

# THE CONTRIBUTION OF TOURISM IN THE PROCESS OF VALUE CREATION AT MACROECONOMIC LEVEL – ROMANIA CASE STUDY<sup>1</sup>

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**Abstract:** : The aim of this paper was to point out how important tourism is for a country's economy as well as how much it contributes in the process of value creation at macroeconomic level. The economic importance of tourism is reflected in its direct, indirect, induced and total contribution to the GDP, the workforce occupancy rate, but also capital investments. The main purpose of the present case study is to show the contribution of tourism to the national economy of Romania and at the same time see where it stands in terms of tourism economic contribution in comparison with its principal competitors.

**JEL classification:** E00, L83

Key words: GDP; direct contribution; indirect contribution; induced contribution; total contribution; value creation

## 1. INTRODUCTION

Over the last decades, as a result of the propulsion force given by its dynamism, tourism has earned its place amongst the national economic branches, proving to be one of the industries with a high pace of increase and a consistent contributor to the countries' GDP. At international level, tourism represents an integrative part of the process of international specialization, alongside both other services and the production of goods, while the international tourist flow is based on the international specialization in tourism, evolving following its own intensification and expansion.

The increasing volume and complexity of tourist services offer have begotten the development of a real industry of travelling and tourism, which justifies the acknowledgement of the tourist phenomenon as a distinct developing branch of the national economy, being at the same time a component of the tertiary sector. By nature, the tourist phenomenon is very complex, with deep economic, social, political and cultural implications. The entwining of its heterogeneous components gives birth to its uniqueness and originality that cannot be identified with any of the traditional branches of the national economies, therefore justifying completely its autonomous analytical treatment. But unlike other sectors providing services, the industry of travelling and tourism is still a branch whose development will be permanently in close connection

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with the levels and development paces of the other branches of the national economy (Budică, 2014).

On the other hand, the development and complexity of tourism are owed to the social and economic mutations of the contemporary era. In its turn, this branch plays an essential role in the mechanism of the economic life because it stimulates through the object of its sphere of activity the development of other branches of the national economy such as industry, agriculture, constructions, transports, trade etc.

Today, it is considered that tourism is the biggest business in the world: it is the main industry in terms of gross world product contribution, world's number one employer and the most important investor.

Moreover, economically speaking, tourism proves to be a factor of progress with broad and positive implications on the overall development of society. Thus, because of the fact that it acts towards the introduction in the economic circuit (both domestically and internationally) of natural resources, of the cultural and historic patrimony and of some of the contemporary achievements in the fields of construction and art, tourism can also be regarded as an optimization factor of the local economic structure as well as an dynamic factor of the general economic system.

The actions of the tourism activity range from stimulating economic growth to amending the social structure or from capitalizing on the natural and material resources to improving life conditions. The contribution of tourism to the economic and social progress differs from one country to another, depending on its level of development and the policy promoted in favor of tourism.

Amongst the predictable economic and social effects engendered by tourism, the most important are the following (Budică, 2014):

a) Tourism stimulates the global economic system because through its development it begets an important increase in production. The tourist travel involves consuming specific goods and services which in turn determines the stimulation of production of the branches tourism interrelates with. Tourism's contribution to the GDP differs between countries of the world, depending on the structure of their economy and their development level. Hence, small countries dependent on tourism have a high share in the tourism industry; in countries with a developed economy and a rich tourist activity, tourism's share tends to be close to the world average; in countries where tourism is underdeveloped its contribution to the GDP is relatively modest;

b) Tourism contributes to the creation of added value to a higher degree than the branches related from the perspective of the level of development;

c) Tourism's role is to diversify the economic structure of countries, because the necessity to adjust to the tourists' needs favors the emergence of specific branches: the industry of hospitality, travel agencies, etc. and it sets new dimensions to the existing branches: agriculture, food industry, building industry, transportation industry, etc.;

d) Tourism diminishes the interregional imbalances through the mutations it causes regionally and in this respect it represents a solution for the prosperity of disfavored and deindustrialized areas;

e) Tourism allows for a superior capitalization on resources especially natural ones. Many elements such as: the beauty of the landscape, thermal and mineral waters, art monuments or historical vestiges find their best worth through tourism;

f) Tourism contributes to the ensuring of a balanced money circulation. The inner tourism as a result of the tourists' expenditure gives to the circulation a part

