

# CAPTURING THE GAINS



*economic and social upgrading  
in global production networks*

## Restructuring of post-crisis GPNs: tourism in Indonesia

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## **Abstract**

Global production network (GPN) maps are not static, and both incremental and major changes can and do occur. This study examines one potentially game-changing scenario, that is, the effect of an external shock. The most damaging of these are severe shocks brought about by economic or terrorist events. Three types of shocks relevant in the case studies of Bali and Sulawesi presented here were the devastating Bali bombs, which fundamentally changed the GPN for low-end mass tourism of Australian origin; the financial crises of 1998 and 2008, which sucked the lifeblood out of the market; and ethnic tensions in Sulawesi, which scared away virtually all tourism from Sulawesi. This paper attempts to show that there can be significant differences in these maps, 'pre-' and 'post-shock'. The paper also discusses the nature of coping by workers in tourism as employment and incomes fell.

**Keywords:** Global production networks, Indonesia, Bali, Sulawesi, economic shocks, conflict

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## Abbreviations

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
AusAID	Australian Agency for International Development
CPRC	Chronic Poverty Research Centre
DFID	Department for International Development
ESRC	Economic and Social Research Council
GDP	Gross Domestic Product
GPN	Global Production Network
GRDP	Gross Regional Domestic Product
ILO	International Labour Organization
SARS	Severe Acute Respiratory Syndrome
SCI	Sustainable Consumption Institute
SME	Small and Medium Enterprise
TO	Tour Operator
TSA	Tourism Satellite Account
UK	United Kingdom
UN	United Nations
UNDP	UN Development Programme
UNESCAP	UN Economic and Social Commission for Asia and the Pacific
UNESCO	UN Educational, Scientific and Cultural Organization
US	United States
USAID	US Agency for International Development

## **1. Introduction**

Global production networks (GPNs) can change in structure. One key factor in such changes is that of shocks, defined as something that originates from outside the system, or exogenous to the GPN. Taking the tourism GPN, one factor of power within the GPN is that of bringing the tourists, the customers. A shock could affect the composition of tourists, and not all segments are likely to be affected equally. For instance, the current world economic crisis clearly affects the developed economies more than the emerging economies. This could result in a shift in the composition of tourists away from the developed economies towards the emerging economies. Tour operators (TOs) from the two sets of countries would correspondingly gain or lose power within the GPN, with domestic TOs gaining proportionately more of new business opportunities as a result.

This paper explores changes in the tourism GPN in the Indonesian islands of Bali and Sulawesi. It looks at a number of recent shocks to tourism in the island economy, starting from the Asian financial crisis of the late 1990s, and taking in also the mid-2000s severe acute respiratory syndrome (SARS) epidemic and tsunami and the Bali-targeted bombings in 2002 and 2005. The concentration of the analysis is on the two Bali bombings. In analysing changes in GPN structures following shocks, we look at a few crucial factors: the changing composition of tourists, development of new segments of the industry and the growth or decline of the labour force and related social downgrading before and after these shocks. There is a brief comparison of the experience of Bali with that of Tana Toraja in Sulawesi. While in the former tourism recovered after each shock, in the latter the shock of the island-based ethnic conflicts led to a virtual collapse of tourism. The paper also lays out some initial discussion on the differences between the two islands' experiences.

What were the coping mechanisms adopted by those who lost employment and incomes in the aftermath of the shocks? What was the role of the 'family rice bowl' in coping with shocks? The paper also addresses the question of coping with shocks.

The study is based on a combination of secondary and primary data. Primary data were collected from both enterprises and workers in tourism. Additionally, many interviews were conducted with officials, informed persons and operators at various levels in the industry. Secondary data are from government reports and analyses carried out by national and international agencies.

## **2. Shocks and tourism**

Tourism dominates Bali's economy. This includes a large number of economic sectors – accommodation, travel, restaurants, entertainment etc. From standard gross domestic product (GDP) tables, one cannot estimate the contribution of tourism. For this purpose, Tourism Satellite Accounts (TSAs) have been developed, using input–output estimates of the various inputs into each unit of tourism. One TSA exercise estimated tourism to account for more than 50 percent of the island's income (Lumaksono 2007). Bali is also a tourism destination that has faced a history of critical shocks in the recent past, especially the Bali bombings in 2002 and 2005.

The available literature on the effects of external or internal shocks has shown that the tourism sector is very vulnerable in such cases. The following are two examples that support this notion. In Thailand, six months after the occurrence of the tsunami, year-on-year occupancy rates in Phuket fell by 57 percent, while occupancy rates in the relatively smaller tourist destinations of Phang Na and Krabi fell by 63 percent. According to a survey conducted by the Asian Development Bank (ADB) in the above three provinces in June 2006, individuals dependent on incomes from tourism

were the most severely affected: '92 per cent of Beach Vendors and 86 per cent of Entrepreneurs experienced a decrease in income' (Bhanupong 2007).

During the SARS outbreak of 2003, which originated in Guangdong province in China, anecdotal evidence suggested that the tourism and travel industry in neighbouring Hong Kong was the most severely affected, with the press reporting reductions of 10-50 percent in the sales of retail and restaurant outlets. Between March and April 2003, visitor arrivals to Hong Kong fell by 63 percent. Occupancy rates in hotels fell from 79 percent in March 2003 to 18 percent in early May 2003. Even though a recovery occurred by July, the short-term effects of the outbreak were severe, as the above statistics suggest (Siu and Wong 2006). SARS also spread to neighbouring regions such as Singapore and Vietnam, where it also had an impact on the tourism industry.

The sharp contraction in tourist numbers immediately after the SARS episode intensified competition among both tour operators and service providers in China. It facilitated the phenomenon of the 'zero-fee' tour, that is, where the price of a tour at best covers travel and accommodation costs. This left nothing for fees to various service providers, who had to rely on shopping commissions for their entire income.<sup>1</sup>

Examples of other recent shocks include the September 2001 terrorist attack on the World Trade Centre in New York, the explosions on the London Underground in July 2005, the Bali bombings, the Asian financial crises, ethnic/religious tensions, the 2008 global financial crisis, a massive earthquake and the spread of avian flu, just to name the most significant events. While some of these have been significant globally, for Indonesia and Bali itself the most significant shock was the 2002 Bali bombings. The following sections review the effects of these shocks on the tourism industry of Bali in further detail.

### **3. Specific impact of shocks on Bali**

Of the two types of external shocks, the case study of Bali strongly suggests that terrorist attacks pose a much stronger risk to the tourism GPN in terms of income, employment and poverty levels than those resulting from the financial crises, first because of their unanticipated nature, second because of the drastic and immediate reduction they bring about in the tourism demand and third because of the implied threat they pose to the safety of potential new tourists, at least in the short term, after the shock. This section first assesses the impacts of each of the Bali bombings and the financial crises, then explores the strategies firms used to cope with these crises and minimize the economic and social downgrading that occurred after the shocks, and the strategies workers used to cope with such downgrading. Finally, it examines the government response during these crises.

