

Potential Multiplier Effect of Tourism Sector in Northern Cyprus

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Abstract

In recent years, tourism has proved to be one of the locomotive sectors in the economy of the Northern Cyprus (TRNC) and has sustained its trajectory, thereby contributing to economic growth. However, tourism statistics show that net tourism income and growth is extremely unstable and tourism revenue per capita is comparably lower compared to that of highly developed countries. Because of this the aim of this study is to determine the potential multiplier effect of tourism and compare it with real figures. In this respect, some factors identified have negative effects on the tourism sector, namely leakages that reduce the multiplier effect. Accordingly, these leakages are the size of the import-export ratio, an inefficient system of incentives, the characteristics of the services provided by the tourism sector, and the nationalities of employers and employees leading to an amplified transfer of tourism income abroad.

Key words

TRNC development, tourism, locomotive, multiplier effect

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1. Introduction

Two sectors having comparative advantages and thus being locomotives of the economy can be identified in the TRNC. These are higher education and tourism. According to Technopolis (2012), higher education is considered as part of educational tourism. Therefore, as locomotive sector with a comparative advantage for the TRNC, tourism comes first. Because of the comparative advantage of tourism, a master plan and inventory work were done between the years 1995-2008 in order to capitalize on future opportunities. Furthermore, in addition to the great hotels, boutique hotels, special interest tourism and eco-tourism were planned in order to establish a framework of diversity in the sector (YHB, 2014).

The term locomotive refers to the potential of having comparative advantage, creating jobs and leading to developments in other sectors. Tourism covering Higher Education, also known as education tourism, has become the sole locomotive sector in the TRNC. In this context, expenditures and investments made for tourism would benefit the entire economy in general.

First of all, a kind of tourism that has significant effects on the balance of payments is an invisible export item. Investments in this area will lead to proportionally very high levels of foreign exchange earnings (Kozak *et al.*, 2000; İçöz, 1987). In addition to its contributions to the balance of payments, the impacts of the tourism sector to the national economy can be summarised thus: revenue impact (Timur, 1986), additional export impact, impact on domestic prices, impact on state revenues and expenditures (Bayer, 1992), investment impact, impact on the balanced regional development, employment impact and impact on fair income distribution (Tutar *et al.*, 2013).

Any expenditures or investments in the tourism sector are expected to generate revenues well above the absolute value for itself and the overall economy. This economic impact is called multiplier effect. The most important factor negatively affecting the multiplier effect is leakages. In this context the aim of the study was to determine the potential impact of tourism expenditures and to compare it with real figures by referring to leakage factors reducing multiplier effect. The potential multiplier effect and leakages of tourism expenditures and/or investments will be assessed based on the economic data of 2014 and before.

2. The concept of multiplier

The impact of tourism income in an economy occurs in three ways. These are: 1) Primary - Direct revenue (expenditures made as a result of the purchase of a tourism product); 2) Secondary - Indirect income (expenditures made between businesses arising from primary income); and 3) Induced income (expenditures made by individuals employed and/or earning in the tourism sector). While some revenues go out of circulation, the economy continues processing the remaining amount. A portion of revenues arising from the multiplier effect goes out of the economy due to leakages. There is an inverse relationship between the multiplier effect and leakages and hence positive economic effect (Emir, 2012: 9, 11).

