Int. J. of Management, Marketing and Technology
Vol. 1, No. 1, March 2011

http://ijmmt.yolasite.com

Tourism Growth and Setbacks in a Small Economy within an Enlarged EU: Evidence from Cyprus

By

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ABSTRACT

This study focuses on the development of the tourism industry in Cyprus and its economic impact. It explores the implications of the economic impact for tourism analysis and planning. The empirical evidence reveals that tourism in Cyprus can generate desirable and widely distributed impacts. The results suggest that the tourism growth strategy has affected the whole of the economy in a positive way. The paper concludes that effective institutional intervention can become a positive force within a context of rapid integration with the global market. The study makes reference to tourism and economic development emphasizing on the contribution of tourism to the economic growth of the Republic of Cyprus. The study outlines the historical development of the tourism industry in Cyprus as well as the evolution of tourist markets and the seasonality debate. The economic effectiveness of tourism expansion is analysed referring to tourism receipts, the balance of payments and the income generation. The impact on employment and labour force participation is also discussed. Tourism setbacks and other concerns are underlined. The policy implications are underlined and some suggestions are made for the development of the tourism industry in Cyprus as well as in other EU Member States. Finally, it concludes and gives some implications for further research.

Keywords: Cyprus; tourism growth; tourism markets; seasonality; implications; impacts; tourism analysis; tourism planning.

INTRODUCTION

The role of the tourism industry in achieving economic growth has been strongly underlined by researchers and academics such as Sinclair (1998), Clancy (1998), Shapley (2002), and Sharpley and Telfer (2002). Other studies predicted that the performance of tourism in a small island economy is either poor or failing. (Bryden, 1973; Patullo, 1996; Fagence, 1999). Pastor and Fletcher, (1991) have also questioned the basic premise of using tourism as a viable development tool for small countries.

Tourism has been the leading growth sector in the economy of Cyprus since 1980 and now constitutes the backbone of the Cyprus economy. This study aims to identify the economic impact of tourism in a small economy, and in so doing it utilizes the case of Cyprus.

The objectives of this study are:

(1) To analyse the tourism economic growth in Cyprus;

(2) To identify the tourism development impacts to the Cyprus economy; and

(3) To explore the implications of tourism economic growth for tourism development analysis and planning.

The paper provides an indication of the degree of significance of tourism to the local economy and justifies its importance to the public at large. It identifies the strong tourism markets for Cyprus and the results from the analysis can provide government and policy makers with reliable information in targeting tourism markets and developing a sustainable competitive strategy. The contributions of tourism to the Cyprus economy are clearly identified. The study estimates the direct, indirect and induced contributions of the tourism sector to income, employment, foreign exchange earnings and fiscal revenues. This study is important because it can be beneficial to small economies for the development of the tourism industry and provides lessons related to the developments as well as with the drawbacks of the tourism industry.

TOURISM AND ECONOMIC DEVELOPMENT

Tourism is one of the largest and most dynamic industries in the world, with significant multiplier effects on economic activity. Armstrong and Read (2000) found that tourism has a strong positive relationship with growth. Balaguer and Cantavella-Jorda (2002) demonstrated the relevance of tourism on economic growth. Sinclair et al (2003), underlines that tourism is particularly important relative to other economic activities on the small islands of EU, Cyprus and Malta. Thus, any changes in tourism demand are likely to have considerable effects at both the macroeconomic and inter-sectoral levels of these countries.

World Bank studies have demonstrated that there is a direct correlation between poverty reduction and economic growth (Easterly, 2002). Croes (2003) discussed the suitability of tourism as a development strategy for small economies. The impact of globalisation on small economies has caused some of them to consider new ways to bolster their performance. The implementation of new tourism strategies based on a demand focused approach, supported by empirical analysis, could provide improved market knowledge to small economies, which they in turn, could use to achieve and sustain competitiveness in the global tourism industry.