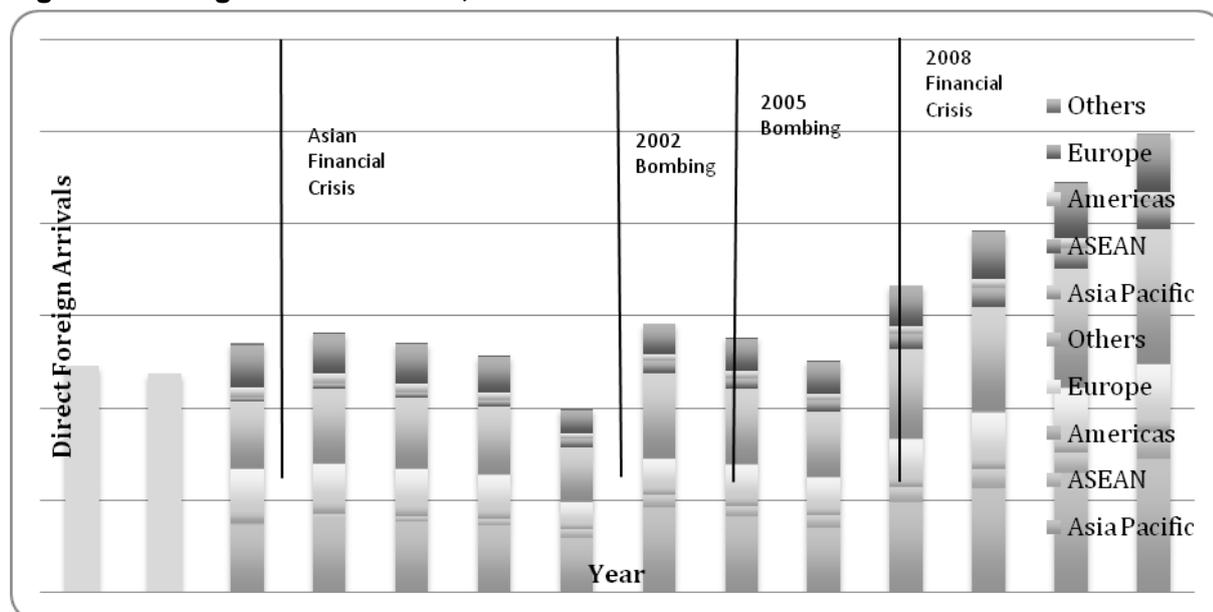
In the context of the response to the shocks, both annual and monthly timeframes must be analysed closely, as they provide a better perspective of the depth and short-term impact of the shock. Further, in order to better assess the post-crisis conditions, surveys provide an accurate perspective of the strategies both firms and employees use to cope with the crises.

Before we discuss the impacts of the crises in detail, we should study Figure 1, which shows total foreign arrivals to Bali during the period 2000-2010.

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<sup>1</sup> See the companion Capturing the Gains Working Paper by Nathan et al. (2013) for an analysis of this phenomenon.

**Figure 1: Foreign arrivals to Bali, 1997-2010**



Source: Bali Tourism Statistics (2011).

Figure 1 shows a slight dip after the Asian financial crisis in 1997, but this is followed by quick growth in 1998 and 1999. After the Bali bombings in 2002 and 2005 there were sharp dips in foreign arrivals. But what is noteworthy is the quick recovery in total numbers of foreign tourists in each case. In each case, the year after the dip there are recovery numbers above the previous highest point. Below the increase in numbers, as we see later on, is a change in the country-wise composition of tourists in each case. The 2008 global financial crisis had no impact on total foreign arrivals, pointing to the limited scope of this crisis.

While the 1998 Asian financial crisis had devastating impacts on the economy of Indonesia, the impact on Bali's economy was relatively small. A report by SMERU (an independent research group) on the social impact of the crisis utilized a qualitative survey to assess its impacts in the various regions of Indonesia. In terms of overall impact, Bali was rated 38th out of the 51 regions at the time. The impact in Bali was much higher in terms of employment and food security as compared with education and health. The study indicates that the increase in unemployment in Bali could be attributed to increased levels of return migration from Java, one of the indicators on which information was collected during this survey. The study indicated that parts of Sumatra, Sulawesi, Maluku and Bali were among the least hit (Wetterburg and Pritchett 1998).

During a survey of 200 hotels in Bali, over 90 percent of managers pointed out that the impact of the Asian financial crisis was much less severe as compared with that of the 2002 Bali bombing (World Bank and UNDP 2003b). The May 1998 riots in Jakarta, which coincided with the Asian financial crisis, had led to a 29 percent reduction in tourist arrivals in May. Within a period of three months, tourist arrivals had surpassed April 1998 levels by a nominal margin. The initial decline in tourist arrivals in the month of May dropped from 92,936 to 66,326 in May (ibid.).

The quick recovery in the tourism industry can be attributed partially to the drastic devaluation of the rupiah to the dollar from an exchange rate of Rp2,200/US\$1 to Rp7,500 /US\$1,<sup>2</sup> which in effect made tourist services cheaper for foreigners visiting the island, thus boosting the total number of

<sup>2</sup> Oanda Currency Converter historical rates, see <http://www.oanda.com/currency/historical-rates/> (rates for the years 1997 and 1998 were compared).

arrivals. This was even utilized as a tool for promotion, with the local government carrying the slogan, 'Our Loss is Your Gain'. In particular, the number of Australian tourists increased quite substantially after the Asian financial crisis.

In October 2002, the terrorist bombings in the prime tourist area of Kuta came as a rude shock to the people of Bali and the international community. The bombings had a profound impact not only on tourist arrivals to the island but also on the livelihood and employment of the people in Bali. Prior to the 2002 Bali bombing, Bali was finally on the road to recovery from the global slump in tourism caused by the 11 September 2001 attacks. Hotel prices alone had increased to the original level after having been cut by 25-50 percent following the 11 September 2001 attack (World Bank and UNDP, 2003a). Bali had barely begun to recover from the bombings when in April 2003 it was again hit by the impact of the Iraq War and the SARS epidemic, which proved to be a further dampener on tourist arrivals in the island.

In November 2002, the month after the Bali bombing, tourist arrivals had crashed to about one-third of expected levels, exacerbated by many major foreign countries issuing travel advisories<sup>3</sup> for their citizens to avoid travel to Bali. Two weeks before the attack, the number of international arrivals had averaged 4,650 people per day; this had fallen to only 750 people per day by the end of October (UNESCAP 2005). After the bombing, there was in fact a mass exodus of tourists from the island. Tourism arrivals remained in a slump for the next eight months, to a large extent because of concerns over the safety of the islands. With Australians representing the largest number of casualties during the 2002 bombing, they also constituted the segment with the most drastic post-bombing decline in terms of foreign direct arrivals of tourists. The security scare also led to a significant reduction in European foreign direct arrivals.

With the first bomb shattering perceptions of Bali as a safe tourist destination, the impact of the second bomb in October 2005 was of a much lesser magnitude, although the method used, that is, suicide bombing, was the same. In 2003, after the first Bali bombings, tourists from both the Americas and the Asia-Pacific region had dropped by 21.8 percent and 20.60 percent, respectively. In contrast, after the 2005 Bali bombings, year-on-year reductions were less than half as much, at 10 percent and 14 percent, respectively.

During the second bomb blast, a significant proportion of the victims were Indonesian nationals. An excerpt from *The Bali Update* (2005a) stated, 'Of the total 132 casualties at least 61 were Indonesian nationals. Australians suffered 17 casualties, 3 of which numbered among the dead, with Japanese, Koreans, and Americans also listed among those killed or injured in the blasts.' While Western countries were noted to have stricter travel advisories during the wake of the second Bali bombing, Australian visitors continued to come to Bali. Japan and Malaysia contributed 10 percent of the tourists at the time while deciding not to strengthen their travel advisories.

In terms of direct foreign arrivals to Bali, the financial crisis in 2008 has had the least impact as compared with the other crises. There was, in fact, only one month, that is, February 2009, wherein monthly arrivals fell below the prior year's levels. With Bali's peak season normally centred around

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<sup>3</sup> The question of the extent to which travel advisories actually influence travel is a topic that needs to be studied. But one cannot ignore the fact that there were clear falls in tourist arrivals following the Bali bombing shocks, which were accompanied by travel advisories. There is a definitely a politics of travel advisories. How many travel advisories were issued regarding travel to the US following 9/11? And how did the US government and businesses respond to any such advisories? As Michelle Christian (personal communication) points out, it would be worthwhile studying the politics of travel advisories.