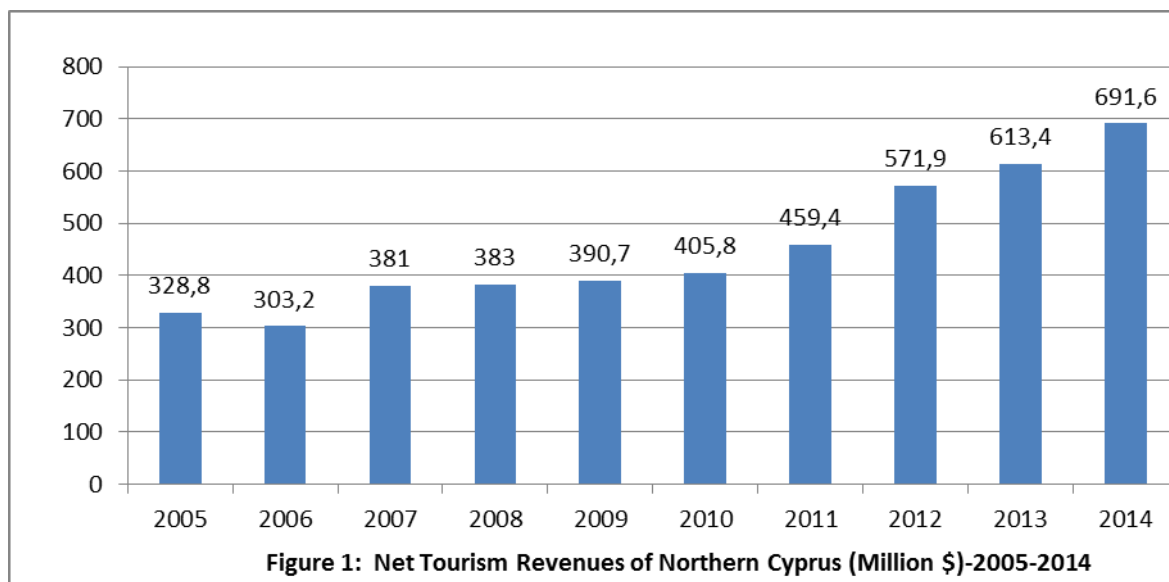
The multiplier effect in its simplest form means how many times money spent by a tourist circulates through a country's economy. This is expressed by the following equation: (Bryden, 1983; Akt. Tutar ve Tutar, 2004) $k = [1/(1-mpc)]$, where mpc shows the marginal propensity to consume. The direct income for an area is the amount of tourist expenditure that remains locally after taxes, profits, and wages have been paid outside the area and after imports have been purchased; these subtracted amounts are called leakages (Hughes, 1990; UNEP, 2016)

3. Economic importance of the tourism sector in Northern Cyprus

In this section, retrospective economic importance of tourism as the locomotive sector of economy in Northern Cyprus will be assessed in order to determine its real economic contribution. In this context, net tourism revenues, the ratio of net tourism revenues to the foreign trade deficit, the sectoral contribution of tourism to the economy, its contribution to employment and the increase in the number of tourists were considered

