

# Economic Fluctuation and Its Effects on Tourism in Kish Island, Iran

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## Abstract

When economic recession accompany by international sanctions, market will experience the worst scenario in three layers: political environment, fiscal, and management issues that Iran experienced from the second quarter of 2012, due to international sanction. A field survey was applied to evaluate two target groups; shop owners and tourists' reactions against the economic fluctuation effects in Kish Island. Principal component analysis was considered to analyze the data that obtained from field survey. The result shows that although the tourist chose economizing strategies, however shop owners faced Paradoxical sphere, imbalance economy, none transparency, high risk and uncertainty space. Shop owners try to adjust themselves through the variety of strategies based on their capacity.

**Keywords:** Tourism, Sanction, Tourists' behavior, shop owners, Kish Island

## 1. Introduction

Tourism industry is well known as a sensitive industry to different kind of crises especially to economic fluctuation due to its strong and dynamic interrelationships with economy (Brida & Risso, 2010; Gosling & Hall, 2005; C.M. Hall & Page, 2006; Mihalic, kester, & Dwyer, 2013; Nissan, Galindo, & Méndez, 2010; Tribe, 2012). Any kind of economic crisis will affect tourism industry in different scales. Therefore, the relationship between economic crises and tourism is a complex subject with multiple dimensions.

Normally the states are main responsible in disasters and crises. They should take care about crisis and disasters by appropriate strategies to protect tourism business and society in general (B. W. Ritchie, Dorrell, Miller, & Miller, 2004). Management and planning tasks are creating coherence through collective actions. National policies harmonize the tourism representatives from national up to local level. All stakeholders have a kind of synergy in reaction against crises and state plays a coordinative rule.

In sanction situation, states not only do not accept that there is a crisis, but they are trying to eliminate the signs and symptoms. Governments want to show that sanction has no important impact on country. Therefore and general polices will try to reduct fluctuations and control economic indices. Hence the government applies policies that focus on normal conditions. These formal policies will be followed by all formal political and socio-economic representations. While economical and financial market are suffering crisis and react to it, It will form dichotomy in market: formal or state market and real but informal market. Despite existence of only one crisis, but it makes a triple challenge for the tourism industry: Crisis from one side, Market duality from another side and refutation of crisis by state from the third side (Figure 1).

What makes the situation different from other crises is that while collective state and public efforts manage and reduce crisis effects, states are repudiating existence of any crisis in sanction situation. It applies increasing pressure on tourism industry performers. Disclaim of crisis is faced the tourism sector with different challenges that tourism domain has not observe in other crisis. The first question that arises: What are the local challenges? Naturally the tourism actors' must react base on their capacity in uncertainty high risk context. Here the second question arises: What are local actors' reactions in wicked situation? The current research intends to

clarify the behavior of two local target groups including: tourists and shop owners behaviors in a Kish Island (South of Iran). It intends to highlight the behaviors of two target groups and its differentiations with normal economic downturns. The literature is reviewed in order to provide a discussion framework. Afterward the result and the main point are discussed to exemplify of target groups reactions due to sanction.

### *1.1 Tourism crises typology:*

Tourism crises cover wide range of aspects and dimensions due to nature of tourism industry. Therefore tourism crises complexity makes it too hard to present a comprehensive definition of tourism crises, thus there is no universal agreement on tourism crises definition (Ghaderi, Mat Som, & Henderson, 2012). Tourism crises could be defined as an unordinary occurrence in a tourism industry that interrupts normal structure and function of tourism related systems. The cause, origin and consequences of disorder are different. Different typologies of tourism crises carried out based on factors and dimensions. A Brief review of studies in this field could be summerised in subjects such as: the relation between tourism and a range of regional and global crises (Chan, 2011; Durlauf, 2004; Ghaderi et al., 2012; Hong, 2008; Okumus, Altinay, & Arasli, 2005; Özcan, Erbiyik, & Karaboğa, 2012), the relation between economic factors and tourism (C.-K. Lee & Kwon, 1995; Nagle, 1999; J. R. B. Ritchie, Amaya Molinar, & Frechtling, 2010; Smeral, 2010; Song & Lin, 2010), Strategies, and response to crises and behavior (B. W. Ritchie et al., 2004; Sugiyarto, Blake, & Sinclair, 2003), destination event (Gasperoni & Dall'Aglio, 1991; Ghaderi, et al., 2012) Models and methods in crises and tourism (Sugiyarto, Blake, & Sinclair, 2003; Akal, 2004; Cho, 2001; Goh & Law, 2002; Prideaux, Laws, & Faulkner, 2003), economic crises perception and management (Gamez, Ivanova, & Campiranon, 2012; C. Michael Hall, 2010).

Although some of authors presented other typologies. Henderson (2007) classified tourism crises based on domain of crises as economic, political, socio-cultural, environmental and technological (Henderson, 2007). Chiang-Hong (2008) divided general crises as expected events and unexpected event so that Economic Sanctions and Wars are samples of expected events while Terrorist Attack and Global Epidemic Disease are categorized under the category of unexpected events (Hong, 2008). Bronner and De Hoog (2012) classified crises based on tourist behavior in two categories: range or scope that reflects the geographical aspects of an event, and depth that reflects the effects an event on individual tourists. They provided a framework of strategies that tourists can or will use (Bronner and Hoog 2013).

### *1.3 Tourism, economic fluctuation and sanction*

The economic fluctuation and exchange rate is one of topics that affect tourism. Chen (2008) documented the dynamic causal relationship among tourism development, exchange rate, exports and economic growth using data from four Asian tourist destinations. According to Yu-Shan Wang (2009) studies on Taiwan, variables, such as foreign exchange rates, incomes, relative prices, and transportation costs, influenced the dynamics of demands for inbound tourism. Smrčka and others (2011) examined the relationship between exchange rate and tourist behavior in crises time (Luboš Smrčka, Markéta Arltová, & Schönfeld, 2011). Lee and Jang (2011) discussed the exchange rate changes impacts on tourism-related firms. Henderson (2012) paid attention on currency values and their fluctuation as an additional determinant of tourism industry.

