DEVELOPMENT OF TOURISM AND HOSPITALITY INDUSTRY IN THE CONTEXT OF EXPORTS

Santa Graikste¹, Baiba Rivza²

The economy of Latvia in the recent two years has experienced the consequences of the global economic and financial crisis that most likely will influence both the ratings of Latvia in the international arena and the welfare of every resident. It has also created a substantial impact on the tourism and hospitality industry. Tourism demand is very sensitive to the changes in the global economy – it has a tendency to exceed the macroeconomic indicators during the economic growth and to drop much more rapidly than other industries during the downturn of economy. This is clearly evidenced in the course of the research by the data mathematical processing method, using the calculations made by the time-series analysis.

The present study will give an insight into the development of tourism and hospitality industry development in the past two years, a detailed analysis on its competitiveness and role in the exports of Latvia tourism and hospitality services.

Key words: tourism, export, competitiveness.
JEL classification: L83

Introduction

The aim of the present paper is to research the contribution of tourism and hospitality industry to the exports of Latvia, so that in future studies, the authors could provide detailed proposals, which would assist in strengthening the tourism industry as the leading sector of services in the exports of Latvia.

The following quantitative and qualitative research methods have been applied for achieving the aim and objectives of this paper:
– monographic or descriptive method for identifying and analysing scientific findings and theories, and interpreting the results of previous studies and drawing conclusions;
– analysis and deductive method for studying certain elements of the problem and their interconnections as well as a synthesis method for consolidating all the individual elements in a joint system and developing a common theory;
– correlation method for proving the research hypothesis regarding the influence of tourism development.

In 2009, the world economy faced a unique crisis, experiencing one of the most severe recessions. According to the data of the International Monetary Fund, on the global scale, the growth of the Gross Domestic Product (GDP) in 2009 was only 1.4%, export volumes dramatically diminished, and all progressive economies went through a recession and economic crisis.

According to the market monitoring data of the World Tourism Organisation, the situation in the tourism sphere began to deteriorate already in the middle of 2007. In the first three quarters of 2009, the incoming tourism in the world decreased by 7%, while the income from tourism declined by 8% on average (UNWTO, 2011). The greatest decline was experienced in Latvia – by 17.8%. In Latvia, according to the data of the Central Statistical Bureau, in 2009, the occupancy of bed-places fell by 11% at hotels and other tourist lodging facilities, occupancy of rooms - by 15%, and number of overnight stays of local tourists – by 40% in comparison with the same period of the previous year. Such a decrease is the largest decline in the European Union (hereafter – the EU) and considerably exceeds the average EU indicator – 4.3%. In a part of European countries, in contrast to Latvia, there was a certain increase in overnight stays, which is logical under circumstances of the economic crisis, since the residents prefer travelling within their own country.

Nonetheless, despite the negative impact of the crisis, entrepreneurs have focused their efforts for overcoming the difficulties, which is evidenced by the comparatively small number of closed overnight lodging facilities (in total – about 100 in Latvia), and increasing number of foreign tourists (in 2009 – 4.727 thousand, in 2010 – 5.042 thousand).

The main growth stimulus in coming periods for Latvia is to link up with the extension of export possibilities. Therefore, a crucial significance in ensuring the growth will belong to competitiveness of the main exporting industries on the international and domestic market.

According to the Basic Guidelines for Facilitation of Exports of Goods and Services of Latvia and Attraction of Foreign Investment for 2010 – 2016, on the whole, the structure of Latvia’s national economy from the angle of industries has changed in favour of service-provision industries; simultaneously showing the growth of its specific weight in the GDP. Since 2000, the specific weight of services in the

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GDP has annually enlarged by 16% on average. According to the data of the Bank of Latvia, in 2008, transportation (motor transport, marine, air, railway transport) accounted for 50% of exports of services of Latvia. Next group with the largest specific weight in exports of services and with a tendency to grow is the export of tourism services, which in 2008, made up 18%, in 2009 – 21.6% but in 2010 – 20.2% of total exports of services.

