments	82.51	137.1	67.34	83.04
Mean dependent variable	0.99	0.99	0.10	0.10

Notes: Outcome variables: percentage changes in total population and in the employment rate. Controls: population (except for column (2)), employment rate (except for column (4)), share of highly educated residents, and share of ethnic Croats. The *p*-values are in square brackets, computed using wild cluster bootstrap with 1000 replications, with bootstrap weights drawn from the Webb distribution. *, **, *** denote significance at the 10%, 5%, 1% level, respectively.

5.2 | Manufacturing employment and ethnic composition

We may decompose the labour and demographic effects further. Faber and Gaubert (2019) show that increased tourism leads to spillovers in manufacturing. While this paper establishes that there is no *direct* effect of the decrease in travel times on manufacturing employment, another possibility is that tourism leads to spillovers to manufacturing. This could include, for instance, tourism enhancing local firms' access to business services, facilitating business networks, and increasing the demand for locally manufactured goods. Thus reductions in travel time may increase manufacturing employment *indirectly*, through their positive effects on tourism. To explore this, I regress the percentage change in the number of manufacturing jobs on the instrumented tourism rate, again using tourism potential as the instrument. As shown in Online Appendix Table A.8, a one standard deviation increase in the tourism rate leads to a 4% increase in manufacturing employment, controlling for time and municipality covariates. Since manufacturing employment responds to reduced travel times only when mediated through tourism, this reinforces the interpretation that tourism-induced economic spillovers, rather than direct infrastructure effects, are driving changes in local labour markets.

However, changes in employment alone are unlikely to fully explain the observed decline in nationalist voting. The rise in tourism may also induce shifts in the demographic composition of municipalities, which could further influence political preferences. With this in mind, I turn to investigating an additional mechanism, that is, changes in municipality ethnic composition resulting from tourism. It is possible that ethnic Croats 'vote with their feet' in response to tourism, leading to compositional changes. Specifically, if nationalist or conservative Croats relocate from coastal areas as a result of the increase in tourism, then this could lead to a reduction in HDZ vote shares in municipalities experiencing the influx of tourists. Conversely, it might result in an increase in HDZ vote shares in inland municipalities. Possible reasons for this may be, for instance, taste-based discrimination, or increasing rents and house prices making it difficult for natives to remain in their current accommodations.[13] To test this mechanism, I regress the percentage change in total population and the percentage change in the number of ethnic Croats, respectively, on the tourism rate for each time period. Online Appendix Table A.8 reports these results. A one standard deviation increase in the tourism rate decreases

the number of ethnic Croats in the municipality by around 1%. Hence the entire tourism-related increase in municipality population, as shown in Table 4, is driven by foreign nationals and Croatian nationals of ethnicity other than Croat. This channel would also explain why the increase in tourism has been disadvantageous for the right-wing, since ethnic Croats are more likely to vote for the nationalist HDZ compared to Croatian citizens belonging to other ethnic groups.

6 | CONCLUDING REMARKS

In recent decades, global foreign tourism has grown significantly, driven by factors such as reduced barriers to foreign travel and infrastructure investments in tourism-dependent countries. This paper has shown that increased foreign tourism in Croatia has contributed to lower levels of national conservative voting, while the vote share of the centre-left has increased. These effects do not appear to operate through standard electoral reward mechanisms associated with infrastructure provision. Instead, tourism-led growth appears to have generated persistent political change, by changing who lives in tourism-intensive municipalities and by expanding economic activity.

There are several policy implications of this study. First, while most previous studies have shown that infrastructure investments tend to favour the incumbent party, this paper suggests that this is not always the case. In the Croatian case, the vote share of the HDZ declined in areas where tourism rates increased in response to the highway expansion, even though it was the incumbent party for most of the time period considered. Second, politicians often prioritize short-term spending for quick electoral gains, despite the possibility of long-term negative impacts (Healy and Malhotra 2009). This paper indicates that more longer-term investments, such as in infrastructure, can cause permanent shifts in the electorate, in this case away from nationalists, and significantly boost the economy via increased tourism.

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ENDNOTES

[1] This figure is based on the 1991 census; however, due to ethnic cleansing during the war, the Serb population decreased to less than 5% by 2021.

[2] The most notorious example of this was the so-called *Gazimestan speech* in June 1989, during which Milošević 'could not exclude' the possibility of upcoming 'armed battles' (Ochsner and Roesel 2024).

[3] In the period considered in this paper, the lowest combined vote share for the HDZ and SDP was 56%, which happened in the 2000 election. Their highest combined vote share was in the 2016 election, reaching 70%.

[4] Data source: Croatian Ministry of Tourism and Sports. The 1990 figure does not include tourists from the other constituent republics of Yugoslavia, who would be considered foreign tourists after 1991.

[5] In 1999, the top five countries of origin among foreign tourists were Germany, Italy, Slovenia, the Czech Republic and Austria, all of which are easily reachable by car.

[6] For a detailed discussion on the influence of local political processes on the positioning of roads and railroads, see Burgess *et al.* (2015) or Bonfatti *et al.* (2021).

[7] For all time periods, the average number of foreign tourist nights per capita was 0.77 in inland municipalities, and 83.0 in coastal ones. See also Online Appendix Table A.1.

[8] Subsection 4.1 estimates the first-stage formally.

[9] This procedure involves subtracting the national average HDZ vote share from the HDZ vote share of the municipality, which is done to account for year-by-year variation in the national HDZ vote share unrelated to tourism. The main analysis will utilize year fixed effects for the same purpose.

[10] Recall that Tables 2 and 3 display the OLS and IV results without including the lagged dependent variables.

[11] Take, for example, the municipality of Ervenik, which is 97% Serb. In 2003, the SDP received 54.2% of the vote, but this plummeted to 4.2% four years later. This shift is likely due to the emergence of a Serb-interest party, absent in 2003, which received close to 90% of the vote in 2007.

[12] This is the case for 32 of the 131 municipalities (24%), most of which are rural areas in the northern part of Dalmatia. The concern here is that in these municipalities, parties other than the nationalist HDZ may be at a disadvantage, due to collective remembrance of the war. For a discussion about collective remembrance of historical atrocities, see Fouka and Voth (2023). For insights into voting persistence following temporary shocks, see Bechtel and Hainmueller (2011) or Mehic (2023).

[13] Mikulić *et al.* (2021) show that there is a significant, positive relationship between housing prices and tourism rates in Croatia between 2012 and 2018. This trend seems to have continued; for instance, between 2017 and 2022, the average price per square metre for apartments in the four counties that constitute Dalmatia rose by 27% in real terms. (Data source: Croatian Ministry of Construction, Spatial Planning and State Property.)

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