Although discussions mainly focused on negative effects of exchange rate, some authors identified crises as origin of new opportunities. Kaar (2009) recognized that the crisis will lead to fundamental changes in tourism industry in mid and long term. However, any crisis embodies a great number of opportunities for destinations and tourism businesses (Kaar, 2009). Freitag and Pyka (2011) offered an overview of trends in the world of tourism. In this review they concluded “if this crisis has taught us anything, it has shown that crisis is the best time for innovation”(Freitag & Pyka, 2011). This point also was proved by Hall that “the current economic recession clearly provides many challenges and opportunities to destinations and businesses” (C. Michael Hall, 2010), p. 411).

When economic downturn accompany by international sanctions, market will experiencing paradoxical governmental reaction and worst scenario in three layers: political environment, fiscal issues, and management.

Normally governments try to refute the sanction (Dorussen & Mo, 2001); minimization of crises effects or show sanction is ineffective. Sanction will lead to change in foreign affairs. It will create barriers in import and export (Bolks & Al-Sowayel, 2000). Tourists' images will change from scanted country (Vafadari & Cooper, 2010). Simultaneously country will suffer limitation in inbound and outbound tourists (Lovelock & Lovelock, 2013; Strug & Lemkau, 2008). It has different impacts on local destinations such as: decreases number of foreign tourists, change in tourists' destinations (Ekiz, Hussain, & Ivanov, 2010), limits trade partner (Askari, 2003), increases of trade cost. All condition faced local market with new set of challenges.

Governments increase their intervention on economy and financial market. They try to control exchange rate and all financial and economical signs and indices to decrease the volatility (Madesha, Chidoko, & Zivanomoyo, 2013) and present sanction failure. Therefore real indices reflect the volatilities, normally a raised trend but stability is reflecting by formal indices (Figure 1). Duality is normal reactions of market, especially in exchange rate. Market experiences some limitation in exchange, money transformation and inflation (Celasun & Goswami, 2002).

The mentioned situation will increase financial risk and money interest despite it is not seen in formal indices. All volatility will be sensed by community in daily life (Hakimdavar, 2013). Unstable situation combined with inflation intensifies need to cash flow (Bartram, 2008) while it diminishes purchase power (E. D. Gibbons, Strategic, & Studies, 1999; Willis, 2013). It will be decreases demand and supply simultaneously increase common costs of private sectors. It will lead to market needs to loans, despite the increase of interest rate. Any action needs certain information. Informal channel of information will develop and prepare unique opportunities for small portion of market while others face with critical problems. It generates hard condition for competition and intensifies corruption. Competitors need to seek a solution which it depends on their experiences, capacity, relationships and etc. Normally most of small competitors lose.

Management intervention makes the situation worst. Governmental management (GM) will follow policies direction. It issues sign of calm condition. GM tries to hide any sign of volatility, and try to limit liberate flow of information. Knowledge management can play vital role in such situation (Bronner & Hoog, 2013; Paraskevas, Altinay, McLean, & Cooper, 2013). Thus lack of information, unpredictability of changes, and the uncertainty of future events make the circumstance deteriorate (S. K. Lee & Jang, 2011). All these actions not only do not people and citizen prepare for confront against crises but also they rise up the citizen sensitivity. GM encourages people to doubt about future. In other words GM actions only intensify uncertainty (M.L. O'Sullivan, 2003). People and market will be self-reliant instead of relying on GM. They try to manage their costs by different strategies (Bronner & de Hoog, 2012; E. D. Gibbons et al., 1999). Individual capacities are too important in the essence of selected strategies. All reactions will feedback into market normally by decrease of demand, decrease investment, change normal capitals by valuable currencies like US Dollars and Euro and etc to keep it out of risk.

While Good management is crises avoidance (Faulkner, 2001), on contrary all policies, financial and GM strategies created a special condition that will be called it as "Tough Unconventional Conditions". TUC could describe as paradoxical sphere, unclear, high risk and uncertainty space with unbalance economy that threat the integrity and coherence of the system (Faulkner, 2001) somehow puts the system in the "edge of chaos" (Fink, 1986). In terms of TUC conditions, tourists will adopt their behavior based on economic circumstance such as travels closer to home, a phenomenon recently called "staycation", decrease purchase power, shorter travel duration, settle in cheaper hotels and etc. it leads to economizing tourist behavior. Currency values and their fluctuation are an additional determinant of market. Shop-owners as second target group of our study; should react in TUC sphere, and cope with risk and uncertainty in unbalance economy based on their own capacities. In TUC situation: What are the reactions of tourists? How are adopting businesses by UTC?

## 2. Methodology

### 2.1. Area of Study:

Kish island is a touristic destination located in 53° 53' 54" E and 26° 29' 35" N, in the south of Iran and north of Persian Gulf (Figure. 2). It is a small island with about 91 square kilometers of surface area and 35 km of perimeter. It is a relatively flat coral island with a maximum height of 45 m above sea level (Pak & Majd, 2011). Kish population was estimated to be about 20,000 residents.

Fig. 2, Location of Kish Island in Persian Gulf (Kabiri, Pradhan et al. 2013)

In bound tourists to Kish Island were about 1294000 in 2011. This number reached to 1543000 in 2012 (Kish-Free-Zone-Organization, 2013). This island has a warm and humid weather in summer and a pleasant weather in winter. Kish Island provides a range of sport activities especially water sports, retailer, and other entertainments facilities. Some of famous attractions are the Greek Ship (a ground Ship), the ancient city of Harireh, the underground city of Kariz-e-Kish (17 meters underground with 3000 meters of tunnels), the Marjan Beach Park, an old and traditional village called Safen. All this conditions have been made the island as one of the most common touristic places in Iran.

Since Kish is a Free Zone, it doesn't need to obtain visa for foreign tourists. Thus, mainly foreign tourists are those people that need to renew their visa in Arab countries in south beach of Persian Gulf. Kish Island is a suitable destination for this group of people. Number of arrived foreign tourists was about 94301 people in 2011. This number increased to 99556 in 2012 (Kish-Free-Zone-Organization, 2013). Normally April is considered as a peak point of high season in Kish because it is the beginning of new year and national holidays in Iran.

