Emc Review

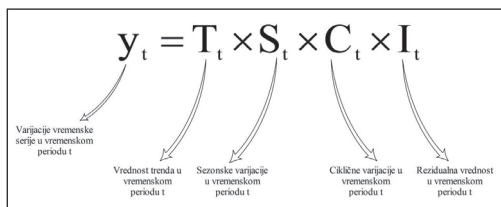# Časopis za ekonomiju
i tržišne komunikacije

Economy and Market
Communication Review

Multiplikativni model vremenskih serija

$$y_t = T_t \times S_t \times C_t \times I_t$$

Varijacije vremenske serije u vremenskom periodu t

Vrednost trenda u vremenskom periodu t

Sezonske varijacije u vremenskom periodu t

Ciklične varijacije u vremenskom periodu t

Rezidualna vrednost u vremenskom periodu t

Izvor: Groebner D., Shannon P., Fry P. and Smith K., Business Statistics A Decision-Making Approach, Prentice Hall, New Jersey, 2001.

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TOURISM CONTRIBUTION TO ECONOMIC DEVELOPMENT IN MACEDONIA

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Abstract: *In the past few decades, tourism has emerged asone of the major industries in the world economy, by benefiting transportation, accommodation,catering and many other sectors. It provokes an interest among all countries, regardless the level of economic development. Therefore, many undeveloped and developing countries identified tourism as one of the greatest sources of economic growth and detected it as the only way-out for economic prosperity. This research argues the inevitable relationship between tourism and economic development with an aim to investigate tourism impacts. Moreover, the paper attempts to disentangle the economic impacts of tourism industry in Macedonia by assessing its direct contribution to the economic development. For that purpose, some commonly applied economic parameters are addressed: the gross domestic product in order to measure the contribution of tourism to the overall economic activity; employment in tourism as possibility to contribute to job creation in combating unemployment rate; and the net flows of tourism services by analyzing the balance of payments. The research generally covers comparative analyses based on stylized facts obtained from desk-research and available sources of secondary data. The data set covers the period 1997-2012. Special attention is put on the period before and after the global financial crisis. The research findings reveal modest contribution of tourism towards economic development in Macedonia. Similar to many tourism-oriented countries, Macedonia was not immune to the negative shocks provoked by the world economic crisis that interrupted the upward tourism trend.The research underscores the necessity for continuous analysis of tourism economic impacts as an important consideration for strengthening national economy. Finally, the paper gains additional importance since the outcomes pose some valuable considerations to all tourism key-actors responsible for creating economic development strategies in Macedonia.*

Key words: *Tourism; Economic development; Economic impacts; Direct contribution; Macedonia.*

JEL classification: *O10, O14, L83*

INTRODUCTION

Tourism generatesvarious 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, benefiting from the scale economies and developing new facilities according to the internationalstandards fortourism demand and supply. Regarding the macroeconomic effects, tourism is seen as a mean for enhancing the foreign export, generating foreign currency earnings, new employmentopportunities, contributing to foreign debt repayment, increasing national income, generating neweconomic sources etc. Moreover, everyone identifies tourism as a source of economic growth and development.

However, one may note that instant tourism development in the world was interrupted by many different events in the first decade of the 21st century. Some of them were driven by the emergingmarkets and the rapid advances in technology, particularly in digital and social media, but also by the economic environment. From the variety of new challenges, some had profoundeffects on the world tourism industry, like:the devastating terrorist attack (9/11) in 2001; the combined effect of three significantfactors in 2003: the Iraq crisis, the SARS outbreak and apersistently weak global economy; and the global economic recession thatstarted in the second half of 2008.

The main objective of this paper is to make an assessment of direct tourism impacts over economic development in Macedonia. Additionally, the research tries to disentangle the effects of the world recession over Macedonian tourism. In order to achieve that goal, the paper is structured in several sections. After the introductory part, Section one provides a snapshot on theoretical and empirical literature. The research design encompassing the methodology and research frame are posed in Section two. Section three presents the main research findings and discussion, while Section four poses some future challenges. The main conclusions are notedat the end. Generally, this study makes an attempt to quantify direct economic impacts of tourism in Macedonia.

