V o r t r ä g e

EGON SMERAL

Emerging Eastern European Tourism Markets

62

EGON SMERAL

Emerging Eastern European Tourism Markets

Paper presented at the Tourism Forum of the Pacific Asia Travel Association (PATA), March 1-2, 1993, Monaco

WIFO-Vorträge, 1993, (62)

Egon Smeral

Emerging Eastern European Tourism Markets

A revolution is under way in the Eastern part of Europe and in the former Soviet Union, involving the complete transfiguration of their economic systems. Expectations until now have tended to be overly optimistic and disappointments therefore acute. Untried policies and considerable "learning by doing" are the order of the day. Currently these economies are still in transition: The old order of central planning has been eradicated but a new replacement system not yet crystallised.

Through the transition process, the dream of freedom has come true for millions of people including, among other things, the freedom to travel beyond their own country's borders to visit the West. However barriers do exist! The most significant barrier is the lack of purchasing power and hard currency. Other constraints such as the legal situation in some transition economies and socio-cultural and language barriers also exist, but the only most substantial difficulty hindering the fulfillment of the existent travel demand is the economic conditions of households. Therefore, my paper will concentrate on two major topics:

- the economic conditions in the transition economies and the economic outlook for these countries and
- an estimation of the travel potential of inhabitants in the countries with transition economies in terms of registered tourist accommodations as well as an analysis of the relevant tourism demand trends.

Another, perhaps less obvious, topic is the difficulty of interpreting the extremely poor quality of statistics available or even the total lack of analytically useful information, necessitating creativity on the part of the analyst. But even the use of "Econometrics" in this case ended finally in "Econom(e/ic) Trics".

The economic situation: Present and future

By all indicators, the transition economies were all more or less in a state of severe economic contraction until at least 1991 (Table 1):

Table 1

The last year in which economic indicators matched 1991 levels in transition economies

	GDP at market prices	Gross industrial production	Gross investment	Private consumption
Bulgaria	1979	1979	1977	1983
Czechoslovakia	1979	1979	1978	1988
Hungary	1981	1978	1975	1983
Poland	1982	1975	1974	1983
Romania	1980	1979	1973	1988
Former USSR	1983	1985	1984	1989

Source: UN/DESD and ECE.

The dramatic fall in economic activity is without precedent in industrialised countries. The levels of output in 1991 were no higher than ten years ago[1]). Investment fell to the levels of the mid-seventies, private consumption in Bulgaria, Poland and Hungary fell to the levels of 1983. The former Czechoslovakia, the former Soviet Union and Romania have been suffering from a stagnation of the already low consumption levels since the end of eighties.

Table 2

Output of central and Eastern European countries and the NIS

	1989	1990	1991	1992	1993 Projections	1994
			Percentage change			
Bulgaria	– 0.4	– 9.1	– 17	– 10	– 4	± 0
CSFR	+ 1.0	– 0.4	– 16	– 7	± 0	+ 2
Hungary	– 0.2	– 3.3	– 10	– 4	± 0	+ 3
Poland	+ 0.0	– 11.6	– 9	– 2	+ 2	+ 3
Romania	– 4.0	– 7.4	– 14	– 13	– 5	– 2
Total of the above	– 0.5	– 6.8	– 13	– 6	± 0	+ 2
Former USSR/NIS	+ 2.4	– 4.0	– 17	– 18	.	.

Source: WIIW database, national sources, and OECD projections. Figures refer to GDP; pre-1991 figures for Bulgaria, CSFR, Romania and the USSR refer to net material product. Weights for the aggregation are purchasing power parity estimates of output.

In those countries where the reform is most advanced – Hungary, Poland and the Czech and Slovak Federal Republics – there are some signs that the fall in output may have stopped and that inflation is continuing to decline (Table 2). The drop in industrial production, though hard to interpret due to large month-to-month movements, appears to have bottomed out in Hungary and the former CSFR and

---

1) UN, World Economic Survey 1992, New York, 1992.

may actually be rising in Poland[2]). Industrial output continues to fall in Bulgaria and Romania, but at a diminishing rate. To some extent, the declining production in the Russian Federation reflects the shortages of inputs resulting from the disintegration of central planning.