of the revenues; the international tourism contributes through the foreign exchange earnings to the diminishing of the balance of payments, to the consolidation of the national currency and to the free convertibility;

g) Tourism contributes to the equilibrium of both the trade balance and the balance of payments. The international tourism is an important source of foreign money and of saving as a means of capitalization under advantageous conditions compared to the traditional forms of exports, of the domestic resources spent to produce the goods destined for the international market;

h) Tourism generates new jobs by drawing the surplus of labor force from other sectors and thus it contributes implicitly to the mitigation of unemployment. Tourism influences in a beneficial way the use of labor force also in other branches that it interrelates with, such as: agri-culture, food industry, building industry, etc. Studies point out that a direct job in the tourism industry can create from 1 to 3 indirect or induced jobs;

i) Tourism contributes also to the increase and diversification of exports because the goods and services that tourists consume throughout their stay in a country can be assimilated by the visited country as an export. Some of the products and services that are at the tourists' disposal have a specific nature and thus they cannot either be exported or if they are this is done with great effort and big risks (due to their perishability, uncompetitive prices, long distances to the consuming markets) and therefore international tourism is the only way to capitalize on them under the form of export;

j) Tourism is an important means of using one's free time, either the one at the end of the week or the one spent during vacations or annual leave.

k) Tourism acts in the direction of the intensification and diversification of relations between nations as the international circulation is an efficient way for contact with the realities and people from other countries.

## 2. OBJECTIVES

The aim of this paper was to point out how important tourism is for a country's economy as well as how much it contributes in the process of value creation at macroeconomic level. The economic importance of tourism is reflected in its direct, indirect, induced and total contribution to the GDP, the workforce occupancy rate, but also capital investments. The main purpose of the present case study is to show the contribution of tourism to the national economy of Romania and at the same time see where it stands in terms of tourism economic contribution in comparison with its principal competitors.

## 3. METHODOLOGY

The presented information is based on the World Travel & Tourism Council Economic Impact Research - Romania Report 2014 as well as on the reports submitted to the World Tourism Organization and to the national statistics of mentioned countries. Therefore, data were collected from published and unpublished materials, books, newspapers and websites. The collected data were processed and analyzed in order to make the present study useful and intelligible to the readers and for all interested parties.

#### 4. ANALYSES: ROMANIA CASE STUDY

The strategic importance of tourism for the economy of a country is given by its direct, indirect and induced contribution to the process of value creation at macroeconomic level. Government decisions on investments in a sector depend on the profitability of the sector, so it is very important to know what is the contribution of tourism to GDP creation. In this case study, we will see where the Romanian tourism is placed in terms of value creation in relation to its main competitors.

First of all, we need to know what we understand by the main concepts that we use in this study, like direct contribution and total contribution.

The direct contribution of Travel & Tourism to GDP reflects the total spending on Travel & Tourism by residents and non-residents for any purpose such as business or leisure and it also reflects the spending by the government on Travel & Tourism services directly linked to visitors, such as cultural (e.g. museums) or recreational services (e.g. national parks).

The direct contribution of Travel & Tourism to GDP represents the output at national level of tourism-characteristic sectors such as hotels, airlines, airports, travel agents and tourism services that deal directly with tourists. The direct contribution of Travel & Tourism to GDP is calculated from total internal spending by 'netting out' the purchases made by the different tourism sectors. This measure is consistent with the definition of Tourism GDP, specified in the 2008 Tourism Satellite Account: Recommended Methodological Framework (TSA: RMF 2008).

The total contribution of Travel & Tourism includes the entire impact on the economy, like the indirect and induced impacts. The indirect contribution of Travel & Tourism refers to the GDP and jobs supported by:

- Travel & Tourism investment spending – like construction of new hotels or purchasing new aircrafts etc. - this kind of spending are very important for the current and future activity in Travel & Tourism sector, because the investments are the main factor in the process of value creation;
- Government 'collective' spending - also very important for Travel & Tourism activity because this kind of spending is made for the entire community and has an important impact on the economy because it sustains the process of value creation – for example security services, administration, aviation, tourism marketing and promotion at national level, resort area security services, resort area sanitation services etc.;
- Domestic purchases of goods and services by the sectors dealing directly with tourists - including, for example, purchases of fuel and catering services by airlines, of food and cleaning services by hotels, and IT services by travel agents.

