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THE IMPACT OF TOURISM ON ECONOMIC DEVELOPMENT – A CROSS-COUNTRY PERSPECTIVE

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ABSTRACT. Tourism is one of the main economic activities in many countries. The core idea of this paper is to conduct a comparative analysis of the economic impact of tourism in Romania, Spain and Turkey during 2000 - 2018. Thus, the aim of the present paper is three-fold. The first is to analyze the direct, indirect and induced contributions of Travel & Tourism to GDP in these countries. The second is to determine the impact of Internal T&T Consumption on GDP growth. The third is to measure tourism multiplier and tourism efficiency.

Keywords: Tourism, Economic development, Romania, Spain, Turkey

JEL Classification: O57, Z32

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INTRODUCTION

The contribution of tourism on economic growth has attracted the attention of researchers, practitioners and governments in the last years (Gunduz & Hatemi, 2005, Lee &d Chang, 2008, Badulescu et al., 2020).

In 2018, Travel & Tourism directly contributed US$2.75 trillion and 122 million jobs worldwide. Considering the indirect and induced impacts, the sector contributed US$8.8 trillion to the global economy and supported 319 million jobs in 2018, being forecast to grow by 3.6% in 2019. Travel & Tourism's direct contribution to GDP grew by 3.9% in 2018, meaning that the sector outperformed the global economy for the eighth consecutive year and also some major global economic sectors, like the healthcare, information technology and financial services. Travel & Tourism's direct contribution to GDP is expected to grow at an average of 3.6% per year over the next ten years (WTTC, 2019 a and b).

Travel & Tourism is an export sector, attracting foreign spending to a country in the form of international visitors. In 2018, global visitor exports accounted for 6.5% of total world exports and 27.2% of total world services exports (WTTC, 2019b). This is forecast to grow by 4% in 2019, and grow by 3.8% pa, by 2029 (WTTC, 2019b). In terms of investment, Travel & Tourism accounted for 4.4% of total investment in 2016 (US$940.9bn) being forecasted to grow by 4.4% in 2019, and by 4.2% pa over the next ten years (WTTC, 2019b).

The important role of tourism in economic growth and social progress has been recognized all over the World and many countries are attempting to develop their tourism potential as quickly and effectively as possible (Dritsakis, 2004).

The potential of tourism as a driver of growth resides on its provision of foreign currency earnings that can be used to import capital goods to produce goods and services, which in turn leads to economic growth (McKinnon, 1964 cited in Pablo-Romero and Molina, 2013) and also attracts direct foreign investments in infrastructure and services (hotels, tour operators, transport) (Proença & Soukiazis, 2008). Other benefits of tourism development include generation of investments flows and tax revenues for local and central public administrations (Sehleanu, 2019), employment opportunities (given the relatively labour-intensive nature of tourism and the limited substitution of capital in the production of tourism services), an additional source of income, it promotes efficiency and competitiveness, facilitates the exploitation of scale economies at the local level (Archer, 1995; Durbarry, 2002; Khan et al., 1990; Uysal & Gitelson, 1994; Krueger, 1980; Helpman & Krugman, 1985 cited in Pablo-Romero & Molina, 2013; Blake et al., 2006, Proença & Soukiazis, 2008).

Given that to capitalize on tourism potential countries need to invest in infrastructure and in the capacity to supply the services required by tourists (accommodation, food, transportation, entertainment etc.) it can be argued that tourism has strong links with other economic sectors, including transport, retailing, wholesaling, manufacturing, agriculture, arts and crafts and other services (Proença & Soukiazis, 2008).

The purpose of this paper is to investigate the economic impact of Travel and Tourism in Romania, Spain and Turkey for the period 2000 - 2018 by: 1) analyzing the direct, indirect and induced impacts of tourism to GDP; 2) determining the influence of Internal T&T Consumption on GDP growth and 3) measuring the tourism multiplier and efficiency.

The remainder of this paper is organized as follows: Section 1 reviews various studies related to tourism development; Section 2 describes the research methodology that has been applied, Section 3 presents and discusses the research results, and finally, the last section of the paper concludes this research.

1. LITERATURE REVIEW

Given the importance of tourism industry in the economy worldwide there has been an increasing number of articles that analyzed the relationship and causality between tourism and the economic growth in the case of specific countries but also cross-countries research has been conducted. Further on we will review some of the studies that tackled this issue at the level of the countries studied also by us: Spain, Turkey and Romania.

Balaguer & Cantavella-Jorda (2002) analyzing the period 1975-1997 concluded that earnings from international tourism positively impact the Spanish economic growth and a long-run stable relationship between economic growth and tourism expansion exists. They confirmed the tourism-led growth hypothesis through cointegration and causality testing.