The short-term projections for the Eastern European economies are subject to enormous uncertainty, as solid techniques for making projections for economies undergoing radical structural change are simply not available. Recent evidence indicating the stabilisation in industrial output may suggest that a turning point has been reached for Poland, Hungary and the former CSFR. The more stable external position in these countries is also an important factor contributing to renewed growth. Lastly, the private sector in these countries – whose output is probably increasingly underestimated in the official statistics – are large enough for their dynamism to begin to offset, at the aggregate level, the continued decline in state sector production. At the same time, however, the need to restructure and, in many cases, to liquidate non-viable state enterprises will continue to act as a drag on growth (indeed, the negative output effects of plant closures are clearly apparent in Hungary). Economic recovery, if and when it comes, is likely to remain very weak for some time (*OECD,* 1992).

A specific factor contributing to the riskiness of the outlook is the extent to which the separation of the Czech and Slovak Federal Republics may adversely affect their economic performances[3]).

In the following projections, it is assumed that Bulgaria and Romania, lagging behind in their development of market institutions and private enterprise as well as facing severe external finance constraints, will continue to experience declining output until 1994.

In the case of the Newly Independent States (NIS), even illustrative projections for output and inflation are impossible under present conditions. Negotiations aimed at clarifying interrepublican monetary and payment relations are presently under way. Continuing output declines in the face of persisting high levels of economic disorganisation seem likely.

I would like to mention a few points regarding inflation, the current account positions and unemployment.

Most Central and Eastern European countries are making some headway in bringing down inflation, although it remains very high in Bulgaria and Romania (Table 3). In 1992, the inflation rate amounted to 2,000 percent in the NIS.

---

2) OECD, Economic Outlook, Paris, December 1992.

3) Jennewein, M., "Reformen in der CSFR – Stand und Perspektiven vor und nach der Spaltung", IFO-Schnelldienst, 1992, (34/92).

Table 3

Inflation in central and Eastern European countries and the NIS

	1989	1990	1991	1992	1993 Projections	1994
	Percentage change in average level of consumer prices over previous period					
Bulgaria	+ 6.4	+ 26.3	+ 334	+ 90	+ 60	+ 60
CSFR	+ 1.4	+ 10.0	+ 58	+ 11	+ 16	+ 8
Hungary	+ 17.1	+ 28.4	+ 35	+ 21	+ 15	+ 9
Poland	+ 251.1	+ 585.8	+ 70	+ 40	+ 35	+ 25
Romania	+ 0.9	+ 4.2	+ 161	+ 200	+ 95	+ 50
Former USSR/NIS	+ 2.0	+ 5.3	+ 91	+ 2,000	.	.

Source: National sources and OECD estimates.

Table 4

Current balances of central and Eastern European countries and the NIS with OECD area

	1989	1990	1991	1992	1993 Projections	1994
	Billion dollar					
Bulgaria	– 1.3	– 1.2	– 0.9	– 0.8	– 1.2	– 1.4
CSFR	0.3	– 1.1	0.3	0.8	0.6	0.0
Hungary	– 1.4	0.1	0.3	0.9	0.5	0.1
Poland	– 1.2	0.7	– 1.4	– 1.0	– 1.0	– 2.2
Romania	2.9	– 1.7	– 1.4	– 1.0	– 0.8	– 1.1
Total of the above	– 0.7	– 3.1	– 3.1	– 1.1	– 1.9	– 4.6
Former USSR/NIS	0.4	– 5.1	– 2.9	– 9.0	– 12.5	– 13.5
Area total	– 0.3	– 8.2	– 6.0	– 10.1	– 14.4	– 18.1

Source: OECD estimates based on data from national sources.

Strong export growth has been reflected in higher than expected current account positions for Poland, Hungary and the former CSFR (Table 4). This factor, combined with direct investment flows into these countries, has aided the substantial build-up of foreign reserves and the easing of external financing constraints. In contrast, Bulgaria and Romania remain severely constrained financially due to their inability to borrow from foreign banks, very limited foreign investment activity and low official reserves. Their capacity to finance current deficits is thus largely determined by the flows of official finances to these countries. The same is true for the NIS, which have been probably running a small trade deficit in aggregate, while capital inflows have been absorbed by partial payments of interests and capital flight.

The unemployment rates will be very high this year (Table 5). The highest rates will be in Hungary and Poland (17 percent); Bulgaria will suffer under a rate of 15 percent; the former CSFR will have an unemployment rate of 11 percent and Romania a rate of 12 percent. Moderate decreases in the unemployment rate can be expected only in Hungary and Poland, the two countries with the highest unemployment rates.