It was estimated that up to the year 2008, demand in the sector could double globally and increase by around 30% in Europe (Torres, 1998). Most recent advances in the European integration process – the creation of the internal market, the Schengen agreement, and the development of the European Monetary Union are considered to contribute to the development of European tourism by providing competitive advantages to the area. According to WTO research, if the member states of the Euro zone (i.e., Austria, Belgium, Cyprus, Finland, France, Greece, Germany, Ireland, Italy, Luxembourg, the Netherlands, Malta, Portugal, Spain and Sweden) are considered as one nation, they constitute the largest destination in the world in all aspects of tourism (Raffling 1998).

TOURISM DEVELOPMENT IN CYPRUS

The foundations of tourism in Cyprus were laid in the early sixties. The government invested heavily to increase the economic and social infrastructure to serve hotels and other tourist facilities (e.g. upgraded electricity, water and sewage systems, improved transportation and telecommunication systems, increased fire and police protection, and the development of new seaports and two new international airports (one in Paphos and one in Larnaca)).

Recognizing the importance of tourism to the recovery of the economy, the government's primary prerequisite was an expansion in hotel accommodation. At the end of 1991 the total number of beds in licensed tourist establishments was 63,564 compared to 59,271 in 1990. There were also 13,853 beds under construction. Between 1991 and 2001, the 1-5 Star Hotel bed capacity increased from 29,549 to 50,932. For the same period the hotel apartments' bed capacity increased from 21,126 to 38,124. Of all the hotel beds that had been in operation at the end of 2001, 50,932 belonged to 238 star hotels, 23,727 to 274 hotel apartments of all classes, 3,982 to 14 tourist villages, and 10,415 to tourist villas, tourist apartments, furnished apartments, traditional houses and hotels without stars. By the end of 2007 the total bed capacity increased to 92,569. At present there are 613 tourist establishments in operation. In addition, the Tourism Sector comprises of 445 licensed travel agents with 162 branch offices, 2,940 licensed catering and entertainment establishments, 264 licensed tourist guides and a number of other tourist enterprises.

The authorities are continuously focused on trying to actively improve the country's infrastructure to cope with tourists expectations from traditional tourist markets as well as from new markets, particularly from the US, the EU and the Japanese markets. The prime developments are big money earners such as golf courses, casinos, theme parks, water parks, marinas as well as the plethora archaeological sites of Cyprus.

Agro-tourism is another focus, with the number of agro-tourism sites rising from 294 to 700 by the year 2005. Cyprus is also trying to extend its attraction to travellers through year round activities: between 2000 and 2003 the number of walking trails has increased from 10 to 50. Bird-watching and mountain biking are also subject to a marketing campaign and a nature park and a cultural park were opened by 2001. By the year 2007, four new golf courses were opened. Five extra theme parks (with historical and mythological themes) are planned, whilst six new marinas (with a capacity for 4,000 vessels) and a casino are in the pipeline. The already developed water-parks, camel-parks, ostrich parks and a museum of wax images are attractions not only for children but for adults as well.

Further support for the tourism sector has been provided through the promotional programme of CTO[1] to market the Cyprus tourist product. These programmes have been based, in part, on detailed statistics of visitor flows. The main emphasis in the promotional activities has been on the UK market, the Scandinavian countries and Germany.

Table 1: Tourism trends in arrivals, nights spent, average length of stay and occupancy rate. (Source: CTO Data Base, Republic of Cyprus, Statistical Service and author's own calculations)

