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Impact of the Financial Crisis and Swine Flu Outbreak on the Tourism Industry: Case Study of Lebanon

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Impact of the Financial Crisis and Swine Flu Outbreak on the Tourism Industry: Case Study of Lebanon

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DECLARATION

I hereby declare that this Thesis is entirely my own work and that it has not been submitted as an exercise for a degree at any other University.

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ABSTRACT

Tourism is a leading industry in the services sector at the global level as well as a major provider of jobs and a significant generator of foreign exchange at the national level. The world Tourism Organization reports that due to the financial crisis in 2009 international tourist arrivals and expenditure declined compared to 2008 by almost 4%. The organization also reports that the swine flu outbreak aggravated the crisis in some areas of the world, particularly the Americas.

This thesis explores economic theories and links tourism to economic activity. It also studies the impact of both the financial crisis and the swine flu outbreak on tourist arrivals to Lebanon.

The analysis showed that the financial crisis (more specifically the subprime mortgage crisis which started in August 2007) and swine flu outbreak that started in March 2009 had a positive impact on the number of incoming tourists, at the same time the financial crisis had a negative impact on tourism spending per capita.

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CONTENTS

Chapter 1

INTRODUCTION

1.1 General background

Tourism is a leading industry in the services sector at the global level as well as a major provider of jobs and a significant generator of foreign exchange at the national level. It is one of the world's largest industries and in many regions the single largest source of investment and employment and one of the largest and fastest growing industries in the global economy with more than 800 million people travelling every year and a strong predicated growth rate. It is also the world's number one employer and represents more than 10% of the global spending. According to the UNWTO (United Nations World Tourism Organization) tourism highlights report, during the ten-year period from 1998 to 2008 the Middle East region outperformed the rest of the world with an average annual growth of 10.5%.

Taleb Rifai, UNWTO's Secretary-General declared that "the global economic crisis aggravated by the uncertainty around the H1N1 pandemic turned 2009 into one of the toughest years for tourism."

It is within this context that this thesis is going to be developed. The aim is to study the impact of the financial crisis and the swine flu outbreak on the tourism sector in Lebanon.

1.2 Importance of the study

Tourism is an important segment of the Lebanese economy, especially in terms of its contribution towards foreign exchange earnings, generation of additional income and creation of employment opportunities, and is the only source of income for many Lebanese. The WTTC (World Travel and Tourism Council) estimates that travel and tourism in Lebanon:

- Has a 9% share of GDP
- Generates over 7 billion dollars of economic activity
- Has a direct and indirect impact that affects more than 25% of the workforce
- Would contribute 25% of GDP by 2019

This means that there is a high degree of dependency on tourism for achieving economic growth. This, in return, poses high risks to the Lebanese economy when there are downturns in the international tourism market, unforeseen events or natural disasters.

Therefore this study will contribute in adding knowledge and creating awareness on how the financial economic crisis and swine flu outbreak affect the Lebanese tourism industry.

1.3 Objective of the study

The objective of this study is to investigate the impact of the financial crisis and the swine flu outbreak on the tourism industry in Lebanon. This would help plan methods to minimize the impact of such downturns in the future, possibly providing measures to address the associated main causes causing the highest impact.

1.4 International perspective/application

On one hand, the tourism product is a unique product: it has to be consumed within the geographical boundaries of the destination in which it is offered, and the producers of the product are not always in the same geographical boundaries as the consumer.

On the other hand, the UNWTO defines tourists as individuals who "travel to and stay in places outside their usual environment" and this usual environment is defined as a "160Km radius". Due to the relatively small area of Lebanon, external tourism is the

dominant type of, and in return this means that it depends heavily on international arrivals.

Therefore both the tourism product and the consumers of this product (the tourists) have an international dimension.

1.5 Organization of the thesis

This thesis is organized into five (5) chapters. Chapter 1 describes the topic of the thesis, its objectives, importance, and relevance as an international industry. Chapter 2 describes the importance of tourism as a globalized industry, considers the economic impact of tourism and how this is measured and interpreted in economic terms. It also describes the consumers of the tourism product: the tourists. Chapter 3 presents the procedure research methodology, presents the hypothesis, describes the selected variables and sources of data, and which instrumentation has been used and the empirical framework to analyze the data. Chapter 4 provides the results of this thesis, discusses the findings and the hypothesis. Chapter 5 concludes the study and presents conclusions, recommendations, and areas for further studies.

Chapter 2

REVIEW OF LITERATURE

2.1 Introduction

The purpose of this chapter is to highlight the importance of tourism, focus on the economic and social aspect of tourism and ways to measure them, review relevant literature by investigating the potential role of tourism in economic theories, and investigate empirical studies that measure tourism demand.

In addition to tourism, this chapter will look at the financial crisis that has originated from the enormous global shock that resulted from high food and fuel aggravated by the subprime mortgage crisis, which impacted many sectors of the economy and caused an economic slowdown, as well as the swine flu outbreak.

Finally, this chapter will consider the tourists, the consumers of the tourism product, which add their own unique dimension to this product.

2.2 Tourism and economic theories

There are few economic theories that identify and explain a role for tourism in economic development. Some theories were put forward since the 1970s, notably "community approach", and "regulation and new tourism". These theories tend to cater for specific case-by-case scenarios.

Due to the limited amount of economic theories that study a role for tourism, this section will explore some of the most influential theories in economic development in their times, examine a role for tourism in them, in addition to the above mentioned theories.

The theories that will be examined are:

- The English classical theory of economic stagnation

- Marx's historical approach
- Balanced growth and unbalanced growth
- Rostow's theory of growth and development
- Dependency
- Community approach
- Regulation and new tourism

2.2.1 The English classical theory of economic stagnation

This theory grew of the classical writings of early economists such as Ricardo (Principles of Political Economy). This theory was influenced with Newtonian Physics (life was never random but ordered by some 'grand design'). It can be understood by concentrating on two of its main ideas: The law of diminishing returns and that in the event of no technological progress, output is constrained by scarcity of land.

The pitfalls of this theory is that it neglects the impact of technological progress that can multiply the output of a single individual, also that it considers growth to be only determined by prosperity.

Within this theory, there is no clear role for any industry beyond the limits of the scarcity of lands. Therefore tourism is a form of land, or real estate development, and will add pressure on the use of lands. Hence, this theory is of little importance for tourism as it cannot explain the economic development of tourism.

2.2.2 Marx's historical approach

Historical materialism looks for the causes of developments and changes in human society in the means by which humans collectively produce the necessities of life. The non-economic features of a society (e.g. social classes, political structures, ideologies) are seen as being an outgrowth of its economic activity.

Marx held that history was a series of class struggles between owners of capital (capitalists) and workers (the proletariat). As wealth became more concentrated in the hands of a few capitalists, the ranks of an increasingly dissatisfied proletariat would swell, leading to bloody revolution and eventually a classless society.

According to Marx, the basis of human society is how humans work on nature to produce the means of subsistence:

- There is a division of labor into social classes (relations of production) based on property ownership where some people live from the labor of others
- The system of class division is dependent on the mode of production
- The mode of production is based on the level of the productive forces
- Society moves from stage to stage when the dominant class is displaced by a new emerging class, by overthrowing the "political shell" that enforces the old relations of production no longer corresponding to the new productive forces. This takes place in the superstructure of society, the political arena in the form of revolution, whereby the underclass "liberates" the productive forces with new relations of production, and social relations, corresponding to it

A criticism of this theory is that it relies upon there being a conflict of interests and objectives between capitalists and the proletariat. However if there is no conflict between the two sides, then both sides can grow by sharing a fast-growing output.

In this theory, tourism has a role: it can become an economic organization based on public or direct worker ownership overseeing the means of production and allocation of resources; thus contributing in distributing wealth among a larger segment of society. It can even be a factor to speed up the change from capitalism to socialism because of its product characteristics. In this theory, there is room for tourism to be an excellent driving force for economic and social change.

2.2.3 Balanced and Unbalanced Growth Theory

The balanced growth theory sees the main obstacles to development in the narrow market and in the limited market opportunities. Under these circumstances, only a bundle of complementary investments realized at the same time has the chance of creating mutual demand. Hence investing in some sectors of the economy will not help the whole economy to develop. The theory refers to Say's theorem and requests investments in such sectors which have a high relation between supply, purchasing power, and demand as in consumer goods industry, food production.

In the balanced growth theory:

- Growth is achieved by investing simultaneously across different industries: Use more capital in non-agricultural sectors, and in lesser extent, agricultural sectors
- Development is seen as an expansion of market and an increase of production
- Is consistent with concepts of centralized planning
    - State owned industries
    - State controlled or directed investment

This theory has much room for tourism to play an economic role. As being part of the broad balanced approach, tourism will profit from the balanced growth, through the support and guidance of the state. It will gain momentum as infrastructure spending increase and economy starts to expand, creating a sort of sustainable inertia.

Alternatively there is the unbalanced growth theory. Within this theory, the real bottleneck is not the shortage of capital, but lack of entrepreneurial abilities. The idea here becomes that investing in few leading sectors of the economy will drag the other sectors up. These first investments initiate further investments which are made by less qualified entrepreneurs, thus the economy thrives.

The unbalanced growth theory:

- Suggests that balanced growth is unrealistic due to misallocated savings available
- Concentrates on focused and targeted investment in key industries
- Aims to exploit the nature of complementary investment and dependencies between markets
- Concentrates on industries with strong links within the economy to stimulate growth

For tourism to benefit from the unbalanced growth approach, it must be considered a key industry within the economy. This stands if tourism is seen as an enabler to stimulate growth and seen as having strong links with other sectors within the economy.

2.2.4 Rostow's Theory of Growth and Development

The model postulates that economic modernization occurs in five basic stages of varying length: traditional society, preconditions for take-off, take-off, drive to maturity, and age of high mass consumption.

The traditional society is characterized by being hierarchical. The economic system is stationary; agriculture is the most important industry. Productivity by man-hour is low compared with subsequent stages.

In the preconditions for take-off stage, rates of investment as well as specialization increase which generates surpluses for trading. There is an emergence of a transport infrastructure to support trade. Workforce for primary sectors becomes redundant. A rising spirit of progress and openness emerge.

In the take-off stage there is a rapid expansion of the industry with workers switching from the agricultural to the manufacturing sector. This stage is also characterized by an

increasingly dominant entrepreneurial class, a surge of technology, and an increased capital investment.

The drive to maturity is characterized by continued investments. Economic and technical advancements are some of the characteristics of this stage. The economy produces a wide range of goods and services and relies less on imports. Society is urbanized.

In the final stage in Rostow's theory, the age of high mass consumption, the economy is geared towards mass consumption. The consumer durable industries flourish. The service sector becomes increasingly dominant. There is social welfare and more resources are dedicated for military.

According to Rostow, the northern hemisphere belongs today to this stage.

A criticism for Rostow's theory is that it assumes that development in emerging markets today will mirror the development process that was experienced by already developed countries. In fact many economists argue that Rostow's model was developed with Western cultures in mind. This ignores the impact of globalization and assumes that developing countries have the same objectives that were pursued by the developed countries.

This model can be easily applied to tourism as it describes a potential guideline for the development of the tourism industry:

At stage one, tourism is virtually inexistent. Then, surplus of agriculture and capital coupled with the emergence of a commercial class will enable tourism to start developing. The rapid expansion of the economy accompanied by the evolution of new political and social institutions will drive growth and start sustaining the economy (including tourism). Finally, the development of transportation and infrastructure, coupled with the import of capital help tourism to take-off as an industry and drive it to maturity.

2.2.5 Dependency theory

This theory considers developing countries as dependant and that the cause of underdevelopment is their dependency on industrialized countries:

- Developed countries want to keep the advantage they have for many internal reasons, and consider developing countries as dependant.
- Developing countries are dependent countries: therefore, the greater the dependency, the lower the ability to achieve economic development.

A criticism of the dependency theory is that it concentrates on explanations of underdevelopment and pays little attention to strategies for overcoming this situation.

This theory can easily relate to external tourism as:

- External tourism heavily depends on foreign visitors
- Large tourism development projects rely on foreign direct investment, often from richer more developed countries
- Tourism relies on external suppliers (tour operators, transport companies, airlines etc.)

Tourism development may show symptoms of the theory when it results in enriching developed metropolitan areas at the expense of underdeveloped regions. For example small island states in close proximity to large industrialized economies such as Caribbean tourism destinations.

Another often cited example is that the land and general price inflation associated with tourism development may make it difficult for local residents to purchase their own homes.

2.2.6 Community Approach Theory

This tourism economic theory started to emerge in the late 1970's when Gordon McIntyre and Howard Housen conducted a feasibility study on the United Sates south coast to determine if the communities wanted tourism and if so, what type of tourism. The results of this survey showed that the communities wanted a tourism that respected their life style and did not change it. This theory emphasizes the importance of communities taking an active role in determining tourism outcome: it takes the community into consideration and gives them the chance to participate in tourism development planning.

A criticism to this theory is that it involves the community in the development process, leaving behind the elite. Also it neglects aspects like race, gender, political, and socio-economic structure with communities. Essentially, the community approach tends to overlook the local implications of the evolving nature of capitalist accumulation at broader scales.

2.2.7 Regulation and New Tourism Theory

This theory argues that capitalism is unstable, contradictory system that needs to restructure itself in order to resolve its periodic crisis. It is focused on the concept that the industry must attain flexibility internally and externally. It introduces the concept of "regime of accumulation" based on a "set of internalized rules and social procedures". Internally, firms must specialize their products and change product settings in order to meet market taste. Externally, there must be a shift associated with vertical and horizontal disintegration that leads to downsizing specialized firms. Also this theory considers that economies of scope, system gains, segmented markets, etc are becoming more and more important f or profitability and competiveness in tourism.

However there has been some criticism concerning the ability of this new tourism theory to address the processes of change affecting contemporary capitalism (Ioannides and Debbage 1998).

2.3 Empirical studies of tourism demand

The previous section studied roles tourism can play in economic development theories; this section is going to explore models and empirical studies that have been used to estimate tourism demand.

Understanding the driving force behind tourism demand is useful to increase our understanding of its economic determinants in order to better forecast and mitigate any negative impact – a future financial crisis for example.

Most of the empirical studies of tourism demand have been based on two approaches:

- The single equation model
- The system of equations model

2.3.1 The single equation model

The single equation model is a well known model used in several studies of tourism demand. It supposes that tourism demand is a function of several variables.

This model first theorizes the variables, and then, uses the technique of multiple regression analysis to estimate the relationship between both sides of the equation.

Tourism demand, D, would be a function of $(x_1, x_2, \ldots, x_n)$, where x_i is an independent variable:

$$D = f(x_1, x_2, \ldots, x_n)$$

The objective then is to determine which independent variables should be included in the equation and their functional form. This is an important objective: if variables integrated in the formula are inappropriate or incomplete, the results obtained would be inappropriate: this can lead to erroneous conclusions.

There is wealth of literature that uses the single equation model in order to study tourism demand such as Archer (1976), Johnson and Ashworth (1990), Sheldon (1990), Sinclair (1991), Song and Witt (2000), and Durbarry and Sinclair (2002).

Based on the work of previous scholars, a typical single equation tourism demand function, where all variables occur at a given time t, would be:

$$D_{ij} = f(Y_i, P_{ij/k}, E_{ij/k}, E_{ij/k}, DV)$$

Where:

- D_{ij} is tourism demand by origin i to destination j
- Y_i is the income of origin i
- $P_{ij/k}$ is prices in i relative in j and competitor destinations k
- $E_{ij/k}$ is exchange rate between i and destination j and competitor destinations k
- $T_{ij/k}$ is the transport cost between origin i, destination j, and competitor destinations k
- DV is a dummy variable to take account of special events such as sporting events, political instability, etc

Results from empirical studies showed that income is an important variable for international tourism demand. Income was considered to be a key element in the demand for tourism and made it through the function such as with Artus (1972), Witt and Martin (1985), and Gray (1982). In other studies, total disposable income was included as a variable such as with Kwack (1972) whereas total national income GNP was included in other studies such as Papadopoulos and Witt (1985), and Tremblay (1989).