July and August, tourist arrivals in October were equally high. In addition, if we take a look at Australian tourist arrivals to Bali, which account for a major portion of its tourism, revenue growth was over 200 percent between 2008 and 2010. Such a surge could be attributed partly to the fact that the Australian economy was not overexposed to the 2008 financial crisis. Japan, Bali's other core tourist market, on the other hand, was confronted with a weak economy. Visitor arrivals from Japan are also expected to continue to decline, given its nuclear disaster in March 2011 and the continuing stagnation of the Japanese economy.

Two tourist markets that grew rapidly after the 2008 global economic crisis were those of tourists from China and domestic tourists. While the Chinese do not comprise a majority of foreign tourists and domestic tourists are outnumbered by foreign tourists, Chinese and domestic tourists were the fastest-growing segments of the tourism market. The growing proportion of Chinese and domestic tourists had implications for both spending per day and services provided. Chinese and domestic tourists not only spent less per day than other tourists but also demanded different kinds of services (Hitchcock and Darma Putra 2007).

#### **4. Impact on tourism enterprises**

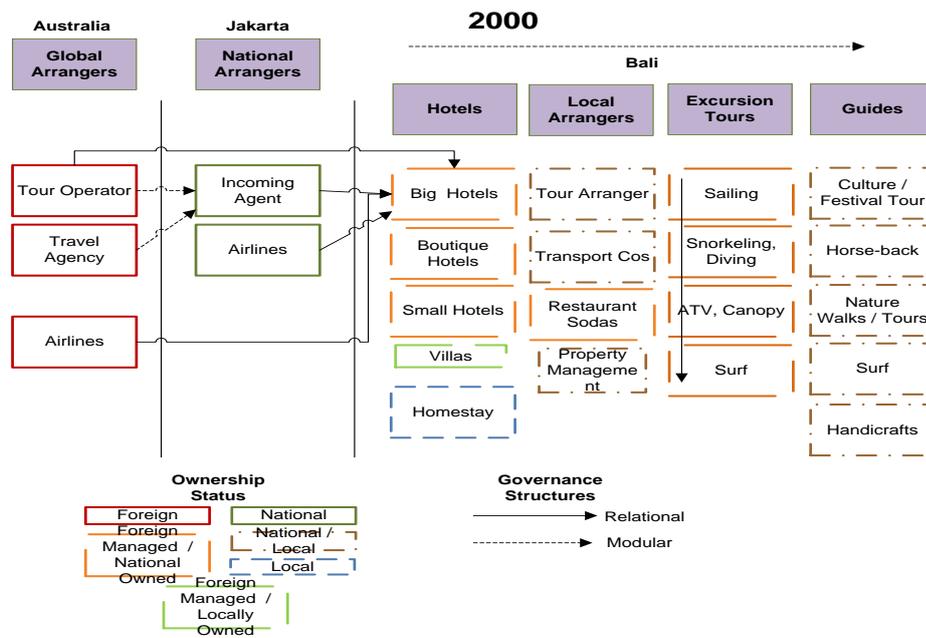
Crisis does not only mean contraction. The Asian financial crisis from 1997 onwards did lead to a severe contraction of more than 20 percent in the Indonesian economy. But the devaluation following the crisis also sparked off an expansion of the tourism industry in Bali. Tourism operations grew in all segments. Expanding tourism in Bali attracted many entrepreneurs and migrant workers of different types from the other islands.

On the basis of interviews and discussions in the field with practitioners and experts, this crisis can be seen as a catalyst for economic upgrading in the tourism GPN, with an increase in the number of foreign direct arrivals in 1999 and 2000. While there was a slowdown in 2001, a literature review suggests this was caused by the terror and security fears created by the 11 September 2001 attacks in the world. Therefore, some of the positive impact of this devaluation may have been counteracted by such events.

Bali has for a long time been a prime tourism destination. Opportunities have been driven mainly by preferences for prime tourist segments. But the steep devaluation of the Indonesian currency made Bali more attractive than many other competing destinations, including those in Thailand. The Indonesian government campaigned for foreigners to visit Bali, as we have seen, with the slogan 'Our Loss Is Your Gain'. The subsequent expansion of tourism in Bali could be related to the exchange rate gain brought about by devaluation.

Before going on to consider the economic impacts of the Bali bombing crises on tourism enterprises, it would be useful to summarize the Bali tourism GPN structure as it existed before the bombings. Figure 2 represents the Bali tourism GPN. Most foreign tourists came in through TOs or travel agencies located in their own countries. These foreign entities operated through local agents or national arrangers. These national arrangers implemented the tourist packet, arranging for the various tourism services needed other than international travel.

**Figure 2: Bali tourism GPN**



Source: Primary interviews with tourism providers at different levels of the GPN.

Relations between global and national arrangers are what can be called modular, that is, the foreign tour agencies make up a package and contract the Indonesian agency to carry it out. The package is quite detailed in its specification, covering the type of accommodation, transport, excursions and so on. In this relationship, the Indonesian tour agencies tend to be in a weaker position, as there is substantial competition in that segment. The global buyer is an oligopolistic buyer, with few from each country with many options to choose from among the Indonesian sellers. The Indonesian sellers are unable to directly contact the tourists, and have to depend on global tour operators to get them customers. This unequal relationship puts the buyers in a stronger position in bargaining with sellers.

The national arrangers, in turn, arranged for the provision of various services. Among these service providers there was substantial competition. Of course, the major hotel chains with their brand values could command premium prices. But the further down the network one went, and the lower the capital or skill required, the greater was the number of service providers. The high level of competition among service providers, particularly those for excursions and beach-level services, and the commoditized nature of these services, reduced the bargaining capacity of these service providers. With the ease of entry into these tourism segments, these segments could not command premium prices. We will return to the GPN later on to see how it changed through the crises between 2000 and 2010.

The impact of the 2002 bombing on local firms in the tourism industry was devastating, both in terms of numbers and if we look at indicators such as revenue, profits and size of the workforce. The reduction in the workforce is an indicator of what is being called social upgrading; reductions in revenue and profits are both indicators of economic upgrading.

In the hotel segment of the tourism GPN, starred hotels with pre-bombing occupancy rates ranging from 65 to 100 percent dropped to below 10 percent at the end of October. Five-star hotels that had high pre-shock occupancy rates of more than 75 percent dropped to 20 percent immediately after the shock. While the hotel industry at the time employed only 3.3 percent of the workforce, it

contributed 21 percent of Bali's gross regional domestic product (GRDP) (World Bank and UNDP, 2003a).

An industry-level survey of 140 tourism-related producers in the textiles, silver/metal, furniture and wood sectors across several sub-districts in Bali carried out in June 2003 (three months after the bombing) reveals the extent of the economic impact of the crisis on these tourism-related industries. There was, on an average, a 51.6 percent reduction in staff across all producer surveys, with the range being 33.9-60 percent. In each of the sub-districts surveyed, on average 29.3 percent firms broke even and 15.7 percent made a loss (see Table 1).