Table 5

Unemployment in central and Eastern European countries

	1989	1990	1991	1992	1993 Projections	1994
			Percent of labour force, end of period			
Bulgaria	0.0	1.6	11.7	15	15	16
CSFR	0.0	1.0	6.8	8	11	13
Hungary	0.5	1.6	7.5	13	17	13
Poland	0.3	6.1	11.5	15	17	16
Romania	–	–	2.7	6	12	15

Source: OECD estimates based on data from national sources.

Travel behaviour

The characteristics of trips to the West made by residents of countries undergoing transition are:

- Visitation of neighbouring countries – usually by car, the new status symbol for individual freedom – is predominant. This can be explained in part by the fact that, under the budget constraint of the households, transportation costs are an important factor when choosing how far to travel.

- A large proportion of the visits are day trips: The overnight ratio in registered tourist accommodations is very low. Many visitors stay with relatives or friends, sleep in their cars or in their tour bus, camp or stay in unregistered private accommodations. This to some degree explains the large discrepancies between border arrival counts and the number of arrivals in registered tourist accommodations as well as the differences between the findings of the European Travel Monitor (ETM) and official statistics.

- The main motives for travelling are shopping, visiting friends and relatives or just seeing and experiencing the West. The wish to get away from poor environmental conditions and the lacking modern tourism supra- and infrastructure are additional motives for travelling abroad. In addition, the desire to travel individually to a freely chosen destination is, in the aftermath of the domination of the industry by a state-owned tourism sector and state controlled vacation patterns, an important motive.

- In general, the average expenditure per person of those travelling to West is very low.

- Spending abroad is mostly concentrated on items for personal use (food, fashion, electronics).
- The average vacation spending is very low, also an explanation for the low overnight stay ratio.
- There is very little money left over for better accommodations, restaurant dinners, culture, sports or individual services.

I would like to illustrate these facts with some statistics:

Although the figures in Tables 6 to 9 are, due to differences in definition, not comparable on a 1 : 1 basis, they do at least give a good impression of the demand structures.

Table 6

Top 5 destinations of Bulgarian tourists in Europe in 1991

		Arrivals of Bulgarian tourists	Percentage change 1990/91	Market share: percent of total arrivals in destination countries
Austria	TA	14,018	+ 19.2	0.07
Greece	TF	157,910	+ 18.0	1.9
Hungary	TF	314,000	– 68.0	1.4
Poland	VF	832	– 58.1	0.2
Spain	VF	12,596	+ 65.7	0.02

Source: World Tourism Organization (WTO).

TF ... international tourist arrivals at frontiers,
VF ... international visitor arrivals at frontiers (including excursionists),
TH ... international tourist arrivals at hotels and similar establishments,
TA ... international tourist arrivals at all accommodation establishments,
NH ... nights at hotels and similar establishments,
NA ... nights at all accomodation establishments.

The destination favoured by Bulgarians is Greece (158,000 arrivals per year) and Hungary (314,000 arrivals per year); their share of the total arrivals in destination countries is, however, insignificant (Table 6).

Hungarians prefer visiting the former CSFR (3.71 million arrivals per year and Austria (215,000 arrivals per year). They also like to visit Turkey (165,000 arrivals annually) and Spain (18,000 arrivals annually; Table 7). In the year 1990, between 4 and 5 million Hungarian arrivals were registered in Western countries.

Table 7

Top 8 destinations of Hungarian tourists in Europe in 1991

		Arrivals of Hungarian tourists	Percentage change 1990/91	Market share: percent of total arrivals in destination countries
Austria	TA	215,081	+ 8.0	1.1
Bulgaria	VF	208,289	– 54.8	3.0
Czechoslovakia	VF	3.709,087	– 40.7	5.7
Greece	TF	107,685	+ 77.4	1.3
Poland	VF	179,900	– 54.5	0.5
Spain	VF	18,215	+ 29.8	0.9
Turkey	VF	164,903	– 4.3	2.9
Yugoslavia	TA	23,100	– 80.7	1.6

Source: World Tourism Organization (WTO).

