

**THE IMPACT OF TOURISM IN ECONOMIC  
STABILITY**

**By**

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# **THE IMPACT OF TOURISM ON ECONOMIC STABILITY**

## **ABSTRACT**

Tourism nowadays has become a strong industry which directly affects the development and the wellbeing of a country. The impact of tourism is not measured only by visitor export and total spending but also from the opportunities that this industry offers inside the country. Apart of being one of the strongest sources of income tourism also increases employment, diversifies the economy and helps countries to promote their selves.

This study analyses more closely of how tourism affects economic stability of Spain, Albania, Montenegro and Italy. The variables analyzed are GDP, Visitor export, Capital investment etc... The period of the time when the analysis's is conducted is from year 1990 till 2016. The result of the analysis is that countries with small economic capacity and limited options of developing many industries, also with low development of tourism background are directly affected from tourism income in generating income. From the study Montenegro and Albania are the two countries in which their economic development is affected directly and mostly by tourism.

**Key word:** *Tourism, Economy, Factors, Impact, Industry, Development*

## **ABSTRAKT**

Turizmi në ditët e sotme është bërë një industri e fortë e cila ndikon drejtpërdrejt në zhvillimin dhe mirëqenien e një vendi. Ndikimi i turizmit nuk matet vetëm me eksport të vizitorëve dhe shpenzimeve totale, por edhe nga mundësitë që ofron kjo industri brenda vendit. Përveç të qenit një nga burimet më të forta të të ardhurave turizmi gjithashtu rrit punësimin, diversifikon ekonominë dhe ndihmon vendet për të promovuar veten e tyre.

Ky studim analizon më nga afër se si turizmi ndikon në stabilitetin ekonomik të Spanjës, Shqipërisë, Malit të Zi dhe Italisë. Variablat e analizuar janë GDP, eksporti i vizitorëve, investimet kapitale etj ... Periudha e kohës kur analiza kryhet është nga viti 1990 deri në 2016. Rezultati i analizës është se vendet me kapacitet të vogël ekonomike dhe mundësitë e kufizuara të zhvillimit në shumë industri, edhe me zhvillimin e ulët të sfondit të turizmit janë të prekur drejtpërdrejt nga turizmi në gjenerimin e të ardhurave. Nga studimi Mali i Zi dhe Shqipëria janë dy vende në të cilat zhvillimi i tyre ekonomik është i prekur direkt dhe kryesisht nga turizmi.

Fjala kyçe: Turizmi, Ekonomi, Faktorët, Impakt, Industri, Zhvillim

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## **DECLARATION STATEMENT**

I hereby declare that this Master Thesis titled “THE IMPACT OF TOURISM IN ECONOMIC STABILITY” is based on my original work except quotations and citations, which have been duly acknowledged. I also declare that this thesis has not been previously or concurrently submitted for the award of any degree, at Epoka University, any other University or Institution.

Jona Dervishi

17 June 2016

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## **LIST OF ABBREVIATIONS**

<b>EMP</b>	:	Employment
<b>EXP</b>	:	Export
<b>CI</b>	:	Capital Investment
<b>CPI</b>	:	Consumer Price Index
<b>GDP</b>	:	Gross Domestic Product
<b>VAR</b>	:	Vector Autoregressive Analysis

# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 Introduction**

Tourism nowadays has become a strong industry which directly affects the development and the wellbeing of a country .The contribution of tourism can be direct contribution and indirect to sales, profits, employment, tax revenues, and Human income. Direct effects it is seen within major enterprises, hotels, restaurants, transportation, entertainment and retail. Indirect effects for business include the supply of all goods and services that are related to tourism. This means that, through indirect effects, tourism affects sectors and the rest of the economy (Johnson,P & Thomas,B, 1992). Tourism is a major economic activity and leading to Albania's economic development.

Compared to other years revenues it increased approximately 25 times. This can be achieved from the revenue from parking, tourist taxes, and entrances to buildings, selling information etc. Large income achieved through art and culture.

Tourism is often defined as a meeting between different cultures. Tourists come with their habits and local residents indicate the difference. According to (Hjalager, 2006), cultural diversity expands the range of options open to everyone, but is the roots of development, understood not simply in terms of economic growth, but also as a tool to achieve an intellectual pleasure, emotional, and moral existence spiritual.

Development is "a multi-dimensional process that involves changes major social fabric, popular attitudes, and national institutions, as well accelerate economic growth, reduce inequalities and poverty abdication Infrastructure: The development of tourism often leads to the construction of new infrastructures. In most cases, is associated with the transport, building highways, which make travel faster and more comfortable, but also enables the connection between the cities with the rest of the country. Tourism has also affected the frequency of lines bus, shipping lines and airlines (Gartner.W, 1996). Although in economic terms, it is desirable to have as many tourists as possible; cities are not always willing to accommodate ten times more visitors per day as local residents during the summer. Major tourist flows and profit big tourist cities often lead to arising real estate prices, and possibly the creation by the population spoor feelings of anger towards tourists.

## **1.2 Research Objectives**

This research poses a lot of objectives which formulate the research questions, but the main objective of this thesis is:

- To identify the impact of tourism development on the economic stability of developed and developing countries.

## **1.3 Significance of the study**

- Proposing a theoretical treatment to assess the impact of tourism on macroeconomic indicators for developing economy.
- Construction and application of a methodological framework for empirical research of the impact of tourism in the main macroeconomic indicators.
- Helps the assessment of the impacts of tourism on macroeconomic indicators such as consumption, employment, investment, income, balance of payments, state income.
- Set up a general framework of analysis, useful in the exercise of tourism policy at local, regional and national levels.

- The study is important for tourism research as theoretical framework, as well as empirical. Its importance becomes by the application of the above framework in Albania and the determination of a tourist political science based on a quantitative assessment of the economic impacts of tourism.

#### **1.4 Factors affecting the demand and supply for tourism**

Research by the World Council of Travel and Tourism clearly show the potential of tourism to revive the global economy, reduce unemployment, thereby helping to ensure sustainable development and poverty alleviation.

Economic factors are the most important factors affecting the growth or decline of demand for tourism, as they are crucial in choosing or not a tourist destination. The impact of these factors in support of tourism development is particularly noticeable in trips made during leisure time. Statistics published on tourism and national economic trends; make it possible to find links between changes in income with the volume of travel and expenses incurred. For most of the population in countries with developed economy, the overall growth of real incomes has led to increased travel costs, so more and more likely that the cost of travel in those developed countries will tend rise and fall depending on the economic cycle that will permeate countries.

##### **1.4.1. Factors affecting demand for tourism**

###### **1.4.1.1 Exchange rate**

One factor that influences the choice of destination is also a currency, the exchange rate volatility in many cases is crucial for selecting a destination, because most of the time vacationers tend to turn to cheaper destinations. A cheaper destination is the host country when the currency is weaker compared with the currency that tourist use in their place. For example, in the moment that the US dollar strengthened against the euro, many Americans are inclined to perform their holidays in Europe, because the holidays become cheaper for them (Mathews.H, 2010). Connection between the two currencies in many cases is crucial for the choice of country to go on holidays, but

there are exceptions. This happens in periods when volatility of the exchange rate risk to commit or not vacation in a tourist destination is high, because in a moment can be displayed as a destination after a few days free and can be turned into an expensive destination.

#### 1.4.1.2 Travel for business reasons and holiday

Business trips are constantly influenced by economic developments, but some travel companies and their representatives are essential to business performance. It is noted that in periods of recession companies go from first class bookings on those planes through the lower classes, and even finding the hotel varies from luxurious hotels to less expensive ones (Mathews.H, 2010). It is reduced in the same time and standing period and even the number of trips.

For a business is not the same as for trips for amusement reasons, and therefore an economic downturn will not be decisive for those kind of travel business and can lead to bankruptcy of their impact. Therefore even at the most difficult economic times businesses continue to perform trips, in order to prop up their business.