Tourism-related services occupy a significant place in the exports of the majority of European countries, since they are sold to residents of foreign countries. Nonetheless, in contrast to other export products, accommodation services that are sold to foreigners are consumed on the spot; in other words, the tourism industry cannot acquire benefit by the use of usual export instruments. As the expenses for overnight accommodation and catering services occupy the bulk of the tourist’s expenses (about 50%), a lower VAT and lower price have a great impact on the number of incoming tourists. For example, in Switzerland, foreign tourists account for 60% of the entire number of overnight stays. Therefore, the Swiss hospitality sector has requested the government to continue to apply the VAT rate of 3.6% after 2010, motivating this as one of the most efficient instruments in exports of hotel services. However, Ireland’s experience, referring to the 1998 study “The Economic Effects of Changing VAT Rates on the British Tourism and Leisure Industry” by “Deloitte&Touche” has demonstrated an increase of export volume of tourism products after reduction of the VAT rate. In 1985, the VAT rate for accommodation services was reduced from 18% to 10%. The number of foreign tourists to Ireland grew from 1.9 million in 1986 to 3.1 million in 1990; by 1996 this number increased to 4.7 million (HOTREC, 2008).

The abovementioned attests once more that the basis for the exporters’ competitiveness is formed and most directly influenced by macro-environment aspects, fiscal and monetary policy of the state, conformity of industry, commercial activity, and education policy as well as their implementation to the set objectives and priorities of the state development. The Ministry of Economics of the Republic of Latvia in respect to the tourism industry has defined the following targets:

- the main objective of the state policy in tourism of Latvia is to facilitate the increase of turnover and specific weight of the tourism industry in the economy and enhancement of exportation ability of tourism services in the middle term, calling for the changes in the structure of supply and demand;
- in order to facilitate the development of tourism as one of the most important services-export branches of the national economy, during the next two years, it is planned to carry out various activities in the following directions: increase of quality in the tourism industry, evolution of tourism products, and development of marketing and cooperation on the national and international level (Ministry of Economics, 2009).

The significance of the tourism industry in the national economy of Latvia is great – exports of tourism-related services in 2008 reached LVL 403.2 million which, despite the impact of the economic crisis on this industry, is by 19% more than in 2007 (Figure 1).
of Latvia have enabled the ranking of tourism industry in the priority segment C – export-oriented service-provision industries with a high multiplier effect. The regional inequality will be reduced by developing the tourism infrastructure as well as by facilitating the diversity of tourism services. The industry also has a social role in promotion of the local culture and handicraft as well as conservation and protection of environment (Ministry of Economics, 2009).

The authors of the paper want specially to emphasise the multiplier effect of the tourism industry.

Edgell (2000), a British tourism specialist, points out that there is no other industry in the economy, which would be linked with other industries in so many ways (Medne, 2010). Taking guidance from the definition of tourism enterprises used in the Law of Tourism, one can determine the economic activities from the NACE classification directly related to tourism. Thus, the tourism industry shall be identified by the following economic activities from the NACE:

H – Hotels and restaurants
55. Hotels and restaurants
55.1. Hotels
55.2. Camping sites and other short-term dwelling facilities.
I – Transport, storage and communications
63. Types of additional activities and auxiliary activities of transport; operation of travel agencies
63.3. Operation of travel agencies and agents not classified elsewhere; operation related to servicing of tourists.

Yet, much greater is the number of those national economy industries (according to the study “Contribution by Tourism to the Economy of Latvia” – in total 48 industries), with which tourism is connected indirectly, as tourists consume the goods produced by and services provided by these industries, and creates for them an additional demand (Karnite, 2000).