The main findings point to conclusion of having moderate up-to-date tourism development, which cannot boost economic progress of the country. Finally, this empirical evidence may contribute to enriching the poorly developed academic work within this scientific area in Macedonia, with certain exceptions (Dimoska and Petrevska, 2012; Petrevska, 2012a).

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LITERATURE REVIEW

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 oftechniques have been applied in quantifying tourism economic effects. Studies vary extensively in quality and accuracy, but mostly address the economic impact analysis (Crompton, 1993; Lundberg *et al*, 1995; Huybers, 2007; Babu *et al*, 2008; Ramos and Jimènez, 2008; Stabler *et al*, 2010). In this respect, theeconomic impact analysis traces the flows of spending associated with tourism activity in a region in order toidentify 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 multipliers (Frechtling, 1994, p. 119).

Due to the fact that economic development represents just one process of a complex system known as human developement, means that economic developement enevitably leads to human developement and the quality of life (Osberg and Sharpe, 2003, p.36). So, the human developement or the increasement of human quality of life is the main goal of the economic development (Hayami and Godo, 2005; Kanbur, 2003).In this respect, the acchieved ecomomic and human developement may be measured and presented by various indicators, like: value agregate indicators, natural indicators, social indicators and so forth (Cypher and Dietz, 2009; Grabowski et al, 2007; Soubbotina, 2004; Todaro and Smith, 2009):

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 itrepresents strong mechanism and a tool for creating general policy ofthe overall economicdevelopment (Williams andShaw, 1991; Frechtling, 2001). Additionally, defining the development priorities as a basic element of the developmentstrategy is the biggest obstacle to each country (Gunn,1993; Hall,2005). Such concept, imposes the necessity of introducing new economic policy, whereas, tourism shall be treated as integral part of the entire economy.

METHODOLOGY

The paper is rich 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 gross domestic product (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 covering the period 1997-2012. During the research, several obstacles regarding official statistical data representing tourism industry in Macedonia occurred. Namely, all applied statistical data refer only to 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 hotelindustry, which results into "neglecting various, even more significant effectscompared to those produced within the hotel industry" (Sinclair and Stabler, 1997, 36).Additionally, undertaken analyses refer only todirect tourism effects, meaning that the indirect ones are left as further research topic.

RESULTS AND DISCUSSION
Tourism contribution to GDP

The study starts with assessment of direct tourism contribution to the overall economic activity. In this line, Table 1 presents the GDP created in tourism in Macedonia during the sample period.Generally, one may note growth in the GDP of tourism industry, which was yet, very volatile. However, it has to be pointed out that the negative growth rate is partially due to the war conflicts in Macedonia and the region. For example, in 2000 Macedonia noted extreme fall of tourism activity, which can be interpreted as a consequence of the Kosovo war, bomb attacks on Serbia and refugee crisis in 1999. On the other hand, such conclusion throws a shade on unexpected extremely high growth of tourism in 2002 (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. Up to 2008, when the world economic crisis began, tourism industry shows a slight growth with uneven intensity.

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Table 1. GDP in tourism in Macedonia, 1997-2012, in mill. denars (current prices for 2005)

Year	GDP in tourism	Annual growth (%)	GDP total	% of total GDP
1997	2844	-	235750	1.21
1998	3052	7.3	243765	1.25
1999	3804	24.7	254247	1.50
2000	3375	-11.3	265688	1.27
2001	3223	-4.5	253732	1.27
2002	3759	16.6	256016	1.47
2003	4121	9.6	270314	1.52
2004	4051	-1.7	282748	1.43
2005	4245	4.8	295052	1.44
2006	4309	1.5	309895	1.39
2007	4677	8.5	328951	1.42
2008	4954	5.9	345239	1.43
2009	4528	-8.6	342062	1.32
2010	4406	-2.7	351963	1.25
2011	4460	1.2	361714	1.23
2012	4579	2.7	360850	1.27
Ave 1997-2012	4024	3.6	297374	1.36

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.