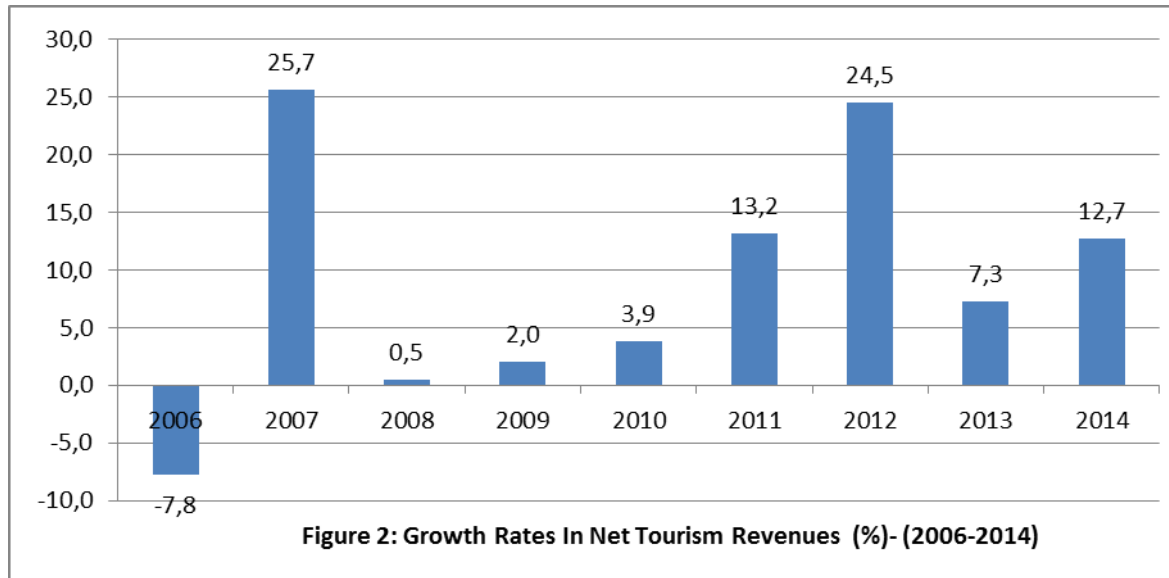
Net Tourism Revenues

As seen in Figure 1, especially after the year of 2011, net tourism revenues significantly increased in absolute terms. In numbers, net tourism revenues increased from 459.4 million \$ to 691.6 million \$ between the years of 2011 and 2014.

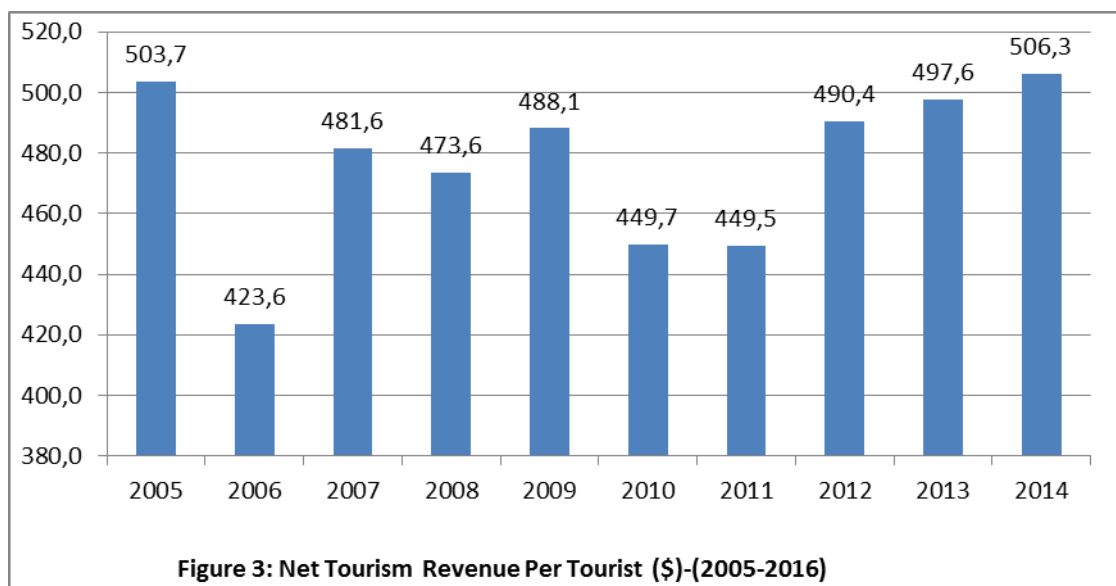


Source: State Planning Organization of Northern Cyprus

Unlike the absolute increase growth rates of net tourism revenues were unstable, as is shown in Figure 2. Accordingly, the growth rates in net tourism revenues were reported to be 13.2%, 24.5%, 7.3% and 12.7 % in the years of 2011, 2012, 2013 and 2014 respectively.



The target audience to whom the tourism sector of Northern Cyprus appeals is extremely unstable, as clearly seen in Figure 3. Even though after 2011 net tourism revenue per tourist started to increase and reached \$ 506.3 in 2014, this amount is equal to the income of 2005.

