

EMPIRICAL INVESTIGATION OF CRISIS IMPACTS ON TOURISM DEVELOPMENT

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Abstract: In the first decade of the 21st century, tourism was faced with many different events, some having negative effects on world tourism industry. The global economic crisis was the one provoking profound damages. This research makes an attempt to describe and clarify the effects of the world economic crisis on tourism development by elaborating the case of Macedonia. Moreover, it argues the consequences, in the first line the negative ones, to the overall economic growth. For that purpose, this empirical investigation generally covers comparative analyses based on stylized facts obtained from desk-research and available sources of secondary data. In this line, some commonly applied economic parameters are posed, thus identifying tourism industry in Macedonia during a sample 2002-2012. Since the quantitative analyses do not always disentangle key facts necessary for pointing out concluding remarks regarding particular issues, analyses based on qualitative approach are additionally introduced. The research findings point to fact that Macedonia was not immune to the negative shocks provoked by the world economic crisis that interrupted the upward tourism trend. Furthermore, 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: Crisis, Tourism; Economic development; Macedonia.

INTRODUCTION

Tourism was faced with many different events in the first decade of the 21st century. Some of them were driven by emerging markets and rapid advances in technology, particularly in digital and social media, but also by the economic environment. From the variety of new challenges, some had a profound effect on the world tourism industry, like the devastating terrorist attack (9/11) in 2001; the combined effect of three significant factors in 2003: the Iraq crisis, the SARS outbreak and a persistently weak global economy; and the global economic recession that started in the second half of 2008.

Despite the point that tourism in the world has been experiencing continuing growth and initiated positive economic development in majority of tourism-oriented countries, the progressive trend was interrupted by various negative events. Among all, the global financial crisis starting in 2008 and erupting in 2009 had the most negative impacts thus infecting all travel and tourism-related areas. Additionally, the historic shock inflicted by the global financial crisis, has led in many countries in the world to unsustainably high levels of public debt, distressed private-sector balance sheets and a surge in unemployment. With regards to Macedonia, after a moderate output decline of 0.9% in 2009, the recovery in 2010 was weaker than expected, with the gross domestic product (GDP) increasing by only 0.7% instead of the expected 1.3%. Inflation accelerated markedly during the year, accelerating from close to zero percent at the beginning of the year to 3.7% in December, leading to an annual average inflation rate of 1.6% in 2010, compared to -0.8% in 2011.

Overall, the average annual inflation accelerated, from -0.8% in 2009 to 1.6% in 2010. (European Commission, 2011).

The paper makes an attempt to describe and clarify the effects of the world economic crisis on tourism development by elaborating the case of Macedonia. Moreover, it argues the consequences, in the first line the negative ones, to the overall economic growth. Additionally, the contribution of the paper lies in fact that enlarges poorly developed academic research in Macedonia, with certain exceptions (Petrevska, 2012a and 2012b).

RESEARCH FRAME

The paper poses some commonly applied economic parameters, which identify tourism industry in Macedonia, like international tourist arrivals, GDP, employees in tourism as well as fiscal policy. The outcomes are based on various analyses made upon available secondary data collected through desk-research on descriptive statistics, thus covering a data set from 2002-2012. Since the quantitative analyses do not always disentangle key facts necessary for pointing out concluding remarks regarding particular issues, analyses based on qualitative approach are additionally introduced.

During the research, many obstacles occurred regarding official statistical data representing tourism industry in Macedonia. Namely, the data refer only to hotels and restaurants in Macedonia, thus being a crucial limiting factor for more in-depth analysis. More precisely, in Macedonia, it is very often case that the term tourism is equal to the term hotel industry (Petrevska, 2010). This results into “neglecting various, even more significant effects compared to those produced within the hotel industry” (Sinclair and Stabler, 1997: 36).

ANALYSIS, RESULTS AND DISCUSSION

The study starts with assessment of international tourism demand by making comparison between world and national level. In this respect, Figure 1 presents international tourist arrivals in Macedonia and in the World. It is noticeable that both time series have similar trend line i.e. have continuous upward trend, with certain exceptions. This exception is seen in the World’s trend in 2003 due to negative impacts of Iraq crisis and SARS outbreak. These events had negative effects on Macedonia as well, but they were postponed for the year to follow, so the number of foreign tourists stagnated in 2004.

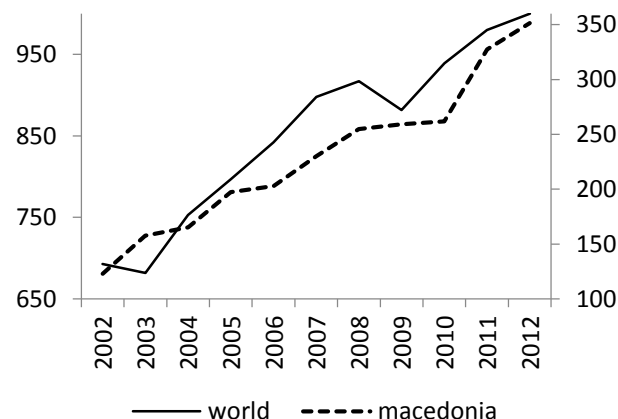


Figure 1. International tourist arrivals: World vs. Macedonia, 2002-2012

Source: Authors' own calculations based on: State Statistical Office (various years) and UNWTO (2012: 5).

Yet, the general conclusion that the financial crisis had superior negative impacts over the world economy starting from 2008, cannot be shared with Macedonia as well. Namely, as Figure 1 describes, during 2008-2012, Macedonia was not faced with intensive negative shocks in terms of international tourist arrivals. Moreover, an upward line, but in a slight manner was noted up to 2012. In order to gain more sustainable facts for this first impression regarding the absence of negative influence over the Macedonian tourism, we perform additional analysis.

