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Tourism as a multiplier effect in economy: the case of Albania

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Abstract:: *Tourism is an important economic activity in most countries worldwide. This sector has significant direct and indirect impact in the economy. The determination of the multiplier effect of tourism is very important part of economy. The multiplier effect measures the expenditures done on other part of economy, rather than tourism. Tourism not only creates job but also encourages growth on other sectors of industry.*

Keywords: *tourism, multiplier effect, Input-Output model.*

I. Introduction

Tourism development is seen today as a result of many economic changes such as revenue growth, use of pauses. Tourism has certainly taken a jerk and growing both as a cause of perfection of transport, development of education and culture. Many foreign authors have provided some definitions of the term "tourism" The first definition is that of Littre in 1889, which states: " Tourists are travelers who visit foreign countries for curiosity, fun making a trip to places previously visited by their compatriots'

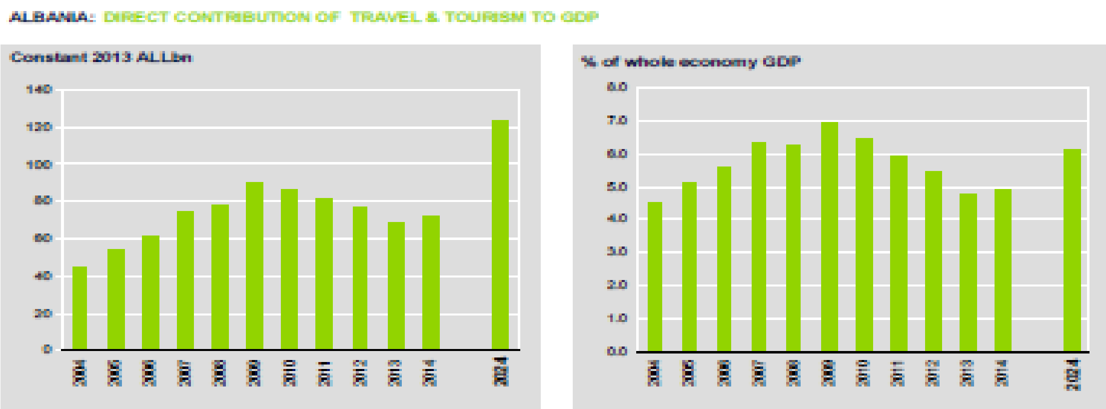
(Mathieson, A. & Wall, 1982) defined tourism as "the temporary movement of people to destinations outside their normal places of work and residence, the activities undertaken during their stay in those destinations, and the facilities created to cater to their needs."

According to (McIntosh, R.W. & Goeldner, 1986) tourism is "the sum of the phenomena and relationships arising from the interaction of tourists, business suppliers, host governments and host communities in the process of attracting and hosting these tourists and other visitors."
Defining the tourist industry is difficult. Tourism means different things to different people, because it is an abstraction of a wide range of consumption activities which demands products and services from a wide range of industries in the economy. For example, (OECD, 1991) observes that "tourism is a concept that can be interpreted differently depending on the context. 'Tourism' may cover the tourists, or what the tourists do, or the agents which cater to them, and so on." Similarly, World Trade Organization (Council, 1995) defines tourism as "the activities of persons traveling to and staying in places outside their usual environment for no more than one consecutive year for leisure, business and other purposes", while at the same time World Trade Organization (Organization, 1996) states that "tourism is thus a rather general term, which can refer to the consumption of tourists, to the production units supplying goods and services particularly to tourists, or even to a set of legal units or of geographical areas related in a way or other to tourists." To summarize in more concise terms, tourism can be defined as a set of socioeconomic activities carried out either by or for tourists. Those carried out by tourists correspond to what tourists do, while those carried out for tourists correspond to what other socioeconomic institutions do to support the needs of tourists. What is worth emphasizing is that tourism so defined is neither a pure demand-side phenomenon nor a pure supply side one (UNWTO World Tourism Organization, 1994). The tourism industry, in common with many other industries, is made up of a number of sectors. The tourism industry sectors and elements provide: Accommodation, Attraction, Tour Operators, Carriers, Promotion and Distribution, Co-ordination Agencies, Retail Service Support.
According to the estimates from the World Travel and Tourism Council (WTTC, 2004), tourism generates around 214.7 million jobs worldwide (or 8.1% of world employment) and accounts for over 10% of global gross domestic product (GDP). The recent expansion and proliferation of tourism has spurred debates at all levels of government around the world. There may be debates about the precise scale of tourism's impact on the world economy, but few would argue against its major contribution.

