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## **THE ROLE OF GOVERNMENT IN PLANNING TOURISM DEVELOPMENT IN MACEDONIA**

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### **Abstract**

As one of the fastest growing world industries, tourism has been detected as a source for benefiting to various sectors. Thus, each country insists on developing it and making a profit from its variety of impacts. This has been a priority task to all governments, particularly to small and developing countries as Macedonia. This paper addresses the role of government in its efforts for planning tourism development in Macedonia. Moreover, an attempt is made in assessing several key areas of governmental influence on tourism, like process of privatization, legislation, tourism promotion and fiscal policy. The paper performs different types of analyses based on available sources of secondary data and comparable quantities which are analysed by descriptive statistics. The data set generally covers a twenty year horizon and over. This empirical evidence underlines the importance of government actions as a prerequisite for well-established tourism planning process. Key words: Tourism; Government; Tourism development; Macedonia.

### **Introduction**

Being identified as one of the most promising industries that mainly contribute to the world's economy, tourism has become a challenge for every country. Small and developing countries are particularly interested in taking advantages of all positive impacts that tourism implies. Macedonia is one of the countries which have identified tourism as a mean for generating various micro and macro-economic impacts. Consequently, a National Strategy for Tourism Development 2009-2013 was prepared with a main vision - Macedonia to become famous travel and tourism destination in Europe based on cultural and natural heritage (Government of the Republic of Macedonia, 2009: 3). Up-to-date,

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tourism in Macedonia has accomplished an average growth of 4.64% per year, which is higher than the average growth of the entire economy (3.12%). One may say that the contribution of tourism in the gross domestic product (GDP) is very modest with an average of only 1.7 % per year, but the impression is completely opposite when compared to the average for Central and Eastern Europe (CEE) of 1.6% (WTTC, 2009: 6). Regarding the participation of tourism employees in the total workforce of Macedonia, the national average is 3.1%, which is more than twice bigger than the average of the CEE being 1.4% in 2009 (WTTC, 2009: 6). The importance of tourism to national economy can be evaluated by tourism inflows which in 2009 represented 26% of total inflows of services and 8% of exports of goods in Macedonia. In the same line, the tourism inflows were 20% higher than the foreign direct investments. Accordingly, the net tourism inflows in Macedonia have an average of 1% of GDP (Petrevska, 2010). Such condition indicates high potential of tourism effects especially if taking in consideration the forecasts for tourism demand in terms of foreign tourists in Macedonia which foresees increasing of 40% by 2014 (Petrevska, 2011). Additionally, the projected values referring tourism development in Macedonia are very optimistic. Namely, according to the estimations by 2021 it is expected tourism contribution to the national GDP to reach 4.9% thus bringing revenue of US\$200 million. Moreover, the total contribution to employment including jobs indirectly supported by tourism industry is forecast to rise to 35 000 jobs (5.4%). Furthermore, the investment in tourism is projected to reach the level of US\$ 95 million representing 2.8% of total investment (WTTC, 2011: 3). Consequently, Macedonia identified tourism as an industry which might contribute to enhancing foreign export demand for domestic goods and services, generating foreign currency earnings, new employment opportunities, repaying the foreign debt, increasing the national income etc.

### **Necessity of government intervention in tourism planning**

One may argue that formulating appropriate tourism development plan and policy is not a trouble-free process (Vanhove, 1978; Mason, 2003). Namely, the tourism policy must be created in a way that ensures hosting visitors by maximizing the benefits to stakeholders, while minimizing the negative effects, costs, and impacts associated with accomplishing successful destination (Goeldner and Ritchie, 2006). Yet, all efforts in order to consider and understand the interrelated nature of tourism industry require monitoring and evaluation when tourism policy issues are involved (Edgell et al., 2008). However, many case studies on planning provide indications that tourism policy may be viewed as simple by those whose job is to create and implement it (Wilkinson, 1997).

Due to the fact that tourism generates many impacts which are contributing to the overall economic development, the inevitable connection is evident to the process of state, regional and community planning. In the same line, it is important to create a strategic document for tourism development as a strong mechanism in assessing the development priorities (Williams and Shaw, 1991; Gunn, 1993; Frechtling, 2001; Hall, 2005).

In order to accomplish the projected economic targets, each government must define its role in undertaking operative measures and activities. Everyday practice has justified the state intervention in tourism industry regardless the size and effects. However, the overall state intervention usually does not provoke fully positive impacts on tourism development. On the other hand, the absence of governmental intervention in free market economy may lead to short-term benefits in tourism oriented enterprises, so the lack of a long-term control over tourism supply may occur. Therefore, the necessity of a balanced state approach in terms of tourism intervention is a must. So, the government may serve as balance between the exploratory power of private tourism enterprises on one hand, and its own interests, on the other. In this line, it must have been precious since the basic goals of the government and the basic goals of the enterprises may not intersect always, although having common interests in most cases.