Many businessmen will seek to buy a plane ticket and book a hotel which will facilitate development of its work. Increased activities of businesses operating in the country increase also the demand as more and more businessmen will travel to these countries. Business travelers can also be an important part of tourism, since they can use their free time to visit the place where they have gone.

On the other hand holidays passengers, start their savings during the year. The main economic determinant of demand is the level of income that possesses holiday vacationers who will visit the country (Gartner.W, 1996). It is this residual amount of income that determines the demand for tourism, so it is not seen only from a macroeconomic aspect as the number of trips carried out in a period of time, but it is very important to determine the per capita income families possess. Because only in this way we will determine the correct application reached from tourism. Demand is not anything but a desire and ability to travel, backed by a level of income sufficient to support this desire.



#### 1.4.1.3. Prices of package tours

There are no reliable data, in the short term, for the price of a product of a firm or perceived price of a destination, in comparison with that of competitors, be a key factor that influences and dominates the volume of demand. Of course the pricing of a product is not simple and even becomes more difficult when you have to decide who will offer price for package tours. This price should justify the best terms with who will face vacationers. Price is one of the main factors that will affect the growing number of tourists who will attend a particular destination. The increase of tourists will lead to revenue growth of accommodation facilities, hotels generally, leading consequently to increase of revenue for tourism sector, being that there are many tourist agencies, subsidiaries of which are prevalent throughout the world and, vacationers have more option to choose one destination over another. Even it is starting up somewhere and regulates the market and makes competition stronger among agencies offering and the most attractive prices in order to generate demand for their country.

#### 1.4.1.4. Demographic factors

Demographic market studies should focus on individual desires than on tourism as a whole, there must be a segmentation of tourism based on the requirements and desires of vacationers.

Population is the first case of tourism, but it is not important but the number of individuals of the population's ability to cope holidays (Trehan, 2007). Tourism is one of the best lox therefore revenue growth of individuals of a society will make that increase demand for good.

On the other hand the average age of the population also affects the demand for tourism. Increasing the average age increases the demand for tourism as people who fall into this category have more probability to perform holiday, as a result of their family status. These people have higher incomes and therefore bringing them to spend more on luxury goods and services.

Lifestyles, information and education to the members of a society have significantly impact on the way of doing tourism. More and more tourists are moving away from their traditional holiday and they are looking for more adventure in their holidays, all this has come as a result of environment.

#### 1.4.1.5. Promotion

A promotional strategy means to produce and apply integrated communications programs. Objectives are usually to make customers aware, to motivate their interest, encourage them to browsing the Internet, request brochures and call directly or go to agencies of their closest to seek more information about the place and conditions of accommodation. Of course, these strategies and devote more budget which refers to promotion must be substantial in order to promote the strategy of choice for successful result. Market segmentations studies and target audience are necessary. To be most effective, such campaigns should have a sufficient weight and influence to reach and motivate a sufficient number of potential buyers who are willing to reach the destination.

Promotion strategy should change depending on the destination arrival of the Human Development. Unknown destinations are mostly poor and have to work hard to make known the host country (Weiermair, 2004). The country must play a major role in the promotion of its products destination. While countries that have already established an image in the eyes of tourist such as Spain, Australia, England etc. have numerous expenses related to strategy support and mitigation, which rely more on the definition of the image and development of web site's, than in buying commercial spaces. Another reason why countries apply different strategies and permanent promotion is due to competition. More and more people are getting stronger competition between different destinations, promoting ideas, new entertainment opportunities, and competitive prices. The better promote the country and as well positioned to more competitors will increase demand for the destination.

## **1.4.2 Factors affecting tourism supply**

### 1.4.2.1. Accommodation

Qualitative and quantitative characteristics of the accommodation supply have a direct impact on the overall success of tourist destinations. In this way to have an efficient and sustainable development of tourism great attention should be paid to development of the sector. Certainly basic demands are the same but starting only by reason of their journey will see that they require additional services. For example travelers for business reasons will influence the accommodation sector on tourism development. On the other hand vacationers would like more comfort, more leisure opportunities, etc. To suit the requirements of vacationers countries should increase and improve the capacity of accommodation they offer.

As known, there are a number of units of accommodation such as hotels, motels, camping, etc. holiday home. Accommodation is the best form of connecting vacationers with his chosen destination. It is of particular importance and is related to the fact that most of the available budget for vacation, it is spent only accommodation. The accommodation includes all facilities that serve the needs and tourists during their stay in a destination, such as beds, food, or various activities and entertainment purposes prepared by the managers of the accommodation unit. It was noted that tourist destinations that have great accommodation capacities, such as hotels, motels, camping, etc. with a large number of rooms and beds for vacationers and have higher incomes as their supply and for vacationers is greater. Accommodation is one of the factors that made possible the return or for the first time going to the same destination, this is the reason why during the claims of different countries a considerable space of time is given advertising hotel and accommodation services it offers.

### 1.4.2.2. Investments in infrastructure

Infrastructure is essential for the development of tourism and vital to its marketing. It increases the efficiency of private production and distribution of tourism services and in certain cases makes it possible to supply tourist services. The fact that trips are made by air, land or sea, has become a need of establishing railways, airports, harbors,

tunnels networks and others to make the journey easier and shortest time distance. Tourists as well as residents of these countries require the same services such as, demand for infrastructure services of water supply and disposal, communications and electricity.

Provision of tourism infrastructure is of particular importance in the long term tourism development. Public investment in infrastructure and the use of other forms of state intervention to provide infrastructure, are supported by new theories which explain the economic increase. These show that economic growth arises not only from physical capital but also of public infrastructure and human capital. In this definition of capital, airports and roads supporting manifestly growth of tourism giving a comparative advantage the country, and bringing tourism to the country to a destination by offering higher and more expensive and so leading to economic growth. Improving the road infrastructure, the ports and airports, placement of road signs, lowers the cost of moving in that destination. Reduce costs associated with increased tourist offers of that country.

#### 1.4.2.3. Government

The government and its impact are very important in the development and economic growth of a country. Only the government has the right and power to ensure political stability and to provide legal and financial framework which tourism needs. It provides essential services for a much more lucrative tourist season. Government is the only one which can go down and execute upon agreement with other governments in terms of free movement of individuals from one territory to another. (GH, B., & Development, W. C. o. E. a. , 1987). Ministry of Tourism together with several ministries and municipalities enabled the functioning of tourism and functioning of the public sector with the private one. There are a number of ways by which government can enhance the tourism offer of a country, such as reducing taxes and entry limits, reduction of VAT, etc. So Government intervention through its fiscal policy will cut costs by increasing the tourism offer.

The government has responsibility for investments in infrastructure, such as the creation and maintenance of airports, since the latter is the key factor which depends

on tourism. It is also responsible for the development and redevelopment of cities and destinations and has a duty to create public spaces, such as parks, gardens, maintain cultural heritage sites, theaters, conference centers and so on.

#### 1.4.2.4. Employment in the tourism sector

The tourism industry is one of the industries that generate more jobs. This sector creates a range of employment opportunities both in the formal and informal. Tourism can create three types of employment opportunities, direct, indirect and induced. According to (Gartner.W, 1996), direct employment refers to employment generated by hotels, restaurants, nightclubs etc. Indirect employment refers to workers who are not directly related to tourism but who nonetheless receive economic benefits from it, such as doctors, workers in fuel, etc. And finally induced employment refers to employment which is established to ensure equipment and services for people directly employed in this sector (Leiper, 1999)r. Yet we shall be concerned only with direct employment and how the latter affects the growth of tourism offer.