Additionally, form Table 1 one may notice a structural breakdown as a result to the financial recession (starting as of 2009 and 2010, and slightly improving as of 2011). Figure 1 shows the annual growth of tourism GDP in Macedonia, which visually supports the statistical glancepresented in Table 1. During the sample period 1997-2012the tourism, in average, generated only 1.36% of totalGDP in Macedonia. Compared to the world average of 2.8% in 2011, and the average for Other Europe[1] of 2.4% (WTTC, 2012, 11), lead us to conclusion of very modest tourism contribution.

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1   Macedonia is listed in Other Europe, since Europe as a region is devided in two sub-regions (WTTC, 2012, 17): 1. European Union (Austria, Belgium, Bulgaria, Cypris, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malta, Nether-lands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and UK); 2. Other Europe (Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Croatia, Iceland, Kazakhstan, Kyrgyzstan, Macedonia, Moldova, Montenegro, Norway, Russia, Serbia, Switzerland, Turkey and Ukraine).

Figure 1. Tourism GDP in Macedonia, 1997-2012
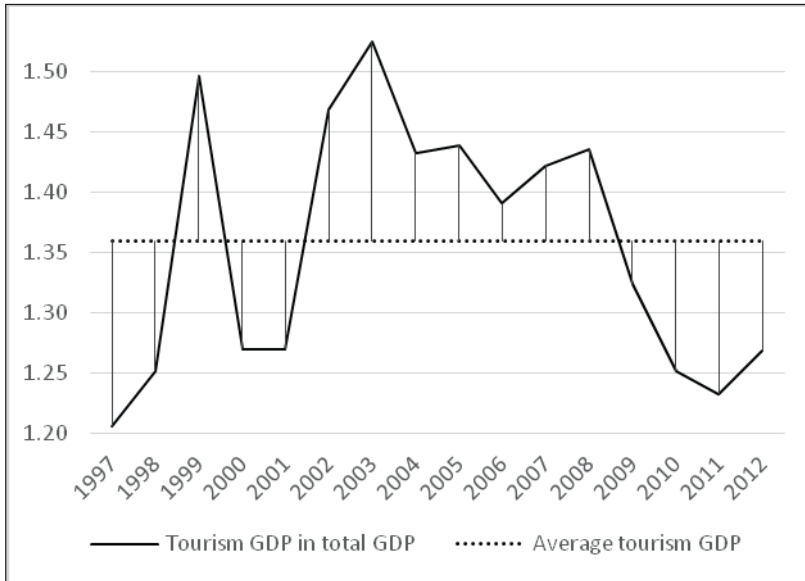
If we put a highlight on the period when the financial crisis emerged, we confirm that the world economic crisis really had intensive negative influence over tourism industry in Macedonia. Actually, besides the period 2000-2001when the annual growth of GDP in tourism has a negative sign (due to interethnic war conflict in Macedonia), the period 2009-2012 is a period marking values under the average (Figure 1).

Tourism contribution to employment

Furthemore, we proceed with the attempt to assess direct economic influence of tourism over the Macedonian economy byinvestigating contributionto employment. Moreover, this overview assisted us in finding out whether tourism can contribute to job creation, thus acting as a factor for decreasing the high unemployment rate of approximately 30%. However, the lack of appropriate statistical data appeared as a serious obstacle and a crucial limiting factor for more in-depth analysis.

Table 2 represents data regarding annual growth of employees in tourism in Macedonia and their percentage in total labor. In this respect, the percentage of tourism employees to the total workforce may be interpreted as a constant relationship. Another characteristic feature of the data is the relatively constancy in the number of employees. Despite the fact that the official data regarding the

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employment should be analysed with caution (for ex. the extremely high rates of growth of tourism employees in 2004 are in close correlation with the official recording system), yet, it is clearly that the number of employees in tourism grew with higher intensity than the total employment. Yet, the applied official statistical data must be interpreted with a high caution since it does not include unregistered employees in tourism.