Table 8

Top 8 destinations of Polish tourists in Europe in 1991

		Arrivals of Polish tourists	Percentage change 1990/91	Market share: percent of total arrivals in destination countries
Austria	TA	105,738	+ 35.8	0.4
Bulgaria	VF	361,215	– 56.5	5.3
Czechoslovakia	TF	8.546,482	– 35.1	13.2
Germany	TA	216,884	+ 40.4	1.5
Greece	TF	47,585	– 22.1	0.6
Hungary	TF	1.914,000	– 30.2	8.8
Spain	VF	47,167	+ 42.9	0.02
Turkey	VF	184,008	– 10.9	3.3

Source: World Tourism Organization (WTO).

Poles prefer visiting the former CSFR (8.55 million arrivals per year), Hungary (1.91 million arrivals per year), Bulgaria (361,000 arrivals per year) and Germany (217,000 arrivals per year; Table 8).

The residents of the former CSFR prefer going to Hungary (2.1 million arrivals per year), to former East Germany (1.95 million arrivals per year), to Poland (1.03 million arrivals per year) and to Austria (1.56 million arrivals per year). The total outgoing travel *to the West* amounted to 2.3 million arrivals in 1989; the total outgoing travel *to all destinations* amounted to 8.6 million arrivals in the same year.

Residents of the Russian Federation countries prefer visiting Poland (7.55 million arrivals annually), Hungary (1.07 million arrivals annually), Turkey (732,000 arrivals annually) and the former CSFR (710,000 arrivals annually; Table 9).

Table 9

Top 12 destinations of tourists from the Russian Federation in Europe in 1991

		Arrivals of tourists from the Russian Federation	Percentage change 1990/91	Market share: percent of total arrivals in destination countries
Austria	TA	36,958	+ 29.9	0.2
Bulgaria	VF	290,502	– 63.4	4.3
Czechoslovakia	VF	709,515	– 42.1	1.1
Finnland	TH	221,849	– 37.7	10.1
Germany	TA	127,610	+ 12.3	0.9
Hungary	TF	1.068,000	– 27.1	4.9
Italy	VF	73,675	– 12.0	0.1
Poland	VF	7.545,500	+ 77.1	20.5
Spain	VF	176,784	– 13.3	0.4
Switzerland	TH	24,054	+ 24.8	0.3
Turkey	VF	731,869	+ 227.9	13.3
Yugoslavia	TA	52,700	– 85.7	3.6

Source: World Tourism Organization (WTO).

Table 10

Austria

	1980	1985	1988	1990	1991	1992	1985/1991	1985/1992
	Nights spent by foreign tourists in registered tourist accommodation						Percentage change	
Yugoslavia	415,422	287,474	382,639	620,565	708,816	390,666	+ 146.6	+ 35.9
Bulgaria	33,121	33,551	29,485	42,289	44,518	48,651	+ 32.7	+ 45.0
Czechoslovakia	126,931	85,900	137,437	307,862	344,798	373,006	+ 301.4	+ 334.2
Hungary	282,248	590,182	606,689	512,593	568,833	625,314	– 3.6	+ 6.0
Poland	174,176	84,048	168,562	241,482	260,790	302,638	+ 210.3	+ 260.1
Romania	23,481	13,292	23,807	105,356	75,926	68,555	+ 471.2	+ 415.8
Former USSR	67,341	28,858	72,083	157,137	149,468	184,141	+ 417.9	+ 538.1
East (except Yugoslavia)	707,298	835,831	1.038,063	1.366,719	1.444,333	1.602,305	+ 72.8	+ 91.7
	Arrivals of foreign tourists in registered tourist accommodation						Percentage change	
Yugoslavia	121,766	99,152	112,976	217,487	212,205	115,283	+ 114.0	+ 16.3
Bulgaria	9,089	10,812	8,972	11,757	14,018	16,875	+ 29.7	+ 56.1
Czechoslovakia	38,174	35,332	49,128	136,488	147,884	153,291	+ 318.6	+ 333.9
Hungary	126,341	281,811	279,368	199,109	215,081	227,681	– 23.7	– 19.2
Poland	50,420	20,746	57,538	77,882	105,738	111,528	+ 409.7	+ 437.6
Romania	7,199	4,975	8,077	21,337	19,159	21,191	+ 285.1	+ 325.9
Former USSR	15,846	8,808	13,579	28,448	36,958	43,752	+ 319.6	+ 396.7
East (except Yugoslavia)	247,069	362,484	416,662	475,021	538,838	574,318	+ 48.7	+ 58.4

