

# PATRIOTIC TOURISM DEMAND IN ALBANIA: A SYSTEM GMM MODEL APPROACH

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## Abstract

*This paper aims to evaluate the determinants of international tourism demand in Albania following the existing literature and particulars of the tourism sector in Albania using Dynamic Panel Data from 2011 to 2019. The analysis is conducted on the sample of 20 countries of origin using the Two-Step GMM Model.*

*The analysis highlights the importance of word-of-mouth effect in the tourism industry in Albania marked at the same time by inferior goods and services, as defined by the microeconomic theory. While on the one hand, tourism becomes very useful in terms of social cohesion (converging familiars and relatives), on the other hand, it can support better the general economic development. At the same time, this study underlines the relative importance of Government Spending. The National strategy on tourism must look not only at the tourism demand quantity but mostly at the sustainable and greater added value tourism segments.*

**Keywords:** *International Tourism; Tourist Arrivals; Dynamic Panel Data; GMM; Albania*

**JEL classification:** *C33; C87; D11; D12; F22; H5; L83*

## 1. Introduction

In the last two decades the development of tourism in Albania has seen an increase in international tourist flows, contributing to the national GDP both in employment and economic terms. This study tries to identify the factors determining the development of the tourism sector in Albania. As a special factor, the national origin of foreign tourists has been examined: Albanian tourism is characterized by the fact that a large part of tourists is of Albanian origin. This research tries to understand the influence of patriotic tourism in the tourism demand in Albania.

Tourism demand refers to the goods and services purchased by tourists in tourist destinations during trips (Ciro and Toska 2021; Li et al. 2018; Wu, Song, and Shen 2017), which is usually measured by tourist volume or tourist expenditure. According to Samirkaş and Samirkaş (2016) tourism demand is defined as the number of people that plan to buy tourism products (goods

and services) supported by sufficient purchasing power and spare time to meet tourism needs of people.

In recent decades, tourism demand has had a great development. From 1990 to 2018, World Tourist flows have jumped from 439 million arrivals in 1990 to 4 billion tourists in 2018 (UWTO 2022).

This trend of tourist demand development has also been reflected in the Albanian market. Based on

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the measurements made by the World Tourism and Travel Council, the direct contribution of Travel & Tourism to GDP in 2017 was USD 1.1 billion (8.5% of GDP), while the total contribution to the economy was USD 3.4 billion (26.2 % of GDP) supporting 318857 jobs. In 2020, due to the global epidemic situation, total contribution to GDP fall in USD 1.7 billion (10.5 % of GDP) and total employment fall in 178600 jobs (15.8% of total jobs, - 26.8% compared with 2019). These number are expected to grow in the upcoming years. The epidemic influence did not stop the upward trend of the tourism industry, because in 2021 the tourism contribution on the economy has approached the positive situation before COVID-19 (in 2021 the total contribution of travel and tourism hospitality to GDP and employment amounts 17% and 20% respectively (WTTC 2021)

Furthermore, in addition to traditional tourists, who come from Kosovo and other border countries with Albania, an increase can be seen in the number of tourists who come from other countries, not traditional in the tourist market of Albania, such as: Poland, Austria, Sweden, Belgium (INSTAT 2022).

The factors that influence or determine the international tourism demand are very different: economic, gastronomic, religious, political, demographic, cultural, social, etc. Consequently, the determinants analysis of tourist demand is, on the one hand, very interesting, and on the other hand, quite complex.

The main hypothesis tested in this research is the influence of nationality on tourism demand in Albania. Along with this hypothesis, from the existing literature the formulated model has examined other traditional factors such as: income, relative prices, government spending, distance between the origin country and host country.

The rest of the paper is structured as follow: section 2 provides overview of the literature related to international tourism demand while the section 3 look into the empirical methodology and variables used. Section 4 report the empirical research results while section 5 outline conclusions.

## 2. Literature review

In the tourists' destination choice there are multiple factors involved in their decision. As indicated by Eugenio – Martin (2003) most tourists need to make multiple decisions before deciding where to go on holiday. This process considers five stages: participation decision; tourism budget decision; frequency and length of stay decision; the kind of destination decision; destination and the mode of transportation

choice. Each of these stages includes a series variables materialized in age, education, income, labour conditions, characteristics of the place of residence and size and composition of the household (**participation decision; tourism budget decision**); age, education, income, labour conditions, characteristics of the place of residence and size and composition of the household, health conditions and unobservable variables such as risk aversion and propensity to travel (**frequency and length of stay**); physical attributes of destination, tourist environment (**kind of destination decision**); household characteristics and destination attributes in terms of safety, weather, facilities, relative prices, language, transportation cost, etc. (**destination and transportation mode choice**).