The document “Informative Report on Directions of Economy-Rehabilitation Processes in the Middle-term Period” for an export-oriented industry establishes:

- to apply the reduced VAT rate from 2011 onwards for guest accommodation services in guest-lodging facilities and restaurant services;
- to define the primarily supportable types of tourism;
- to support the development of priority tourism products/services, facilitating enhancement of their quality, their availability and recognisability both on the domestic and international market as well as reducing the adverse impact of seasonality;
- to perform specific marketing activities targeted at the respective tourism groups for the priority types of tourism;
- to revise the current distribution of funding from the EU and other financial instruments, channelling financial means to the development of the tourism industry;
- to ensure a favourable environment for attraction of foreign and local investment for the tourism industry;
- to ensure efficient use of modern technologies in the process of promoting the recognisability of the image of Latvia as a state;

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<tbody>
<tr>
<td>Number of persons serviced at hotels and other tourist-lodging facilities, million people</td>
<td>1.31</td>
<td>1.55</td>
<td>2.40</td>
</tr>
<tr>
<td>Number of serviced residents, million people</td>
<td>0.43</td>
<td>0.71</td>
<td>0.84</td>
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<tr>
<td>Number of serviced foreign tourists, million people</td>
<td>0.88</td>
<td>0.84</td>
<td>1.56</td>
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<tr>
<td>Number of overnight stays at hotels and other tourist – lodging facilities, million nights (2010)</td>
<td>2.83</td>
<td>4.33</td>
<td>4.7</td>
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<tr>
<td>Number of overnight stays of residents, million nights</td>
<td>0.92</td>
<td>2.33</td>
<td>1.50</td>
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<tr>
<td>Number of overnight stays of foreign tourists, million nights</td>
<td>1.91</td>
<td>2.0</td>
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<td>Number of bed-places at tourist lodging facilities (2010)</td>
<td>34700</td>
<td>47786</td>
<td>50084</td>
</tr>
<tr>
<td>VAT rate for hotel services (1 May 2010)</td>
<td>10%</td>
<td>21%</td>
<td>9%</td>
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<tr>
<td>Average duration of stay of foreign tourists, visitor nights (2010)</td>
<td>1.3</td>
<td>4.9*</td>
<td>1.9*</td>
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<td>Total expenditure of foreign tourists, LVL (2010)</td>
<td>340.3</td>
<td>321.63</td>
<td>759</td>
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<tr>
<td>Number of people serviced at airports, million people (2010)</td>
<td>4.66</td>
<td>1.37</td>
<td>1.38</td>
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<tr>
<td>Number of flights (2010)</td>
<td>68145</td>
<td>26102</td>
<td>33587</td>
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<tr>
<td>Number of constant destinations that can be reached from airport (at the beginning of 2010)</td>
<td>79</td>
<td>22</td>
<td>27</td>
</tr>
<tr>
<td>Number of persons serviced at ports, million people (2009)*</td>
<td>0.76</td>
<td>0.2*</td>
<td>8.23</td>
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<tr>
<td>Number of tourism information bureaus abroad (at the beginning of 2010)</td>
<td>1</td>
<td>8</td>
<td>4</td>
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<tr>
<td>Number of local tourism information centres and outlets (at the beginning of 2010)</td>
<td>75</td>
<td>64</td>
<td>20</td>
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*available data for 2009 (Ministry of Economics, 2011)

Source: authors’ construction
– to facilitate a joint participation of the public and private sector in preparation and implementation of tourism marketing activities;
– to ensure the implementation of periodical marketing events corresponding to the particular season on the local tourism market;
– to ensure an active involvement of representations of Latvia abroad (diplomatic, consular, economic) and cooperation in advancement of Latvian tourism products and services on the relevant target markets.

Majority of the support instruments are targeted to facilitation of the competitiveness of economy but the direct export support measures are also important under circumstances of a crisis:
– support by the EU funds for external marketing events in acquisition of new markets and export credit guarantees;
– for economic operators of Latvia, direct export support services are provided for increase of the exporting ability, which are ensured by the Latvian Investment Development Agency and external economic representation offices of Latvia abroad.

The vision of *Strategy of Sustainable Development of Latvia by 2030* on the tourism industry development and its potential in perspective is as follows: “the location capital of Latvia is underrated beside the natural capital. The advantageous geographical placement, structure of population distribution and easy accessibility may become an important advantage for the development and competitiveness of this state. Riga shall become a significant cultural business and tourism centre in the Northern Europe, and implementing the model of a poly-centric development of the state territory, the potential of development centres of a national and regional significance and the role of cities and towns shall be increased....”