**Table 1: Tourism industry-related survey**

Sub-district	District	Product	No.	Labour force		Profitability		Future outlook
				% reducing staff	% reduction in staff	Breaking even	Loss	% not confident business would survive till end of year
Sth Denpasar	Denpasar	Textiles	14	42.9	39.2	35.7	7.1	0.0
Kuta/NthKuta	Badung	Silver/metal	14	92.9	35.8	64.3	7.1	7.1
Kuta/NthKuta	Badung	Textiles	14	7.1	5.0	21.4	21.4	7.7
Sukawati	Gianyar	Furniture/wood	14	84.6	57.0	64.3	28.6	0.0
Blahbatuh	Gianyar	Furniture	14	69.2	69.4	7.1	7.1	7.1
Sukawati	Gianyar	Wood	14	71.4	57.0	21.4	28.6	0.0
Ubud	Gianyar	Wood	14	71.4	51.8	21.4	42.9	7.1
Sukawati	Gianyar	Silver/metal	14	57.1	60.0	42.9	7.1	7.1
Selat/Be'dem/Abang	Karangasem	Wood	14	78.6	57.0	7.1	7.1	7.1
Rendang	Karangasem	Wood	14	21.4	33.8	7.1	0.0	0.0
<b>All</b>		-	<b>140</b>	<b>59.4</b>	<b>51.6</b>	<b>29.3</b>	<b>15.7</b>	<b>4.3</b>

Source: World Bank and UNDP (2003b).

The same survey suggested that production levels were reduced significantly in response to the crisis, with average declines of 55 percent (see Table 2), with the firms adjusting to the crisis by making a significant reduction in staff to avoid major losses. As can be seen from the data, this strategy worked, as a substantial proportion of the firms surveyed did not make a loss in the end. Another important insight from this survey was that micro and small businesses were hit the hardest, suffering up to a 66.6 percent reduction in staff and a 65.1 percent reduction in sales. This is illustrated in Table 2.

**Table 2: Impact on micro and small businesses**

Business indicator	Micro	Small	Medium
	1-4 staff	5-20 staff	20+ staff
% production outside of Bali	25.0	39.4	35.0
% reduction in staff	61.4	51.0	29.2
% reduction in production	66.6	54.9	38.6
% reduction in price	21.2	23.3	23.3
% export	18.7	24.5	33.8
% reduction in sales	65.1	55.8	41.4

Source: World Bank and UNDP (2003b).

Industries that directly catered to the tourist sector in Bali, including taxi drivers, traders and handicraft producers, all suffered a loss in demand. Beach vendors and traders in most markets reported declines in turnover of more than 60 percent. Table 3 provides a vivid illustration of the impact of the first Bali bombing on the business of vendors and traders in Bali.

**Table 3: Short-term impacts on beach vendors and traders**

Trading location	District	Market type	No.	Average daily sales		Reduction in sales (%)	Average daily profit		Reduction in profit (%)
				Before tragedy Kuta (Rp)	Six months after (Rp)		Before tragedy Kuta (Rp)	Six months after (Rp)	
PantaiKuta	Badung	Tourist	102	1,51,716	60,735	60	48,284	18,578	62
PasarBadung	Badung	General	48	2,94,167	2,00,313	32	83,854	68,021	19
Pasar Sukawati	Gianyar	Tourist	50	5,61,000	1,76,400	69	1,77,000	35,900	80
PasarUbud	Gianyar	Tourist	30	3,98,333	1,16,667	71	1,48,333	43,500	71
PasarAmlapura	Karanga-sem	General	30	7,34,000	2,75,833	62	1,01,333	34,167	66

Source: UniversitasUdayana (Denpasar) Traders' Survey, May 2003, in World Bank and UNDP (2003b).

The bombing in 2005 occurred at a time when fuel subsidies were reduced in Indonesia, thereby putting additional pressure on tourism-related industries that rely on fuel, particularly taxi drivers, although all industries rely heavily on fuel prices. Merpati Airlines, Garuda (Indonesia's national airline) and Air Paradise Airlines all faced debt difficulties post-crisis in 2005. Garuda posted a loss of US\$70.7 million in 2005 (*The Bali Update* 2006b). According to the Chairman of the Bali branch of the Indonesian Furniture and Handicraft Association, Mr. DewaAstama, 'the increase in the cost of fuel can be blamed for a 20% reduction in sales and a further 30% drop as the result of the recent bombings' (ibid.). Like the handicraft industry, the Taxi Drivers Union was also hit both by the fuel surcharge as well as a 30-40 percent drop in night loads.

An indicator of a slowdown in domestic tourism could also be gauged by the reduction in bus transport to Bali. According to the Head of the Kuta Central Parking Terminal, Mr. Haji AgusBambangPriyanto, the number of buses using his facility in December 2005 totalled 409, down 55.39 per cent from the 917 buses that parked there in December 2004. The Chairman of the Bali Transportation Association (PAWIBA), BagusSoediana, indicated that post the bombing, only 12 per cent of his Association's fleet was operating actively (*The Bali Update*, 2006a).

The two Bali bombings resulted in reductions in foreign tourist numbers as a whole. But the 2008 global financial crisis was quite different in that overall tourist numbers did not decline. Tourist numbers fell from those economies most affected by the financial crisis, in particular the North Atlantic economies. But tourist numbers increased from those not affected or not affected as much, such as China, Australia and even Indonesia itself.

Firm-level interviews in Bali indicate that no one particularly suggested that this 2008 crisis was an issue, given the increase in regional tourism. One fact highlighted during interviews was that firms operating in the tourism segment, which also have heavy investments in the export sector, such as in garments, may have suffered reductions in the market.

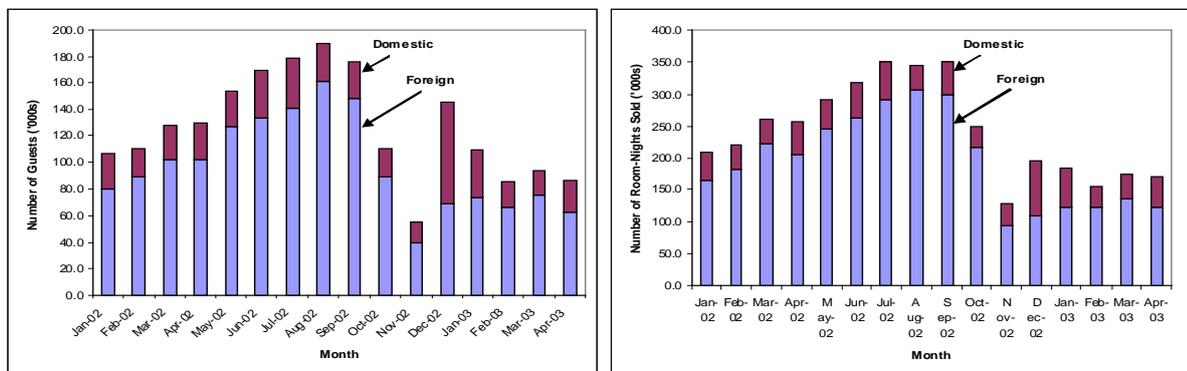
## 5. Strategies of firms in tourism GPNs and changes in the composition of tourists

After the 2002 Bali bombing, with drastic reductions in the demand for tourism, discounts were offered by firms in the tourism GPN, including TOs, travel agents and hotels. One survey indicated that 75 percent of the starred hotels dropped their prices by an average of 37 percent (World Bank and UNDP 2003b). In terms of the hotel segment, five-star hotels were in a better position to weather the crisis, and stabilized their occupancy rates to 40 percent within a period of six months. This can be attributed to their wider networks and greater ability to cut prices. In terms of networks, five-star hotels, with their global offices and reach, had more of an ability to assure tourists of safety and comfort as compared with the non-star hotels. Owing to such discounts, the five-star hotels in fact succeeded in attracting the former clientele of the one- to three-star establishments.

