

# 4

## The External Environment: PEST

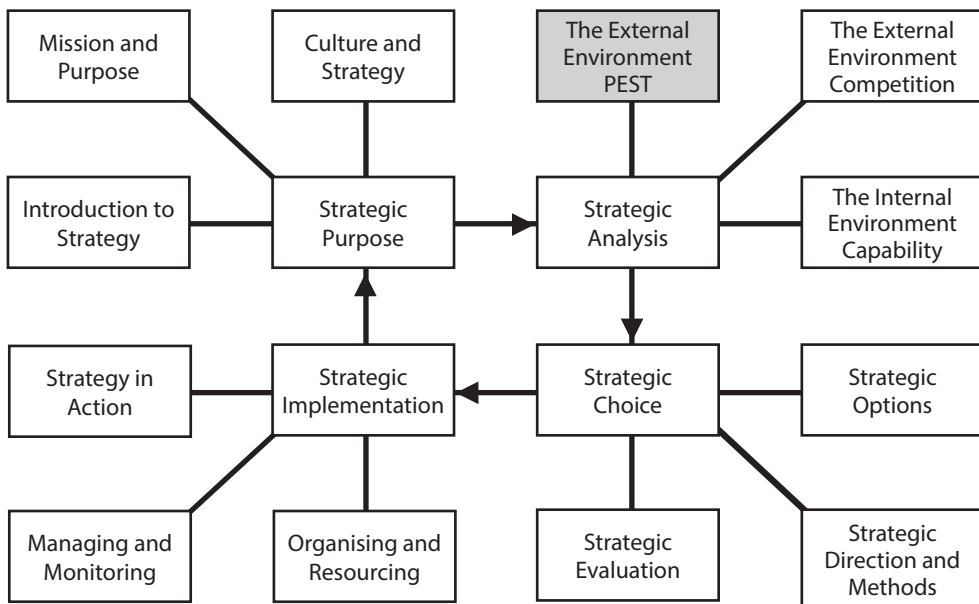


Figure 4.1

### Learning outcomes

After studying this chapter and related materials you should be able to understand:

- The political environment
- The economic environment
- The socio-cultural environment
- The technological environment

and critically evaluate, explain and apply the above concepts.

## Introduction

**Political analysis:**  
the effects of government policy and laws.

Tourism entities do not operate in a vacuum. They operate within an external environment which can have a significant impact on their operations and strategy. This chapter identifies and analyses four domains in the external environment. These are the political, economic, socio-cultural and technological environments. Political analysis identifies the effects of government policy and laws. Economic analysis seeks to understand what economic factors will affect tourism entities and how these economic factors are changing. Socio-cultural analysis plots changes in population size and structure as well as changes in consumer tastes, preferences and broader cultural shifts. Technological analysis charts changes in science and technology to understand how these will impact on tourism entities.

Case study 4 analyses the economic crisis of 2008 and subsequent economic developments and plots their effects on a range of tourism organisations.

### Case study 4: The 2008 Economic Crisis and its aftermath

The year 2008 can be added to the list of significant economic crises which include the Great Depression (1929–35) and the Asian Economic Crisis of 1997–98. The period prior to 2008 was a time of relative economic stability. For example the UK and US economies were enjoying 2–4 per cent per year growth, China's economy often grew at 14 per cent per year and the continued growth of tourism was evidenced by the upward path of UNWTO international tourist arrivals data. But a credit crisis and two quarters of falling output in 2008 confirmed the arrival of a recession in the UK, the USA and major western economies. The economic crisis caused mass unemployment, a feel-bad factor and a squeeze on consumer income and expenditure all of which had a knock-on effect on tourism and the United Nations World Tourism Organisation (UNWTO) recorded a sharp decline of 3.5 per cent in international arrivals. Amongst those most affected were the Americas and Europe as most of their source markets were affected by recession. The effects of the recession in the tourism sector included the following:

- ◆ Emirates Airline slowed expansion in 2009 – and the year turned out to be one of consolidation with the increase in the number of flights across its network slowing to 14 per cent, against annual growth of 20 per cent in the previous five years.
- ◆ Virgin Atlantic responded to a drop in demand for air travel by cutting 600 jobs.
- ◆ Ryanair posted a third quarter loss in 2008 of €102 million, compared to a profit of €35 million in the same period a year earlier.
- ◆ Cathay Pacific posted a loss of HK\$8.56bn for 2008
- ◆ The International Air Transport Association (IATA) painted a bleak picture for the global airline industry which it described as 'drowning in red ink'. (The photo shows the effects of an economic downturn on the demand for air travel).