Nowak, et al. (2007) investigated the link between tourism exports and economic growth in the Spanish context using data from 1906-2003. They concluded that tourism exports finance imports of capital goods, which in turn affect the economic growth of the Spanish economy. Cortes-Jimenez & Pulina (2010) conducted an empirical investigation of the evolution of the Spanish and Italian economies and their respective tourism sectors from the 1950s and 1960s respectively, until 2000, the results showing the influencing role of inbound tourism for both economies.

Ivanov & Webster (2006) investigated the contribution of tourism (determined on the basis of GVA in hotels and restaurants) to economic growth in the case of Cyprus, Greece and Spain and concluded that the hospitality industry is much stronger contributor to economic growth in Greece than in Spain and Cyprus, the industry showing a decreasing growth in the latter two countries.

Demiroz & Ongan (2005) examined the causal relationship between international tourism receipts and GDP for the period 1980 – 2004 in the case of Turkey. Their findings support the existence of a bidirectional causal relationship between the two variables in both the short and the long-run meaning that economic growth contributes to the sectoral development of tourism while tourism contributes to the economic growth. Another study focusing on Turkey has been conducted by Gunduz & Hatemi (2005) analyzing the period 1963–2002 and using international tourist arrivals, output and an exchange rate variable. They found a unidirectional causal relationship between tourism and economic growth in the long term. Arslanturk & Atan (2012) using a data set of 1987 and 2009 period identified a causal relationship running from tourism incomes to economic growth in the case of Turkey.

Surugiu & Surugiu (2013) studied the relationships between tourism expansion and economic growth the long-run in the case of Romania, using data from 1988 to 2009. Their findings showed the existence of causal relationship running from tourism development to economic growth. Bădulescu et al. (2020) investigating the 1995–2016 period identified the existence of a causal effect of the GDP on the international tourist arrivals and on the international tourism receipts in the long run in Romania, while in the short run has been established a unidirectional causal relationship from the international tourism receipts to GDP, and a bidirectional causal relationship between GDP and the number of international tourist arrivals.

2. MATERIALS AND RESEARCH METHODS

The present research is part of a larger study focused on analyzing the impact of Travel & Tourism sector on GDP at global level, at European level, as well as in the case of Romania, Spain and Turkey on one hand, and on analyzing Travel & Tourism contribution to GDP compared to other sectors such as agriculture, banking, communications, education, financial services, automotive manufacturing and retail, for the period 2000 – 2018, on the other hand. The above sectors have been chosen because they are considered to have a similar global presence as Travel & Tourism sector in the economy.

This study highlights the contribution of Travel & Tourism sector in Romania (ranking 68/56th in The Travel and Tourism Competitiveness Index 2017/2019 Overall Rankings), Spain (ranking 1st) and Turkey (ranking 44/43th) to their respective economies, as share of GDP. We emphasize its direct contribution, as well as its indirect and induced contribution in order to reveal the economic importance of this sector in the economy of these countries. Moreover, we intended to identify in the case of each country how much Internal T&T Consumption accounted for GDP growth and also to assess tourism impact by determining the multiplier of tourism and this industry efficiency.

Considering this research goal, we used, on one hand, World Travel & Tourism Council (WTTC) database, due to the fact that WTTC around the world is referenced as the authoritative source for the role of Travel & Tourism in generating GDP, as well as employment, exports, and investment. On the other hand, we used the World Bank database as it is one of the world's largest sources of knowledge for many countries and share a commitment to promoting sustainable development.

The data was collected for a period of 19 years (2000 – 2018) and computed accordingly to our main research objective.

Out of all metrics available on WTTC Data Gateway we analyzed the following three metrics: Total Contribution to GDP, Direct Contribution to GDP and Internal T&T Consumption. Based on the online available data, we computed the Indirect and Induced Contribution to GDP.

The direct contribution of Travel & Tourism to GDP highlights the total spending on tourism by residents and non-residents for business and leisure purposes (internal spending), as well as the spending by government on tourism services directly related to visitors. It refers to services such as catering, accommodation, entertainment, recreation, transportation and other Travel & Tourism related services.

The indirect contribution of Travel & Tourism to GDP includes the GDP and jobs supported by Travel & Tourism investment spending, government collective spending in order to help tourism activity in many different ways and domestic purchases of goods and services by the sectors dealing directly with tourists and includes services such as: sanitation services, printing/publishing, utilities, administration, financial services, furnishing & equipment suppliers, security services, rental car manufacturing, ship building, tourism promotion, aircraft manufacturing, resort development, glass products.

The induced contribution of Travel & Tourism to GDP measures the GDP and jobs supported by the spending of those who are directly or indirectly employed by the tourism sector (such as, food and beverages, clothing, housing, recreation, household goods, wholesalers, personal services).

