

Notes on unsettled questions raised by tourism in Developing Countries. Preliminary suggestions for the study of the contribution of tourism to development.

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I - Introductory considerations.

It has been advanced that tourism (also called the tourism activity or industry) has a large positive impact on the socio-economic development of LDC_s and as a result this sector is often generously contemplated in their development plans and policies.

Tourism in LDC_s has been and remains an activity mainly orientated to international tourism, that is, the consumer is in general a non-resident of the country selected for holidays. As a result the following considerations were written assuming that this characteristic of tourism in LDC_s dominates the scene.

II - Arguments in favour of tourism.

The most important arguments in favour of tourism and based on the assumption of its positive effects on development cover the following:

- (a) It is a source of foreign exchange considered highly valuable for the development of LDC_s (oil importing).

Obviously this argument is confined to international tourism, since residents or domestic tourists are not foreign exchange earners (though they might be foreign exchange users).

- (b) It is a labour intensive activity fitting well into a labour surplus economy, a dominant feature of LDC_s. Tourism can be viewed as a combination of different economic activities (industries, trades and services), the most important being accommodation, food and beverage, entertainment, transports, travel agencies, etc, implying the construction of hotels, pensions, tourist villages and other type of accommodation for tourists and the construction of restaurants, bars, dancings, entertainment premises and shops, as well as the expansion of food

production, food industries and ancillary activities, like transports, power, water supply and sewage (1).

(c) It is an economic activity presenting high linkage effects, mainly backwards effects. Interindustry relationships or input/output matrices are assumed to show that the expansion of the activities currently grouped under the name of tourism require the expansion of a large and diversified input industries such as construction and construction materials, agriculture, food production and food industries, commerce, banking and a large number of services as well as handicraft.

(d) It is an activity with a high regional impact, mainly due to its high employment coefficient and high degree of diversification of activities. Regions where tourism has been developed on a large scale basis in relation to the size of the country or where tourism is concentrated (seaside resorts, hunting resorts, mountain and winter sports resorts) are expected to show abundant improvements and to enjoy the benefits of development such as construction of infrastructure (basic sanitation, power, roads water supply, transports, etc), expansion of food production particularly fresh foods, horticulture, fishing and dairy products, small scale industries and rural industries especially handicraft; better distribution channels of basic goods, expansion of local trade and commerce as a result of higher demand for goods and services in the region (not only generated by tourists but also generated by higher incomes accruing to local people as a result of the tourism activity). Also employment in the region is expected to enjoy a substantial increment since tourism is rather labour intensive in its current operation. This

(1) However it is relevant to mention that the construction of ancillary activities might also be rather capital intensive in addition to showing economies of scale, depending upon the techniques and policies to be adopted.

characteristic of tourism is also expected to contribute to improve income distribution.

- (e) It is a source of communication, information and understanding between peoples with different political, cultural, historical, economic and sociological backgrounds and systems, thus facilitating better knowledge among countries and peoples of the world and promoting peace and co-operation among them.

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III -The need for research

International tourism is an activity with a high growth potential assuming prevailing conditions. According to Turner and Ash,⁽¹⁾ the growth potential of international tourism is truly enormous considering that in 1971 only 1% of the world's population had flown, that 95% of the world's population had not crossed an international boundary and that only 15% of the British had planned a foreign holiday in 1973.

As tourism continues to be democratized and assuming rising incomes, experts predict substantial increases in the number of international tourists in 1985 and 1995 which would require considerable investment in the expansion of the tourism capacity.

In addition, recent trends of tourism show that there is a steady, though somehow slower rate of growth of tourism, a decrease in per capita expenditure, a concentration of major components in fewer hands, an increase of foreign ownership in tourism accommodation and a vertical integration of this activity. These trends will certainly influence the medium term tourism policy in LDCs.

Considering the high growth potential of this activity as well as its recent trends, it appears of great importance to conduct research on the contribution of international tourism to development in LDCs. It is necessary to test the validity of the arguments in favour of tourism, especially because in the light of some LDCs experience, these arguments seem to be controversial.

