

# Tourism Multiplier Effect for the National Economy of the Country

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*Motto:*  
*Tourism must become a money harvest of the Republic of Moldova*  
*(Formulated by author)*

## Abstract

*As tourism development is on the rise and the complex functions of the tourism industry are better known, the tourism market is becoming increasingly important for national economies of the countries, while its sphere is continually expanding in relation to world economies.*

*Under these circumstances, tourism is characterized by a wide range of activities and tasks such as: contributing to increasing economic and social efficiency, contributing to the formation of the Gross Domestic Product, ensuring the equilibrium of balance of payments, creating jobs, attracting foreign currency by exporting services, creating the optimum conditions for rest and recreation of domestic and foreign tourists.*

*This article addresses a rather complex theme, chosen from the desire to analyze and interpret the current dimensions of the tourism industry of the Republic of Moldova as a branch of interference, motivating the necessity of its estimation, as a multiplier for the national economy of the country.*

**Key words:** sustainable tourism, tourism industry, tourism services, tourism multiplier, economic effect, tourism satellite account.

**J.E.L. classification:** M 1

## 1. Introduction

The wide appreciation of the economic effects produced by the tourism industry involves a variety of research, dynamic and differentiated research, correlated with a number of factors and aiming to establish the possible consequences in the general context of economic and social efficiency of tourism.

In addition to the direct effects that it generates in economic and social terms and which have already been analyzed and quantified, tourism also has a number of favorable influences (indirect and stimulated effects) on other sectors of the economy. Indirect effects refer to the results of successive business transactions caused by direct travel expenses. To be more explicit, this implies that economic agents in tourism are buying goods and services from local suppliers, and these, in turn, from raw material producers, materials, etc. The stimulated effects are expressed by the influences of the increase in consumer spending on goods and services, the increase due to the augmentation of the individual incomes, caused by the intensification of the tourist traffic. In other words, it is an amplification of activity, both in the branches that are directly related to tourism and in the other ones, by attracting labor and stimulating the production of goods and services.

If at micro-economic level, the cost/benefit analyzes can be used to measure the efficiency of business decisions of tourism enterprises, at macroeconomic level, the economic impact analysis is used to gain an overview of the entire economy of a country, aiming to determine the effects of tourists' travel expenses.

## 2. The actuality of the topic

The specialists in the domain of tourism, in the desire to define as deeply as possible the tourism phenomenon, as an activity with profound economic impact, attributed to this field the appropriate terminology, designated the tourist traffic indicators, elaborated econometric calculation models, capable of estimating the effect tourism multiplier for the national economy of the country.

Certainly, in the literature, many concerns and contributions to the definition of tourism are highlighted, but in our opinion tourism is a particularly complex economic activity, because the content of the tourist service incorporates besides the specific transport, accommodation, food and leisure services and some corresponding to other economic areas, thus giving tourism the character of a branch of interference and synthesis.

Under these conditions, the subject of the research is particularly recent because tourism acts as a catalyst for the national economic system, it has a great importance in the structure of the mechanism.

As **arguments** for the research on this theme are:

- the development of tourism activity in all its complexity can only start in connection with other areas of the national economy, thus creating a multiplier effect that needs to be studied;
- tourism as a complex economic activity integrates a variety of statistical indicators, which need to be studied;
- elucidating factors that have a decisive role in the multiplier effect of tourism;
- the characterization of tourism as an activity that benefits the national and local economy.

**The aim of the research** is to study and analyze the problems related to the impact of tourism on the national economy as a branch of interference and as a multiplier effect on other industries.

## 3. Applied methods

When writing this article, the author used 3 research methods as follows:

**Fundamental research** has made it possible to elucidate the current trends in tourism statistics, reflecting the prerequisites for proven change in the field of research, due to the implementation and use of the Tourism Satellite Account. Fundamental research included investigations in the form of theoretical studies that led to the formulation of scientifically grounded practical conclusions.

**Development research** aimed at using those processes and devices that can directly influence practical work in the field of tourism economy. In order to tackle the diversity of issues that tourism is involved, a rich literature of general interest and a wide range of statistical and mathematical research tools, comparative analyzes, highlighting the complexity of tourism as a generator of economic and social benefits on national scale.

**Applicative research** was tasked with providing data for directing practical work to increase methodical work. It provides practical support in knowing the mechanisms of tourism functioning as a complex socio-economic activity, in the conceptual clarifications and acquiring the main economic categories in the field, as well as in highlighting the determinants, tendencies and forms of manifestation of programs and policies in tourism.