Lickorish and Jenkins (1997) argue that tourism demand depends in the first instance by disposable income (spare money) and increased income per capita giving the emphasis on developed economies that generate tourists. In second stage is the growth in the availability of leisure time and holiday entitlement. In third stage, the barriers reduction to travel internationally. Successively the leisure / work trade - off (depending on wage dynamics, personal preferences, government policies) and democratization (accessibility) of travel opportunities.

The growth of the tourist industry can be very crucial for the Albanian government, as it not only creates job opportunities, but becomes a way to boost the local economy attracting foreign currency. In 2000, Albania attracted 317000 foreign tourists which generated an income of USD 398 .000.000 but reached 6.4 million visitors and an income of USD 2.46 billion in 2019 (Figure 1).

By putting the tourist numbers in relation to the population of Albania with 0.95 tourists per resident, Albania ranked 47<sup>th</sup> in the World. In Southern Europe, Albania ranked 5<sup>th</sup>.

As seen, the factors complexity and the vigorous development of the tourism sector has accentuated the interest of researchers in modelling tourism demand. To accomplish this objective, researchers have used many different variables which partially describe the five phases of the tourists' destination choice as indicated by Eugenio – Martin (2003) and Lickorish and Jenkins (1997), such as: economic, social, demographic, political, environmental, etc. (Könnyid et al. 2022; Seetram 2012; Leitão 2015; Pervan and Jurić 2021; Romilly, Song, and Liu 1998; Xuankai, Yang, and Zheng 2022).

In general, in these studies, the demand for tourism is measured either by the number of foreign tourists, or by the tourism revenue. While the explanatory variables are related to the income of the origin

**Figure 1. Tourist Arrivals and Tourist Receipts in Albania 2000 - 2020**



Source: INSTAT 2023; UWTO 2022

countries and host countries, relative prices, the age of foreign tourists, consumption preferences etc.

As for the variables, the empirical statistical methods are also various. Traditionally, the gravity Ordinary Least Squares (OLS) or Pooled OLS model has been used (Nadal and Gallego 2022). Recently, considering the lack of effectiveness of Pooled OLS models and in the light of different dynamic models' performance (CuiCui and Woodbridge 2019; Arellano and Bond 1991) many authors are using dynamic panel data to model the international tourism demand: Difference Generalized Method of Moments (DIFF GMM) one step or two-step; System GMM one step or two-step; Autoregressive Distributed Lag (ARDL).

Leitão (2015) conducted a study considering the determinants of Portuguese tourism demand for the period 2004-2013. The econometric methodology was a dynamic panel data (System GMM estimator) including the 26 main partners in tourism demand in Portugal for the period 2003-2013. Econometric results demonstrate that Portuguese tourism demand is explained by high-quality services. The relative prices are positively related to tourism demand, showing that quality developments raise tourism demand in Portugal. Human capital justifies high-quality tourism services in Portugal. The results also demonstrate that government spending is essential to promote the tourism sector. Pervan and Jurić (2021) conducted an analysis on the sample of 25 Croatian competitor

countries during the period 2005 – 2019 using a dynamic panel data model (DIFF GMM). All model variables show statistically significant influence on tourist arrivals in Croatia. Ketenci (2010) aimed to estimate determinants of tourism demand for Turkey from 14 countries and to examine cointegration relationships in the considered model, over the period from 1996 to 2000 year on the monthly. This paper uses the autoregressive distributive lag. From the results this study found evidence at the high significance level of a long run cointegration relationships among the variables. The study shows that the most significant impact on the tourism demand in the long-run as well as in the short-run has income of tourist.

In compliance with the variegate factors, which can influence the tourism demand, the researchers have examined alongside the economic factors, also other variables of a social, cultural, political, democratic, and demographic nature.