Accordingly, the partial state intervention is identified as the best solution ever, despite the cognitive conclusion that this kind of “mixed” entrepreneurship often initiates strategic conflicts among the state and the private enterprises. In this respect, the preliminary task is to identify the priority areas of state intervention as the only way of making it the most effective. The government may not be directly involved in tourism support, except in some areas of national importance such as developing tourism information systems or national tourism promotion. Moreover, the government may initiate actions and activities for tourism development by ensuring funds or setting quality standards. So, this kind of intervention is acceptable as a supportive and balance-oriented concept. Therefore, the role of the government is to act as an economic power that will guide and manage tourism development. Its intervention is justified only when tourism by itself may not act efficiently.

## **Methodology**

In this paper we applied both, secondary and primary sources based on desk-research. We also performed different types of analyses based on qualitative approach because the official statistical data are not always sufficient for pointing out the concluding remarks regarding particular issues.

Accordingly, the paper underscores the need for continuous analysis of tourism contribution as an important consideration to all tourism key-actors responsible for creating development strategies in Macedonia. In this respect, the main conclusions of the analyses should initiate urgent need for undertaking serious measures and activities for enhancing tourism development in Macedonia.

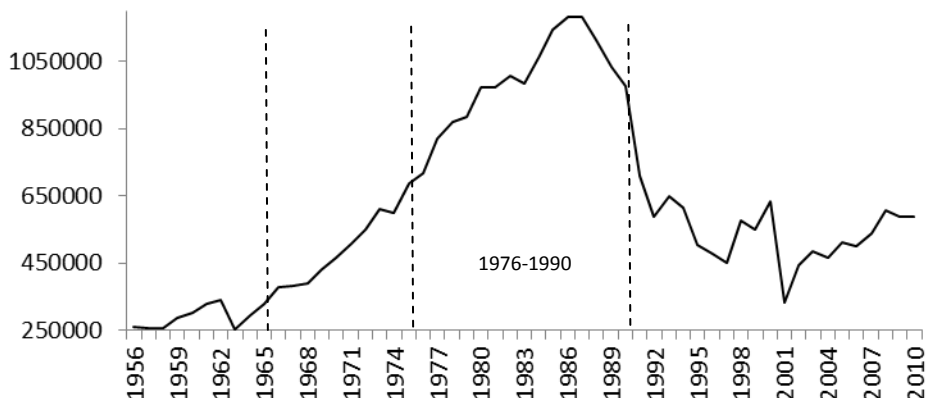
### **Analysis, Results and Discussion**

In the changing environment, it is especially important adequately to define the role of government in maintaining tourism development. Its mission is particularly crucial in the process of implementing tourism development plan in order to achieve sustainable growth of tourism industry. This task can be accomplished by different measures and activities in the line of supporting international tourism or, by redirecting domestic tourists towards domestic tourism destinations. In both cases, it is fundamental to look at several issues referring the general role of government in different planning periods, the process of privatization, creating comprehensive tourism legislation, tourism promotion and the fiscal policy as well.

### **Governmental Role in Different Planning Periods**

In order to gain more interesting conclusions regarding the general role of government in tourism development planning in Macedonia, a retrospective breakdown is made. Additionally, the major characteristics of several sub-periods are pointed out. The number of tourist arrivals is the basic variable analyzed within the period 1956-2010 (Chart 1).

Chart 1: Tourist arrivals in Macedonia, 1956-2010



Source: State Statistical Office of the Republic of Macedonia. (various years)

The lack of official statistical data referring to the earlier period for applied variable prevented us in its visual presentation in the Chart 1. However, it is known that before 1956, Macedonia had an administrative system of management, so generally the goals, aims and objectives of development plans were focused on domestic tourism. The state had an active role, so the investment policy was generally concentrated on enlargement of public hotel capacities as well as on the establishment of catering service and restaurants for the working class. In the line of supporting the domestic tourism, the government introduced certain reduction of traffic taxes.