Some sub-sectors of tourism exhibit unfavorable conditions of employment, such as hours of work irregular and long work part-time or seasonal work, level of pay and social security under the average, low levels of training, lack of career opportunities and a high percentage of working uninsured. These problems cause service to be at substandard conditions affecting thereby negatively the tourism of the country. Skilled employees who feel satisfied with their work positively affect the growth and development of a business. Developing a supply run Business shows his growth becoming thus a stronger competitor as tourism business units at home and abroad.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1. Definition and conception of tourism**

Tourism is the practice or the action taken by those traveling or visiting places of entertainment purpose and knowledge (Gartner.W, 1996).To meet the needs and desires of tourists (tourism demand) according to the purpose of their trip included many roles (businesses, public or private offering products and tourism services, hotels, restaurants, sectors can rattle off support, etc.) which in itself constitute tourism industry. So it is seen that any economic activity of public and private sector work for tourism and tourist serve as a source of income.

#### **2.2. Tourism is an industry**

Essentially it includes all activities and businesses that form the basis of a country's economy. On the other hand, tourism is the industry because its development it is involved in many sectors of the economy such as infrastructure, agriculture, services etc. Traditionally, tourism is referred to as an industry that includes: attractions, restaurants, accommodation and transport. However there are other non-tourism activities of businesses such as bakery, local newspapers, supermarket, and food markets etc. The activities that form the basis of the economy are also participating in this industry (Trehan, 2007).

### **2.3. Tourism is an economy**

Tourism can also be called an economic sector with the fastest growth, as income from foreign tourists' flows, and it creates jobs (Ashley, 2007). Tourism also provides the basis on which communities can regain their pride in heritage as well as quality of life (Hjalager, 2006). Craftsmanship of traditional handicrafts, ethnic culture, historical rituals, celebrations, national events etc., are some examples of "attractions" that are recognized between the interests of tourists. Then challenges remain in developing these elements which are the basis for securing, raising an acceptable level of tourists and the core of tourism development.

### **2.4. Importance of tourism**

With the onset of the new millennium, tourism is becoming a primary industry for its importance in many countries (Ritchie, B., Burns, P., Palmer, C., 2005). Formation of the concept of tourism as an industry, economic sector, or activity is very important in finding new ways for the tourism development process and economy so long as possible. Especially rural communities, often consider tourism as a substantial part of their economic, but current challenges facing quite significant.

Development of prudent and well-managed tourism effects on all aspects of development of a country, but to achieve the expected results it is important to rely on the following principles declared at (GH, B., & Development, W. C. o. E. a., 1987) as:

- Economic growth of the country.

Recognition of the tourism industry as a priority by governments of its importance in increasing economic prosperity

- Environmental protection and

Business balance with people's economy, culture, environment (especially the environment)

- Social Equality

A fair share and long-term growth and prosperity in a country

According to this report, it said that the combination of these three elements is important for a well-planned development of tourism as well as to ensure long-term growth and prosperity in all spectra of a tourist place. Recognition, adoption and implementation of these principles by as many countries as soon as possible, would increase economic impacts in the long run for them.

## **2.5. What brings the development of tourism in the economy?**

The development of tourism is a very important process for the country's economic development, even vital. But tourism development would not be possible if we did not have the necessary resources (natural, infrastructural, human, financial, capital, etc.) and an economically developed country. (Hjalager, 2006) Benefits and economic costs to tourism, in one way or another, affect virtually all the regional and national level.

An developed economy, makes it possible to increase these potentials, which give proper development of tourism, which in turn carries with it positive effects or negative, direct and indirect in the social, economic, cultural etc.(Pechlaner, 2006).

The effects of tourism development on the economy could be:

1. Direct contribution to GDP
2. Invested Capital on Tourism & travel
3. Direct + indirect employment
4. Direct employment

- Changes in Tourism can bring employment- creation of new jobs in a given area; it is considered one of the greatest benefits to the economy of a country, but especially for local communities (Mathews.H, 2010).To meets the demand for tourism, local residents can find employment as leading driver, transport, local tourist guide, etc. An increase of visitors can bring new demands for personnel, for research, for keepers etc. Tourism development and growth is helping businesses like hotels, restaurants, recreational activities etc. "Tourism is the largest employer, which directly or indirectly generates approximately 200 million jobs or 10% of global employment."(Mathews.H, 2010)

- Changes in price on Tourism are able to influence domestic costs and sales prices of an area, mainly in seasonal periods.



- Impacts "social" and "environmental" - there are also many aspects of the consequences of other "social" and "environmental" which are usually not directly related to a country's economic impacts. These can be positive or negative, e.g.: overcrowding will increase the costs of movement or circulation, for local people and businesses.

## **2.6. Innovation in the tourism sector**

At a time when technological progress spread with extraordinary speed in the four corners of the world, the same products / services can be found in the markets of greatest metropolis in the world economy knowledge and educated people move freely and where employed better meet their expectations, quality services are every day more and more in differentiating factor, being considered as a successful strategy of creating competitive advantage in the global market. When we talk about quality services it is referred mainly to the following elements: modern equipment environment

1. Infrastructure / contemporary building
2. Computerization
3. Personnel / training / communication / willingness to serve customers
4. The speed of service / courtesy

The tourism industry is the sum of all firms, organizations and support facilities which have as their purpose to serve the specific needs and desires tourists (Leiper, 1999). Innovation can lead to increased quality of services in the tourism sector and we understand innovation here with an 'idea, practice or object that is perceived as something new from her adopters'(Rogers, 2003). However, innovation in the services sector has little or no character research & development, because its focus is on areas of experience and practical experiences. More specifically, innovation in the sector services considered as the 'soft' innovation and development, with a focus on skills and collaborative cross-organizational practices (Trehan, 2007).On the other hand, if we refer to the European Commission Report it covers wide innovation and activities that help to improve the performance of firms, including implementation products, services, processes, systems and new organizational models, in order to develop new

values for consumers and increase the financial benefits for the company. Of course, related studies with impacts tin innovation in the tourism sector are relatively modest (Peters,M & Pikkemaat,B, 2006).Product development and innovation, generating potentially very good value creation add to customers, but tied it with a service sector such as the tourism, contains itself a high level of complexity. Some of the most innovative ideas in the field of contemporary Tourism will be part of the following analysis. Some of them cannot find applicability in Albanian and Montenegrin context, but others also can gradually adjust to this context.

The first idea related to strengthening cooperation between social services and tourism, being considered this cooperation as an opportunity for promoting innovation in the tourism sector.

Social services are mainly related to human capital, environmental protection, discouraging the behavior destructive to the environment, the elaboration of the concept of 'jobs for all', health services etc., (Hjalager, 2006).A second perspective is provided later by(Weiermair, 2004), which analyzes the concept of innovation tourism from the perspective of supply. According to him, innovation in the tourism sector will be realized only in cases when there is a higher disposable income, which is able to cope with risk and costs carries an innovation process in tourism. Factors such as the size of the firm, technological progress, etc., are necessarily associated with this process (Weiermair, 2004).Another idea was thrown around the relationship between the concept of leadership on the one hand and processes innovation on the other hand, with a focus on improving the quality of tourism services destination. The process of innovation is considered in this case as a network process with inter-organizational, concept is this similar to the model of open innovation (Chesbrough, 2006).The idea is to minimize the barriers of cooperation and to initiate activities with wide opportunities Network, which directly or indirectly will serve as networks that will encourage further cooperation and innovation (Pechlaner, 2006).

## **2.7. How can increase tourism revenue through Innovation System Model based on Attractor**

(Attractor-Based Innovation System) This model was designed in 2006 by the authors (Matsson, J & Fussin-Jensen, Ch, 2006). The main assumption of this model is that the development of tourism in a given area depends not on innovation of an organization / firm tourist single but broad interaction between them by considering them as network and not as a closed system. On the other hand, this does not mean that all Tourist companies of a certain area are definitely part of this interaction. Since this model had successful result of this combination requires innovation with entrepreneurship. Entrepreneurs create the necessary groundwork for the emergence of innovation, because they can be very adept at creating Network it is necessary and therefore in this case the enterprise is considered a prerequisite for the emergence of ideas

#### 2.7.1. Innovative

In this type of system, product innovations are not one-sided but the result of several levels of interaction of different companies and organizations within a specific tourist region, in most cases linked to the concept of 'Attractor ', a concept which will be discussed below. Components of the model are: Attractor .scene, scene-maker, and stage-holder, Network: tourist-tourist-firm local organization. In this case, 'attractor' may be an organization, event, activity that attracts initial attention and the participation of many people. For example a scientific conference plays a very good role of attractor. The positive reaction of the people against this attraction transforms the latter by attractor to simple scene between genuine meeting different people in a designated tourist area, whose original purpose has not been tourism.