It is important to compare the indicators of Latvia with the nearest rivals - the neighbouring countries Lithuania and Estonia - to obtain a full analysis on the competitiveness of the Latvian tourism industry. The analysis is determined by the location of countries, similar tourism resources, offer, infrastructure, possibilities of access, and tourism development indicators.

The comparative analysis between Latvia and its neighbours can be done according to the following tourism statistics development indicators: number of overnight stays of foreign and local tourists, number of persons serviced at hotels, average duration of stay, capacity of overnight lodging facilities, possibilities of access by air and sea transport, number of persons employed in the tourism industry, number of representations abroad, and number of tourism information centres (Table 1 and Table 2).

The SWOT analysis of tourism in Latvia establish that the most significant “strengths” are as follows:
– rich and diverse cultural-historical heritage;
– destination safe for tourists;
– attractive and recognisable tourism image of Riga.

“weaknesses” are as follows:
– insufficient funding for promotion of recognisability of Latvia;
– weak cooperation between the entrepreneurs of this industry;
– a higher VAT rate for accommodation and catering services in comparison with the nearest countries in the region;

“opportunites” are as follows:
– geographical location and temperate climate of Latvia;
– demographical changes create alterations in motivation of travelling and necessity of new tourist products and services;

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<th><strong>Latvia</strong></th>
<th><strong>Lithuania</strong></th>
<th><strong>Estonia</strong></th>
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<tbody>
<tr>
<td>Number of residents serviced at hotels</td>
<td>▲</td>
<td>■</td>
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<tr>
<td>Number of serviced foreign tourists serviced at hotels</td>
<td>■</td>
<td>▲</td>
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<tr>
<td>Number of overnight stays of residents</td>
<td>▲</td>
<td>●</td>
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<tr>
<td>Number of overnight stays of foreign tourists</td>
<td>▲</td>
<td>■</td>
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<tr>
<td>Number of bed-places</td>
<td>▲</td>
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<tr>
<td>VAT rate for hotel services</td>
<td>■</td>
<td>▲</td>
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<tr>
<td>Average duration of stay of foreign tourists</td>
<td>▲</td>
<td>●</td>
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<tr>
<td>Total expenditure of foreign travellers</td>
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<tr>
<td>Number of people serviced at airports</td>
<td>■</td>
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<tr>
<td>Number of constant direct destinations (cities) to be reached from the airport</td>
<td>■</td>
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Source: authors’ construction
high potential of personnel resources and professional education;  
“threats” are as follows:  
- low recognisability of Latvia as a tourism destination and competitiveness of Latvia on the EU and global scale;  
- similar tourism offers in the nearest neighbour countries with a more active marketing;  
- outflow of qualitative personnel resources to foreign countries and lowering of services’ quality.

In 2010, the border of Latvia was crossed by almost 5.04 million foreign travellers, staying in Latvia for 1.2 days on average (many-day travellers – for 3.9 days on average). In 2010, the average expenses of one foreign traveller in 24 consecutive hours amounted to LVL 54. According to the data of the Central Statistical Bureau, in 2010, Latvia as a destination was chosen by many-day travellers from Lithuania, Russia, Sweden, Estonia, Germany, and Finland that clearly indicates the highly important markets of incoming tourism – countries with which the export takes place in the most rapid manner (Figure 2).

In the economy and, consequently, in the exports, too, the largest contribution is made by the tourists who stay for
several days, while the statistical data show that a considerable number of travellers - in 2010, about one third or 34.9% - arrived in Latvia in transit. Out of those who choose Latvia as their travel destination, totally, 23.8% came here to have a rest, 13.0% - to visit friends and relatives, 13.9% - on business trips, and 14.4% as their motive indicated “other”. In 2010, the data also show that 72.8% of foreign travellers did not stay overnight in Latvia, because their visit was only for 1 day, 19.1% stayed for 1 – 3 nights, 5.75% stayed for 4- 7 nights, and 2.35% stayed for more than 7 nights.