Firms also significantly shed their workers and reduced the number of working hours for active workers, as the previous section illustrated. In addition to the strategy of heavy discounts, both the government and private actors in the tourism GPN focused on facilitating growth in the domestic segment and regional segment (Association of Southeast Asian Nations – ASEAN) of tourism, which was much more supportive and willing to engage in tourism in Bali. Immediately during the post-crisis period, the government declared an additional national holiday and promoted the Bali destination to its national citizens (UNESCAP 2005). The focus on the domestic sector is illustrated by the fact that, typically, three- to four-star hotels during the pre-crisis period had room occupancy of 25 percent from domestic guests, while the corresponding figure rose to 85 percent immediately after the advent of the post-crisis period.

However, domestic tourism was not able to substitute the decline in demand from international tourists. This was because the number of domestic tourists and their per capita expenditure was much lower than that of the foreign tourists. With domestic tourists incurring only one-third of the per day expenditure of foreign tourists and one-sixth of the length of stay, even if the increase in domestic visitor arrivals had compensated for the loss of foreign arrivals the tourism industry would still have been impacted by the various crises. An analysis of the overall number of foreign arrivals, as shown in Figure 3, indicates that, while the number of domestic tourists increased by over 600 percent from November to December 2002, the proportion of domestic guests remained within 5-7 percent of the pre-shock levels during the remaining months until April 2003. As Table 4 shows, domestic tourists spent less than one-third (US\$20) per day of that which foreign tourists spent per day (US\$62). Regional tourists also spent 50 percent less than those from Europe, Australia and Japan (Hitchcock and Dharma Putra 2007)

**Figure 3: Visitor arrivals to Bali, 2002-2003, domestic/foreign break-up**



Source: World Bank and UNDP (2003b).

**Table 4: Foreign and domestic expenditure, 2003**

Expenditure type	Foreign		Domestic	
	Daily (US\$)	Total (US\$)	Daily (US\$)	Total (US\$)
Accommodation	29.60	324.71	7.38	32.77
Food and drink	11.82	129.67	4.11	18.25
Transport	2.11	23.15	0.64	2.84
Attractions	1.54	16.89	0.97	4.31
Trips	2.81	30.83	0.98	4.35
Souvenirs	9.81	107.62	6.02	26.73
Guides	3.63	39.82	0.26	1.15
Other	0.92	10.09	0.32	1.42
Total (daily versus overall stay)	62.24	682.77	20.68	91.82

Note: The total is a result of daily expenditures and length of the stay.

Source: World Bank and UNDP (2003b); Ministry of Tourism ([www.depbudpar.go.id](http://www.depbudpar.go.id)).

After the first bombing, discounts were offered across the board to compensate for the short-term decline in arrivals. One such example in the airlines sector was the giving away of 10,000 international tickets by Garuda between 10 November and 31 December, with an additional 5,000 tickets given away in raffles for domestic travellers on board flights (*The Bali Update*, 2005a).

Anecdotal evidence from interviews in the field confirms offers of such discounting/promotions like 'stay for three days and get one night free', free transport in and around certain areas, free tour service and room discounting, to name a few. One such TO claims to have focused more on reaching tourists directly through the Internet by advertising the Balinese culture and his offerings.

The following additional strategies<sup>4</sup> were utilized by firms in response to the various crises:

- *Diversifying the market – looking to new segments such as China and India:* The bombings, as well as the potential threat of the global economic crisis eventually leading to a slowdown in tourism, are encouraging firms to look to high-growth markets in the Asian region. Interviewees suggested that the bombings as well as the financial crises might have put more pressure on firms to try to diversify.
- *Promoting the domestic market to make it grow:* In the case of the first Bali bombing, there was a distinct shift towards promoting the growth of the domestic tourism market, which has also gained prominence over the past 10 years.
- *Increasing packaging options:* After the 2002 bombing, several TOs said they had tried to increase the variety of tour packages to bring back tourists. One tour guide operator mentioned that, in 2002, Ubud, Tanah Lot and Kintamani were the three basic offerings; after the crisis, additional tours were added, to Besaki, Ujung and King's Palace.
- *Use of technology to help in the 2005 recovery:* Some respondents said the wider use of the Internet in 2005 increased the firm's ability to reach tourists and focus on marketing. In addition, an interview with a former head of the Bali Hotels Association pointed out that the media was much more organized during the second bombing, thereby allowing starred hotels to recover more quickly in terms of regaining the confidence of tourists.
- *Cooperating under the aegis of the Bali Tourism Board:* The chairman of the Bali Tourism Board was officially asked to lead the recovery after the 2005 crisis, even though it played only a participatory role in the recovery after the first bombing. This umbrella organization of major tourist associations in Bali effectively monitored and utilized US\$7.5 million of support money provided by the government. The success of this organization can perhaps be highlighted by Law No. 9 on Tourism of 2010, which made it a government entity, with the goal of duplicating it in the other provinces of Indonesia. The vice-chairman of the organization indicated that, although it had been in existence for over 20 years, it became more active especially after the two Bali bombings
- *Focusing on quality:* An interview with a member of the Wood Handicrafts Association indicated that, after the first Bali bombing, with assistance from the government, there was a focus on increasing the quality of the handicraft products being manufactured. The association also emphasized the selection of high-quality material. The government offered its cooperation through three departments: the Department of Commerce, to help with the sales and promotion strategy; the Department of Industry, to promote techniques on how better to incorporate machinery and make the production process more efficient; and the Bali Government Tourism Office, which helped promote handicraft firms by organizing conventions and festivals, among other events.

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<sup>4</sup> This is based on firm and association interviews conducted by Strategic Asia.

The one general point that does emerge in the response to all shocks is that there is a post-shock search for markets. These new markets, however, may be different from the older, established markets. In the tourism GPN, TOs operators from growing markets would gain strength, while those from declining or stagnant markets would lose strength.

## **6. Government response to the crises**

The government, foreign donor agencies and countries, as well as the community in Bali, made a concerted effort to respond to the downturn in the local economy in the wake of the Bali bombings in 2002. Naturally, the first focus of these efforts was to strengthen security, because it was the fear of insecurity and terrorist activity that was keeping tourists away from Bali. Security was strengthened by ramping up the presence of police forces in key tourist areas such as Kuta, as well as by setting up a specific working group for security in tourist areas to address the key concerns and vulnerabilities at the time.

Next came relief for victims of the Bali bombings, and attempts were made to start addressing the socioeconomic impact of the bombing. The latter task was, however, the slowest to take off, because of administrative delays and the time needed to mobilize the government machinery. Community-level organisations in Bali, notably the strong *adat* (traditional village government) institutions, responded swiftly to the crisis. Their effort was aimed at supporting other security measures and mobilizing cash resources as part of the relief efforts.

Emergency relief support to victims and assistance to police investigation were quickly made available from domestic and international sources. Donors and the government agreed to set up a monitoring system for assessing the socioeconomic impact of the bombings and for identifying the short-term needs of the local economy and society. There was early recognition of the fact that a successful strategy for recovery would need not only to resolve the socioeconomic impact of the bombings but also to restore the image of Bali as an attractive and safe tourist destination. The central government allocated a sum of US\$12 million for the efforts, which included tourism campaigns and security improvement. The victims of the bombings were given preferential access to health care and education. There was also a focus on developing new or more income-generating activities and enhanced access to social services.

The slow government response to the crisis owed to the unanticipated nature of the bombings as well as the system of decentralization, which was only four years old at the time. There simply were no local budget allocations for such shocks. Ensuring coordination among different levels of the government in implementing the proposed programmes proved to be a challenging task.

The main donor programmes were the Australian Agency for International Development (AusAID) Bali Rehabilitation Fund, the World Bank's Kecamatan Development Programme, the US Agency for International Development (USAID) Bali Response, the UN Development Programme (UNDP) Community Recovery Programme, the World Bank Bali Urban Infrastructure Project and the World Bank Dutch Trust Fund to support grants to schools. The donor focus on Bali was something new: prior to the bombings, Bali had not been a major recipient of assistance, given its relative prosperity.

