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POTENTIAL TOURISM MARKET IN TRANSITION COUNTRIES: A REGIONAL ANALYSIS

Tourism is a very important sector for the economic growth and the employment. It is also important to stress that this relationships have not been studied enough, this is even more important if we take into account that we consider the economic impact, not the major determinants of tourist demand, which is the most common feature of tourism studies. In this paper we analyse the economic impact of tourism in the economy of 50 regions of transition countries.

The political and economic changes in these countries have brought the attention in this area, making it a desirable destination for an important part of tourists, both in Europe and other parts of the world. Nowadays tourist are not seeking just sun and beaches as it happened in the past, other factors such as culture, history, archaeology or natural parks can explain some of the changes in the movement of tourists around the world.

We study the difference among the countries and regions, considering the importance of resident and non-residents tourism in each of them. Through this analysis we would like to point those countries, and regions, which are already in a good position, such as the Czech Republic and Hungary, comparing them with those others which offer an important potential to develop this sector.

1. Introduction

In this paper we present an analysis of the economic impact of tourism in the economy of Central and Eastern European Countries at regional level. We will focus in those countries acceding to the European Union on May 2004, plus Romania and Bulgaria.

We will devote our attention to study the differences among nations or regions, considering the importance of resident and non-resident tourism at both levels. Through this analysis we would like to point those countries, and regions, which are already in a good position, such as the Czech Republic or Hungary, comparing them with those other which offer an important potential to develop this sector.

Our main interest is not only to compare the different levels of tourism activities, but to measure its impact on the economic development. Econometric studies of outstanding tourism regions, such as those found in countries like Spain, France and Italy, show very important

economic impacts, direct and indirect, not only in hotels and restaurants, but also in many other services, as well as other sectors like building, and even on the industry. We analyse the impact that a similar development in tourism should have on economic growth and development of Central and Eastern Europe.

Since the start of transition many essential changes have occurred in Central and Eastern Europe. There has been a deep transformation all across the social, political and economic spheres, so this phenomenon should not be reduced strictly to its economic side, and we have to bear this in mind whenever we want to analyse this complex event. In this paper we will focus on the economic impact of tourism on the economy, mainly accounting for its impact on the labour market.

One of the basic axioms of the former system was the maintenance of full employment and security in the employment. With the end of central planning all these countries experienced a huge increase in their unemployment rates, even surpassing many of the western countries. At the present moment it has reached the point in which we could affirm that this is one of the key problems experiencing transition countries.

For this reason we want to show how tourism can play a role in the reduction of unemployment in the transition countries through its impact, both at the national and regional level, on the employment in the service sector.

2. Employment in transition countries

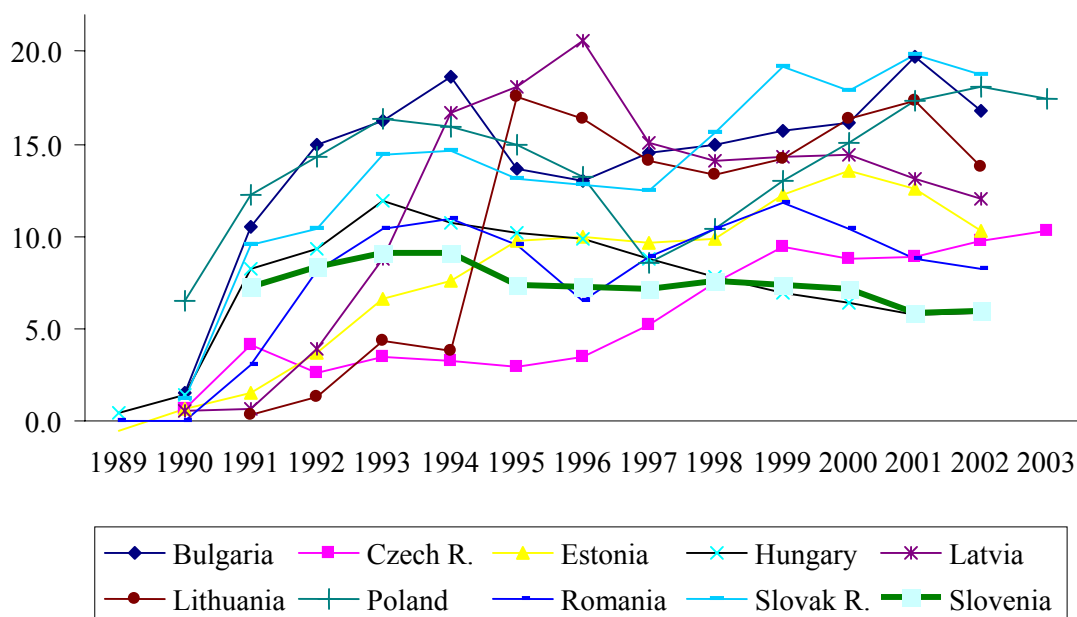
The labour market situation in the former socialist countries was characterised at the onset of transition by full employment, no open unemployment (with the exception of the former Yugoslavia) and an excess of labour supply over demand. Poor wages and limited income differentiation did not motivate workers to improve their performance. Another important feature was the high share of industry in total employment, while the private sector was almost non-existent. The transition implied a deep process of creative destruction across the economy, some sectors expanded while others contracted sharply. At the same time reallocation also helped to transfer the labour input from the declining activities to those which were under expansion.