- ◆ Amsterdam reported 12 per cent fewer British and American visitors arrived via Schiphol airport in November 2008.
- ◆ Occupancy of European hotels fell by an average 10 per cent in the first quarter of 2009.

But it would be wrong to call 2008 a global economic crisis. In Asia and the Pacific, Africa and the Middle East, the industry continued to grow but at a slower rate than in previous years. The economy of China continued to grow at over 9 per cent per year between 2008 and 2011 and at over 7 per cent between 2011 and 2014. So, against the trend in the West, China continued to be an important tourism generating country and a total of 45 million Chinese travelled overseas in 2008, up by 11.9 per cent compared to 2007 and rising to 107 million by 2014.



**Plate 4:**  
An economic  
downturn

By 2015 the economies of the US and the West were in recovery and tourist arrivals to the UK, which had dropped from 32 million in 2008 to 30 million in 2010, had risen to 35 million by 2015. However a prolonged economic slump overtook the Greek economy, culminating in a serious debt and refinancing crisis in 2015 when domestic tourism especially suffered as banks were temporarily closed and imposed a 60 euro per day limit to ATM withdrawals. 2015 also saw the Chinese economy wobbling causing ripples of concern in destinations such as New Zealand which had featured the growth of Chinese tourists as significant objectives in their tourism development strategies (see Case study 1).

## The political environment

The political environment is concerned primarily with government and its effects. Here it is useful to distinguish between autocratic and democratic systems of government. Autocratic systems exist where government is carried out by one party. Opposition parties are generally not allowed and government is not subject to regular, popular elections. Democratic systems are characterised by political choice where rival political parties seek government through regular elections through which the wider population is able to express its preference by a system of voting. Political systems are generally dynamic, particularly in democracies where elections must be held at regular intervals – typically every four to five years. Autocratic systems tend to witness less change but can be subject to in-fighting between factional groups.

**Legislature:**  
the body where laws, regulations and policy are made.

**Executive:**  
the arm of government which carries out laws and policies.

Government may also be roughly split between the legislature and the executive. The legislature is the body where laws, regulations and policy are made (the process of enacting legislation). In the UK and Australia this is Parliament, in the USA it is Congress, and in China it is the National People's Congress. The executive is the arm of government which carries out government laws and policies. The executive comprises of a number of government departments (e.g. defence, economic affairs, home security). These are staffed by public sector workers. There is generally some representation for tourism in both the executive and the legislature. In the legislature there may be a minister or government spokesperson for tourism and in the executive, tourism may have its own ministry or government department or it might be part of a larger one.

Since tourism entities are affected by current and new government legislation, it is important to understand the location of political power, how political power may change in the future, and the likely effects of this on policy (Burns and Novelli, 2009). It is also important to identify the locus of the political environment where a tourism organisation is working. For example a tour operator situated in Italy will face a political environment at local government level, at national government level and at European Union level. Additionally it will have to operate in the different political environments of the destination countries where it operates its tours.

In democratic countries, it is instructive to know when the next election will take place, the likelihood and implications of a change of government and the alternative manifestos of competing parties. Parties generally publish comprehensive manifestos so that voters can see their plans and how they would change things if elected to government. Pressure-group activity can also be important in influencing policy in democracies, and the activities of such groups as Greenpeace and Tourism Concern attempt to affect government policy as it relates to tourism. In autocratic countries, a careful monitoring of the circle of advisors of the leader may be helpful to ascertain possible successors and subsequent policy shifts.