The 'induced' contribution measures the GDP and jobs supported by the spending of those who are directly or indirectly employed by the Travel & Tourism industry. This includes the spending for food, beverages, recreation, clothing, housing and household goods. ( World Travel & Tourism Council Economic Impact Research - Romania Report 2014)

##### *4.1 Travel & Tourism's contribution to GDP*

As we can see in Figure no. 1, the direct contribution of the Romanian Travel & Tourism industry to GDP in 2013 was 10.5 billion RON (1.6% of GDP). This was forecast to rise by 3.7% to 10.9 billion RON in 2014. This contribution reflects value

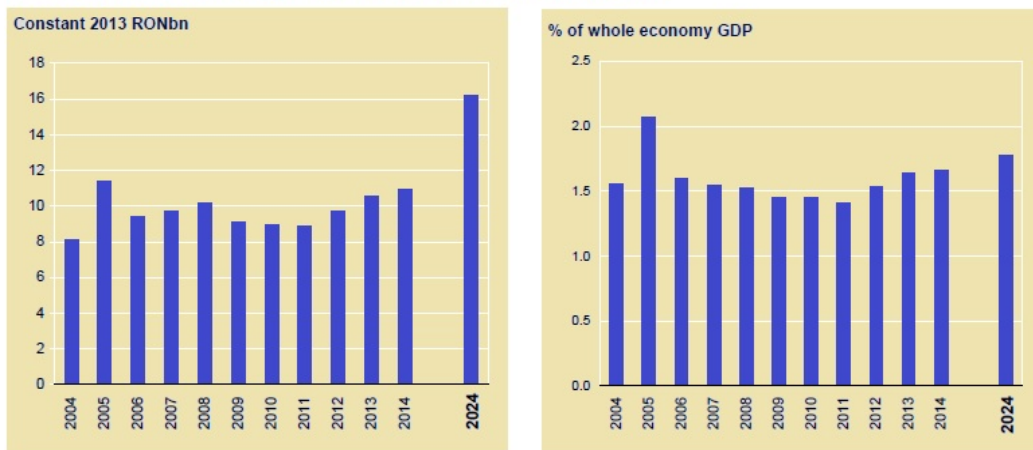
created by industries such as airlines, hotels, travel agents and other passenger transportation services (excluding commuter services). But it also includes, for example, the activities of the restaurant and leisure industries directly supported by tourists.

The direct contribution of Travel & Tourism to GDP is expected to grow by 4.0% per year, to 16.2 billion RON (1.8% of GDP) by 2024. ( World Travel & Tourism Council Economic Impact Research - Romania Report 2014)

The main competitors of Romania in Travel & Tourism industry are Italy, Austria, Hungary, Czech Republic, Slovakia, Croatia, Bulgaria, Albania and Greece. The competing destinations selected above are those that offer similar tourism products and services and compete for tourists from the same set of origin markets. These tend to be, but are not exclusively, geographical neighbors.

The direct contribution of the tourism to the Gross Domestic Product in Romania is much more reduced than the tourism input to the GDP of Italy, Austria, Greece, Croatia, Czech Republic or Hungary. The value of the goods and services produced in the Romanian tourism sector in 2013 is estimated by the World Tourism and Travel Council (WTTC) to 3.2 billion dollars, much below the value of 81.9 billion dollars in Italy or 19.3 billion dollars in Austria, 14.2 billion dollars in Greece, 6.1 billion dollars in Croatia, 5.6 billion dollars in Czech Republic, 5.4 billion dollars in Hungary. Romania is in a better position compared to Slovakia, Bulgaria and Albania.

ROMANIA: DIRECT CONTRIBUTION OF TRAVEL & TOURISM TO GDP



Source: World Travel & Tourism Council Economic Impact Research - Romania Report 2014

Figure no. 1

In relative terms, Romania is ranked last against its competitors, with 1.6% direct contribution to GDP, while the Bulgarian tourism represents 3.7% of this country's GDP, the Hungarian tourism is 4.1% and the Austrian tourism represents 4.9% of this country's GDP. In Croatia, tourism share is even more important (12.1%). This small tourism influence to the Romanian GDP reveals that:

- the Romanian tourism contribution is under its real potential, considering the number, diversity and intrinsic quality of tourism attractions like bordering the Black Sea, the Carpathian Garden, historical attractions and the beautiful and unique landscapes, outnumbering the attractions from Bulgaria, Hungary,

Croatia or Austria. For example, the tourism strategy drafted by Hungarian authorities is based on two tourist products: Budapest and Balaton Lake.