Year	**Tourist arrivals**	**Growth rate (%)**	**Nights spent (thousand)**	**Growth rate (%)**	**Average length of Stay (days)**	**Occupancy Rate (%)**
1985	813,617	10.40	4,587	23.2	17.73	53.10
1986	827,937	1.76	5,445	18.7	15.20	69.10
1987	948,551	14.57	6,370	16.9	14.89	86.10
1988	1,111,818	17.21	8,408	31.9	13.22	47.02
1989	1,377,636	23.91	9,615	14.4	14.32	47.52
1990	1,561,479	13.34	10,396	08.1	15.01	59.70
1991	1,385,129	-11.29	9,396	-09.6	14.76	32.40
1992	1,991,000	43.74	14,487	54.1	12.60	64.70
1993	1,841,000	-07.53	12,642	-12.7	12.20	52.80
1994	2,069,000	12.38	14,675	31.9	12.00	65.30
1995	2,100,000	01.50	24,150	44.8	11.50	58.60
1996	1,950,000	-07.14	21,450	-11.2	10.90	52.74
1997	2,088,000	07.08	24,012	11.9	11.50	53.90
1998	2,222,706	06.45	25,049	04.3	11.30	57.30
1999	**2,434,285**	**09.52**	**16,731**	**10.2**	**11.30**	**63.00**
2000	2,686,205	10.35	17,419	09.2	11.00	65.10
2001	2,696,732	00.39	18,826	-08.1	10.30	74.10
2002	2,418,233	-10.33	16,159	-41.71	11.12	63.00
2003	2,303,246	-04.76	13,490	-10.53	10.90	57.50
2004	2,349,012	1.99	13,636	1.80	10.70	57.60
2005	2,470,063	5.15	14,006	2.32	10.40	61.60
2006	2,400,924	-2.83	13,310	-0.95	10.40	59.90
2007	2,416,081	0.66	13,197	-0.42	10.00	61.80
2008	2,403,750	-0.53	13,208	0.02	10.10	63.50
2009	2,141,193	-10.90	**NA**	NA	9.9	NA

Table 2: Tourist arrivals from the major markets of Cyprus as a % of the overall tourist arrivals for the period 1986-2009. (Source: CTO Data Base and author's own calculations)

Overall tourism performance

Cyprus maintained an average rate of expansion of 6.92% during the period 1985-2008. The UK tourist market maintained its leadership position in tourist arrivals and receipts in 2009 followed by Germany, Greece, Russia and Sweden. In 2009 tourist arrivals from UK accounted for nearly 49.9% of the overall tourist arrivals (Table 2).

Although the number of tourist arrivals substantially increased, through out the period 1985 – 2003, there were some fluctuations in tourist arrivals with some downturns especially after 1990 and up to 2008 (table 1). Also, the performance of some markets was not consistent. During the year 2003, there was a significant increase in tourist arrivals from the UK followed by Germany, Greece, Russia, Sweden and Ireland (table 2). Up to 1990 there is a consistent increase in tourist arrivals from the EEC and other European countries, from Eastern Europe, USA – Canada, and the Arab Countries as well from other unclassified countries. In 2008, we see an increase in the market share of the Russian market which reached 7.5% of the overall tourist market.

Main tourist markets

The UK is the major tourist market of Cyprus, and its market share of total arrivals has stabilised at nearly 53% in recent years (table 2). The Swedish market share however, has declined from its peak of nearly 10.3% of total arrivals in 1986 to 5.2% in 2008. It is worth noting however that the tourist arrivals from UK, Russia, Germany, Greece and Ireland as a percentage of the overall tourist arrivals increased. During the past 17 years the UK market has shown remarkable growth.

After the UK, Germany is the third Cyprus' most significant tourist market, with 173, 711 tourist arrivals in 2002. Germany's market share reached 7.1% in 2002 from 12.3% in 1996. However, after 2002, we see a downturn of the tourist arrivals from Germany reaching only 5.5% of the overall tourist market in 2008.

After 1996, Russia became the second largest tourist market for Cyprus and its market share accounted to 6.9% in 2009. The transition of Russia into a free market economy, the wonderful clean environment of Cyprus, the clean, golden beaches, the all year round sunshine, the green mountains and its hospitable people greatly constituted to this increase of tourist arrivals from Russia. Not to exaggerate, the committee of aerospace in Russia had declared Cyprus as the only tourist destination for the Russian cosmonauts.

Germany is the third largest tourist market for Cyprus and in 2009 accounted for 6.1% of the overall tourist market share, followed by Greece which reached the same market share of 6.1% in 2009.

Sweden is the fifth largest tourist market for Cyprus, and its market share accounted to 4.1% in 2002 increasing to 5% in 2009.

