The Economic Impact of International Tourism on the Gozitan Economy

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1. INTRODUCTION

The economic impact of international tourism on the Gozitan economy has never been properly measured. We know from observation of economic activity in Gozo that tourist expenditure generates considerable income and employment in the island, but we do not have the data to quantify it properly. This paper attempts to shed some light on this question.

Following this introductory section, we shall give a few basic statistics on tourist inflows in the Maltese Islands, with a view of placing Gozitan tourist inflows within this aggregate.

Section 3 describes the methodology commonly used to measure the economic impact of tourism, and describes the few studies that have focused on the Maltese economy.

Section 4 briefly describes a few multiplier studies applied to Maltese tourism, and utilises the results of one of these studies to produce rough approximations of the impact of tourism expenditure on the Gozitan economy. Section 5 concludes the study.

2. TOURISM IN THE MALTESE ISLANDS

A discussion on the economic impact of tourism has to be based on a very clear distinction between the term "tourist industry" and the

term "tourist expenditure".

The tourist industry covers hotels and other establishments which operate mostly in tourism. In the Maltese Islands, this industry is not a very large one when considered in isolation. In recent years it contributed around 7% to the Maltese GDP. However, this industry has considerable direct, indirect and induced effects on the economy, as will be shown in this study.

Tourist expenditure covers expenditures on products of the tourist industry and on products of other industries, such as banking, wearing apparel and others. In recent years tourist expenditures (including transportation) probably accounted for around 20% of GDP during the eighties and early nineties. It also accounted for around 25% of total foreign exchange receipts from trade in goods and services. It is therefore a major source of foreign exchange inflows.

The number of incoming tourists in 1992 (the most recent year for which we have complete data) was around 1 million. Just over 50% of these came from the UK. Most of the remaining 50% came from Germany, France and Italy in that order. Most tourists come to Malta during the summer and "shoulder" months to enjoy the sea and the sun. The average duration of stay per tourist in 1992 was just under 12 days. The total tourist expenditure during the same year was Lm181 million.

International Tourism in Gozo

As is well known, Gozo is a small island, forming part of the Maltese archipelago. It has a population of 26,800, and a land area of just 67 km², giving rise to a population density of around 400 persons per km².

The precise amount of international tourists visiting Gozo is not known, but in 1993, it probably amounted to around 100,000. This figure was arrived at by the present author after conducting interviews with a number of Gozitan hoteliers and owners of self-catering establishments, and consulting with research officials of the NTOM for the plausibility of this estimate. From the same inter-

views, it appears that the average stay per international tourist in Gozo was approximately 11 days in 1993.

This excludes all Maltese tourists and all non-Maltese day trippers (called visitors to be distinguished from tourists). Expenditure by Maltese visitors to Gozo is of course an important source of income for Gozitans, including those employed with Gozo Channel. However, we shall not discuss the impact of expenditure by Maltese tourists and visitors in this paper.

From a sample survey carried out by the NTOM, an average of 65% of all international tourists visiting Malta in 1993, also visited Gozo on a day trip, which means that in that year just under 600,000 tourist crossed over to Gozo. This is slightly higher than the number of tourist (blue) tickets, sold by Gozo Channel during that year, which amounted to just under half a million. The discrepancy may be attributed to statistical error in the NTOM sample survey and to the fact that many tourists crossed over to Gozo by helicopter.

In this study we shall assume that the number of tourists and visitors amounted to 500,000, on the grounds that the Gozo Ferry blue ticket-sales can be considered as almost a headcount of non-Maltese travellers. Reducing the 100,000 or so who visited Gozo as tourists, the number of day-trippers would be around 400,000.

Gozo as a Tourist Destination

Gozo has its own particular characterises, which make it, in many ways, different from the island of Malta as a tourist destination. It is greener, cleaner and quieter than the island of Malta. It also offers a somewhat more "up-market" product. The island has a number of varied and important attractions, including quaint beaches, unique neolithic temples and a rich historical heritage.