The increase in unemployment experienced during transition has turned out to be the main problem politicians have to deal with, as it can be considered one of the major sources of misery in our society (Dragicevic and Obadic, 2001)¹.

Next graph makes visible the extent of the problem of unemployment. The average of unemployment rate for those countries where data are available in 1990 was 1.57%. In 2002 the average for CEEB was 11.9%, surpassing the EU-15 with an average of 8%, this is even more important if we consider that at the beginning of transition it was much lower than in the EU.

¹ Valev (2003) indicates that the unemployed generally personify the losers of the transition process.

Graph 1. Unemployment rates in transition countries: 1989-2003



Source: EBRD (2003).

As Galgóczi (2002) points out, the transition economies have managed to transform their economies in ten years, achieving high rates of GDP growth in recent years and making them the fastest growing region in Europe nowadays. It could be discussed in this process can be globally assessed as positive, in fact prominent economists such as Stiglitz (2003) hesitate it. Nevertheless, if we consider the social impacts, the consensus here is wider, and many authors consider that these results could have been partially avoided. It goes beyond the scope of this paper but for those willing to go deeper in this issue it could also be consulted in CEORG (1999), Weise et al. (2001), Papeles del Este (2002), Vara (2003) or Schediwy (2003).

According to Dragicevic and Obadic (2001), Nesporova (2003), Herzog (2003), Luengo (2003), or Bornhorst and Commander (2004), the key characteristics of labour market developments on transition countries in the 1990s can be summarized as follows:

a) Decline in employment: the sharp decline in economic activity caused the collapse in the demand for labour, and after a short interval, employment also started to decline.

b) Shrinking participation rates: employment losses were transformed partly into unemployment, partly into economic inactivity. Participation rates of the population aged 15-64 declined in all transition countries between 1990 and 1999. The reasons for this falls are various, including voluntary withdrawals (e.g. persons who have been returned their previously nationalized property), or forced withdrawals (including the discouraged workers who opt for social welfare combined with informal work instead of accepting low paid or arduous jobs).