- The Romanian tourism is not ranked high in the Romanian economy, and this has been illustrated by the contribution to the GDP of the last few years. This means that Romanian tourism is not creating a lot of value despite its potential.

The total contribution of Travel & Tourism to GDP (Figure no. 2) including the indirect contribution and the induced contribution, was 33.1 billion RON in 2013 (5.1% of GDP) and was expected to grow by 5.4% to 34.9 billion RON (5.3% of GDP) in 2014. It is expected to rise by 3.8% pa to 50.8 billion RON by 2024 (5.6% of GDP). ( World Travel & Tourism Council Economic Impact Research - Romania Report 2014)

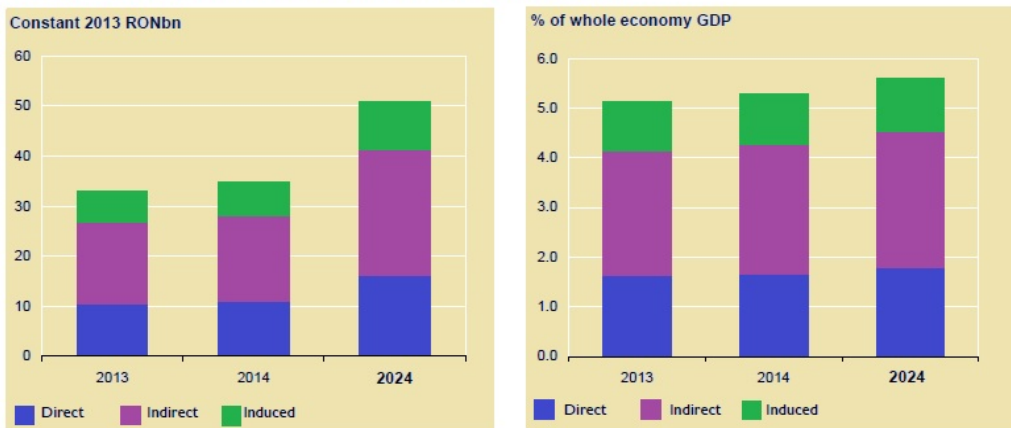
The total contribution of tourism to the Gross Domestic Product in Romania is 9.9 billion dollars, much lower than the total contribution to the GDP of Italy (201.8 billion dollars), Austria (53.1 billion dollars), Greece (35.8 billion dollars), Czech Republic(16.7 billion dollars), Croatia (14 billion dollars) and Hungary(14 billion dollars).

The main cause of this reduced contribution of the Romanian Travel & Tourism industry to the GDP is the lack of investment spending and the poor government “collective” spending. The Romanian Travel & Tourism industry requires a lot of investments because its infrastructure is very old and out-of-date.

In relative terms, Romania is ranked last against its competitors, with 5.1% total contribution to GDP, while in Bulgarian the total contribution represents 13.3% of this country’s GDP, in Hungary it represents 10.6% while in Austria it represents 13.4% of this country’s GDP. The leader of this group is Croatia with 27.8%.

The share of Romanian tourism in the national economic system is relatively small. Romania should pay more attention to the Travel & Tourism industry because it is an important source of value creation at national level. We can see that the indirect and induced contribution is greater than the direct contribution of Travel & Tourism to the GDP. This industry is very closely related to other economic sectors and together can create more value.

**ROMANIA: TOTAL CONTRIBUTION OF TRAVEL & TOURISM TO GDP**



Source: World Travel & Tourism Council Economic Impact Research - Romania Report 2014

Figure no. 2

## 4.2 Travel & Tourism's contribution to employment

Tourism plays an important role in creating new jobs, at the same time leading to reduced unemployment. In every country tourism is an instrument with which new jobs can be created for the areas lacking in other industries and where local communities have no income for living. For Romania, good examples are the rural areas, where the rural tourism is a source of income. The workers in the tourism industry contribute to the development of other services because from the salaries gained in tourism they pay for food, utilities, clothes, local taxes, services, etc.