As is the case with mainland Malta, in Gozo British tourists account for the highest share of tourist arrivals. Gozo does not feature as a separate destination in British mass tourism brochures, such as Thomson, Airtours and Owners Abroad, which dominate the British market. However, the island features in the so-called specialist

tour operator-brochures, which often have Maltese ownership. These include Multitours, Aquasun, Holiday Malta, Gozo Holidays and Transair. The last two specialise on Gozo.

These specialist operators account for around 30% of the market for the Maltese Islands, often operating in close collaboration with Air Malta. The share of specialist operators in Gozitan tourism in much higher than that for the Maltese islands as a whole.

Another important tourism segment in Gozo is the German market, which like the British one, is also tour operator oriented, but much smaller.

Italian and French tourists also account for an important share of the Gozitan market, generally travelling on an individual basis. Their share of the market is much smaller than the British one.
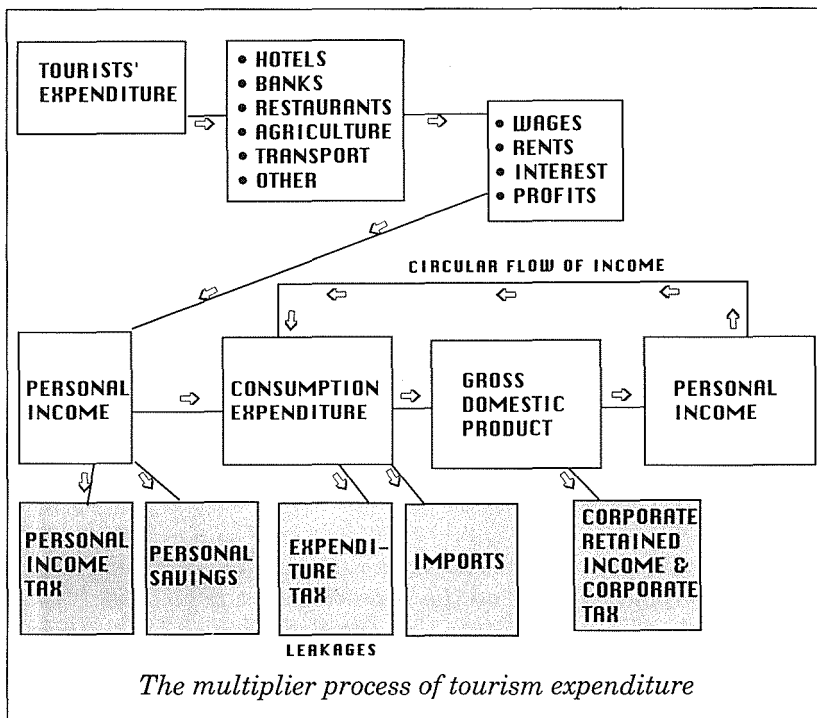
3. TOURISTS' EXPENDITURE AND THE MULTIPLIER

The tourism multiplier process takes place because a proportion of tourist expenditure is received as income by Maltese and Gozitan residents, who again spend the non-taxed and non-saved portion of this income on consumption. That part of consumption expenditure which is not spent on imported goods and services from abroad, is received by residents, who again re-spend part of it, with the non-imported content going to Maltese and Gozitan residents.

This gives rise to new rounds of spending and re-spending, and therefore to further increases in the income of residents.

Briefly, therefore, a tourism multiplier model would estimate the proportion of tourists' expenditure that goes on value-added generated in Malta, after excluding imports, and the proportion of income from value-added that, through consumption expenditure, generates further income to residents.