Internal T&T Consumption reflects the total revenue generated within a country by industries that deal directly with tourists, including visitor exports, domestic spending and government individual spending.

Out of all indicators available on The World Bank – World Development Indicators Database we analyzed GDP (current US$), GDP growth (annual %), respectively Agriculture, Industry and Services - value added indicators (% of GDP).

For each metrics we computed the minimum, the maximum and the average value for the analyzed period of time. The correlation between the Internal T&T Consumption growth (%) and the annual GDP growth (%) in the case of each country was also determined. The correlation coefficient measures the strength and direction of a linear relationship between the Internal T&T Consumption growth (%) and GDP growth (%) on a scatterplot. Tourism multiplier (K GDP) was computed as the ratio between the total contribution of T&T to GDP and its direct contribution to GDP while tourism efficiency (E TOTAL) as the ratio between the total contribution of T&T to GDP and its impact on employment.

3. RESEARCH RESULTS

To establish the context of our study we consider appropriate to start with analysing the gross domestic product (GDP) and its three components (agriculture, industry and services) based on the value added in Romania, Spain and Turkey.

GDP is the most frequently used measure for reflecting the overall size of an economy. Figure no. 1 points out the evolution of GDP during 2000 – 2018 in the analysed countries, revealing the economic position of each country. Out of these three countries, Romania and Spain are part of the European Union (Romania has been part of the European Union since 2007, while Spain since 1986).

While Romania is an upper-middle income economy according to 2018 gross national income per capita calculated using the World Bank Atlas method, Spain is one of the highest economy in the European Union and Turkey is rated as an upper-middle income economy.

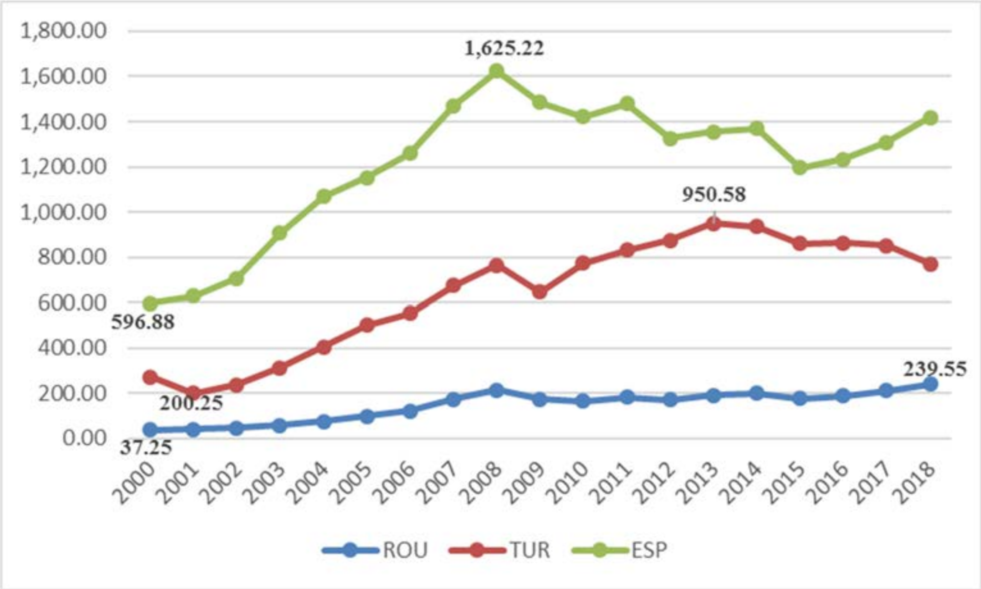


Figure no. 1: GDP (US $ billions)

Source: Authors' own elaboration based on World Development Indicators Database, World Bank

Despite periods of time when the economy of each country plunged into recession, all three economies expanded during the analysed period of time. During 2000 – 2018, Romania reached the maximum value of GDP in 2018, Spain in 2008, while Turkey in 2013. The average GDP value registered in Romania was 145,74 US$ billions, in Spain 1.210,62 US$ billions, while in Turkey was 646,19 US$ billions. The economic crisis marked a decline of the GDP in all three countries, the most significant fall being registered by Spain. We compared the dynamic of economic development over time and between the three countries. Our results show that the highest average GDP annual growth was registered in Turkey (5.12%) followed by Romania (4.04%) and Spain (1.84%).

The main components as value added of GDP (Figure no. 2) are services (main component), industry (the second component) and agriculture (the third component). This hierarchy is the same in each country, with Spain being the country in which agriculture generated the less value added to GDP: the average contribution of agriculture as % of GDP during 2000 – 2018 in Spain was 2.81%, while in Romania was 7.22% and in Turkey 8.02%. On the other hand, Spain represents the country in which services generated the highest value added to GDP: the average contribution of services as % of GDP in the analysed period was 64.24% in Spain, while in Turkey 53.77% and in Romania was 49.36%. Romania represents the country in which industry generated the highest value added to GDP between 2000 and 2018 (an average of 32.79%), followed by Turkey (an average of 26.54%) and Spain (an average of 24.03%).