**Relevance of the article.** The research and development of this theme gave the author the opportunity to generalize certain conclusions on the subject, and as a result to propose to the National Tourism Agency of the Republic of Moldova and the National Bureau of Statistics a new way of estimating tourism as a multiplier effect on the national economy and argues the need to change the calculation methodology by introducing the Tourism Satellite Account.

## 4. Results and discussions

The considerable increase in receipts from international tourism and, respectively, payments for international tourism issuing tourist flows, implicitly leads to an increase in international tourism within the external payments' balances. From an economic point of view, receipts from foreign visitors are exports to the recipient countries of tourist flows.

It is known that money coming from outside circulate in the economy of places visited by tourists and is spent for various consumption of goods and services. The well known economist John Keynes called exports made from tourist services, associated with consumption of goods and services, with the term "injections into the economy of recipient countries" on the grounds that they generate internal expenses.

The growing volume and complexity of tourism services has generated the development of a true travel and tourism industry, which justifies treating the tourism phenomenon as a distinct branch of the developing nation.

International tourism statistics based on World Tourism Organization data are as follows: (*Annex 1*).

If we are to analyze the statistical indicators of the development of the tourism industry in the Republic of Moldova without taking into account its multiplier effect, this data is as follows: (*Annex 2*).

By its nature, the tourist phenomenon is particularly complex, with profound economic, social, cultural and political implications.

Analyzes to measure the global spending of foreign tourists in a country of tourism destination and their impact on the national economy is being called the "multiplier effect of tourism".

The multiplier, according to the acceptance of the statistical analysts, "reflects and expresses the direct link between the inputs into the economic system, materialized in investments and its output in the form of the income of the participants in economic activities" (Minciu, 2004, p. 304).

Under these conditions, coupled with tourism and addressed in a broader perspective, the multiplier measures the changes in income, employment and balance of payments levels caused by changes in tourism spending.

The tourist multiplier makes it clear that an initial expense made by a tourist in an area or country turns successively into incomes for other areas of the economy (agriculture, the consumer goods industry, construction industry and building materials, trade, services) directly or indirectly linked to tourism.

Considering the complexity of tourism activity, the multitude of its interdependence with the other branches of the economy and the diversity of the action plans, on the one hand, and the general significance of the indicator, on the other hand, one can speak of a multiplier effect of the expenditures made by tourists and a multiplier effect of the investments.

The touristic multiplier of expenses / incomes is considered more relevant and in our view presents several types:

*Table no. 1. Types of tourist multiplier*

N/o	Multiplier of	Characteristics
1.	Results	Quantifies the total revenue earned at the expense of a tourist expense unit
2.	Transactions sales	Measures the turnover achieved by a unit of expenditure. The indicator is similar to the result, but eliminates the increase in inventory value due to the change in the initial cost
3.	Revenues	Expresses additional domestic revenue by an additional unit of travel expenses
4.	Employment	Highlights the increase in the number of jobs, equivalent to total time, determined by an additional unit of travel expenses
5.	National Public Budget	Measures the gross income created by an additional unit of travel expenses. All forms of taxes and duties are included
6.	Export of services	Expresses the value of goods and services exported, caused by a unit of travel expenses. Amounts spent by tourists in the country or area visited cover goods and services from domestic and imported production

*Source:* Elaborated by author

Regarding the mechanism of action of the tourism expenditure multiplier/income, regardless of its type, the situation is as follows:

1. The sums of money spent by tourists on the package of tourist services are considered to be revenues of tour operators and travel agencies and are used to pay the obligations to tour operators: transport companies, accommodation units, food facilities, leisure facilities, guides, while paying the obligations to the National Public Budget.

2. Tourism service providers in their turn, turn off their debts to suppliers by spending on: the purchase of food, non-food, energy, communal services, etc., the payment of works, the making of new investments, paying at the same time the obligations towards National Public Budget.

3. In turn, the suppliers will use the money they receive for the realization and development of their own activities, respectively they will honor their financial obligations towards employees, shareholders, state, will make new investments, and the process will continue.

4. At the same time, workers will meet their needs, allocating money for purchases of goods and services, paying their obligations to society (taxes, taxes) while making savings.

5. Further, the money earned by the state will be directed towards fulfilling its own social and other commitments.

It follows that money originally spent by the tourist participates in an economic circuit, resulting in the rotation of money in time and space. The faster the circulation of financial means is, the higher the volume of services rendered is, and accordingly the net income increases.

