URBAN DEVELOPMENT - ENGINE FOR ECONOMIC GROWTH: EVIDENCE FOR MACEDONIA AND GREECE

Tatjana Boshkov, PhD
Assistant Professor
Faculty of Tourism and Business logistics
University "Goce Delcev", Stip, Macedonia
Email:tatjana.boskov@ugd.edu.mk;tatjana.boshkov@gmail.com

Dimitar Kovacevski, PhD
Assistant Professor
School of Business Economics and Management
University American College, Skopje.
e-mail: dimitar.kovachevski@gmail.com

Dushko Joshevski PhD
Assistant Professor
Faculty of Tourism and Business logistics
University "Goce Delcev", Stip, Macedonia
Email: dusko.josevski@ugd.edu.mk
Corresponding author: tatjana.boskov@ugd.edu.mk; tatjana.boshkov@gmail.com

Abstract:

Cities are the places where unbalance in the use of resources is most evident (they consume more resources than they generate), but at the same time they are the core of economic and societal innovation (Petrevska, 2012). Sustainable urban development makes it necessary to strike a balance, achieving the maximum of development opportunities and preserving at the same time the assets and the intangible elements that constitute the cultural identity of a country.

The growth of tourism refers to the gradual evolution of tourism which is an important factor for the productivity of a country's economy. When is measured the economic impact of tourism, it should be underline the essential causality among real gross domestic product, real effective exchange rate and international tourism. Tourism should be seen as a moving factor with an important contribution for the economies. In addition, the study covers estimation which measured the effect of tourism on economic development in Macedonia and Greece.

ISSN 2076-9202

www.manaraa.com

Key words: tourism, receipts, economy, benefits, OLS regression, GDP, REER.

1. Introduction

The role of tourism to the economic growth and to the progress of modern societies has become a common awareness in political authorities worldwide. For this reason many attempts are being made in order to develop tourism, being amongst the most important sectors of economic activity, to the benefit of their economies as quickly and as effectively as possible. The contribution of the tourist sector is beneficial for a country's economy due to its influence on sectors other than the foreign exchange sector. Here are included, for example, the employment sector, the business sector, the income sector, the cultural sector and the fiscal sector. Also, there is need to underline the essential meaning of international tourism and trade, which are expected to be quite dependant on the exchange rate regimes. The international trade is another argument commonly used to justify the exchange rate policy. In this sense, more fixed exchange rates are expected to promote international trade and tourism via reduced uncertainty in the international transactions. However, the empirical literature is not conclusive in this task. The evidence about the effect of less exchange rate volatility on trade is mixed (McKenzie, 1999)**.** The results are very sensitive across studies, depending on countries and periods considered.

2. Tourism, Nation Branding and Investment

Tourism can improve the city's environment, enhances the city's image and aids inward investment. Flagship projects for promotion a city as nation brands, ensure the potential for new investment to be attracted due to the fact of promoting a new image by creating a new and attractive physical environment. A new and positive image is seen as a crucial element of attracting inward business investment. As part of tourism strategy, could be developed an agenda for attracting overnight business tourists and to raise international profile of the city.

Thus, tourism strategy in these high-profile projects for promotion a city as nation brand includes:

-encouraging access and movement,
-providing quality tourist information,
-setting up visitor priority areas,
-developing a coherent mixture of visitor attractions,
-encouraging investment in retailing, restaurants and accommodation,
-incorporating with various organizations,
-improving physical environment as a critical role for the promotion of tourism activities,
-creating additional leisure and tourism facilities and major visitor attractions based
on the industrial and social heritage,
-encouraging the creation of a cross-city pedestrian walkway, ect.

ISSN 2076-9202

المنارة للاستشارات
www.manaraa.com

These major events will attract large numbers of visitors. Consequently, the reputation and perception of the city will effectively enhance. As the number of visitors to the city increases and the city's national and international image through the development of tourism policy along with high-profile projects, does this attract business investment? The quality of high-profile project does not just consist of image, cultural, leisure and recreation issues. It should also include education provision, medical services, housing conditions, criminal justice systems and community services.