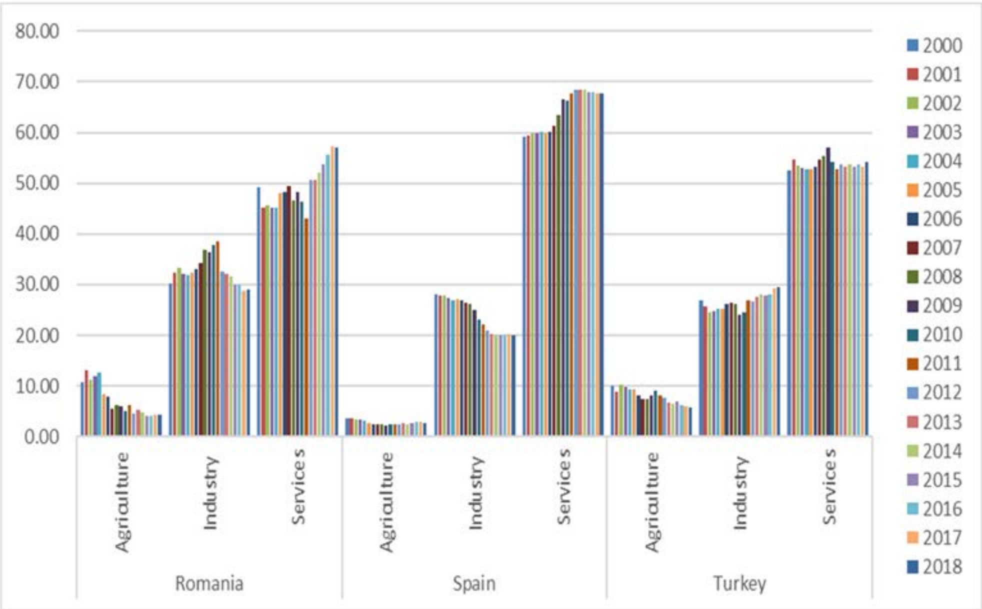


Figure no. 2: Value added of sectors to GDP (%)

Source: Authors' own elaboration based on World Development Indicators Database, World Bank

Over time, tourism has faced continued growth and extensive diversification to become one of the fastest growing economic sectors in the world. These dynamics have turned tourism into a key driver for economic development.

Tourism is one of the main economic activities in many countries, such as Spain. Further, we analysed the total contribution of Travel & Tourism to GDP, defined as GDP generated by the Travel & Tourism sector plus its indirect and induced impacts (i.e., the sum of direct, indirect and induced impacts equals the total economic impact of Travel & Tourism).

Tourism in Spain is a major contributor to the national economic life, contributing 13.41% of Spain's GDP as average for the analysed period of time. Tourism in Romania is based on the country's natural landscapes and its history, contributing 5.72% of Romania's GDP as an average for the analysed period of time. Tourism in Turkey is focused on seaside resorts along its Mediterranean Sea and Aegean coasts, on a variety of historical sites and on health care tourism. Its total contribution to Turkey's GDP was 10.77% as an average for the analysed period of time.