The sixth tourist market for Cyprus is Ireland. With the exception of some downturns in 1993, 1995 and 1996, Ireland reached a market-share of 2.7% with 56,649 tourist arrivals in 2003. In 2009 the market share of Ireland was only 0.8% of the overall tourist market.

The seasonality debate

Seasonality in tourism causes underemployment, underutilisation of facilities, and in turn, a lowered productivity. Seasonality is a major issue in Cyprus which is affected by high seasonal swings in visitor numbers. A review of table 3 reveals that visitors from UK, Russia, Sweden, Greece and Ireland prefer to visit Cyprus during the third quarter of the year, which coincides with their national holidays and the long school vacation period. Germans, however, have less desire to visit Cyprus during the same period. This is substantiated by the figures in table 3, which show that, in 2009, 43.03%, 43.70%, 45.16%, 28.91%, 53.46% and 50.08% of the tourist arrivals from UK, Russia, Sweden, Greece, Ireland and Norway, respectively, came during the third quarter. The corresponding figure for Germany was 25.36% only. The Germans, (27.25%) prefer to visit Cyprus mostly during the fourth quarter. We can also see that there is a substantial demand (above 30%) for the second quarter in the case of UK, Germany, Russia, Sweden, Ireland and Norway.

Table 3: Seasonality of tourist arrivals to Cyprus by country of origin during 2009 expressed as a % of total arrivals (Source: Monthly Statistical Data-Base of Cyprus Tourism Organization and author's own calculations)

Quarter	**UK**	**Germany**	**Russia**	**Sweden**	**Greece**	**Ireland**	**Norway**	**Overall Tourist Arrivals**
First	8,14%	17,32%	6,07	3,15	16,34	2,90	1,60	9,07
Second	32,14%	30,06%	34,76	36,85	28,48	31,80	35,40	32,17
Third	43,03%	25,36%	43,70	45,16	28,91	53,46	50,08	40,71

Fourth	16,68%	27,25%	15,44	14,82	26,25	11,83	12,90	18,05

Further analysis of seasonality, indicates that three of the disturbing trends affecting the development of tourism in Cyprus are: (1) the market seasonality of high summer and low winter periods, (2) the persistently high average of seasonal unemployment, and (3) the seasonal reduction in hotel accommodation.

Travel to Cyprus tends to be seasonal. As shown in Table 3, from the tourism markets under study, in 2009 9.07% of tourist arrivals to Cyprus visited during the first quarter, 32.17% during the second quarter, 40.71% during the third quarter and 18.05% during the fourth quarter.

ECONOMIC EFFECTIVENESS OF TOURISM EXPANSION

Tourism and the economy

Tourism is Cyprus' largest industry accounting for at least half of the island's economy generating jobs in quantity and quality. Tourism is both a major exporter, with international visitors injecting foreign exchange directly into the economy, and a catalyst for related activities such as construction, financial services, transport and telecommunications. In addition, the tourism industry is a labour intensive industry which creates jobs across the employment spectrum and is a major supporter of small and medium size businesses.

As shown in table 4, the economic impact of the tourism industry in Cyprus is reflected only partially in the estimated direct contribution to the gross domestic product (GPD), which amounted to nearly 15.1% in 2003. Additionally in 2003, tourism generated nearly CYP[2] 10.5 million in tax revenue; 43,500 people (Table 5) are directly employed in the tourism industry (in hotels, restaurants, bars and in travel agencies as tourist guides) accounting for about 13% of the country's gainfully employed population.

In 2009, total revenue from tourism reached EUR 1.510 million) (Government's financial reports). Tourist expenditures occurred in accommodation, food and beverages, shopping, sport and leisure activities and other types of expenditures that visitors make indirectly. In per capita terms, visitors in Cyprus spent nearly EUR 750 (Government's financial reports) per visit in 2009.

