

SOME ASPECTS OF FINANCIAL CRISIS INFLUENCE ON TOURISM INDUSTRY IN WEST BALKAN COUNTRIES *

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Abstract. *Over the past six decades, tourism has experienced continued growth and diversification to become one of the largest and fastest growing economic sectors in the world. Over time, more and more destinations have opened up and invested in tourism development, turning modern tourism into a key driver for socioeconomic progress. Tourism has become one of the major international trade categories. Today, the export income generated by international tourism ranks fourth after fuels, chemicals and automotive products. For many developing countries, it is one of the main income sources and the number one export category, creating much needed employment and opportunities for development. Such results are similar even in West Balkan countries. During current financial crisis, the question that arises is how will the financial crisis reflect on the demand for tourism industry services. In this paper, we will examine the influence of cross-border banking finance restrictions on tourism consumption.*

Key Words: *Tourism industry achievement, financial crisis, credit restrictions, demand for tourism services.*

INTRODUCTION

For West Balkan countries, the tourism industry is one of the main income sources and the number one export category, especially in the Croatia case, creating much needed employment and opportunities for economic development. Such importance of tourism industry for West Balkan countries can be justified by the forecasts of World Tourism Organization. Namely, according to World Tourism Organization's long-term forecast and assessment of the development of tourism up to the first 20 years of the new millennium, known as Tourism 2020 Vision, the international arrivals are expected to reach nearly 1.6

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billion by the year 2020. Of these worldwide arrivals in 2020, 1.2 billion will be intraregional and 378 million will be long-haul travellers. Also, the total tourist arrivals by region shows that by 2020 the top three receiving regions will be Europe (717 million tourists), East Asia and the Pacific (397 million) and Americas (282 million), followed by Africa, the Middle East and South Asia.

Whether such forecast are possible and what the challenges for West Balkan countries in tourism industry are, we could conclude if we knew a little more about the scale of economic crisis in the World, crisis influence on developing countries such as West Balkan countries, and learnt something about the previous experience of Asian financial crisis and tourism sector industry.

DIMENSION OF ECONOMIC CRISIS IN THE WORLD

In the beginning of year 2009, a number of factors were impacting business around the world:

Financing costs have increased as banks tighten their lending standards. Slowing economic growth: the IMF expects the world economy to grow on average by only 0.5% in 2009, revising its forecast down significantly. Developed economies are expected to contract to an average of -2% in 2009 - the first such fall since the 1940s. Growth in emerging economies will slow to an average of 3.3% in 2009. Rising unemployment and falling consumer confidence are impacting revenue growth. Falling profits: analysts are lowering corporate forecasts as the recession bites. Government intervention and potential regulation is changing the operation of the market.

At the same time, market volatility has increased significantly, making planning difficult: risk spreads on corporate bonds have soared to record levels and ratings agencies have downgraded many corporations greatly increasing financing costs for firms seeking credit. Many currencies have suffered volatility as global investors continue to assess strength of economies thus undermining financial arbitrage strategies. Commodities and energy: the slowdown in global demand has led to a fall in commodity prices to six-year lows. Oil has fallen over US\$100 a barrel based on the gloomy economic outlook and falling demand.

As a consequence, we are seeing an increase in stressed companies across the world. A record number of companies are expected to go bankrupt in 2009 with 200,000 insolvencies predicted in Europe alone - according to the world's largest credit insurer Euler Hermes. In the US there is likely to be an explosion of failed businesses as an estimated 62,000 firms go under this year, compared with 42,000 in 2008. More companies are likely to breach their loan covenants in 2009 as the slowdown intensifies, prompting a surge in company restructuring and failures.

From a macroeconomic perspective, our point of view is that the current economic situation exhibits many of the classic characteristics of monetary and financial crises that have occurred in capitalist economies since at least the 17th century. The characteristics of a classical financial crisis include:

- the crisis occurs after a period of sustained real sector growth, particularly in capital formation;
- there is a substantial speculative element;

- the first stage of the crisis is caused by an external shock or change in policy;
- the fall in asset prices causes a sharp deterioration in balance sheet positions generating a general loss of confidence;
- these factors create liquidity and solvency problems for banks and other financial institutions;
- there may be widespread failure of financial institutions and a flight of capital offshore;
- adverse financial effects result in a reduction of economic activity leading to either recession or in a worst-case scenario, a depression; and
- recovery occurs through elimination of bad debt, strengthening of the economy's financial position and restoration of confidence.

