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ECONOMIC IMPACTS OF TOURISM: THE EVIDENCE OF MACEDONIA

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Abstract: Due to variety of positive impacts, each country is interested in developing tourism. This paper disentangles the economic impacts of tourism industry in Macedonia and makes an attempt to assess the contribution to the economic development. So, some commonly applied economic parameters are addressed. Moreover, different types of analysis are performed, based on available sources of secondary data supplemented by descriptive statistics. The data set spreads over a twenty year horizon, covering the period from 1991 to 2010. Finally, the research underscores the necessity for continuous analysis of tourism economic impacts as an important consideration for creating sustainable development strategy.

JEL classification: O12, O5.

Key words: tourism; economic impacts; economic development; tourism policy; Macedonia

1. INTRODUCTION

Tourism generates various economic effects, which affect positively on the overall economy of the country. In one hand, it may have variety of microeconomic influences, like assisting in quality improvement of the employees in the industry, benefiting from the scale economies and developing new facilities according to the international standards for tourism demand and supply. Regarding the macroeconomic effects, the tourism is seen as a mean for enhancing the foreign export, generating foreign currency earnings, new employment opportunities, contributing to foreign debt repayment, increasing national income, generating new economic sources etc. Moreover, everyone identifies tourism as a source of economic growth and development, promoting global community and international understanding and peace, providing tourism facilities to local people, improving living standards, stimulating local commerce and industry, reinforcing the preservation of heritage and tradition etc¹.

Tourism economic impacts are, therefore, an important consideration in economic development, as well as in state, regional and community planning. In the same line, it is necessary to implement a document for tourism development, since it represents strong mechanism and a tool for creating general policy of the overall economic development². Additionally, defining the development priorities as a basic element of the development strategy is the biggest obstacle to each country³. In this respect, in 2009, Macedonia adopted the National Strategy on Tourism Development 2009-2013, which was prepared

¹ Goeldner, C. R., Ritchie, J. R. B., McIntosh, R., W., *Tourism: Principles, Practices, Philosophies*. John Wiley & Sons, 2000, p. 33-34.

² More details in: Williams and Shaw (1991) and Frechtling (2001).

³ More details in: Gunn (1993) and Hall (2005).

with a main vision: by 2013 Macedonia to become famous travel and tourism destination in Europe based on cultural and natural heritage⁴. Such concept, imposes the necessity of introducing new economic policy, whereas, tourism shall be treated as integral part of the entire economy.

Yet, the forecasts regarding the tourism development in Macedonia are in favor⁵. By 2021 is expected that the direct contribution of tourism to the national gross domestic product (GDP) will reach to 1.6 % thus bringing revenue of EUR 170 million according to the constant 2011 prices; the total contribution of tourism to the GDP will rise to 6.0%; the visitor exports are expected to generate EUR 76 million (5.1% of total exports); and the investment in tourism is projected to reach the level of EUR 76 million representing 2.8% of total investment⁶.

2. OBJECTIVES

The issue referring the economic impacts of tourism and its effects on country's economic development is highly explored. Namely, numerous researchers have been involved and a wide variety of techniques have been applied in quantifying tourism economic effects. Studies vary extensively in quality and accuracy, but mostly address the economic impact analysis⁷. In this respect, the economic impact analysis traces the flows of spending associated with tourism activity in a region in order to identify changes in sales, tax revenues, income, and jobs due to tourism activity. The principal methods being applied are visitor spending surveys, analysis of secondary data, economic base models, input-output models and multipliers⁸.

The main objective of this paper is to point out the need for continuous analysis of tourism economic impacts as an important consideration to all tourism key-actors responsible for creating economic development strategies in Macedonia. Moreover, the main conclusions should initiate urgent need for undertaking serious measures for enhancing tourism development in Macedonia.

3. METHODOLOGY

The paper is reach on different types of analysis mostly based on available sources of secondary data. Generally, comparable quantities are analysed with descriptive statistics on economic parameters for the GDP, employment in tourism and the net flows of tourism services by analyzing the balance of payments. The data set applied in this study is spread over a twenty year horizon covering the period from 1991 to 2010. In order to gain more interesting and accurate outcomes, the main time series is divided in two sub-periods: 1991-2000 as a period just after the independence of Macedonia and 2001-2010 as a period extensive enough to observe the first tourism outcomes.

⁴ Government of the Republic of Macedonia, National Strategy on Tourism Development 2009-2013, Skopje, 2009, p. 3.

⁵ Petrevska, B., Planning and forecasting tourism demand in Macedonia, International Conference "Contemporary Trends in Tourism and Hospitality, 2011 - Via Danube, the Main Street of Europe", 2011, pp. 169-177.