Prices are also a key element in most of the studies that was included in the typical single equation formula. However, it is worth noting that relative prices are difficult to determine: in most studies they were included in indirect ways. The most commonly used reference point was the consumer price index CPI such as in the studies of Witt and Witt (1995), Kim and Uysal (1997).

Exchange rates are often viewed as determinant factors in tourism demand as tourists are more likely to be aware of exchange rates than of living costs and prices in the destination country. Many studies included the exchange rate and studied its significance whether by including the exchange rate between the tourist origin and individual destination, or by tourist origin and an average rate of a basket of destinations, or composite relative prices. These studies include Loeb (1982), Gunadhi and Boey (1986), Gray (1996) just to name few. Other studies included both exchange rates and relative prices in the demand formula, as favorable exchange rates can be offset by inflation such as Song and Witt (2000).

Transport costs were included in some empirical studies such as Askari (1973), Gray (1996). However due to the complexity of appropriately measuring the cost of transportation based on available data, due to the complexity of the fare systems around the world, and since tourists that are travelling in packages often obtain special rates, determining many challenges rise in determining the exact way to measure this variable in the formula. As we will see in Chapter 3, this variable was particularly difficult to quantify in Lebanon, due to the absence of a structure for transport cost and the absence of a fare system. For example: the same taxi driver will probably charge two different fares for the same route.

Dummy variables are used to account for specific events that are deemed temporary and essential on tourism demand. Such variables include sporting events such as FIFA world cup, Olympic Games, political unrest, epidemics, natural disasters… Some of the

studies that included these kinds of dummy variables are Loeb (1982), Gunadhi and Boey (1986).

The single equation approach allows tourism demand to include variables specific to different types and geographies. Although this model has been efficient and satisfactory in many cases, a criticism of this model has been noted by Fujii (1985): "single equation model are inefficient in their use of information and are deficient in their analysis of cross-price elasticity."

2.3.2 The system of equations model

The system of equations model relies on concurrent evaluation of several tourism demand; it attempts to explain the sensitivity of the budget shares across a range of origins and destinations.

The system of equations model is based on the consumer demand theory. It can be derived by using the Almost Ideal Demand System developed by Deaton and Muelbauer. It is worth noting that the linear expenditure system was also used but it tends to provide less accurate results, Fuji (1987).

The Almost Ideal Demand System represents an elegant treatment of consumer demand. It provides an arbitrary first order approximation to any demand system, one which satisfies the axioms of choice while avoiding unattractive features of other models.

According to this system, decisions are made by a stage budgeting process:

- First the consumer allocates the budget among broad group of needs, goods and services. For example housing, grocery, tourism.
- Then the consumer distributes the expenditure to sub-groups such as tourism in Africa, Europe or the Americas…

The allocation of expenditure of sub-groups under consideration can be calculated by a series of multiple regression analysis. A typical equation might be:

$$w_i = \alpha_i + \sum_{j=1}^{n} \gamma_{ij} \log p_j + \beta_i \log (x/P)$$

Where:

- w is the share of budget one allocates for tourism in destination j
- P_j is the price level in country of origin j
- x is the budget for tourism expenditure
- P is the price index
- α, β, γ are coefficients to be used, taking different values for each type of study

The system of equation model was used by many scholars to explain the allocation of tourism expenditure between different destinations such as White (1985), Smeral (1988), De Mello (1999). It was also used to determine different types of tourism expenditure such as Fujii (1987).

The advantages of the system of equation model include incorporating the consumer decision-making process. It allows to calculate the expenditure, own-price, and cross-price elasticity of tourism demand; something that the single equation model is not well suited to handle. In the system of equations model, the Almost Ideal Demand System is generally considered the most flexible form of representing consumer preferences.

2.4 Measuring the socio-economic impact of tourism

There are several approaches used to measure the socio-economic impact of tourism, some of the most used methods are:

- Macroeconomic indicators and tourism satellite account

- Project level approaches
- Value chain analysis

2.4.1 Macroeconomic indicators and tourism satellite account

The most used methods to study the impact of tourism in the socio-economic level are the macro indicators. The economic impact of the tourism industry is usually assessed at the macroeconomic level and can be measured in several different ways: tourism is considered according to its contribution in the form of receipts, share of gross domestic product (GDP), exports, growth rate patterns, government expenditures, and capital investment. Another method that is derived from macro indicators and is gaining momentum recently is the tourism satellite account.

The United Nations Statistics Division and the World Tourism Organization developed the tourism satellite account as one of the most systematic measurement of the economic impact and contribution of tourism at the national level. According to the World Travel & Tourism Council (WTTC), the tourism satellite account is based on a demand-side concept of economic activity. This is needed since the tourism industry does not produce or supply a homogeneous product or like many traditional industries; instead the travel and tourism industry is defined by a diverse collection of products (durables and non-durables) and services (transportation, accommodation, food and beverage, entertainment, government services, etc) that are delivered to tourists.

"There are two basic aggregates of demand: (1) travel and tourism consumption and (2) total demand. Satellite accounting produces two different and complementary aggregates of travel and tourism supply when input/output modeling is used separately with these two aggregates. The first aggregate is the travel and tourism industry, which captures the explicitly-defined production-side industry contribution (the direct impact only), for comparison with all other industries. The second aggregate is the travel and

tourism economy, which captures the broader economy-wide impact of travel and tourism—both direct and indirect." (WTTC – TSA Methodology and Definitions).

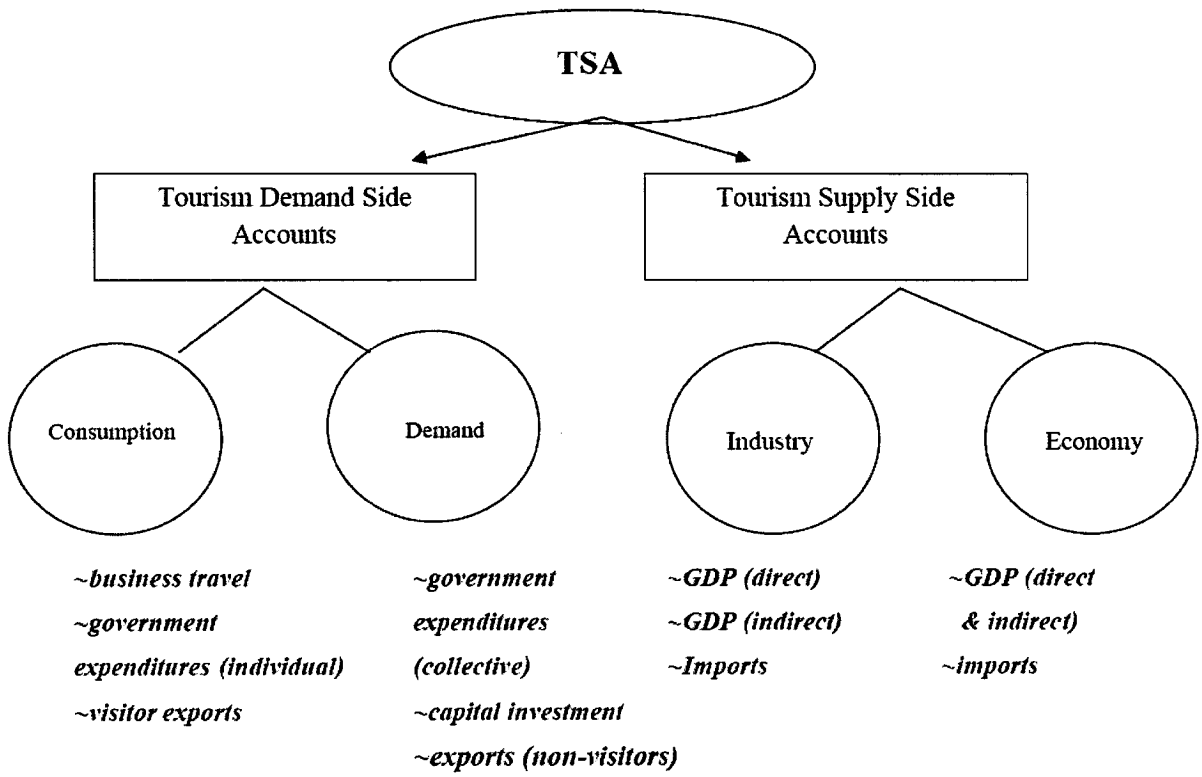

Figure 1: Tourism Satellite Account

(Source: The Tourism Satellite Account: Basic Understanding, Implementation and Issues)

In TSA, emphasize will be given more onto the demand side of the account as it involves expenditures by different parties and agencies for the tourism goods and services. It is because the demand of tourism will directly encroach on the supply of the products or services. While on the supply side, considerations will be taken more on the country resources and the ability to match the demand or visitors' needs (Wong 2006).

The Tourism Satellite Account can then help decision makers to understand the economic dynamics of tourism, the relationship between tourism and durable goods, the relationship between tourism and government spending, the balance of payment

resulting from tourism goods and its services, and the relationship between tourism and investment.

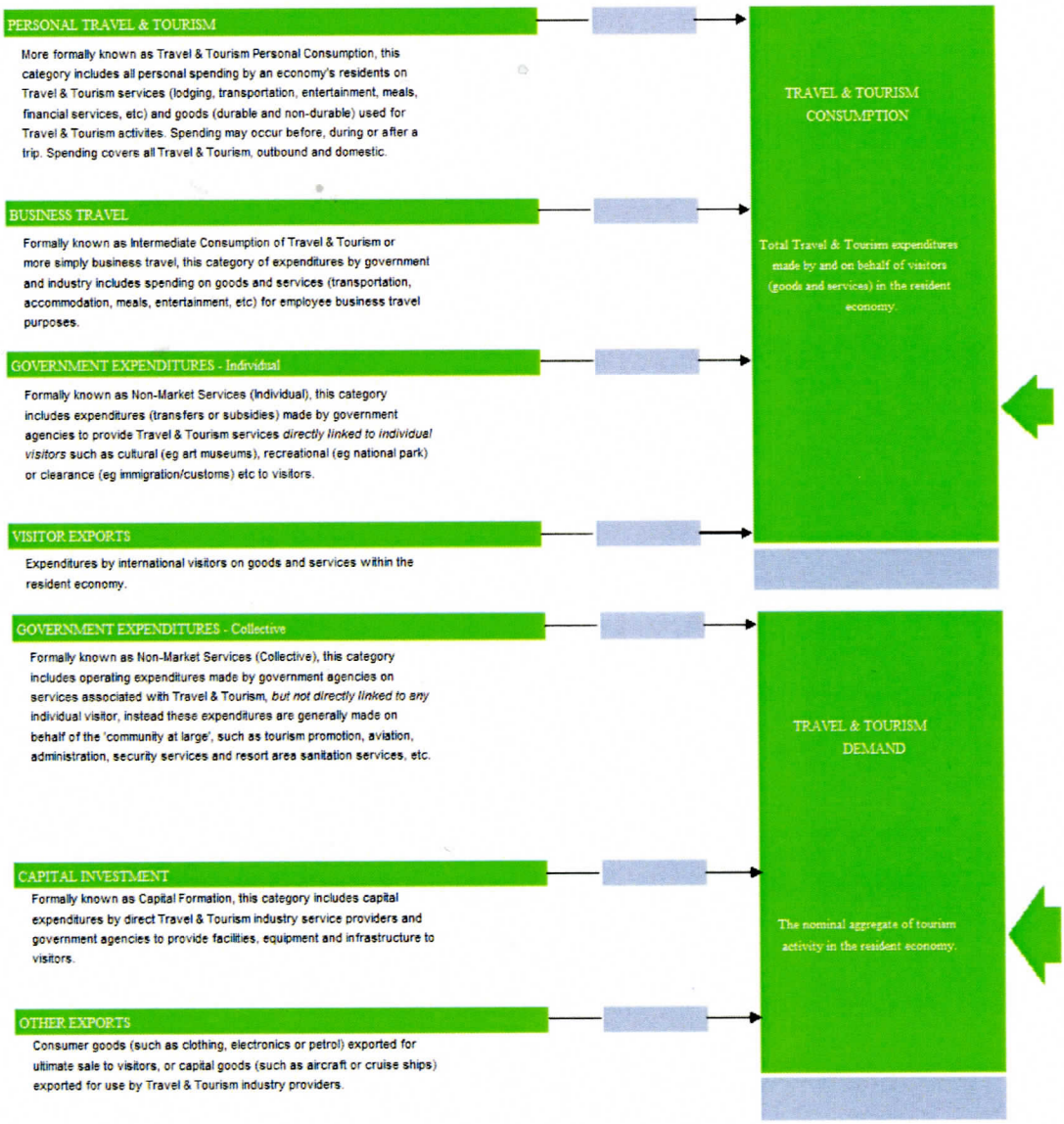

Figure 2: Typical TSA account – Demand Side Account

(source: World Travel and Tourism Council)

Many countries are using Tourism Satellite Account. For example the Government of India reported in 2006 on its tourism satellite account covering the period of 2002-2003. Malaysia is also developing its own tourism satellite account.

2.4.2 Project-level approaches

Among the project-level approaches used to assess the impact of tourism are traditional cost-benefit analyses, including their extensions to social impact analysis and environmental impact analysis, livelihood analysis...

For example, in Indonesia there was a joint venture project between the local government and Patra Pala Foundation with support from the Japan International Cooperation Agency (JICA) to provide alternative income for villagers living in the area surrounding the Borobudur World Heritage site. The project was designed to provide agro-forestry activities, develop community-based ecotourism, improve local awareness of resource management, set up a training centre for villagers and establish a community forum for networking and monitoring. Social impacts have been observed at the village level and economic impacts still have to be analyzed quantitatively.

Another example is in Nepal where the Ministry of Culture, Tourism and Civil Aviation initiated the Tourism for Rural Poverty Alleviation Program (TRPAP) from 2001 to 2005. This was supported by UNDP and the development agencies of the United Kingdom and the Netherlands. The immediate objectives were to demonstrate sustainable tourism development models, review and improve policy formulation and strategic planning, adapt institutional mechanisms, including decentralization, in order to achieve sustainable tourism development

2.4.3 Value chain analysis

This technique considers each element of a tourist's experience to see how the product or service is produced, distributed and sold -- that is, the value added by each element: the chain consists of a series of activities that create and build value.

In 2006, the technique was used in the city of Luang Prabang, Lao People's Democratic Republic, where opportunities to increase earnings were identified by assessing value chains for accommodations, handicrafts, excursions and food. The study estimated the expenditure per tourist, including their expenditure on accommodation, restaurant food, drinks, crafts, transport and guides. For each enterprise chain an assessment was made of which owners and workers would benefit if the value chain were developed further. This enabled the identification of those value chains most likely to benefit the poor, women and minorities.

2.5 Importance of tourism

According to data released by the World trade Organization, tourism ranks about 5th in international trade, after fossil fuels, telecommunications and computer equipment, automotive products. It is one of the fastest growing industries in the world.

Tourism is a leading industry in the service sector at the global level as well as a major provider of jobs and a significant generator of foreign exchange at the national level. According to the World Travel and Tourism council, the travel & tourism economy generated over 238 million jobs worldwide and contribute to 9.9% of global GDP in 2008.

The economic impact of tourism was demonstrated by the September 11, 2001 events: As a consequence of the attacks, people cut back on their travel; economic forecasts were put on hold; airline, lodging, tour operators, and travel agent revenue declined, and widespread layoffs occurred thorough the industry (Goeldner, 2008).

