The Tourism Industry Under Crisis
The Struggle of Small Tourism Enterprises in Yogyakarta (Indonesia)

Titi Susilowati Prabawa
THE TOURISM INDUSTRY UNDER CRISIS
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Introduction:
Crises and Sustainable Tourism Development

The Story of Pak Sur

Pak Sur is a becak driver. He dropped out of school during the third grade of High School, at the age of 17, to help the business of his father who produced batik stamps before he started working as a becak driver. In the mid 1970s when demand for batik stamps was declining, he decided to work as a welder at a welding shop in Yogyakarta. In the evening, after he had finished his work as a welder, he would work as a becak driver in Prawirotaman, a busy street in the tourist centre in Yogyakarta. In the 1980s, he decided to work as a full-time becak driver for tourists as he thought the job had more prospects. At that time tourists from all over the world found their way to the Prawirotaman area and his becak business was very lucrative. From driving his becak, he managed to build his own house and was able to pay for his four children to finish high school.

When I met him in January 2005, he expressed that his work had changed much since the economic crisis hit Indonesia and various other Asian countries in 1997. Ever since, economic conditions had fluctuated but had never been the same as during ‘normal times’ he added. By ‘normal times’ he meant the years when holidaymakers crowded the Prawirotaman area, when income was not hard to get and when he hardly ever stopped cycling his becak in the 1980s. Even though sometimes he felt very tired, he was happy with his job because he earned a good income not only from the fee but also from commissions from the shops where tourists went shopping and from big tips he got when his passengers were satisfied with his services. ‘It’s now over. There are very few international tourists and many are not as generous as they used to be. Now they like to bargain for the service and no longer like to go shopping,’ he said. ‘The tourists may have learned that we often earned a lot of commissions from the shops and consequently that they had to pay a lot more than the real price,’ he added.
When crisis hit Indonesia, he often thought of switching to another, more permanent job but it proved to be too difficult, as he does not have enough capital to start a new business. For their livelihood, he and his family hence have to rely on his unstable income. His main job is still driving the becak but sometimes he also works as a ‘pekerja serabutan’ (jack-of-all-trades). In addition to that, the family relies on the grocery shop run by Pak Sur’s wife. She opened a small grocery store at home selling daily needs and vegetables. The vegetables that are not sold are cooked for the family dinner.

Pak Sur’s story is a good example of what many entrepreneurs, active in, and dependent on the tourism sector in Yogyakarta, encountered when the Asian economic crisis of 1997 reached Indonesia. This economic crisis turned out to be the first of a series of crises that swept over Indonesia over the next ten years, having devastating impacts on the lives and livelihood of people like Pak Sur who work in the tourism industry. For the majority of people active in the small-scale tourism industry in Yogyakarta, 1997 turned out to be the end of the good life that the booming tourism industry had brought them up to then.

This study aims to come to a better understanding of how entrepreneurs who are active in the small-scale tourism industry in Yogyakarta, one of the most important tourist destinations in Indonesia, have coped with a series of crises that swept over the country since 1997. The economic crisis of 1997 was followed by political riots and upheavals in 1998; terrorist attacks in Bali in 2002 and 2005, and other sporadic attacks in Jakarta; environmental disasters between 1997 and 2006, especially the smoke haze calamity that happened in 1997, tsunami that hit North Sumatra in 2004 and the earthquake that struck Yogyakarta in 2006. Besides all of these, since 1998, the country was also burdened with religious and ethnic conflicts, as well as violence and separatist movements in various regions. Apart from wrecking the public and private lives of the Indonesian people, this decade of crises severely curbed the tourism industry, dependent as it is on public perceptions of travelling to a safe and pleasant destination. Therefore, this study will try to unravel the ways in which entrepreneurs at the small-scale end of the tourism industry have coped with one crisis
after another and the extent to which they have been able to keep their businesses ‘alive’.

This study has the ambition to pick up where the study by Dahles (2001) more or less ended. In her book, Dahles analyses the small-scale tourism sector in Yogyakarta and the government policies that resulted in a boost of the tourism sector while at the same time creating an imbalanced dependency on this sector. However, she conducted her study during the hey-days of tourism. In a postscript, Dahles remarks that indeed tourism was already showing the impact of the economic and political upheavals of the late 1990s with plummeting numbers of tourist arrivals. However, we do not have a detailed knowledge of what happened next. This is where this thesis will make its contribution.

