

## Effects of Economic and Social Implications of Tourism on Economic Flows

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### Abstract

*The development of tourism at national level can also be influenced by the policies of other economic sectors or activities with which tourism interacts to a greater or lesser extent, such as: transport infrastructure, environmental protection, educational programs, land use planning, regional plan. The objective of this paper is to analyze the effects of economic and social implications of Romanian tourism on economic flows and tourism in balance of payments and investment position of Romania. Romania's receiving tourism is little represented in the tourist traffic, and the receipts in the field relative to GDP represent a smaller share even than the traditional EU tourist-issuing countries such as the UK, Germany or the Scandinavian countries.*

**Key words:** tourism, travel industry, marketing

**J.E.L. classification:** A1

### 1. Introduction

The current situation in the national context is crossed by two main aspects:

- Valuable tourism potential, but insufficiently capitalized.
- Poor results of economic performance, but moderate growth trend.

A simple representation of an economy shows the major flows of goods and services. Most of the value of the tourist and travel industry is derived from spending coming from leisure activities as well as from business tourism as a result of inflows and outflows from international tourism.

Expenditure in the tourism and travel industry is running within the same economy and this sector may also have important implications in other areas of activity. Revenues which come from tourism activity result in revenue growth for a country's economy as a result of tax collection by the state. Governments can stimulate the development of a tourism industry through subsidies and loans, but also by making their own investments, if the necessary capital is obtained and attracted from the capital markets, by governments or the private business environment, there will be a direct increase in investment. Different regions, countries or areas have identified the development of the tourism industry as a strategic policy objective at both microeconomic and macroeconomic level. These regions obviously expect the tourism industry to generate economic returns for the inhabitants (both households and local businesses) (Otgaar A.H.J, Klijs J., *The regional economic effects of industrial tourism development*, paper presented at the conference: European Congress of the Regional Science Association International, August 19-23, 2010, pg.3.).

### 2. Effects of Economic and Social Implications of Tourism on Economic Flows

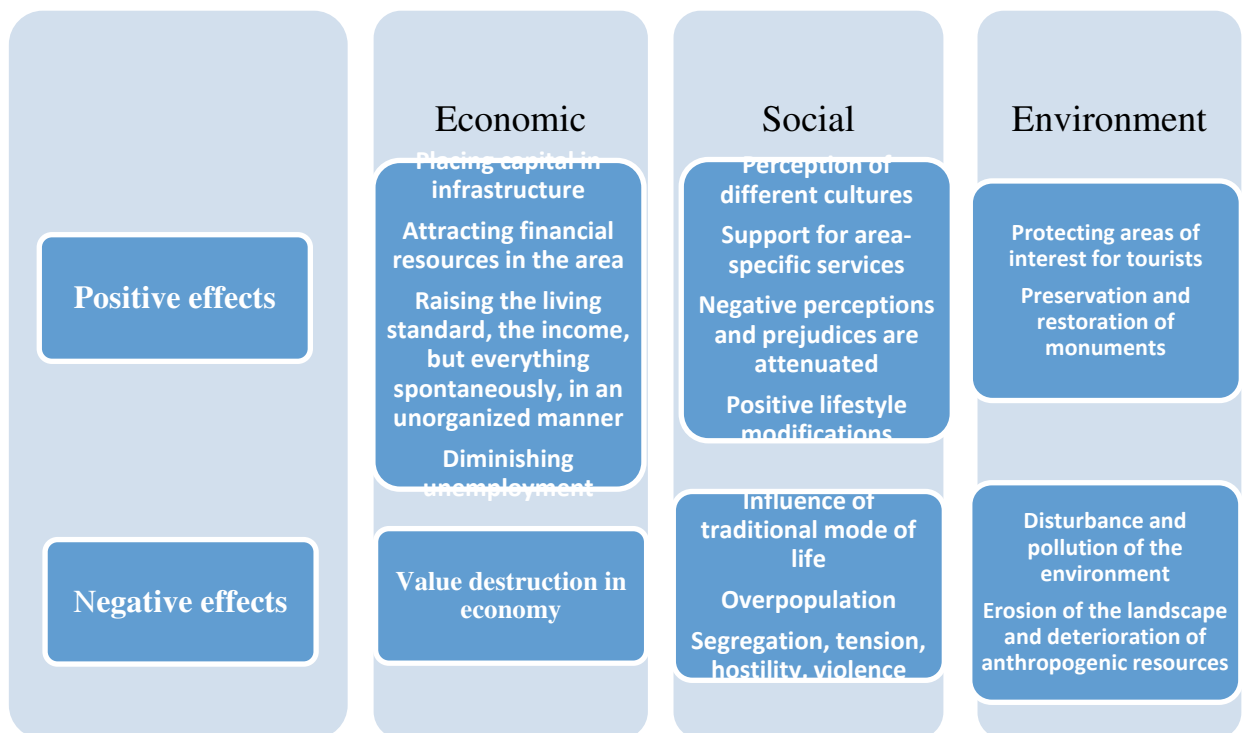
Over time, our country has been considered as an important tourist destination for the South East European market, supporting and promoting the image of Romania and, in particular, seaside tourism, spa resorts, cultural programs and monasteries in Bucovina. Current tourism statistics reveal a modest dimension of the tourist phenomenon in Romania, expressed through demand and supply-side indicators. The economic impact of tourism can be assessed from different perspectives, using a range of core indicators that highlight the contribution of the tourism and