2.5.1 International tourist arrivals

During the period between 2000 and 2008, worldwide international tourist arrivals grew at an average annual rate of 3.8 per cent from 684 million tourists in 2000 to 922 million tourists in 2008, see figure 1.

It is worth noting that the Middle East outperformed the rest of the world in this period with an annual average rate of 10.5 per cent, Europe remained the top regional tourist destination, while the Americas moved from second to third place behind Asia and the Pacific.

	International Tourist Arrivals (million)							Market share (%)	Change (%)		Average annual growth (%)
	1990	1995	2000	2005	2006	2007	2008*	2008*	07/06	08*/07	00-08*
World	**438**	**534**	**684**	**804**	**853**	**904**	**922**	**100**	**6.1**	**2.0**	**3.8**
Europe	**265.0**	**309.5**	**392.6**	**441.8**	**468.4**	**487.9**	**489.4**	**53.1**	**4.1**	**0.3**	**2.8**
Northern Europe	28.6	35.8	43.7	52.8	56.5	58.1	57.0	6.2	2.8	-1.9	3.4
Western Europe	108.6	112.2	139.7	142.6	149.6	154.9	153.3	16.6	3.6	-1.1	1.2
Central/Eastern Europe	33.9	58.1	69.3	87.5	91.4	96.6	99.6	10.8	5.6	3.1	4.6
Southern/Mediter. Eu.	93.9	103.4	139.9	158.9	170.9	178.2	179.6	19.5	4.3	0.8	3.2
Asia and the Pacific	**55.8**	**82.0**	**110.1**	**153.6**	**166.0**	**182.0**	**184.1**	**20.0**	**9.6**	**1.2**	**6.6**
North-East Asia	26.4	41.3	58.3	86.0	92.0	101.0	101.0	10.9	9.8	-0.1	7.1
South-East Asia	21.2	28.4	36.1	48.5	53.1	59.7	61.7	6.7	12.3	3.5	6.9
Oceania	5.2	8.1	9.6	11.0	11.0	11.2	11.1	1.2	1.7	-0.9	1.8
South Asia	3.2	4.2	6.1	8.1	9.8	10.1	10.3	1.1	2.6	2.1	6.8
Americas	**92.8**	**109.0**	**128.2**	**133.3**	**135.8**	**142.9**	**147.0**	**15.9**	**5.2**	**2.9**	**1.7**
North America	71.7	80.7	91.5	89.9	90.6	95.3	97.8	10.6	5.2	2.6	0.8
Caribbean	11.4	14.0	17.1	18.8	19.4	19.8	20.2	2.2	1.6	2.0	2.1
Central America	1.9	2.6	4.3	6.3	6.9	7.8	8.3	0.9	12.0	7.0	8.4
South America	7.7	11.7	15.3	18.3	18.8	20.1	20.8	2.3	6.5	3.6	3.9
Africa	**15.1**	**20.0**	**27.9**	**37.3**	**41.5**	**45.0**	**46.7**	**5.1**	**8.4**	**3.7**	**6.7**
North Africa	8.4	7.3	10.2	13.9	15.1	16.3	17.2	1.9	8.5	4.9	6.7
Subsaharan Africa	6.7	12.7	17.6	23.4	26.5	28.7	29.5	3.2	8.3	3.1	6.7
Middle East	**9.6**	**13.7**	**24.9**	**37.9**	**40.9**	**46.6**	**55.1**	**6.0**	**14.0**	**18.1**	**10.5**

Table 1: International Tourist Arrivals by Region and Sub-Region

(source: UNWTO, Tourism Highlights, 2009)

2.5.2 Tourism receipts

Tourism is a significant source of foreign exchange revenues for many countries; its contribution becomes even more important in developing countries. The contribution of tourism to socio-economic development has been most closely related to receipts and

spending in the national economy. UNWTO estimates that worldwide receipts from international tourism reached US$ 944 billion in 2008. Figure 2 presents the international tourism receipts by regions and sub-regions of the world in 2008.

All regions shared in the increase in tourism receipts in absolute values. In real terms growth was in all regions much weaker in 2008 than the year before with the exception of the Middle East, which registered a double digit growth of 17%. Asia and the Pacific grew by 2.7% (compared to +9.8% in 2007) and the Americas increased by 5.0%, slightly less than 2007 with 6.3%. Both Europe and Africa (-1% each), however, suffered negative growth in receipts in real terms. Figure 2 tends to reinforce the attractiveness of the tourism industry as an immediate source of foreign exchange earnings.

International Tourism Receipts	Change local currencies, constant prices (%)			Share (%)	US$ Receipts (billion)		per arrival
	06/05	07/06	08*/07	2008*	2007	2008*	2008*
World	**5.3**	**5.4**	**1.7**	**100**	**858**	**944**	**1,020**
Europe	**4.2**	**2.7**	**-1.1**	**50.2**	**435.2**	**473.7**	**970**
Northern Europe	9.3	3.9	-2.4	7.4	70.7	69.8	1,220
Western Europe	4.0	2.3	-2.5	17.2	149.6	162.1	1,060
Central/Eastern Europe	8.4	9.0	2.7	6.2	48.5	58.1	580
Southern/Mediter. Eu.	1.6	1.0	-0.5	19.4	166.3	183.7	1,020
Asia and the Pacific	**11.1**	**9.8**	**2.7**	**21.8**	**186.8**	**206.0**	**1,120**
North-East Asia	12.1	8.5	3.1	10.2	85.8	95.9	950
South-East Asia	15.9	14.8	1.5	6.5	55.3	61.1	990
Oceania	1.2	7.0	2.4	3.6	31.9	33.9	3,050
South Asia	13.9	5.2	6.1	1.6	13.8	15.1	1,470
Americas	**2.1**	**6.3**	**5.0**	**19.9**	**171.3**	**188.4**	**1,280**
North America	0.8	7.2	7.0	14.7	124.9	138.5	1,420
Caribbean	4.2	0.6	-2.1	2.5	23.2	23.8	1,180
Central America	10.5	8.9	-0.5	0.7	6.2	6.8	820
South America	6.6	6.8	2.7	2.0	16.9	19.3	930
Africa	**11.5**	**9.1**	**-1.0**	**3.2**	**29.1**	**30.6**	**650**
North Africa	19.6	7.5	-4.4	1.1	10.2	10.7	630
Subsaharan Africa	7.7	9.9	0.7	2.1	18.9	19.9	670
Middle East	**3.0**	**9.0**	**17.3**	**4.8**	**35.0**	**45.6**	**830**

Table 2: International Tourist Receipts by Region and Sub-Region

(source: UNWTO, Tourism Highlights, 2009)

2.5.3 Negative impact of tourism

Many less developed countries depend on foreign aids for economic stimulation. Tourism growth creates an illusion of growth to the aid provider which tends to limit and cut their financial aid which negatively impact many countries that depend on financial assistance.

Also many economists argue that:

- Tourism leads to the inflation of prices of goods and services, which in turn adds more burdens on the local communities
- Jobs involved in the industry of tourism are seasonal and not always well paid; unemployment rate would rise outside the tourism season
- Tourism can have a negative environmental impact

2.6 Tourism product characteristics

The tourism product is a unique product, not only tourists add their own unique dimension to the product, but it has to be consumed within the geographical boundaries of the destination in which it is offered. Another aspect is that the producers of the product are not always in the same geographical boundaries as the consumer. The product also encompasses a wide range of activities. As with any personal service, production and consumption occurs simultaneously. In the case of tourism, such production affects other sectors of the economy, directly and indirectly. Five main sectors of the tourism product are:

- Accommodation sector which consist of hotels, resorts, hostels, villas, apartments, camping sites… Many of those cater to the specific niche needs of groups and meeting, families, sport, adventure…
- Attractions and dining sector, such as museums, theater, galleries, theme parks, sporting events, restaurants, archaeological sites, historical buildings…
- Travel organizer sector: tour operators, travel agents, booking agencies, etc
- Destination organization sector: national tourist offices, chamber of commerce, local authorities, etc

Each of these sectors has its own set of features. For example beach resorts are judged based on the appearance of their beach and promenade, environmental impressions,

cleanliness, climate, etc. Museums would be better perceived based on the contents and importance (unique items, major collections), architectural features, perceptions of staff...

Of those basic components, attraction is the most important one: the tourist will not be motivated to go to a particular destination unless there is an attraction. The attractions must be accessible: tourist attractions are generally of little importance if they are not accessible by normal means of transport. This mean of transport can be a car, airplane, train, bus. If tourist destinations are located at places where no transport can reach or where there are inadequate transport facilities, they become of little value.

The accommodation and other facilities complement the attractions. Of those, accommodation plays a central role and is very basic to tourist destinations.

2.7 The buying decision process in tourism

In the following few sections, we shift our focus to the consumer of the tourism product: the tourist.

The World Tourism Organization defines tourists as individuals who "travel to and stay in places outside their usual environment for more than twenty-four hours and not more than one consecutive year for leisure, business and other purposes not related to the exercise of an activity remunerated from within the place visited". The WTO also defines the "usual environment" to be 160km away from place of residence.

The consumer buying process is a complicated process and has many internal and external factors that influence the decision. Without a sound knowledge of the reasons why consumers purchase its goods/services, a hospitality and tourism company, for example, cannot expect to
create marketing strategies and promotional plans that work. This buying process is most often defined as a five-stage purchase process:

- Need/Want Recognition
- Information search
- Evaluation of alternatives
- Purchase decision
- Post purchase behavior

Need occurs when the consumer recognizes that he/she has an unfulfilled want. It may be triggered by the knowledge that a current product is not performing properly, when the consumer is running out of a product, or when another product seems superior to the one currently used.

Applied to tourism, need to travel can be:

- A search for romance
- Visiting family or friends
- Celebrating honeymoon
- Relaxation
- Prestige of destination
- Wish fulfillment
- Education, shopping, medical…

Once a need has been defined, the consumer will typically start the information search. It can be by recalling past information, word-to-mouth communication, travel agent enquiries, browse the internet for forums or pictures…

From this search, the consumer starts evaluating alternatives that can potentially meet his needs. The tourism product attributes are analyzed, using some cut-off criteria, such as travel ban, high security risk area, too expensive destinations, etc.

After evaluation, the consumer will make a purchase decision that suits him best.

Finally, after purchasing the product, the consumer will typically start a post purchase behavior. This is a common trait amongst purchasers of products. The tourist will start asking questions such did I make a good decision? Did I get a good value for money? This can be eased through effective communication with the consumer, following-up after the purchase and rectifying any problems identified by the consumer as well as offering guarantees or warranties.

2.8 Models for understanding tourists behavior

Many theories were put foreword to explain the travel behavior of tourists. Three of the most important theories are Graburn's "tourist inversion" theory, Iso-Ahola's model of the social psychology of tourism, and Plog's model of allocentricity and psychocentricity.

2.8.1 Graburn's "tourist inversion"

Graburn emphasizes that within the context of any one visit, there is a shift within behavior patterns towards a temporary opposite. These can be for extended relaxation, increased consumption of food or drink, change in dress code... Graburn argues that only some dimensions will normally be subject to reversal which allows us to explain how the same people take different types of vacations at different times and different locations. Graburn proposes several dimensions under which tourist inversion occurs. The following shows some examples of inversions in tourism:

Examples of 'inversions' in tourism

Dimension	*Continua*	*Tourist behavioural pattern*
Environment	Winter vs. summer Cold vs. warmth Crowds vs. isolation Modern vs. ancient Home vs. foreign	Tourists escape cooler latitudes in favour of warmer places. Urban people may seek the solitude of rural or remote places. Historic sites attract tourists who live in modern environments. Familiarity of the home replaced by the difference of a 'foreign' environment.
Lifestyle	Thrift vs. indulgence Affluence vs. simplicity Work vs. leisure	Expenditure increased on special events or purchases. Experiences selected to contrast routine of work with rewards of leisure.
Formality	Rigid vs. flexible Formal vs. informal Restriction vs. licence	Routines of normal time-keeping, dress codes and social behaviours replaced by contrasting patterns and practices based on flexibility and informality.
Health	Gluttony vs. diet Stress vs. tranquillity Sloth vs. exercise Age vs. rejuvenation	Tourists indulge through increased consumption. Relaxation sought as relief from routine stresses. Active holidays chosen as alternative to sedentary patterns in daily lives. Health spas and exercise used to counteract processes of ageing.

Table 3: Examples of inversions in tourism

(source: Tourism geography By Stephen Williams)

2.8.2 Iso-Ahola's model of the social psychology of tourism

Also called the theory of motivation, it was proposed by Iso-Ahola. It asserts that personal seeking, personal escape, intrapersonal seeking, and intrapersonal escape operate as salient intrinsic motivational drives for tourism behavior and recreation.

This theory places its emphasis upon the idea that tourist movements are a product of combination of factors that prompt the participant to leave their present location and attract them a push-pull effect:

- Escape from routine environments (Push)
- Rewards from the environments visited (Pull)

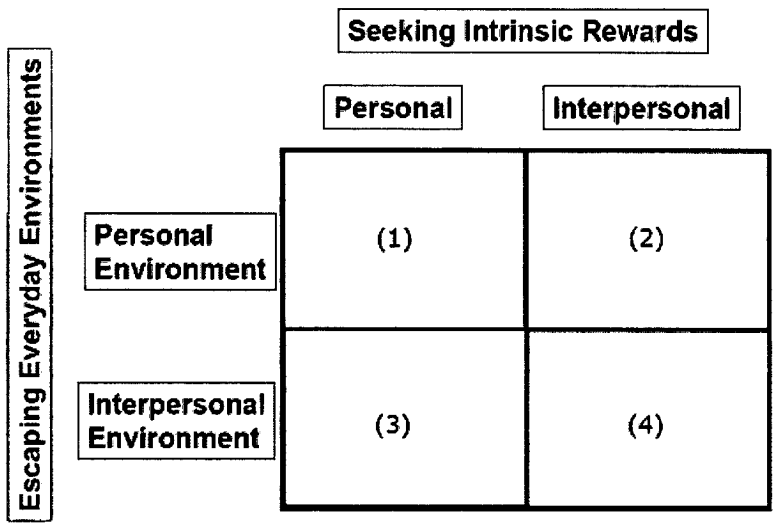

Figure 3: Iso-Ahola model
(source: Iso-Ahola, 1982)

Iso-Ahola argues that is it futile to attempt to separate the reasons for travelling (motivations) from the benefits gained, as often they can be one and the same. For example, a reason for traveling such as exploring new places can also be a benefit, while a benefit of escaping from routine can also be a reason to travel (Beeton, 2006).

2.8.3 Plog's model of allocentricity and psychocentricity

Plog's model of allocentricity and psychocentricity, a seminal tourism model, has been widely cited in the tourism literature and is included in virtually every hospitality and tourism text. He was amongst the first to develop a segmentation of tourists based on

their psychological preference ad behavior. Plog's model classified people into series of interrelated psygographic types, ranging in between two extremes: the psychocentric, and the allocentric. The psychocentric tend to be conservative in their travels, preferring safe destinations. They often return to the same destination. The allocentric tend to be adventurous, motivated to travel and discover new destinations. They rarely return to the same place.