Koçak and Yucel (2022) focused on the impact of migration-related concerns on tourism. The authors estimated the impact of the US migration fears on tourist arrivals from Western Europe to the US using a tourism demand model. The estimates suggest that tourists from Western Europe have a negative and significant long-term response to the fear of migration in the US. The results show that migration-related concerns are constraints on the development of the tourism industry in the US. Bulut, Kocak, and Sues (2019)

investigated the impact of freedom (i.e., the effects of political rights and civil liberties) on tourist arrivals in Brazil using annual data from 1998 to 2016. The empirical findings show that the level of freedom may play a role in explaining the volume of international tourist arrivals. Gozgor, Seetaram, and Lau (2002) focused their research on the effects of economic and political uncertainties on tourism demand. The findings show that uncertainty shocks affect travels for business, holidays, and visiting friends / relatives' purposes negatively. It is statistically significant for duration of stay of 1 week to less than one month in Australia. This effect dissipates for longer stays. Dancausa Millán, Vazquez de la Torre, and Rojas (2021) analyze the profile of gastronomic tourists in Andalusia to understand their motivations and estimates the demand for gastronomic tourism using seasonal autoregressive integrated moving average (SARIMA) models. The results obtained indicate that the gastronomic tourist in Andalusia is very satisfied with places and gastronomy. Rodríguez, Roget, and Pawlowska (2012) conducted an empirical analysis about the academic tourism demand using a dynamic panel data model by a generalized method of moments during the period 2001 – 2009. The results suggest that academic tourism depends mainly on determinants that are not strictly economic; namely, the relevance of the habits and preferences of students, the potential for differential attractiveness of the University of Santiago de Compostela, and the significant impact of the Erasmus program.

Regarding the tourism industry in Albania, there is a lack of empirical research. However, in recent years, with the development of the tourism sector, a few studies have been conducted regarding the modeling of the factors that influence the international tourism demand. This study is an attempt to contribute to studies related not only to typical issues of a country (such as the concrete case of patriotic tourism in Albania), but also to research related to migratory flows impact on international tourist demand. To the author's knowledge, the impact of the national origin

of foreign tourists in Albania has never been investigated in an empirical study on Albanian tourism.

Some studies concerning determinants of international tourism demand in Albania have been highlighted below.

Malaj (2020) investigated the main demand and supply factors of international tourist arrivals to Albania. A gravity-type equation is estimated through three different estimation techniques, controlling for basic and experimental independent variables. The analysis is based on an annual dataset of international tourist arrivals to Albania from 22 origin countries over the period 2001–2018. Empirical results show that international tourist arrivals to Albania are positively related to GDPs per capita in destination and origin countries, total infrastructure investments, political stability, and absence of violence/terrorism. On the other hand, the dependent variable is negatively related to the distance between Albania and origin countries, and to the 'climate similarity' variable. Matja and Licaj (2017) studied the contribution of tourism to the economy of the country with emphasis on wellbeing of Albanians using a VAR model. The results show that the boom of tourists has not contributed properly to the development of the country in general. The pace of tourist number increase should contribute to a major number of employed directly or indirectly in Tourism sector. Burleau – Schiopoiu and Uzuni (2021) conducted a study about the attitude of foreign tourists visiting Albania using quantitative analyses and regression model. This study highlights the fact that relationship between expectations and perceptions of tourists visiting Albania is strongly influenced by tangible elements of the touristic package.

### 3. Data and methodology

#### 3.1. Data section

Table 1 presents the descriptive statistics of the variables used in the GMM equation that models the tourism demand in Albania. To create a comprehensible

**Table 1. Descriptive Statistics**

Variable	Obs	Mean	Std. Dev.	Min.	Max
TA – Total Arrivals	180	195689.9	40322.1	9094	2287597
GDP – Gross Dom. Prod.	180	33011.5	16600.7	7780.6	72033.9
DIST – Distance between countries	180	1402.05	1592.1	197	7759
P – relative price	180	6.14	17.3	0.0069	78.3
GE – Gov. Expenditure	180	11.2	0.2	10.8	11.5
NAT – Tourist Nationality	180	5.5	13.5	0	60

Source: Author's calculations

idea about descriptive statistics, in this case the variables are presented in the original values. Whereas in the modeling of the tourism demand according to the GMM model, they are presented in log mode.