The period covering 1956-1965 was characterized by workers self-management system. The government enhanced tourism development in Macedonia by undertaking various measures and activities for introducing an "open-door" and "good-neighbor" policy. Moreover, the government built many new accommodation facilities, educated and trained personnel for tourism industry, invested in tourism infrastructure, allowed free market price policy, presented discounts for domestic tourists up to 40% in the season and up to 60% in out-off-season, introduced subsidies in hospitality, granted capital tourism investments, invested in enhancement of international tourism flow etc. The positive upward trend can be seen in Chart 1. An exception of this positive trend is 1963 when a catastrophic earthquake destroyed Skopje - the capital of Macedonia. However, despite all above noted positive measures, this period is branded by the lack of clearly defined long-term tourism policy. So generally, the state acted partially and unsynchronized towards tourism obstacles by undertaking short-term and ad-hock measures and activities.

The period from 1966-1975 is an interval when tourism was defined among the priority areas of economic development of Macedonia. Due to that fact, the government started to conduct extremely strong intervention by introducing tax allowances for stimulating construction of new tourism facilities, loans, credits, funds for regional development etc. The main aim was to initiate and stimulate positive tourism development outcomes. The accomplishment of this task is visually supported by the Chart 1 presenting that the tourist arrivals in this sample sub-period, really expanded.

Between 1976 and 1990, the government significantly changed its role in qualitative manner. Namely, the state continued with its intervention but only limited to certain, highly important areas such as funding tourism promotion, crediting capital tourism capacities, stimulating tourism income, enhancing tourism supply, initiating tourism networking etc. This is a period when tourism in Macedonia reached its highest peak ever with 1.2 million tourists.

The period from 1991 until today, represents a twenty year horizon of independence. The role of government in planning tourism development has considerably changed. Namely variety of shocks with which the country was faced (the collapse of former Yugoslavia, transition process, various reforms, political instability, war conflicts in neighboring countries, economic crisis, internal ethnic conflicts etc.) resulted negatively on tourism development. This is visually presented in the Chart 1 as an extreme downwards movement of the time series. The active role of government was transformed and tourism was marginalized. Consequently, until the end of 1990s, tourism stagnated as a result of a slow recovery and transformation process, a lack of coordination between the key-tourism players, a lack of foreign investments etc. Another breakdown is noted in 2001 due to the ethnic war conflict in Macedonia. After that shock, the government redefined the tourism as an important factor for economic development and put it in its agenda as a priority area. So, tourism is one more time seen as a chance for accelerating the economic development. Respectively, the government identified its role in formulating a medium and long-term tourism policy, preparing and implementing tourism development plan, creating tourism legislation, assuring tourism quality etc.

### **Privatization**

Unlike most transition countries, which opted for mass privatization schemes, Macedonia adopted the model of case-by-case privatization. The privatization process formally began in the middle of 1993 when the Parliament adopted the Law on Transformation of Enterprises with Social Capital. This law provided several models of privatization employee buy-out (EBO), management buy-out (MBO), sale of an ideal part of the company, privatization through additional share issue, debt-equity conversion, asset sell-off, leasing, liquidation etc. (Official Gazette, 1993). However, in the practical implementation of the Law, the specific variants of EBOs and MBOs were by far predominant in terms of the number of enterprises and employees as well as the equity. In the first case, the employees were given the opportunity to buy out at least 51% of the appraised value of the enterprise under very favourable conditions (receiving large discounts and being able to pay the shares in five years, including a two-year grace period). In the second case, a group of natural persons (a management team) obtained the right to control the enterprise by paying down only 10% or 20% of the appraised value, depending on the size of the enterprise. In addition, this privilege was balanced with the obligation to purchase at least 51% of the enterprise's shares in no more than five annual installments that were interest-free. The frequent use of this privatization method was especially favoured by the authorities who claimed that it demonstrated

a certain degree of ownership concentration with a positive impact on companies' efficiency (Agency of the Republic of Macedonia, 1996).

With regards to the transformation process the former socialist countries from the CEE, the majority applied quick and rather massive privatization of tourism enterprises. That was the case of Hungary, Poland, Czech Republic, Estonia, Bulgaria and other transition countries where the direct sale to "strategic" investors (world hotel brands) was the most applied privatization method (IBRD, 1997:122-154).

In the case of Macedonia initially, the privatization of tourism enterprises represented only a small fraction of the entire privatization programme. Namely, the number of tourism enterprises being involved in privatization process was around 140 (with approximately 12 000 employees) representing only 8% of total number of enterprises to be privatized. Obviously, the privatization of tourism enterprises was a marginal question of only EUR 880 million-worth of equity. Although the actual implementation of privatization programme was prolonged to the beginning of 1995, the process progressed with an impressive pace, being almost completed by the end of 1997 when 1.132 enterprises (93% of the total) were formally privatized. In contrast to this progress, the privatization process in the tourism has advanced rather slowly with only 56% of the total number of enterprises and 48% of the equity having been privatized. After a 12-year period of privatization, the state in-cashed over EUR 2.3 billiards of all state-owned enterprises in Macedonia (Author's own calculations).