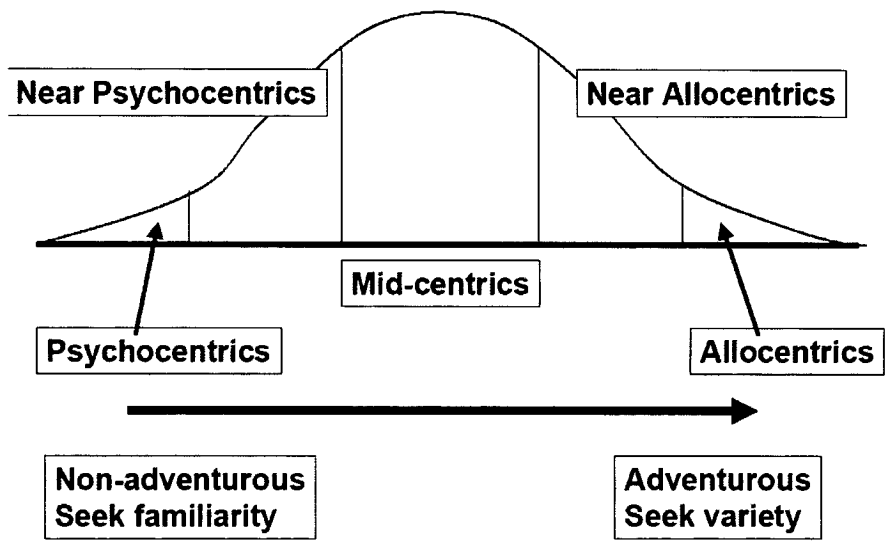

Figure 4: Plog's model
(source: Plog, 1974)

2.9 The swine flu outbreak and the financial crisis

2.9.1 Swine Flu outbreak

In late April 2009, Margaret Chan, the World Health Organization's director-general, declared a "public health emergency of international concern" under the rules of the WHO's new International Health Regulations when the first two cases of the H1N1 virus were reported in the United States, followed by hundreds of cases in Mexico. Following the initial cases in the USA and Mexico, on May 2, 2009, it was reported in pigs at a farm in Alberta, Canada, with a link to the outbreak in Mexico.

2.9.2 The financial crisis

According to the CIA world factbook, marked 2009 to be the first year in the post-World War II era where global output - and per capita income - declined; "output contracted 1% year-over-year, compared with average increases of about 3.5% per year since 1946. And global trade plummeted nearly 25% from 2008's level, the largest single year drop since WWII".

Many names were given to the actual liquidity shortfall that has started in the United and spread worldwide such as financial meltdown, economic crisis, credit crunch, credit crisis, financial turmoil, economic slowdown, economic slump, recession, etc. This is not a new phenomenon. It has occurred on several occasions in recent years mid 1970s, early 1908s, 2001, etc.

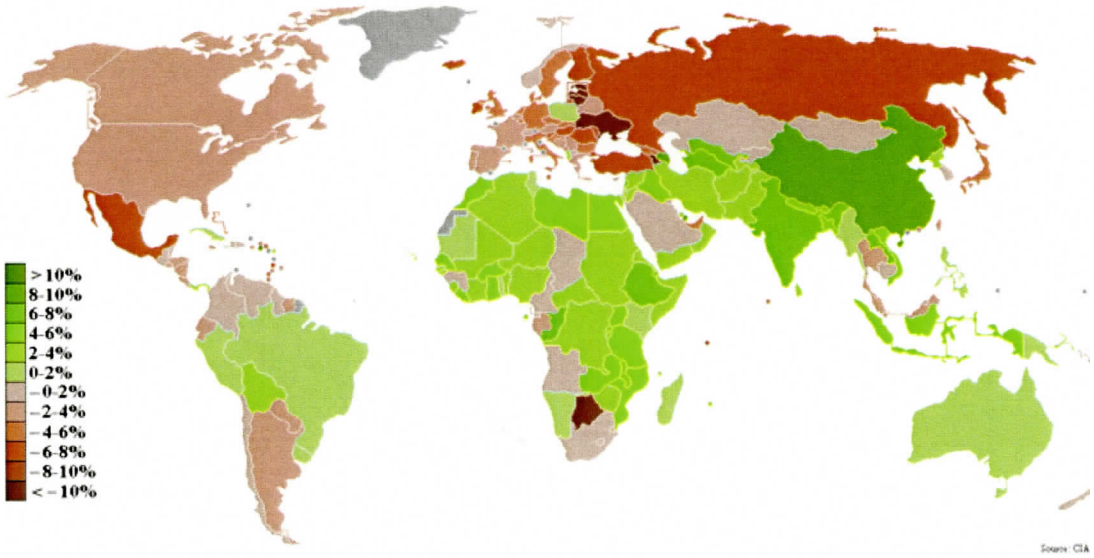

Figure 5: World map showing GDP real growth rates for 2009
(Source: CIA world factbook - April 2010)

Although there is no official definition of recession; it has been associated with the period of decline in economic activity (Turner, 2008). A quarterly magazine of IMF December 2008 defined recession as "two consecutive declines in a country's GDP".

The National Bureau of Economic Research of America (NBER, www.nber.org) defines recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. A recession begins just after the economy reaches a peak of activity and ends as the economy reaches its trough."

According to the International Labor Organization (ILO), unemployment has risen from one hundred and ninety (190) million in 2007 to two hundred and ten (210) million in late 2009.

2.10 Impact of the Swine Flu Outbreak and Financial Crisis on Tourism

There are a lot of theories discussing the possible impact of economic crisis and unforeseen events on the tourism industry. Many of those assume that an economic slowdown would negatively affect tourism.

"This industry [tourism] is a highly sensitive and vulnerable activity and it is not without reason that tourists can be scared off by any number of real or perceived threats to safety, health and financial well being. Changes impinging upon the nature and scale of tourism in the modern world may be categorized as socioeconomic, technological and environmental. Each of these elements may lead to fluctuations in the patterns and characteristics of world tourism" (Butler and Pearce, 1995).

On the other hand, according to Tarlow (2008), economy fluctuations will have either a positive or an adverse effect in this industry.

2.10.1 Impact on tourist arrivals

The global recession is expected to reduce the number of travelers in particular holidaymakers.

According to the World Tourism Organization (2009), international tourism started slowing down since June 2008, and international tourist arrivals for business, leisure and other purposes are estimated to have declined worldwide by 4% in 2009 to 880 million.

As the swine flu worsened, travel restrictions were put in place. In the case of Mexico for example, all non-essential travel has been advised against and several tour operators have temporarily suspended their flights to the country. Airlines and hotels suffered from cancelled trips and many other businesses associated with tourism were also affected.

According to the UNWTO (2009): "in the Americas, the performance of tourism in 2009 was more sluggish in the other sub-regions, with the H1N1 influenza outbreak exacerbating the impact of the economic crisis."

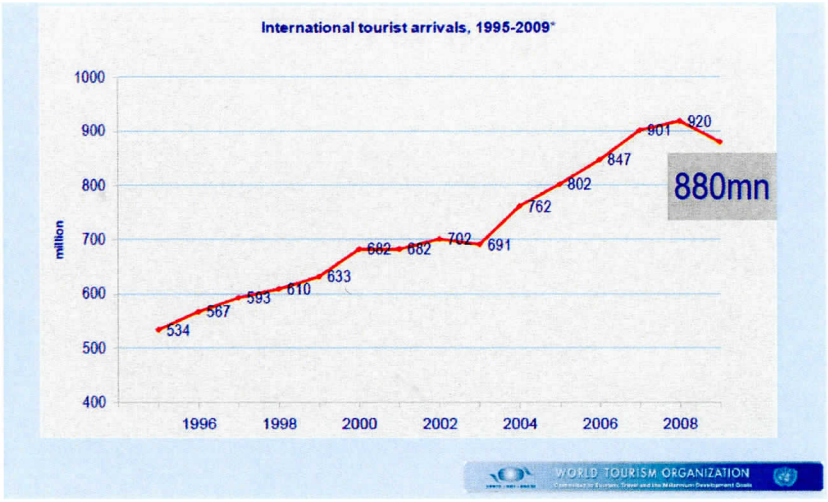

Figure 6: International tourist arrivals 1995-2009
(source: World Tourism Organization, 2009)

In 2008 and 2009, Africa is the only region that registered positive growth, in particular sub-Saharan Africa.

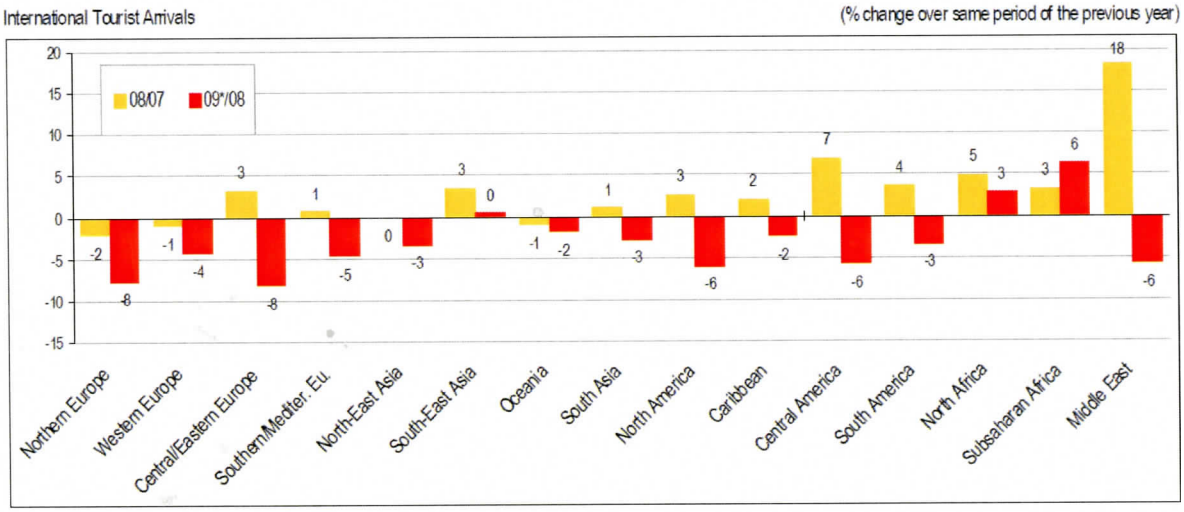

Figure 7: International tourist arrivals – 2

(source: World tourism Organization, 2009)

2.10.2 Impact on tourism revenues

According to the UNWTO, worldwide tourism receipts have declined due to the impact of the financial crisis.

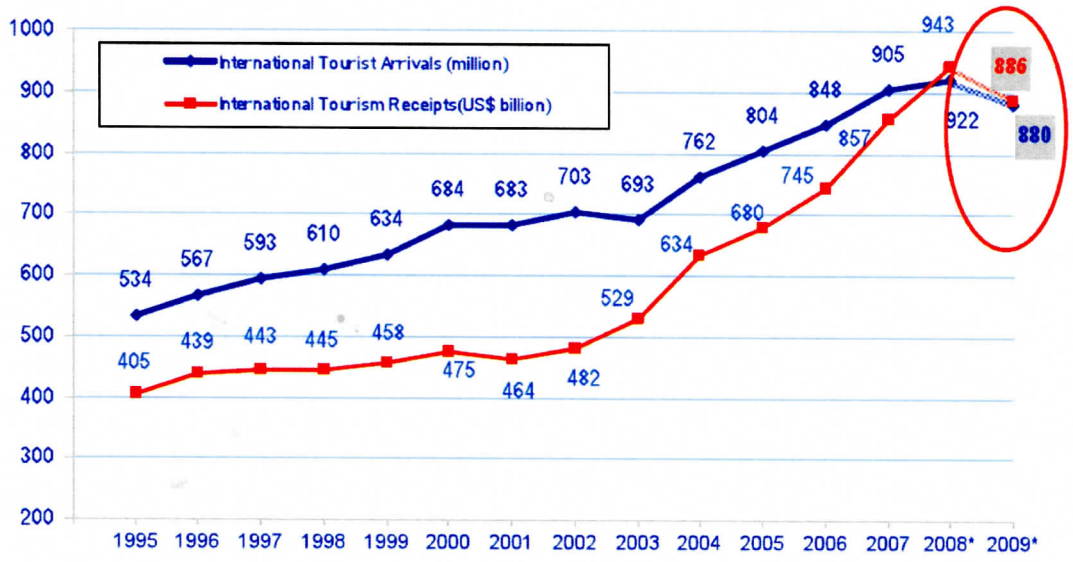

Figure 8: International tourism receipts
(source: World tourism organization, 2009)

2.10.3 Impact on the airline industry

Most people rely on airlines for their tourism trips. According to the WTTC it is the main mean of transport of tourists.

According to an International Air Transport Association (IATA) forecast report for the year 2009 (December 2009), the industry reported losses of US$2.5 billion. The report forecasts that:

- Industry revenues are expected to decline to US$501 billion. This a fall of US$35 billion from the US$536 billion in revenues forecasted for 2008. This drop in revenues is the first since the two consecutive years of decline in 2001 and 2002.
- Yields will decline by 3.0% (5.3% when adjusted for exchange rates and inflation).

- Passenger traffic is expected to decline by 3% following growth of 2% in 2008. This is the first decline in passenger traffic since the 2.7% drop in 2001.
- Cargo traffic is expected to decline by 5%, following a drop of 1.5% in 2008. Prior to 2008 the last time that cargo declined was in 2001 when a 6% drop was recorded.
- The 2009 oil price is expected to average US$60 per barrel (Brent) for a total bill of US$142 billion. This is US$32 billion lower than in 2008 when oil averaged US$100 per barrel (Brent).

"We face the worst revenue environment in 50 years," said Giovanni Bisignani, IATA's Director General and CEO on December 9, 2008.

2.11 Conclusion

In this section, we discussed relevant literature to the thesis. There is an overwhelming agreement that tourism is a big industry and subject to many variables including economic fluctuations.

Chapter 3

PROCEDURES AND METHODOLOGY

3.1 Introduction

In the previous chapter, literature relevant to the thesis was discussed including theories, empirical studies and approaches to tourism demand, ways to measure the socio-economic impact of tourism, as well as different theories related to tourist's behavior.

Chapter 3 is a methodology chapter where the intention is to highlight, discuss and evaluate the methodology that has been used to gather and analyze data for this thesis.

The main objective of this thesis is to measure the impact of the financial crisis and swine flu outbreak on the tourism industry in Lebanon. The intention is to measure the impact using a three step approach:

- Link tourism and economic activity
- Prove the existence of the link between financial crisis/swine flu and tourism demand
- Study how tourist spending was affected

It is important to bear in mind that methods used were subject to time constraints, and data availability.

3.2 Methodology used

At first, it has been concentrated on reviewing relevant literature, including empirical studies and approaches to quantify tourism demand, and studies that used macro-economic indicators as well as statistical methods such as the tourism satellite account to measure the economic importance and impact of tourism.

Data obtained was analyzed either by (1) by using the single equation model in order to quantify the link between economic crisis, swine flu outbreak and number of tourist arriving to Lebanon, or by (2) looking at existing indicators such as the tourism satellite account and macroeconomic indicators, tax-free shopping evolution, hotel occupancy rates… This approach was used for illustrative purposes and to back up the main findings. It was used where data could not be gathered further back.

The single equation model has been chosen to quantify the impact of the financial crisis and swine flu outbreak on tourism arrival. The application of this model is relatively easy, subject to data availability and can provide useful information quantifying the relationship between number of tourists and the independent variables. The equation is going to be analyzed by multiple regression analysis using SPSS statistical package.

In regression analysis, the focus is on the relationship between a dependent variable and one or more independent variables:

$$Y = f(X_1, X_2, \ldots, X_n)$$

More specifically, regression analysis helps us understand how the typical value of the dependent variable, Y, changes when any one of the independent variables, X_n, is varied. The regression analysis estimates the conditional expectation of the dependent variable given the independent variables, in other terms, the average value of the dependent variable when the independent variables are held fixed. This enables us to include more than one explanatory variable in the model and also to isolate the effect of each X_i on Y from the other X_n variables included in the model.

The following assumptions are made when using multiple regression analysis:

- The regression model is linear in parameters
- $X_1, X_2, \ldots, X_n$ are uncorrelated. There is no exact linear relationship between two explanatory variables.