### 2.2. Data collection and analysis method

An experiential survey has been done for the assessment of economic fluctuation effects on Kish Island tourism based on the aim and scope of this research. We chose two main target groups and one marginal group as witnesses to access necessary data. The two main groups were shop owners and tourists. First, an exploratory survey has been done to examine the primary change in behavior of tourists and shop owner and also to test

reliability of designed questionnaire. In next step, the size of samples determined by Cochran's sample size formula  $n = \frac{(z)^2 \cdot (p)(q)}{(d)^2}$  (Bartlett, Kotrlík, & Higgins, 2001), using a 95% confidence and 5% margin of error, which gives us sample size 384 for tourists target group and 103 for shop owners.

Two types of structured questionnaires were used. Responses are given based on a Likert scale ranging from strongly disagrees to strongly agree. Questionnaires reliability also was checked by calculating Cronbach's alpha. Cronbach's alpha rate for shop owners and tourists questionnaire, were 0.822 and 0.839, respectively. Then, field survey has been done during two months from February to March. Tourists were chosen base on spatial distributions on Island in order to avoid pre-selection bias. The climate is moderate in February and March thus it is high season and Kish island experience the maximum amount of inbound tourism.

The tourists' questionnaire was design to consider tourists behavior pattern. Questionnaire included fifteen items that measured the change in destination, travel behavior, cost management, goods quality and tendency to return. The shop-owner questionnaire consisted twenty two items in six aspects: changes the number of consumer, shopping pattern, reaction to volatility, financial commitment, financial reactions, and opinion about future of their business. We try to explore tourist and shop owner experiences as important player in local level that reflect impact of TUC and economic circumstances.

Factor analysis method here the principal components analysis (PCA), was used to analysis sense of volatility based on nature of the questionnaires. Principal component analysis is a technique to reduce their dimensionality in large multivariate datasets (Jolliffe, 2005). This methodological approach has been used in in tourism literature as standard procedure (Blancas, González, Lozano-Oyola, & Pérez, 2010; Cui & Ryan, 2011; Presenza, Del Chiappa, & Sheehan, 2013; Rid, Ezeuduji, & Pröbstl-Haider, 2014). To calculate the PCA, the estimation method was determined by varimax rotation. Cronbach's Alpha was calculated as reliability parameter to indicate the internal consistency of the items with each motivational dimension that was extracted by the factor analysis (Rid et al., 2014). After data analysis, semi-structured interviews were conducted with shop owner as one main grouped to triangulate the data. Interview was necessary to achieve a deep insight in subject. We try to identify consumer behavior, the shop-owner challenges, and strategies against challenges by interviews.

### 3. Result

Sanction is the main reason of exchange rate volatility in Iran more ever it was not a new event. Recent sanctions had a decisive impact on the economy of Iran. Brief review of Iran's sanction shows that, Iran has faced sanctions ever since the November 4th 1979. Iranian students takeover of the US embassy in Tehran (Esfandiary & Fitzpatrick, 2011). On July 3rd 2006, the UN Security Council adopted new wave of pressure to "suspend some activities" or face potential economic and diplomatic sanctions. Washington and the three European partners in the P5+1 (the five permanent members of the Security Council plus Germany) began another wave of sanctions by late 2009 (Kemenade, 2010).

The 2010 sanctions on Iran, particularly has been "magnified". Collectively, the additional sanctions imposed by the United States, EU, and other countries are significant after 2010 in three stages (Meghan L. O'Sullivan, 2010). The first round was announced in the Council Decision of July 26th 2010, which followed shortly after the passage of UN Security Council Resolution 1929 on June 9th, 2010 (Patterson, 2013). The next major round of autonomous EU sanctions was announced on January 23rd, 2012. This imposed an embargo on the import, purchase and transport of Iranian oil and related subjects. Third and, to date, final major round of EU economic sanctions followed on October 15th, 2012. This prohibited the import or transport of Iranian natural gas and the insurance and financing of such activities (Patterson, 2013).

Sanctions led to economic fluctuations. Consumer price index (CPI) and exchange rate are two sample variables among others that reflect economic changes (Bryan & Cecchetti, 1993; Narayan, 2008) and have important effects on tourism industry. Exchange rate widely used in tourism related academic research (Chadeeand & Mieczkowski, 1987; C.-L. Chang, Hsu, & McAleer, 2013; Y. Chang, 2002; Chen, 2008; Cheng, Kim, & Thompson, 2013; S. K. Lee & Jang, 2011; Narayan, 2008; J. R. B. Ritchie et al., 2010; Webber, 2001). Also, CPI was used to explain economic condition changes and tourism (J. D. Gibbons & Fish, 1985; Kleinsasser & Wagner, 2011; Morley, 1994). For example: The CPI index in Iran is about 16.9 in 2009; increased more than 14.5 percent and it reached to 31.4 percent in 2010. CPI fluctuation continued but its range was limited. It increases sharply after the most recent sanctions were imposed in June 2012. CPI reached about 38.7 percent at its' highest level (Figure 3).

Currency exchange rate is the second sample factor that has important effects on tourism (Belloumi, 2010; Chadeeand & Mieczkowski, 1987; Lim, 1997; Quadri & Zheng, 2010). In Iran exchange rate showed no significant difference between the state and free market before last round of embargo. But great difference has been created between them after intensified sanctions. Figure 4 indicates the real currency rate change per US \$. Currency rate was about 9170 for one US\$ in average in 2006. It experienced smooth growth from 2006 to 2008.



The growth rate is slightly increased in 2009 up to 2010. The sharp increase in the growth rate happened in 2011 and it continues at a same rate. Exchange rate was about 10616 units in 2011. After imposed new and magnified sanctions it reached to 12175 in 2012 (Figure 4).

Governments use strategies that commit them to their ideal policy position (Dorussen & Mo, 2001), therefore government responded to currency volatility. Government take special strategies according general sanction crisp policies such as: take control over exchange market to reduce economic volatility, Creation an exchange trade center, exchange sale restriction, Prohibition of free foreign exchange trading, Constraint on free exchange rates promulgation and so on. Currency rate determined by Central bank of Iran and it exchange is doing exclusively by banks under legal circumstances. The new policies shaped black market of currencies beside it.