⁶ WTTC, Travel & Tourism Economic Impact - Macedonia 2011, 2011, p. 3.

⁷ More details in: Crompton, (1993); Lundberg *et al.* (1995); Huybers, (2007); Babu *et al.* (2008); Ramos and Jimenez (2008); Stabler *et al.* (2010).

⁸ Frechtling, D. C., Assessing the economic impacts of travel and tourism - Introduction to travel economic impact estimation, in: Ritchie, J. R. B., Goeldner, C. R. (Eds). Travel, Tourism and Hospitality Research, John Wiley and Sons, 1994, p. 119.

4. ANALYSES

During the research, several obstacles regarding the official statistical data representing tourism industry in Macedonia occurred. Namely, all applied statistical data refer only to the hotels and restaurants in Macedonia, thus being a crucial limiting factor for more in-depth analyses. In this respect, it should be noted that the findings that discuss the number of employees in tourism industry, do not address the employees in tourist agencies, tour-operators and other tourism mediators. More precisely, it is very often the case that the term tourism in Macedonia is equal to the term hotel industry, which results into “neglecting various, even more significant effects compared to those produced within the hotel industry”⁹. Additionally, undertaken analyses refer only to the direct tourism effects, meaning that the indirect ones are not addressed in this research.

4.1 The overall economic impact of tourism

The starting point in the analysis of economic importance of tourism is the assessment of tourism contribution to the overall economic activity. In this respect the Table 1 presents the GDP created in tourism in Macedonia during the sample period 1991-2010.

The first sub-interval addresses the first decade which covers the independence period. It is noticeable that the GDP created in tourism within this period decreased in six out of ten years, which might be explained as a post-independence period. The 1996 performed the best results and together with 2003 are the highest peaks, approximately 0.2% above the average tourism contribution to the economy in the sample period. As presented in Table 1, during the sub-period 1991-2000, the average annual growth is 0.6% and 1.5% as tourism contribution to the GDP. Despite the fact that the standard deviation for this sub-period (10.9%) is slightly higher compared to 8.4% in the second sub-period, the general conclusion is the absence of tourism contribution to the economy in the post-independence years.

Table no. 1 GDP of tourism in Macedonia, 1991-2010

Year	Annual growth (%)	% of GDP	Year	Annual growth (%)	% of GDP
1991	7.4	1.7	2001	-4.5	1.5
1992	-8.9	1.6	2002	16.6	1.7
1993	-2.7	1.5	2003	9.6	1.8
1994	-8.4	1.4	2004	-1.7	1.7
1995	-12.6	1.3	2005	4.8	1.7
1996	4.1	1.8	2006	1.5	1.6
1997	-3.6	1.4	2007	8.5	1.7
1998	7.3	1.4	2008	5.9	1.7
1999	24.7	1.7	2009	-8.6	1.6
2000	-1.3	1.5	2010	-9.2	1.4
1991-2000	0.6	1.5	2001-2010	2.3	1.6
StD: 10.9 %			StD: 8.4 %		

Source: Authors' own calculations based on: State Statistical Office, Statistical Yearbook of the Republic of Macedonia, Skopje, various years; National Bank of the Republic of Macedonia, Quarterly Reports, Skopje, various years.

The second sub-interval 2001-2010, generally performed growth, which was yet, very volatile. The negative growth rate in 2001 and 2004 is partially due to the war

⁹ Sinclair, T. M., Stabler, M., *The Economics of Tourism*, Routledge, 1997, p. 36.

conflicts in Macedonia and the region. For example, the extreme fall of tourism activity in 2000, can be interpreted as a consequence of the Kosovo war, bomb attacks on Serbia and refugee crisis in 1999. Such conclusion throws a shade on unexpected extremely high growth of tourism sector in 2003 (when actually all these negative shocks still had an influence), which can be elaborated as an outcome of abstinence of domestic population for travelling abroad i.e. an increase in domestic tourism demand. Further on, a fall of the GDP is noted in 2004, which can be provoked by increased interest for travel abroad, caused by the recovered economic activity and the rising consumer lending. In the rest of the analyzed sub-period, the tourism sector shows a slight growth with uneven intensity. The second analyzed sub-interval contributed much more to the economic development of Macedonia. Namely, the average annual growth is 2.3% which is approximately 4 times higher than the average of the first analyzed sub-period.

During the sample period 1991-2010 the tourism, in average, generated 1.6% of the GDP. Compared to the world average of 3.2% in 2009¹⁰ lead us to conclusion of very modest tourism contribution, but the impression is completely opposite when making comparison with the average for Central and Eastern Europe (CEE) of 1.6%¹¹.