3.3 Variables and Hypotheses

As we saw in the previous chapter, the equation model used is $N = f(Y, PI, FC, SF, S, E)$, where:

- N is the number of tourists coming to Lebanon. Data source was Ministry of Tourism in Lebanon. The Ministry of Tourism, as the official tourism body for Lebanon, is entrusted with the following tasks:
    - Promoting tourism
    - Regulating, coordinating, and monitoring tourism professions
    - Regulating, coordinating, and monitoring private companies and associations working in the tourism sector
    - Promoting and executing tourism investment projects; facilitating and simplifying rules and requirements related to these projects; and applying laws and regulations related to tourism and tourism enterprises
    - Developing archaeological and historical sites and museums for tourism purposes.

  Data provided b the ministry was the monthly number of tourists arriving to Lebanon, by region of origin for the years spanning from 2001 until 2009 (a total of 108 data samples).

  The data provided does not include Lebanese living abroad coming for vacation, Syrian Nationals and Palestinians.

- Y is the consumer price index in Lebanon over harmonized consumer price index ratio in Europe. Determining the relative prices between country of origin and Lebanon is a complicated task. Instead, a similar approach to that found in the studies of Witt and Witt (1995), Kim and Uysal (1997) was used: Consumer

Price Index ratio. The CPI/HIPC ratio was the ratio of choice. The choice of Euro zone HIPC in all the outputs is due to the fact that Europe is the single largest destination of tourists accounting for over half of the world's tourist inflow. Thus Europe can be considered the biggest competitor to Lebanon in terms of tourism.

Sources of data were, (1) the European Central Bank for the HIPC and (2) Bank Audi research Department for the CPI. The European Central Bank (ECB) is the institution of the European Union (EU) tasked with administrating the monetary policy of EU member states taking part in the Euro zone. The bank was established by the Treaty of Amsterdam in 1998. The harmonized index of consumer price is the monthly average of the Euro zone for the period spanning from 2001 till 2009, again a total of 108 samples. On the other hand, Bank Audi Banque Audi – Audi Saradar Group is the leading commercial bank in Lebanon and the region. The CPI average provided by bank Audi's research department was the yearly average of the CPI in Lebanon, a total of 9 samples. In order to be able to use the data in the equation, this average was used 12 times in a given year in order to obtain the 108 needed samples for the equation.

  - The null hypothesis H_0 for this variable is $Y = 0$: income does not impact the number if tourism coming into Lebanon.
  - The alternative hypothesis H_A is $Y < 0$: the lower the prices in the country of origin versus the prices in Lebanon, the lower the attractiveness of Lebanon and thus the number of incoming tourists would decline.

- PI is the political instability. As mentioned during Chapter 2, tourists are sensitive to many factors, including political instability. Political instability was considered a binary variable, which can take the value of either 0 or 1. 1 was used when a major security event occurred and made the headlines in Annahar

newspaper, Lebanon's leading Arabic daily newspaper. The security events in consideration where bombings and military engagements.

- The null hypothesis H_0 for this variable is PI = 0: political stability does not impact the number of tourists coming to Lebanon.
- The alternative hypothesis H_A is PI < 0: political stability is a major source of disruption and negatively impacts the number of incoming tourists.

- FC which is the financial crisis, one of the two variables that we are most interested in quantifying the impact on Lebanon's tourism industry. The variable used was a binary variable, taking the value of 0 or 1. 1 was used when the financial crisis occurred as per the definition laid out in Chapter 2.
  - The null hypothesis H_0 for this variable is FC = 0: the financial crisis does not impact the number of tourists coming to Lebanon.
  - The alternative hypothesis H_A is ambiguous, as the financial crisis, and economic fluctuations in general, can either have positive or negative impact. Hopefully the regression analysis will show a clear impact of the financial crisis on the number of incoming tourists.
- SF, Swine flu which the other variable that we are most interested in quantifying the impact on Lebanon's tourism industry. The variable used was also a binary variable, taking the value of 0 or 1. 1 was used when the swine flu outbreak occurred as per the definition laid out in Chapter 2.
  - The null hypothesis H_0 for this variable is SF = 0: the swine flu does not impact the number of incoming tourists to Lebanon.
  - The alternative hypothesis H_A is SF > 0: the assumption being made is that tourists will want to avoid areas where the swine flu is declared an

epidemic and tend to prefer to travel to "safer" destinations, such as Lebanon.

- E which is USD/EUR exchange rate. The choice to fix this variable was due to the fact that (1) Lebanon currency is pegged against the USD and (2) more than half the tourists coming to Lebanon has their respective currencies pegged against the USD as well. It is worth noting that tourists coming from these countries added to tourists coming from Europe make more than 80% of all tourist arrivals to Lebanon. Again, the ECB was used as the data source for this variable.
    - The null hypothesis H_0 for this variable is E = 0: USD/EUR does not impact the number of tourists coming into Lebanon.
    - The alternative hypothesis H_A is E > 0: The higher the Euro versus the US Dollar (and thus Lebanese Pound, and most Arab currencies), the more attractive Lebanon is, and more tourists would come. Note that most Arab currencies are linked to the US dollar.
- S which are the peak months of Lebanon tourism season. The variable is a binary variable that can take the values of 0 and 1. 1 being used for the 3 months June, July, and August. This coincides with the high season for air travel as per the IATA (International Air Transport Association)
    - The null hypothesis H_0 for this variable is S = 0: The summer season is not a high season for Lebanon and does not impact the number of arriving tourists.
    - The alternative hypothesis H_A is S > 0: Lebanon enjoys a summer season that coincides with global flight activity, and more tourists would come to Lebanon during the summer season.

Note that cost of transportation was not used in the equation since the absence of a fare system in Lebanon and fares are subject to subjective estimations.

3.4 Other sources of data

Lebanese Hotels Owners Association

This is the association of hotel and restaurant owners in Lebanon. Data provided by the association was the monthly average occupancy rate for various hotel categories in Lebanon spanning from the year 2000 till 2009.

World Travel and Tourism Council

The World Travel & Tourism Council (WTTC) is the forum for business leaders in the Travel & Tourism industry. With Chief Executives of some one hundred of the world's leading Travel & Tourism companies as its Members, WTTC has a unique mandate and overview on all matters related to Travel & Tourism. WTTC works to raise awareness of Travel & Tourism as one of the world's largest industries

United Nations World Tourism Organization

The World Tourism Organization (UNWTO/OMT) is a specialized agency of the United Nations and the leading international organization in the field of tourism. It serves as a global forum for tourism policy issues and a practical source of tourism know-how.

UNWTO plays a central and decisive role in promoting the development of responsible, sustainable and universally accessible tourism, paying particular attention to the interests of developing countries.

Global Blue

Global blue is the firm in Lebanon responsible for reimbursing VAT to the tourists as part of the country's tax-free shopping system.

IATA

The International Air Transport Association (IATA) is an international industry trade group of airlines headquartered in Montreal, Quebec, Canada, where the International Civil Aviation Organization is also headquartered. IATA's mission is to represent, lead, and serve the airline industry. IATA represents some 230 airlines comprising 93% of scheduled international air traffic.

3.5 Conclusion

This chapter highlighted the methods used in data collection; the next chapter will present the findings which will provide insight on the impacts of the financial crisis and swine flu outbreak on the tourism industry in Lebanon.

Chapter 4

CASE STUDY: LEBANON

4.1 Introduction

Chapter 2 of the thesis highlighted the importance of tourism in any economy, and Lebanon is no exception. According to the UNWTO Secretary-General ad interim, Taleb Rifai "what is clear is that tourism can play a critical role in the recovery process as a sector with a unique resurgence capacity and an immense potential in terms of employment creation and sustainability."

4.2 Background information

Lebanon is a small country on the east side of the Mediterranean Sea. It has an area of 10,452 km^2 (position139 in the world). It has a coastline of about 210 km long and peaks at 3,088 meters (Qurnat Al Sawda). It enjoys mild to cool wet winters with hot and dry summers. The average temperature in Lebanon is 20.2°C. It has a narrow coastal plane, and two parallel mountain ranges. Lebanon enjoys an average of 300 days per year of sunlight.

Being on a crossroad between three continents, Lebanon enjoyed a rich history. Phoenicians, Roman, Greek, Persian, Mamlouk, Crusade ruins can be found in Lebanon. The country is also known for its cuisine. Although Lebanon is considered to be a summer destination, however winter sports are becoming more in demand due to the close geographical location of the mountain peaks from the Mediterranean Sea and the Gulf States.

Some attractions in Lebanon include Anjar, Beirut (the capital), Beiteddine, Byblos, Baalbeck, the Cedars, Jeita grotto, the Quadisha valley, Sidon, Tripoli, Tyre... There is a wide range of festivals that take place in Lebanon, especially in the summer season where festivities including both Lebanese and international performers take place in

major archaeological and historical sites, including Baalbek, Byblos, and Beiteddine. It has five sites on the UNESCO world heritage list (Anjar, Baalbeck, Byblos, Quadisha Valley and the Cedars, and Tyre).

Tourism has been historically important to the local economy. Tourism was once a very important contributor to Lebanon's economy, accounting for almost 20 percent of the GDP in the 1960s and the 1970s, and it remains to this day to be a major source of revenue and foreign exchange for Lebanon.

4.3 Impact of the financial crisis on Lebanon

According to a report released by the IMF (April 2010) real GDP growth in Lebanon stands at 9% for the year 2010. That is the same growth recorded in 2008 and slightly higher than the one of 2007 with 7.5%.

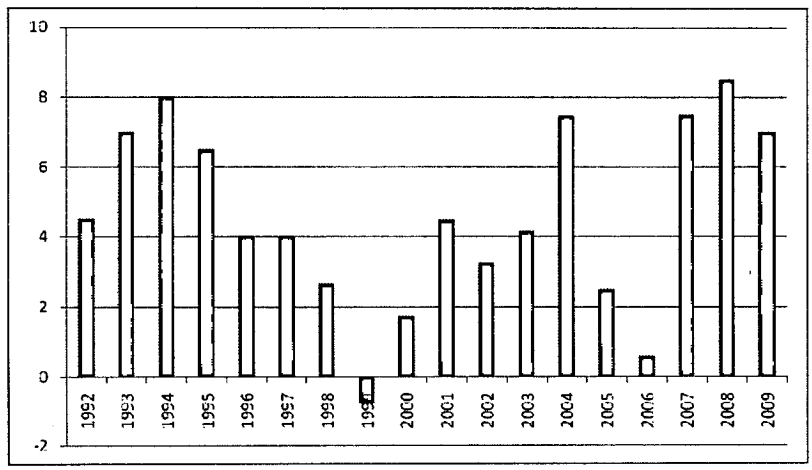

Figure 9: Lebanon real GDP growth
(source: International Monetary Fund, 2010)

In 2009, Lebanon seems to have escaped major spillovers of the economic crisis. At the time that banks and financial institutions in the United States and Europe defaulted, their counterparts in Lebanon did not.

This was partly due to the Lebanese laws forcing banks in having high levels of liquidity as well as the Central Bank's decision in 2004 to restrict domestic financial institutions from freely trading in the sub-prime market. In 2008, the Central Bank limited lending to 60% of the cost of real estate projects in order to protect from excessive speculation. Capital inflows in 2009 reached US$ 20,657 million, rising a considerable 26.2% relative to 2008.

Banking Sector Deposit Rates

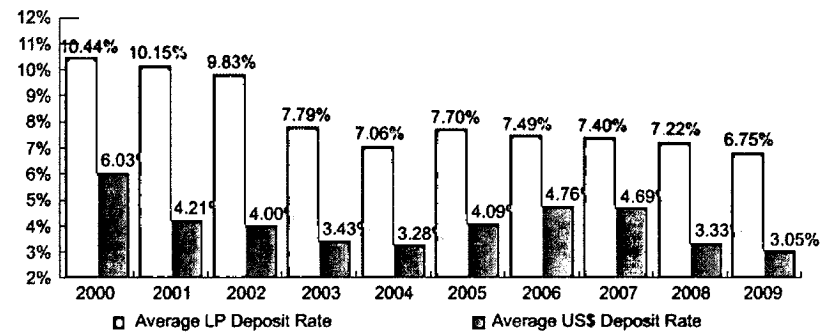

Figure 10: Banking Sector Deposit Rates
(source: Bank Audi research department)

Monetary Indicators

	2009					Variation	
	Q1	Q2	Q3	Q4	2009	Q4/Q4	2009/2008
Var. M3 (in billions of LP)	2,802	6,280	6,091	5,053	20,226	51.3%	52.0%
Price index (Inflation rate in LP)	0.4%	3.0%	0.8%	-0.1%	4.2%	1.0%	-2.1%
Velocity	0.62	0.62	0.68	0.69	0.65	-0.1%	-9.7%
Cleared checks (in millions of US$)	12,195	12,981	15,094	16,117	56,387	22.9%	7.4%

Table 4: Monetary indicators
(source: Bank Audi research department)

Most of the economic indicators were positive in 2009: Consolidated bank assets banks grew 22%, industrial exports rose 0.6% in 2009, number of ships at the port of Beirut increased by 16.5%, all major real sectors indicators showed positive growth; according

to a study by Cushman & Wakefield, Lebanon delivered positive growth of 26% in rent values.

Trade and Services

	2009					Variation	
	Q1	Q2	Q3	Q4	2009	Q4/Q4	2009/2008
Number of ships at the Port	599	601	612	583	2,395	14.1%	16.5%
Number of containers at the Port (in 000s)	132	156	157	147	592	-0.7%	12.2%
Merchandise at the Port (in 000s tons)	1,508	1,618	1,659	1,539	6,324	16.6%	10.1%
Planes at the Airport	11,485	13,849	16,885	15,326	57,545	21.7%	27.1%
Number of passengers at the Airport (excluding transit)	877,650	1,192,979	1,691,299	1,190,971	4,952,899	12.2%	22.6%
Number of tourists	297,679	463,736	677,204	412,462	1,851,081	18.2%	38.9%

Table 5: Trade and services

(source: Bank Audi research department)

However, an in depth look in the numbers shows some signs of spillover from the economic crisis: during the first 3 quarters of the year 2009, the Lebanese export sector showed negative growth, and the agricultural exports declined by 7.2%. It is worth noting that jewelry makes up 31.5% of the total export value.

Agriculture and Industry

	2009					Variation	
	Q1	Q2	Q3	Q4	2009	Q4/Q4	2009/2008
Agricultural exports (in millions of US$)	31	38	40	45	154	-16.7%	-7.2%
Industrial exports (in millions of US$)	967	655	725	984	3,331	26.0%	0.6%
Electricity production (in millions of KWh)	2,751	2,911	3,287	2,971	11,920	4.3%	6.5%
Imports of industrial equipments (in millions of US$)	54	51	51	-	-	-	-
Imports of oil derivatives (in thousands of metric tons)	1,461	1,311	1,290	1,144	5,207	-0.2%	28.2%

Table 6: Agriculture and Industry

(source: Bank Audi research department)

4.4 SWOT analysis for tourism in Lebanon

Strength

- Wide variety of hotels

- Large road network
- Distinctive natural environment: Jeita grotto, snow, and sea…
- Established profile with committed tour operators
- Good access via airport
- Established historical heritage
- Good language skills

Weaknesses

- High cost of lands
- Political instability
- Unregulated taxi tariffs
- Poorly maintained roads outside the capital

Opportunities

- Excellent development opportunities: mountain resorts, eco-tourism…
- Develop Beirut as a business/banking/conference center – Lebanon
- Develop new types of tourism (medical, green, religious…)

Threats

- Other Middle Eastern destinations
- Regional crisis (epidemic outbreaks, terrorism…)

4.4 Contribution of Travel and Tourism in the Lebanese Economy

4.4.1 Tourism Satellite Account

In chapter 2 we mentioned that the tourism satellite account as one of the most systematic measurement of the economic impact and contribution of tourism at the national level according to the UNWTO and WTTC.