The period of inquiry of this research does not include years 2020 and 2021 because they are two years with random short-term disturbances in the considered economic model (mainly COVID19 and the earthquake in Albania in November 2019). The intent of this study was to approach as much as possible a normal period of tourism business. For this reason, this study deals with the period 2010 - 2019. During this period 2010 - 2019 the most represented countries in Albanian tourism are: Kosovo (35.7%), Montenegro (5.7%), Northern Macedonia (11.8%), Italy (7.3%) and Greece (9.3%) that together account for 69.8 % of all foreign tourists in Albania. The less representatives are Romania (0,4%), Russia (0,3%) and Belgium (0,4%). The lowest value of the GDP per capita is in Kosovo and the highest value is in Switzerland. Considering that USA is included in countries participating in Albanian tourism, the highest distance is between Tirana and Washington Dc (7759 km). As for the relative price, there is an increase in prices in Albania referring to the European Union countries. Instead, referring to the other countries, the description is more varied. The government expenditure in Albania have had the highest value in 2017 and the lowest value in 2012. About the nationality of Albanians in foreign countries, the most represented is Kosovo, Greece, Italy, and North Macedonia. Other countries as Poland, Russia, Bosnia and Herzegovina and Romania have no presence of Albanians in their respective countries.

### 3.2. Methodology section

Following the methodologies used by different authors, this study looked several options. The options were namely Gravity Model, DIFF GMM, System GMM. The goal was to find the most suitable method to conduct the analysis. Handling a. the tourism as a dynamic process, b. considering the deficiencies performance estimation of Pooled OLS (CuiCui and Wooldridge 2019; Arellano and Bond 1991) at the time the endogeneity bias can lead to inconsistent estimates and incorrect inferences, c. the small sample size of panel data, the choice was between Diff GMM and System GMM. Following the literature (Bond, Hoeffler, and Temple 2001; Blundell and Bond 1998; Arellano and Bover 1995; Arellano and Bond 1991) estimators among parameter of lag dependent variable in Pooled OLS model and Diff GMM are calculated. If the difference GMM estimate is close or below the fixed effect

estimate of Pooled OLS model, this suggest that a System GMM estimator should be preferred: The GMM model, which is generally used for panel data, provides consistent results in the presence of different sources of endogeneity, namely "unobserved heterogeneity, simultaneity and dynamic endogeneity" (Wintoki, Linck, and Netter 2012). The GMM model removes endogeneity by "internally transforming the data" – transformation refers to a statistical process where a variable's past value is subtracted from its present value (Roodman 2009). In this way, the number of observations is reduced, and this process (internal transformation) enhances the efficiency of the GMM model (Wooldridge 2012).

In addition, in case of small sample size of panel data, the System GMM estimator has a lower bias in terms of endogeneity and higher efficiency than all the other estimators analysed, including the standard first DIFF GMM estimator (Soto 2009; Hayakawa 2007).

In line with stated, the model will be formulated according to the following equation, including the lag of dependent variable:

$$\ln TA_{it} = \alpha + \delta \ln TA_{i,t-1} + \sum_{n=1}^N \beta_n \ln X_{i,t}^n + \varepsilon_{it} \quad \varepsilon_{it} = \vartheta_i + u_{it} \quad (1)$$

where  $TA_{it}$  is the number of Tourist Arrivals from country  $i$  in period  $t$ , with  $i = 1, 2, \dots, N$ ;  $t = 1, 2, \dots, T$ ;  $\alpha$  is the unobserved time-invariant individual effect;  $\delta$  is the speed of adjustment to equilibrium;  $TA_{i,t-1}$  is the previous year value of tourism arrivals,  $\beta$ 's are the estimated coefficients of the predictors  $X_{i,t}^n$ 's (income, price, distance, government expenditure, tourists' nationality);  $\varepsilon_{it}$  is the disturbance, in which  $\vartheta_i$  and  $u_{it}$  are respectively the unobserved country-specific and the idiosyncratic error.

This model specification is based on economic arguments, also supported by macro- and microeconomic theory since the public spending in the host country, the tourists' willingness to pay and their purchasing power, the costs to be supported in the destination country (prices and transport) should also influence the tourist flow in a particular country. Instead, the patriotic aspect is more connected to the tourist's utility function, which in a certain sense could sacrifice the purely and individual economic argument (due to social relationships emotionality).