GM followed same strategies and it had different impact on tourism industry (Farahani & Shabani, 2013). Some critical item such as housing price in CPI calculation was omitted in order to reduce CPI index. GM policies did not give any information about sanction and its' possible outcomes to the people. It tried to show that sanction had no important impact. Thus they did not prepare people, those who are at the forefront of the effects of embargo. Therefore they should react by their perception of volatility and their capacity. While GM decision-making processes against sanction leading to strategy implementation without people contribution and it figure a great challenges for markets and tourists. This point makes sanction different from other kind of crises. Government loses his rule as a leadership and coordinator to cope with crises.

Naturally currency rate and CPI changes should have some effects on inbound tourists in Kish Island. As Dewyer and others (2002) explained the price roles in inbound visitor numbers (Dwyer, Forsyth, & Rao, 2002), We expected that national inbound tourist decreased and international inbound tourists increased but reverse event has been occurred (Morakabati, 2011). Farahani and shabani (2013) proved that: Number of outbound tourists from Iran decreased while domestic tourism experienced a little growth. In local scale, total number of inbound tourists increased from 1,294,473 people in 2011 to 1,543,776 in 2012 in Kish Island. Compared numbers of Kish inbound tourist showed that not only the number of tourist did not decrease, but also it presented a little growth (Figure 5).

It expected that inbound foreign tourists increases by reduced value of Iranians currency against main world currencies. Currency value reduction prepares a new and good opportunity for foreign tourists. The number of inbound tourism into the country was about 2116000 people in 2009, it reached to 2938 000 people in 2010 and finally to 3354000 people in 2011 (UNWTO, 2013). In Kish Island foreign inbound tourist was about 94301 people in 2011. This number by a little increase reached to 99556 people in 2012 (Figure 6). It only covers about 2.1 % of inbounds increase. It means that mainly inbound increase is originated in the mainland. Total number of inbound tourist has a weak and negative relationship with CPI index. The volume of tourists had not changed due to economical fluctuation. Apparently this result is completely in contrast with the expectation.

Based on these facts, this question was developed that addresses the tourists and shop owners' perception from fluctuation and their reactions in tough situations. PCA was used for explaining tourists' perception of the economical fluctuation. Related variables were chosen to analysis considered dimensions. Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy (Ferguson & Cox, 1993; Milfont & Duckitt, 2004) with significance value is calculated in first step of questionnaire analysis. Also reliability of factors was calculated by Cronbach's alpha for any dimension. Principal components analysis (PCA) was executed on selected factors. In first run, obtained factors with eigenvalues greater than 1 was maintained and variables below 0.5 were detected. In second round PCA was run with varimax rotation.

Ten variables were chosen to analysis tourists' perception. Principal components analysis (PCA) was executed on selected factors. In first run, obtained six factors with eigenvalues greater than 1 and four variables below 0.5 were detected. Adequacy of factor analysis (KMO) was about 0.875 and significance value was 0.000 (less than 0.05). Also Cronbach's alpha assessed about 0.854. Total variance calculated by eigenvalues. At result only one component obtained that explained 60.14 % of total variance in six factors (Tables 1). The first extracted component represents the economic behavior of tourists by variables such as: Determination in Branded goods shopping, reduces shopping, shorten travel time, reduce the number of trips per year, stay in inexpensive hotels and domestic travel rather than travel abroad. All these factors indicated that purchasing power has been decreased. Thus, they try to manage their expenditures by different strategies.

Are tourist perception approved by shop owners? Nine variables were chosen to analysis shop owners' reaction. PCA was implemented on selected factors. In the first run, five factors obtained with eigenvalues greater than 1 and four variables detected below 0.5. Therefore these factors were deleted and PCA was run with varimax rotation. Kaiser-Meyer-Olkin (KMO) was about 0.742 and significance value was 0.000 (less than 0.05). Cronbach's alpha evaluated about 0.822 (Table 1). Total variance, explained 57.34 % of total variance in five factors as: customers declined compared to last year, reducing sales compared to last year, fewer customers compared to last year, less branded goods selling and reduce customer payments for shopping that could summarized as reduction purchasing power.

Another aspect is about shop owners' reaction against changes in Kish. PCA was implemented on 10 selected questions. In first run, eight factors obtained with eigenvalues greater than 1 and two variables were detected below 0.5. Therefore these factors were deleted and PCA was run with varimax rotation. Kaiser-Meyer-Olkin (KMO) was about 0.752 and significance value was 0.000 (less than 0.05). Reliability of factors was calculated about 0.864. Finally two main component is extracted total variance of first component explained 53.03 % of total variance in eight factors. Second factor explained only 16.41 % of total variance (Table 1). Main factor explain two aspects from shop owner view point: first, reduction of demand that led to decrease of their sell. It decline shop owner incomes and it led to some of their problems. The second factor has high relation with change in demand nature and purchase power reduction. These factors intensify shop owner problems.

The shop owner view point was analyzed about future. PCA was applied on 8 selected variables. In the first run, eight factors obtained with eigenvalues greater than 1 and four variables were identified below 0.5 and were deleted. PCA was run with varimax rotation. Kaiser-Meyer-Olkin (KMO) was about 0.730 and significance value was 0.000 (less than 0.05). Reliability of factors was calculated about 0.799. One component is extracted that explained 56.9 % of total variance. Main factor explain two important points: 1) shop owners are worry about their work future and they should take a decision in response to the current challenges. The second point is that: They show different responses to the challenges. In other word there is not homogeneity in reactions (Table 1).

Naturally questionnaire could not reflect all aspect of subject, therefore the interviews used to perceived challenges and risks that shop owners faced. Total 38 shop owners were interviewed. Highest frequency of respondents was in the tourism sector by 23% (Table 2).

Shop owner presented variety of points. All viewpoints were classified and summarized in three main categories: Fiscal Issues, Demand pattern, Competition.