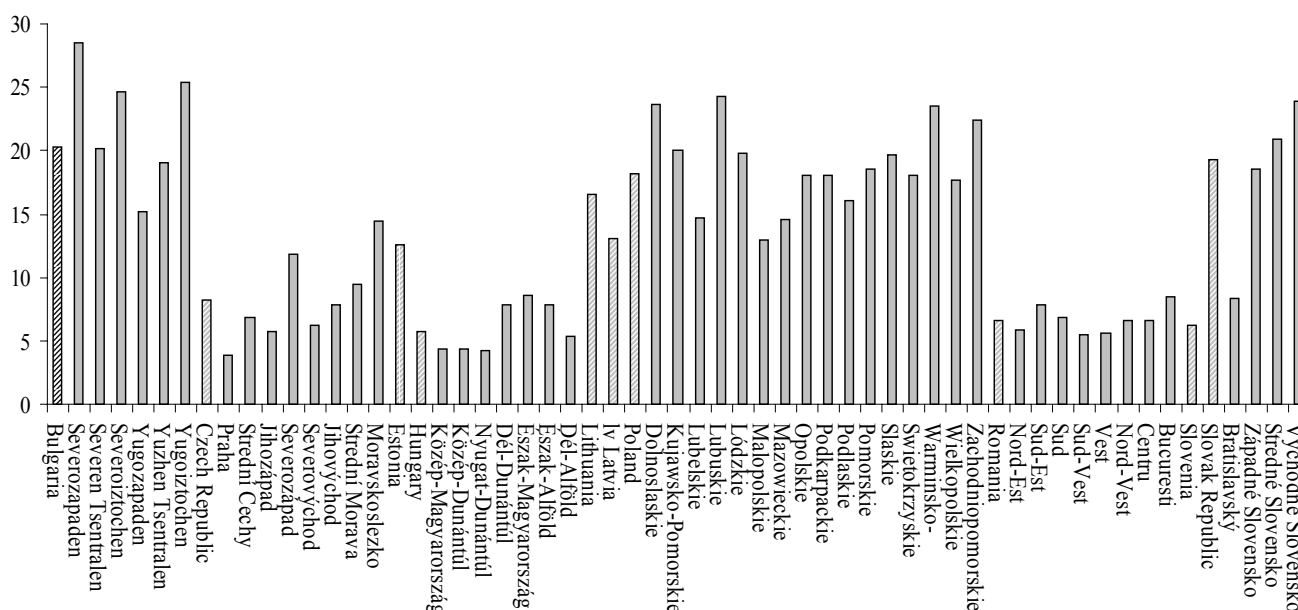
c) Unemployment trends: in CEEB, unemployment accelerated in the first years reaching double-digit levels. The economic recovery contributed first to stabilization of the unemployment rate, and lather to a certain decline. Young people are the group hardest beaten by unemployment (rates for young under 25 are often twice as high, or even higher, than national averages). Low skilled workers

are also more affected by unemployment.

d) Regional disparities in transition countries are large, and have been increased by the transformation. This stems from the past legacy of high concentration of production in large enterprises, which were often the major employment providers for a concrete region. Regions that are hit hardest by unemployment tend to be mono-structural, where the main industry is suffering from economic recessions. These problems are aggravated by very low territorial mobility, both across sectors and occupations², which make it unable to play a role in equilibrating regional disparities. A different opinion can be found in Sorm and Terrell (2000).

In the next graph we present the unemployment rate in CEEB and their regions in year 2001. The lowest rates can be found in Prague with 3.9% in 2001, while Bulgaria (Severozapaden 28.5%, or Yugoiztochen 25.4%). Slovakia (Východné Slovensko 23.9%), and Poland (Lubuskie 24.3%, or Dolnoslaskie 23.7%) present the highest shares.

Graph 2. Unemployment rate in CEEB and their regions. 2001.



Source: EUROSTAT: REGIO database. In striped bars are presented the national averages.

In the table presented below we can confirm the assessment made previously, for those countries where we have data available, about the increase of regional disparities (measured in this case through the unemployment) during transition. The average rate of regional unemployment has increased in the six countries mentioned, as it happened with the differences between the maximum and the minimum in every country but Poland.

² Some of the basic mechanisms to understand this low mobility can be found in Korel and Korel (1999), Andrienko and Guriev (2003), or Bornhorst and Commander (2004).

Table 1. Regional unemployment in selected transition economies

		Average	Minimum	Maximum
Bulgaria	1991	7.4	4.9	11.6
	2001	19.9	4.2	43
Czech R.	1991	4.3	1.2	6.2
	2001	8	3	14.6
Hungary	1991	4.1	1.2	10.7
	2001	8.5	2.6	19
Poland	1991	12.3	8.9	20.7
	2001	18.4	12.8	24.1
Romania	1991	3	1.2	6.2
	2001	8.8	3.1	15.3

Source: Bornhost and Commander (2004, p13).