When one wants to analyse the economic importance of tourism, than firstly addresses the issue of tourism contribution to the overall economic activity. Therefore, we proceed by analyzing two important economic indicators, the GDP and the employment, both addressed in tourism.

Table 1. GDP and employees in tourism in Macedonia, 2002-2012

Year	GDP in tourism	Annual growth (%)	GDP total	% of total GDP
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 2002-2012	4372	3.4	297374	1.4

Source: Authors' own calculations based on: State Statistical Office. (various years) and National Bank of the Republic of Macedonia. (various years).

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.

Additionally, from 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 2 shows the annual growth of tourism GDP in Macedonia, which visually supports the statistical glance presented in Table 1. During the sample period tourism, in average, generated only 1.35% of total GDP in Macedonia. Compared to the world average of 2.8% in 2011, and the average for Other Europe¹ of 2.4% (WTTC, 2012: 11), lead us to conclusion of very modest tourism contribution.

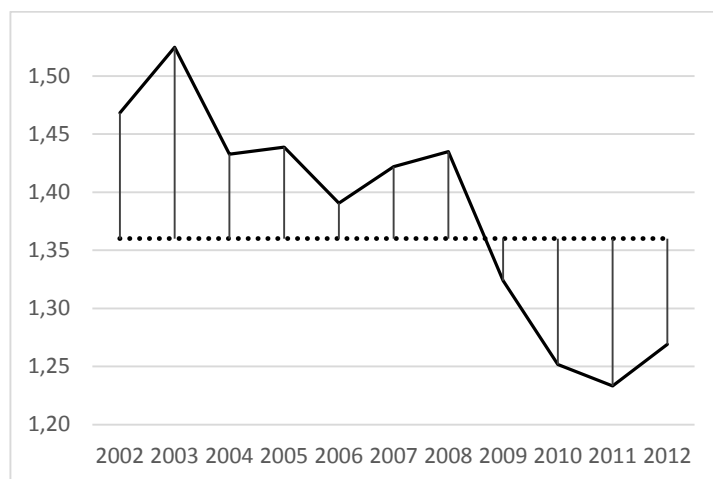


Figure 2. Tourism GDP in Macedonia, 2002-2012

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. So, the period 2009-2012 is a period marking values under the average (Figure 2).

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

¹ Macedonia is listed in Other Europe, since Europe as a region is divided in two sub-regions (WTTC, 2012, 17):

1. European Union (Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malta, Netherlands, 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).

Governments of different countries took particularly active role in supporting tourism impacts for achieving overall economic development in times of world crisis. 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 Table 2 present some negative examples in terms of tax increasing. Namely, due to shocks of the crisis, the governments of Estonia, Lithuania, Latvia and Hungary decided to increase their taxes in order to help the national economies in their recovery.

In the case of Macedonia, the government in 2011 decreased the VAT rate from 18% to 5%. Yet, 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 and the Department for Tourism, provided financial support for incoming tourist and travel agencies. Although being novelty to Macedonia, these kind of measures and activities have long tradition in many countries in line of supporting tourism and economic development.

Table 3. Employees in tourism in Macedonia, 2002-2012

Year	Employees in tourism	Total Employees	Annual growth of employees in tourism (%)	% of total employment
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.*

Furthermore, we proceed with the attempt to assess whether the world economic crisis had impacts on employment in tourism. Table 3 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 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. Figure 3 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 decreases, due to negative influence of world recession.

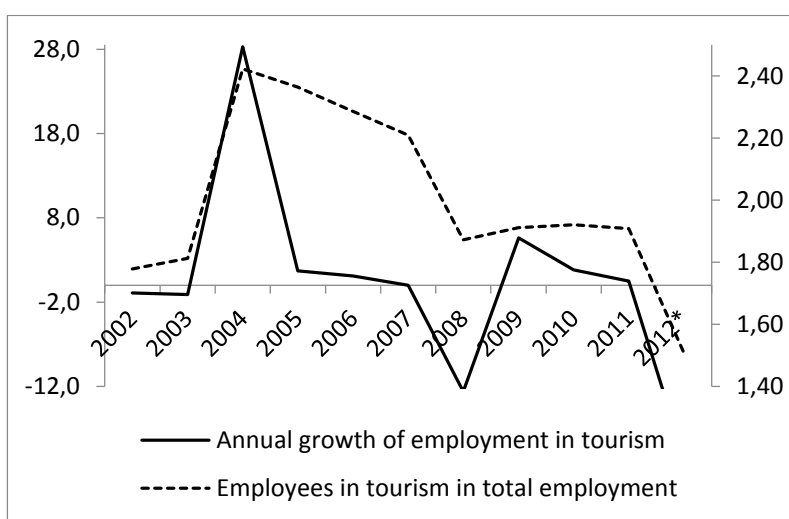


Figure 3. Tourism employment in Macedonia, 2002-2012 (%)

The average percentage of tourism employment in total labor during the sample period 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. Therefore, 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.

CONCLUSIONS

This study emphasized that tourism contributes to Macedonian economy and might be classified as important industry principally when compared to average figures of tourism trends in CEE. 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 infected by the world financial crisis. Negative impacts were detected in GDP created in tourism, as well as within the employees from tourism industry, thus producing series of damaging effects on overall economy. 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. Thus, the paper urges the need for identifying effective framework for mitigating impacts of the past crisis, but also for reducing chances of having a similar one in future.

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