Tourism and Crises in Indonesia and in Yogyakarta

Between 1967 and 1998, the New Order Government under President Soeharto had put international tourism in a prominent position (Hampton, 2003:88). Initially, during the early stage of the regime, the agenda behind international tourism development was both economic and political. The New Order regime considered the development of international tourism as a resource to gain international legitimacy and to present an improved image of Indonesia, after a violent and disturbed period during the transition of the political regime from Soekarno’s Old to Soeharto’s New Order. Through successful tourism supported by security and social stability, earlier perceptions of unrest would be ignored and would be replaced by those of golden beaches, Western-holiday makers, and cultural performances (Picard cited in Hampton, 2003:88). Later, following the decline of world oil prices and serious economic stagnancy in the 1980s, reliance on international tourism became even more significant (Sugiyarto et al., 2003; Picard, 2006). In order to boost economic development, the government introduced a number of stimulating policies that put more focus on non-oil sectors (Dahles, 1999a:3). Incentives were given to the exports of non-oil products, private investments were encouraged, and the rupiah was drastically devaluated in 1983 and again in 1986 (Picard, 2006:77). Along with the implementation of policies specifically geared to
the tourism sector, the government launched programs to attract more foreign investment to the industry by creating possibilities for 100 per cent foreign ownership, tax holidays, permits for foreign professional workers to be employed in the tourism sector, and also by creating less complicated licensing procedures for hotels and other tourism facilities (Sugiyarto et al., 2003). These efforts showed results when, in 1990, tourism reached the fourth position as earner of foreign exchange surpassing rubber and coffee (Hitchcock et al., 1993:1).

Despite this development, from 1997 to 2006, a series of incidents at the international, national, and local levels had severely disrupted the tourism industry in Indonesia. The incidents ranged from environmental to monetary and led to social and political unrest and even to terrorism. Growth targets could not be reached due to the crises. Prior to the crises, the Indonesian government estimated that in 2000 about 6.5 million international tourists would visit Indonesia and it targeted US$ 9 billion in foreign exchange earnings. The approximate increase in visitor arrivals expected for the turn of the century was doubled while the anticipated income from foreign tourism was assumed to triple. However, due to the crises, in 1998, official sources announced an approximate decline of 30 per cent in international arrivals and 60 per cent in revenues from tourism (Dahles, 2001:3). In 2000, the number of tourists was actually on the increase presumably because of the absence of turmoil in famous tourist areas and the advantageous exchange rate of the *rupiah*. However, just when the number of tourists seemed to be recovering to pre-crisis levels, within the next few years, Indonesian tourism suffered again because of terrorist attacks, violent local conflicts, and epidemics. Consequently, the tourism economy experienced a sharp contraction, which gave negative impacts on the Indonesian economy, because of the important role of the sector as the engine of economic growth and the main source of foreign exchange after oil and gas (De Jong, 2005:1). Hence, without exception, the crisis disrupted the businesses of those who benefited from tourism development. These included both large and small-scale tourism businesses, which serve different segments of the tourism market.
The Indonesian international tourism market can be divided into two broad categories. The first category consists of tourists who travel in groups and prefer to buy package, ‘all inclusive’ holidays from tour operators. They prefer to stay in international star-rated hotels for short periods of time. The second group consists of independent travellers or so-called backpackers. This segment has a limited budget, but tends to spend longer times at holiday destinations and to use local facilities. Prior to the crises, the latter group was the growing segment, which, although it spent money in many LDCs (Less Developed Countries) including Indonesia, was generally ignored by most government tourism planners (Hampton, 2003; Picard, 2006).

In the belief that tourism contributed significantly to national income and employment, Indonesian tourism development policy put more emphasis on large-scale investment while small budget tourism, which served the backpackers, was overlooked (Dahles, 1999a; Hampton, 2003). The development of large-scale projects received full support from intensive capital from overseas donors and from international investors (Hampton, 2003:89). On the other hand, smaller scale businesses did not enjoy the benefits from the policies used to stimulate the growth in tourism. The government applied deregulatory measures at the upper business level but strictly regulated and controlled the lower level (Dahles, 1999a:3). Besides that, the allocation of financial aid, the provision of infrastructure, the orientation of administrative services, and the passing of licensing, labour and marketing regulations were directed to facilitate the dominant sectors (Dahles, 1999a:5).