#### 2.7.2. Attractor scenes

Network firm is a tourist-tourist-local organization Attractor-Based Innovation System (Matsson, J & Fussin-Jensen, Ch, 2006). However, the existence of this 'scene' is not enough to attract a greater number of visitors in the future. What is needed is related to the fact that this 'scene' or the new created contests should provide more opportunities for firms and engagement roles, local organizations and individuals, in order they extend as far as their network and also provide a diversity of information the participants in the event that takes place, most of whom could be first in it country.

Scene-maker is the person / firm tourist / non-tourist organization or group of individuals in order strategic analyzes all possibilities to use the 'attraction' to attract more visitors in place. Scene-maker in this case is the innovator as he creates and conceptualizes the scene. Scenes created must be maintained through systematic and professional marketing and through more involvement of the collaborators in the 'game'. At this moment pass from stage to stage makers, which can be an individual / firm / organization in the country. This last character entrepreneur, though it is said to be the mastermind (of this new contests created. Various tourism firms in the country can benefit from the activities of stage-holders, by having all chances to be part of collaborators and network- holder's scene.

Innovation turns into necessity to renew this 'scene' from time to time in order to be more interesting for its visitors. If nobody is interested to keep active scene / context create, it will not arrive to have no impact whatsoever on the local tourism in the future. According to the (Mathews.H, 2010; Matsson,J & Fussin-Jensen,Ch, 2006), model if the tourist firms stay conservative and do not cooperate with organizations / other non-tourist firms in the country, to keep active context created, all attempts to attract foreign visitors to the country fails.

## **2.8. Types of economic analysis**

### **2.8.1. Economic impact analysis**

What is the contribution of tourist activity in the economy of a region? An economic impact analysis, following the expenditure flows to developing tourist activity in a region, to identify changes in sales tax revenue, profits and employment which we owe this activity. Main used methods herein may be the analysis of visitor spending, the analysis of secondary data from national economic statistics, based on economic models, input-output models and multiplicative (Frechtling, 1994)

**2.8.2. Fiscal Impact Analysis** - fail of government to cover income of tourist activity, from taxes and other sources, the additional costs to the state-run infrastructure services. Fiscal impact analysis identifies changes in demand for state services, which

are the result of estimates of costs and revenues to local governments to provide these services (Listokin,D & Burchell,R, 1978).

**2.8.3. Financial Analysis** - financial analysis determines when a business will generate enough revenue to cover its costs and have a considerable profit. Usually it includes a short analysis of the availability and costs of initial capital, as well as a longer-term analysis on potential liabilities, costs and operating income. Financial analysis for a private business is analogous to the analysis of fiscal impact on local governments units.

**2.8.4. Demand analysis** - How to change the number or types of tourists in an area due to price changes, promotion, competitiveness, quality and quantity of products or services and other shifts in demand? Analysis of demand estimates or predicts the number and / or types of tourists in a tourist zone, through a request model or sales model. The number of visitors or sales is generally provided based on judgment (Delphi method), historical trends (time series methods), or use a model that Act. How visits or costs vary according to key factors determining the demand (structural model) as population size, distance markets, the level of income and measures of quality and competitiveness. (Johnson,P & Thomas,B, 1992).

**2.8.5. Cost-benefit analysis (B / C)** - What alternative policy will generate the highest benefit to society over time? Cost-benefit analysis assesses the relative economic efficiency of alternative policies by comparing the benefits and costs over time. Analysis of B / C identifies the most efficient policies are seen from the perspective of the welfare society, which generally includes monetary and non-monetary values together. Cost / benefit analysis uses a number of approaches for assessment of goods and services that have no market as the cost of travel method and the method of assessment of the case (Williams, 2014).

**2.8.6. Feasibility Study** - Can / should undertake a project or policy? A feasibility study determines the feasibility of taking action, including, political feasibility, physical, social, and economic. Economic aspects of such research include the analysis of financial feasibility and market demand analysis to determine market viability. A feasibility study is similar to the analysis of the cost / benefit of the private sector.

Feasibility Analysis focuses more on the costs and benefits of individual businesses or organizations and Cost / benefit analysis assesses the costs and benefits society in general (Warnell, 1986).

**2.8.7. Environmental impact assessment** - What are the impacts of a particular action on the surrounding environment? An environmental assessment or analysis determines the impact of the move, given the environment in general including changes in social systems, cultural, economic, biological, and physical. Methods of economic impact assessment usually are used along with metrics and pricing models impacts social, cultural, and environmental. Methods are listed in a simple checklist to work later, the simulation models (Williams, 2014).

## **CHAPTER 3**

### **DATA AND METHODOLOGY**

This chapter will focus on the empirical part of the thesis and will explain the data and the model used for answering the questions first stated in the introduction of this thesis.

#### **3.1 The Data**

The analyze will be a comparison between these countries and Albania in order to see the impact of tourism on the economic stability through years and how Albania it is ranked toward these countries. The selection of these countries was as at purpose to analyze worldwide the trends and for these reason was selected some touristic countries form different level of developed. Here will be analyzed two developed countries as Spain and Italy which are also very preferable from tourist as destination for their vacation. On the other hand there are two developing countries as Albania and Montenegro which are still knew with the concept of tourism and tourism development.

It will be analyzed mainly seven factors which are affected by tourism in economic terms and such factors are:

- a) Leisure Travel and Tourism Spending
- b) Total contribution of Tourism to Employment
- c) Total of Tourism contribution to GDP
- d) Internal Traveling and Tourism Consumption
- e) Capital Investment on Tourism
- f) Visitor Export: (*Spending within the country by international tourists for both business and leisure trips, including transportation spending*).

The data's chosen for these analyze are secondary taken from KNOEMA website as it is known differently *World Travel and Tourism council data*.

### 3.2 Methodology

As stated in the introduction, the thesis is divided in two main parts. The first part of the thesis it is focused on qualitative analyses as well as giving descriptive graphical situation of tourism impact on economic stability. A comparison between Albania, Montenegro, and Spain is made chosen purposely to be developing and developed countries. The graphic analyses consist in the comparison of these countries in six variables which are GDP, Export of visitor, Employment, Capital Investment, Leisure Travel and Internal Travel. The time period chosen for conduction of this comparison starts at 1990 till 2016 and the data's are taken on annually base. The graphic analysis aims to show the trends of tourism of these six variables for developing countries such as Albania and Montenegro and for the developed countries such as Spain and Italy. The selection of the countries was made based on their touristic position and historic and their geographical position which is nears each other.

The second part of the analysis consists in the conduction of a simple VAR analysis to prove the main objective which is that tourism has an impact on economic stability of these four countries mentioned above.

After selection of variables and selection of the data from KNOEMA website there was run a regression for developing and developed countries. The variables chosen for VAR analysis are:

**-GDP:** *Gross Domestic Product*).



**-Export of visitors:** (*Spending within the country by international tourists for both business and leisure trips, including transportation spending*).

**-Capital investment:** *Capital investment refers to funds invested in a firm or enterprise for the purposes of furthering its business objectives.*

**-Consumer Price Index:** (*Consumer price index (CPI) measures changes in the price level of a market basket of consumer goods and services purchased by households*).