In order to quantify the economic impact of tourism, a collection of macroeconomic indicators including government expenditure, goods imported to service tourism, capital investments, etc are taken into account. Travel & Tourism is then an industrial activity defined by the diverse collection of products (durables and non-durables) and services (transportation, accommodation, food and beverage, entertainment, government services, etc) that are delivered to visitors.

Travel & Tourism - US$ mn	2005	2006	2007	2008	2009E	2010F	2020F
Personal Travel & Tourism	3,297.0	3,600.1	3,710.3	4,067.5	4,216.2	4,394.1	8,494.7
Business Travel & Tourism	210.0	365.6	418.2	443.3	456.6	482.4	1,148.3
Corporate	186.2	324.8	373.5	399.7	412.7	436.2	1,052.8
Government	23.8	40.8	44.7	43.6	44.0	46.1	95.5
Government Expenditures - Individual	91.2	92.1	98.7	109.9	116.8	125.1	195.4
Visitor Exports	5,969.0	5,457.0	6,046.0	7,690.0	11,547.3	13,196.1	28,641.5
Travel & Tourism Consumption	9,567.2	9,514.8	10,273.2	12,310.7	16,336.9	18,197.7	38,479.9
Government Expenditures - Collective	209.3	211.2	226.5	252.1	267.9	287.1	448.3
Capital Investment	587.0	381.8	551.7	698.5	698.9	671.5	1,304.7
Other Exports	16.2	18.4	32.7	36.1	31.8	36.7	62.3
Travel & Tourism Demand	10,379.6	10,126.2	11,084.1	13,297.4	17,335.5	19,192.9	40,295.2
Travel & Tourism Direct Industry							
Employment ('000)	142.4	135.4	133.2	145.4	184.1	198.7	271.5
Gross Domestic Product	2,257.4	2,153.9	2,330.9	2,886.4	3,802.5	4,392.9	10,071.2
Travel & Tourism Economy							
Employment ('000)	415.1	386.5	386.3	420.2	516.7	553.2	749.0
Gross Domestic Product	6,734.1	6,262.7	6,905.2	8,517.7	10,830.3	12,389.5	28,090.2

Table 7: Tourism Satellite Account 2005 – 2010

(source: Travel and tourism economic impact, 2010)

4.4.2 Contribution of travel and tourism in the Lebanese economy

In an interview aired in May 2010 on Al-Arabia Television Network, the Lebanese minister of tourism declared that direct and indirect impact of travel and tourism in Lebanon generated over US$ 7 billion of economic activity in 2009. It is worth nothing that he also declared that Arab tourists contribute in 70 % of that number and that most tourism in Lebanon is concentrated in the capital Beirut.

This is in line with the numbers provided by the WTTC as a total impact for travel and tourism as per the TSA.

The direct industry impact is estimated at $2,586 billion.

The table below illustrates the direct and indirect contribution of travel and tourism in the Lebanon economy versus regional countries:

Travel & Tourism Economy GDP	% of total GDP 2009
19 Lebanon	28.1
31 Cyprus	18.3
32 Jordan	18.3
35 Tunisia	16.7
38 Greece	16.2
43 Egypt	15.0
63 Syria	11.2
77 Italy	9.6
84 Turkey	9.1
137 Israel	6.3

Table 8: Total direct and indirect GDP contribution for Travel and Tourism in a selection of countries (source: World Travel and Tourism Council, 2010)

4.4.3 Employment

Travel &Tourism direct industry employment is estimated at 150,000 jobs in 2009, direct and indirect industry employment rises to 440,000 jobs as per the WTTC.

The Table below illustrates the direct and indirect contribution in terms of employment:

Travel & Tourism Economy Employment	% of total emp 2009
19 Lebanon	28.1
28 Cyprus	22.9
31 Greece	19.6
35 Jordan	16.7
39 Tunisia	15.6
56 Egypt	12.6
59 Syria	11.5
65 Italy	10.6
97 Israel	7.6
114 Turkey	6.4

Table 9: Total contribution of Travel and Tourism in employment
(source: World Travel and Tourism Council, 2010)

4.5 Tourist arrivals

According to figures released by the ministry of tourism, the aggregate number of tourists visiting Lebanon showed an increase of 38.9% relative to 2008.

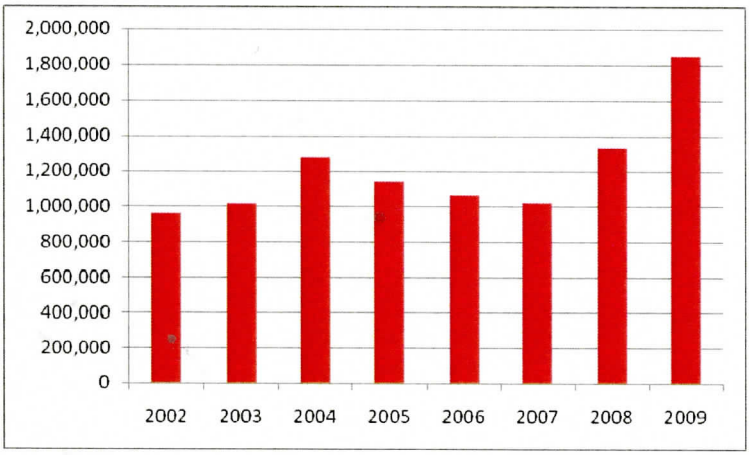

Figure 11: Number of tourists entering Lebanon 2002-2009
(source: Ministry of tourism in Lebanon, 2010)

The World Tourism Organization (WTO) noted that Lebanon recorded the highest growth rate worldwide in 2009 in terms of tourist numbers. Meanwhile, there was a contraction in the tourism sector by 4.3% worldwide, 5.4% in developed countries and 3% in developing countries.

4.5.1 Distribution of tourists by theater of origin

It is worth noting that Arab visitors make up 42.5% of aggregate visitors to Lebanon.

Note: Lebanon does not consider Lebanese living abroad as tourists although they fit the tourist definition of the WTO. The same thing applies to the Syrian nationals and Palestinians entering the country.

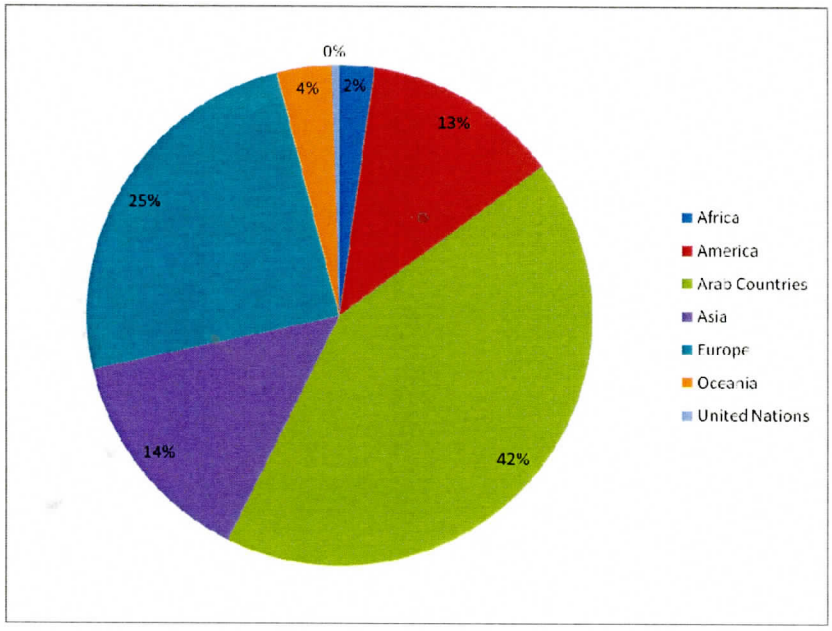

Figure 12: Breakdown of tourists per theatre of origin
(source: Ministry of tourism in Lebanon, 2010)

Distribution of tourists entering Lebanon by theater in 2009 – source Minitry of Tourism

4.5.2 Variation of incoming tourists by theater (2009/2008)

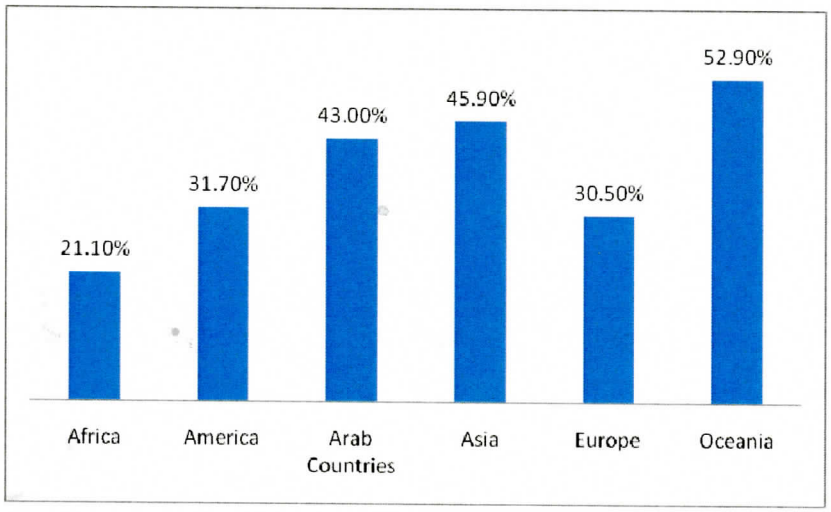

Figure 13 Variation of tourist in Lebanon 2009/2008 by theater
(source: Ministry of tourism in Lebanon, 2010)

4.6 Impact of the financial crisis and swine flu outbreak on incoming tourists

As we saw in previous Chapters, number of tourists coming to Lebanon N is a function of Income, Political instability, Financial Crisis, Swine Flu, Season, and Exchange Rate:

$$N = f(Y, PI, FC, SF, S, E)$$

Note that sub-Saharan Africa was not considered in this study as the number of tourists visiting Lebanon is negligible and a slight change in the number of tourists from month to month significantly impacts data findings.

4.6.1 Number of Tourists – Theatre of Origin: World

The data analysis showed that the financial crisis and the swine actually had a positive impact on number of tourists coming to Lebanon, whereas political instability and rising prices had a negative impact. The attractiveness of the Lebanese exchange rate versus the Euro also was a positive contributor.

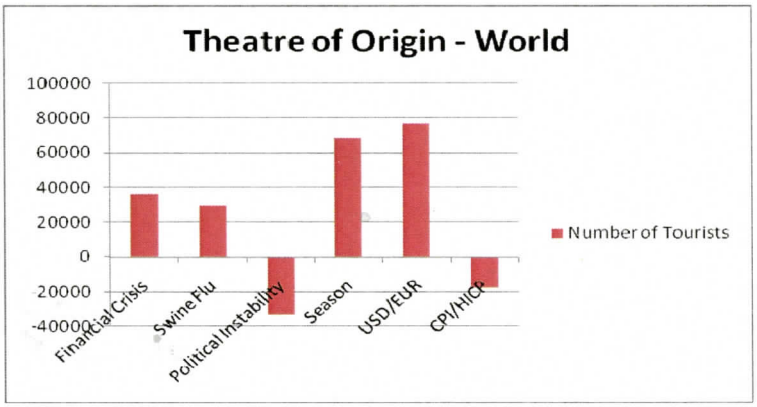

Figure 14: Findings - Number of Tourists - Theatre of Origin: World

Theatre of Origin	Adjusted R Square	F
World	0.64	32.714

Independent Variable	Number of Tourists	t
Financial Crisis	36302	2.323
Swine Flu	29538	1.929
Political Instability	-33630	-4.409
Season	68299	10.78
USD/EUR	76428	3.914
CPI/HICP	-17586	-1.368

Table 10 Findings - Number of Tourists - Theatre of Origin: World

Findings for the theatre of origin "World"

- Financial Crisis had positive contribution. Note that this was marked as ambiguous in the previous chapter
- Swine Flu has positive impact as expected
- Political Instability has negative impact as expected
- Tourism sector flourished in the summer season as expected

- A USD/EUR exchange rate change of 1 point increases the number of tourists in Lebanon
- We cannot exclude the null for CPI/HICP variable

Hence, for this theatre of origin, N = *f* (PI, FC, SF, S, E).

4.6.2 Number of Tourists – Theatre of Origin: Arab Countries

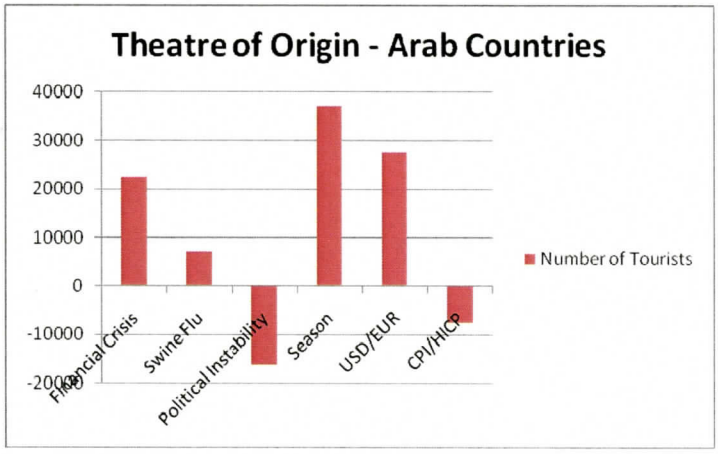

Figure 15: Findings - Number of Tourists - Theatre of Origin: Arab Countries

Theatre of Origin	Adjusted R Square	F
Arab Countries	0.508	19.402

Independent Variable	Number of Tourists	t
Financial Crisis	22420	2.195
Swine Flu	6999	0.699
Political Instability	-16348	-3.011
Season	37069	8.95
USD/EUR	27667	2.167
CPI/HIPC	-7619	-0.962

Table 11: Findings - Number of Tourists - Theatre of Origin: Arab Countries

Highlighted findings for the theatre of origin "Arab Countries"

- Financial Crisis had positive contribution. Note that this was marked ambiguous in the previous chapter
- We cannot exclude the null for the Swine Flu in this theatre of origin
- Political Instability has negative impact as expected
- Tourism sector flourished in the summer season as expected
- A USD/EUR exchange rate change of 1 point increases the number of tourists in Lebanon
- We cannot exclude the null for CPI/HICP variable

Hence, for this theatre of origin, N = f (PI, FC, S, E).

4.6.3 Number of Tourists – Theatre of Origin: Europe

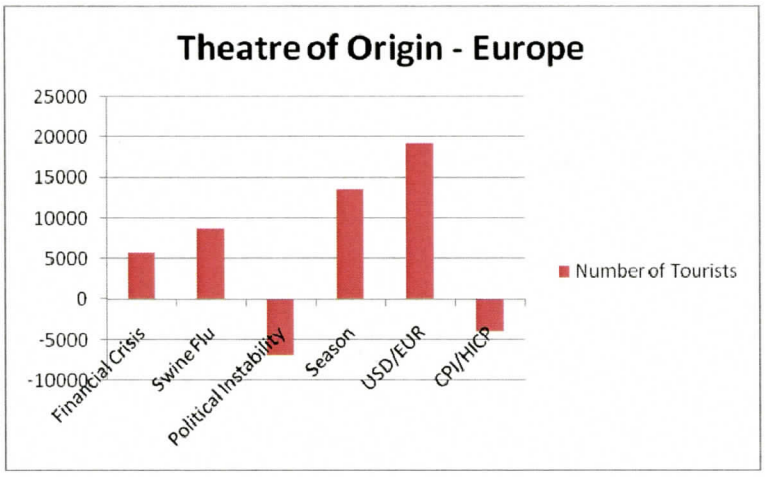

Figure 16: Findings - Number of Tourists - Theatre of Origin: Europe

Theatre of Origin	Adjusted R Square	F
Europe	0.566	24.728

Independent Variable	Number of Tourists	t
Financial Crisis	5761	1.521

Swine Flu	8736	1.521
Political Instability	-6968	-3.462
Season	13534	8.814
USD/EUR	19284	4.074
CPI/HIPC	-3945	-1.343

Table 12: Findings - Number of Tourists - Theatre of Origin: Europe

Highlighted findings for the theatre of origin "Europe"

- Financial Crisis had positive contribution. Note that this was marked ambiguous in the previous chapter
- We cannot exclude the null for the Swine Flu in this theatre of origin
- Political Instability has negative impact as expected
- Tourism sector flourished in the summer season as expected
- A USD/EUR exchange rate change of 1 point increases the number of tourists in Lebanon
- We cannot exclude the null for CPI/HICP variable

Hence, for this theatre of origin, N = f (PI, FC, S, E).