As Havrylyshyn (2001) notes, there is an “*overwhelming area of consensus*” around the fact that traditional factor inputs have no role in explaining growth over time and across the transition countries since the fall of the communist regimes. The empirical evidence confirms the short-run nature of both the decline and recovery, and many authors confirm that the uneven path in recovery can be explained by many other elements, such as those mechanisms stressed by Blanchard (1997): *reallocation* of resources (capital and labour) within and among the sectors, and *restructuring* of state firms.

However, this does not mean that improving the factor endowments can not help these economies in their growth process. The phase in which growth can be driven by the aforementioned processes will come to an end, sooner or later, and by that time it will be needed to increase also the inputs if the growth process is to be maintained.

As we have already mentioned, tourism can act as a driving force in many regions, stimulating the growth not only in the service sector, and also on other sectors, inducing thus an increase in employment.

3. Tourism in transition countries

Of the total of regions studied, Prague is the one that receives the greatest number of tourists. In 2000 this region surpassed the 7 million overnight stays; more than 90% is foreign tourism. Slovak Republic surpassed 5.5 millions a half came from national origin. Budapest region -Közep-Magyarország- achieved 5.3 million, 82% foreign.

We can stress other regions that surpass 4 million of overnight stays in 2000: Súd-Est from Romania, Severoiztochen (Bulgaria) and Slovenia. Only one of these receives principally national visitors (90%), it is Súd-Est , a region beside the Black Sea. The origin of visitors in Romania and Poland are principally from national origin; in these countries only state capital regions receive more foreign than national tourism.

Table 2 presents the position of the regions/countries in the ranking of total, foreign and national overnight stays per thousands of inhabitants. Some comments could be made attending to the data presented on this table.

We would like to underline the outstanding position of Prague in tourism, achieved through the inflow of foreign tourists. The second position lies on Severoiztochen, in relation to the population, and the third position lies on Severozápad, both because of foreign inflow.

For national tourism, the picture is somewhat different. The Sud-Est region (Romania) ranks first among the fifty considered. Severovýchod is on the second position, while on the third we found Nyugat-Dunántúl.

None of the Polish regions ranks among the top five (the higher situation between Poland's regions is Malopolskie in the place 24th), so it seems that a push on tourism should be attempted to increase the activity of this sector in Poland.

Table 2. Tourism ranking of 50 regions/countries (2000).
Overnight stays per 1000 inhabitants.

Region	Total	Foreign	National
BULGARY			
Severozapaden	50	50	48
Severen Tsentralen	38	41	33
Severoiztochen	2	2	18
Yugozapaden	28	21	35
Yuzhen Tsentralen	30	36	23
Yugoiztochen	7	5	26
CZECH REPUBLIC			
Praha	1	1	16
Strední Cechy	14	12	15
Jihozápad	11	11	7
Severozápad	3	3	4
Severovýchod	5	8	2
Jihovýchod	18	16	20
Strední Morava	12	15	5
Moravskoslezsko	15	19	8
HUNGARY			
Közép-Magyarország	8	6	29
Közép-Dunántúl	17	13	19
Nyugat-Dunántúl	4	4	3
Dél-Dunántúl	9	10	10
Észak-Magyarország	22	30	14
Észak-Alföld	21	18	21
Dél-Alföld	31	32	28
ESTONIA			
LITHUANIA			
LATVIA			
SLOVENIA			
SLOVAK REPUBLIC			
POLAND			
Dolnoslaskie	29	26	30
Kujawsko-Pomorskie	42	38	40

Lubelskie	48	47	47
Lubuskie	37	33	36
Łódzkie	44	44	43
Malopolskie	24	22	22
Mazowieckie	34	24	38
Opolskie	49	43	49
Podkarpackie	47	48	46
Podlaskie	45	39	44
Pomorskie	32	27	31
Slaskie	46	45	45
Swietokrzyskie	43	46	42
Warminsko-Mazurskie	26	20	25
Wielkopolskie	40	35	39
Zachodniopomorskie	35	25	37
ROMANIA			
Nord-Est	39	42	32
Sud-Est	10	29	1
Sud	33	40	24
Sud-Vest	25	49	12
Vest	20	34	9
Nord-Vest	23	37	13
Centru	19	31	11
Bucuresti	36	23	41

Source: Authors' elaboration from REGIO database, EUROSTAT.