Therefore we would like to suggest two areas of research which would be given priority and be investigated separately:

- (a)-The foreign exchange effects of international tourism
- (b)-The impact of international tourism on a region where this activity has been intensively developed.

In the following sections we shall discuss these two areas of research.

(1) Turner L. and Ash J. (1975). "The Golden Hordes: International Tourism and the Pleasure Periphery" Constable, London.

IV - The foreign exchange effects of tourism

1. Doubts have been raised about the positive impact of tourism on foreign exchange earnings in LDCs. They derive from the apparent high import content of tourism. It has been argued that the net impact of tourism on the balance of payments is positive at all might be much smaller than initially, thought especially in countries where tourism relies heavily on food imports.

In general in LDCs, production of food falls behind its consumption as a result of low productivity in agriculture etc, and many LDCs import large amounts of food to meet the needs of their population.

In these countries the development of international tourism might aggravate the imports of foodstuffs, not only expensive non-indigeneous foodstuffs and beverages which are part of the foreign tourist diet and habits, but also basic foodstuffs not produced in adequate quantities in the country to meet the domestic demand for them.

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It is interesting to mention in this respect that several LDCs promoting international tourism are simultaneously food aid recipients through the P.L. 4.80 or/and other sources, suggesting that these countries suffer from food shortages.

Concerning food imports, the Portuguese case is rather illustrative. Food imports represent a high proportion of total food consumption in this country. It can then be argued that in the short run, an extra person's food consumption means importing, in aggregate terms, all the food to feed him/her or that the marginal propensity to import food due to foreign tourism is higher than the average.

In addition to food imports there is the problem of energy. Most LDCs, not oil producers, import oil and its refined products. International tourism might also aggravate the imports of these items in their balance of trade since

tourism, especially current operations, is heavily dependent upon transports, heating, etc, activities where energy is an important input.

But it is not only the current operation of the tourism activity that might show a high import component. Investment in tourism might also be rather import intensive if the materials and inputs needed in the building of the tourism capacity are not produced in the host country. Therefore economic activities related with the building of tourism capacity such as construction, materials and equipment production (cooking, heating, bath rooms, swimming pools, special smoked glasses, steel frames, pipes as well as furniture, carpeting, etc) very often show a high import content.

Again the Portuguese case in this respect seems quite enlightening. Due to abundant foreign exchange supplied mainly by emigrants remittances, during the time period tourism investment in Portugal was booming, there was free and unrestricted access to imports. Therefore it would not be surprising to find in the tourism capacity installed in this country, a heavy import component, especially considering the luxury type of tourism capacity built.

A further aspect to consider when analysing the foreign exchange effects of tourism in LDCs is the foreign owned capital and foreign investment in tourism. A large proportion of tourism facilities owned by foreigners might reduce the positive impact of international tourism on the balance of payments since in these circumstances foreign exchange earnings derived from international tourism might be transferred abroad as profit remittances.

Still to mention is the impact of international tourism on patterns of consumption of the host country. Foreign tourists introduce patterns of consumption with a higher import content, due to their higher standards of living. Nationals might adopt these consumption patterns which will contribute to increase imports and thus reduce the net foreign exchange earnings of international tourism in LDCs.

Last but not least, international tourism is believed to have an unfavourable impact on the price structure of LDCs, particularly in regions where tourism is concentrated, aggravating the inflationary pressure in these countries. This will increase the price of exports which might turn them less competitive and in the short run reduce the export earnings either due to lower sales volume abroad or due to the devaluation of the domestic currency, a policy which has serious implications in the development of LDCs.

2. In order to test the validity of the arguments concerning the balance of payments impact of tourism in LDCs it will be necessary to thoroughly analyse the foreign exchange component of the tourism activity, in particular the import requirements demand by this activity both in their phases of construction and of current operation, as compared to the foreign exchange receipts earned from international tourism. The research should be carried out for several countries through empirical country studies.

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The research would start by a survey of the literature in this field with particular attention to case studies of countries where this problem has been a matter of concern.