II. Tourism in Albania

In Albania, toursm plays a important role in the economy. The tourism was developed as a result of higher economic level achieved in industrialized countries. From 1950 to 1966 the number of international tourists in the world came from 25 million to 130 million. A period of massive hindrance to tourism became and inflation, energy crisis, foreign exchanges. Later there again growing international tourist from 130 million in

1966, reached 200 million in 1972 and 213 million in 1975. While in 1985 there were 333 million versus 315 million that was in 1984. Tourism today is a factor important to the economic development of a country. For this reason today is being paid enormous attention. At the end of World War II, in Albania there were only 16 hotels, in this period can really talk about tourism development. Albania has always been a place of visits of tourists from different countries in this regard have taken place as Durres beach area, Pogradec, Korca climate countries and Saranda, spas Peshkopi, Kruje other cities. According to (WTTC, 2014) the direct contribution of Travel & Tourism to GDP in 2013 was ALL68.1bn (4.8% of GDP). This is forecast to rise by 5.5% to ALL71.9bn in 2014.This primarily reflects the economic activity generated by industries such as hotels, travel agents, airlines and other passenger transportation services (excluding commuter services). But it also includes, for example, the activities of the restaurant and leisure industries directly supported by tourists. The direct contribution of Travel & Tourism to GDP is expected to grow by 5.6% pa to ALL123.6bn (6.1% of GDP) by 2024.



Source: Instat

The impacts brought about by the ups and downs of the leading industry are hence worthwhile for in-depth studies.
Tourism not only creates jobs on the tourism area but also on other industries. This is known as multiplier effect that to say in other words shows how many time the money spend from a tourist circulates through the economy of the country. For example, money spend by a tourist on a hotel is not used only for the bed but also it goes for the industry of clothing detergent, electricity ect. Also tourist spends money to buy souvenirs increasing in this way the secondary employment. The multiplier effect continues till the money “goes” out of the country for the purpose of import or other foreign services.
The term multiplier effect has been used for the first time on 19th century (“hospitality travel,” n.d.) but was developed during the 20th century. The first researcher that used the term formally was (Keynes, 1930). Accourding to him the multiplier effect is a demand-side economic theory that assumes that, for every dollar that is spent by any government, the economy will actually be stimulated by 1.5 times that amount as that dollar of spending ripples through the system. Simply said, a dollar spent returns $1.50 in economic activity.
Multiplier effects are often mention to capture secondary effects of tourism spending and show what the community can benefit from tourism (Wagner, 1997).

III. The measurement of multiplier effect of Tourism

(Hughes, 1994) and (D. C. Frechtling & Horvath, 1999) introduced the multiplier effect as a measure of the impact of extra expenditure introduced into an economy. All this expenditures (transactions) have their impact on GDP. To illustrate this we use the equation:

Y = C + I + G + (E-H) where:
Y – Gross national product
C – Cost on consumers good
I – Investment expenditure for goods
G – Government expenditure
E – Export
H – Imports
When tourism import is greater than tourism export the impact on GDP is positive and when is lower than the impact is negative (Vanhove, 2010), where imports are travel expenses incurred by foreign tourists in our country.