**-Employment on tourism**

The equations of this economic model are two:

$$\mathbf{DGDP = DEXP+ DEMPL+DCI+DCPI} \quad (1)$$

The first equation is created in order to find the impact of visitor export on GDP for developing countries which are Albania and Montenegro. As stated below the aim is to find the impact of visitor export on GDP but from the equation can be also generated results regarding employment on tourism , capital investment and consumer price index.

$$\mathbf{BGDP= BEXP+BEMPL+BCI+BPCI} \quad (2)$$

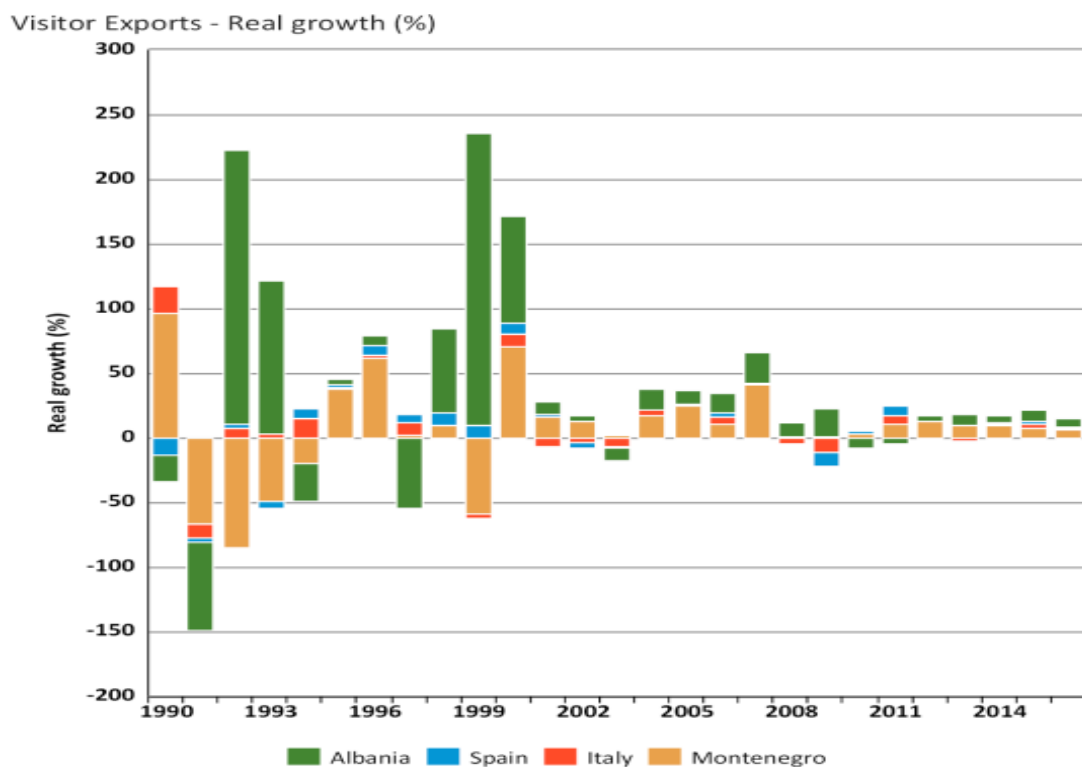
The second equation is created in order to find the impact of these variables on GDP for developed countries which are Spain and Italy. Again also here the focuses will be to find the impact of visitor exports on GDP. In the end will be made a comparison of results or developing and develop countries.

## CHAPTER 4

### EMPIRICAL RESULTS

#### 4.1 Graphical analysis

##### 4.1.1 Visitors exports



**FIGURE 4.1** Visitor Exports

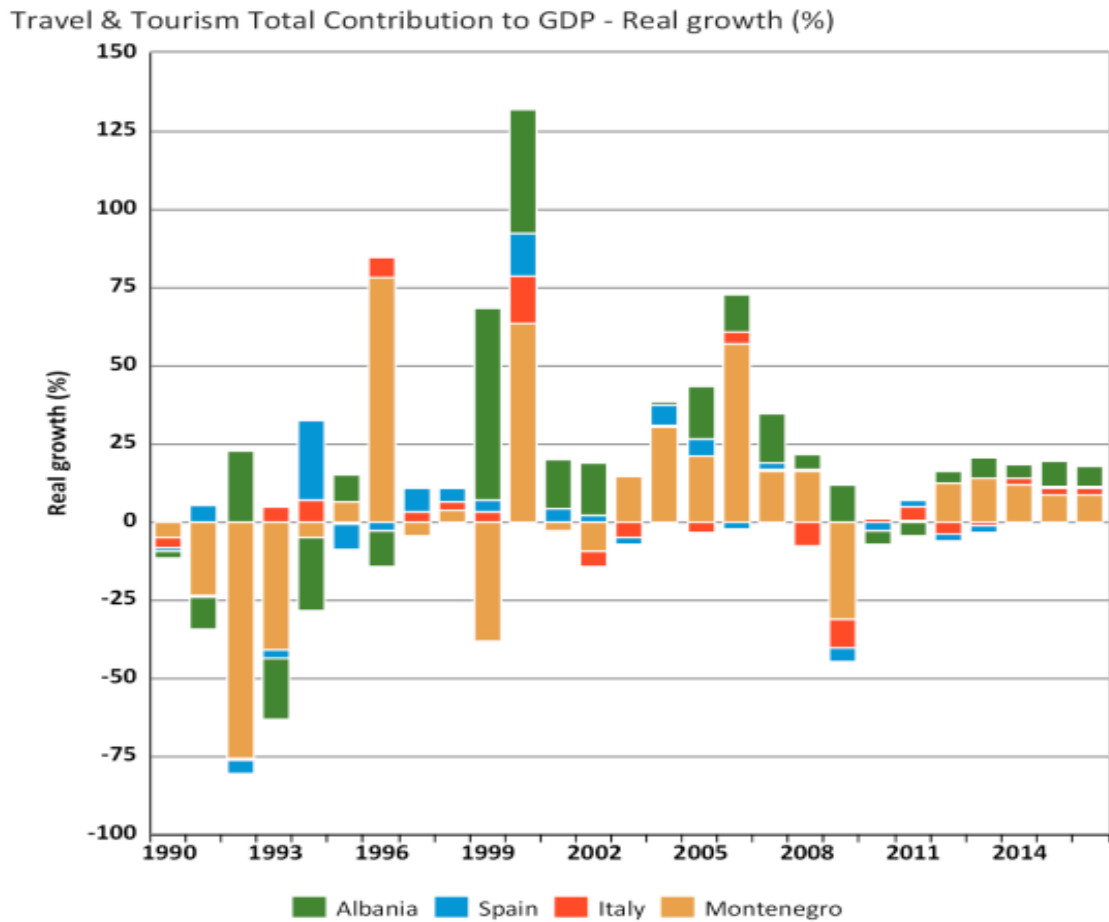
*Source:* [World Travel and Tourism Council](#)

In a general summary visitor export seems to have higher trend in all the countries in the first decade that is being analyzing .Albania is the country which has the highest

rate of visitor export firstly in 1992 and then in 1999 with approximately 250% rate growth. This means that in this country in these years was very preferable and many tourists have spent their income for leisure or business trips inside Albania. The year 1999 is also the last year that Albania has such a great positive impact because after this year there is an increase at visitor export but not so higher in rate. This is a great opportunity for Albania because here is defined also the importance of tourism in Albania and how the service should be improved in order that our country to have higher visitor export growth. Italy has had also the highest increase of visitor export in the first decade with approximately 130 % but in comparison with Albania this country still even not with a great amount has had an increase for each year.

Spain and Montenegro in contrary, they have had a better result in the years 2000 till 2005 and they also like Albania have still, till 2016 a tiny increase of the rate of visitor export. The highest rate for this countries Montenegro and Italy are in 2000 and the highest negative increase are in the years 1993 and 1994 respectively. But should be said that Montenegro still is in a better position than Spain because this country each year is expanding it tourism sector by trying to attract more visitors and like this increasing also visitor exports among other economic factors. Spain even that is a destination very desired from mostly European citizens, the visitor export are been at a very low rates and this may be related to many factors such as political instability ,economic situation of last year's etc...