Next, it would be necessary to investigate directly the foreign tourist expenditure in the host country as well as the means and forms of transport expenditure to travel from their own countries until the holiday resorts. This involves considering separately the different types of tourists and tourism (luxury, package deal, mass tourism, etc) each of them showing specific characteristics.

Also it would be necessary to investigate directly and separately the import component of construction and of current operation of different type of tourism facilities such as hotels, restaurants, entertainment, etc, as well as transports, airports and roads built mainly for the use of tourists. This investigation should throw some light on the

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domestic/foreign origin of the inputs required to the construction (investment) and to the current operation of these units (consumption).

It is expected that this information would contribute to build a tourism foreign exchange account for each country under investigation, which would help to answer the following questions:

- (a) For each unit of foreign exchange (let us say for each 1 US\$) earned from international tourism what proportion is spent on imports required by that same international tourism.
- (b) What type of tourist and kind of tourism will:
 - i - Maximize foreign exchange earnings
 - ii - Minimize foreign exchange expenditure
 - iii - Maximize net foreign exchange earnings

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Answers to these questions will be relevant to shape the economic development policy and the strategy to adopt in the tourism sector of LDCs.

This is expected to steer the tourism investment policy as well as the policy to select in the running of the tourism activity, that is, in the management of the existing capacity with the objective of maximizing the net foreign exchange earnings in LDCs.

IV - The regional impact of tourism.

1. One way of analysing and assessing the effects of tourism on development would be to look at a region where this activity has been highly developed (in general a sea resort, a hunting or reserve park, etc.) and investigate its positive and negative effects on the region.

The arguments in favour of tourism were listed in section II. The positive effects of this activity on development are expected to generate large benefits on the region, favouring the lower income population strata, mainly through employment creation, linkage effects and diversification of input activities, development of ancillary activities, acquisition of know-how, earning of foreign exchange, etc.

However recent experience of some LDCs has shown that tourism has been associated with a set of problems, some of them, very often resulting from lack of integrated planning and coordination between the promotion and development of tourism and other socio-economic activities in the region. The problems afflicting areas where tourism is highly concentrated both in terms of space and time over the year (high tourism season) include the following:

- (a) - Pressure on land, property and housing leading to price increases, speculation and change in the use of these resources.

The promotion of tourism in some countries without a well defined land and housing policies, is likely to bid up these prices.

In addition farmland located near tourism sites, might be converted into tourism use (golf courses, sport sites, car racing, etc.). This change in the use of resources applies also to property with cultural and historical value which is demolished or/and converted into tourism accommodation. But perhaps housing has been

the sector more affected by tourism. Sale prices of existing housing have undergone substantial increases causing the displacement of local users, especially if they are tenants, since house owners prefer to pay them compensation and free their property in order to rent or sell it to tourists. The rise in housing prices either rents or sale prices, might push displaced people into slums and degrading accommodation since they cannot afford paying the new prices which would mean competing with tourists for accommodation.

Also new built housing would be more oriented to meet the requirements of tourist accommodation than the needs of local population since tourism would be a much better business for housing owners, many of them non-residents of the region.

- (b) - Pressure on foodstuffs leading to price increases, shortage of basic foods, bottlenecks in the distribution channels and changes in diets and patterns of food production in the region.

During the peak season of tourism in the region, prices of foodstuffs might go up considerably, due to the temporary rise in the guest population. Also hotels and restaurants, to make sure they will not suffer from shortages, are likely to buy a large proportion of local produced foodstuffs (dairy, fish, meat horticulture, etc.) and negociate contracts directly with local shops and producers, to have priority to their products, thus reducing the amount of food available to local markets. This will generate food shortages to the local population and might force these population to change their eating habits, generally to an inferior diet.

A further aspect to mention are the subsidies granted to some foodstuffs in LDCs, where price stabilization policies aim at making sure that the lower income strata is not

deprived of basic foods. International tourists will also benefit from these subsidies as they consume these items during their stay in the host country. This means that the national/regional tax payer is subsidizing the foreign tourist, in addition to undergoing the foodstuffs shortage and the price raise effects.