The interdependence between the development of international and domestic tourism and economic growth is evident as it trains the demand for a range of goods and services that would otherwise not have been produced or delivered.

The economic effects of tourism consumption must also be assessed in terms of income generated by the work force directly or indirectly engaged in the tourism industry.

Statistical analysts may consider three elements that contribute to measuring the overall economic impact of a certain amount of travel expenditure: (Neacșu, Baron, Glăvan, 2011, p.358)

- **The direct impact** measures the effects of the first round of monetary circuit from a tourist. As an example, the proportion of the cost of a restaurant for the procurement of raw and auxiliary materials needed for the preparation of the customer-ordered preparations and for the salaries of the staff, and the monetary unit spent by the consumer-tourist in the respective restaurant, can be used;

- **The indirect impact** measures the derived effects of additional rounds caused by the recirculation of the tourist's initial monetary unit, for example for the purchase of goods and services by firms in other sectors that contributed to the supply of raw materials to the restaurant needed to provide the requested food services by the visitor;

- **The stimulated impact** measures the derived effects caused by employees of a tourism enterprise who spend some of their salaries in other business sectors. As an example, hotel employees spend some of their pay for purchasing clothing, food, etc. From the local commercial network, and the owners and employees of the respective commercial units, in their turn, also spend some of their income for the purchase of other goods and services in the area where they live and work.

It follows that the multiplier effect of tourism (K) is expressed by summing up the three impacts: direct plus indirect, plus stimulated, relative to direct impact: (Snak, Baron, Neacșu, 2001, p.73)

$$K = \frac{\text{Direct impact} + \text{indirect impact} + \text{stimulated impact}}{\text{Direct impact}}$$

It should be noted, however, that the multiplier effect is not an exclusive attribute of the tourism industry. Similar relations are found in the various branches and sectors of the national economy.

#### **Satellite tourism account**

As mentioned above, statistical analysts measure the magnitude of the economic consequences of the tourism industry through direct, indirect, or stimulated assessments, depending on the available sources of statistical information.

However, at present, for the assessment of the real dimensions of tourist traffic and the overall impact of travel expenses incurred by a tourist during his travel and stay, tourism statistics are not yet sufficiently comprehensive.

*For example, in order to travel on own account at a designated tourist destination, the tourist buys his ticket for travel either on land, air or sea. Thus, these expenditures will be found only in the total receipts of the respective transport company, without the possibility of measuring the impact of these expenditures on the achievements of the tourism industry.*

*Similarly, the cost of the fuel consumed on a holiday trip with the passenger's own car will not be seen as a distinct position in the Peco station's account, where the fuelling has taken place, not to mention the various expenses generated by travel preparation and actual travel.*

Drawing from this example, in statistical methodology, statistician analysts unanimously agree that tourism has a strong impact on recipient countries.

In the development and implementation of tourism management strategies, we must keep in mind the complexity of tourism (Botezat, 2003, p.162).

According to the World Tourism Organization, "Sustainable Tourism Guidelines and Practice Management" are applicable to all forms of tourism in all types of destinations, including mass tourism and the various niche segments of tourism. The principles of sustainable development address the economic, socio-cultural and environmental aspects of tourism, and an appropriate balance needs to be struck between these three dimensions to ensure long-term sustainable development (<http://www2.unwto.org>).

Thus, sustainable tourism should:

1). Achieve optimal use of environmental resources, which is a key element in tourism development, maintaining ecological balance and helping to preserve natural heritage and biodiversity.

2). Respect the socio-cultural authenticity of host communities, preserve cultural heritage, traditional values and contribute to intercultural understanding and tolerance.

3). Provide viable and long-term economic operations delivering fairly distributed socio-economic benefits to participants, including a stable employment base, earnings opportunities and social services for host communities, helping to reduce poverty.

Sustainable tourism development calls for informed participation of all decision-makers to ensure broad participation in establishing a true consensus. In this context, sustainable tourism must be a continuous process involving constant monitoring of its impact on the national economy, the social and political environment, and in case of deviations, the possibility of introducing corrective measures (Stănciulescu, 2004, p. 121).

As the economic effects of tourists' spending outweigh the scope of revenue reported statistically by service providers, the World Tourism Organization, in conjunction with the World Travel and Tourism Council, the European Union Statistical Office and other regional tourism bodies, proposed implementation for member countries OMT, the tourism satellite account system. The recommendations of the World Tourism Organization for the adoption by the member countries of the tourism satellite account were the subject of one of the main points of the agenda of the International Conference on Statistics and Measuring the Economic Importance of Tourism, held in Nice, the French Republic.