The variables used in the equation (1) were also chosen considering the indicated literature and empirical research (Eugenio – Martin 2003; Lickorish and Jenkins 1997; Könnnyid et al. 2022; Seetram 2012; Leitão 2015; Pervan and Jurić 2021; Romilly, Song, and Liu 1998; Xuankai, Yang, and Zheng 2022):

International Tourist Arrivals (TA) as the dependent variable and a. GDP per capita (GDP) of foreign tourists by origin country (expressed in PPP \$); b. Distance (DIST – in km) between origin country and hosting country, c. Price (P - relative price hosting country/ origin country) adjusted by the bilateral exchange rate, d. Government Expenditure (GE) as % GDP and e. Nationality of International Tourists (NAT) (as % of the population in the hosting country) treated as exogenous variables.

Lagged values ( $\ln TA_{i,t-1}$ ) in the above two step dynamic model are included as regressors. These lagged levels of the dependent variable estimator are used as instruments to deal with endogeneity (Arellano and Bond 1991).

The dataset refers to twenty tourism origin countries (Bulgaria, France, Germany, Greece, Italy, Kosovo, Montenegro, North Macedonia, United Kingdom, Poland, Serbia, USA, Turkey, Switzerland, Austria, Russian Federation, Sweden, Bosnia and Herzegovina, Belgium, Romania).

$TA_{it}$  – dependent variable that expresses the number of foreign tourists in Albania. The data are obtained from the National Institute of Statistics and the countries considered in this study represent over 95% of all foreign tourists in Albania during the period 2000 – 2019.

$GDP$  – independent variable that indicates the GDP per capita at purchasing power parity (PPP) in a specific time-period  $t$  by country  $i$ . The influence of GDP (as an indicator used in many studies to represent the economic power of a country or an individual) depends on the type of goods or services that tourism offers. If revenue increases, the demand for goods increases, while it falls for inferior goods and services. In general, the empirical studies, even quoted above, show a positive link between a country's income and the demand for tourism (in terms of arrivals or incomes). However, this may not always be verified. The tourism industry in different countries is confronted with consumers with different income tourism elasticities that require marketing strategies adapted to each specific origin market (Rudez 2018). The GDP data were collected from World Bank dataset.

$DIST$  – independent variable that expresses the distance by air (in km) between the capital of the host country (Tirana) and the capital of the origin country. As indicated by some studies (Mc Kercher, Chan, and Lam 2008; Dunne, Flanagan, and Buckley 2010; McKercher and Mak 2019) travel to land neighbours dominates outbound travel. The expectations about this variable are negative, in the sense that if the distance increase between the two capitals, the demand for tourism can drop down. The data are collected

online from Maps Distance Calculator.

$P$  – independent variable that indicate the relative price of the hosting country referring to the origin country adjusted by the bilateral nominal exchange rate.

$$P_{i,t} = \frac{CPI_{AL,t}}{CPI_{i,t} \times Exch_{i,t}} \quad (2)$$

Relative price is given by the ratio of Consumer Price Index of Albania ( $CPI_{AL,t}$ ) and the Consumer Price Index of the origin country ( $CPI_{i,t}$ ) adjusted by the bilateral exchange rate ( $Exch_{i,t}$ ). The expectations about this variable are negative. The price of a product and the quantity demanded for that product have an inverse relationship, as stated in the law of demand. However, since the dependent variable concerns with the tourist arrivals (and not with tourist receipts, it cannot be said with certainty that the increase in the relative price will affect the tourist arrivals. The CPI data and Exchange Rate data were collected from World Bank dataset.

$GE$  – Government Expenditure (as % of GDP) indicates the public sector spending in the provision of goods and services, which indirectly support the tourist services improvement especially in developing countries (Prasetyo, 2020; Wakimin et al. 2019). Upgrading the country's economic and social conditions through public spending improves the hosting country tourist climate offering an added value for the origin country tourists. In this case, it is expected a positive value for this variable meaning that the expansion of Government Expenditure will lead an increase of the tourist arrivals.

$NAT$  – Albanian nationality measures the ratio of people with Albanian nationality in the origin countries (as % of the Albanian Population). This variable has been examined because over 70% of tourists with foreign citizenship arriving in Albania, come from four foreign countries where the connection with Albania (nationality, native Albanians, Diaspora) is very important (in Greece and Italy the Albanian emigrants constitute 32% of the today Albanian population; in Kosovo 60%, in North Macedonia 25%). It is expected a positive value for this variable, that is, the greater the presence of the Albanian nationality in the origin countries (as % of the Albanian Population) the more tourist demand increases (*ceteris paribus*). The data were collected from World Bank dataset and from the United Nations Department of Economic and Social Affairs (UN DESA 2023).