#### 4.1.2. Total contribution to GDP



**FIGURE 4.2** Total contributions to GDP

*Source:* [World Travel and Tourism Council](#)

What each country in the world aims with developing economic industries, is to increase income and wellbeing of that country. Tourism also being an economic sector helps at increasing this wellbeing. For this reason there is no country in the entire world that wouldn't invest in this sector, because history and economic facts have proven that tourism is an important economic sector which helps countries in other field of industries.

Coming back to our analysis in the figure above, it is presented the impact of tourism in GDP Total and Direct for the countries which are taken into comparison. By separating this analysis into two decades it is able to understand its trends better. In the first decade countries which dominate for the trend of tourism in Total and Direct GDP

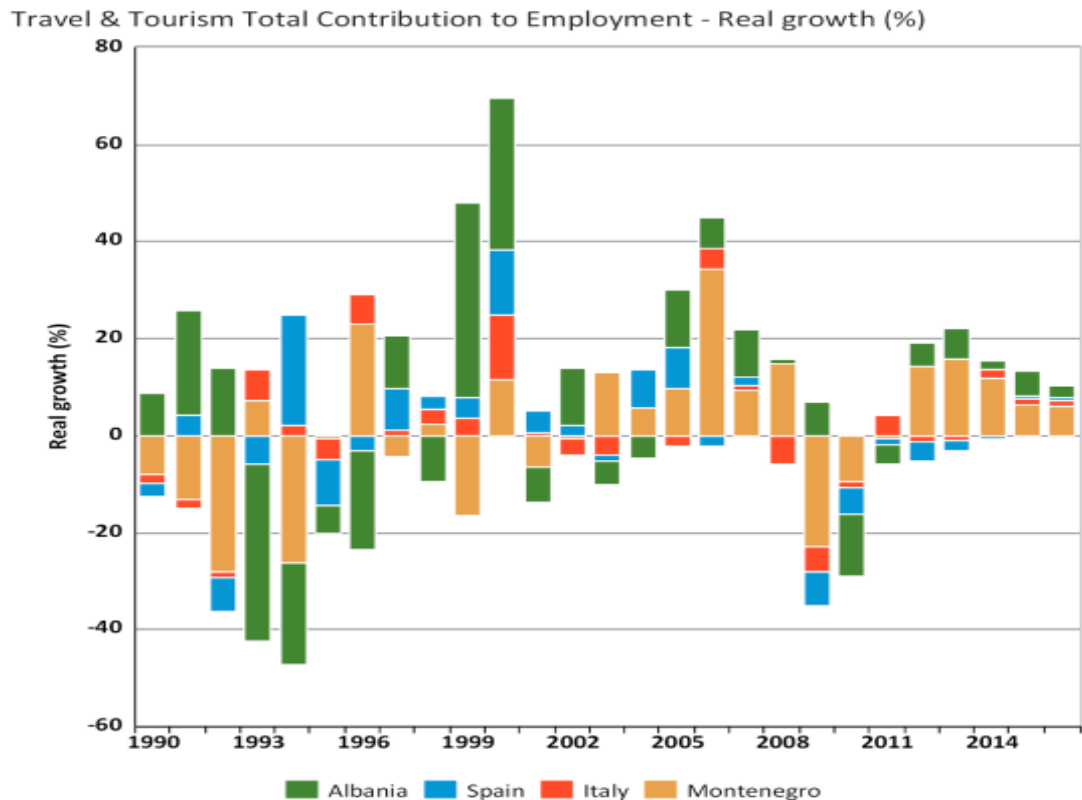
are Albania and Montenegro. Albania has its highest rate at the year 2000 and Montenegro at the year 1996 with 130% and 80% respectively. But should be also mentioned that GDP of our country would had have an higher trend from tourism if Albanian government and citizens would have known better the importance of tourism and by improving infrastructure service, accommodation etc.. What differentiates these two countries among their general distinguishing characteristics is that Albania has had less negative increase during first decade and still maintains positive increase rate of impact of tourism in GDP. The same cannot be said for Montenegro which in the year's 1991 till 1993 has had a negative increasing balance.

Italy at contrary is less frequent at increase rate of tourism trends in GDP which means that for the first decade tourism in Spain has not been a field of economy which has made a difference in GDP. This country for the first decade has had an average increasing rate of about 5% which compared to the other two countries it is considered a low rate of increase.

Spain at contrary it is the country that has had the highest negative increase in the first decade with a rate of -80% impact of tourism in total and directs contribution to GDP. In general for the first decade it must be said that Spain has had no positive impact on GDP for the first decade.

In the second decade the rate of increase for all countries is more stable compared to the first decade, in which still the country that reaches the highest rate of increase is Albania, followed by Montenegro and Spain. The highest rate of increase was reached in 2006 by Albania about 60 % and the negative highest increase rate it is reached by Spain in 2009 with about -40%. For the last five years we can say that countries that dominate are Montenegro and Albania which year by year are trying to increase tourism sector. At contrary for Spain and Italy for the last five years tourism has been a sector with less significant trend in total contribution to GDP.

### 4.1.3. Total contribution to Employment



**FIGURE 4.3** Total contributions to employment

*Source:* [World Travel and Tourism Council](#)

The picture of tourism trends on total contribution to employment is very variable. It is clearly noticed that for the first decade the % growth for all the countries is bigger compared with the second decade, where the growth do not pass the 20%. By observing more closely each country it is seen that Albania is the country with the highest positive and negative increase in growth of tourism direct and total contribution to employment. The highest negative increase is reached by Albania in 1994 with -50%. This phenomenon happened in the post communism period when people just started to find new opportunities for working. Also being that Albania is a country that tourism is one of the first income sources people started to invest in this field by opening many job positions

Spain and Italy in comparison to Albania are more stable at growth of tourism trends in employment and mostly they have a positive increase. But for these countries should

be mentioned that direct and total contribution to employment by tourism was more effective in the first decade like this reaching highest positive increase. For Italy the highest increase was reached in 1995 with about 30% and for Spain in 1999 by 40%. Montenegro has reached its highest total contribution to employment by tourism in 1995 with a rate of 23%.

Turning back to the second decade and more specifically to the last six years it is clearly seen that Albania is the country with the highest constant growth which means that for this country tourism trends in direct and total employment is still very strong. The second state is Montenegro that also in the last six years has had a constant growth but with lower rate than Albania. The reason after this growth is that both are Balkan small countries which still have a lot to be explored in tourism and investing field.

#### 4.1.4. Leisure Travel and Tourism Spending



**FIGURE 4.4** Leisure travel tourism spending

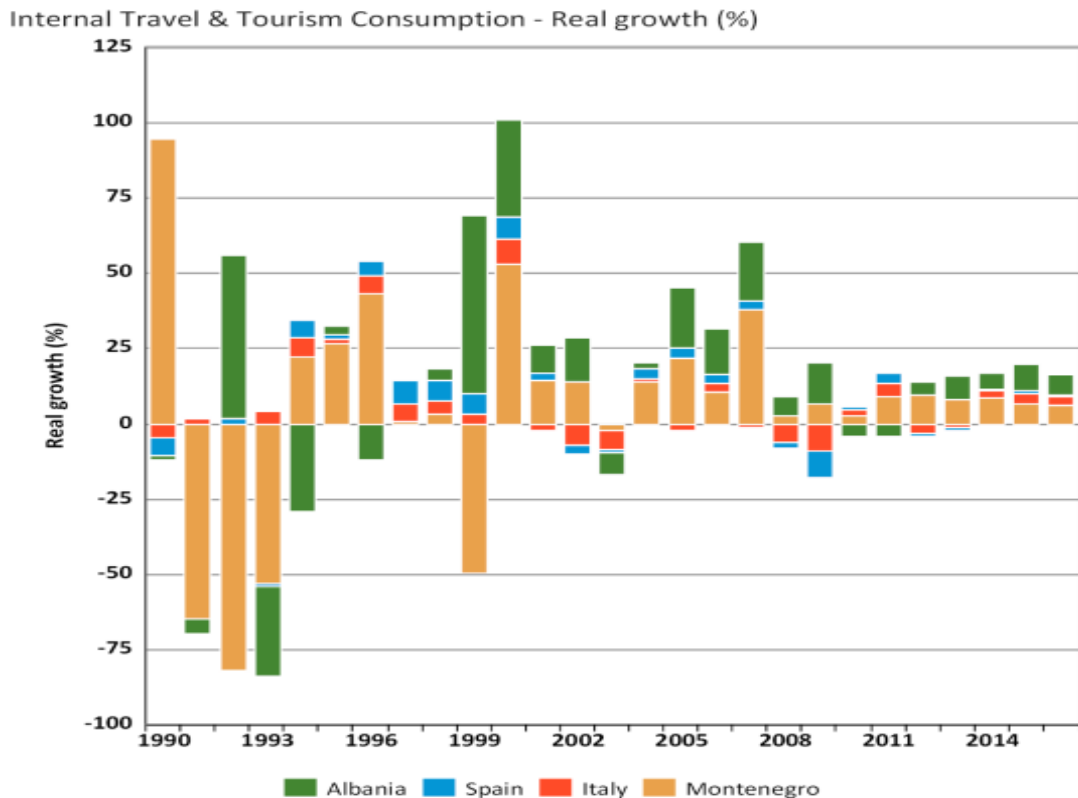
*Source:* [World Travel and Tourism Council](#)