Table 4: Trends in GDP and total tourism receipts. (Source: Statistical Service, Central Bank of Cyprus, CTO Data Base and author's own calculations)

Year	Nominal GDP (CYP million)	Growth (%)	Tourism Receipts (CYP million)	Growth (%)	Receipts as % of GDP
1975	271,2	-22.2	5.4	-61.15	2.0
1976	348,8	28.6	20.7	283.33	6.0
1977	441,9	26.7	23.8	14.98	5.4
1978	526,8	19.2	33.3	39.92	6.3
1979	651,9	23.7	50.1	50.45	7.7
1980	787,0	20.7	71.7	43.11	9.1
1981	903,0	14.7	102.4	42.82	11.3
1982	1.055,4	16.8	138.7	35.45	13.1

1983	1.158,5	9.8	174.8	26.03	15.0
1984	1.361,6	17.5	212.0	21.28	15.6
1985	1.508,0	10.8	232.0	9.43	15.3
1986	1.620,8	7.4	256.6	10.60	15.8
1987	1.805,2	11.4	320.7	24.98	17.8
1988	2.015,7	11.7	365.0	13.81	18.1
1989	2.291,2	13.7	490.0	34.25	21.4
1990	2.597,3	13.4	573	16.94	22.0
1991	2.719,9	4.7	476	-16.93	17.5
1992	3.142,5	15.5	694	45.80	22.0
1993	3.322,0	10.6	696	0.29	21.0
1994	3.692.0	11.1	810	16.38	22.0
1995[3]	7.150,4	9.7	810	00.00	20.0
1996	7.449,3	3.3	780	-3.70	18.6
1997	7.810,2	5.3	843	8.08	19.1
1998	8.445,3	7.0	878	4.15	18.6
1999	9.062,6	6.8	1025	16.74	20.3
2000	9.883,2	9.5	1194	16.49	21.7
2001	10.627,9	6.6	1277	6.95	21.7
2002	10.979,7	2,1	1136	-11.04	18.4
2003	11.761,2	1,9	1015.0	-10.21	15.1
2004	12.653,6	4,2	982.3	-3.22	13.3
2005	13.462,3	3,9	1,005.7	2.38	12.8
2006	14.435,2	4,1	1,037.0	3.11	12.4
2007	15.879,1	5,1	1,858.1	6.00	12.0
2008	17.247,8	3,6	1,792.8	-3.50	10.4
2009	16.946,5	- 1,7	1,510.0	-15.74	8.9

Tourism receipts and the balance of payments

One of the economic objectives of Cyprus' tourism policy is to increase foreign exchange earnings, which is essential to pay for imports (or leakage) and to sustain the level of international reserves. With a narrow export base, tourism has made a significant contribution to Cyprus' balance of payments. Consequently, the number of tourism receipts has on average increased by approximately 3.05% during the period 1995-2009. This has given an average elasticity coefficient between tourism receipts and tourist arrivals of about 2.10 which indicates that foreign exchange receipts are rising proportionally faster than arrivals for the same period. The average growth of tourist arrivals in Cyprus during the period 1995-2009 is 1.45% which is far less than the forecasted by the WTO; for Europe, 3,1% and for the Eastern Mediterranean, 5.5%.

Historically, tourism receipts have exhibited phenomenal growth. It has maintained an average annual rate of expansion of nearly 9.63% during the period 1985-2009 (Table 4) growing from CYP232 million in 1985 to CYP1,015 million in 2003 to become the largest source of export income to Cyprus. Up to 2001 tourism receipts grew faster than GDP. The proportion of tourism receipts to the total GDP increased from nearly15.8% in 1985 to nearly 21.7% in 2001. However, in 2009 the proportion of tourism receipts to GDP decreased to 8.9% (Table 4).

It is perhaps not surprising that nearly 65.31% of the total tourism receipts were spent by visitors from the United Kingdom. In 2003 tourist arrivals from UK accounted for 58.5% of the total tourist arrivals. The average per person expenditure was CYP454.57. Tourist arrivals from Germany accounted for 5.6% with an average per person expenditure of CYP404.30; tourist arrivals from Greece accounted for 4.8% with an average expenditure of CYP298.73; tourist arrivals from Russia accounted for 5% with an average expenditure of CYP550.75; from Sweden they accounted for 3.8% with an average expenditure of CYP326.99 and tourist arrivals from Ireland accounted for 2.7% with a per capita expenditure of CYP480.00.

