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The impacts of dollarization on Zimbabwe's tourism industry

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Abstract

The word “dollarization” has been used to describe the adoption of United States Dollar (US\$) or other major advanced country's currency as the currency of choice in a foreign country. Upon adoption in 2009 February, Zimbabweans and the tourism industry were optimistic about the future as they thought it would bring a more stable economy. Three years down the line it is prudent to evaluate and see if this much talked about and praised economic move had any effect on the performance of one key sector of the Zimbabwean economy (Tourism). To answer this question a graphical and quantitative analysis of Zimbabwean Tourism industry performance indicators was done. The data was grouped into pre-2009 and post-2009 and compared the means and variables between these two eras. The results of the analysis lead us to conclude that there is a positive impact of dollarization on the Zimbabwean Tourism industry.

Keywords: Zimbabwe, Tourism performance, Hospitality performance, Dollarisation

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1. Introduction

The world over when countries experience hyperinflation and the government fails to control it; economists are recommending dollarization (Cohen, 2002; Edwards, 2001; Schuler, 1999). Dollarization is the adoption of US\$ or other major advanced country's currency as the currency of choice in a foreign country (Edwards and Magenzo, 2006). This concept known as currency substitution in the early 1970 (Quispe-Agnoli, 2002) and was popularized by the work of Engel and Rose 2002; Edwards 2001 and Eichengreen and Hausmann 1999 who concluded that dollarized countries have significant lower rate of inflation than countries using their own currency.

Zimbabwe experienced hyperinflation over years that culminated in unprecedented level of 231 Million percent by July 2008 when it was last calculated officially (The Central Statistical Office, 2008). Many Zimbabweans resorted to using foreign currency especially the US\$ and South African Rand (SAR), hence unofficially dollarizing the economy which was considered illegal then. In November 2008 Zimbabwe became semi-officially dollarized with the Reserve Bank of Zimbabwe issuing licences to other businesses to trade in foreign currency (RBZ 2008) with the rest of the economy continuing to use the Z\$. Among the businesses that were allowed to use foreign currency some were in the tourism industry. Zimbabwe was officially dollarized in February 2009 presenting its national budget in US Dollar though other major currencies were allowed to be used for trading purposes. Three years after dollarization the Zimbabwean economy is on the recovery path. The question is whether this economic growth is also being experienced in the tourism industry and whether it can be linked to dollarization?

2. Literature review

2.1. Dollarization

Dollarization is the adoption of the US\$ or other major advanced country's currency as the currency of choice in a foreign country (Edwards and Magenzo, 2006). Whilst in general any country using foreign currency as its own can be said to be dollarized, different countries follow one of the three known dollarization formats (Quispe-Agnoli, 2002) that is the unofficial dollarization, semi official dollarization and official dollarization. Literature on all three was reviewed to show the developmental changes in currency reviews in Zimbabwe. However in the rest of the paper the word dollarization shall be used to refer to official dollarization as defined below.

2.2. Unofficial dollarization

This is also known as *de facto* dollarization (Corrado, 2008). It is when people of a country lose faith in their own currency and resort to using foreign currency as a medium of exchange and unit of account. This happens in an inflationary environment where the cost of holding domestic currency becomes too expensive

forcing residents to use foreign currency (Quispe-Agnoli, 2002). At this point the government considers this illegal and even opening a foreign currency denominated account is not allowed unless approved by authorities. Typical countries to have experienced this are Brazil and Venezuela (Corrado, *ibid*). During the peak of inflation in Zimbabwe in 2008, *defacto* dollarization was experienced with Zimbabweans resorting to using mainly the US\$ and SAR to pay for rentals, transport and even food.

2.3. Semi Official dollarization

This is a currency regime that is neither *defacto* dollarization nor *De jure* (official) dollarization but lies between the two. In Zimbabwe this is the period when Companies had to apply to RBZ for licences to trade using foreign currency. At this time we see a partial Government agreement to the use of foreign currency in trading though not everyone is allowed and some people still being arrested for holding on to foreign currency.

2.4. Official dollarization

This is when a country's monetary authorities adopt the US\$ or other foreign currency as legal tender for all transactions taking over all the functions of local money. This is also known as *De jure* dollarization (Dean, 2001; Dean et al., 2002). The foreign currency will now be used as a unit of account, medium of exchange and store of value (Quispe-Agnoli, 2002). Economists argue that official dollarization brings superior macroeconomic performances as measured by faster Gross Domestic Product (GDP) growth and lower GDP growth volatility (Edwards and Magenzo 2006), price stability, reduced transaction costs in foreign exchange, increased foreign direct investment, trade and a stronger balance of payment (Latin America Monitor, 2010).