If leisure travel through the years is taken into analyses ,the highest percentage increase it is reached in 2002 by Albania country about 550 % which is followed also by Montenegro in 1990 with 100% .These two countries are both Balkan countries and both of them have the same past regarding political regime and economic development .Montenegro has some advantages compared two Albania in the field of tourism because the country started to give importance and to develop tourism in an earlier stage than Albania. By developing their infrastructure and service Montenegro is a preferable place in Balkan and chosen for vacancy from many tourists. As it is seen from the graph the increase of leisure travels in Montenegro start in the early 1999having a significant increase. Compared to Montenegro, Albania has it significance increase in 2000 because of the political condition that our country had after political system change.

What is concerning in this graph not only for Albania and Montenegro but also for Spain and Italy is the decreasing trend of leisure travel growth through years. After the first decade none of these countries have had a significant increase in leisure traveling and tourism spending inside the countries. This is a negative trend which can vary from many factors. The most important factors which caused these low increases of leisure travel are related to economic difficulties which most of European and broader countries have suffered. Taking into consideration that these countries are mostly visited for vacancies from the European citizens and taking into consideration the financial crises it is able to give an explanation to this low increase. Even with very low increase Albania and Montenegro are still the only two countries which are having an increase in tourism spending even for 2016.This means those nowadays small countries such Albania and Montenegro with a great tourism potentiality is being more preferable four tourists through the entire world to spend their income and make their vacancies.



#### 4.1.5. Internal Traveling and Tourism Consumption



**FIGURE 4.5** Internal travel tourism consumption

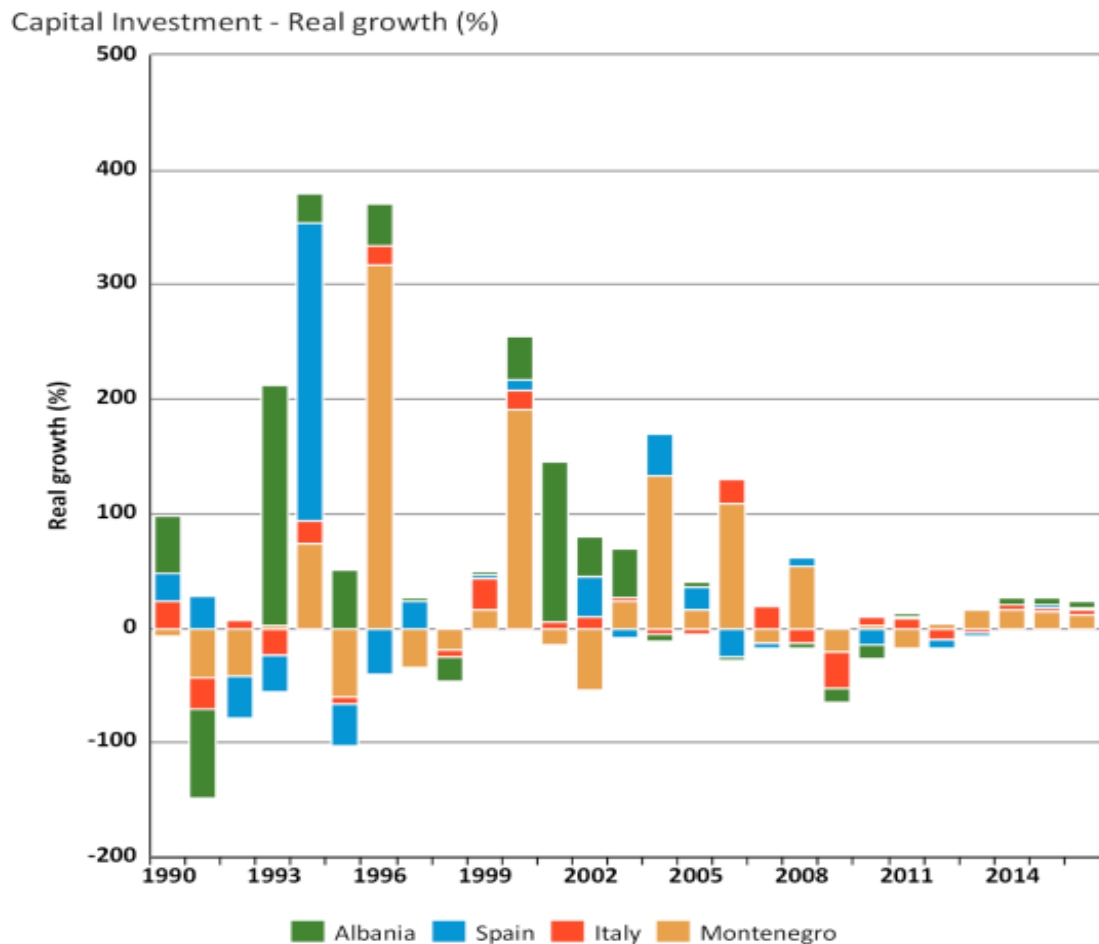
*Source:* [World Travel and Tourism Council](#)

Regarding the internal traveling all the four countries seems to have instability of increase through the years. Montenegro is one of the countries with higher negative and positive increase mostly for the first decade. For the years 1990-1993 Montenegro has the lowest tourism consumption and internal travel. On the other side Spain and Albania are both countries which internal traveling seems to have significant increase by increasing in this way also the tourism consumption inside the country. As it is shown by the graph the year 2000 is the pick year for both countries and after this year these countries seem to maintain this increase but more in moderate percentage. Italy seems to be the last preferable country for internal traveling which means also less tourism consumption inside the country.

Taking into consideration only the last five years we see that Spain has not had an increase in internal traveling while Italy and Montenegro seem to maintain an average

increase. As in other factors of tourism Albania still seems to have the highest increase in percentage also for internal traveling also for the last years and there is a trend of growing year after year.

#### 4.1.6. Capital Investment



**FIGURE 4.6** Capital Investments

*Source:* [World Travel and Tourism Council](#)

According to this graphic the most notable capital investment real growth is for Albania for the first decade and there is also very obviously seen a decrease of real growth for all the countries in the second decade. The highest real growth is in Albania in 1994 at the rate 370% and the lowest real growth it is also in Albania in 1991 at the rate -170%. This deviation has to do directly with the increase of importance that this country has decided to give to tourism. Spain which is the second from the capital investment in 1994 at the rate 360% has maintained a constant increase or decrease

through the first and second decade. Should be said that for Spain, the most negative year regarding capital investment growth is in 1995 with about -100 % increases. Also regarding the last six years this country has a negative or no increase at all in this field. This phenomenon starts at 2007 which corresponds to financial crises and which affected Spain significantly in all the fields of economy. Also for 2016 for this country is expected no positive impact in capital investment growth.