It is important to point out that the annual distribution of tourism receipts has shown a similar trend to that of the tourist arrivals. This suggests that similar to tourist arrivals, Cyprus has shown a seasonal pattern in the incoming of 'new money'. The third quarter shows the highest tourism yield (arrivals divided by receipts), whereas the first quarter indicates the lowest yield.

The import capacity of tourism was affected positively by relative price changes. As prices in general, and operating costs in particular, increased in the 1990s, hotels also increased their prices. In other words, there was an increase in the terms of trade for tourism between 1990 and 2003 which started from 1985, after the major expansion of the sector. The prices of tourism in Cyprus, measured in foreign currency, rose faster than the prices of goods the country imported. During the period 1985-2003, tourism receipts increased by an annual average of nearly 9.63% (Table 4). However the import capacity, the volume of imports these tourism receipts could purchase, decreased by 4.31% (Department of Statistics). It appears of course that an increase in terms-of-trade in the GDP of Cyprus had a positive impact in the overall growth rate of the economy (Table 4).

Income generation

Fletcher (1989) and Archer (1989) estimated for the tourism industry in Cyprus, an income multiplier of 1.14. Clearly, the first-order impacts of tourism-led growth are evident. From an aggregate perspective, (a) production of tourism goods and services increases, (b) the potential for further investment, profits and savings is enhanced, and (c) GDP growth is boosted.

EMPLOYMENT IMPACT AND LABOUR FORCE PARTICIPATION

Table 5 shows that 82,650 people were employed in the tourism industry in 2003 and that tourism is directly responsible for nearly 43,500 jobs. Based on a figure of 95,185 beds in 2003, direct employment in tourism amounts to an average of nearly 1 employee per 2.18 beds. The indirect effects account for nearly 39,150 additional jobs.

Table 5: Tourism employment indicators. (Source: Reports of the CTO)

Year	**Bed Capacity or licensed beds in operation**	**Tourism Employment**	**Direct Employment**	**Indirect Employment**
1980	12,524	8,170	4,300	3,850
1985	30,375	16,340	8,600	7,740
1986	43,346	18,145	9,550	8,595
1990	59,271	29,289	15,415	13,874
1995	78,427	64,790	34,100	30,690
1996	84,549	69,483	36,570	32,913
1997	84,368	68,020	35,800	32,220
1998	86,151	74,811	39,374	35,437
1999	84,173	75,050	39,500	35,550
2000	85,303	76,950	40,500	36,450
2001	92,176	75,990	39,540	35,586
2002	94,446	81,615	42,955	38,660
2003	95,185	82,650	43,500	39,150

*Employment in the tourism industry only during the summer period.

TOURISM SETBACKS AND OTHER CONCERNS

Table 1 shows a sustainable expansion in the tourism sector up to 1990 with some downturns after this year. There was a substantial decrease of 17.4% in the tourist arrivals in 1991due to the Gulf War and a 10.3% decrease in 2002 after the terrorist attack of 11 September 2001. Also, in 1993 and 1996 there was a decrease in the tourist arrivals, 7.5% and 7% respectively.

The tourism industry in Cyprus after 1990 experienced some downturns reaching their peak after 2001. In 2002 and 2003, after the terrorist operation of 11 September 2001, the tourism industry in Cyprus faced substantial decrease in tourist arrivals as well as in tourism receipts (Tables 1 and 5).

The Swedish tourist market for Cyprus declined from a peak of 127,498 visitors in 2000, to 99,750 in 2002. In 2002, there was a minor decrease in the tourist arrivals from Greece, going down to 93,217 although, the market share slightly increased to 3.9%. The Irish tourist market is one of those which were not affected by the terrorist operations of 2001 and the Gulf War in 1990.

Policy implications

The growth of the tourism industry achieved in the Republic of Cyprus is the result of an efficient economic strategy outlined by the government of Cyprus in coordination with the CTO and the private business sector. Significant collective action was taken to alleviate the problems among private firms in tourism, especially in terms of initial risks, capital needs and the quality development of the tourism product.