Nevertheless, even without support from the government, small-scale tourism developed exponentially. Answering the growing trend of backpack tourists, local people responded to this sub segment of the international tourist market by establishing small businesses to provide the various facilities needed. As stated by Kamsma and Bras (1999:68) private initiatives in the accommodation sector and other related sectors such as the souvenir industry flourished in response to the arrival of the tourists. Furthermore, the contribution of small-scale enterprises also could not be underestimated for its role in absorbing labour. Despite the general view
that small enterprises performed badly, Hill (1996) stated that the employment growth rate in small enterprises rose to nearly the same level as that in large and medium enterprises (cf. Dahles, 1999b:26).

Tourism experts recognised that small-scale tourism made a more significant contribution to local economic development than large-scale development (Dahles, 1999a; Kamsma & Bras, 1999; Hampton, 2003). In the first place, small-scale tourism required only limited investments and therefore could guarantee greater local community participation. Local people could participate in the ownership of the businesses rather than only work in it as lower ranked employees of large-scale investors earning low salaries because many of them generally did not possess the required skills.

Secondly, opportunities for local people to participate in tourism development were believed to contribute significantly to the sustainability of the development. Since the local people would be first affected by tourism developments, it was important that they took part in controlling the changes that affected their lives by involving themselves in planning, decision making and also in the implementation of the decisions that were made. The involvement of locals as entrepreneurs who owned and operated facilities for tourists, instead of being the employees in the hotel or restaurant sector, would promote higher local tolerance towards tourist activities (Kamsma & Bras, 1999:69). Furthermore, by ensuring community participation in development, many negative effects of tourism could be avoided (Hitchcock et al., 1993:24).

Although the development of small-scale tourism sounds promising as a means to support more sustainable development, tourism development in general needs to be viewed with caution. Tourism development in Southeast Asian countries invites critiques for the weak linkages that exist between tourism and other economic sectors. Tourism planning puts more emphasis on the expansion of the industry but ignores the role of tourism in integrated programmes of development, which involve other economic sectors. Mainly stressing tourism development leads to unhealthy dependence at both national and lower levels since tourism as an industry
can be very unpredictable (Hitchcock et al., 1993:19). As shown by studies of various examples in different countries, and by the Indonesian experience in the last decade, tourists stay away from areas they perceive as insecure or unsafe. Consequently, unfavourable conditions for tourism development negatively affect people who depend on tourism for their livelihood.

If we turn specifically to the situation of tourism development in Yogyakarta we can argue that during the New Order Government in the past the development programmes accelerated tourism development in Yogyakarta and turned it into the second tourist destination after Bali. The New Order Government showed its seriousness in its efforts to attract tourists to Yogyakarta through the improvement of many aspects of the city. The transportation and communication systems and shopping facilities were improved and star-rated hotels were built to facilitate tourists who wanted to stay in Yogyakarta. Apart from large-scale tourist facilities’ development, small-scale tourist facilities mushroomed in tandem with the promising growth of tourism development in the region.

Furthermore, Yogyakarta managed to attract tourists by promoting its diverse cultural and historical heritage. The Court of Yogyakarta (Kraton) is known as the guardian of Javanese culture and traditions. Regularly, the Kraton conducts traditional ceremonies and events such as the Sekaten and the Garebeg, which attract both domestic and international tourists (Soelarto cited in Dahles, 2001:66). Apart from these ceremonies and other cultural events, government agencies and the tourism sector promote attractions such as the temple complexes of Borobudur and Prambanan, the Sultan’s palace, performances of gamelan music, court dances, the Ramayana ballet and shadow puppet plays, and traditional handicrafts such as batik and silver as Yogyakarta’s icons (Dahles, 2001:53). Besides

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traditional cultural attractions, Yogyakarta also has a number of historical monuments such as the Monumen Jogja Kembali and Fort Vredenburg to commemorate the role of the city in the Indonesian struggle for independence. The later was especially intended to attract domestic tourists.