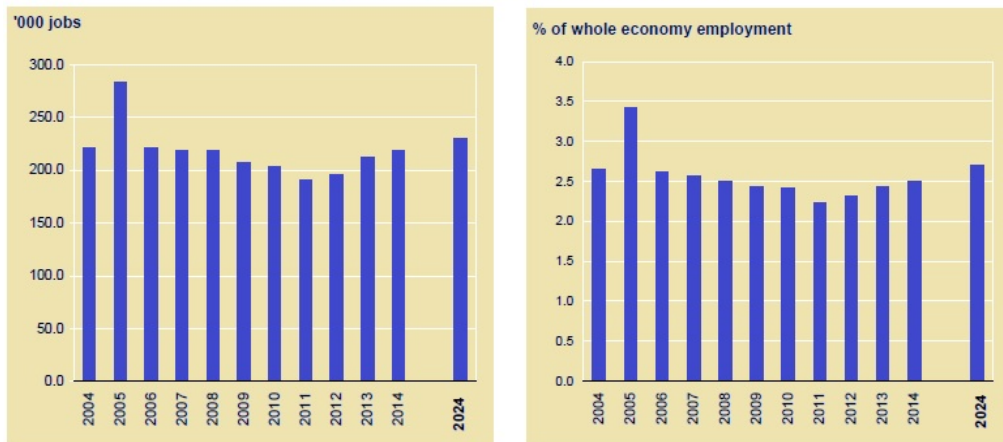
In Figure no. 3, we can see that Romanian Travel & Tourism generated 212,500 jobs directly in 2013 (2.4% of total employment) and this was forecast to grow by 3.2% in 2014 to 219,500 (2.5% of total employment). This includes employment by hotels, airlines, travel agents and other passenger transportation services (excluding commuter services). It also includes, for example, the activities of the restaurant and leisure industries directly supported by tourists. ( World Travel & Tourism Council Economic Impact Research - Romania Report 2014)

By 2024, the Romanian Travel & Tourism industry will account for 231,000 jobs directly, an increase of 0.5% pa over the next ten years. ( World Travel & Tourism Council Economic Impact Research - Romania Report 2014)

The Romanian Travel & Tourism industry's direct contribution to employment is smaller than the one registered in Italy (1,105,900 jobs), Greece (319,500 jobs), Czech Republic (248,500 jobs), Hungary (227,300 jobs) and Austria (224,500 jobs), but it is bigger than the number registered in Croatia (138,100) or Bulgaria (100,100 jobs).

While in Romania tourism offers jobs only for 2.4% of the total available labor force, the percent is bigger in the case of the other competitors like Bulgaria 3.4%, Austria 5.3% and Hungary 5.8%, Greece 8.9%, Croatia 13.3%.

ROMANIA: DIRECT CONTRIBUTION OF TRAVEL & TOURISM TO EMPLOYMENT



Source: World Travel & Tourism Council Economic Impact Research - Romania Report 2014

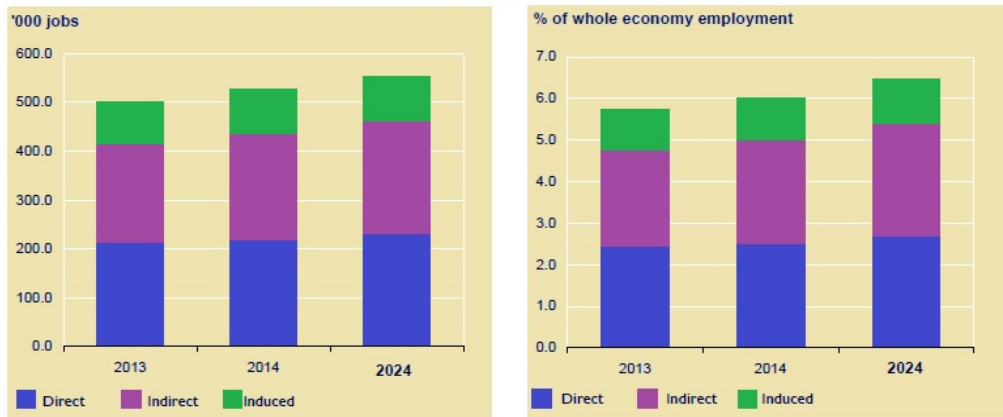
Figure no. 3

For the competitors of Romania, the tourism represents an important instrument of the labor market in the related industries, a part illustrated by the total contribution of the Travel & Tourism industry to the creation of workplaces.