*Fiscal Issues:* Shop owners complain about increase in daily costs. Inflation has had widespread effects on all economic factors such as: wage, Rents, Transports and etc. Subsidies elimination intensified Inflation and led to higher costs especially in energy. Subsidies elimination and inflation has increased costs drastically. Simultaneous sales and profits have been decreasing. Similarly shop owners have to adopt themselves by change in purchase pattern. Change need to financial ability and capacity. The use of bank loans is one way to meet the financial needs. But access to bank loans is not easy from one side, and repay loan installments are too difficult due to high interest rate from another side. The decline in income, future uncertainty makes the issue more complex. Each decision requires information. One of owners believed that "we're running in the darkness". Therefore, lack of transparency about future events increases risk of decision-making. GM policies not only does not help the problem, but also make it more complicated. Simultaneously, another problem emerges. Some shop owners import goods. They faced with new obstacles: first, money transfer is difficult and costly; second, foreign partners attempt to reduce their risks. Therefore they ask 70% of the purchase price as down a payment that shall be paid by cash, while it was 30 % before international sanction. Third, they should change foreign partner and look for new partners in world market due to limitation that is imposed by to sanction. Goods smuggling as an option will be considered with all risks. Forth, shop owner faced with good replacement dilemma. Goods prices increased daily therefore prices were cheaper yesterday than today. Shop owners should buy new goods instead of sold ones. It means that, they must buy goods more expensive than what they sold. Naturally it creates an imbalance conditions that shop owner should cope with.

*Demand Pattern:* Demand pattern change makes the situation worst. Purchase power has declined. It reflects by tourists purchase behavior. First, they try to manage their expenditures. Therefore they tend to buy less and inexpensive goods and reduce demand for luxury services and merchandises. It mean less sale and less benefits. Second, this pattern is not a stable and does not follow a steady trend. Market experiences different behavior by the time that increases uncertainty. Any economic change has influences on consumers' behavior that make unpredictable declining purchase power. This situation explained by one of shop owners that: "we are alive by chance." Key factors for success are forecast change, access to information and appropriate reaction at right time, in TUC conditions. Another shop owner pointed that "faster is winner". He means: faster access to information, fast adoption with change and fast reaction. Appropriate reaction requires management capacity, financial ability and information. Information related to decision making in different level of country. But access to the certain information is another dilemma that GM policies dualities make it worst. Informal channel of information find great importance. Access to this channel means great opportunity for success. While shop owner mainly believed that "they play their rule in information isolated Island" or a shop owner said: "I've learned to gamble based on the signs". Shop owner should adopt themselves constantly by situation. Rigidity and inflexibility is equal to bankruptcy. Third item referred to attempt for survival. In This case variety of reaction pointed by shop owner such as implantation some encourages brand fraud.

*Competition:* competition is another problem in TUC situation. All shops try to attract customers in order to increase their sale. They choose two different strategies to attract more customers: First: Shopping

festivals and a kind of shopping lottery to encourage customers to do more shopping. All shop owners participate in shopping festival. They attempt to give discounts on the goods sales. Their motto is: less profit but more sales. In second strategies, Customers can participate in the lottery by purchase a certain amount of goods. Usually lottery prize is a car. What mentioned are reveal activities. But purchasing goods in cheapest possible price is another strategy that market follows it. The difference between purchase price and selling price determines profit. This is a critical point. Therefore Market should create a greater distance between the threshold purchasing and sale. They should decrease purchasing power due to change in demand pattern. Thus they search for new market that offers cheaper products. Another strategy is reduction of purchasing prices that may be supported by goods smuggle, the brand fraud and offering products with lower quality.

High-volume purchasing is another strategy. Continuous increases in prices make this strategy reasonable. Shop owners store huge amount of goods and sale it gradually. They could guaranty their benefits due to greater distance between the threshold purchasing and sale. But it needs first of all financial capacity, information about prices changes and stockroom. The new cycle of events occurs to achieve these capabilities that addressing them are beyond the scope of this article.

#### 4. Discussion

The relation between sanction and tourism has created a system in Iran. Currency rate changed rapidly in 2012 due to new wave of sanctions especially by European countries and United State of America. Currency related to collapse value of national money (Cevik & Teksoz, 2013). Due to this change, inflation rate increased suddenly in an unexpected way. Naturally the CPI increased as a result of chain effects of inflation. When, the people incomes are stable and inflation rate is increasing, reduction of purchasing power is an expected event (T. Chang, Lu, Tang, & Liu, 2009; Jonsson, 1999; Mahdavi & Zhou, 1994).

Economic fluctuation had different impacts on our target groups: tourists and shop owner. Exchange rate prepares an opportunity to attract international tourists but simultaneously decreases outbound tourist from Iran. From another side economic volatility led to national tourist reactions in two domains: destinations and cost management. Economic instability imposed some impact on shop owner as second target group. Impacts mainly reflected by demand pattern change and fiscal challenges. Shop owners chose different strategies in order to cope with challenges. Any strategy need to minimum information and financial capacity. Shop owners reaction and strategies had its own results.

Devaluation of the national currency produces an opportunity to attract international tourists. But there are at least two problems: first Image of destination for tourists due to sanction, second, problem in visa issuance the visa by destination country. Kish as trade free zone does not need visa for entrance but as a result of western propaganda against Iran, it was not considered by the international tourists despite different tourist attractions. Therefore inbounds tourist experienced only little growth.

Economic inflation led to change in destination alternatives for national tourists. As Morakabati (2011) and Farahani and Shabani (2013) proved: outbound tourists from Iran declined but while domestic tourism has experienced a little growth in national and also local level. This trend repeated in local level. Foreign inbound tourists only increase about 2.1 % and national inbound tourist presented a little growth.

As some researcher indicated that the tourist's economic behavior will change due to economic volatility (Luboš Smrčka et al., 2011; Smeral, 2009, 2010). People reduced unnecessary costs such as travel costs to compensate the expenditures deficits. Different reactions have occurred by local tourists (Bronner & de Hoog, 2012; Papatheodorou, Rosselló, & Xiao, 2010). Tourists forced to pay more for travel costs. They narrowed down their options that have before. Their reaction can be expressed based on PCA extracted component by variables such as: determination in branded goods procurement, reduces shopping, shorten travel time, reduce the number of trips per year, stay in inexpensive hotels and domestic travel rather than travel abroad. The indices indicated that tourist purchasing power has been decreased and they try to reduce their expenditures by cost management. Purchasing power reduction was proved by some scholars (Li, Blake, & Cooper, 2010; Luboš Smrčka et al., 2011; Reyneke, Sorokacova, & Pitt, 2012; Smeral, 2010).