Supported by adequate infrastructure and through intensive promotion, the number of tourists visiting Yogyakarta steadily increased. During the three decades of the New Order Government, Yogyakarta had benefited significantly from this development. The number of international tourist who stayed in all the hotels in Yogyakarta increased from 66,383 in 1977 to 351,542 some twenty years later (Hampton, 2003:90).

However, the prolonged crisis has caused the situation to reverse. Since 1997 tourism in Yogyakarta has declined significantly. Within fourteen years, from 1996 to 2008, the average annual number of international tourist arrivals decreased by 6.37 per cent. Meanwhile the average growth of domestic tourist arrivals per year was 4.3 per cent in the same period. Apparently, tourism entrepreneurs in Yogyakarta had to rely more on the domestic market because international tourist arrivals declined. In fact, the decline of the number of international tourist arrivals had significant effects on the entrepreneurs in Yogyakarta, especially those who relied on international tourists.

Despite the fact that tourism is one of the sectors that was severely hit during the prolonged crisis and yet was an important industry for the Indonesian economy, studies on tourism crises are still rare, except a few studies that have been conducted in Bali2. Furthermore, as revealed in previous research, the impacts of the prolonged crisis in diverse regions and among diverse social groups may be different, is often contradictory, and sometimes unexpected (Abdullah et al., 2005:15). Considering lack of knowledge on these issues, I found it necessary to conduct research about the tourism sector under crisis in Yogyakarta as the second most important tourist destination in Indonesia after Bali.

Research Background & Research Problem

This thesis is about crisis and sustainable tourism development. Analysing the responses and experiences to the prolonged crisis of entrepreneurs in different sectors of the tourism industry in Yogyakarta, this study aims at exploring coping mechanisms of the entrepreneurs during crises, which can serve as an evaluation to the debate on sustainable tourism development.

The majority of studies on this topic failed to address the impact of the multiple crises on tourism, and in particular on small-scale tourism entrepreneurs. Prior to 2000, only a few studies include the crisis in their discussions. Scholars began to pay attention to the issues later due to a series of incidents that affected tourism development at different tourist destinations globally and nationally. Generally, professionals wrote on the risk and crisis management, and their prime focus was on the airline industry and travel insurers (Dwyer & Sheldon, 2006:1). Additionally, there were scholars, who conducted their studies in different countries and were interested in various issues related to tourism crisis management. Some discussed the impacts or policy makers’ responses (Henderson, 1999b; Jen-Hung & Min, 2002) and the businesses (Okumus et al., 2005; Cioccio & Michael, 2007) under conditions of a single crisis such as a natural disaster or an economic crisis. Other scholars analyzed the problems caused by a crisis and designed models of tourism disaster management strategies as tools for policy makers (Faulkner, 2001; De Sausmarez, 2003) and planners, or forecasting methods which included scenarios, political risks and the application of chaos theory (Prideaux et al., 2003).

Reviewing the work on tourism, despite the importance of the issue, only few articles pay attention to the relationship between the impact of a crisis and sustainable tourism development. There is a special issue of the Tourism Review International\(^3\), which is dedicated to a discussion of various topics related to managing risk and the impact of a crisis for sustainable tourism. Additionally, I found one article addressing the impact of the 2002 Bali bombings on the island’s beach vendors who operated their

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business in the informal sector. This study discussed the impact of the bombings, the resulting intensified local religious tension and concluded that the beach vendors found it difficult to maintain their livelihood. The findings showed the prominent role of social capital in the survival of the beach vendors, a fact that caused the authors to question the wisdom of promoting tourism as the main tool for development without simultaneously putting in efforts to encourage alternative income-generating opportunities as a safety net against external shocks to the vulnerable tourism industry (Baker & Coulter, 2007).

This study is based on one and a half years of field research in 2005 and 2006 in three different neighbourhoods in the city of Yogyakarta and uses ethnographic techniques to gain information. The research relies on qualitative information and uses the business life history approach (Dahles, 2004). In-depth interviews with entrepreneurs were conducted to explore the nature and the structure of the business, the history of business running, problems faced, achievements reached, and coping strategies employed at the enterprise level by the entrepreneurs under changing conditions. Observations are used to complement the method.