2.5. Dollarization and economic performance

According to Smith (2003), when countries face repeated economic crises, industry is had hit as it has to grapple with exchange rate issues. When the exchange rate increases industry suddenly become uncompetitive on the international market. On the other hand when it decreases, industry does not have the capacity to expand. In order for industry to plan their investments and production among others dollarization was recommended (Soros, 2002).

Dollarization has brought mixed fortunes to different economies (Quispe-Agnoli, 2002; Hira and Dean, 2004). Among notable benefits are a stable atmosphere for international trade and investments, forces domestic monetary growth and reduce inflation to the level of the countries trading partners and also helps local borrowers as foreign currency has less risk and low interest rates (Hira and Dean, 2004; Helleiner, 2002). On the other hand the dollarized economies will have to live under the mercy of the holders of the adopted currency through monetary policies in their own country (Soros, 2002). This has lead to economic imperialism in these countries.

2.6. Dollarisation and the tourism industry

Globalisation thrives on stable exchange rates (Wagner, 2005), Tourism is a global industry (Fayissa et al., 2008) thus like globalisation is affected by exchange regimes in both source and destination countries. Dollarisation is deemed to bring stable exchange rates thus in support of globalisation (Soros, 2002). Tourism is one industry that has been proved to be an active economic driver and highly affected by economic decisions (Croes and Vanegas Sr, 2008) including the exchange rate regime to use in a country. Exchange rate regimes practiced in Zimbabwe before dollarization lead tourists to conclude that Zimbabwe was the most expensive destination in the world. Tourists visiting attractions located at borders would prefer going to our neighbours like Zambia for Kariba and Victoria Falls. Some even preferred going through South Africa for one day excursions to Victoria Falls.

3. Purpose of the study

The desire to dollarize was topical during the height of hyperinflation in Zimbabwe in 2007 and 2008. With partial dollarization in 2008 through issuance of licences to trade using foreign currency argued as a solution to dwindling arrivals, receipts, average spend per tourist and hotel occupancies. Full scale dollarization was adopted in 2009 and now three years later it is necessary to check if this action had any meaningful effect on the performance of the tourism industry in Zimbabwe. As such this study sought to address the following objectives:

1. Describe performances of the Zimbabwean Tourism Industry before and after dollarization;
2. Compare stability and growth rates of the Zimbabwean Tourism Industry before and after dollarization.
3. Find evidence to determine whether dollarization had a positive or negative effect on the overall performance of the Zimbabwean Tourism Industry.

4. Methodology

4.1. Selection of tourism performance indicators

To measure the performances of the Zimbabwean Tourism Industry the researchers identified six indicators to evaluate that were grouped into three:-

1. Arrivals : Overseas arrivals and Regional arrivals
2. Financial : Tourism receipts and Average spent per Tourist
3. Accommodation : Room occupancy and Bed occupancy

4.2. Graphical description

First, the researchers described each variable graphically over time. A preliminary analysis is applied to identify trends and/or significant gaps during the periods before and after dollarization.