### **Tourism Legislation**

An important part of the government active role in planning tourism development is setting the general frames for national tourism legislation. In the same line, the state is responsible for the reviewing process and quality improvement of the current law framework.

Tourism in Macedonia is legally defined with laws and bylaws. In this respect, the basic tourism legislative is comprised of several laws, the Law on Tourism and the Law on Hospitality (both from 2004 and with many additional amendments and improvements in the past several years), the Law on establishing Agency for promotion and tourism support in the Republic of Macedonia (relatively new law from 2008) and the Law on Taxes for Temporary Stay (dated from 1996, but with many qualitative improvements in 2002, 2003 and 2008). This law is particularly important due to the fact that implies legal obligations for preparation of tourism program on yearly basis as a precondition for enhancement of conditions for tourists' stay. Moreover, this law presents the distribution of tourism incomes, out of which 20% is an income to the state budget in Macedonia, while 80% is an income to the budget of local self-government units.

Beside the above noted laws, tourism legislation in Macedonia incorporates many bylaws with its main purpose to contribute to the effective and efficient approach of all key-actors responsible for tourism development. However, defining tourism legal framework is neither a task by its self, nor is an ending story to the governmental role. On the contrary, it is in the state's mandate to look after fulfillment of legal obligations, the necessity of its improvement and continuous upgrade. So, considering the tourism legislation, the government intervenes only in moments when a need rises for its modifications. In the case of Macedonia, there are still open issues referring to new initiatives for innovative legal solutions on the process of tourist tax utilization; introducing criteria for follow-up of tourist flows; creating criteria for detailed definition of tourist guide service etc.

### **Tourism Promotion**

With the establishment of the Agency for promotion and support of tourism in Macedonia in 2008, it became fully responsible for national tourism promotion. Before that, the Ministry of economy through the Tourism department was in charge for preparation and implementation of the Program for general tourism advertising. Regardless the institution accountable for raising tourism national visibility, the budget foreseen for this type of activity is of highest importance. Undertaking measures and activities for supporting tourism promotion is a common example of state intervention. So, permanent budget increase is an inevitable activity in order to gain more economic effects. As a case-example, we may mention the one from 2009 when Croatia had bigger budget for tourism promotion for 60% compared to the previous year (UNWTO, 2009).

In Macedonia, the budget expenditures allocated for the implementation of the Programme for tourism promotion are very modest, though their constant increases every year. For instance, approximately EUR 100000 were scheduled for tourism promotion in 2005 (Government of the Republic of Macedonia, 2009), and another EUR 120000 were spent in 2011 (Government of the Republic of Macedonia, 2010). The need for major efforts in the field of tourism promotion in Macedonia is illustrated by the fact that Macedonia has been ranked low on the list of the most attractive destinations for travel and tourism, issued by the World Economic Forum. For example, in 2007 Macedonia was ranked as 83<sup>rd</sup> out of 124 countries. In 2008, it was placed at the same position, but this time out of 130 countries. In 2009, a small progress was made, i.e. Macedonia was ranked 80<sup>th</sup> out of 133 countries (Blanke and Chiesa, 2009: 31). Finally, a small progress was made in 2011, when Macedonia was ranked at the 76<sup>th</sup> place out of 139 countries. However, it should be mentioned that the majority of the countries in the region are significantly better positioned than Macedonia. Slovenia - 33<sup>rd</sup> place, Croatia - 34<sup>th</sup>



place, Montenegro - 36<sup>th</sup> place, Bulgaria - 48<sup>th</sup> place and Albania - 71<sup>st</sup> place (Blanke and Chiesa, 2011: xv). Concerning the neighboring countries, only Serbia, and Bosnia and Herzegovina are ranked lower than Macedonia.

If we make a detailed analysis of all indicators concerning certain sub-indexes, many interesting concluding remarks emerge, in particular with respect to travel and tourism regulatory framework, tourism business environment and infrastructure, tourism human, cultural and natural resources etc. The tourism infrastructure index is categorized within the business environment and the necessary infrastructure for tourism and travel development. Thus, it represents its appropriateness by a score of 3.8 being ranked at the 69<sup>th</sup> place out of 139 countries (Blanke and Chiesa, 2011: 256).

The shortage of allocated budget for successful tourism promotion in Macedonia is supported by data presented in Table 1. The comparative analysis of selected countries underscores their obvious professional approach towards promotion of its tourist products, which is not a case with Macedonia. Despite the governmental efforts in this line, the modest and limited budget is the biggest obstacle in achieving better results.