The focus of the study is on small-scale tourism entrepreneurs. I specifically conducted research among guesthouse owners in two different areas, Sosrowijayan and Prawirotaman, becak drivers operating in Prawirotaman, and silver producers in Kotagede. These sectors in these areas were chosen because, within the tourism industry, these sectors provide the services tourists most need and because the areas are very popular among international tourists. Prawirotaman and Sosrowijayan are two areas that concentrate on budget accommodation run by the local people. Becak drivers operating in the Prawirotaman area run traditional transportation businesses who especially serve international tourists staying in guesthouses there. Kotagede is widely known for its fine silver crafts, which are popular among both locals and tourists. Hence, in my view these sectors were considered to have been most affected by the prolonged crisis. The different sectors in the areas were chosen to reveal the similarities and the dissimilarities in the way the entrepreneurs coped with the crises. Based on the argument that entrepreneurship is influenced by the value of
an environment (Jack & Anderson 2002:468), it is assumed that the
different nature of businesses, resources and localities leads to different
ways of coping with a crisis. Ultimately, the value of this study lies in its
exposition of the actual strategies different small-scale entrepreneurs in the
tourism sector employ and how they utilise the resources available in their
environment for the survival of their business and their livelihood. Hence,
 it will contribute to the scarce literature on the entrepreneurial culture of
small and medium scale enterprises in tourism and, as mentioned, will
critically review the sustainable tourism development debate based on
empirical findings.

The central question of the research has been formulated as follows:

*How have small-scale entrepreneurs in various sections of the tourism
industry in Yogyakarta, Indonesia, responded to changing tourism demands
due to the ongoing crises that struck the area between 1997 and 2006?*

The central research question will serve as the major thread of the
dissertation. In order to answer this question, the following sub-questions
have been formulated:

1. What strategies did the tourism entrepreneurs in Yogyakarta employ in
   order to save their business and their livelihood that were threatened
   by the prolonged crisis? (Chapters 4-7);
2. How have the different coping strategies been developed by different
   entrepreneurs in different locations and how can they be compared?
   (Chapter 8);
3. How do the outcomes of the study contribute to the debate on
   sustainable tourism development? (Chapter 9).

**Outline of the Dissertation**

This dissertation starts in Chapter 1 with a literature review on related
concepts in order to construct the analytical framework within which the
findings of the research will be analysed. In this chapter, I address two
aspects relevant to the tourism development context and the business
operations of the small-scale entrepreneurs in the tourism industry. I start with a discussion of the context of the business operations. Relevant to the issue is the idea of sustainable development through tourism. Because the crises endured, the idea of sustainable development through tourism should be questioned. Then, I look into the debate on the entrepreneurial aspects. The relevant issues discussed are social embeddedness, the formal-informal sectors, livelihood and coping strategies, and social capital.

Chapter 2 is devoted to a description of the methodology I used in the research. In this part, I reflect on the way I pursued my research among the Javanese entrepreneurs. Details on how I gained access to my informants, the methods I used to obtain the data for this dissertation, the process of analyses, and my reflection as a local female researcher doing research in my home country are revealed in this chapter.

Chapter 3 describes the chronology of the crises that took place between 1997 and 2006 both nationally and globally and which affected tourism conditions in Indonesia. During the decade, the different incidents related to security, safety, and political changes that were covered by the media kept international tourists away and encouraged the tourists to choose other destinations.

Chapters 4, 5, 6, and 7 are detailed case studies of the accommodation owners in Sosrowijayan, Prawirotaman, the becak drivers, and the silver producers in Kotagede respectively. The empirical chapters on Sosrowijayan, Prawirotaman, Kotagede and the becak drivers follow more or less the same structure. In the first three chapters, I start by revealing the histories of the Sosrowijayan and Prawirotaman areas, and the silver town Kotagede, while on the chapter of the becak drivers, I describe their efforts to cope with problems due to the crises. Then, I continue with a description of their business histories and management. For all chapters, I continue with the description of the entrepreneurs’ experiences with the crises. Each section on the experience with the crises is followed by a description of the coping strategies the entrepreneurs employed.
Chapter 8 contains the analysis where I compare and analyse the similarities of, and the differences between the coping strategies used by the different entrepreneurs in the different sectors. Due to the different nature of their businesses, the different effects of the crises and the different localities, different entrepreneurs in different sectors will be seen to have employed different strategies. The analysis will address these aspects.

The dissertation is concluded in Chapter 9. In this chapter I summarise the findings and will end with providing an answer to the central research question.