4.2 Employees in tourism

The second step in the attempt to assess the economic influence of tourism over the Macedonian economy is analysis in the line of investigating whether tourism development can contribute to job creation. Once again, the lack of substantial statistical data was an obstacle and a crucial limiting factor for more in-depth analysis.

Table no. 2 Employees in tourism industry in Macedonia, 1991-2010

Year	Employees	Annual growth (%)	% total labor	Year	Employees	Annual growth (%)	% total labor
1991	12 764	-	2.7	2001	10 070	-3.2	3.4
1992	13 306	4.2	3.0	2002	9 982	-0.9	3.6
1993	12 022	-10.0	2.9	2003	9 880	-1.0	3.7
1994	10 611	-12.0	2.7	2004	12 672	28.3	3.1
1995	9 946	-6.3	2.8	2005	12 892	1.7	3.1
1996	10 520	5.8	3.1	2006	13 040	1.1	3.0
1997	9 903	-5.9	3.1	2007	13 040	0.0	3.0
1998	9 758	-1.5	3.1	2008	13 265	1.7	3.1
1999	9 998	2.5	3.2	2009	13 668	3.0	3.2
2000	10 403	4.1	3.4	2010	13 371	-2.2	3.1
1991-2000	10 923	-1.9	3.0	2001-2010	12 188	2.9	3.2
StD: 6.7 %				StD: 9.1 %			

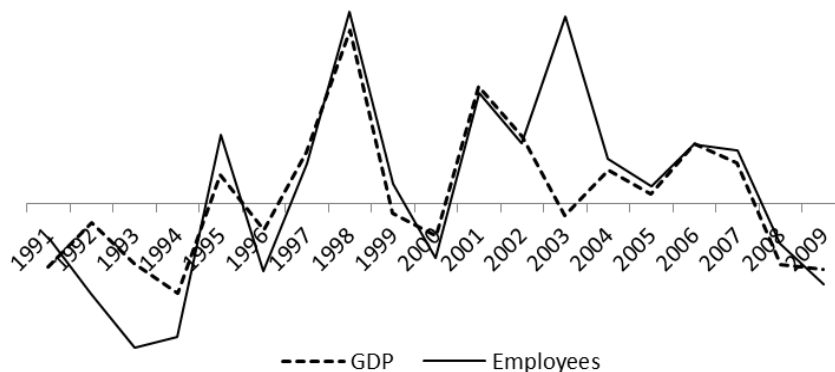
Source: Authors' own calculation based on the State Statistical Office, Statistical Yearbook of the Republic of Macedonia, Skopje, various years.

The Table 2 represents data regarding annual growth of employees in tourism in Macedonia and their percentage in total labor observed in two sub-intervals. During the first sub-interval, the average number of employees is 10 923, while for the second sub-interval is 12 188, which is very similar and close. This conclusion is confirmed by the standard deviation being 6.7% and 9.1%, once again pointing to the similarities in the movement of time series in the subsequent sub-intervals.

¹⁰ WTTC, Travel & Tourism Economic Impact, Executive Summary 2009, 2009, p. 4.

¹¹ WTTC, Travel & Tourism Economic Impact - Central and Eastern Europe 2009, 2009, p. 5.

Completely opposite findings arise when comparing annual growth rate, being minus 1.9% and 2.9%. However, during both sub-periods, the percentage of tourism employees to the total workforce stayed almost unchanged (3% and 3.2% respectively) which may be interpreted as constant relationship. However, the official data regarding the employment should be analysed with caution since the extremely high rates of growth of tourism employees in 2004 are in close correlation with the official recording system. The highest pick can be seen in the Figure 1 which presents the annual growth of GDP and employees in tourism. Moreover, due to more intensive growth, the participation of tourism employees in the total workforce increased from 2.7% in 1991 to 3.1% in 2010¹².



Source: Authors' own calculation

Figure no. 1 Annual growth of GDP and employment in tourism, 1991-2010

The average percentage of tourism employment in total labor during the sample period 1991-2010 is 3.1%. Although this result might seem moderate, it should be pointed out that the tourism in Macedonia has a higher influence on the entire employment in comparison to the wider region. Namely, the national average is more than twice bigger than the average of the CEE being 1.4% in 2009¹³. Once again, it is confirmed that the tourism development in Macedonia can create new job positions, and consequently contribute to curbing the unemployment rate.

4.3 Tourism effects on the balance of payments

The final step regarding the attempts for quantifying the importance of tourism for the economic activity in Macedonia refers to the balance of payments, or more precisely, of net inflows of tourism services. From the Table 3 it is noticeable that the tourism net inflows in the first sub-period had a declining trend, as a result to war for independence in the neighboring countries of the former Yugoslavia. Some stabilization and increased tourism inflows were registered only in 1999 and 2000. Despite that, the average net inflows for this interval are minus EUR 1.6 million which clearly points out that Macedonia was not oriented towards incoming tourism. In 2001, Macedonia was faced

¹² Petrevska, B., Tourism in the global development strategy of Macedonia: Economic perspective. UTMS Journal of Economics, 2(1), 2010, p. 106.