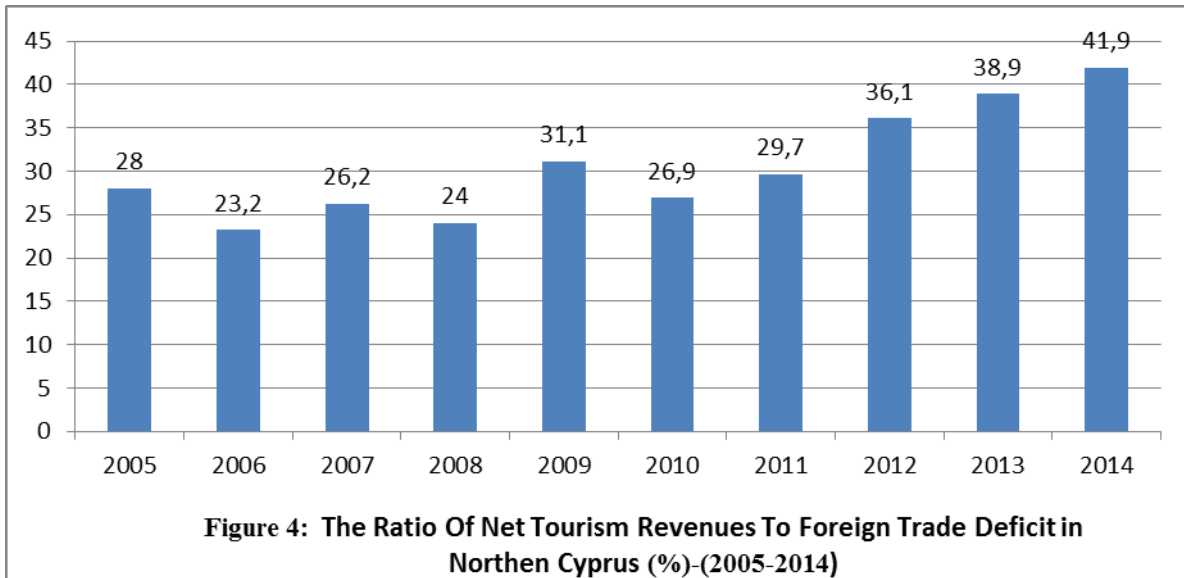


Net tourism revenue per person of Northern Cyprus is evaluated to be unsatisfactory when compared to other countries. In 2014, net tourism revenues per foreign tourist in Turkey, USA, Germany, England, Spain, Italy and China were 775 \$, 1,881\$, 1,267\$, 1,241\$, 872\$, 1300 \$ and 862\$ respectively¹. Furthermore, net tourism revenue per person in South Cyprus was reported as 829 Euro (994\$) in that year (Statistical Service, 2015).

Net Tourism Revenues and Foreign Trade Deficit

The most obvious indicator evidencing the increase in the importance of tourism is the ratio of net tourism revenues to the foreign trade deficit (Figure 4). Especially, this ratio started to increase since 2010. While it was 26.9 percent in 2010, it became 41.9 percent in 2014.

¹ <http://www.dunya.com/ekonomi/ekonomi-diger/turist-harcamasi-ve-geceleme-10-yildir-yerinde-sayiyor-219413h.htm>;



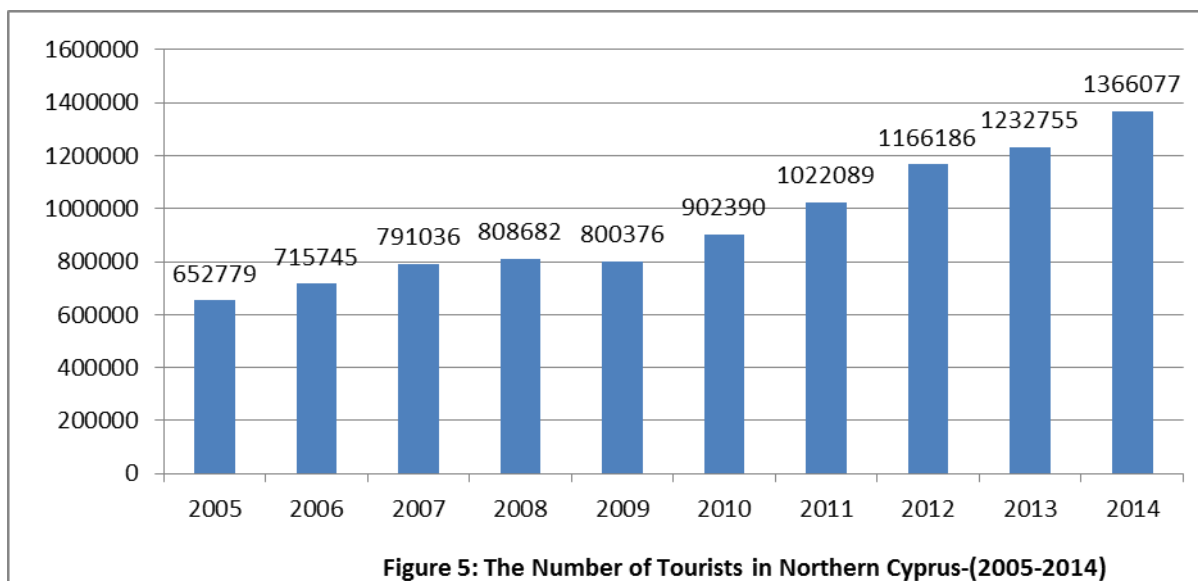
Source: State Planning Organization of Northern Cyprus