The multiplier effect is measured in two forms: the multiplier effect from tourism and the expenditure effect in term of tourism, taking in consideration the creation of new income in the national economy and the multiplier effect from the foreing investment. For example, the money spent by tourist on a hotel will be categorized as new investment (equipment, facilities, utilities) ect.
According to (Archer, 1973) the analyses of impact of economic approach is used to measure the amount of income, government revenue, employment, and import generated in an economy from the effect of the expenditure of the visitors. We have direct effect and indirect effect.
Direct effects are the changes in the industries associated directly with visitor spending and Indirect effects are sales, income, or jobs resulting from secondary rounds of purchases the hotel makes to other linked industries in the region.
Tourism has great potential and plays an important role in meeting the main macroeconomic objectives related to economic growth, employment, sustainable economic and social development. The tourism industry is an important sector that affects economic growth worldwide. According to Institute of Statistics of Albania ("www.instat.gov.al," n.d.) international revenues from tourism in the world for 2012 rose to US $ 1,030 billion as a result of the movement of 1035 million tourists. Direct contribution of tourism to Albania in the GDP for 2012 was 83.2 billion or 6.1% of total GDP, while the total contribution was 292.9 billion leks or 21.4% of PBB2. Tourism investment reached 19.7 bn lek, representing 4.5% of total investment in Albania. For 2023 these indicators are provided for Albania: Direct contribution of tourism to GDP will be 153.7 bn Lek (2012 prices)
The total contribution of tourism to GDP will be 526.1 bn or 21.4% money GDP. Direct contribution to employment will be 72,000 jobs or 6.6% of total employment. In 2009, 2010 and 2011 tourist arrivals rose by 31%, 30% and 14%, while the contribution of tourism to GDP was (+14. 7%), (-4. 4%) and (-4. 8 %). This shows the decline in the efficiency of the tourism industry, owing not only the global crisis, but also the flow of currency out of the suppliers of tourism revenue composition of groups of tourists and low quality of services provided. The sector of tourism in Albania, is considered as one of the sectors with high growth level, especially during the second quarter and third. Tourism has a great potential in contributing to achievement of major objectives such as economic achievement, employment, sustainable economic development and social. Direct contribution of tourism industry in world GDP for 2011 was 2 trillion US $ or 2.8% of GDP, while in European GDP was 2.8%.
We are going to use an economic model to estimate the economic impact on holding some event marketing as museum, sport event, festivals, food competition and other actions that can influence in economy.
In the end, we can help the policymakers to evaluate current projects and to help on tourism development.

Governments have to make important decision regarding tourism development. The main problem is to measure the impact of visitor spending. (Douglas C. Frechtling, 1994) said that tourism is essentially an activity that is defined by consumers at the point of consumption. In fact, a very large proportion of visitor expenditure goes into identifiable tourism characteristic sectors such as transport, hotels, recreation, etc. Yet, visitors will also spend money in other sectors – clothing, gifts and food – which are not normally associated with tourism. In this context, any attempt to examine the economic contribution of tourism, which looks at the United Nations' System of National Accounts (SNA) only and considers only what might be classified as tourism-related sectors is likely to under-estimate the visitor expenditure and hence its economic impacts.
Since tourism contributes on different part of the economy, is difficult to measure the its impact in economy. In early stage, the impact of tourism in economy according to (Archer, 1982) relays on simple Keynesian multiplier:

$$Multiplier = \frac{1}{1 - c + m}$$

Where c is the marginal propensity to consume and m is the marginal propensity to import. Essentially, the basic model shows that the multiplier is calculated by dividing a unit of visitor expenditure by the proportion of it "leaking" out of the economic system due to savings and spending on imports.
Keynesian multipliers are relatively straightforward to calculate and provide a quick and simple way of assessing the overall magnitude of a change in visitor expenditure. However, such multipliers only give a limited and partial perspective on the impact of tourism, since they focus on simple aggregates and are unable to address the nature of linkages between sectors (Cooper, C., J. Fletcher, S. Wanhill, D. Gilbert, 1998). Because of this, (Akundi, 2003) introduced the equilibrium techniques such as Input-Output analysis. This method analyses the effects of tourism by charting the movement of initial visitor expenditure through different sectors of an economy. A simplified Input-output model is:

$$X - AX = Y$$

where X and Y are the respective vectors of output and final demand and A is the matrix of technical coefficient. By restoring an identity matrix I to the equation, it can be written as:

(I - A) * X = Y or
X = (I - A)-1 Y
where (I - A)-1 is the "Leontief Inverse Matrix" or called "Inter-industry Interdependence Coefficient Matrix"
The use of this model for estimation of the economic impacts of tourism has become increasingly popular because of its ability to provide accurate and detailed information. (Loomis, 1997) conclude that the major strength of the Input-output analysis is that it provides detailed information on direct, indirect and induced effects of visitor spending on all economic measures for different industries in the local economy. In addition, (Cooper, C., Fletcher, J., Gilbert, D., & Wanhill, 1993) said that Input – Output technique is important because it measures the second and further round economic effects of tourism.