The total contribution of Travel & Tourism to employment, Figure no. 4, (including wider effects from investment, the supply chain and induced income impacts) was 500,500 jobs in 2013 (5.7% of total employment). This was forecast to rise by 5.3% in 2014 to 527,000 jobs (6.0% of total employment).

By 2024, Travel & Tourism is forecast to support 553,000 jobs (6.5% of total employment), an increase of 0.5% pa over the period.( World Travel & Tourism Council Economic Impact Research - Romania Report 2014)

**ROMANIA: TOTAL CONTRIBUTION OF TRAVEL & TOURISM TO EMPLOYMENT**



Source: World Travel & Tourism Council Economic Impact Research - Romania Report 2014

Figure no. 4

Comparatively, Travel & Tourism's total contribution to employment in Italy is 2,619,000 jobs, while in Greece it amounts to 657,100 jobs, in Austria the number is 601,100 jobs, and last but not least in the Czech Republic there are 511,600 jobs. The total contribution to employment in Romania is greater than Hungary which has 394,500 jobs, Bulgaria (356,000 jobs) and Croatia with 311,400 jobs.

A complete measurement of tourism's contribution to the labor market is achieved by the share of the jobs created by tourism in the entire labor market. Thus, in Romania the share is only 5.7%, in Hungary it is 10%, in Bulgaria 12.2%, Austria 14.3%, Greece 18.2%, Croatia 29.9%. In this ranking, Romania is the country with the poorest performance of tourism in creating jobs for the related industrial branches.

In conclusion, the influence of the Romanian tourism on labor market means:

- ✓ a small impact on the labor market;
- ✓ a reduced synergy in the labor market between tourism and the related branches;
- ✓ a small productivity of the labor force in tourism.

### 4.3 Visitor Exports contribution to Total Exports

The main goals that make tourism an important economic instrument for many countries are the balancing of the payment balance and the reduction of the commercial deficit. In our days, Romanian tourism has real problems in both directions. Besides that, the numbers registered in the World Travel and Tourism Council's statistics show that Romania's export of tourism services is lowly in all respects: value, share, popularity.



Visitor exports are a key component of the direct contribution of Travel & Tourism. In Figure no. 5, in 2013, Romania generated 8.0 billion RON in visitor exports. In 2014, this was expected to grow by 1.4%, and the country was expected to attract 5,672,000 international tourist arrivals.

By 2024, international tourist arrivals are forecast to total 10,552,000, generating expenditure of 14.1 billion RON, an increase of 5.7% pa. (World Travel & Tourism Council Economic Impact Research - Romania Report 2014)

**ROMANIA: VISITOR EXPORTS AND INTERNATIONAL TOURIST ARRIVALS**



Source: World Travel & Tourism Council Economic Impact Research - Romania Report 2014

Figure no. 5

The volume of tourism service exports registered in Romania in 2013 was of 2.4 billion dollars, less than 4.4 billion dollars in Bulgaria, 6.1 billion dollars in Hungary, 7.6 billion dollars in Czech Republic, 11.2 billion dollars in Croatia, 15.7 billion dollars in Greece, 21 billion dollars in Austria. Secondly, we must also consider tourism’s share in the total export, of about 3%, way below the values recorded by the other States: Hungary and Czech Republic – each with 4.9%, Austria – 9.3%, Bulgaria – 12%, Greece – 26.9% and Croatia – 45.1%

The domestic demand for tourism services is the starting point for any country that wants to become a major player on the international tourism market. It is very important to provide quality services for the domestic demand, because it will create preconditions for gaining experience necessary to offer services of the highest quality that can satisfy the external demand.