Urban planners, often act as if the provision of culture-led initiatives would affect the location selection of potential business investors. They see image perception as a key element to attract inward business investment and business relocation to the city. For these aims are using many different marketing and branding strategies. In theory, there is value in seeing the city in the perspective of marketing principles operating under four key controllable variables: product, price, place and promotion (Kotler, 1991; Middleton, 1994). Thus, high-profile projects can be aligned as product, its capital cost and funding as price, the city centre as place and the city's methods of communication as promotion, together with the city's marketing. Thereby, the city can be seen as a commodity to be packaged and sold (Ward, 1998). In addition, the four key controllable variables offer opportunities to target potential investors in the city, such as: banking, high technology, information communication, hospitality or leisure-based retailing sector. Those tasked with attracting inward business investment to a city will identify products and services that meet the needs of compatible target investors. Every target market consists of groups or segments with dissimilar needs and wants (Middleton, 1994). All types of potential business investor will not be attracted to a particular city. Seeking to attract inward business investment by targeting specific types of industry through effectively operating the four key controllable variables should guide inward investment strategy. In terms of marketing principles, the city is thus seen as the product of assembling its facilities, products and services. The marketing involved in packaging places almost as a commodity to be bought and sold, is not only their physical existence as land, but also their historical and cultural significance. It is impossible to market places or cities in the same way as a defined product or service that is sold to clearly defined users. In addition, unlike most other commodities those are marketed, those doing the marketing have considerably less direct control over the assemblage of products through which the totality of the city is constituted (Barke & Harrop, 1994).

The marketing approach offers some tools for the job that give promotional groups a methodology that enables them to define and target place image (Ward & Gold, 1994). It is a fact that the high-profile projects combined with tourism development will improve physical structure of a city and provide visitor expenditure and tourism related employment for the city. This brings benefits for the city. Urban image should not be seen as an individual factor leading and dominating policy or planning. As to this kind of urban symbolism, Mullins (1991) comments that the work of urban symbolism is conceptually, methodologically and theoretically weak, since it is philosophic, rather than social scientific, in orientation, unless suitable concepts are developed and empirical research undertaken, urban symbolism will remain a vague philosophy and will be of little use for urban social science. Successful places need to be able to attract and retain businesses, based on understanding their requirements. The target investors

ISSN 2076-9202

www.manaraa.com

that want to settle down in the city will be based on the perception of its advantages that those target investors need. A city's potential advantages for investors would include the existing clusters of businesses, supply of human resources, support of transportation networks and demands of local markets (Porter, 1995).

3. Economic power of the City

Macedonia is a country with enormous tourism potential, with attractive and very diverse scenery in many places, interesting old towns and villages, a good local cuisine and welcoming people. However, tourism, especially international tourism, i.e. the export of tourism services, is extremely competitive, and standards of facilities offered elsewhere, including in neighboring European countries, the most natural competitors for Macedonia, have risen substantially in the past two decades. Macedonia has not matched this progress. Moreover, is not an especially easy country to reach by air, with very few inexpensive flights, and has sub-standard road and rail links with most neighbouring countries. Quite clearly, the 2001 political crisis in the country, a time of serious tension between the country's ethnic Albanian and Macedonian populations, had a major negative impact on tourism. The number of tourists visiting Macedonia was generally over a million for each year of the 1980s, with total bed-nights averaging over 3.5 million per year. In the 1990s there was already some decline, but numbers collapsed in 2001 to 333,000 tourists and only 1.25 million bed-nights. Since 2001, numbers of tourists have come up again, reaching about half a million in 2006, with 1.9 million bed-nights. Even now, therefore, tourist numbers have only recovered to about half their 1980s levels. Moreover, within all the above totals, foreign tourist numbers fell further and have recovered less well than have domestic tourists. However, a study which emphasis the economic influence of tourism in Macedonia is shown by Petrevska (2012). The author's analysis show empirical evidence that tourism contributes to Macedonian economy and might be classified as important industry. The results suggest that Macedonia 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. 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. Also, Petrevska underline that 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.

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.