Table 11

Germany

	1980	1985	1988	1990	1991	1992	1985/1991	1985/1992
	Nights spent by foreign tourists in registered tourist accommodation						Percentage change	
Yugoslavia	389,690	311,612	421,500	562,697	541,136	.	+ 73.7	.
Bulgaria		41,778	50,063	63,835	69,189	.	+ 65.6	.
Czechoslovakia	110,012	115,002	154,085	271,044	359,079	.	+ 212.2	.
Hungary		164,022	235,741	295,330	340,927	.	+ 107.9	.
Poland	266,040	458,748	853,774	755,832	851,536	.	+ 85.6	.
Romania		40,606	51,234	96,911	104,993	.	+ 158.6	.
Former USSR	83,282	74,387	130,881	409,313	499,776	.	+ 571.9	.
East (except Yugoslavia)		894,543	1.475,778	1.892,265	2.225,500	.	+ 148.8	.
	Arrivals of foreign tourists in registered tourist accommodation						Percentage change	
Yugoslavia	151,683	132,787	165,659	234,417	202,558	.	+ 52.5	.
Bulgaria		16,025	17,216	21,991	22,211	.	+ 38.6	.
Czechoslovakia	37,546	49,174	59,013	107,751	141,086	.	+ 186.9	.
Hungary		62,218	88,411	111,617	122,686	.	+ 97.2	.
Poland	54,581	74,425	128,100	154,415	216,884	.	+ 191.4	.
Romania		13,133	12,566	28,261	29,623	.	+ 125.6	.
Former USSR	36,049	24,278	37,721	113,613	127,610	.	+ 425.6	.
East (except Yugoslavia)		239,253	343,027	537,648	660,100	.	+ 175.9	.

It appears that only the markets in Hungary, Poland and in the former CSFR are at this point in time significant for Western Europe. At present, travel volume at the border consists mainly of day trippers or travellers not staying in registered tourist accommodations. This also explains why Austria and Germany, the two Western countries located farthest to the East, together account for only 1.2 million arrivals in registered tourist accommodations. They also have millions of visitors (refugees excluded) from the transition economies who do not stay in registered accommodations crossing their borders (Tables 10 and 11).

The tourism import expenditures of transition economies are very low (Table 12). In 1991, the combined spending of travellers from the CSFR, Hungary, Poland and Romania amounted to $ 1,409 million (for Bulgaria and the NIS, no figures are available). In comparison: Austria, Switzerland and Sweden spent more than $ 6 billion each in the same time period. Tourism expenditures by these four transition economies grew faster than the European average until 1989. After this peak ($ 1,689 million), the consequences of the transition period have been reflected in a decline in tourism expenditures (from 1989 to 1991 –16,6 percent).

Table 12

International tourism expenditures

	1981	1989	1990	1991	1990	1991
		Million dollar			Dollar per capita	
U. S. A.	11,479	34,977	38,671	42,367	154.4	169.2
Canada	3,200	7,370	8,390	8,977	316.6	338.8
Japan	4,616	22,490	24,928	23,942	201.7	193.7
France	5,752	10,031	12,424	12,338	220.3	218.8
Italy	1,664	6,772	13,826	13,300	239.6	230.5
Netherlands	3,516	6,481	7,340	7,700	492.6	516.8
U. K.	6,478	15,111	17,614	16,793	306.9	292.6
Western Germany	17,528	23,727	29,836	31,650	473.6	502.4
Former CSFR	190	431	636	637	40.5	40.6
Hungary	164	1,008	600	520	56.6	49.1
Poland	289	215	220	150	5.8	4.0
Romania	67	35	103	102	4.4	4.4

Source: WTO, CIA, own calculations.

Tourism expenditure per capita in the former CSFR amounted to $ 41 in 1991 (8.1 percent of the West German expenditures), in Hungary $ 49 (9,8 percent of the West German expenditures), in Poland $ 4, and in Romania $ 4.4 (0.8 percent and 0.9 percent of the West German expenditures, respectively).