CRISIS INFLUENCE ON DEVELOPING COUNTRIES

The global financial crisis is bound to have a major impact on developing countries, with the International Monetary Fund having downgraded its growth forecasts for 2009 by nearly two percentage points in recent months for both developed and developing countries. World growth is expected to be only 2.7% in 2009 (compared to 5% in 2007) and world trade is likely to stagnate. The World Bank is forecasting a drop in world trade in 2009.

There will be significant effects on international financial flows, with private financial flows to developing countries expected to fall rapidly from record heights in 2007. One latest research¹, based on current updates and forecasts as well as on evidence on what happened in previous slowdowns and in the absence of policy responses, suggests that net financial flows to developing countries may fall by as much as \$300 billion over two years, equivalent to a 25% drop. The World Bank will be forecasting a drop of around \$4-500 billion in two years. Some countries, including successful African countries, are more vulnerable than others.²

The impact of the crisis on developing countries will affect different types of international resource flows: private capital flows such as Foreign Direct Investment (FDI), portfolio flows and international lending; official flows such as development finance institutions; and capital and current transfers such as official development assistance and remittances.

The World Association of Investment Promotion Agencies foresees a 15% drop in FDI 2009. FDI to Turkey has already fallen 40% over the last year and FDI to India dropped by 40% in the first six months of 2008. FDI to China was \$6.6 billion in September 2008, 20% down from the monthly average in year 2008 so far, and mining investments in South Africa and Zambia have been put on hold.³

The crisis has led to a drop in bond and equity issuances and the sell-off of risky assets in developing countries. The average volume of bond issuances by developing countries was only \$6 billion between July 2007 and March 2008, down from \$15 billion over

¹ Cali, M., Massa I., and Willem te Velde, D., 2008. „The Global Financial Crisis: financial flows to developing countries set to fall by one quarter" Overseas Development Institute. p.5.

² Ibidem p.7.

³ <http://www.waipa.org/> on 20. apr. 09.

the same period in 2006. Between January and March 2008, equity issuance by developing countries stood at \$5 billion, its lowest level in five years. As a result, World Bank research suggests some 91 International Public Offerings have been withdrawn or postponed in 2008. There is already financial contagion and stock markets have fallen around the world, with the largest losses since the 1930s. This has triggered etrenchment by investors, with reports that they have withdrawn \$45 billion from Korea, \$6.1 billion from South Africa, and \$16 billion from India this year. Turnover on the nascent stock market in Uganda has fallen 60% this year.⁴

CRISIS INFLUENCE ON TOURISM INDUSTRY

Unfortunately there are no precise forecasts and data about crisis influence on tourism industry. For this purpose we will use an indirect method to evaluate crisis influence. Namely, we will start with data about market capitalization by sector all over the world. According to that data, it is obvious that whilst the overall impact on market capitalization has been extremely negative in the past 12 months, there is significant variation in performance by sector. Taking the aggregate market capitalization of the top 30 companies, per sector, in particular economies reveals this. Aggregate market capitalization change varies from an astonishing fall of 65% in the banking sector to virtually no fall at all in the biotechnology sector (table number 1).

Table 1. Impact by sector — change in aggregate market capitalization of top 30 companies in Europe, Middle East, India and Africa.

Percentage fall in value	Sector
0<10	Biotechnology, pharmaceuticals
10<20	
20<30	Consumer products and services
30<40	Power & utilities, media & entertainment, oil & gas
40<50	Power & utilities, media & entertainment, oil & gas
50 ⁺	Real estate, metal & mining, banking

Source: Ernst & Young "Opportunities in adversity-Responding to the crisis", page 2. Ernst & Young 2009.

According to the results from table 1, we can conclude that consumer services such as tourism industry products can expect the reduction between 20 and 30 percent in income volume level.

Similar results are obtained by newspapers in Serbia, Macedonia and Croatia where 20 percent of people who used tourism sector services last year this year will stay at home and in such a way reduce their consumption. This information is essential for the calculation of possible effects of crisis influence to tourism sector industry. Average reduction in income level will be between 20 and 30 percent. This reduction is an important signal for

⁴ Cali, M., Massa I., and Willem te Velde, D., 2008. ag. cit. p. 10.

policy makers and tourism industry managers for appropriate action in the incoming tourist season and the following years, especially if we take into account the previous conclusion on the dimension of crisis in developing countries. Because of that, it is interesting to provide literature review about crisis consequences on tourism industry.