Employment and Value Added

According to the data of the Tourism Planning Department, the total number of employees in tourist accommodations was 6,346 in 2014. When the other accommodation facilities, tourist and travel agencies and casinos are also considered, the employment rises to 12,144 people. This is tantamount to 12 percent of total employment, which is about 100,000 people in Northern Cyprus. (Central Bank of Northern Cyprus, 2015). The share in the gross value added showed considerable increase in tourism since 2010. Namely, the share of "hotel-restaurants" increased to 9.9 percent in 2013 from 5.9 percent in 2010 (SPO, 2015a).

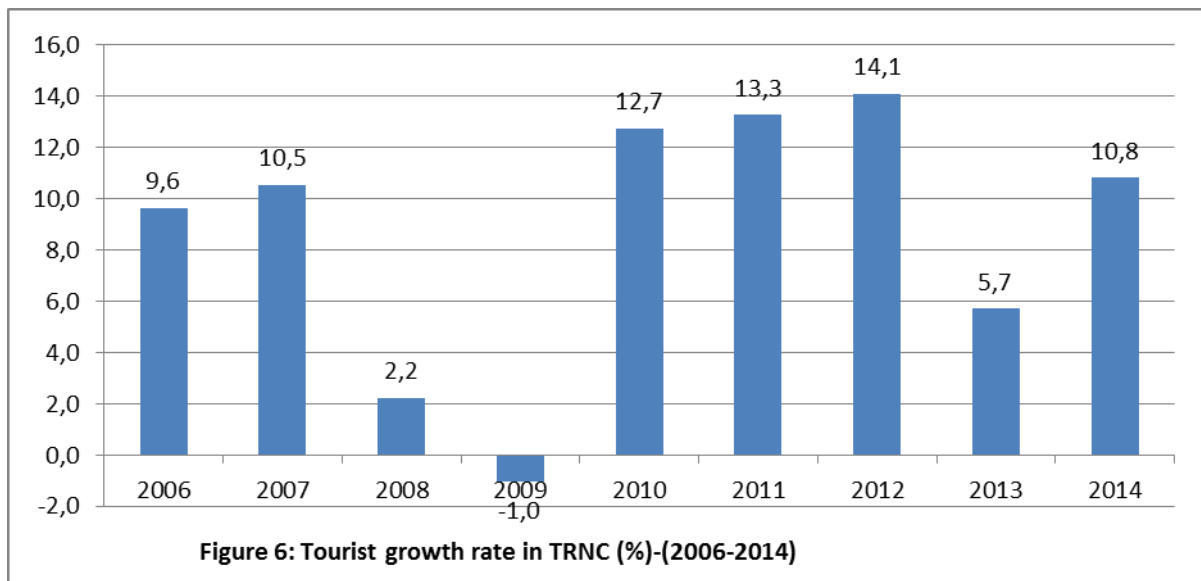
The Number of Tourists

The year of 2011 was a breaking point with respect to the number of tourists coming to the TRNC. After this year, the number of tourists has exceeded one million and, after the increase had continued, amounted to 1,366,077 people in 2014 (Figure 5).



Source: State Planning Organization of Northern Cyprus

Especially between 2010 and 2012, a considerable success in increasing the rate of tourist growth was achieved. However, the growth rate declined to 5.7% from 14.1% in 2013, and then increased to 10.8% in 2014 (Figure 6).