¹³ WTTC, Travel & Tourism Economic Impact - Central and Eastern Europe 2009, 2009, p. 5.

with a war conflict with negative influence in 2002 as well. If we exclude these years, the second sub-interval is characterized with permanent increase of net tourism inflows.

To support the positive results and increase of tourism inflows, we may point to 2009 when they represented 26% of total inflows of services and 8% of exports of goods. In the same time, in 2009, the tourism inflows were 20% higher than the foreign direct investments in Macedonia. Within the framework of services, tourism inflows were the second biggest item (just a little bit lower compared to the inflows of transport services), which is 1.3 times higher than the inflows of business services and 2.4 times larger than communication services inflows. When calculated on net-basis, the tourism inflows are by far the most important item in the sub-balance of services¹⁴. The calculated standard deviation for both sub-periods is EUR 8.2 million and EUR 33 million net tourism inflows.

Table no. 3 Balance of payments - Tourism services (mil. EUR), 1991-2010

Year	Inflows	Outflows	Net	Year	Inflows	Outflows	Net
1991	N/A	N/A	N/A	2001	29.0	43.0	-14.0
1992	N/A	N/A	N/A	2002	41.4	47.3	-5.8
1993	11.1	11.1	0	2003	49.9	42.3	7.6
1994	24.1	18.3	5.8	2004	57.9	43.9	14.0
1995	14.3	20.0	-5.7	2005	72.3	49.9	22.4
1996	16.6	20.2	-3.6	2006	102.4	56.2	46.3
1997	13.5	24.1	-10.6	2007	134.9	73.9	61.0
1998	15.0	28.4	-13.4	2008	155.2	92.4	62.7
1999	37.4	30.2	7.2	2009	120.4	56.9	63.6
2000	41.2	37.2	4.0	2010	149.6	69.9	79.7
1991-2000	17.3	19.0	-1.6	2001-2010	91.3	57.6	33.8
StD: 8.2				StD: 33.0			

Source: Authors' own calculation based on National Bank of Macedonia, Various publications.

Despite the fact that in the past years the tourism inflows were more than 10 times higher compared to the beginning years of the sample period, yet, the importance of tourism in the balance of payments in Macedonia is much reduced by the tourism outflows. So, within the second sub-period, the outflows increased approximately 3 times in comparison to the first sub-period. In this respect, Table 3 represents that in the first half of 2000s, the tourism inflows are almost identical with the outflows. Hence, for some significant net foreign exchange effect of tourism can be discussed only in the last years of 2000s as a result to the more representative inflows of foreign tourists. More precisely, as of 2006, the tourism inflows in Macedonia gain in importance, when they finally exceeded EUR 100 million. Consequently, in 2010, they were approximately the same amount as in 2008, meaning that the same level was reached as before the global financial crisis. On the other hand, it is worth mentioning that the average annual net tourism inflows are EUR 33.8 million, meaning that tourism in Macedonia finally started to note first significant results.

5. CONCLUSIONS

This study emphasized that tourism contribution within the economic development in Macedonia is important principally when compared to the average figures of tourism trends in the CEE. Namely, the economic effects are with considerable impact firstly

¹⁴ Petrevska, B., Importance of tourism in the economy of Macedonia, Proceedings MIT University - Skopje, 1(1), Skopje, 2010, p. 256.

measured by the participation in creating the GDP (1.6%), and particularly in generating new jobs (3.1%). However, the additional outcomes of the analysis referring the effects on the balance of payments are very modest pointing to the necessity of undertaking serious measures for enhancing international tourist arrivals. Besides, the analyses of both sub-intervals within the sample period indicate that tourism in Macedonia fully recovered from the independence period when only modest results were performed.

The findings point to the note that Macedonia is short on global concept for tourism development. If one wants to apply positive tourism impacts on the economy, than as an important consideration for economic development must be introduced the process of state, regional and community planning. More precisely, Macedonia must be reach on developmental policy for supplementary sectors necessary for tourism follow-up development. Herein, tourism in Macedonia should be observed in broad, macroeconomic frames as specific market segment whose dimensions and economic content comprehensively may be interpreted within the quantity and structure of tourism expenditure. That is possible only by creating analytical frame for identifying all tourism impacts.

Due to variety of obstacles when ensuring all-inclusive and reliable statistical data addressing the tourism industry, the objective assessment of tourism influence on the economic development in Macedonia is very difficult, almost infeasible.

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