LITERATURE REVIEW ABOUT CRISIS CONSEQUENCES ON TOURISM INDUSTRY

From previous crisis – Asian monetary crisis, initial analysis of the crisis influence to tourism industry was often alarmist in nature and focused on conference papers, the financial press, and other media outlets.⁵ Within a short period, a number of books had appeared on the subject and the academic press was beginning to address the issue. The web also emerged as a useful source of information and one site contains an extensive list of over 1200 on-line references to the crisis.⁶ References on this site include academic papers, newspaper reports, links and government web sites. Unfortunately, the tourism literature has failed to comment on the crisis except for a relatively small number of journal articles and conference papers. This is surprising given the impact of the crisis on the tourism industry and the response by academics in other fields, particularly economics. As a consequence, the causes and implications of the crisis for Asia as a whole and for individual countries have been widely discussed from an economic perspective but the impacts on tourism are relatively under-researched. Perhaps this is a reflection of a wider lack of detailed economic analysis in the tourism literature and is an issue that warrants more attention by journal editors in the future, particularly through special issues.

During Asian financial crisis, tourism researchers have generally ignored the crisis while studies originating from other disciplines have largely overlooked the impacts on tourism. However, a small body of research is beginning to emerge in the tourism literature. Some researcher assessed the impact of the crisis on the hospitality industry⁷ while others incorporated an analysis of the crisis in a wider study of the problems affecting tourism in Asia⁸. Both studies found that the crisis had a negative impact on the short-term viability of tourism in East Asia. Also, there is evidence that studies have been undertaken on the impact of the crisis on bilateral tourism involving Australia.⁹ Such studies found that the crisis had an adverse impact on inbound Indonesian and Korean tourism in Australia. Outbound tourism from Australia to Indonesia increased because of the fall in value of the Indonesian rupiah while outbound Australian tourism to Korea declined because of the cancellation of flights to Korea by Qantas and Ansett International Airlines.

⁵ Prideaux, B. and Witt, S.F. 1999. "Has Australia's tourism industry escaped the impact of the Asian financial crisis?" In V.S.C. Heung, J. Ap and K.K.F. Wong (eds) „Tourism 2000 Asia Pacific's Role in the New Millennium". The Hong Kong Polytechnic University, Hong Kong. (pp. 384–394)

⁶ Roubini, N. (1999) „What caused Asia's economic currency crisis and its global contagion?" <http://www.stern.nyu.edu/~nroubini/asia/AsiaHomepage.htm> on 17 August 1999.

⁷ Pine, R., Chan, A. and Leung, P. 1998. „The current and future impact of Asia's economic downturn on the region's hospitality industry". *International Journal of Contemporary Hospitality Management* 10 (7), pp.252–256.

⁸ Leiper, N. and Hing, N. 1998. „Trends in Asia-Pacific tourism in 1997–98: From optimism to uncertainty". *International Journal of Contemporary Hospitality Management* 10 (7), 245–251.

⁹ Prideaux, B. and Kim, S.M. 1999 „Bilateral tourism imbalance – Is there a cause for concern? The case of Australia and Korea". *Tourism Management* 20 (4), 523–532.

We can also find studies that identified the impact of the euro and the European Union Travel Directive that made suppliers of the local product responsible for lapses in the product promoted by the seller in the country of sale as factors that magnified the problems generated by the crisis.¹⁰ Assessing the response of the Australian government to the crisis, Prideaux and Witt in aforementioned research found that the government had placed a low priority on tourism and had introduced a range of taxes and charges that were unfavorable to encouraging inbound tourism.

Generally, we have a very similar situation now. Macroeconomics researchers are trying to provide information about the depth of crisis, but tourism researchers in developed countries are not involved enough in this process, even though the crisis comes from their countries.

POSSIBLE RESPONSES OF WEST BALKAN TOURISM INDUSTRY TO CRISIS

Some aspects of the response of the tourism industry to the crisis are the reactions of governments to the needs of the tourism industry, the effect of targeted promotional campaigns and the response of the private sector. This was the experience of Asian financial crisis. Namely, National Tourism Offices (NTOs) throughout the region suffered as the spending power of promotional funds declined as currency values fell. Indonesia suffered the greatest fall in currency values and the need to conserve foreign exchange placed even greater pressure on NTO promotion plans. To conserve foreign currency, Indonesia closed its tourism promotion authority in 1998 assigning the task to the private sector. In 1999 Indonesia announced a further austerity programme by withdrawing from PATA (Pacific Asia Travel Association) and the International Congress and Convention Association (ICCA) to save US\$35,000.¹¹