Table 2. Employees in tourism in Macedonia, 1997-2012

Year	Employees in tourism	Total Employees	Annual growth of employees in tourism (%)	% of total employment
1997	9903	512301	-5.9	1.93
1998	9758	539762	-1.5	1.81
1999	9998	545222	2.5	1.83
2000	10403	549846	4.1	1.89
2001	10070	599308	-3.2	1.68
2002	9982	561341	-0.9	1.78
2003	9880	545108	-1.1	1.81
2004	12672	522995	28.3	2.42
2005	12892	545253	1.7	2.36
2006	13040	570404	1.1	2.29
2007	13040	590234	0.0	2.21
2008	11400	609015	-12.6	1.87
2009	12039	629901	5.6	1.91
2010	12250	637855	1.8	1.92
2011	12308	645085	0.5	1.91
2012*	9797	650554	-20.5	1.51

Note:* Data on private catering establishments not available.

Source: Authors' own calculation based on the 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.

During the sample period, the average number of employees is 11215, while the standard deviation is 1314, pointing to similarities in the movement of the time series.

Figure 2 presents the annual growth of employees in tourism and the participation of tourism employees in the total workforce in Macedonia. Visually can be

seen that as of 2009-2012 the data decreaces, due to negative influence of world recession.

Figure 2.Tourism employment in Macedonia, 1997-2012 (%)

The average percentage of tourism employment in total labor during the sample period 1996-2012 is 1.9%. Although this result might seem moderate, it should be pointed out that the tourism in Macedonia has a higher influence on the entire employment than the calculated data, since it does not address the employees in tourist agencies, tour-operators and other tourism mediators. So, it is expected that the direct tourism contribution to employment is much higher. When being compared to the data for 2011 for the World, when direct contribution of tourism was 3.3%, one may conclude very modest national contribution. Yet, the impression is opposite when compared with Other Europe where tourism direct contribution to employment in 2011 was 1.8% (WTTC, 2012, 11). This confirms the fact that tourism development in Macedonia can create new job positions, and consequently contribute to curbing the unemployment rate.

Tourism effects on balance of payments

The final step regarding the attempts for quantifying tourism impacts on the economic activity in Macedonia refers to the balance of payments. Table 3presents the balance of payments for services, or more precicely for travel[2]. It is noticeable

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2   According to official statistics of the National Bank of the Republic of Macedonia, the data refeering tourism are located in Travel segment within Balance of payments – services.

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that in the beginning of the sample period, tourism net inflows 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. In 2001, Macedonia was faced with a war conflict which provoked negative influence in 2002 as well. Furthermore, the next period is characterized with permanent increase of net tourism inflows.

Table 3. Balance of payments - Services (Travel) for Macedonia (in mil. EUR), 1997-2012

Year	Inflows	Outflows	Net
1997	13.5	24.1	-10.6
1998	15.0	28.4	-13.4
1999	37.4	30.2	7.2
2000	41.2	37.2	4.0
2001	29.0	43.0	-14.0
2002	41.4	47.3	-5.8
2003	49.9	42.3	7.6
2004	57.9	43.9	14.0
2005	72.3	49.9	22.4
2006	102.4	56.2	46.3
2007	134.9	73.9	61.0
2008	155.2	92.4	62.7
2009	120.4	56.9	84.0
2010	149.6	69.9	79.7
2011	171.2	80.1	91.2
2012	182.7	86.6	96.1

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 tourism outflows. So,if we compare the starting years with the last ones, one may see taht the outflows increased approximately 4 times. In this respect, Table 2 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, tourism inflows in Macedonia gain in importance, when they finally exceeded EUR 100 million.