The Tourism Satellite Account System, the aggregation and concepts of which derive from the United Nations National Accounting System, extends its scope not only to the direct costs of international and domestic visitors but also to the indirect effects of those expenditures.

Under these circumstances, the Tourism Satellite Account system is the main means of better understanding, at national, regional and local level, the economic benefits provided by all the activities of the travel and tourism industry.

Therefore, the World Tourism Organization recommends and encourages member countries to develop their own tourism satellite systems.

## **5. Conclusions**

The economic advantage of international tourism has prompted many developing countries to increase their efforts to develop their tourism industry as an activity capable of balancing the balance of payments, to ensure the attraction of foreign currency in the country, to invest, to create places for work. The Republic of Moldova is not an exception. With the approval of the 2020 Tourism Development Strategy, (Platon, 2014, p.39), the state reiterated its position on this branch, establishing that tourism should become a competitive and well-developed economic sector that effectively exploits the country's natural and entropic tourist heritage by promoting at the same time the Moldovan hospitality at high standards.

The travel and tourism industry is making a major circulation of money, materialized in the tourists' personal expenses, in the receipts of economic agents, salaries, taxes, fees, etc., but so far there has not been a tool to measure the real economic benefits of tourism.

The Tourism Satellite Account can help remedy this situation by allowing the assessment of the share of tourism in the national economy of the country through its multiplier effect in terms of value and scale, comparable on international scale.

In our opinion, the Tourism Satellite Account of the Republic of Moldova will be able to provide reliable assessments regarding:

- the part of the tourism activity in the country's Gross Domestic Product;
- the size of tourism activities compared to the dimensions of other sectors of the national economy;
- the number of jobs directly and indirectly engaged in tourism;
- the volume of public and private investments related to tourism activity;
- the value of public revenues generated by tourism.

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Appendix no. 1

**International tourism statistics. Main indicators  
international Tourism receptor 2010-2016**

Region Year	Tourism proceeds					Total
	Africa	America	Asia	Europe	Middle East	
2010	32 billion \$	182 billion \$	249 billion \$	406 billion \$	50 billion \$	<b>919 billion \$</b>
2011	33 billion \$	199 billion \$	289 billion \$	463 billion \$	46 billion \$	<b>1030 billion \$</b>
2012	34 billion \$	215 billion \$	323 billion \$	457 billion \$	47 billion \$	<b>1076 billion \$</b>
2013	35 billion \$	229 billion \$	361 billion \$	489 billion \$	48 billion \$	<b>1162 billion \$</b>
2014	36 billion \$	274 billion \$	377 billion \$	509 billion \$	51 billion \$	<b>1247 billion \$</b>
2015	33 billion \$	304 billion \$	418 billion \$	451 billion \$	54 billion \$	<b>1260 billion \$</b>
2016	35 billion \$	313 billion \$	367 billion \$	447 billion \$	58 billion \$	<b>1220 billion \$</b>

**Weight of tourism in world economy (GDP) 2010-2016**

Year	GDP
2010	5,0%
2011	6,8%
2012	7,0%
2013	7,2%
2014	7,5%
2015	9,8%
2016	13,8%

Source: Elaborated by author basing on data from Tourism World Organization <http://www2.unwto.org>

Appendix no. 2

**Weight of organized tourism in Gross Domestic Product. Period 2010-2016**

N/o	Years	Total volume of sales National tourism, (thousand lei)	Sales volume Tourism receptor, (thousand lei)	Sales volume Internal tourism, (thousand lei)	Gross Domestic Product, (thousand lei)	Weight of tourism in GDP (%)
1.	2010	212488,2 lei	128610,5 lei	83877,7 lei	71849000,0 lei	0,30%
2.	2011	278195,2 lei	184950,0 lei	93245,2 lei	82174000, 0 lei	0,34 %
3.	2012	329243,9 lei	206262,3 lei	122981,6 lei	87847000, 0 lei	0,37 %
4.	2013	348024,6 lei	252640,7 lei	95383,9 lei	99879000, 0 lei	0,35 %
5.	2014	281945,1 lei	171624,9 lei	110320,2 lei	112050000, 0 lei	0,25%
6.	2015	427117,7 lei	311395,6 lei	115722,1 lei	121851000, 0 lei	0,35 %
7.	2016	504897,9 lei	385861,2 lei	119036,7 lei	134470000, 0 lei	0,38 %

Source: Elaborated by author in base of date from National Bureau of Statistics of Republic of Moldova <http://www.statistica.md>