Based on the observations of the previous responses to the crisis by the private and public sectors as well as individuals, it is apparent that short-run concerns assumed a higher level of significance than long-run considerations. Individual consumer responses are the most apparent and can be measured by falls in tourism activity, both domestically and internationally. Uncertainty about job security and concerns about the ability to meet future financial obligations may be the primary considerations for reduced tourism activity. Governments often adversely impact on tourism by withdrawing funding during austerity campaigns and succumbing to the temptation to increase taxation. Analysis of the responses to the financial crisis by the private and public sectors indicates that several strategies are essential for the maintenance of inbound tourism. Foremost is the assurance of political stability. Namely, Asian experience showed us that in both Thailand and Korea new governments were installed with a relatively smooth changeover from the previous administration. In Indonesia, the reverse occurred and the onset of rioting associated with the fall of the Suharto government caused arrivals to decline in 1998.

A second successful strategy is the rapid reassessment of promotional priorities designed to boost inbound tourism from countries not affected by the crisis. The success of

¹⁰ Muqbil, I. 1998. „The fall-out from the Asian economic crisis“. Travel and Tourism Analysis No. 6. London: Travel and Tourism Intelligence.

¹¹ Clarke, L. 1999b. DGT Plans PATA, ICCA Pull-out. Transasia, 2–8 July, 3.

this strategy was apparent in Australia, Korea and Thailand. Within the framework of this strategy, there is a need for governments to maintain if not boost tourism-related expenditure. There is also a corresponding need for the private sector to increase its level of promotion both through collaboration in national campaigns and through individual promotion to foreign distributors.

Countries experiencing some form of crisis, where the crisis does not affect the safety and security of overseas tourists, need to maintain a favorable international profile that addresses safety and security concerns. This can be achieved through normal marketing channels such as tourism exchanges and familiarization visits as well as through the medium of the Internet. Developing a strategy for countries experiencing reduced competitiveness as a consequence of unfavorable currency exchange rates is more difficult. Unable to compete on price, countries facing this problem may need to accept a fall in arrivals but attempt to offset reduced numbers by increasing yield. This may include developing new products for existing markets and developing new markets. Australia, for example, offset a decline in arrivals from low-yield Asian markets with increased arrivals from high-yield European and North American markets. While this policy was successful when Australia's dollar was low compared to the US dollar and European currencies, greater difficulties may be encountered in the future if the Australian dollar appreciates.

CONCLUSION

According to all these experiences, we can conclude that West Balkan tourism industry faces big challenges. Namely, with the reduction of capital inflows in the West Balkan countries, because of crisis in countries of foreign capital origin, exchange rate regimes became more vulnerable. Until now Serbia, Croatia and Macedonia protected their exchange rates with foreign currency reserve, but these reserves are limited and consequences will appear in the depreciation of currencies. That can be a strong attack on tourism industry in Macedonia and Serbia especially, because they out bound tourism industry.

For Croatian tourism industry challenge is even bigger because of Croatian inbound tourism. Namely, main guests on Adriatic coast are tourists from Central European countries, which suffer from reduction in private consumption. Croatian government has to find a way to promote their tourism industry on some other markets or stimulate Central European citizens to visit Croatian Adriatic coast.

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NEKI ASPEKTI UTICAJA FINANSIJSKE KRIZE NA INDUSTRIJU TURIZMA U ZEMLJAMA ZAPADNOG BALKANA

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Tokom proteklih šest decenija, turizam se suočio sa kontinuiranim rastom i diversifikacijom, da bi postao jedan od najvećih ekonomskih sektora sa najbržim rastom u svetu. Tokom vremena, sve veći broj destinacija se otvorilo i ulagalo u razvoj turizma, pretvarajući savremeni turizam u ključni pokretač socio-ekonomskog razvoja. Turizam je postao jedna od glavnih kategorija međunarodne trgovine. Danas, se prihod od eksporta koji generiše međunarodni turizam nalazi na četvrtom mestu posle goriva, hemijskih proizvoda i motornih vozila. Za mnoge razvijene zemlje, to je glavni izvor prihoda i kategorija izvoza broj jedan, što stvara toliko potrebna radna mesta i prilike za razvoj. Takvi rezultati su slični čak i u zemljama Zapadnog Balakana. Tokom aktuelne finansijske krize, pitanje koje se nameće kako će se finansijska kriza odraziti na potražnju za uslugama industrije turizma. U ovom članku, razmotrićemo uticaj prekograničnih restrikcija bankarskih finansija na potrošnju u turizmu.

Ključne reči: *dostignuća industrije turizma, finansijska kriza, restrikcije kredita, potražnja za turističkim uslugama*