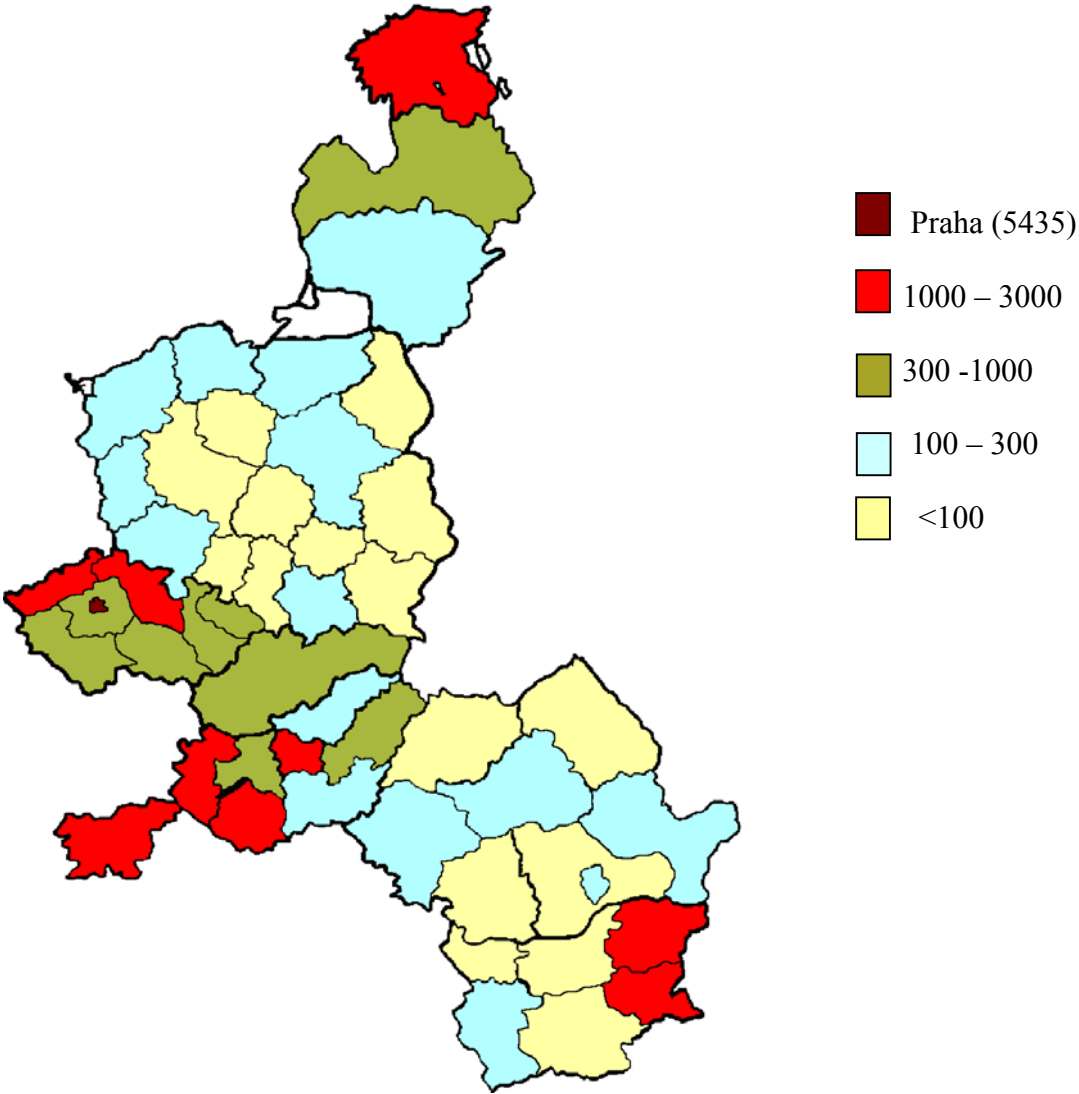
Next figures show one classification for the tourism in the regions/countries we are studying. First map indicates the place of the regions in overnight stays of foreign origin, and the second indicates the position in national origin, both in relation to de population.