The last two countries Montenegro and Italy for the first decade as it is shown also in the graph have a positive impact in capital investment growth by reaching the highest 1996 corresponding .For Italy the highest rate is 330% and for Montenegro is 310%. Italy even though with no frequent increase in real growth in average maintains a positive increase till 2005. Albania and Montenegro are the only countries which still have an increase for the last three years in which Montenegro seems to have the highest rate. The factors after this increase are related with the expansion of these two countries with tourism.

#### **4.2. Economic Model**

As it is stated also in chapter three in this part there will be conducted VAR analysis in order to prove the main objective that this thesis has. The objective is to show the impact of tourism on economic stability for developing and developed countries. The four countries which are chosen for this analysis are selected in base of their small distance of geographical position and also in base of their similarities regarding policies of organizing tourism and tourism structures.

In order to conduct a more accurate study the analysis is separated in two parts. First will be analyzed how these variables Visitor export, Capital investment, Consumer price index and employments effect GDP for developed countries chosen which are Italy and Spain. The main focus is to find the impact of Visitor export (foreign tourist spending inside a country) on Gross Domestic Product.

The first equation of the model is:

$$\mathbf{BGDP = BEXP + BEMPL + BCI + BPCI}$$

#### 4.2.1. Model Results

TABLE 4.1. Impact of export of visitors on developed countries

THE EFFECT OF EXP,EMP,CPI,CI ON DEVELOPED COUNTRIES					
	BGDP	BEXP	BEMP	BCPI	BCI
FIRST LAG	.759 [ 2.66795]	-.226 [-1.21018]	-.286 [-1.51517]	-2.054 [-2.77000]	.016 [ 0.82254]
SECOND LAG	.123 [ 0.39553]	-.029 [-0.15584]	-.052 [-0.28923]	1.498 [ 1.28132]	.008 [ 0.41368]
THIRD LAG	.099 [ 0.36614]	-.006 [-0.03628]	-.097 [-0.55289]	1.583 [ 1.37750]	.016 [ 0.76994]
FOURTH LAG	-.296 [-1.15314]	.050 [ 0.42104]	.077 [ 0.40999]	-1.140 [-1.36848]	.002 [ 0.09062]

From this table it is understood that for developed countries the impact of visitor export but also of other variable is not significant to the GDP. This because for big developed countries such Spain and Italy which GDP is affected also by many other economic variables the export of visitor and tourism income do not have direct and significant impact on GDP.

The second analysis will be conducted on how these variables Visitor export Capital investment, Consumer price index and employments effect GDP for developing countries chosen which are Albania and Montenegro. Also in the second analysis the main focus is to find the impact of Visitor export (foreign tourist spending inside a country) on Gross Domestic Product.

The second equation of the model is:

$$\mathbf{DGDP = DEXP + DEMPL + DCI + DPCI}$$

#### 4.2.2. Model Results

TABLE 4.2. Impacts of export of visitors on developing countries

<b>THE EFFECT OF EXP,EMP,CPI,CI ON DEVELOPING COUNTRIES</b>					
	<b>BGDP</b>	<b>BEXP</b>	<b>BEMP</b>	<b>BCPI</b>	<b>BCI</b>
FIRST LAG	-.132 [-0.69198]	.384 [ 1.14790]	-.572 [-0.69068]	.095 [ 0.10316]	.115 [ 0.53687]
SECOND LAG	.183 [ 1.15029]	-.380 [-1.34293]	1.344 [ 1.68809]	.555 [ 0.42925]	-.250 [-0.99965]
THIRD LAG	-.018 [-0.11872]	1.029 [ 3.99649]	1.255 [ 1.61930]	-1.719 [-1.26467]	-.471 [-2.12940]
FOURTH LAG	.104 [ 0.78158]	.206 [ 0.77225]	-1.552 [-1.82111]	.746 [ 0.73212]	-.085 [-0.39988]

From the result of the table it is seen visitor export for developing countries is significant on GDP. What it is understood from this table is that visitor export variable but other variables also as employment from tourism have significant impact on GDP ,but this impact it is shown on the third year. So it must be stated that this variables even though have direct significant in GDP for developing countries their effect show impact GDP only after the third year. Regarding CPI and CI (capital investment) they do not have significant effect on GDP even after the third year.

## **CHAPTER 5**

### **CONCLUSION**

#### **5.1 Overall Conclusion**

The main objective of this thesis is to identify the impact of tourism on economic stability. Through a literature review, descriptive and graphical analyses and through a simple VAR analysis, this study answers this question in two perspectives:

From graphic analysis: Making comparison between four countries Spain, Italy, Albania and Montenegro and for the five factors taken into to analysis should be concluded that regarding:

- a) Visitor export where in a general summary seems to have higher trend in all the countries in the first decade that is being analyzing. The country with higher trend negative and positive remains Albania and where is clearly seen that there are higher trend of visitor export in developing countries rather than in developed ones.
- b) Total contribution of tourism on GDP where for the last five years we can say that countries that dominate are Montenegro and Albania which year by year are trying to increase tourism sector. At contrary for Spain and Italy for the last five years tourism has been a sector with less significant trend in total contribution to GDP.
- c) Regarding total contribution of tourism on employment Albania is the country with the highest positive and negative increase in growth of tourism direct and total contribution to employment. This means that for developing countries tourism plays an important role regarding employment growth rate.

- d) The decreasing trend of leisure travel has decreased through years. After the first decade none of these countries have had a significant increase in leisure traveling and tourism spending inside the countries. This is a negative trend which can vary from many factors. The most important factors which caused these low increases of leisure travel are related to economic difficulties which most of European and broader countries have suffered.
- e) Taking into consideration only the last five years it is seen that developed country such as Spain has not had an increase in internal traveling while Italy and Montenegro (developing) seems to maintain an average increase. As in other factors of tourism Albania (developing) still seems to have the highest increase in percentage also for internal traveling also for the last years and there is a trend of growing year after year.
- f) According to this graphic the most notable capital investment real growth is for Albania for the first decade and there is also very obviously seen a decrease of real growth for all the countries in the second decade. Albania and Montenegro are the only countries which still have an increase for the last three years in which Montenegro seems to have the highest rate. The factors after this increase are related with the expansion of these two countries with tourism.

The results of a simple VAR analysis which can be concluded that countries with small economic capacity and limited options of developing many industries, also with low development of tourism background are directly affected from tourism in generating income. This was proved through VAR analysis in which visitor export has significant effect on developing countries but the effect was shown after the third year. While for developed countries visitor export had no significant effect.

## **5.2 Limitation of the study**

This study was made through a simple VAR analysis, including 4 independent variables and around 26 observations. We know that a higher number of variables and observations would make the study more accurate. Furthermore, through the VAR analysis we could see what the impact of visitor export on the GDP was. This means that the relationship between the tourism and its effect on the economy is very complex and dynamic and cannot be explained only through a simple analysis. Nevertheless, as

seen from the literature, there have been much more complex studies in regards, showing the same results and being largely discussed and criticized.

### **5.3 Implications**

This research has implication for different areas of economy. Firstly has an implication for the policy makers such as Government of the countries which are taken for the analysis which is directly related to improvement of the economy. Being that tourism is the leading economic sector in developing countries , this research helps understand the weak point and the real effect that this sector has in economic stability. Also this study helps them at tourism strategy for upcoming years and how to influence on increasing GDP.

This research is also useful for investors which plan to invest in developing countries such as Albania and Montenegro also stimulating investment of developed countries, being that last years have not been so successful for developed countries in tourism sector. Through comparison with other countries it is clearly stated the real place and situation of tourism in developing countries which help investors to have a clear idea of what effect tourism has and in what they should invest in order to take advantages from this.

By creating the economic model and testing all these variable such as GDP per capita, impact on employment, capital investment ,consumer price index, and employment. This a good study for every person which want to invest or want to conduct a study regarding these field.



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