Source: State Planning Organization of Northern Cyprus

3. Tourism expenditures and the multiplier effect in Northern Cyprus

Related to the multiplier effect in tourism, the formula $k = [1/(1-mpc)]$ has been emphasized above. The multiplier effect of tourism expenditures in Northern Cyprus has been evaluated based on the real values of the years of 2012 and 2013.

Table 1. The General Balance of Economy with 1977 prices in Turkish Liras (TL)

Explanations	2012	2013
1. Total Resources	15,594.3	15,465.8
1.1. GNP (Gross National Product)	15,102.4	15,293.6
1.2. External Deficit	491.9	172.2
2. Total Investments	2,567.0	2,316.1
2.1. Capital Asset	2,389.9	2,315.8
2.1.1. Public	469.7	436.9
2.1.2. Private	1,920.2	1,878.9
2.2. Change in Stocks	177.1	0.3
2.2.1. Public	48.7	-66.2
2.2.2. Private	128.4	66,5
3. Total Consumption	13,027.3	13,149.8
4. Public Disposable Income	3,257.8	2,706.5
4.1. Public Consumption	3,642.1	3,704.9
4.2. Public Savings	-384.4	-998.4
4.3. Public Investment	518.5	370.7
4.4. Public Savings-Investment Difference	-902.8	-1,369.1
5. Private Disposable Income	11,844.6	12,587.2
5.1. Private Consumption	9,385.2	9,444.8
5.2. Private Savings	2,459.5	3,142.3
5.3. Private Investment	2,048.5	1,945.4
5.4. Private Savings-Investment Difference	410.9	1,196.9
Private Savings Ratio (%)	20.8	25
6. Total Domestic Savings	2,075.1	2,143.9
Investments/GNP (%)	17	15.1
Savings/GNP (%)	13.7	14.0

Source: (State Planning Organization, SPO, 2015b)

When the private savings ratio is considered as 25%, the marginal propensity of consumption can be assumed to be 75%. In this case, the multiplier coefficient for the year 2013 is calculated as 4. Namely, any unit of expenditure or investment made in the TRNC's tourism sector is predicted to generate an income of 4 units. Thus one can compute how much income will be generated following the investment promotions and fixed capital investments - granted in the first place by the Turkish Republic Aid Committee – for tourism in the TRNC.

As part of Turkish Republic's aid program to increase the tourism demand, a total of 35.4 Million TL has been spent. In addition to this, in the shape of aid to the tourism regions under the name of Contribution Project, Turkey has spent a total of 1.6 Million TL (YHB, 2014). Moreover, the Budget of the Ministry of Tourism, Environment and Cultural Affairs for the year 2013 has been approved as 67 Million TL by the General Assembly of the Republic's Parliament¹.

In 2013, total fixed capital investments intended for the tourism sector have been realized as 64.4 Million TL (SPO, 2015b). In 2013, total bank placements earmarked for tourism is 169 Million TL (SPO, 2015b).

As seen in figure 1, the net tourism income has increased by 41.5 million dollars in 2013 as compared to 2012. However, taking investment promotions, the budget of the ministry, fixed investments and bank placements intended for the tourism sector within the same year into consideration, the multiplier effect together with the increase in tourism income are predicted to be considerably higher than what is realized. This prediction is numerically shown in table 2.

Table 2. The Multiplier Effect of Tourism Expenditure in Northern Cyprus (2013)

ITEM NO	EXPENDITURE TYPE	EXPENDITURE AMOUNT (MILLION TL)	MULTIPLIER EFFECT (MILLION TL) (Expenditure Amount × 4)
1	Turkish Republic Aid Committee Contributions	37	148
2	Budget of Ministry	67	268
3	Fixed Capital Investments	64.4	257.64
4	Bank Placements	169	676.2
	Total	337.5 176.7 Million \$	1,349.8 TL 706.9 Million \$ ²

As can be seen from the numbers above, while net tourism income has only increased by 41.5 million dollars in 2013 as compared to 2012, the absolute expenditure made by the state and the sector is about 176.7 million dollars, excluding private sector's fixed capital investments and tourism expenditure. So, total income predicted with the total multiplier effect is 706.9 million dollars. Whereas realized total tourism income has turned out to be beneath this figure, namely 613.4 million dollars.