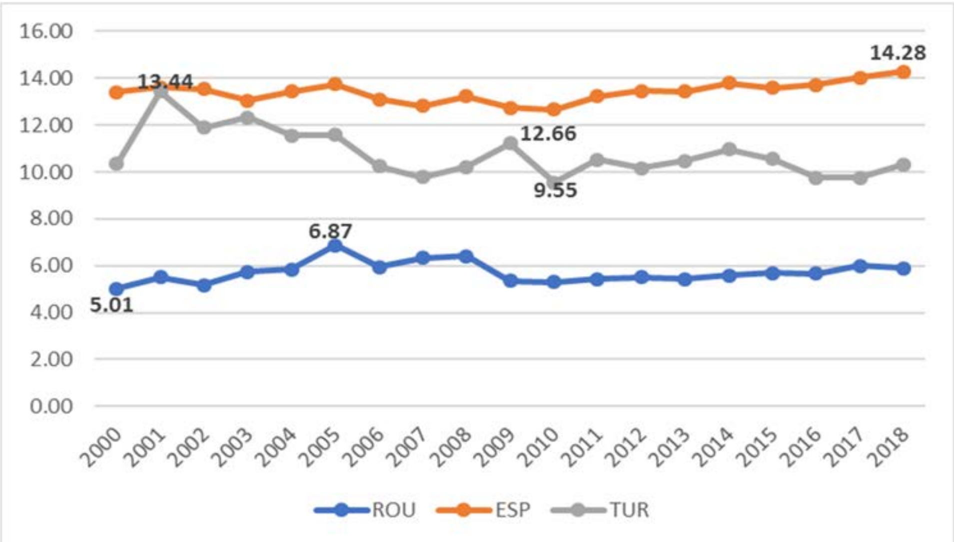
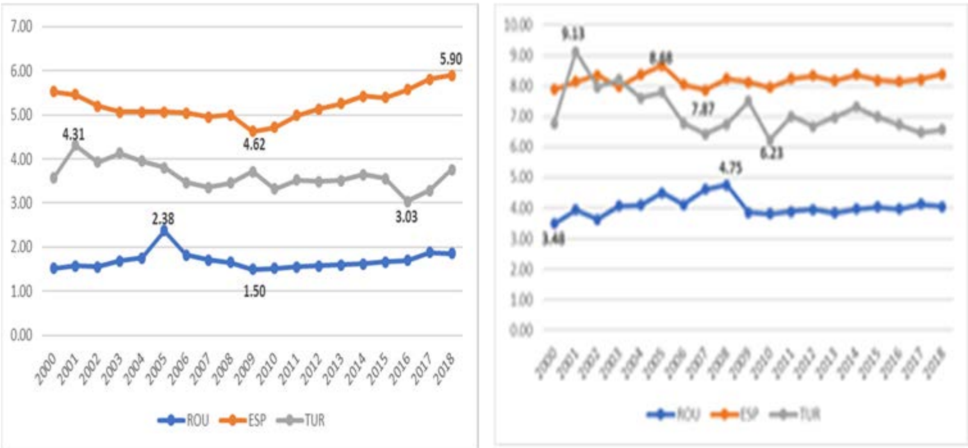


Figure no. 3: Total contribution of Travel & Tourism to GDP (%)

Source: Authors' own elaboration based on World Travel & Tourism Council

Regarding the evolution of tourism's total contribution to GDP for all three countries, the period under review is characterized by an alternation of periods that marked increases and periods in which declines were recorded. The minimum contribution was 5.01% and was registered in 2000, and the maximum of 6.87% was recorded in 2005 for Romania. As far as Turkey is concerned, the maximum contribution was 13.44% being registered in 2001, while the minimum value was 9.55% in 2010. For Spain, the maximum contribution was 14.28% being registered in 2018, while the minimum value was 12.66% in 2010.

In Romania, the total contribution of Travel & Tourism to GDP is expected to grow by 2.7% (up to 5.8% of GDP) in the next ten years, in Spain by 1.8% (up to 15% of GDP), while in Turkey is forecast to grow by 4.4% (up to 13.8% of GDP) (WTTC a), b), c), 2017).



a) Direct contribution to GDP (%)

b) Indirect and induced contribution to GDP (%)

Figure no. 4: Travel & Tourism contribution to GDP (%)

Source: Authors' own elaboration based on World Travel & Tourism Council

Based on the total and the direct contribution of tourism to GDP we have computed the indirect and induced contribution of tourism to GDP. As pointed out in Figure no. 4 (a&b), additionally to its direct economic impact, the industry has significant indirect and induced impacts. As average for the analysed period of time, the direct contribution in Romania was 1.69%; in Spain was 5.22% and in Turkey 3.62%, while the average indirect and induced contribution in Romania was 4.03%; in Spain was 8.19% and in Turkey 7.15%.In terms of direct contribution of tourism to GDP data shows a period of continuous growth in Spain from 2009 to 2018 with a maximum of 5.90% registered in 2018, and a minimum value of 4.62% in 2009. For Romania we noticed a period of decrease between 2005 and 2009, with a minimum value of 1.5% in 2009 and a maximum value of tourism direct contribution to GDP of 2.38% in 2005. For Turkey it can be noticed a period of constant growth from 2010 to 2015, the maximum contribution (4.31%) being registered in 2001, and the minimum (3.03%) in 2016.

In the next ten years, the direct contribution of Travel & Tourism to GDP is forecast to grow in Romania by 2.9% (up to 1.6% of GDP); in Spain by 2.0% (up to 5.5% of GDP), while in Turkey is expected to grow by 4.9% (up to 4.8% of GDP) (WTTC a), b), c), 2017).

The value of indirect and induced contribution of tourism to Romania's GDP does not show a clear trend, periods of decline alternate with growth periods, the minimum value of 3.48% being recorded 2000, while the maximum value of 4.75% in 2008. In the case of Spain, the minimum value of 7.87% was achieved in 2007 and the maximum value of 8.68% in 2005. After the alternation between growth and decline periods, the last three years recorded a constant but moderate increase of indirect and induced contribution of tourism to GDP. Between 2000 and 2018 in Turkey the value of indirect and induced contribution does not show a clear trend, the maximum value of 9.13% being registered in 2001 and the minimum value of 6.23% registered in 2010.