4.6.4 Number of Tourists – Theatre of Origin: Americas

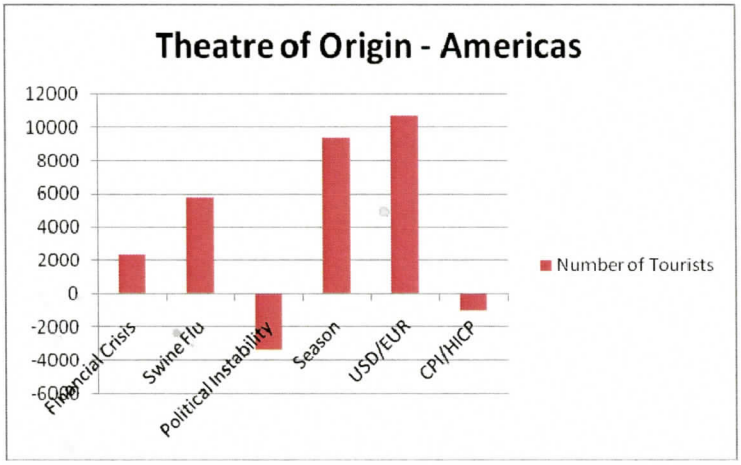

Figure 17: Findings - Number of Tourists - Theatre of Origin: Americas

Theatre of Origin	Adjusted R Square	F
Americas	0.566	24.728

Independent Variable	Number of Tourists	T
Financial Crisis	2348	1.029
Swine Flu	5767	2.578
Political Instability	-3467	-2.858
Season	9349	10.1
USD/EUR	10731	3.761
CPI/HIPC	-1071	-0.605

Table 13: Findings - Number of Tourists - Theatre of Origin: Americas

Highlighted findings for the theatre of origin "Americas"

- We cannot exclude the null for the Financial Crisis variable. Note that this was marked ambiguous in the previous chapter
- Swine Flu has contributed positively to the number of arriving tourists, as expected
- Political Instability has negative impact as expected

- Tourism sector flourished in the summer season as expected
- A USD/EUR exchange rate change of 1 point increases the number of tourists in Lebanon
- We cannot exclude the null for CPI/HICP variable

Hence, for this theatre of origin, N = f (PI, SF, S, E).

4.6.5 Number of Tourists – Theatre of Origin: Asia

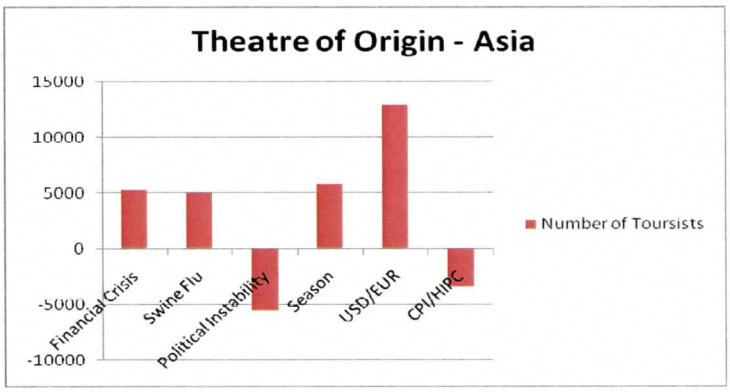

Figure 18: Findings - Number of Tourists - Theatre of Origin: Asia

Theatre of Origin	Adjusted R Square	F
Asia	0.538	21.73

Independent Variable	Number of Tourists	t
Financial Crisis	5339	2.377
Swine Flu	4974	2.26
Political Instability	-5532	-4.634
Season	5803	6.372
USD/EUR	12931	4.606
CPI/HIPC	-3440	-1.974

Table 14: Findings - Number of Tourists - Theatre of Origin: Asia

Highlighted findings for the theatre of origin "Asia"

- Financial Crisis had positive contribution. Note that this was marked ambiguous in the previous chapter
- Swine Flu has contributed positively to the number of arriving tourists, as expected
- Political Instability has negative impact as expected
- Tourism sector flourished in the summer season as expected
- A USD/EUR exchange rate change of 1 point increases the number of tourists in Lebanon
- The higher the prices in Lebanon versus Europe, the more negative the impact of CPI/HICP is, as expected

Hence, for this theatre of origin, N = f (Y, PI, FC, SF, S, E).

4.6.6 Number of Tourists – Theatre of Origin: Oceania

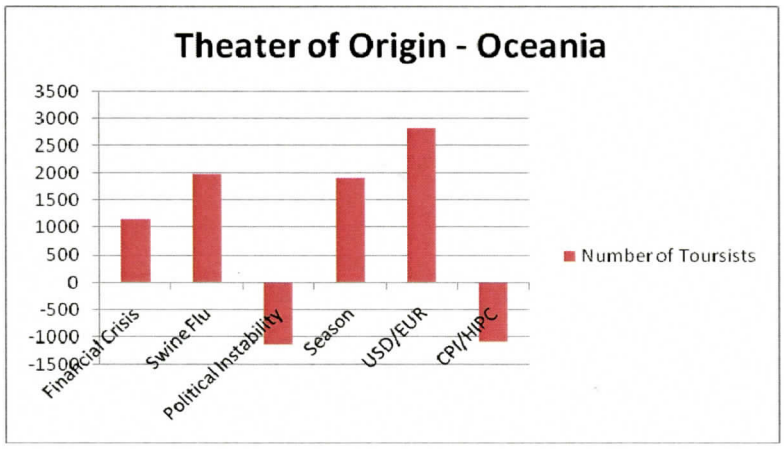

Figure 19: Findings - Number of Tourists - Theatre of Origin: Oceania

Theatre of Origin	Adjusted R Square	F

Oceania	0.639	29.825

Independent Variable	Number of Tourists	t
Financial Crisis	1146	2.145
Swine Flu	1982	3.783
Political Instability	-1131	-3.98
Season	1911	8.817
USD/EUR	2817	4.217
CPI/HIPC	-1085	-2.615

Table 15: Findings - Number of Tourists - Theatre of Origin: Oceania

Highlighted findings for the theatre of origin "Oceania"

- Financial Crisis had positive contribution. Note that this was marked ambiguous in the previous chapter
- Swine Flu has contributed positively to the number of arriving tourists, as expected
- Political Instability has negative impact as expected
- Tourism sector flourished in the summer season as expected
- A USD/EUR exchange rate change of 1 point increases the number of tourists in Lebanon
- The higher the prices in Lebanon versus Europe, the more negative the impact of CPI/HICP is, as expected

Hence, for this theatre of origin, N = f (Y, PI, FC, SF, S, E).

4.6.7 Summary

There is data consistency across all major theatres:

- Political instability remains the major source of threat for tourism in Lebanon
- Tourists are sensitive to exchange USD/EUR exchange rate
- The swine Flu and Financial Crisis contributed positively to the tourism sector in Lebanon.

Note that tourists from Arab countries, Europe and the Americas make up more that 80% of aggregate visitors to Lebanon.

4.7 Expenditure and tourism receipts evolution

According to the tourism minister in Lebanon total travel tourism receipts stood at 7 billion US$ in 2009 up from 4 billion US$ in 2008 (estimates). The minister also revealed that visitors from Arab countries make up to 70% of revenues: Saudi Arabia constitutes about 18 per cent of the total tourism expenditure, followed by the United Arab Emirates by 13 percent, and Egypt by 10 percent.

4.7.1 Hotel occupancy rates and hotel revenue per room

According to the Ernst and Young Middle East hotel benchmark survey for 2009, the hotel occupancy rate in Beirut rose from 55% to 73%. It is worth noting that the average room yield expanded by an impressive 67.3% in Beirut. Beirut registered the 5th highest occupancy rates among the 21 markets included in this survey, and the highest increase among its regional peers.

	Beirut Hotels		
	Occupancy %	Average Room Rate USD	Rooms Yield USD
2008	55.00	185.00	103.00
2009	73.00	234.00	172.00
Change in points %	18.00	26.70	67.30
Number of Tourists %	38.90		

Table 16 Ernst and Young Middle East hotel benchmark for 2009

(source: Ernst and Young, 2009)

This discrepancy between the hotel occupancy rate change and aggregate number of tourists change indicates that more tourists preferred cheaper hotels (as they are not accounted for in this survey) as well as hotels located outside the capital (as they are generally less expensive, and again not accounted for in this survey), this seems to be due to the impact of the financial crisis.

4.7.2 Tax-free shopping evolution in Lebanon

Figures released by Global Refund, the company that reimburses VAT to tourists shopping in Lebanon, show a 13% growth of spending on tax-free purchases in 2009. This growth is almost 1/3 of the growth of the aggregate number of tourists (38.9%).

Note: Since the expenditure of Syrian nationals is included in the tax-free shopping and not accounted for as tourists, the adjusted actual real growth of expenditure versus growth in tourists is even less than the above mentioned.

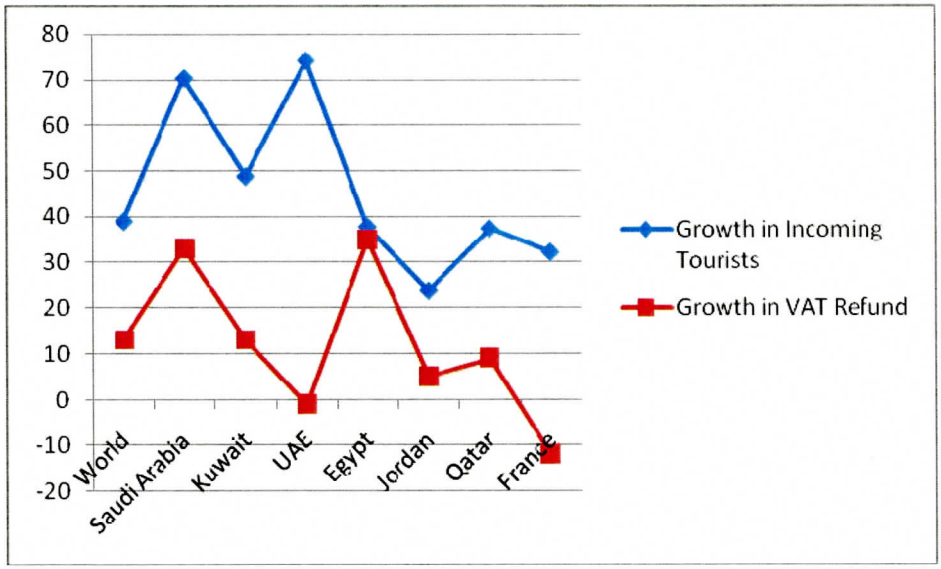

Figure 20: 2009 spending evolution versus 2008

(source: Global Blue, 2009)

The above graph clearly shows a direct correlation between impact of the financial crisis and tax-free shopping in Lebanon: countries that were most vulnerable to the financial crisis showed a negative growth in their spending evolution.

Also it shows that most tourists have become price sensitive due to the crisis, and spent less on their vacation.

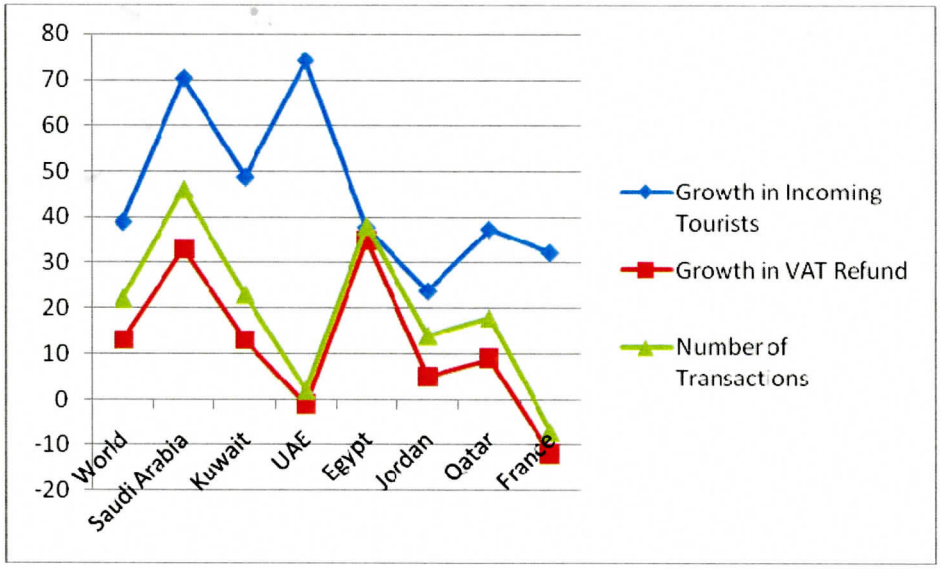

Figure 21: Number of transactions in 2009/2008

(source: Global Blue, 2009)

This above figure shows that the evolution of the number of transactions is much lower than the increase in tourist numbers. This again shows a direct correlation between the financial crisis and tourist spending.

However the most indicative graph would be the following one. It shows the "average" spending evolution by tourists in 2009 versus 2008. This clearly shows that tourists became more price sensitive in their purchases, and shows an across the board decline in spending per capita.

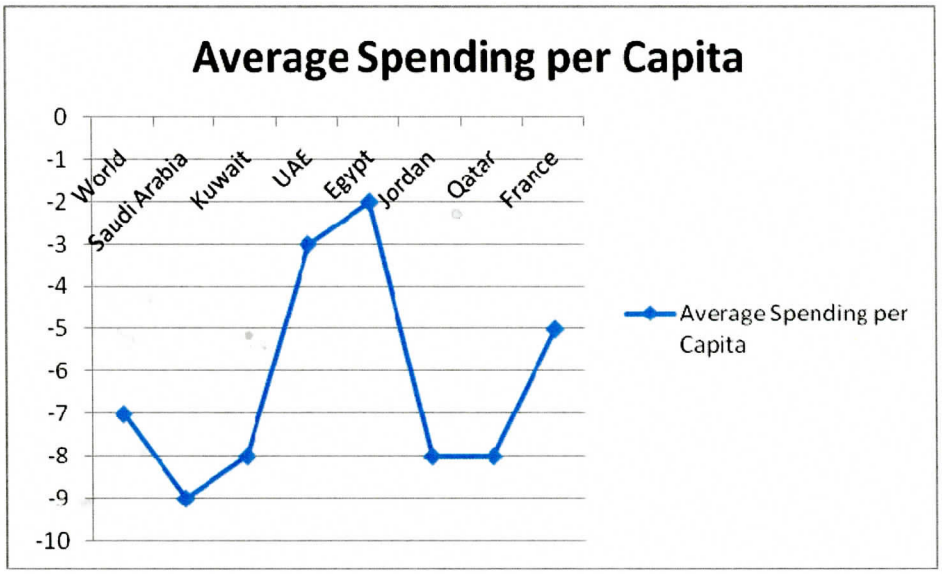

Figure 22: Average spending evolution 2009/2008

(source: Global Blue, 2009)

The sections above clearly show that although the number of aggregate tourists in 2009 increased in both countries, the average spending per tourist did not. This can be directly attributed to a negative effect of the financial crisis.