Figure 3. Netflows in tourism in Macedonia, 1997-2012 (mill EUR)
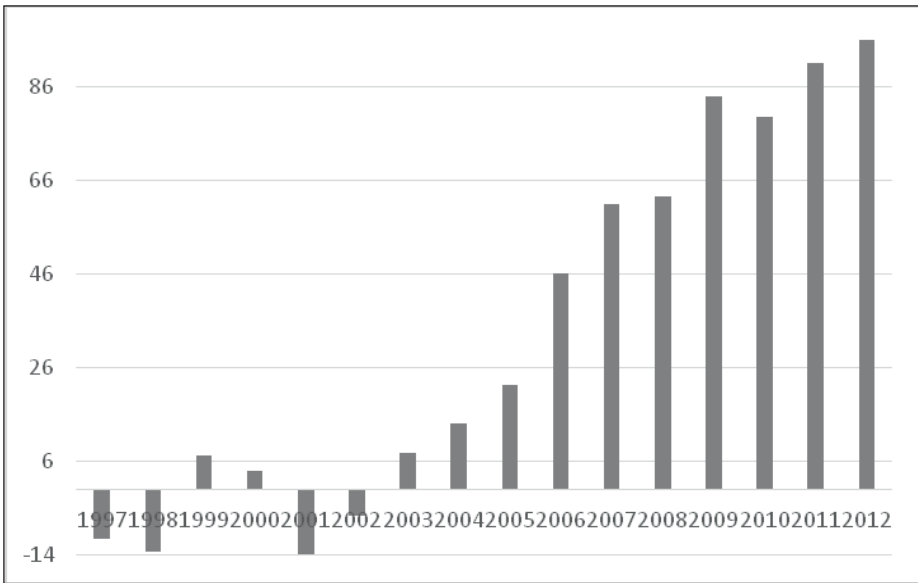
To the same conclusions, but based on visual point of view, leads us Figure 3. Yet, it is obvious that in 2009, the inflows are reduced for 30% and the outflows even for 40%, meaning that the foreign and domestic tourists were affected by the crisis. This might lead us to false conclusion about increasing the net tourism flows in Macedonia in times of world recession. On the other hand, it is worth mentioning that the average annual net tourism inflows are EUR 33.3million, meaning that tourism in Macedonia finally started to note first significant results.

FUTURE CHALLENGES

In order to reduce the risks of decisions for future, forecasting of tourism demand is helpful as a foundation on which all tourism-related business decisions ultimately rest. Moreover, the forecasts are applied to predict the economic, social, cultural and environmental consequences of tourists and travelers (Frechtling, 2001). Yet, there are varieties of changes in the surrounding whichoften cannot be envisaged, like financial crises, terrorist attacks, war conflicts and crisis, epidemics etc. Even when an ideal forecasting model is identified, it can only serve as approximation for complex tourists' behavior, for it is possible that tourists'

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decisions change reflecting the changes in preferences, motivation or economic shocks (Hall, 2005).

The updated analyses of the world leading tourism experts confirm confidence weakening, but still with positive patterns. So, when addressing the challenges in a long-term perspective, a positive upward line is forecasted. Namely, based on linear trend, it is forecasted that the world's international tourist arrivals from 1 bn. in 2012, will reach to 1.4 bn tourists. Moreover, it is expected that1.8 bntourists will be involved in travel and tourism activities around the world by 2030. Furthermore, the projection for the average annual growth for the period 2010-2020 for international tourism in the world is foreseen to be 3.8% (UNWTO, 2012, 15). In these frames, Europe is forecasted to mark a sharp decline and to have only 1.8% annual growth rate in 2030.

However, most worryingly, the last world tourism leading panel didnot propose anything to address the main short-term risk, pointing to the danger of a sovereign funding crunch in the early 2012. The potential crisis may spill over to the real economy as banks tighten credit standards and business confidence weakens. This is particularly referred to the Eurozone economy, which has potentially gone back into recession again and had a stagnation in 2012. This kind of economic backdrop is incredibly challenging environment for tourism.

Despite the above noted negative effects, the forecasts referring tourism development in Macedonia are much more optimistic than the actual outcomes. Namely, the estimated results are encouraging and by 2021 it is expected that the direct contribution of tourism to the GDP will reach to 1.6 % thus bringing revenue of EUR 170 mil. according to the constant 2011 prices; the total contribution of tourism to GDP will rise to 6.0%; the visitor exports are expected to generate EUR 76 mil. (5.1% of total exports); and the investment in tourism is projected to reach the level of EUR 76 mil. representing 2.8% of total investment. Additionally, it is expected that the number of employees that indirectly support the tourism industry in Macedonia will have an upward trend and will reach 35000 jobs in 2021, representing 5.4% of the total workforce (WTTC, 2011).