The 6.92% average annual increase in tourist arrivals world-wide to Cyprus between 1985 and 2009 demonstrates the vitality of the industry as well as the remarkable resistance of the sector to economic fluctuations and other problems. There is however, some evidence to suggest that macro-trends are changing. Between 1993 and 2009, the average annual increase in tourist arrivals and tourism receipts appeared to be at a lower pace and a more modest growth can be expected in the near future.

The Cyprus tourism industry has been long established and has by now reached maturity stage. Looking at the broader international tourism perspectives, it is obvious that the industry is becoming more and more challenging, with competition getting intense and the needs of the educated traveller becoming increasingly more diverse and sophisticated.

The Cyprus Tourism Organisation has long recognized the importance of satisfying these needs. A strategic plan ending 2010, defining the vision, goals and strategic direction for the Tourism Sector in Cyprus had been approved by the Government (A new strategic plan is under approval by the CTO).

The strategy centred on sustainability and focused on quality rather than on quantity. The basic objective of the strategy is the doubling of receipts from tourism, in real terms. This objective was achieved through:

- an increase in the per capita spending of tourists;
- an increase in the average length of stay of tourists;
- an increase in repeat business;
- a more even seasonal spread of tourist arrivals; and
- increasing tourist arrivals.

The strategy aimed to offer value for money to visitors, through the upgrading and differentiation of the tourist product. Tourism patterns are dynamic and unstable, in both the short and long term. There are a variety of reasons for these characteristics, some of which have been demonstrated by the above analysis. There are other factors, however, that this study has not addressed. The most significant of these are, recession, increasing travel related costs, inflation, the decrease in the real income of important tourist markets, the increasing competition from other tourist destinations and the high unemployment.

Lessons from this research for tourism in other EU member states

The performance of Cyprus indicates that a tourism-based economy can withstand the impact of globalisation. The close coordination between public and private sectors has been proved to be essential in designing and implementing effective policies and strategies. The mix of a marketing promotional strategy, of an investment strategy, qualified human capital and a macroeconomic framework can enhance competitiveness of the tourism product. Policy intervention is needed to stimulate strategic change and promote alliances between existing firms that lead to the creation of dynamic and competitive clusters.

The results of the study also suggest that the export-led strategy based on tourism has affected the whole of the economy in a positive way. The main lesson that we may derive is that institutional intervention can contribute to tourism development, can promote efficiency in the tourism industry as well as in the whole economy of a country. It can also contribute to tourism product development. As a result, the domestic firms are forced to reach an optimal growth size, be flexible in developing price strategies and in satisfying the needs of their target markets.

Conclusions and suggestions for further research

The results of the present study suggest that the growth strategy adopted in the tourism industry has affected the whole of the economy in a positive way. The tourism industry in Cyprus achieved substantial developments and its contribution to the GDP reached 15% by 2003. A very important impact of the tourism industry on the Cyprus economy is also its contribution to maintaining the balance of payments in the current account. The income from the tourism industry is almost as much as the income derived from all the other exported goods and services and it is the primary source of foreign currency (statistics of the Cyprus economy). The tourism industry also creates new employment. It is estimated that 25% of the new jobs created after 1980 were due to the growth of the tourism industry.

There are at least four implications for further research and planning based on the analysis presented in this paper. First, research in other areas also is needed including: social, physical and environmental impacts, longitudinal travel patterns of individual tourists, and tourist perceptions and behaviour. Second, data should be analysed regarding tourism trends and tourism satisfaction. Third, further research should be carried out in order to estimate the real costs of terrorism to the tourism industry. Fourth, what will be the impact on tourism from a possible solution of the Cyprus problem within the framework of a bizone/ bicommunal Federation.

The paper adds to literature by analysing the impact of the Cyprus' tourism industry to the country's economy for the period 1985-2009.

NOTES

1. CTO – Cyprus Tourism Organization

2. The exchange rate of the Cyprus Pound (CYP - £) = € 0.585274

3. From 1995 – 2009 the nominal GDP as well as the tourist receipts are in EURO currency.

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