Other variables examined in this research, and which could influence the demand for international tourism demand in Albania are CO2 emissions, trade openness, political security, corruption, investment.

Due to the presence of multicollinearity, deterioration of System GMM model and considering motivation and scope of this study, these variables were not included in the statistical analysis.

#### 4. Empirical result and discussion

Following the literature estimators among parameter of lag dependent variable in Pooled OLS model and Diff GMM are calculated. Considering that the difference GMM estimate ( $\delta = 0.34, p = 0.049$ ) is below the fixed effect estimate of Pooled OLS model ( $\delta = 0.58, p = 0.0000$ ), this suggest that a System GMM estimator should be preferred.

The results of the tourism demand model equation (1) are presented in table 2. The value of Hansen Test, that is used in System GMM method applying robust standard errors, small sample, two-step method and collapse options for a more accurate result using STATA13 (Roodman 2009; Kirpans 2017) indicates no presence of over-identifying restrictions. At the same time the p-value of AR2 indicates no serial correlation. In view of the small sample and the necessity to respect model assumption and effectiveness in terms of research objective, this study cannot deal with time variations control of the dependent variable across

the panel (time dummies), considering this aspect as a part of model estimation error.

The value of the lagged variable  $\log TA_{t-1}$  (0.815), positive and significant, can be interpreted as a major influence on the tourist decisions regarding whether to visit tourism destinations measured by habit formation persistence (internal habit) and word-of-mouth (external habit). Some studies report the lagged dependent variable (which represents tourism demand in previous year) as the most important determinant of tourism demand (Song, Witt, Li 2003; Song and Witt 2003; Song et al. 2010). The value of the adjustment coefficient (0.185) gives evidence of a good adjustment process between the actual variation of the tourism demand and the long run level (Athanasoglu, Brissimis, and Delis 2008; Aslan 2008). This means that the tourists experience in previous years can create positive expectations in the long term as indicated by results.

The value of the distance coefficient is negative (-0.085 as expected) and significant at 10% meaning that more distant the origin country is, the less chance there is for tourists to arrive in Albania. This result is in line with other (Mc Kercher, Chan, and Lam 2008; Dunne, Flanagan, and Buckley 2010; McKercher and Mak 2019).

The most indicative coefficient in this study turns

**Table 2. Albanian Tourism demand using dynamic panel data.**

Dependent variable: Tourism Arrivals (logTA)			
Variables	Coeff. / Short run	Coeff. / Long run	Excepted signs
$\log TA_{t-1}$	0.815***	4.41***	+
logGDP	-0.022	-0.12	- / +
logDIST	-0.085*	-0.46*	-
logP	-0.024**	-0.13**	-
logGE	3.477***	18.80***	+
logNAT	0.075***	0.41***	+
Cons	-5.485***	-29.64***	
Observations	128		
AR1	z = -2.78; Prob > z = 0.005		
AR2	z = 1.38, Prob > z = 0.167		
Hansen Test	chi2(7) = 10.54, Prob > chi2 = 0.160		
Sargan Test	chi2(7) = 25.84, Prob > chi2 = 0.001		
Instruments	14		
Groups	16		
F (6, 15)	415153.34***		

Notes: \*\*\*, \*\*, \* are statistically significant at 1%, 5% and 10% levels respectively.

Source: Author's calculations

out to be Government Expenditure (3.48), positive and significant demonstrating the importance of the Government Expenditure on the country, producing positive effects in the tourism market too. Government Expenditure and tourism industry are related through several factors, for instance road and infrastructure, education, health, national defence. When a country is stable and safe, the number of visitors and tourists can increase, influencing positively the level of tourism demand. This shows positive impacts on a country visited by tourists. Similar results were recorded by Balalia and Petrescu (2011), Tawang, Paddu, and Tadjibu (2020), Cizmar and Lisjak (2007). The nationality coefficient seems to be very important for the tourism industry (positive and significant). Foreign tourists of Albanian origin, through their patriotic tourism, offer an important contribution in the tourism industry in Albania (actually distinguished by non-competitiveness compared with other regional tourism market like Montenegro, Croatia, and Greece and without luxury products). The relative price elasticity shows negative value and significant: When relative prices in a country increase, then the quantity demanded also decreases, consequently negatively affecting the purchasing power of foreigners. As indicated by demand theory, relative prices are negatively related with quantity demanded.