Not all the donor activity was directed at contributing to the recovery of the economy in Bali after the bombings. Many donor governments issued travel advisories and stressed the continued risk to their citizens visiting Bali. The Indonesian government was concerned with these advisories, as they had a negative impact on the image of Indonesia, and, of course, on tourism in Bali.

The response to the second Bali bombing was along similar lines as the first, with the government increasing the allocation of funds for tourism promotion and swiftly acting to arrest the people behind the bombings. The primary difference between the first and second Bali bombings was that, after the second bombing, the Bali Tourism Board took a more active lead. In an interview, the vice-chairman of the Bali Tourism Board indicated that the vice-president of Indonesia himself had asked him to lead the recovery efforts. He revealed that, while approximately US\$15 million was spent on recovery efforts after the first Bali bombing, after the 2005 bombing an amount of US\$7.5 million was utilized. The focus again was on increasing security and promotional efforts, as after the previous bombing. One such example of promotion was in June 2006, when the visa on arrival facility was expanded to 52 additional countries in an effort to promote tourism.

While the effects of the 1998 Asian crisis on the tourism industry were short-lived, with the effects of the most recent 2008 global crisis minimal in the case of Bali, the government still felt the need to continue promoting the destination, among others, through campaigns such as 'Visit Indonesia 2008' and 'Wonderful Indonesia 2010'.

## **7. Impacts on social conditions**

According to the International Labour Organization (ILO) in 2003, informal estimates suggest that 40 percent of the island's jobs depend on the tourism sector. Other estimates indicate that 80 percent of households depend on tourism. This fact highlights the extent to which a crisis can have an impact on the working population.

If we analyse Tables 2 and 3, the first trend noticed is that, in the short term, there was a significant shedding of workers (Table 2) and a significant reduction in salaries (Table 3). With an average reduction of 51.6 percent in staff combined with a reduction in sales ranging from 32 to 71 percent, the data suggest that workers faced a significant struggle in the short term.

The following statistics from the World Bank and UNDP (2003b) further elaborate on the impact of the crisis in terms of social downgrading in the tourism GPN:

- Across Bali, an estimated 29 percent of workers were affected by job losses within a year.
- Around 50,000 people employed in the hotel sector were made redundant. Small and medium enterprises (SMEs) reduced their staff by 52 percent, with some SMEs facing a decline of up to 60 percent in their revenue. Casa Grande, an association of 35 four- and five-star hotels in Bali, found that bookings had declined steeply, and a total of 878 staff members were made redundant, including 600 in Denpasar, accounting for a total of approximately 1,400 job losses.
- In a survey of district leaders, cited in World Bank and UNDP (2003b), 94 percent of respondents reported a drop in income and 70 percent a drop in employment by May 2003. Average incomes were reported to have dropped by 40 percent and 20 percent of the people lost their jobs. The highest declines in income were observed in Karangasem, Gianyar and Buleleng. In the same survey, 70 percent of community respondents suggested that handicrafts were important to their livelihood; of these, 84 percent said their incomes had decreased severely during the year.
- The main local financial institutions in Bali are the state-owned Bank Rakyat Indonesia, the privately owned Bank Perkreditan Rakyat and the Lembaga Perkreditan Desa. Immediately after the bombings, many families entered into a debt crisis owing to declining incomes, and were forced to sell assets to meet their debt obligations.

The key respondent survey also shed light on the coping mechanisms of the community in response to the crisis, as Table 5 indicates.

**Table 5: Coping mechanisms of the crisis in order of importance**

Various mechanisms		Yes	No	Don't know	(%)
(1)	Decreased expenditures	827	41	16	93.6
(2)	Delay in debt repayments	612	235	36	69.3
(3)	Postponement/decrease in facilities/infrastructure maintenance	527	317	31	60.2
(4)	Pawning of assets	528	311	45	59.7
(5)	Sale of assets	431	403	50	48.8
(6)	Changing professions	395	411	46	46.4
(7)	Loans for daily consumption	405	435	43	45.9
(8)	Putting other family members to work	349	474	58	39.6
(9)	Change of business	311	514	48	35.6
(10)	Decrease in artisan participation	228	592	63	25.8
(11)	Decrease in contributions to village	222	616	45	25.1
(12)	Change in staple diet	213	617	53	24.1
(13)	Postponement/decrease in religious practices	48	809	25	5.4
(14)	Reduction in number of meals	46	791	45	5.2

Sources: Udayana University Key Respondent Survey, in World Bank and UNDP (2003b).

While decreased expenditures, taking of loans for daily consumption, delay in debt payments and sale of assets are suggested as the most significant coping methods, 46.4 percent of respondents changed professions. This suggests redundant workers found other jobs outside of the tourism GPN to cope with the crisis. While a reduction in meals was not reported as a coping method by a majority of the respondents, this response was concentrated in poorer areas such as Karangasem.

In a Kecamatan Development Programme survey conducted in May 2003, 76 percent of respondents indicated that the family was the first group to help in crisis, with 66 percent indicating that a friend would be the second most important candidate to look for assistance.

A worker-level survey of 21 labourers was conducted by Strategic Asia for this study across the various segments of the GPN. Since the selection of labourers was geared towards incorporating a balanced gender ratio, only those labourers who had worked in the industry since 2002 (when the first Bali bombing took place) were interviewed. Most of the findings in this survey in relation to the first Bali bombing correspond with the report completed by the World Bank and UNDP in 2003 (see World Bank and UNDP 2003a; 2003b).

The survey was geared towards determining if new opportunities were being considered as a result of each crisis in order to explore the impact and coping mechanisms utilized after each crisis as well as to understand if there were any differences in the new opportunities based on gender. In the context of this survey, the 2002 bombing in Bali was the most severe, with several interviewees indicating a reduction of more than 60 percent in income. For some people, the wage rate remained the same, but the number of working hours had reduced from eight to four. In the case of certain interviewees, a reduction was noted in both income and working hours. One respondent working in the guides sector took the opportunity of the first bombing to upgrade skills, and learnt Korean. This allowed him to avail himself of further opportunities when the market recovered. One woman working at a garment and handicraft shop near the site of the bombing left the industry for six years during the crisis. It is thus possible that some people also left the industry completely right after the crisis. In the context of this survey, most of the labourers stayed within their segments despite the first Bali bombing. In terms of differences in conditions by gender, only one respondent noted a differential in wages; the others claimed there was no difference in working

conditions. It is important to keep in mind that the sample size was limited and thus may not be reflective of the total labour force.

In the context of the 2005 Bali bombing, the Strategic Asia survey of 21 workers suggests that the impact of the crisis was less severe than in the case of the first bombing. Many of the respondents noticed no changes in working conditions during this crisis. One respondent attributed the lack of reduction in income to the increase in the regional markets. For those who did experience reductions in income, these were of the magnitude of 20-30 percent. Little or no variation was noted among the range of five- to three-star hotels this second time.

With regard to the economic recession in 1998, in view of the existence of a more vibrant tourism sector up to the first Bali bombing, it is likely that this created new job opportunities in the sector and, therefore, had a positive impact in terms of social upgrading. On the other hand, in response to the 2008 economic crisis, no particular social impact was noted. As pointed out earlier, there was a change in the composition of tourists, with Chinese and domestic tourists both becoming more important. No particular impact with relation to social downgrading was attributed to this crisis on the basis of stakeholder interviews.