Furthermore, the Input -Output model is essentially linear and static. It does not allow for factor substitution between sectors, and prices are taken as given (Zhou, Yanagida, Chakravorty, & Leung, 1997). In reality, a change in visitor expenditure would result in changes in both quantity supply and prices.

Computable General Equilibrium (CGE) models have their historical origins in the Input-Output methodology, but have been developed to overcome many shortcomings of Input-Output models. They treat an economy as a whole, allowing for feedback effects of one sector on another. CGE models can make explicit assumptions about government policy settings, and can incorporate more realistic set of an economy. In particular, CGE modeling can allow for detailed inter-industry analysis together with an active price mechanism.

Broadly speaking, the construction of a CGE model is a process of setting up a series of markets (for goods, services and factors of production), production sectors and household demand groups (Kehoe & Kehoe, 1994). Each market, sector or household has its own set of economic rules that determine how it reacts to external changes. By setting up the economic conditions whereby each market, sector or household reacts to changes in the economy, a CGE model can then represent a variety of possible scenarios. With this context, this gives CGE models a significant advantage in flexibility over other forms of modelling.

(Zhou et al., 1997) analysed the economic impact of a decline of tourism demand in Hawaii, and in doing so they draw comparisons as to the effectiveness of the Input-Output and CGE analyses. They simulate a 10% decline in visitor expenditures in Hawaii's CGE and I-O models and compare the two results. It is found that a decline in visitor expenditures reduces outputs in typical tourism sectors such as hotels, transportation, restaurants and bars, with smaller reduction in outputs for other sectors. The equilibrium of input- Output does not alow prices to fall.

On the other side, (Blake, Sinclair, & Sugiyarto, 2003) use a CGE model to analyse the impact of foot-and mouth disease in the UK on tourism and on the rest of the economy. Among their key findings is that the tourism revenue in 2001 fell by almost GBP7.5 billion and that around 21% of this amount was attributable to a fall in domestic tourism, with Scotland and London being the regions most affected. Overall, one of the important contributions of this study is to demonstrate that the impact of foot-and-mouth disease on tourism was far greater and more economically significant than its impact on agriculture.

According to (Paci, 1998), Canada was the first country to release the results of its TSA in October 1994. Since then, a number of countries in Europe (including France, Poland and the UK), America (including Mexico, the Dominican Republic, Chile and Colombia), Asia (i.e. Singapore, Indonesia and India) and Australia have undertaken assessment programmers for the development of TSA. However, differences often appear in objective and methodology among statistics compilers.

Overall, it is worthwhile to note that the TSA typically concentrates on measuring the direct and indirect impacts of visitor expenditures, and tends to ignore the issue of the induced effects as discussed earlier. However, it provides basic and important contents that can serve as a starting point for analyzing the economic impact of tourism.

IV. Conclusions

Tourism is a part of the economic system and plays an important role in the economy by the multiplier effect (by encouraging other economic activities). The study of the economic impact of the tourism has been taken attention of a lot of researchers and policy makers. It is difficult to measure the economic impact of the tourism because the tourism is not a distinct sector. Traditionally the economic impact of tourism is estimated by the use of Input-Output models and recently have been applied the model of Computable General Equilibrium. The models of input-output rely on assumptions as fixed prices and fixed coefficients of production while the CGE models provide more general approach. In particular, when taking account of the interrelationships between different sectors within an economy, CGE models allow prices to vary and resources to be reallocated between production sectors.

While major economic impact models are discussed in this paper, none of them is able to explain all the changes in the tourism industry. When we applied the tourism economic models, we found it difficult to choose a suitable model. Choosing the appropriate model it is based on a good judgment and it can serve as a starting point for future research that can be done to measure the economic impact of tourism in Albania.

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