Chapter 5

CONCLUSIONS, RECOMMENDATIONS, AND SUMMARY

5.1 Introduction

This chapter focuses on the conclusion and recommendations based on the data gathered supported by the literature review for the tourism industry in Lebanon. Also this chapter highlights areas for further studies.

5.2 Conclusions

The objective of the study was to study the impact of the financial crisis and swine flu outbreak on the tourism industry in Lebanon.

From the literature search and other empirical studies; the importance of the economic contribution of tourism was highlighted. Income, transportation, exchange rates, political stability were also defined as determinant factors in tourism demand.

In addition, literature search highlighted the importance of the constituents of the tourism product: accommodation sector, attractions and dining sector, travel organizer sector, and destination organization sector.

The empirical study conducted in this thesis showed that:

- The financial crisis contributed positively in terms of aggregate number of tourists
- The swine flu outbreak contributed positively in terms of aggregate number of tourists
- Political instability poses a significant threat to the tourism sector
- A weak Euro versus the USD on the exchange market contributes negatively in aggregate tourist arrivals

- Tourism in Lebanon is highly concentrated in the summer period
- Tourism spending was affected by the financial crisis and showed less growth, and sometimes negative growth, than the growth reported in the number of tourists

5.3 Recommendations

Although this study showed positive impact for the financial crisis and swine flu outbreak on tourist arrivals to Lebanon, the study results lead to a stronger understanding of the situation and the potential threats facing the tourism sector in Lebanon. From these findings, the following recommendations were drawn.

Year-round tourism:

The study showed that tourist arrivals are concentrated in the summer period, with fewer tourists coming to Lebanon outside that period. Lebanon enjoys snow peaks in the winter and should better capitalize on the fact that its surrounding countries and Arab Gulf area do not enjoy snow. Religious and eco-tourism are also areas that can be developed thus maximizing the country's potential.

Peg the Lebanese Pound to a basket of currencies:

The findings showed a direct correlation between the attractiveness of the LBP versus the Euro and tourist arrivals. A way to mitigate this threat is to peg the local currency to a basket of currencies with adequate ratios.

Restructure public transportation:

The theoretical analysis showed an important role for transportation in tourism. Most empirical studies took transportation cost into account. Unfortunately, Lebanon lacks a structured transport sector with clear cost structure. Also it is important to enhance the

infrastructure in order to support economic sectors in order to enhance competitiveness and diversification.

Study the social classes of tourists:

As mentioned in the thesis, Arab nationals, which constitute 40% of Lebanon's tourists, generate 70% of revenues. This means that 60% of Lebanon's tourists generate only 30% of revenues. There is a lack of information regarding the social categories, allocentricity or psychocentricity of tourists visiting Lebanon, their spending patterns, average length of stay... Conducting studies on tourists would help Lebanon maximize revenues while meeting tourists demand.

Enhance data collection:

An issue faced when writing the thesis was the lack of historical and structured data. It is important that the Lebanese government improves its data collection mechanisms and adopt the tourism satellite account as they are becoming an indispensable statistical instrument that allows countries to measure the relative size and importance of the travel and tourism industry, along with its contribution to gross domestic product. Actually, more than fifty countries around the world have embraced travel and tourism satellite accounting.

5.4 Summary

The conclusions and recommendations were provided based on data analysis. There is room for improvement, subject to data availability. Lebanon was lucky to escape major spillovers from the financial crisis and swine flu since the tourism sector constitutes a major source of foreign currency earnings. However, political instability remains one of the biggest threats to the economic advancement in general and tourism in particular.

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APPENDIX – Number of tourists per month (2001 – 09)

		Number of Visitors										
Year	Month	Africa	America	Arab	Asia	Europe	Oceania	PI	EC	SF	E	Y
2001	1	793	4,340	17,209	5,744	12,077	1,508	0	0	0	0.9383	1.1041
2001	2	934	4,823	15,962	5,897	14,439	1,344	0	0	0	0.9217	1.1004
2001	3	1,052	6,478	25,277	10,612	18,196	2,719	0	0	0	0.9095	1.0938
2001	4	858	7,431	16,743	7,284	26,471	2,135	0	0	0	0.8920	1.0863
2001	5	784	9,350	17,647	7,929	18,972	2,613	0	0	0	0.8742	1.0804
2001	6	1,397	17,032	31,094	10,178	26,171	3,461	0	0	0	0.8532	1.0787
2001	7	2,007	17,233	76,213	13,681	35,870	4,447	0	0	0	0.8607	1.0817
2001	8	1,632	12,455	69,878	11,842	26,640	2,984	0	0	0	0.9005	1.0830
2001	9	1,274	7,409	23,246	12,777	18,089	2,743	0	0	0	0.9111	1.0796
2001	10	1,096	3,714	18,114	9,035	13,397	1,409	0	0	0	0.9059	1.0789
2001	11	1,009	3,512	12,883	6,581	10,833	1,723	0	0	0	0.8883	1.0798
2001	12	1,169	7,413	21,849	6,063	16,114	1,882	0	0	0	0.8924	1.0741
2002	1	996	4,616	18,260	5,919	11,517	1,358	0	0	0	0.8833	1.0928
2002	2	1,323	5,336	29,132	6,721	14,687	1,349	0	0	0	0.8700	1.0910
2002	3	1,285	6,272	18,792	13,805	17,849	2,017	0	0	0	0.8758	1.0840
2002	4	1,111	5,847	16,750	9,118	18,743	1,857	0	0	0	0.8858	1.0785
2002	5	1,302	9,376	21,431	8,825	17,871	2,577	0	0	0	0.9170	1.0762
2002	6	2,224	16,065	33,490	12,532	25,769	3,577	0	0	0	0.9554	1.0769
2002	7	2,388	16,435	88,563	15,746	37,090	4,715	0	0	0	0.9922	1.0787
2002	8	1,870	12,767	95,646	14,056	27,122	3,332	0	0	0	0.9778	1.0781
2002	9	1,550	9,826	34,577	13,791	21,984	3,222	0	0	0	0.9808	1.0748
2002	10	2,433	7,194	25,407	10,955	21,912	2,274	0	0	0	0.9811	1.0721
2002	11	1,373	5,099	10,690	6,208	14,390	2,181	0	0	0	1.0014	1.0730
2002	12	1,690	9,496	27,957	7,780	21,611	2,726	0	0	0	1.0183	1.0674
2003	1	1,531	5,948	20,693	6,775	14,443	1,783	0	0	0	1.0622	1.0833
2003	2	1,645	5,948	28,450	7,227	15,093	1,623	0	0	0	1.0773	1.0785
2003	3	1,344	3,774	11,032	12,617	10,585	1,252	0	0	0	1.0807	1.0715
2003	4	1,307	4,867	12,751	6,431	14,514	1,271	0	0	0	1.0848	1.0703
2003	5	1,500	9,450	20,987	7,097	17,090	1,995	0	0	0	1.1582	1.0712
2003	6	2,404	19,675	29,946	11,918	29,023	3,915	0	0	0	1.1663	1.0698
2003	7	3,069	19,646	86,078	18,185	45,912	5,374	0	0	0	1.1372	1.0722
2003	8	2,366	14,999	118,754	17,527	33,250	4,078	0	0	0	1.1139	1.0700
2003	9	1,741	11,604	41,320	17,784	24,210	3,716	0	0	0	1.1222	1.0663
2003	10	1,856	7,726	23,345	13,607	23,885	2,371	0	0	0	1.1692	1.0643
2003	11	1,650	6,339	18,142	6,918	15,826	2,066	0	0	0	1.1702	1.0635
2003	12	1,985	10,723	26,795	8,078	22,860	3,403	0	0	0	1.2286	1.0597
2004	1	1,805	7,844	34,138	7,594	15,795	2,146	0	0	0	1.2613	1.0842
2004	2	1,756	6,353	24,514	7,559	18,788	2,124	0	0	0	1.2646	1.0814
2004	3	1,668	6,895	23,019	16,353	19,315	4,574	0	0	0	1.2262	1.0736
2004	4	1,578	9,867	29,496	9,357	31,073	3,719	0	0	0	1.1985	1.0679
2004	5	1,264	15,357	26,372	10,927	27,004	4,132	0	0	0	1.2007	1.0638
2004	6	2,350	25,068	46,031	17,489	35,535	6,281	0	0	0	1.2138	1.0631

2004	7	2,971	23,979	114,567	23,340	54,050	6,130	0	0	0	1.2266	1.0665
2004	8	2,026	16,574	130,295	21,381	36,899	4,794	0	0	0	1.2176	1.0642
2004	9	1,317	12,790	43,591	20,325	28,436	4,341	0	0	0	1.2218	1.0628
2004	10	952	8,250	18,174	13,461	25,786	2,507	0	0	0	1.2490	1.0583
2004	11	1,353	7,442	26,624	11,246	20,357	2,907	0	0	0	1.2991	1.0592
2004	12	1,140	11,026	28,329	14,865	25,437	3,688	0	0	0	1.3408	1.0550
2005	1	1,353	7,442	26,624	11,246	20,357	2,907	0	0	0	1.3119	1.0868
2005	2	866	5,311	17,883	7,188	17,152	1,378	1	0	0	1.3014	1.0826
2005	3	884	6,669	13,780	17,815	18,449	2,220	1	0	0	1.3201	1.0734
2005	4	1,099	6,735	15,289	9,160	20,190	2,285	1	0	0	1.2938	1.0686
2005	5	1,041	11,926	20,079	7,102	23,186	3,629	1	0	0	1.2694	1.0663
2005	6	1,915	22,627	41,849	15,814	33,626	4,780	1	0	0	1.2165	1.0649
2005	7	2,352	21,081	84,320	22,836	51,827	5,740	1	0	0	1.2037	1.0667
2005	8	1,794	15,906	102,855	22,143	35,178	4,835	1	0	0	1.2292	1.0640
2005	9	1,308	12,893	47,199	25,053	27,612	3,818	1	0	0	1.2256	1.0576
2005	10	1,347	7,553	14,778	11,799	23,470	2,084	0	0	0	1.2015	1.0550
2005	11	1,049	7,481	35,040	15,941	20,580	2,533	0	0	0	1.1786	1.0580
2005	12	1,152	11,283	31,734	11,712	24,456	3,617	1	0	0	1.1856	1.0538
2006	1	1,200	8,429	45,481	11,289	17,834	2,566	0	0	0	1.2103	1.0883
2006	2	1,051	6,045	34,062	10,524	16,776	1,269	0	0	0	1.1938	1.0851
2006	3	1,112	7,798	31,243	27,944	19,418	2,255	0	0	0	1.2020	1.0781
2006	4	1,650	11,411	39,756	15,318	32,382	3,201	0	0	0	1.2271	1.0705
2006	5	2,114	14,841	42,072	19,482	26,934	3,881	0	0	0	1.2770	1.0675
2006	6	3,320	29,634	63,910	27,582	39,799	6,578	0	0	0	1.2650	1.0668
2006	7	1,695	12,798	50,257	13,340	26,416	3,634	1	0	0	1.2684	1.0689
2006	8	706	3,246	11,695	2,984	7,410	622	1	0	0	1.2811	1.0678
2006	9	1,403	9,851	28,047	5,730	20,312	2,209	0	0	0	1.2727	1.0680
2006	10	2,321	10,099	43,747	5,882	24,507	2,245	0	0	0	1.2611	1.0672
2006	11	2,312	6,233	34,327	12,586	16,489	1,740	1	0	0	1.2881	1.0666
2006	12	4,692	9,734	24,264	4,733	20,520	2,651	0	0	0	1.3213	1.0620
2007	1	3,669	6,229	21,395	5,378	14,241	2,106	0	0	0	1.2999	1.1096
2007	2	3,348	4,766	18,604	4,661	14,751	1,080	0	0	0	1.3074	1.1062
2007	3	4,386	7,374	28,909	16,778	20,744	1,936	0	0	0	1.3242	1.0974
2007	4	4,362	9,871	36,326	10,072	26,325	2,512	0	0	0	1.3516	1.0904
2007	5	4,253	10,959	28,809	6,137	19,749	2,685	1	0	0	1.3511	1.0875
2007	6	3,692	13,300	20,464	7,509	21,318	2,879	1	0	0	1.3419	1.0862
2007	7	4,986	14,797	48,391	14,534	41,013	3,088	1	0	0	1.3716	1.0897
2007	8	5,085	13,761	75,624	18,055	31,067	2,628	1	0	0	1.3622	1.0889
2007	9	3,470	9,735	28,681	15,510	21,336	2,472	1	0	0	1.3896	1.0845
2007	10	3,620	8,937	35,803	13,766	24,403	2,276	0	0	0	1.4227	1.0788
2007	11	3,381	6,571	22,490	15,064	16,049	2,785	0	0	0	1.4684	1.0724
2007	12	3,819	15,296	34,586	10,368	26,341	4,565	0	0	0	1.4570	1.0677
2008	1	3,288	7,464	24,221	9,297	16,622	2,022	1	0	0	1.4718	1.1928
2008	2	2,562	5,925	17,707	8,225	16,587	1,353	0	0	0	1.4748	1.1883
2008	3	3,005	8,884	21,353	21,439	21,617	2,037	0	0	0	1.5527	1.1753
2008	4	3,684	10,723	27,113	14,386	24,735	2,581	0	0	0	1.5751	1.1717

2008	5	1,599	10,537	22,735	6,605	15,835	2,293	1	0	0	1.5557	1.1637
2008	6	3,569	28,621	45,396	15,157	38,374	5,514	0	0	0	1.5553	1.1590
2008	7	4,040	29,055	95,396	21,506	60,012	6,622	0	0	0	1.5770	1.1618
2008	8	2,631	19,892	106,389	21,695	40,085	4,665	1	1	0	1.4975	1.1638
2008	9	1,887	15,185	35,104	14,143	27,404	4,025	1	1	0	1.4370	1.1616
2008	10	1,879	11,893	55,166	15,686	32,019	2,814	0	1	0	1.3322	1.1617
2008	11	3,193	9,560	35,907	16,584	21,911	3,418	0	1	0	1.2732	1.1680
2008	12	2,807	18,908	63,340	16,283	32,294	4,950	0	1	0	1.3449	1.1701
2009	1	1,911	8,771	33,468	11,740	19,455	1,908	0	1	0	1.3239	1.1963
2009	2	1,912	8,260	46,385	15,599	22,618	2,047	0	1	0	1.2785	1.1911
2009	3	2,313	10,849	43,052	32,335	24,054	3,794	0	1	1	1.3050	1.1862
2009	4	3,007	15,559	56,224	18,105	38,921	3,914	0	1	1	1.3190	1.1807
2009	5	4,192	22,044	50,208	20,081	31,543	7,132	0	1	1	1.3650	1.1798
2009	6	5,008	43,492	59,052	25,380	48,130	10,364	0	1	1	1.4016	1.1773
2009	7	5,023	38,008	156,193	36,483	78,620	9,563	0	1	1	1.4088	1.1863
2009	8	3,885	22,144	96,742	24,688	46,128	5,455	0	1	1	1.4268	1.1818
2009	9	4,576	19,228	68,457	18,087	37,042	6,162	0	1	1	1.4562	1.1815
2009	10	3,040	13,533	54,763	21,292	39,189	3,883	0	1	1	1.4816	1.1786
2009	11	3,036	12,592	66,597	22,656	28,871	4,198	0	1	1	1.4914	1.1770
2009	12	3,204	18,214	54,844	17,575	38,051	5,639	0	1	1	1.4614	1.1731