This study has dealt with some non-exhaustive aspects in explaining the international tourism demand in Albania. In this sense, it can be said that tourism demand is very vulnerable to the presence of random short-term or long-term disturbances: e.g., COVID19, the earthquake in Albania in end November 2019, have drastically reduced the international tourist demand in Albania during the period 2020 – 2021 and actually the European instability in the context of the war in Ukraine can have negative effects for the tourism industry in Albania. Other factors that can influence the economic model of this research, considered as long-term disturbances can be the tourism conceptualization in the context of marketing. Since tourism, as a concept, is characterized by more core services than goods, often the added value of tourism stays in the way the service is provided, rather than the service itself (Lambin 2016; Kattara, Weheba, and Ahmed 2015; Dritsakis 2004; Kukanja and Planinc 2019). In this specific case, the patriotic tourist must be considered as a strength for Albanian tourism that must be managed with innovation and long-term benefits. If the patriotic aspect is not managed with long term vision, the tourism (as an important variable in the Albanian tourism industry) can be transformed into a weak point with negative consequences on the host country economy (Scutariu 2012).

#### 4.1. Limitations and future research

This paper has some limitations. First, the study focused on some variables that are certainly not exhaustive in explaining the tourist demand in Albania. As highlighted in the theoretical part, tourist demand is influenced by a multitude of factors, some of which are not even statistically detectable. Related to this aspect and considering the endogeneity complexity, another limitation concerns the assumption of the independent variables as exogenous. Second, describing a tourism situation without causal shocks, this study did not consider random shocks (such as COVID19 or the earthquake in Albania at the end of December 2019), trying to capture a period with a normal tourist development situation (2011 - 2019). So future research can examine the impact of COVID-19 or other causal shocks on tourism demand looking into the magnitude of the impact of shocks uncertainties. Researchers can present new findings by following time-varying and econometric methods. Third, it would also be interesting to analyse the variable tourism receipts as dependent variable. Since this data is not available at a disaggregated level (for each country), this study has dealt only with tourism arrivals as dependent variable. Hence future research studies can investigate aspects of tourism demand from a monetary point (tourism receipts).

The tourism demand in Albania is not yet explored. Consequently, scholars can contribute with different methods (statistical, econometric, linear, non-linear) trying to explain a very relevant sector for the Albanian economy.

## 5. Conclusions

Tourism is one of the most vital sectors in the global economy. This trend is also evident in Albania where the total contribution of travel and tourism hospitality to GDP and employment amounts 17% and 20% respectively. In this regard, Albania as a pioneer tourist country, has engaged its capital resources in serving the implementation of the national tourism strategy.

This article investigated tourism demand between Albania and 20 countries during the period 2011 – 2019. A two-step System GMM estimator was applied in this research. The results indicate that tourism industry in Albania is having a positive development over time (in terms of tourist arrivals) where positive perceptions of the past help positive expectations for the future (word-of-mouth). Another conclusion of this study is related to the fact that public investments greatly affect the tourism industry in Albania. The central government must have a particular focus on



public spending to cope with a continuously growing tourism sector identified by strong regional competition. Concerning relative prices, the coefficient value significantly shows that tourists are not very sensitive to price fluctuations in the Albanian tourist market. Furthermore, this study demonstrates that patriotic tourism has an important role in the constitution of tourism demand in Albania, *ceteris paribus*.

The *patriotic tourist* must be considered as a strength for Albanian tourism that must be managed with vision and creativity. Otherwise, *patriotic tourism* (as an important variable in the Albanian tourism industry) can be transformed into a weak point with negative consequences on the host country economy. Tourists in general (not just specific ones) need to be served adequately strengthening loyalty. On the other hand, the Albanian tourism market must identify efficient and authentic strategies to improve its competitiveness in a saturated regional tourism market (Montenegro, Croatia, Greece), where in addition to public investments, it is necessary to address adequate marketing policies to face the sectoral competition (which is intended both in terms of tourist arrivals and tourist receipts).

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