## 8. Shocks and poverty

Given that Bali is highly reliant on the tourism industry, it is important to look at changes in poverty levels in both urban and rural areas after the shocks. Table 6 shows a decline in urban poverty and an increase in rural poverty from 2000 to 2001. As previously indicated, higher rates of unemployment in Bali can be attributed to return migration from Java, thus possibly accounting for the increase in the rural poverty rate. For the 2002 bombings, there was an approximately 6.5 percent increase in the percentage of the total population below the poverty line between 2002 and 2003; after the 2005 bombings, there was an approximately 5 percent increase in the percentage of the population below the poverty line during the year 2005/06. However, one nuance to be noted is that, after the 2005 bombings, although urban poverty increased, rural poverty declined by approximately half a percentage point. This could suggest that the impact of the bombing did not have a significant impact on the rural areas of Bali. Between 2008 and 2010, there was a clear declining trend in the population below the poverty line from approximately 6 to 4.8 percent, suggesting that the impacts of the 2008 financial crisis on poverty in Bali were minimal.

**Table 6: People in Bali under the poverty line, 2000-2010**

	No. of poor people ('00,000)			% of poor people (as % of population)		
	<i>Urban</i>	<i>Rural</i>	<i>Total</i>	<i>Urban</i>	<i>Rural</i>	<i>Urban + rural</i>
2000	80.1	96.7	176.8	5.49	5.85	5.68
2001	67.1	181.3	248.4	4.3	11.35	7.87
2002	98.9	122.9	221.8	5.72	8.25	6.89
2003	99.7	146.4	246.1	6.14	8.48	7.34
2004	87	144.9	231.9	5.05	8.71	6.85
2005	105.9	122.5	228.4	5.4	8.51	6.72
2006	127.4	116	243.4	6.4	8.03	7.08
2007	119.8	109.3	229.1	6.01	7.47	6.63
2008	115.1	100.6	215.7	5.7	6.81	6.17
2009	92.1	89.7	181.8	4.5	5.98	5.13
2010	83.6	91.3	174.9	4.04	6.02	4.88

Source: Central Statistics Agency (2010).

## 9. Crises and the family rice bowl

A feature of the coping mechanism is strong reliance on the community and family. Policy stressed the role of the traditional village community organization, *adat*, in helping families through the crisis. The survey reported in Table 5 points out that almost half of those affected took to other professions. Some of these other professions could have been, say, nursing for young women. But, given that most Balinese have some rural links, it is likely that the 'other professions' were mainly in agriculture. Anecdotal evidence suggests much going back to the village in times of slowdown. This is in line with experiences of other Southeast Asian countries (e.g. Thailand) where 'recent' and commuting migrants have continuing rural links. When urban jobs go down, workers return to family farms. This is the type of agrarian involution first analysed by Clifford Geertz for Java (1963).

One may link Geertz's involution analysis with that of Lewis's (1954) unlimited supplies of labour. During the expansion of tourism in Bali, the rural economy supplied its surplus labour at real wages that needed to be just a little above what could be earned in agriculture. But during a downturn, the now redundant urban labour returns to the rural hinterland. However, the additional labour may not result in an increase in production, resulting in involution and thus a sharing of poverty.

In the Bali case, there was an attempt to increase agricultural production. After the 2002 bombings, many meetings were held to promote a development of agriculture, in particular to cultivate many of the fruits that were now being imported. But it was also pointed out that, with tourism having become the mainstay of the Bali economy, there had been neglect of the irrigation system and a quick development of agriculture would not be possible. The government did allocate money for improving the irrigation systems (see Hitchcock and Darma Putra 1997: 172-175 for a discussion of these issues). However, with the quick recovery of tourism in just about a year, all such talk of developing agriculture quickly receded into the background.

The important point for our analysis, however, is that the family and the rural economy provided the safety mechanism that helped people absorb the shock of the tourism downturn. As was revealed widely across Southeast Asia during the 1990s crisis, the 'family rice bowl' was the safety net during economic downturns (Nathan and Kelkar 1999). The family rice bowl, in turn, largely depends on the labour contribution of women, which would mean the burden of coping with the crisis falls disproportionately on women. This was a feature of East Asian adjustment during the late 1990s financial crisis and continued to remain a feature of adjustment in Bali through the tourism shocks. It is only now that Indonesia is moving towards a state-provided safety net. A minimum social floor for all citizens is being set up, and this should reduce the burden on the family rice bowl and women during economic crisis.

## 10. Changes in GPN structures

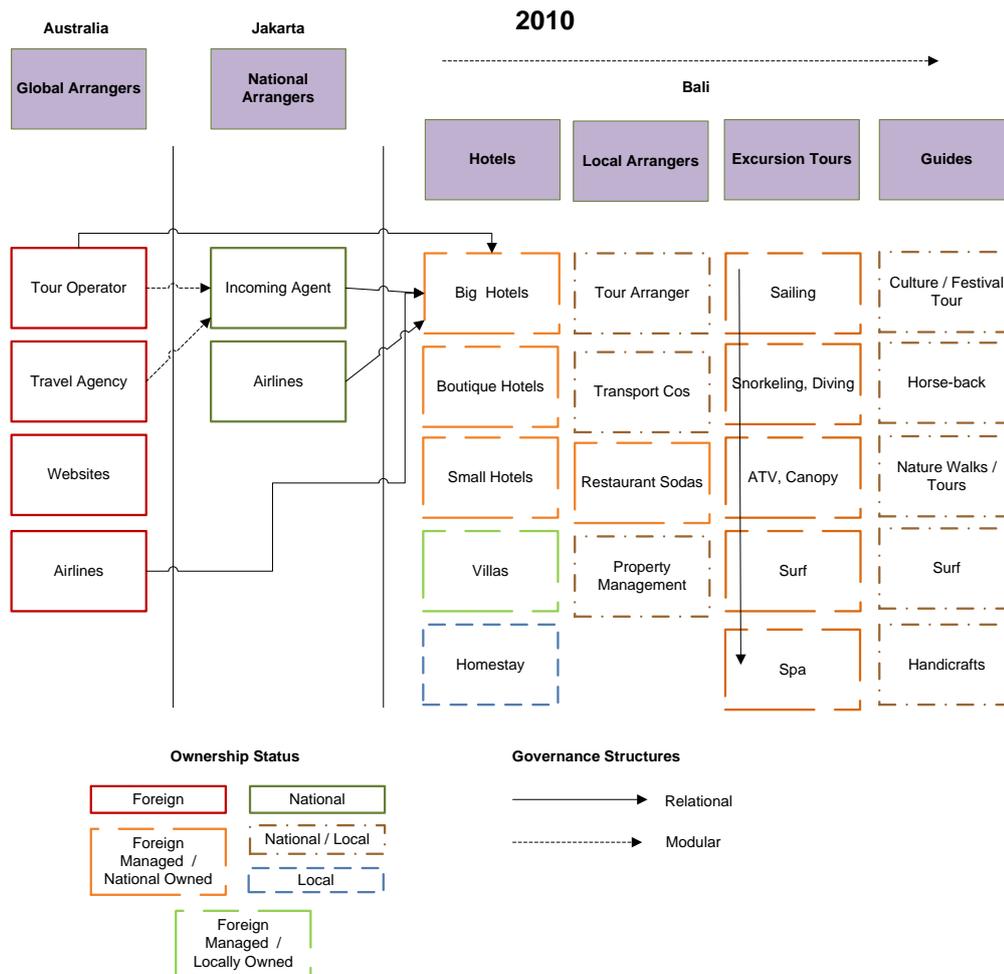
Compared with 2000, the tourism GPN in 2010 shows a few changes. The governance structures did not change. The only modular governance structures were those between the foreign TO or tour agency and the incoming agent, and they remained modular. All other governance structures are relational, and remained so.