4.3. Descriptive statistics

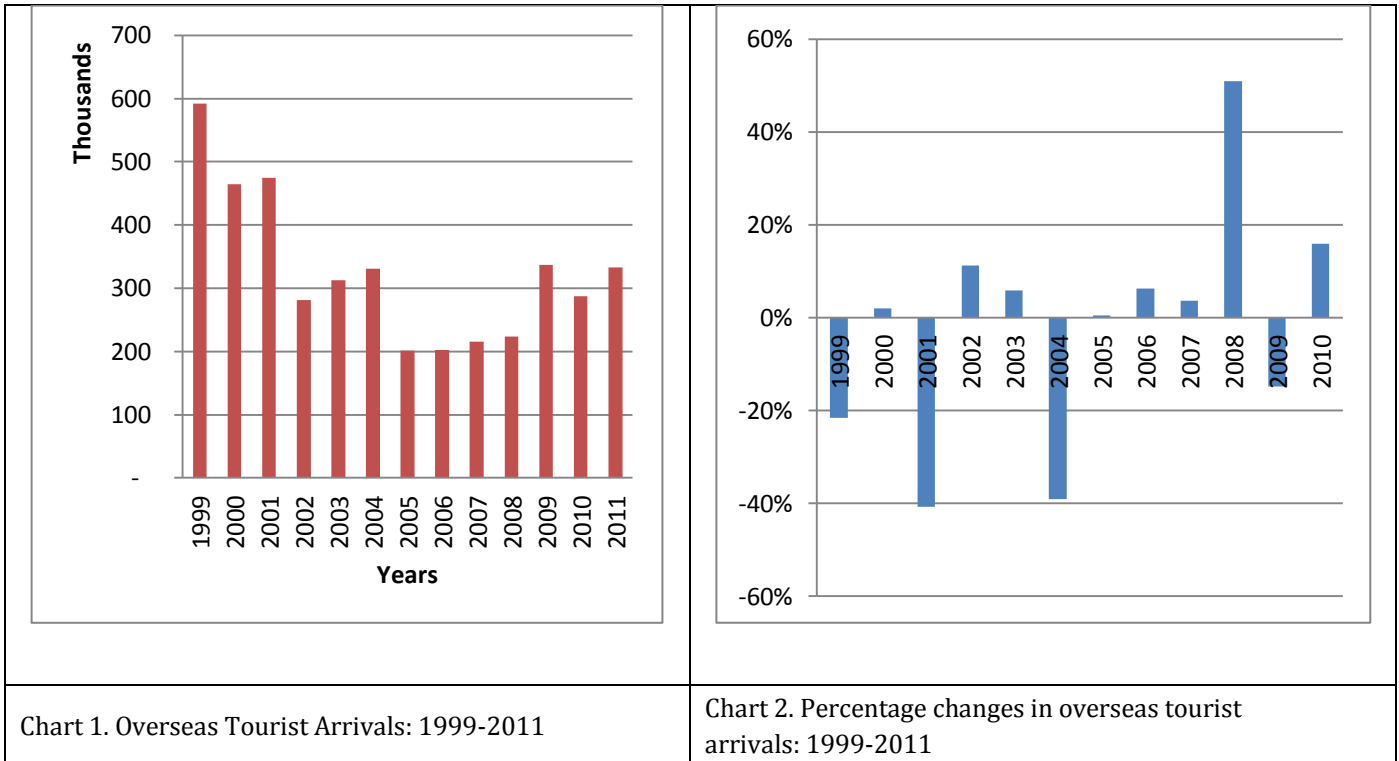
Secondly, the means of the identified variables grouped into two periods were compared to see if there was any meaningful change that has been realised in the tourism industry in Zimbabwe.

4.4. Data sources

All data is from the Zimbabwe Tourism Authority Tourism Trends and Statistics from 1999 to 2011 available freely from ZTA. The year 2009 is identified as the time of dollarization since it is the time the economy was officially dollarized.