There are five regions in the foreign and national tourism top ten: two regions in the north of Czech Republic (Severozápad and Severovýchod), two Hungary regions (Nyugat-Dunántúl and Dél-Dunántul) and Slovenia.

Within foreign tourism, Prague achieved 5.4 overnight stays per inhabitant in 2000. The mean value of the other regions is one stay per two inhabitants; there are only fifteen regions/countries that surpassed this value. In addition to Prague, nine regions have more than one overnight stay per inhabitant: the aforementioned top five regions; Bulgarian regions of Severoiztochen (3 stays per person) and Yugoiztochen; Közép-Magyarország and Estonia.

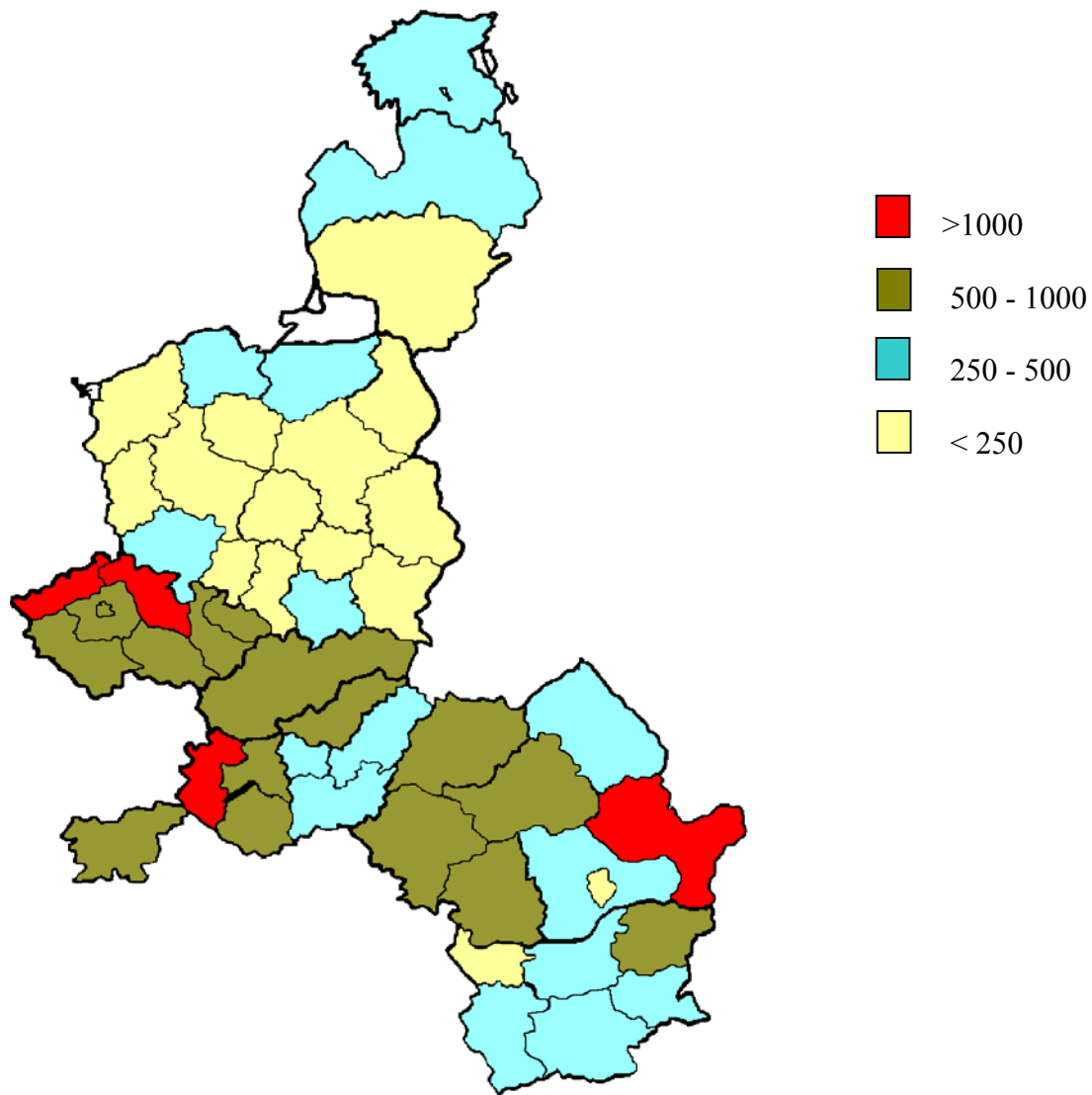
None regions in Poland, Rumania and Lithuania achieve 300 overnight stays per thousand of people in 2000. Last position is taken by Severozadaden in the north west of Bulgaria (11 stays per thousand of inhabitants).