Figure 4. Forecast of international tourism demand in Macedonia by 2030
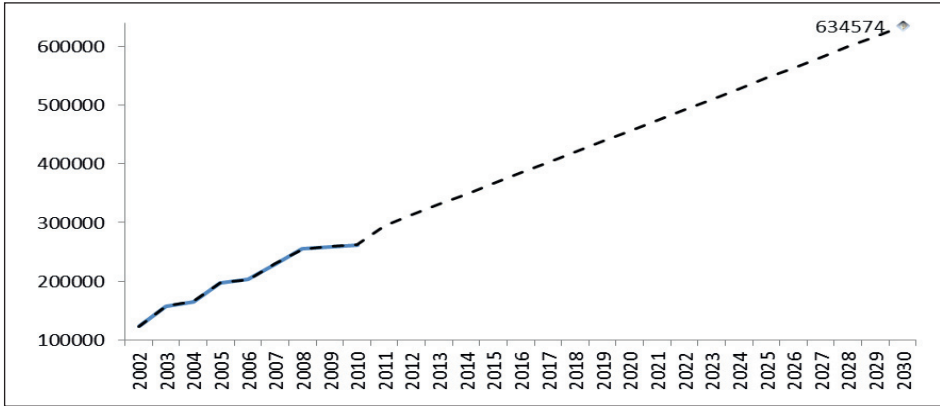
Speaking about the international tourist arrivals, the upward trend is expected to continue in Macedonia (Petrevska, 2012b). When applying the same forecasting method as in the long-term projection for the world's international tourist arrivals by 2030, we can expect increasing of almost 2.5 times. In this line, we undertake the modeling with the time series with an upward trend in the period 2002-2010. When introducing the equation (1) for the projected linear trend, the number of foreign tourists in Macedonia in 2030 is expected to be 634574. Figure 4 gives an overview of the forecasted values for international tourist arrivals in Macedonia for the following two decades.

$$y = 17867x + 116431 \tag{1}$$

This model may be used for forecasting tourism demand mainly because of its simplicity in the implementation. At the same time, its advantage lies in the ability to follow the linear trend of the original time series as well as to be used in long-run estimations. Still, the biggest disadvantage is the inappropriateness in forecasting time series with seasonality components, as tourism is. Likewise, it should be pointed out that the anticipated values for Macedonia must be taken in consideration with a large doze of precaution, since they do not indicate the reasons which affect the forecasted results (Petrevska, 2012b). Accordingly, this research underlines the fragile nature of tourism industry and its affection from strong negative events as the world financial crisis.

CONCLUSION

This study emphasized that tourism contributes toMacedonian economy and might be classified as important industry principally when compared to the ave-

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rage figures of tourism trends in Other Europe region. However, due to variety of obstacles when ensuring comprehensive and reliable statistical data for tourism industry, the objective assessment of tourism influence on economic development in Macedonia is very difficult, almost infeasible.

Additionally, the results point out that Macedonia, as most tourism-oriented countries, was not immune to negative shocks and it is normally to continue to face numerous and unexpected challenges in future. The undertaken in-depth analyses confirmed that tourism in Macedonia was infectedby the world financial crisis. More specifically, the negative impacts were detected in the GDP created in tourism, as well as within the employees from tourism industry, thus producing series of damaging effects on the overall economy. In this line, the domestic tourists, as well as the foreign ones, were faced with rapid decrease in consumer landing which consequently led to reducing the tourist inflows and outflows for 30% and 40% respectfully. Although some governments decreased taxes referring tourism and hospitality services in the line of assisting their tourism industries easier and quicker to recover, that was not the case with Macedonia.

Despite the fact that there are varieties of changes in the surrounding which often cannot be envisaged, like financial crises, terrorist attacks, war conflicts and crisis, epidemics etc., the paper argues the justification of applying forecasting methods. The main aim is to be prepared in due time to cope with some future challenges. Finally, regardless the discouraging shocks of the last financial recession and the declined projections for the current year, the forecasts predict that the upward trend in tourism development in Macedonia will continue. Thus, the paper urges the need for identifying effective framework for mitigating the impacts of the past crisis, but also for reducing the chances of having a similar one in the future.

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