travel industry to the economy in a broad sense. As a result of the increase in tourism, its effects influence the various flows in the economy according to the structure of the economy and the changes in tourism.

"The main aspects of the economic impact can be classified as follows" (Minciu R., *Tourism Growth And Its Effects in The Economy*, Amfiteatrul Economic, 2008, p.274):

- Income generation from foreign exchange operations and their contribution to Balance Payments account;
- The effect of multiplying and creating new jobs;
- Contribution to State's earnings from income tax;
- Improving the economic structure of a region / country;
- Tourism's contribution to GDP.

Figure no. 1 The impact of tourism on destination areas



Source: Adaptation after Evans N., Campbell D., Stonehouse G., *Strategic Management for Travel and Tourism*, Butterworth – Heinemann Ed., 2003

The magnitude of the economic impact depends on a relatively small number of factors, such as:

- The feature of the main facility and its attractiveness;
- Volume and intensity of expenditure
- The level of economic development in the country of destination;
- The extent to which travel expenses re-circulate in the destination country, etc.

The place and the role of tourism in the Romanian economy derive from the implications of this specific economic branch.

### 3. Tourism in Balance of Payments and Investment Position of Romania

The foreign trade activity of a country includes the entire economic import and export activity that is recorded over a period of time. The balance of payments accurately reflects the imports and exports undertaken as well as the correlation between the inputs and outputs of goods and services over a specified period of time. The Balance of Payments reflects the country's claims and debts as a whole in relation to foreign affairs, and the influence of tourism on it can be replicated through the currency balance of tourism which, depending on its nature - positive or negative - can offset,

reduce or widen a deficient balance of payments (Minciu R., *Economia turismului (Tourism Economy)*, Uranus Publishing House, Bucharest 2004, p.32).

The assessment of the impact of the results of the tourism activity on the balance of payments should take into account its meaning and its magnitude, so according to the balance sign, the countries can be divided into two distinct categories: countries with a positive balance representing the countries receiving tourists (France, Spain, Italy, USA) and countries with a negative balance, representing the sending countries (Germany, Japan, Great Britain, Russian Federation). Since intentional tourism is part of invisible trade and one of the traits of invisible trade is the stability of the balance of payments sign, it reflects both the degree of economic and social welfare of a country and the extent to which that country is specialized in tourism. A special place is occupied by the effects on the Balance of Payments, in close connection with the foreign exchange earnings in tourism, long seen as the main benefit of international tourism. In the simplest way, the expenses made by tourists become income (receipts) for economic units that offer goods and services. They, in turn, make different purchases from the proceeds obtained, which implies the existence of income for another group of producers. Tourism employees also make various purchases either locally or in another region. The structure of the tourism balance is complex compared to the balance of external payments. Thus, the "Tourism Exploitation Account" achieved through the involvement of the two international bodies, the World Tourism Organization and the OECD, reflects the payments and revenues generated by tourism, but for statistical reasons they are listed in other headings of the balance of payments, for example: trade balance, of services and capital.