Given this background, planning a better future for the tourism sector should entail at least the following steps within the framework of the recently adopted tourism development strategy which include

ISSN 2076-9202

www.manaraa.com

promoting itself actively as a safe and welcoming tourist destination like city; building infrastructure relevant to the tourism industry; upgrading the skills needed for the tourism industry through well targeted training programs focusing on language skills, service standards, etc.as well the financial infrastructure of the country (need for establishing upgrading modern standards that international visitors increasingly expect.

4. Data and Methodology

In the analysis it is used World bank data[1] from 1993 to 2012 to estimate the effect of tourism visits in the capital city on the selected countries in the sample :Macedonia and Greece. As a proxy variable for tourism is used tourist receipts, in the analysis is also included and exchange rate as proxy for international prices this is REER (Real effective exchange rate) and Air departures as a proxy for transport infrastructure which is of importance for the tourism industry and the growth of the country. As a dependent variable in the models is per capita GDP growth variable. OLS regression is applied with country effects and its estimated three models, and also here is used Dickey fuller technique on the residuals from the first model in the OLS regression to check for the co-integration of the variables.

4.1.Definitions of the variables

Definitions of the variables that are being used in our models are given in the following table:

Table 1. Definitions of the variables

GDP per capita growth(annual rate %)	Annual percentage growth rate of GDP per capita based on constant local currency. GDP per capita is gross domestic product divided by midyear population.
International tourism, receipts (% of total exports)	International tourism receipts are expenditures by international inbound visitors, including payments to national carriers for international transport. Their share in exports is calculated as a ratio to exports of goods and services, which comprise all transactions between residents of a country and the rest of the world.
Real effective exchange rate index (2005 = 100)	Real effective exchange rate is the nominal effective exchange rate (a measure of the value of a currency against a weighted average of several foreign currencies) divided by a price deflator or index of costs.
Air transport, registered carrier departures worldwide	Registered carrier departures worldwide are domestic takeoffs and takeoffs abroad of air carriers registered in the country.

Source: State Statistical Office (various years, various publications).

[1] http://data.worldbank.org/

ISSN 2076-9202

المنارة للاستشارات
www.manaraa.com

5. Analyses, Results and Discussion

5.1. Descriptive statistics

Descriptive statistics of the model is of importance to have first insight in the values of the variables and their statistical properties.

Table 2. Descriptive statistics

Variables	Obs	Mean	Std. Dev.	Min	Max
GDP per capita growth (annual rate %)	106	1.361604	2.966469	-7.95	6.21
International tourism, receipts (current US$)	94	14.16819	9.142885	2.08	35.28
Real effective exchange rate index (2005 = 100)	114	4.581697	0.080826	4.39556	4.900076
Air transport, registered carrier departures worldwide	108	54.5	31.32092	1	108

Source: Author estimations

5.2. OLS regression and country effect analysis

In this section we do OLS regression on three models and we estimate cross-country effects. Three models are reported in the following table. We estimate the following functional forms

$$\gamma = \alpha + Tr + \eta + i + \varepsilon$$

(1)

Where γ is the economic growth in per capita terms variable, α is the constant of the variable and are tourist receipts as percentage to export and η are the other two variables namely infrastructure variable and exchange rate. And ε is the usual error term, that is white noise error term that should follow normal distribution $N(0 \sim \sigma^2)$ for the estimated coefficients to be BLUE(Best Linear Unbiased Estimators). And i are the countries that we control for.

Table 3. Reported regression results

Growth of GDP per capita is dependent variable						
	(1)		(2)		(3)	
Independent variables	**Coef.**	**P>|t|**	**Coef.**	**P>|t|**	**Coef.**	**P>|t|**
Tourism receipts	0.35	0.14	0.51	0.04	0.44	0.09
Exchange rate			-2.76	0.05	-2.85	0.04
Air departures					0.18	0.16
Greece	0.07	0.83	-0.32	0.40	-0.25	0.51

ISSN 2076-9202

المنارة للاستشارات
www.manaraa.com

Constant	-0.33	0.68	12.17	0.05	12.09	0.05
Functional form (p-value)	0.0224		0.1921		0.2694	
R^2	0.2542		0.3023		0.3272	

Source:Author estimations

*Macedonia is benchmark country in the three regressions

From the results we can observe that tourist receipts in all three models are positive and significant or nearly significant, especially in the presence of exchange rate ,and exchange rate influences negative and statistically significant on economic growth per capita, in the presence of infrastructure variable signs on the exchange rate variable and air departures are as expected while infrastructure exerts positive relationship with economic growth. When we examine country effects Greece show negative relationship between economic growth and tourist receipts or more precisely more negative relationship against the benchmark country Macedonia. Coefficients on the other countries are reported in the table above.