Figure1. Number of overnight stays of foreign origin in hotels and similar establishments per thousand inhabitants in the region/country, 2000.



Source: Authors' elaboration from REGIO database, EUROSTAT.

Figure 2. Number of overnight stays of national origin in hotels and similar establishments per thousand inhabitants of the region/country, 2000.



Source: Authors' elaboration from REGIO database, EUROSTAT.

Prague is the most important region in number of foreign tourism per thousand of people, but Prague is in 16th position in national overnight stays per 1000 inhabitants. Also, Bulgarian region of Severoiztochen fell down from 2nd position to 18th in national tourism. In addition, there are other three regions in good position in foreign tourism that drop under the mean of national overnight stays in relative terms: Yugoiztochen (BU), Közép-Magyarország (HU) and Estonia.

Súd-Est, in Romania, is the first region in national overnight stays; it has almost 1500 overnight stays per 1000 inhabitants in 2000. In addition, Czech Republic regions of Severovýchod and Severozápad, and Nyugat-Dunántul (in Hungary) have more than one tourist per inhabitant in year 2000.

The mean of national tourism in our fifty regions is 466 overnight stays per thousand of people. All regions of Czech Republic surpassing the mean and none Poland region achieve this value.

We have compared briefly some touristy indicators of CEEC countries and regions with the EU-15 in 2000. We can say that among the 161 countries and regions of EU-27 only three are between the first fifty in total tourism (in *per capita* terms): Prague (in 17th place), Severoiztochen and Severozápad.

In relation to foreign tourism, the position of CEEB is even better, with ten regions/countries in the top-50, Prague (10th), Severoiztochen, Severozápad, Nyugat-Dunántul, Yugoiztochen, Közép-Magyarország, Slovenia, Severovýchod, Estonia, and Dél-Dunántul.

We have seen that no region/country of CEEB stand out among the top-50 in national tourism. This is quite important in our opinion because, as Williams and Balaz (2000) point out, national tourism has been more affected by the deep economic crisis of the 90s. With the recovery many national tourists started to try to find for affordable nearby destinations instead of the former national ones. Thus we consider that there is an important source of tourism increase in national tourism, if the appropriated reforms are implemented. This could also help to increase the economic activity in some of the hardest hit areas of CEEB.

4. Econometric Model

Tourism is a very important sector for its effect on the economic growth and the employment, as Balaguer and Cantavella (2001) analyse for Spain, Guisan and Aguayo (2001) for German regions and Aguayo et al. (2004) for Mexican regions. It is also important to stress that this relationships have not been studied enough, this is even more important if we take into account that we consider the economic impact, not the major determinants of tourist demand, which is the most common feature of tourism econometric studies. We estimate an econometric model to test the positive impact of tourism on the employment of the service sector for the 50 CEEB regions in 2000.

We have analyzed the effects on the employment of variables about tourism sector; we have considerate also total tourism, national and foreign tourism. The variables we take are the number of overnight stays and also the number of hotels and similar, but we think that the first variable represent better the weight of tourism sector. In addition, we included the service sector GDP.

Next table presents the results we have chosen; with total overnight stays in right side of equation.

The variables in the model are:

LWH= employment in Market Services per thousand of people

NOH= number of overnight stays in hotels and similar establishments per inhabitant.