5. Results

5.1. Graphical analysis



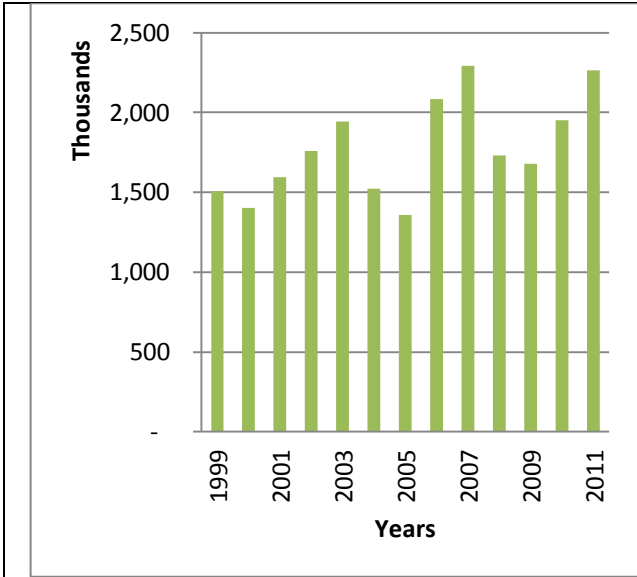


Chart 3. Regional tourist arrivals: 1999-2011

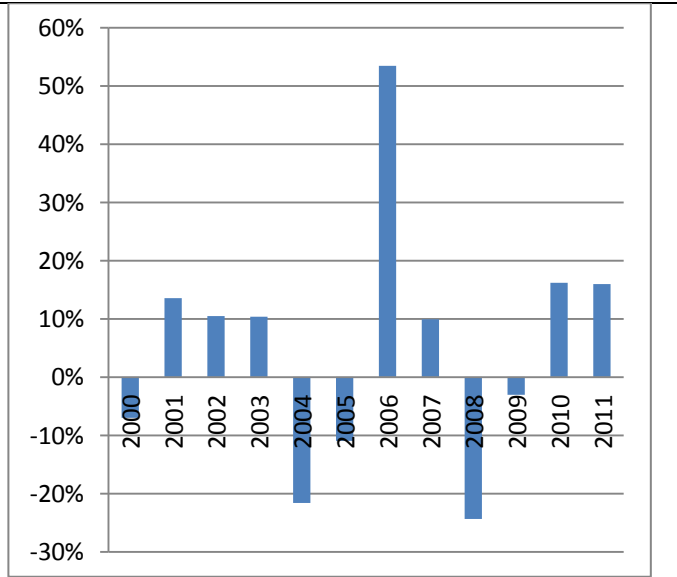


Chart 4. Percentage changes in regional tourist arrivals: 1999-2011

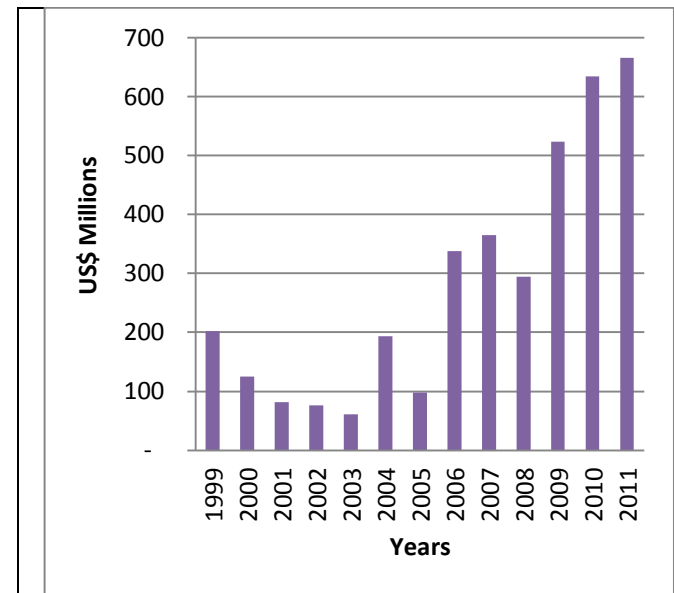


Chart 5. Tourist Receipts: 1999-2011

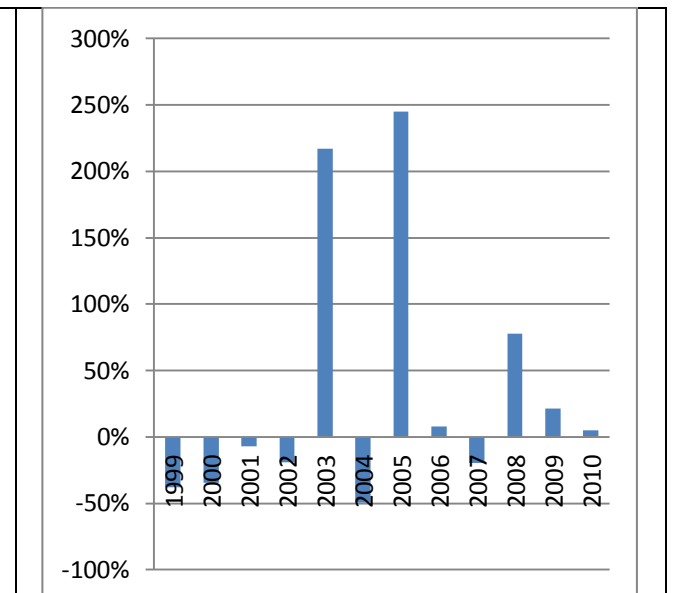


Chart 6. Percentage Changes in Tourist Receipts: 1999-2011

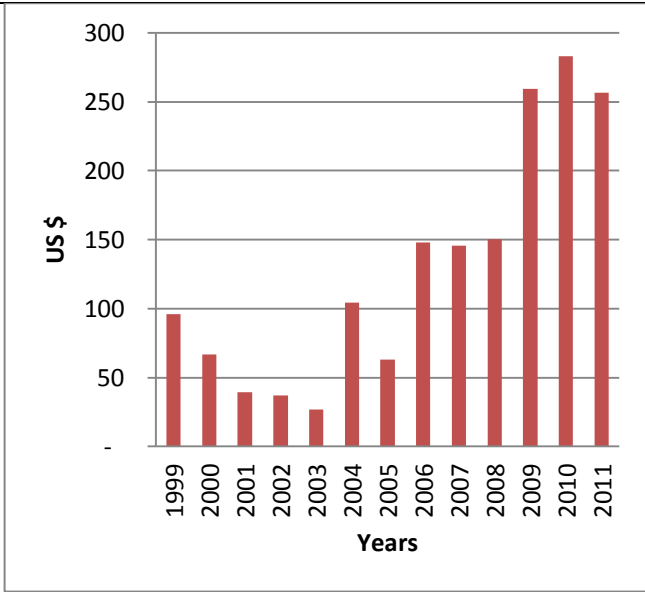


Chart 7. Average Spent per Tourist: 1999-2011

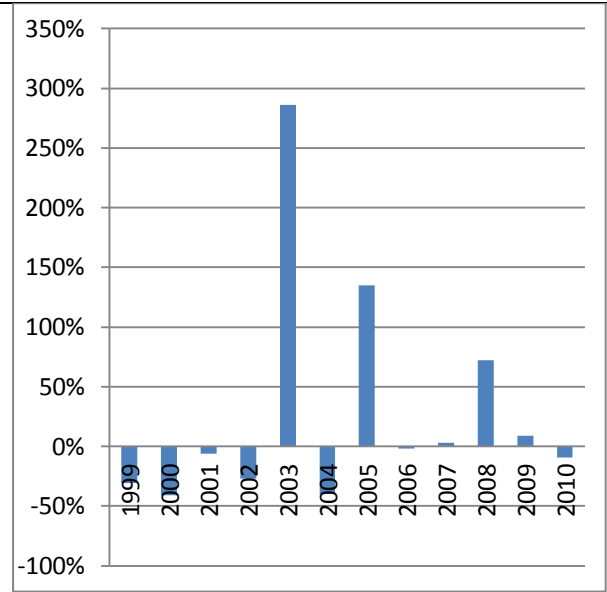


Chart 8. Percentage Changes in Average Spent per Tourist: 1999-2011

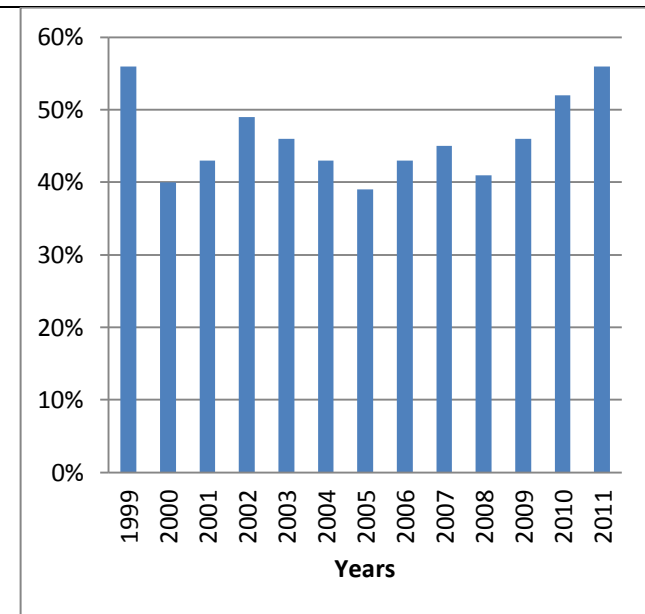


Chart 9. Room Occupancy Percentage: 1999-2011

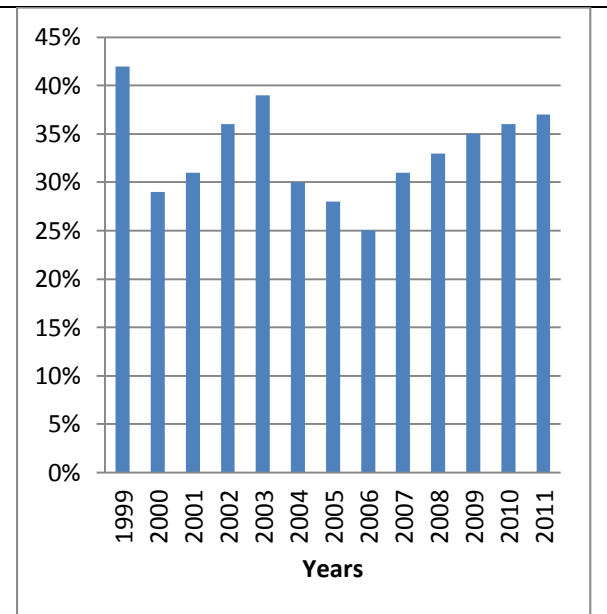


Chart 10. Bed Occupancy Percentage: 1999-2011

a) Arrivals

Information from Chart 1 indicates that from 1999 through 2011 there is a general decline in overseas tourists with the lowest having been experienced in 2005 and 2006. However there is a sudden increase in 2009 and appears to be evening out in 2010 and 2011. Chart 3 shows regional tourists having been on a general increase from 1999 to 2011. However significant low was experienced in 2005 and the highest realised in 2007. In 2008 and 2009 significant declines were experienced before consecutive growths were experienced in 2010 and 2011.

b) Financials

Tourism receipts and average spend per tourist showed on Chart 5 through to 7 indicate that these declined from 1999 to 2003. A significant gain was experienced in 2004 followed by a decline in 2005. Gains were made in 2006 that smoothed through 2008. From 2009 both receipts and ASP grew and these are showing a continued growth though at a slower rate with ASP reaching a negative percentage change between 2010 and 2011 as shown on Chart 8