4. Discussions

As cited above the aim of this study was to determine the potential multiplier effect of tourism and compare it with real figures. In this context, tourism statistics reveal improvement in recent years although these improvements do not carry stable character. The main reasons of recent improvements in tourism sector are due to aggressive advertising actives of the ministry and huge amount of incentives provided by Turkish government. However, crucial realities behind this instability are as follows (Şafaklı, 2010; Şafaklı 2012):

- Lack of product image.
- Accommodation facilities are out-dated and food and general service need to be more customer oriented.
- Lack of self-catering accommodation such as country cottages.

² <http://www.kibrispostasi.com/index.php/cat/35/news/94694>

³ Also see for exchange rates SPO, 2015b:3

- Inability to develop a tourism product to reflect changing market trends.
- Need for improved public transport.
- Highly visible military presence adjacent to tourist sites.
- Political isolation and lack of public finances.
- Need for tourism planning experts in the relevant ministry and general institutional strengthening
- Limited infrastructure development for tourism.
- Serious environment problems (quarries, water pollution, new Modern-style houses next to traditional ones, garbage waste).
- Lack of pro-active approaches and dependence on “outside” action (e.g. donors) as well as investment opportunities.
- Because of the isolations, not having direct transporting opportunities.
- Uncertainty in Cyprus dispute, property titles situation and political issues preventing long term investment decisions.
- The financial isolations creating insufficient credit opportunities.
- Non-implementation of tourism master plan.
- The lack of mass transportation.
- The lack of intermediate personnel.
- High input costs (energy, labor etc.).

In addition to instable tourism improvement, study shows that potential multiplier effect of tourism expenditures/investments are not observed in Northern Cyprus. The basic reason behind this situation is leakage, as is described above. The basic reasons of these leakages can be summarized as follows:

- The TRNC is a country with a high level of import dependence. Having an export rate of 120.7 million dollars as compared to her 1,699.4 million dollars imports, the TRNC’s export/import ratio is 7.1%. Concordantly, the ratio of imports to GNP is 43% (SPO, 2015b: 3). Consequently, high import figures once again result in the transfer of earned income abroad.
- With taxes being the leading leakage items, public and private investment expenditures are among the most important injection items. Spending 85% of the budget for wage payments is argued - by the decision makers - to be the most important problem of TRNC’s public financing. Particularly, the leakage is increased by the transfer of collected taxes to an unproductive public sector apart from personnel costs.
- As investment promotions are paid directly to tour operators, they have no contribution to the tourist expenditures and therefore the level of the multiplier effect remains low.
- Since touristic facilities in the TRNC which have the largest market-shares function with the all-inclusive principle, tourism expenditures hardly spill over to the general economy.
- The touristic facilities with the largest market-shares in TRNC have foreign capital. Therefore, it is almost impossible to prevent the transfer abroad of income earned in tourism.
- Despite the laws, many employees in the touristic facilities are not Turkish-Cypriot citizens. Therefore, the tendency to keep the money inside the country is limited.

5. Conclusions

Tourism, like higher education, is the locomotive sector of the TRNC. After 2011, the tourism sector has shown certain progress, particularly with respect to tourism income, the number of tourists, the counterbalance of the trade deficit, the added values and employment. However, this progress is not yet stable enough to be called sustainable. Thus, the growth in net tourism income and the number of tourists are rather unstable and the tourism income per capita is about 500 dollars, falling far behind the numbers in the developed countries. It is predicted that, because of its leading position, any expenditure made in the tourism sector will have a positive effect on the general economy. However, as a result of a high import rate, the accumulation of investment promotions in limited hands, the fact that tourism services are not actually open to other sectors, the tendency of both employers and employees to transfer their income abroad rather than keeping it in the country, the leakage volume causing regression in the multiplier effect leads to a negative impact on the economy.

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