The travel outlook

Important factors influencing the travel potential from countries currently undergoing transition is the population of a given area and their purchasing power. 387.2 million people live in the transition countries, 96.3 million of whom live in Eastern Europe and 290.9 million in the former Soviet Union. The GDP per capita – an important purchasing power indicator – amounts to $ 5,002 in Eastern Europe and, in the former Soviet Union, $ 9,140. West Germany, the U. K. and the Netherlands have a per-capita income three times higher than in Eastern Europe. In first world countries outside of Europe (U. S. A., Canada and Japan) it is four times higher (Tables 13 and 14).

From tourism research, we know that there is a strong relationship between a country's purchasing power (GDP per capita) and its population's potential travel intensity (the percentage of the population which travels). From the transition economy countries, there is no basic statistical information reflecting these indicators. The given European relationship between travel intensity and GDP per capita must be applied in an analogous way in order to estimate the potential travel volume of the transition economies.

Table 13

Economic profile of selected countries

	Population Million persons	GDP Billion dollar	GDP per capita Dollar	GDP per capita Western Germany = 100
U. S. A.	250.4	5,465.2	21,830	135.3
Canada	26.5	516.7	19,500	120.9
Japan	123.6	2,115.2	17,110	106.1
France	56.4	873.6	15,490	96.0
Italy	57.7	844.7	14,640	90.8
Netherlands	14.9	218.0	14,630	90.7
U. K.	57.4	858.3	14,950	92.7
Eastern Germany	16.1	141.1	8,760	54.3
Western Germany	63.0	1,016.1	16,130	100.0
Austria	7.7	128.1	16,640	103.2
Former USSR	290.9	2,660.0	9,140	56.7
Bulgaria	8.9	49.9	5,600	34.7
Former CSFR	15.7	126.8	8,100	50.2
Hungary	10.6	64.2	6,100	37.8
Poland	37.8	167.1	4,400	27.3
Romania	23.3	73.7	3,200	19.8

Source: WTO, Handbook of Economic Statistics, 1991. GDP at 1990 purchasing power parities.

Table 14

Economic profile of selected countries

	Population Million persons	GDP Billion dollar	GDP per capita Dollar
Oversea Countries	400.5	8,097.1	20,217.0
5 big EC countries	265.5	3,951.8	14,884.0
Without Eastern Germany	249.4	3,810.7	15,280.0
Transition economies	387.2	3,141.7	8,114.0
Eastern Europe	96.3	481.7	5,002.0
Former USSR	290.9	2,660.0	9,140.0

Source: CIA, own calculations. GDP at 1990 purchasing power parities.

Table 15 shows a strong relationship between the real GDP per capita of selected Western European countries and their respective travel intensities for pleasure trips lasting at least 4 days. A regression analysis was carried out to support this relationship[4]).

---

[4]) Travel intensity in percent = $\underset{(19,16)}{0{,}62} \cdot$ GDP per capita

$R^2 = 0{,}97$, $DW = 1{,}62$

Numbers in parentheses . . . t values.

Table 15

Trip intensity and GDP per capita in selected Western European countries

1988

	Trips of more than 4 days In percent of the population	Real GDP per capita[1]) Western Germany = 100
Austria	42	84.2
Belgium	48	79.6
Denmark	68	105.1
Western Germany	66	100.0
France	57	92.3
U. K.	58	82.1
Greece	35	31.9
Italy	44	74.3
Portugal	22	22.0
Spain	42	43.9
Switzerland	75	137.8

Source: Studienkreis für Tourismus, WIFO, own calculations. – [1]) At 1985 prices and exchange rates.

Table 16

Potential travel intensity and travel volume in Eastern European countries

	Population Million persons	Potential travel intensity In percent of the population	Potential trips per year Million
Bulgaria	8.9	22	2.0
Former CSFR	15.9	31	4.9
Hungary	10.6	23	2.4
Poland	37.8	17	6.4
Romania	23.3	12	2.8
Total	96.3	19	18.5

Source: CIA, own estimations based on regression function in Note 4. Vacation trips longer than 4 days.