**4.4 Dynamics of tourism investments**

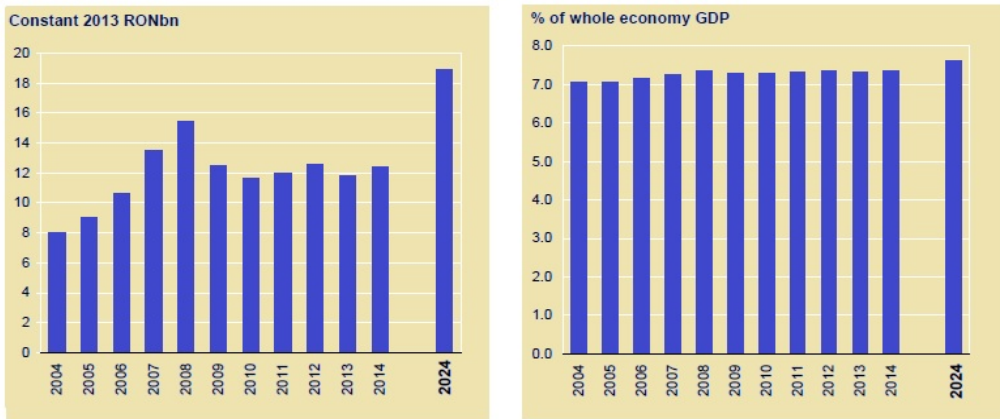
An important role in raising standards of service quality and creating added value is played by the attraction of investment, namely attracting foreign capital. A famous example is Bulgaria, which in the early 90s partnered with successful investors such as TUI or Thomas Cook. This partnership has ensured access to profitable markets such as Germany or the UK. Tourists from these countries don’t choose Bulgaria for its tourist attractiveness, but they actually choose the tour operator, in this case TUI or Thomas Cook, because they were familiar with their quality standards and trusted the

offer of these great companies. Adopting this strategy, Bulgaria has increased confidence in the services offered to tourists. The main goal of the investments is to increase the standard quality of the services. Considering all of this, the investment dynamics represents an important instrument to know the evolution of tourism in a country.

Travel & Tourism is expected to have attracted capital investment of 11.8 billion RON in 2013. This was expected to rise by 5.3% in 2014, and rise by 4.3% pa over the next ten years to 18.9 billion RON in 2024. (Figure no. 6)

Travel & Tourism’s share of total national investment will rise from 7.4% in 2014 to 7.6% in 2024. ( World Travel & Tourism Council Economic Impact Research - Romania Report 2014)

ROMANIA: CAPITAL INVESTMENT IN TRAVEL & TOURISM



Source: World Travel & Tourism Council Economic Impact Research - Romania Report 2014

Figure no. 6

## 5. CONCLUSIONS

In conclusion, we can say that the Romanian tourism is not ranked high in the Romanian economy and this has been illustrated by the lowly contribution to the GDP of the last few years. This means that Romanian tourism is not creating a lot of value despite of its potential. Romania has a lot of points of interest and tourist attractions, but still lacks the ability to turn these opportunities into real economic value.

The main cause of this reduced contribution of the Romanian Travel & Tourism industry to the GDP is the lack of investment spending and the poor government “collective” spending. The Romanian Travel & Tourism industry requires a lot of investments because its infrastructure is very old and out-of-date. The important role of investments is to create more value, which is reflected in a higher contribution to the GDP

The share of the Romanian tourism in the national economic system is relatively small. This shows that Romania ignores the potential that tourism has in an economy, losing the opportunity to create more economic value. As we can see in the study, the indirect and induced contribution is greater than the direct contribution of Travel & Tourism to the GDP. Tourism industry plays an essential role in the mechanism of the economic life because it stimulates through the object of its sphere of

activity the development of other branches of the national economy such as industry, agriculture, constructions, transports, trade etc.

Tourism can be an important catalyst for the labor market, because when you create jobs in tourism, you automatically generate jobs in the others branches. Also, the workers in the tourism industry contribute to the development of other services because from the salaries gained in tourism they satisfy their needs like food, clothes, houses, cars etc. and they pay for the utilities, local taxes, or other services.

It results from the study that the Romanian tourism has a small impact on the labor market, which also means a reduced synergy in the labor market between tourism and the related branches. The lack of interest for the Romanian tourism is also shown by the small productivity of the labor force in tourism. To increase the labor productivity Romania also needs investment in the education and professional training of the tourism employees.

The study also shows that Romania's export of tourism services is lowly in all respects: value, share and popularity. The key of success for the Romanian export of tourism services resides in offering goods and services of high quality. First of all, Romania needs to improve the quality of the services for the domestic demand because this is the only way to improve the quality of services for the external demand. The quality is an engine of the value creation process and a guarantee for the good rating.

An important role in raising standards of service quality and creating added value is played by the attraction of investment, namely attracting foreign capital. It is very important for Romania to establish relations with foreign trusted partners. This kind of partnerships is recommended because the foreign partners come with the know-how management and also with an intangible capital such as customer confidence in a dedicated brand.

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