We also analysed the Internal T&T Consumption. Figure no. 5 shows the growth (%) of this indicator during 2000–2018 in all three analysed countries. The average Internal T&T Consumption growth (%) registered in Romania was 5.11%, in Spain 2.36%, while in Turkey was 7.92%.

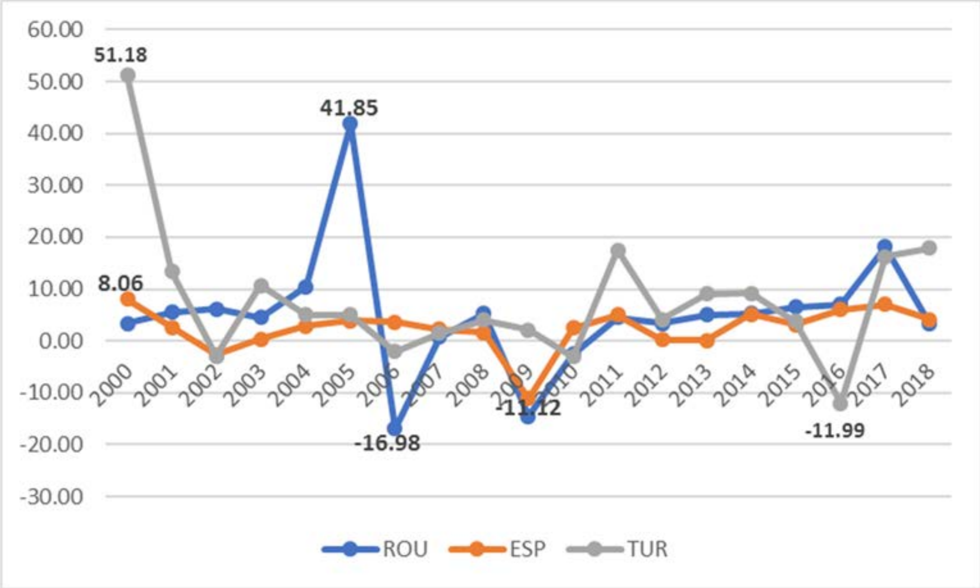
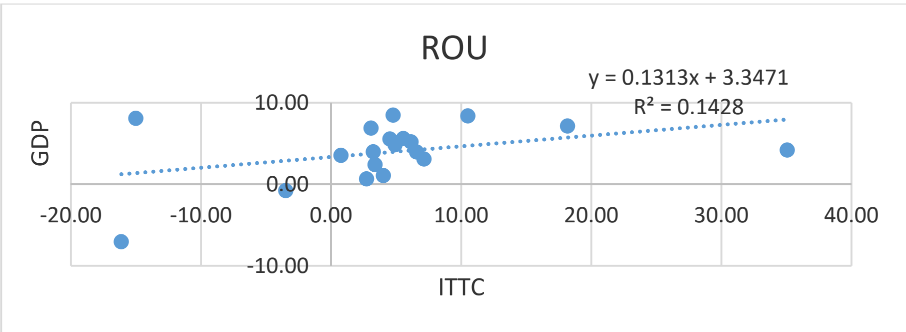


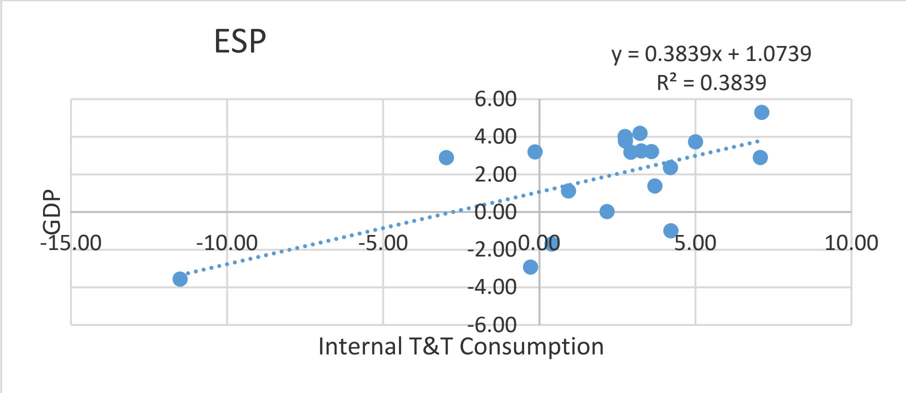
Figure no. 5: Internal T&T Consumption growth (%)