5.3. Co-integration of the variables economic growth per capita and tourism receipts

Cointegration refers to the fact that two or more series share an stochastic trend (James, 2007). Engle and Granger (1987) suggested a two step process to test for cointegration (an OLS regression and a unit root test), the EG-ADF test.

From the previous regression we save residuals and test for stationarity .If two series do not contain unit root they are cointegrated[1]

Table 4. Dickey-Fuller test for unit root

Dickey-Fuller test for unit root			Number of obs = 50	
Test Statistic		1% Critical Value	5% Critical Value	10% Critical Value
Z(t)	-6.059	-3.58	-2.93	-2.6
MacKinnon approximate p-value		for Z(t) = 0.000		

*Source:*Author estimations

Here could be seen that the residuals do not contain unit root and reject the null hypothesis of unit root and accept alternative of stationarity.

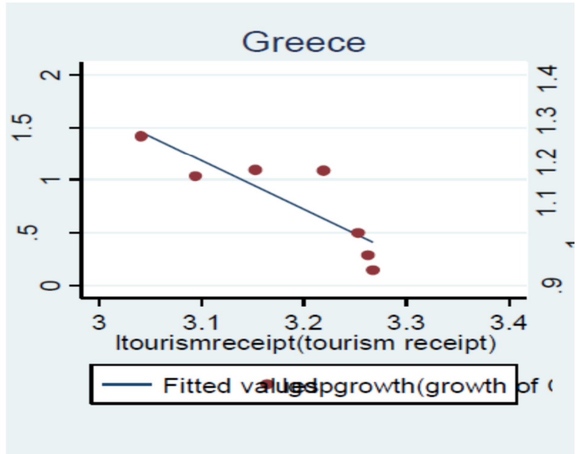
5.4. Trend analysis

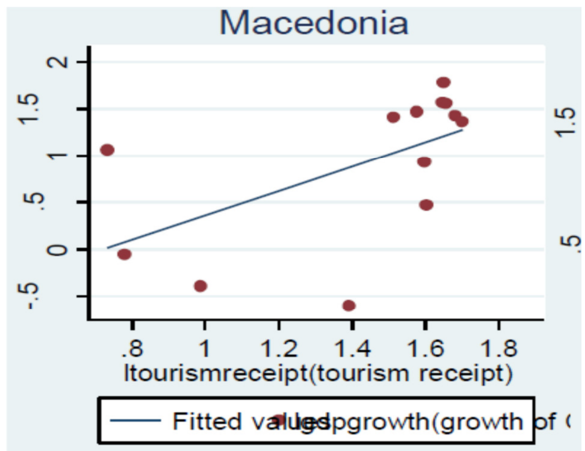
On the next graphs we just do visual inspection for a panel of countries to see in which panel we have positive and where there is a negative relationship between economic growth and tourism receipts.

[1] P-value is 0.000

ISSN 2076-9202

المنارة للاستشارات
www.manaraa.com





From the above graphs we can see that Greece have negative trends while in Macedonia, there is positive trend between these two variables.

6. Conclusion

From the above analysis, there is statistically significant proof, of the relationship between the tourism receipts and economic growth. This relationship is positive and merely significant. Also the residuals of this regression when tested for stationarity, proved that they do not contain unit root, i.e. that the two series (economic growth and tourism receipts) are co-integrated. This is in line with the proof for causality. On the other hand real effective exchange rate in presence of tourism receipts exerts negative and statistically significant relationship. While air departures as proxy for infrastructure exert positive relationship with economics growth in presence of exchange rate and tourism receipts. The implication is that international tourism expansion plays a relevant role for the economic growth in the economies mentioned above. The intense state intervention for tourism growth and especially for tourist economy, arises either directly from the performance of tourist infrastructure works or indirectly from the mechanism of funds and incentives. Generally, this is a characteristic feature of modern tourism, but also it is factual evidence that the state tries to develop tourism, which is regarded as one of the most important sectors of economic

ISSN 2076-9202

المنارة للاستشارات
www.manaraa.com

activity. Also, here is the meaning of the impact exchange rate arrangements on international tourism. All these countries are examples for economies that are moving faster with an important contribution of international tourism. In this way, governments should be aware of the potential positive role of tourism and thus how to gain a comparative advantage from such an economic activity.