Table no. 1 Balance of services for the period 2009 - October 2012

Indicators	Million Euro				Indices			Structure			
	2009	2010	2011	Oct. 2012	2011/2009	2010/2009	2011/2010	2009	2010	2011	Oct. 2012
<i>Receipts</i>	7,063	6,617	7,275	6,159	103,00	93.70	109.94	100	100	100	100
transport	2,077	1,926	2,272	1,829	109,39	92.70	117.96	29.41	29.10	31.23	29.70
tourism-travels	884	860	1,018	934	115,16	97.30	118.37	12.52	13.00	13.99	15.16
other services	4,102	3,831	3,985	3,396	97,15	93.40	104.02	58.08	57.90	54.78	55.14
<i>Payments</i>	7,357	7,168	6,893	5,676	93,69	97.40	96.16	100	100	100	100
transport	2,000	2,103	1,343	1,115	67,15	105.20	63.86	27.20	29.30	19.48	19.64
tourism-travel	1,051	1,239	1,407	1,201	133,87	117.90	113.56	14.30	17.30	20.41	21.16
Other services	4,306	3,826	4,143	3,359	96,21	88.90	108.29	58.50	53.40	60.10	59.18
<i>Net</i>	-294	-551	382	483	x	187.40	x				
transport	77	-177	929	714	1206,49	x	x				
tourism-travel	-167	-379	-389	-267	x	226.90	102.64				
Other services	-204	5	-158	37	x	x	x				

Source: Balance of Payments and International Investment Position of Romania, Annual Report 2011 NBR.

"The monetary and economic unification of Romania with the European Union will only be possible after the adoption of the Euro currency as its own currency. Once this realized, the importance of foreign exchange earnings and their contribution to the Balance of Payments will become much more limited, given that more than 50% of arrivals and an even higher percentage of revenue from total arrivals will be generated by EU members using the Euro currency, which will

become a national currency until then"( National Institute for Research and Development in Tourism - INDCT - 2010, published on [www.mdrl.ro](http://www.mdrl.ro)). The balance of services registered a deficit of 551 million Euro in 2010, up 87.4% as compared to the year before, amid higher commodity and business travel payments, along with the decrease of revenues from other transport services. Among the service balance components, the only surplus was the "other services" item. Revenue from services amounted to € 6.617 million, down with 6.3% as compared to 2009, from all components, and service payments amounted to € 7.168 million, down with 2.6%, from the "other services" item (Balance of Payments and International Investment Position of Romania, *Annual Report 2010 NBR*, published on the website <http://www.bnro.ro/>).

Although there is no clear evidence of the causal relationship between foreign investment and tourism, it is widely accepted by specialists that tourism can attract direct foreign investment.

The WTO recommendation is for countries to organize their statistical system to obtain information on direct foreign investment in tourism or at least foreign investment in the tourism real estate sector (World Tourism Organization, *Tourism Satellite Account Implementation Project, Enzo Paci Papers on Measuring the Economic Significance of Tourism* (Volume 1), Madrid, Spain, 2001, p. 128).

Investments in tourism can be assessed from two perspectives: firstly, in terms of the value of the goods identified as capital goods in tourism, and secondly as an amount of investments made in each of the branches of activity characteristic of tourism. Capital goods in tourism can be represented by (World Tourism Organization, *Tourism Satellite Account (TSA) Implementation Project, Enzo Paci Papers on Measuring the Economic Significance of Tourism* (Volume 3), Madrid, Spain, p. 120-121):

- construction of hotels, restaurants or any type of accommodation including holiday houses;
- landscaping and infrastructure for the development of tourist areas;
- facilities for hotels and restaurants;
- the procurement (or leasing) of aircraft for the carriage of passengers;
- the purchase of leisure equipment for tourism;
- the purchase of coaches specially equipped for excursions, etc.

However, in macroeconomic practice these are very difficult to assess.

#### 4. Conclusions

In regard to tourism based income, after a very detailed analysis, we can see that it has a much lower level than the level of income reported by the other EU countries. The income reported in the sector shows low values, compared to the GDP. In order to complete the influence of tourism on the balance of payments in addition to analyzing the balance of the "tourism-travel" position, it is necessary to analyze the receipts from tourism transport, capital investments in the tourism industry, in the qualification and improvement of the tourism workforce.

I suggest a more active involvement by the government in the development and stimulation of the national tourism industry, so as the tourism industry can generate medium and long term positive economic effects.

Understanding the influence of tourism on the Balance of Payments should not be limited to the "Travels" item within the current account. All international transactions due to a certain extent to tourism, such as payments for goods and services needed for tourism investments, management costs in the tourism industry, etc. should be considered.

#### 5. References

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