Source: Authors' own elaboration based on World Travel & Tourism Council

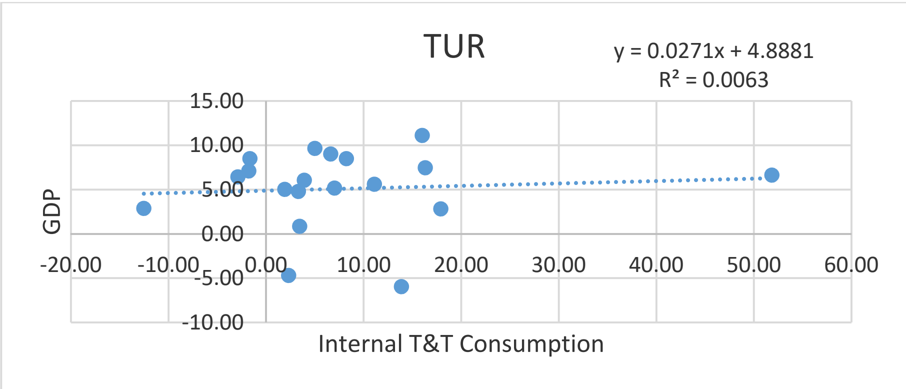
Furthermore we tested the correlation between the annual percentage growth rate of GDP with the percentage growth rate of Internal T&T Consumption in Romania, Spain and Turkey.



6a) Romania



6b) Spain



6c) Turkey

Figure no. 6: Best fit linear regression for Internal T&T Consumption growth (%) and GDP growth (%)

Source: Authors'own elaboration

The above figures illustrate the best fit linear regression line for the Internal T&T Consumption growth (%) and GDP growth (%) in the case of Romania, Spain and Turkey, as an indicator for the correlation between the two variables. As it can be observed, the coefficient of determination varies significantly between the three models. Whilst for

Spain, the graphs indicate an acceptable coefficient of determination (R^2=0.38) with an implicitly acceptable correlation coefficient (r=0.62); the other two models (for Romania and Turkey) return poor model fits (R_{Rou}^2=0.14 and R_{Tur}^2=0.01) implicating low correlation coefficients (r_{Rou}=0.38 and r_{Tur}=0.08). These results indicate that for Romania and Turkey, there is no correlation between the two variables indicated above. In the case of Spain, however, a clear positive correlation can be observed. This indicates that, for Spain, as the Internal T&T Consumption growth (%) increases a growth (%) in GDP is registered.

We can thus conclude that the correlation is different in each country: in the case of Turkey (correlation is very close to 0) no percentage of the variation in Internal T&T Consumption accounts for GDP growth; in the case of Romania there exist a positive weak correlation (a correlation of +0.11, meaning that 11% of the variation in Internal T&T Consumption accounts for GDP growth), while in the case of Spain a positive moderate relationship (a correlation of +0.38, meaning that 38% of the variation in Internal T&T Consumption accounts for GDP growth). If for Romania we wouldn't consider in our analysis the data for the years in which there was a huge difference between the percentage growth of our variables (2005, 2006 and 2009) the correlation would become a moderate one (a correlation of +0.41).

To assess tourism impact, we have computed the multiplier of tourism and this industry's efficiency.

Given the reference value in the literature for tourism multiplier (K = 3), only Romania scored higher for the entire period under review, with a maximum value of 3.87 in 2008. In Spain's case, the value registered was below 3 for the entire period of time analysed, while in Turkey's case only in six years out of the total 19 years analysed the value was above 3. The highest value of the multiplier was recorded in 2016 (3.22).

In terms of efficiency the results show that Spain is the most inefficient one, the results emphasizing that in Spain's case the impact of tourism on GDP is lower than on employment as the value of the indicator total efficiency ranges between 0.93 and 0.99. Out of the three countries, Turkey is the most efficient, the indicator measuring tourism total efficiency registering scores between 1.15 and 1.25. On the other hand, in Romania's case the value of the indicator total efficiency does not show a clear trend and it ranges between 0.94 and 1.05.