PWH= GDP per capita, 1000 €.

Table 3. Selected regression model: the effect of tourism on employment
50 CEEB regions in 2000

Dependent Variable: LWH				
Method: Least Squares				
Sample: 1 50				
Included observations: 50				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	53.00190	3.670993	14.43803	0.0000
NOH	8.490376	2.139754	3.967922	0.0002
PWH	24.95217	3.891098	6.412631	0.0000
R-squared	0.694014	Mean dependent var		83.93073
Adjusted R-squared	0.680993	S.D. dependent var		25.03392
S.E. of regression	14.13933	Akaike info criterion		8.193922
Sum squared resid	9396.270	Schwarz criterion		8.308643
Log likelihood	-201.8481	F-statistic		53.30086
Durbin-Watson stat	1.255483	Prob(F-statistic)		0.000000

We have studied the residuals to screen out the presence of heterocedasticity, White Test value is 0.78 (prob=0.94), then we not reject the homocedasticity of residuals. We can choose the estimate that we present in the table 3 accordingly.

The results we have obtained are acceptable; all coefficients are significant at 1% level, and the signs are like we expected. Additionally, R-squared value is higher than other similar models with cross section data.

Of the results of the estimate we emphasize the positive effect of tourism variable. In addition, it is confirmed the positive impact of Service Sector production on the employment. So we stress our previous statement about expansion of tourism may have both on the production and employment. Of course, there are important shares of autonomous employment.

Moreover, we estimate similar equations to employment considering the number of overnight stays of foreign origin per thousand of people such as variable of tourism, and also national origin. In both equations, the results are similar than we present in table 3. We find that the coefficients of national tourism and Service GDP are higher than foreign tourism; the effect of national tourism on employment is more important than foreign tourism, but differences are not important. We show these equations in next table, which all coefficients are significant at 1% level, and we not reject homocedasticity for residuals.

Table 4. The effect of national and foreign tourism on employment in Service Sector.
50 CEEB regions in 2000

National tourism	$LWH = 46.46 + 16.74 * NORH + 33.22 * PWH$
Foreign Tourism	$LWH = 57.78 + 10.19 * NONRH + 22.98 * PWH$

NORH: number of overnight stays of national origin in hotels and similar establishments per inhabitant.

NONRH: number of overnight stays of national origin in hotels and similar establishments per inhabitant.

LWH= number of employees in Market Services per thousand of people.

PWH= GDP per capita, 1000 €.

5. Main conclusions.

- The economic transition has been very hard for Central and Easter Europe; some of the more significant effects of transition have appeared in the unemployment rates. We can confirm the increase of regional disparities in unemployment rates. Last years, the mean of unemployment have grown up from 1.57% in 1990 to 11.9% in 2002. In addition, in 2000, there are rates of unemployment from 3.9% in Prague, to 28.5% in Severozapaden.

- Regional disparities are also shown in tourism. The changes in national and international demand had done that the regions more attractive for international tourism won, but economic crisis had a negative consequence in national tourism.

Prague is the region that receives greater number of tourists (surpassing 7 million in 2000); more than 90% is foreign tourism. But Prague is in 16th position in national overnight stays per 1000 inhabitants. Also, Bulgarian region of Severoiztochen felt down from 2nd position to 18th in national tourism.

There are five regions in the foreign and national tourism top ten: two regions in the north of Czech Republic (Severozápad and Severovýchod), two Hungary regions (Nyugat-Dunántúl and Dél-Dunántul) and Slovenia. None of the Polish regions ranks among the top five (the higher situation between Poland's regions is Malopolskie in the place 24th), so it seems that a push on tourism should be attempted to increase the activity of this sector in Poland.

We have seen that no region/country of CEEB stand out among the top-50 in national tourism, among the 161 countries and regions of EU-27. Thus we consider that there is an important source of tourism increase in national tourism, if the appropriated reforms are implemented. This could also help to increase the economic activity in some of the hardest hit areas of CEEB.

- The interregional econometric model shows the positive impact of tourism on the Service Sector employment. Tourism could be used to foster both the employment growth and the regional economies through the sectors linkages within the region.

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