Table 1: Budget for tourism promotion in selected countries, 2005

Country	EUR mil.
Macedonia	0.1
Romania	5.7
Slovakia	6.3
Czech Republic	6.8
Poland	7.7
Slovenia	8.5
Hungary	17.6
Greece	121.7

Source: Government of the Republic of Macedonia. (2009: 141).

### **Fiscal Policy**

Fiscal policy is defined as the most frequent example of state intervention in the tourism development. It refers generally to tax allowances for hospitality services; tax allowances for catering services or tourist nights spent; direct investments in tourist infrastructure (accommodation capacities, national parks, cultural events etc.) etc.

Governments of different countries took a particularly active role in supporting tourism impacts for achieving overall economic development in times of world financial crisis. The Table 2 gives an overview of state intervention regarding tourism taxes in 2009. Some positive examples can be seen in the cases of Great Britain, Czech Republic, France and

Belgium when taxes were reduced for 2-15%. In these cases the governments decided to assist their tourism industries to easier and quicker recovery by decreasing the taxes referring to tourism and hospitality services. However, the bottom rows in the Table 2 presents some negative examples in terms of tax increasing. Namely, due to the shocks of the global crisis, the governments of Estonia, Lithuania, Latvia and Hungary decided to increase their taxes in order to help the national economies in their recovery.

Table 2: Government intervention on tourism taxes in selected countries, 2009

Country	Tourism taxes before the crisis (%)	Tourism taxes after the crisis (%)
Great Britain	17.5	15
Czech Republic	19	9
France	19.5	5.5
Belgium	21	6
Estonia	5	9
Lithuania	5	19
Latvia	5	21
Hungary	20	25

Source: Author's own notes based on [www.hotrec.eu](http://www.hotrec.eu)

With regards to Macedonia, the government just recently, in 2010 decreased the VAT rate from 18% to 5%. However, this measure was scheduled and introduced just after the parliamentary elections and despite the positive impacts on tourism development, provoked negative reactions in public being labeled as populist policy.

Additionally, starting from 2010, the government, through the Ministry of economy provides financial support for tourist and travel agencies which promote Macedonia as a tourist destination by incoming tourism. More precisely, subsidies are introduced for bringing organized group of ten tourists with minimum 3 overnights at categorized accommodation capacities. An alternative is set for the round-tours which have organized tourist arrival and departure by plane, bus or train with minimum 2 overnights in different destinations within Macedonia. Due to the fact that foreign tourists from neighbouring countries are dominant, it is normally to have the lowest subsidy of EUR 10 for tourists from Albania, Bulgaria, Serbia, Greece, Montenegro and Bosnia and Herzegovina. In the line of expanding the international tourist market, the subsidies increase to EUR 20 per tourist when coming from Turkey, Romania, Hungary, Slovenia and Croatia. These kinds of measures and activities have long tradition in many countries in line of supporting tourism development.

## **Conclusion and Recommendations**

Tourism is an industry that may not be self-developed, so provokes necessity of applying certain forms of state intervention. In this respect, state intervention in tourism means direct participation of the government in tourism market. This may be accomplished generally, in two ways. The first one refers to selective allocation of funds which means market intervention of government as a financial institution. The second approach is a direct control over tourism enterprises which means state's inclusion in the business. Consequently, if tourism development is out of control, variety of conflicts may arise. So the government must be included in order to make certain positive-oriented interventions. To which extend this intervention will appear, depends on many factors, out of which the political orientation of government is the most explored. Usually, governments that support free market and open economy, often create encouraging environment for successful tourism development in contrast to central-oriented ones.

Tourism outcomes in Macedonia refer to the need of government support and encouragement in the line of accomplishing positive impacts with larger extends. Yet, the state intervention should be based on balanced background regardless the applied forms. So it is irrelevant whether the state interferes directly through the Ministry of economy, or indirectly by the foreign policy. The main aim is to implement different measures and instruments in order to manage tourism flows in the line of fulfilling the projected goals.

The general conclusion is that Macedonian tourism suffers from lack of coordinated activities and organisational forms functioning on horizontal and vertical line, unclear set of goals, aims and field of interest within the public, as well as the private tourism sector. Although some significant efforts have been made in promoting tourism, yet the modest and limited budget is the biggest obstacle in achieving greater competitive advantages. The result is a poorly developed tourism industry. Therefore, as a starting point, partial tourist products must be introduced until the moment when certain preconditions are created in the sense of strengthening the cooperation between all key actors in tourism. Hence, it can be concluded the need for further governmental intervention in tourism in Macedonia, with emphasize to be supportive and balanced since up-to-date effects are positive, but very modest.

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