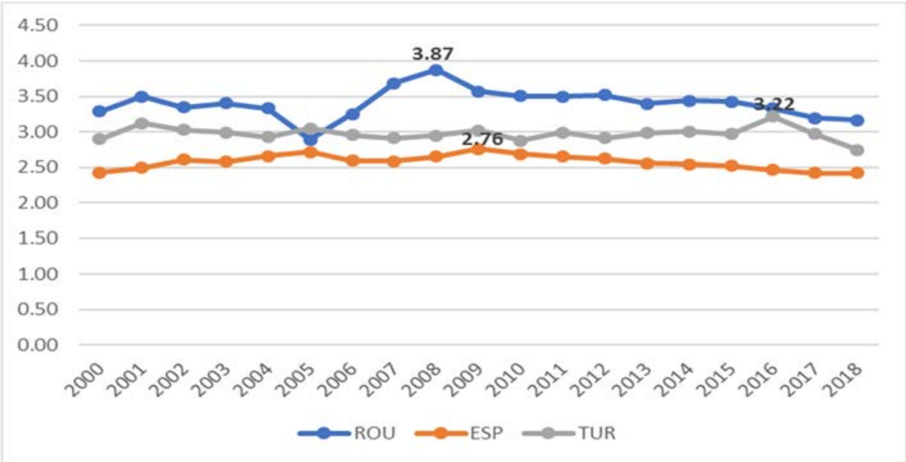


Figure no. 7: Tourism Multiplier

Source: Authors' own elaboration based on World Travel & Tourism Council

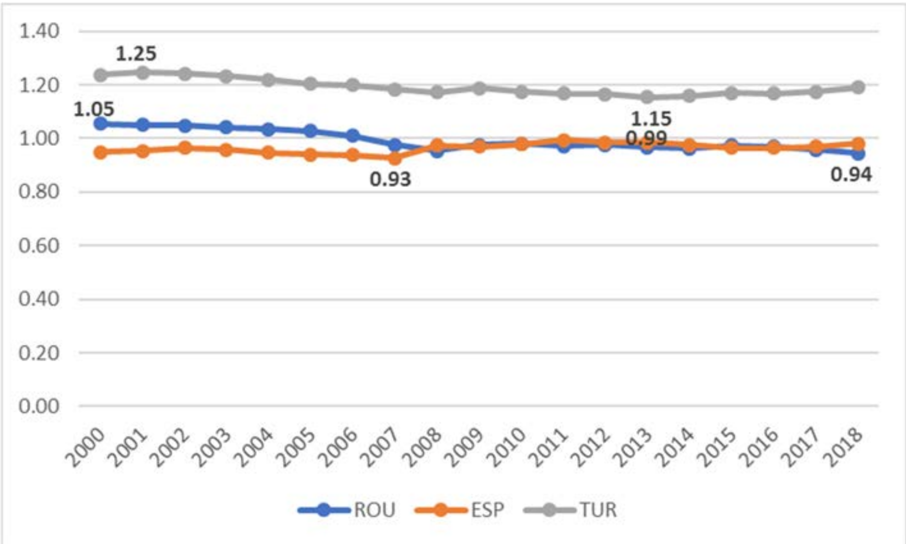


Figure no. 8: Tourism Industry Efficiency

Source: Authors' own elaboration based on World Travel & Tourism Council

4. CONCLUSIONS

The results of the present research provide new aspects on the relative significance of Travel & Tourism sector in driving current and future global economic development in Romania, Spain and Turkey.

To asses T&T economic impact we have identified the contribution of T&T to GDP (total contribution with its components - direct, indirect and induced), we have determined the correlation between the annual Internal T&T Consumption (%) and GDP growth (%) and we have also computed tourism multiplier and industry efficiency in Romania, Spain and Turkey.

One of the main conclusions that can be drawn from our study is that during the period 2000 – 2016 the average total contribution of Travel & Tourism sector to GDP in Romania was 5.17% that signifies a rather low impact on the economy compared to Spain (14.12%) and also Turkey (12.94%).

In the case of Romania and Spain we identified a positive relationship between Internal T&T Consumption (%) and GDP growth (%) while in the case of Turkey the coefficient of correlation (r) indicates no relationship or a very weak one. Research limitations in our analysis are given by the qualitative factors not included in our study, such as political conflicts and instability (especially in the case of Turkey).

The tourism multiplier showed that Romania scored higher for the entire period under analysis. On the other hand, the total contribution of Travel & Tourism sector to GDP in Romania is nearly four times greater than its direct contribution, while in Spain and Turkey is nearly three times greater. This multiplier effect highlights that in the case of Romania the money spent by a tourist circulates through the country’s economy four times, while in Spain and Turkey nearly three times.

The present study evaluates tourism efficiency using basic characteristics that affect the efficiency of tourism industry: total impact of T&T to GDP and total impact of T&T to employment. According to our findings Tukey is identified to be the most efficient country out of the analysed countries. In the case of Romania we concluded that the T&T has a more positive impact on employment than on economic level in terms of value added and impact on GDP.

In the case of Romania, we consider that government should increasingly recognise Travel & Tourism as an important activity with the capacity to stimulate the economy, due to the fact that there exist a direct relationship between the growth of tourism sector and the economic growth: tourism has frequently demonstrated the capacity to create employment, stimulate capital markets, attract foreign investment, earn foreign currency and add value locally, regionally and nationally. One government policy that could be implemented is to focus on travel facilitations and attracting, respectively expanding, financial programs destined to the above mentioned capacities of tourism.

An important future research direction could consist in revising the number of countries analyses with the purpose to identify variables affecting tourism efficiency.

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