In such a model, imports, savings and taxation are called leakages, which have to be reduced at every round of spending.

| TOURISTS' EXPENDITURE | ⇨ | • HOTELS
• BANKS
• RESTAURANTS
• AGRICULTURE
• TRANSPORT
• OTHER | ⇨ | • WAGES
• RENTS
• INTEREST
• PROFITS |

CIRCULAR FLOW OF INCOME

| PERSONAL INCOME | ⇨ | CONSUMPTION EXPENDITURE | ⇨ | GROSS DOMESTIC PRODUCT | ⇨ | PERSONAL INCOME |

| PERSONAL INCOME TAX | PERSONAL SAVINGS | EXPENDI-TURE TAX | IMPORTS | CORPORATE RETAINED INCOME & CORPORATE TAX |

LEAKAGES

The multiplier process of tourism expenditure

Studies on the Multiplier Effect of Tourism in Malta

A few models of this type have been constructed for incoming tourism to the Maltese islands. Waldorf (1969) provided estimates through a simple Keynesian expenditure model, which was too aggregative to produce meaningful results. A more recent study is that by Howarth and Howarth (1989). This study had a number of shortcomings, the most important of which was that the results on tourism data were collected from other European and Mediterranean countries.

A very useful study is the report by P.A. Cambridge Consultants, authored by Tarling and Rhodes (1990). The report presents survey-data on the Maltese value-added content of tourist expenditures, including transportation.

Table 1 Tourism Multipliers in Malta			
	Injection		
Multiplier Effects on:	Tourist Consumption	Air/Sea Transport	Weighted Average
Gross Domestic Product	1.039	0.436	0.872
Disp. Personal Income	0.673	0.329	0.574
Corporate Retained Income	0.061	0.030	0.052
Taxes (Income and Expend.)	0.298	0.010	0.215
Imports	0.572	0.521	0.561

Source: Briguglio (1992).

Finally a study by the present author (Briguglio, 1992) utilises an input-output model based on the Leontif-inversion method. It combines and simultaneously estimates, the direct, indirect and induced income effect of tourist expenditure.

Estimates of Tourism Multipliers for the Maltese Economy

In a model constructed in Briguglio (1992), the multiplier effect of tourism was calculated on a number of economic aggregates. The results are summarised in Table 1. The table shows that the multiplier effect on GDP associated with tourism expenditure is much higher than the multiplier effect associated with transport - the reason being that tourist transport expenditure has a much higher import content than tourist consumption expenditure.

The tourist weighted multiplier (ie. consumption and transport taken together) indicates that for every Lm100 spent by tourists, the Maltese GDP grows by Lm87.2, corporate retained income increases by Lm5.2, disposable personal income by Lm57.4, taxes by Lm21.5 and imports by Lm56.1.

The above results are based on the assumption that government

expenditure is independently determined. It can be argued that government expenditure is not strictly speaking exogenous, because it depends on taxation, which is induced within the system. If government expenditure is endogenized, the multiplier impact would be somewhat greater.

Investment is also assumed exogenous. This is a plausible assumption for the short run. However, a given increase in GDP, which gives rise to an increase in retained profits in any one year, may generate investment expenditure in following years. The above multiplier estimates do not take into account this lagged induced investment effect, since the model assumes that the multiplier process would be completed in one year.

The present author (Briguglio, 1992) also calculated what are known as sectoral multipliers, which trace the impact of tourist expenditure on the various economic sectors. This approach, based on input-output analysis, is very useful because it sheds light on the degree to which sectors depend on each other, and gives an indication regarding the extent of the linkages.

The input-output multipliers produced by the present author show that tourism income multipliers are relatively high, but not the highest, when compared to the other industries in the Maltese economy. Final demand for public services, construction, agriculture and furniture have higher multiplier coefficients than tourism expenditure. In other words, a Lm100 spent, for example, on construction has a higher impact on GDP than a Lm100 spent by tourists. However, tourist expenditure, according to the same study, has higher multiplier coefficients than expenditure on clothing and electrical machinery, which are the most important types of merchandise exported from Malta. In fact, the multiplier effect associated with tourism was approximately one and a half times that associated with clothing and two times as much that associated with machinery.

The input-output multipliers also show that tourist expenditure has had an impact on other sectors, with the highest impacts being on Personal Service, Public Services, Food, Agriculture, Electricity, Beverages, Tobacco and Clothing in that order.

4. EXPENDITURE BY TOURISTS IN GOZO

The impact of international tourism on the Gozitan economy is likely to be very large, since it generates income and employment not only in hotels, but also in many other sectors, including agriculture and fishing, retail trade, printing, transport services and banking.