Reference:

Ashworth, G. J. & Voogd, H. (1995) Selling the City: Marketing Approaches in Public Sector Urban Planning (Chichester, Wiley).

Bramwell, B. & Rawding, L. (1996) Tourism marketing images of industrial cities, Anna1s of Tourism Research, 23(1), pp. 201 – 221.

Costa, C. (2001) An emerging tourism-planning paradigm? A comparative analysis between town and tourism planning, International Journal of Tourism Research, 3(6), pp. 425 – 441.

Hall, C. M. (1994) Tourism and Politics: Policy, Power and Place (Chichester, Wiley). Hughes, G. (1999) Urban revitalization: The use of festive time strategies, Leisure Studies, 18, pp. 119 – 135.

Hubbard, P. (1995) Urban design and local economic development: A case study in Birmingham, Cities, 12(4), pp. 243 – 251.

James H. Stock, Mark W. Watson., 2007. *Introduction to econometrics* 2nd ed., Boston: Pearson Addison Wesley.

Jones, C., and C. Watkins (1996), "Urban regeneration and sustainable markets", in

Kehoe, T.J., C.Polo and F.Sancho (1995). An Evaluation of the performance of an Applied General Equilibrium Model of the Spanish Economy. Economic Theory, 6, 115-141.

Kotler, P., Haider, D. H. & Rein, I. (1993) Marketing Places: Attracting Investment, Industry, and Tourism to Cities, States, and Nations (New York, Free Press).

Landry, C. (2000), The Creative City: A Toolkit for Urban Innovators. Earthscan

Law, C. M. (2002) Urban Tourism: The Visitor Economy and the Growth of Large City, 2nd edn. (London, Continuum).

McKenzie, M.D. (1999):"The impact of exchange rate volatility on international trade flows". *Journal of Economic Surveys* 13 (1), pp. 71-106.

Middleton, V. T. C. (1994) Marketing in Travel and Tourism, 2nd edn. (Oxford, Butterworth-Heineman).

Mullins, P. (1991) Tourism urbanisation, International Journal of Urban and Regional Research, 15, pp. 326 – 342.

Papatheodorou, A. (2005), The Demand for International Tourism in the Mediterranean Region, *Applied Economics*, Vol 31, 619 – 630.

Petrevska, B. (2012). Tourism in Macedonia - Before and After the Crisis, Conference Proceedings, International Conference "Faces of the Crisis", Skopje, Macedonia, 63-70.

Porter, M. E. (1995) The competitive advantage of the inner city, Harvard Business Review, 73, pp.55 –71.

Smyth, H. (1994) Marketing the City: The Role of Flagship Developments in Urban Regeneration (London, Spon).

State Statistical Office of the Republic of Macedonia (various years). Statistical Yearbook, Skopje.

Stevenson, D. (2003) Cities and Urban Cultures (Maidenhead, Open University).

Stobart, J. & Ball, R. (1998) Tourism and local economic development: Beyond the conventional view, Local Economy, 13(3), pp. 228 – 238.

WORLD TRAVEL AND TOURISM COUNCIL (WTTC), 1998. South Africa's travel and tourism: economic driver for the

ISSN 2076-9202

المنارة للاستشارات
www.manaraa.com

21st century. London: WTTC.

WORLD TRAVEL AND TOURISM COUNCIL (WTTC), 1999. Southern African Development Community's travel and tourism: economic driver for the 21st century. London: WTTC.

ISSN 2076-9202

المنارة للاستشارات
www.manaraa.com

Reproduced with permission of copyright owner. Further reproduction prohibited without permission.

www.manaraa.com