Market received different signs of economic fluctuation and will react to the signs (S. K. Lee & Jang, 2011). But sanction makes the situation different from usual economic fluctuation. Kish market has been influenced by four different factors. First: International factors, second: National factors, three: GM policies and forth: tourists' economic behavior. International factors due to sanction includes: Problem in money transfer and increase cost and risk of informal money transaction, determination of foreign partners, trade restrictions, change in deals conditions. In national level Kish market faced with: economic instability, duality in exchange rate, unpredictable events, uncertainty about tourist behavior, inflation, and increase costs. GM policies intensified challenges by: Emphasis on economic stability and reject any sign of volatility, concealed change signs, failure to provide necessary information, and etc. Finally tourists' economic behavior enforces new pressure on Kish market. Tourists' economic behavior has a tendency toward cheap goods demand and less demand. Market faced with increasing costs, need more cash capital, difficulty to get access to financial resources, increase interest rate,

More capital for replacement of sold goods, legal barriers for import goods, simultaneously altered the rate of investment return, decline profits and hard competition. Uncertainty, lack of information and high risk makes the situation worsen while GM has had any positive rule in market.

The market reaction is varied due to the conditions and by the solutions. There is not any homogeneity in reaction. Government as overall coordinator is not doing its role. Therefore main strategy is to create a difference between the buying and the selling price. But it comes true in deferent forms: From try to buy cheap goods due to their economic power and replace it with previous goods with high quality, sometime unethical methods are also used such as the sale of counterfeit goods, sell goods without quality instead of original ones, up to use illegal action such as smuggling. Shop owners try to attract more customers by different tricks in this atmosphere, such as destruction of rivals, false and real auctions, shopping festivals, sell cheap goods. But at the end they lost some share of their customers and consequently their profits. The business environment changed into more competitive. Naturally empowered groups were able to cope with challenges. But some of the weak groups bankrupted and some of them continued to cope with problems too costly.

Shop owners tolerate high risk. Risks associated with lack of information and fiscal instability increase uncertainty drastically. Efforts for risk reduction shape another strategy: Access to information. Normally lack of transparency is a feature of this condition. Thus, access to information is fundamental of survival and economic decisions. Therefore Informal channel of information is form in shadow of formal organization that is not available for all. This situation will aggravate the imbalance in market.

Only foreign tourists could be as a great alternative solution in this condition. Field survey showed that number of foreign tourists increased during recent two years. Despite preparing good opportunity for foreign tourists by reduction of Rials values against foreign currency, but only the number of foreign tourists increased about 5000 people during one year. Field survey showed those foreign tourists are mainly Filipino workers that employed in Arabian countries such as Emirate United States needing to renew their work visa by exiting and reentering. Therefore, they could not offer an especial opportunity for Kish Island market.

It reflects the vulnerability of the tourism industry to events in the external environment (Ghaderi et al., 2012). The crucial issue is government paradoxical intervention did not effect as: reduction boycott impacts, offering enough information, formal analyses of market and its changes, capacity buildings for further crisis, but also it act as vice versa. While GM polices should manage condition in order to crises avoidance, It tries to expression sanctions is ineffective. Therefore it makes the situation worsen. Market must to confront with the situation alone and base on their capacity. But it enforces heavy costs and does not always succeed.

## 5. Conclusion

Sanctions had different effects on tourism industry in Iran and especially on Kish Island tourism. This crisis had no similar results of other economic crisis through the world on tourists' reactions. Although there is only one predictor variable as sanction is logged in the system, but it put system at "edge of chaos". Paradoxical sphere, none transparency, high risk and uncertainty space with unbalance economy are characters of imbalance system. Top down anti-boycott strategy implementation has led to elimination of people participation and it figures great challenges for markets and tourists.

While outbound tourists decreased, according to Smeral (2009) Potential guests tend to prefer destinations that are closer to their home, but the number of national tourist is increased. The findings of the present study revealed that tourists' purchasing power was reduced. Therefore, the demand had tended towards cheaper goods, and the purchasing amount was declined. Tourists managed their expenditure and reduced it as much as possible.

Our results proved that the tourism market is completely sensitive to fluctuation. Shop owners faced with different and complex challenges. The sale plummeted, commodity prices and current costs increased, purchasing mechanism changed and financial turnover dropped. These conditions disturbed balance of trade while external factors make the situation worst. A part of shop owner continued their jobs, in unstable conditions, with some optimistic view, relying on their financial resources. Some of them left their jobs (about 40 percent based on our questionnaire) and another part of weak trader fight hard against problems in tough time. However, they experienced tough situation and they did not have enough experiences. Normally, they are small units with traditional management. Thus, they try to create difference between buy and sale of goods price for compensate the deficits, contrary to Smeral (2009) ideas that believed major discounts should be avoided because this makes it even more difficult to restore the original price level once the recovery has set in, shop owner try to sell more despite less benefit to create financial flow.

The results also indicate that a solution for the problem relies on tourists and shop owners capacity and their effective managements of the events. Market is more vulnerable than normal crises due to lack of enough information about risks and fluctuations and contradiction role of government. Again tourism considered vulnerable to economic uncertainty.



We were not able to investigate the result of different groups' reactions. It is required more in deep and detailed research studies to clarify result of any layer of target group in tough economic times, their innovations and methods to cope with problems.

## 6. References

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Table1. Factor analysis: dimensions, items and statistics.

Dimension	Extracted Items	Factor loading	Cronbach Alpha	KMO	Variance explained (%)
Tourists' reaction	Limiting the number of trips per year	0.858	0.854	0.875	60.14 %
	Reduce travel costs	0.827			
	Purchase limitation	0.822			
	Limit travel shorten travel time	0.788			
	Determination in Branded goods shopping	0.736			
	Domestic travel rather than travel abroad	0.591			
shop owners' perception	Reduce payments for shopping	0.711	0.822	0.742	57.338
	Reducing Purchases, compared to last year	0.554			
	Reduction in buying branded goods	0.500			
	Customer declined compared to last year	0.529			
reaction of shop owners	Difficulty in pay financial obligations	0.824	0.864	0.752	53.030
	problem in pay financial commitments	0.879			
	Offer cheaper goods based on customers demand	0.778			
	Effort to increase retail sales	0.739			
	Stop of activity by number colleagues	0.750			
	Appropriate response to increasing orders for cheaper goods (wholesale)	0.675			
	Monitoring and Response to demands pattern	0.609			
	Adopt activity by reducing the purchasing power	0.501			
shop owners' opinion about future	More problem for paying commitments in future	0.914	0.799	0.730	56.943
	I will reduce my personnel	0.832			
	A number of colleagues will change their jobs	0.725			
	I will need more time to repay financial obligations	0.742			
	I will close the store in near future	0.494			

n fort= 378, n for shop owners= 103. Overall Cronbach Alpha for Tourists= 0.822, Overall Cronbach Alpha shop owners =0.839. All items included to the factorial analysis were measured along a 5-point Likert-type scale: the scale was: 1, I strongly disagree; 2, I'm disagree; 3, I have no opinion; 4, I 'm agree; 5, I 'm strongly agree