The structural changes were mainly in the growth of two new segments, those of villas and spas. Villas utilized local houses for tourism, thus increasing the revenue to local owners. Villas often did not pay taxes and were thus able to offer discounts. In addition, being relatively small and gated, they could be more secure than large hotels.

The growth of spas to provide relaxation is in line with the international trend in the growth of such units. What is interesting, however, is that they developed from having been part of hotel offerings to being specialized units. Clearly, the growth of the market led to the increase in specialization, in the manner analysed by Adam Smith, where ‘the division of labour is limited by the extent of the market’ (see Milberg and Winkler 2010).

With the growth of the market, there was an increase in the number of suppliers, with spa activity, earlier a part of hotel services, becoming a specialized service. Villas too enter the GPN as a new segment in accommodation services.

**Figure 4: Bali tourism GPN, (reworked to show increased importance of villas in accommodation service segment)**



On the other side, the number of local TOs declined from 628 licensed operators in 2000 to 307 in 2011. The decline in numbers of TOs occurred through the various crises. But with the recovery of the tourist industry, there was not a corresponding increase in TOs. The consolidation in TOs must have led to the remaining ones having large enough capacity to handle the increased volume. This could be seen as a form of economic upgrading for those able to absorb the extra business. Additionally, the earlier experiences of operators bearing losses could have reduced attempts of service providers to become TOs. This points to a manner of hysteresis in the evolution of horizontal consolidation. The horizontal consolidation in the TO segment during the downturn is not offset by horizontal expansion after recovery. Rather, the units remaining in operation seem to have grown in capacity. Have entry barriers increased? Since the volume of tourism has not gone down, it could be that the remaining TOs enjoy economies of scale, which makes it difficult for newcomers to the market.

Finally, the growing end-markets are those of China and domestic tourism. This would obviously increase the strength of tour agencies from these areas of origin. The horizontal consolidation of destination tour agencies during the shock-induced contractions was not mirrored by an increase in these numbers after the recovery.

## **11. Ethnic conflict and the collapse of tourism in Tana Toraja**

In contrast with the repeated and quick recovery of Bali from shocks, another site in Indonesia has seen the collapse of tourism in the same period. Tana Toraja on the island of Sulawesi is a centre of indigenous tourism. It is a UN Educational, Scientific and Cultural Organization (UNESCO) World Heritage Site, preserving its traditional architecture and burial sites. But the area does not have a direct air link. The nearest airport is a whole day's drive away. Consequently, it is an area that only intrepid travellers or those interested in its archaeological-anthropological-cultural significance would visit.

Despite such limitations, tourism to Tana Toraja did increase over the later 1990s and early 2000s. The shock it suffered was in the form of inter-ethnic clashes on the island. This was compounded by the Bali bombings, which had an impact on tourism in Indonesia as a whole.

With the downturn, many workers left tourism-related work and took up other livelihoods. Those who combined farming with tourism now took to farming alone. At the height of Tana Toraja tourism, many young persons trained as guides. Obviously, there was not much work for these guides, who either migrated to other islands or retrained for other professions, such as nursing. The number of TOs went down. There was a clear horizontal consolidation in the tourism GPN, with numbers falling in the various tourism segments. It is not clear if there was vertical shrinking too, with those remaining taking on those functions that had been specialized earlier on.

Why did Tana Toraja collapse while Bali rebounded and even went ahead after each shock? The reason must lie in the limited attractions of Tana Toraja and the difficulty of access. Undertaking a whole day's drive for what is just a day's excursion to the main village is not something that tourists are likely to do. This would need to be combined with other features, such as the beach and related activities, for an extended stay. But as a beach it would have to compete with established centres, not only Bali but also other Southeast Asian beach spots.

Differences in the post-shock experiences of Bali and Tana Toraja are most apparent when we examine the role of local government. In Bali, the degree to which local government supported the post-shock recovery was far greater than in Tana Toraja, where most people in the industry felt sorely let down by the (lack of) government response. This study extrapolates that the main reason for this is that, as a percentage of regional income, tourism in Tana Toraja is relatively small compared with other sources of income, particularly agriculture and remittances from abroad. On the other hand, in Bali tourism income is more than half of the island's GDP. The local government there had much more reason to intervene energetically to support tourism after each crisis.

## **12. Conclusions**

The shocks looked at in this paper are of three types. The Bali bombings were generalized shocks to the whole tourist economy. They affected tourist numbers as a whole, without any clear bias for or against particular national groups. There was a general reduction in demand for Bali tourism. The Tana Toraja ethnic conflict shock, while of a different nature again, was more in line with that of a generalized shock.

But in the case of the two economic crises, the 1990s Asian financial crisis and the 2008 recession, there were clear regional differences in demand responses. After the Asian financial crisis there was a sharp devaluation of the Indonesian currency, boosting foreign demand, particularly from the non-Asian countries that did not go into recession. In the current recession, on the other hand, there has been a reduction in demand from non-Asian economies, while demand from Asian economies has grown. Chinese and domestic Indonesian tourists have been the growing segment of Bali tourism.

What this means is that one has to look at the specific type of shock and the manner in which it impacts on demand from different regions. There cannot be just a general analysis of shocks. A terrorist attack is a non-specific shock affecting all tourists. But economic crises may affect particular demand segments and thus result in a change in the overall composition of tourists.

But one general point does emerge in the response to all shocks – there is a post-shock search for markets. The search for new markets could be different from an attempt to increase flows from existing markets. The latter is likely to require price discounts to attract those who wish to spend less. But in a bombing-related security crisis, price discounts may not have much of an effect on volumes. Rather, the search is for new markets from among those less likely to be affected by the bombing-related security scares. Given that non-Asian foreigners were understood to be the targets of bombings, there could be an expansion of the market among both Asian and domestic markets. Thus, the new markets may be different from the older, established markets. Correspondingly, in the tourism GPN, TOs from the growing markets would gain strength, while tour operators from the declining or stagnant markets would lose strength.

The results of this study suggest that Bali has really been the motor of tourism in Indonesia, and shocks that threaten its prominence can have a significant impact on tourism in other regions, especially ones that are more nascent tourist destinations, including those such as Tana Toraja. The appreciation of the Indonesian currency during the 1997 Asian financial crisis and the booming Australian industry in recent years have to some extent cushioned the effects of the financial crises of 1998 and 2008, respectively. However, in the case of the bombings, there were more adverse short-term effects, especially because of the perceived threat to the safety of tourists. The first bombing was more severe than the latter owing to its novelty and the fact that it soon after the September 2001 attacks, which acted as a huge shock to the psyche of global tourists at the time. The World Bank study on the Bali bombings of 2002 highlights the fact that the impact within the tourism GPN was not evenly felt, with smaller firms hit the hardest.

In Bali, post-crisis GPN structures changed to an extent. At present, the growing end-markets are those of China and domestic tourism. This would obviously increase the strength of tour agencies from these areas of origin. The horizontal consolidation of destination tour agencies during the shock-induced contractions was not mirrored by an increase in these numbers after the recovery. This may have owed to scale effects, making it difficult for newcomers to enter the market during the expansion. But expansion of the market post-recovery has seen the growth of vertical specialization or vertical expansion. The number of segments has increased with the creation of two new specialized niches, those of villas and spas. There was hysteresis in the case of horizontal consolidation, but not so in the case of vertical specialization. Specialization, as Adam Smith would have expected, did increase with the growth of the market.

Discounting, reduction of staff and the use of more part-time workers are a consistent part of the strategies being devised to cope with external shocks. But the main burden of the shock fell in terms of the sharing of poverty in the family rice bowl. The newly passed bill on social security may minimize the short-term impact of future shocks.

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