According to the data of the Central Statistical Bureau, in 2010, the tourist-lodging facilities in Latvia serviced more than 1.31 million persons, out of which 33% were residents of Latvia, the others were mainly from Russia, Finland, Estonia, Norway, Germany, Sweden, and Lithuania (Figure 3).

Conclusions and proposals

1. Despite the annual growth in exports, there exist also noteworthy risk factors – the competitiveness of Latvian national economy in long term and stability of export market, including the tourism industry (for example, unpredictability of the CIS market).

2. On the whole, the intensity of export of Latvian goods (goods export versus the GDP) is comparatively low, which means that Latvia does not use completely the potential of exporting its goods, including also in the tourism industry.

3. For achievement of the objectives set in the Basic Guidelines for Facilitation of Exports of Goods and Services of Latvia and Attraction of Foreign Investment for 2010 – 2016, the main challenge at present is the enhancement of competitiveness of the economy and exporting ability, using the intellectual potential and the ability to create innovative products. In the opinion of the authors, it is essential to carry out diversification and development of export goods, to focus on production of such goods and provision of such services that have a high value added, on rapidly growing markets with a solvent demand and on attraction of direct foreign investment oriented to the exports.

4. The positive indicators of the balance of services of the previous years show that the proper balance of the external sector can be ensured by a stable export growth and channelling of resources to export-oriented sectors.

5. Latvia shall promote a longer stay of travellers in the country, paying a special attention to one-day travellers, who visit Latvia in transit as well as the development of local tourism and many-day inland travel.

6. In 2010, Latvia has outnumbered Lithuania as to the number of foreign tourists serviced at hotels. This evidences the dominant role of the VAT rate in exports of hotel services (in 2010, Lithuania applied the standard rate of 21% to the accommodation services). Latvia shall follow the taxation policy of neighbour countries, since a smallest increase of the VAT rate can create a negative impact on the number of foreign tourists and price of services as well as on the indicators of Latvia’s tourism in general.

7. About 60% of foreign tourists arrive in Latvia by air transport. Riga Airport has twice as much serviced passengers as the airports of Lithuania and Estonia, and nearly 3 times larger number of flight destinations can be reached from Riga. Yet, it has both positive and negative aspects – providing of more convenient possibilities of travelling to Latvia; however, the number of transit tourists substantially increases, which is reflected statistically as a shorter duration of stay, smaller number of tourists serviced at hotels and influence on the average duration of stay. As one of the solutions to reduce the number of one-day tourists and to increase the number of overnight stays, the authors propose to change the times of occurrence of sports events (for example, hockey matches) so that the sportsmen and fans would stay overnight in Riga, instead of returning by late flights to their country of domicile.

8. The analysis of the tourism offer of the Baltic countries establishes several common features. The inquiries made by the Tourism Development State Agency show that foreign tourists who visit all Baltic countries are attracted by authentic cultural heritage, unspoilt nature, and unpolluted environment. A significant factor is that there is no mass-scale tourism in the Baltic countries and it is safe to come here as a tourist. On the contrary, the authentic cultural heritage, nature unspoilt by humans and pristine environment were less significant factors for the tourists who visited Latvia as the only Baltic country, while the most important factor was the hospitality of local residents. Thus, one can draw the inference that Latvia solely with its cultural and natural resources cannot compete with other Baltic countries; yet, Latvia can create competition advantages for itself by a wise and sustainable use of these resources in formation of tourism offer that is suited to the needs of contemporary tourists.

9. In 2011, the indicators of export growth and tourism industry development of Latvia show that the tourism industry has a potential for strengthening its positions as the leading industry of services in Latvia’s exports. This, in the opinion of the authors, can be achieved by implementing a considerate and development-oriented set of activities (including adequate taxation policy, funding, promotion of recognisability of the country on highly important and rapidly growing markets by facilitating the cooperation between the governmental and municipal institutions and entrepreneurs, creating products and services with a high added value etc.).
Bibliography