Table 2, Frequency of interviewer based on their job nature

Job category	Frequency	Percent
Clothes	6	15.5
Shoes	6	14.6
Cosmetic	6	15.5
Chocolate	7	19.4
Household Appliances	4	11.7
Tourism services	9	23.3
Total	38	100

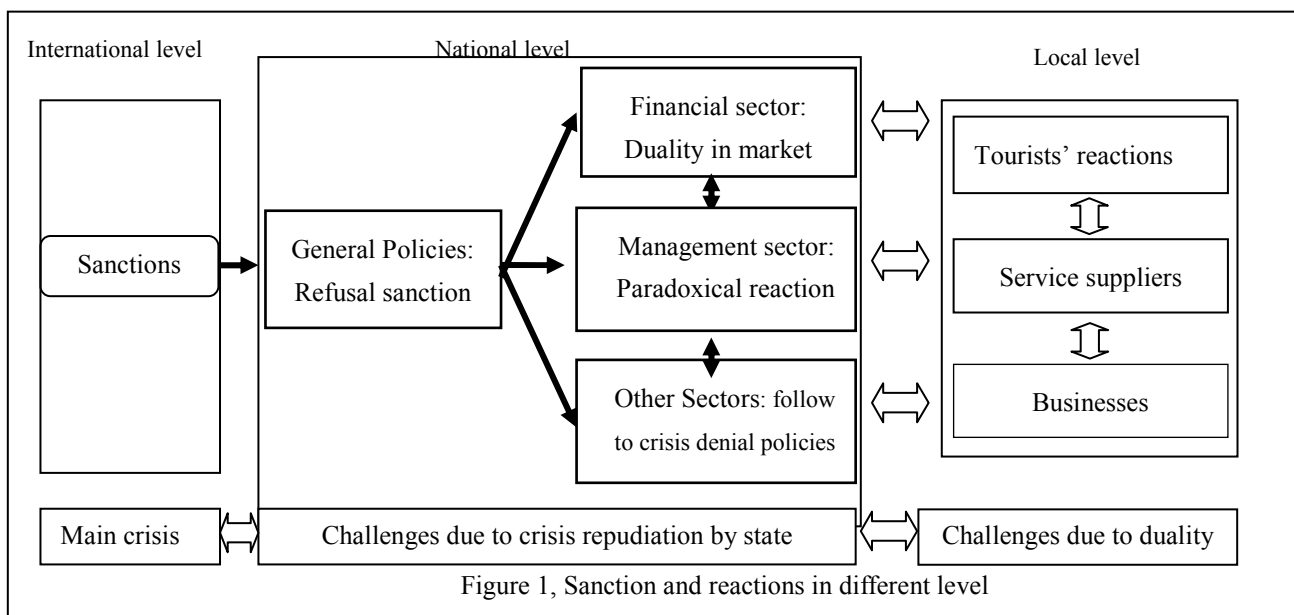


Figure 1, Sanction and reactions in different level

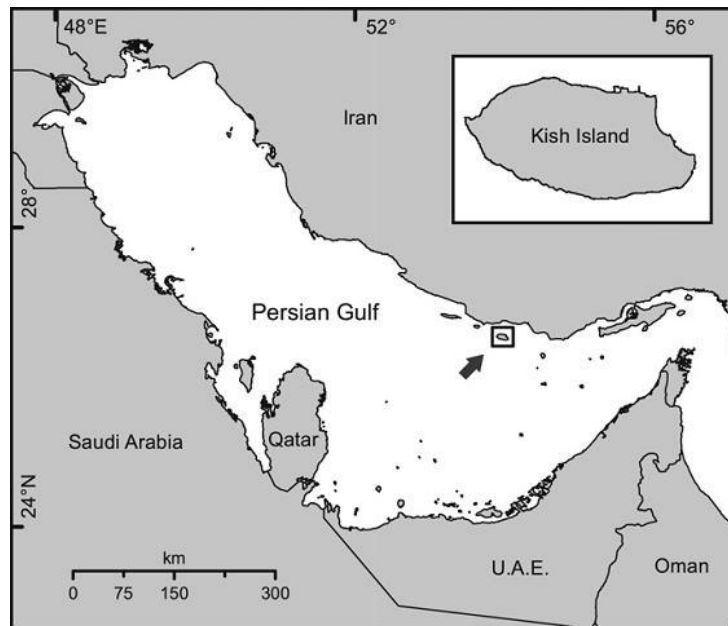


Fig. 2, Location of Kish Island in Persian Gulf (Kabiri, Pradhan et al. 2013)

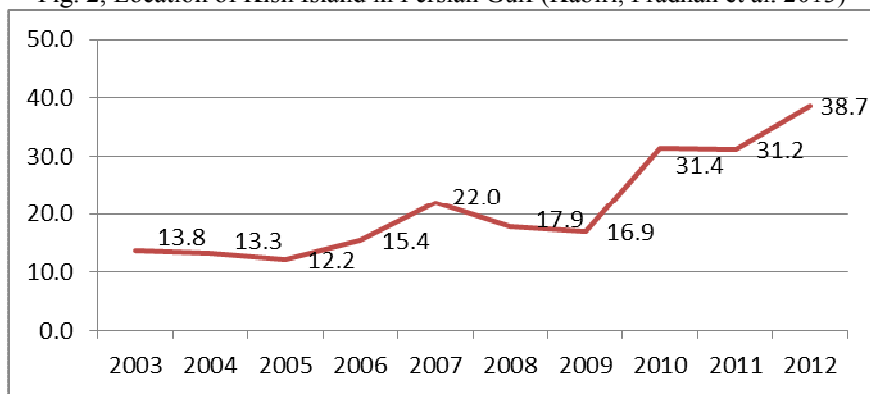


Fig. 3, Annual CPI trend in Iran from 2003 to 2012(Percent)(SCI, 2013)