As stated, data on tourist expenditure in Gozo does not exist, and the only way one can calculate the impact of such expenditure on the Gozitan economy is by making rough approximations – which are nothing more than educated guesses.

It was stated above that as a rough approximation around 100,000 international tourists and around 400,000 non-Maltese day-trippers visited Gozo in 1993. It is not easy to translate this into expenditure. In the absence of knowledge as to whether or not the average tourist in Gozo spends more or less than the average tourist in Malta, we shall assume that each tourist in Gozo spends approximately Lm200, which is the approximate average expenditure in 1993 for the Maltese islands as a whole. As an approximation for 1993, therefore, total expenditure by international tourists, amounted to Lm20 million.

As to the non-Maltese day trippers, we can propose a rough approximation by excluding the hotel component from Lm200 and dividing the result by the average number of days stayed per tourist.

On the basis of calculations carried out by the present author, this would amount to around Lm6 per day tripper, excluding the ferry ticket. Assuming that the number of foreign day trippers amounted to 400,000, the total expenditure would be approximately Lm2.4 million. The total expenditure by international tourists and visitors would, under these assumptions, amount to Lm 22.4 million.

In addition to tourist personal expenditure, one should include the income that is derived by Gozitans through the operation of the Gozo Ferries. Given that 500,000 foreigners crossed the Gozo Channel in 1993, an expenditure of Lm0.8 million is a plausible estimate.

Day trippers and tourists to Gozo generate considerable income and employment in the island

All this expenditure has multiplier effect, which we have discussed in a previous section.

On the basis of the approximations just discussed and on the multiplier estimates described above, one can make some tentative conclusions, including:

1. An expenditure of Lm22.4 million by international tourists and visitors, may have generated an income of around Lm23 million in the Gozitan economy, after reducing the import content, and after including all the rounds of spending and re-spending.

2. An expenditure of Lm0.8 million on Gozo channel crossing by foreigners generated additional income to the Gozitans. It is not possible to calculate the multiplier effect of such expenditure with any degree of precision, for a number of reasons, the most important of which being that not all incomes of the Gozo Channel accrues to the Gozitan people, and we do not have information on the import content of running the Gozo Ferries. However, assum-

ing that the wage content earned by Gozitans is 30% of final sales, the multiplier effect arising from wage rates may be in the region of 0.4. This means that around Lm320,000 could be the value added generated in Gozo, via the wage component. This figure has however to be considered as a tentative one, and should be interpreted with great caution.

3. According to the input-output multiplier for the Maltese islands, described above, tourism expenditure has a relatively high multiplier impact when compared to other exports such as textile and clothing and machinery. The reason for this is that tourist expenditure generates considerable demand in almost all industries, but most of all in market services (including the tourist industry itself, retail and wholesale trades, transport and communications and banking), agriculture, food, beverages, tobacco and the clothing industries.

5. CONCLUSION

This study focused on the impact of tourism expenditure on the Gozitan economy, with reference to multiplier models. The rough estimations produced in this study would seem to indicate that the direct impact of tourist expenditure (excluding sea and air transport) is in the region of Lm23 million.

It should be emphasised again that because of data limitations, this estimate should only be considered as very rough approximations, and therefore it should be interpreted with great caution.

In spite of its limitations, the study may have served two main purposes.

Firstly it contains a discussion on the impact of tourist expenditure and its multiplier effect on the economy of the island. This type of analysis is important if we are to assess the relative importance of tourism in the Gozitan economy.

Secondly, and perhaps more importantly, the study has emphasised the need for improving the quality of Gozitan tourism data. As things

stand at the moment, tourist expenditure statistics, even for the Maltese Islands as a whole, are not easily adaptable for calculating the multiplier effect. They are too aggregative, and researchers do not find it easy to calculate the import content and the value added that such an expenditure generates in the Maltese islands. This shortcoming is even more pronounced for the Gozitan economy, since data on tourist inflows and on tourist expenditure in Gozo is not collected on a systematic basis.

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