c) Accommodation

Chart 9 and 10 shows room occupancies and bed occupancies respectively. These have been almost constant from 1999 to 2011 with slight declines in 2000 and 2005 for rooms whilst the lowest was recorded in 2006 for bed, though the variance average has remained around 10%. However there is a noticeable positive increase in both room and bed occupancies since 2009

d) Conclusion

An analysis of the ten charts developed appears to indicate that there was a positive change in the performance of the tourism industry in Zimbabwe after dollarization. Further statistical analysis of the variables was done to see if they supported the position shown by the graphs above.

5.2. Statistical analysis

The table above shows that the average overseas tourist arrivals went down after dollarization by 3% whilst regional tourist arrivals went up by 14% during the same period. When combined together overall tourists arrivals increased by 11% since dollarization.

Table 1. Comparing means for arrivals variables

	Overseas Tourists		Regional Tourists		Total Tourists	
	Pre-2009 (n=10)	Post-2009 (n=3)	Pre-2009 (n =10)	Post-2009 (n=3)	Pre- 2009 (n=10)	Post- 2009 (n=3)
Mean (Tourists)	329 844	319174	1 719 591	1 965 446	2 049 435	2 284 620
Difference	(10 670)		245 855		235 185	
% Change in mean	-3%		14%		11%	

Table 2. Comparing means for financials variables

	Receipts		Average Spent per Guest	
	Pre-2009 (n=10)	Post-2009 (n=3)	Pre-2009 (n = 10)	Post-2009 (n=3)
Mean (US\$)	183 315 000	607 566 667	87.74	266.23
Difference	424 251 667		178.49	
% Change in Mean	231%		203%	

Table 2 above indicates that the mean tourist receipts increased by 231% whilst the mean for spent per guest also increased by 203%.

Table 3. Comparing means for accommodation variables

	Hotel Occupancy		Bed Occupancy	