The estimation of the travel potential of residents of Eastern European countries for pleasure trips lasting 4 days or longer results in an average travel intensity of 19 percent – 18.5 million vacation trips per year in terms of regular overnight stays in registered tourist accommodations (Table 16). These figures seem realistic in the medium term, given enough economic growth to 1. compensate for income losses between 1990 and 1993 and, 2. basically improve the production and consumption structure as well as the equipping of households with durable consumer goods at Western European standards. The highest potential travel intensity can be expected from the former CSFR (31 percent or 4.9 million trips). The travel intensity of the Czech Republic will be significantly higher than the comparable figure of the Slovak Republic. The potential travel intensities for Hungary and Bulgaria will be 23 percent (2.4 million trips) and 22 percent (2 million trips), respectively. Poland will have a very low travel intensity (17 percent), but, because of its large population, it is the biggest travel market (6.4 million trips). The lowest travel intensity is expected for Romania (12 percent, 2.8 million trips).

In the medium term, the majority of total potential vacation trips – perhaps 60 percent to 80 percent – will have Western and Southern European destinations. A tiny proportion of the trips will be overseas (North America or the Pacific Asian area). The remaining trips will have Eastern European countries as their destination. The estimated travel potential for trips longer than 4 days in relationship to overnight stays in registered tourist accommodations will be significantly higher than the estimated 18.5 million trips when the emerging short-trip and business travel trips are included. However, the lack of any reliable quantitative information allows only qualitative statements to be made.

The economic catching up process and the growth of the travel markets will be faster in the Czech Republic, Hungary and Poland than in the Slovak Republic, Bulgaria and Romania. At the present stage of information, a reliable estimation of the travel potential of the NIS is not possible.

To end this analysis, I would like to mention a few words to summarise the complexity of the problems:

The direction of the short- and medium-term growth expectations as well as the travel outlook for the transition economies is dependent on whether the Western, developed economies are able to recover from their own recession and achieve a satisfactory medium-term growth path – or whether the recession lasts too long. Only prosperous Western countries will be able to absorb large amounts of exports from Eastern European countries, who thus earn hard currency for their own import needs. This assumes hat the Eastern European economies and the NIS will receive money for building the modern production structure necessary in order to be a successful competitor in world markets and that some solution for the debt problem can be found. The present estimates for the gross debt of the transition economies amount to $ 174 billion[5]). The estimation for the capital requirements necessary for building a competitive production and service sector are by far higher than the gross debt. The Austrian Institute for Economic Research estimates that the capital requirement over a 10 year period amounts to $ 500 billion *annually* (for just Eastern European economies without the former Soviet Union: $ 140 billion)[6]). The consequences of this enormous capital requirement may be that residents of transition countries may be forced to postpone consumption, including their travel desires, for many years to come, as such large saving amounts can be only partly absorbed from the West. A

---

5) Stankovsky, J., "Ostverschuldung: Tragbare Lösung für Rußland nicht in Sicht. Deutliche Verbesserung in Ost-Mitteleuropa", WIFO-Monatsberichte, 1993, 66(2).

6) Handler, H., Kramer, H., Stankovsky, J., Debt, Capital Requirement and Financing of the Eastern Countries, WIFO, Wien, 1992.

possible solution could be attracting sufficient foreign (i. e., Western) direct investments. It is now clear that situation is one of "walking on the edge":

Rebuilding the transition economies with the help of the West alone cannot be easily realised; however, without modern structures, the chances for these countries in world markets are very weak; the Western world risks facing a political and economical destabilisation of Eastern Europe. Another aspect to be considered is that, if developed economies finance a large part of the capital requirements, interest rates will increase as a consequence of capital shortages, which in turn would have a severe negative influence on the economic activity of the West with consequences for the East. We also need to consider how many more years the inhabitants of the transition countries are willing to postpone their consumption and travel needs for global economic reasons. The answer might be that any revolution offering the promise of consumption would be welcomed in the near future. Conditions such as economic stagnation, high inflation rates, high unemployment rates and quickly changing governments or dictators may be the consequences.

Eigentümer, Herausgeber und Verleger: Gemeinnütziger Verein "Österreichisches Institut für Wirtschaftsforschung", Wien 3, Arsenal, Objekt 20. Postanschrift: A-1103 Wien, Postfach 91. Tel. (1) 798 26 01-0, Fax (1) 798 93 86. Vorstand: Präsident: Ing. Leopold Maderthaner, Vizepräsidenten: Eleonora Hostasch, Univ.-Prof. Dr. Erich Streißler, Geschäftsführer: Prof. Dr. Helmut Kramer.

Satz und Druck: Österreichisches Institut für Wirtschaftsforschung.

Verkaufspreis: S 100,–.