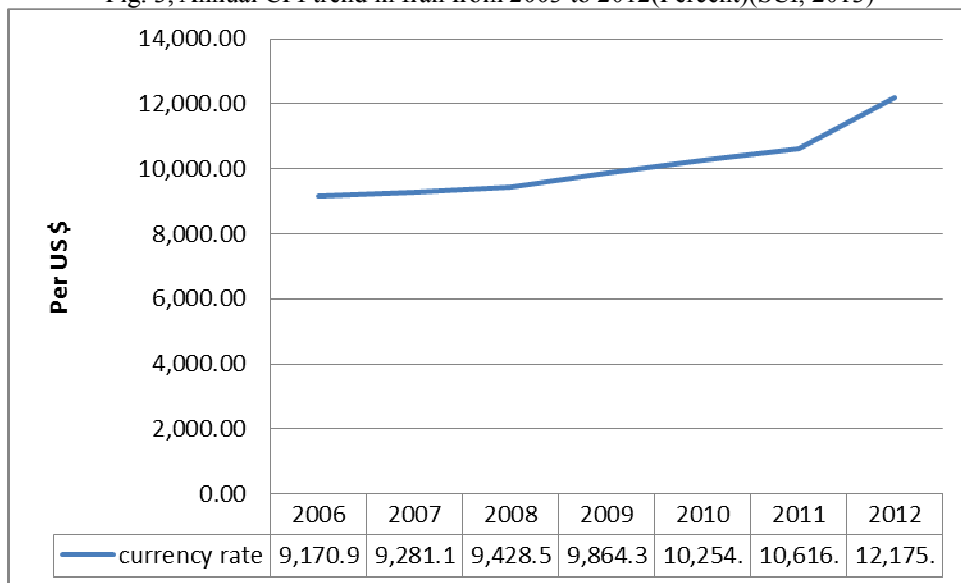


Fig. 4, Official exchange rate of Iranian Rials per US \$ (period average) (World-Bank, 2013)

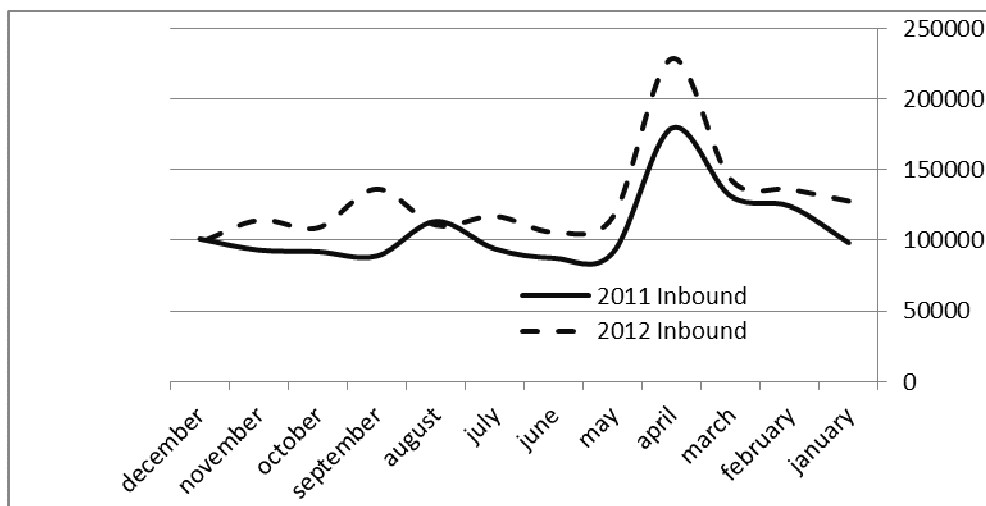


Fig. 5, Comparison inbound tourists in Kish Island (Kish-Free-Zone-Organization, 2013)

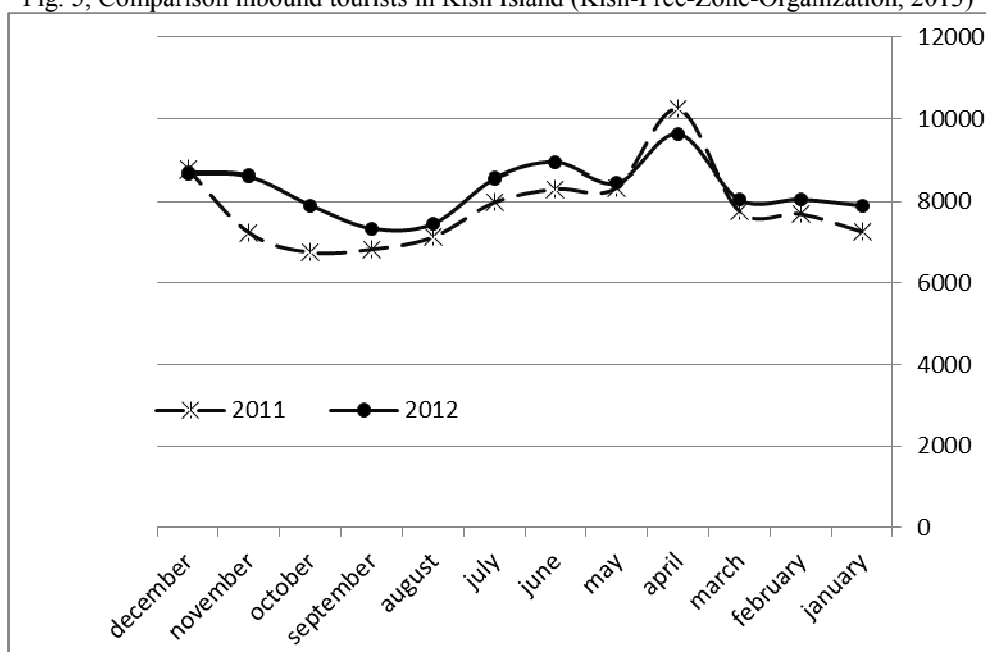


Fig. 6, Number of foreign inbound tourists in 2011 and 2012 (Kish-Free-Zone-Organization, 2013)