	Pre-2009 (n=10)	Post-2009 (n=3)	Pre-2009 (n = 10)	Post-2009 (n=3)
Mean (%)	45	51	32	36
Difference	6		4	
% Change in Mean	13%		13%	

Table 3 above shows that the mean hotel and bed occupancies rose by the same margin of 13% after dollarization.

5.3. Conclusion on statistics

From the review of the means calculated, there is a clear indication of a positive change in the performance of the tourism industry post dollarization.

6. Conclusion and implementation

The term dollarization as used to describe the adoption of United States Dollar (US\$) or other major advanced country's currency as the currency of choice in a foreign country in this case Zimbabwe has been deemed applied accordingly. Using only quantitative data on Tourism industry and disregarding other factors that might affect the performance of the tourism industry; researchers explored the possible implications of dollarization on this vital industry in Zimbabwe.

In the analysis a two thronged approach was used. Firstly a graphical evaluation of the tourism performance indicators from which we found near conclusive evidence of positive impacts of dollarization. The graphs indicated that there was a sudden change in tourism trends from going down in 2008 to going up in 2009 followed by further increases in 2010 and 2011. Secondly a statistical analysis of the data gives more conclusive evidence that dollarization in deed had a positive impact on the tourism industry.

The results of the study lead us to conclude that ceteris paribus, dollarization had a positive impact on the performance of the Zimbabwean tourism industry.

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Appendix

Original Data is available upon request from Zimbabwe Tourism Authority an arm of the Zimbabwe government through the Ministry of Tourism.