The increase in the price of foodstuffs together with other prices increases will generate a fast inflation in the region which might soon spread to the whole country. As a result, higher incomes generated by tourism in the region will easily be eaten up by the price increases also generated by the same tourism activity in the region.

Reference is made to the Portuguese case. The South of Portugal - the Algarve - is a region with a high tourism season during Summer. For more than a decade, the local population have gone through these problems and the process continues to take place. Every Summer, prices of foodstuffs in Algarve go up and food shortages are reported.

- (c) - The impact of tourism on the economic activity and productive structure of the region.

Perhaps the most important aspect concerning the impact of tourism on the development of the region will be its effects on the productive structure of the region.

It has been argued that tourism is not likely to promote the development of socio-economic activities which better meet the needs of the majority of the population, since it is an activity oriented to higher income strata as compared to the majority of the population of the host developing country. Linkage effects encouraged by tourism are likely to promote activities dissociated from

priority needs of the region, thus diverting scarce resources away from these uses.

A further aspect to consider in this respect is the trade and services rather than production orientation of the tourism induced activities.

Tourism current operation tends to generate higher demand for trade and services than for the production of industrial goods. Industry and to a less extent agriculture are likely to be neglected in favour of commerce and services.

It is also relevant to mention, the influence of foreign tourist consumer patterns on the productive structure of the region. Economic activities induced by foreign consumer patterns tend to produce goods and services less appropriate to meet the basic needs of the host country population.

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As far as the supply of infrastructure to region is concerned, the needs of tourism are likely to be given priority over the needs of the local population. It is common to observe the building of an airport and a motorway in the region rather than the construction of roads and railways aiming at serving the inner rural areas of the region; or the building of large swimming pools, when extensive areas of the same region have not yet been supplied with running water and basic sanitation.

Also relevant to refer the dependent and vulnerable productive structure, tourism might induce.

Since tourism might be the leading sector of the regional development, the tourism induced economic activities might as well be too heavily oriented to tourism, meaning that this sector is generating a highly

dependent productive structure, upon tourism itself.

But international tourism is a highly vulnerable activity as flows of foreign tourists might suddenly change their holiday destination from country to country.

Considering the dependency of the productive structure of the region on tourism, a sudden fall in the flow of foreign tourists might have a paralyzing effect on the economy of the region.

(d) - The impact of tourism on regional employment.

The regional productive structure induced by tourism is reflected on the employment structure of the region. That is, the larger share of employment tends to be in trade and services rather than in the productive sectors. Within the productive sectors, employment shows larger shares in branches producing goods oriented to foreign tourists rather than to meet basic needs of the regional population or to goods demanded by the adoption of foreign tourist patterns of consumption.

The employment stability is also subjected to the vulnerability of international tourism. In addition there is the seasonal character of this activity. The seasonal operation of tourism, if not complemented by other activities, will cause seasonal unemployment or underemployment.

The underutilization of tourism capacity due to its seasonal character in some regions (sea resorts, etc.) is not only reflected on the underemployment of labour but also on the underutilization of the capital invested in tourism facilities reducing the social and financial profitability of this investment.

(e) - The impact of tourism on pollution.

Still to mention is the polluting effects that tourism might be responsible for. The crowding of resorts during the tourism season, might have a high unfavourable impact on the environment, eroding the sea, beaches, forests, natural parks, etc. Increased noise and accumulation of rubbish during this time period are also likely to occur.

The building of tourism facilities, generally spread over a wide area in the region tend to cause adverse ecological effects on the land and landscape. In addition to this the local population will have to put up with the noise of drills, the dust of construction, the disruptive effects on the traffic, etc., due to heavy building and roadworks.

Also the ancillary infrastructure, often not planned to face a high seasonal demand, might undergo bottlenecks, adversely affecting the regional population, an additional social cost to bear. The most common bottlenecks reported are the shortage of water, power failure, sewage and transports excessive use, traffic jamming, etc., during the tourism season.

(f) - The general inflationary pressure on the region and on the host country.

A further unfavourable consequence of international tourism in LDCs is the general price increase due to the higher demand for goods and services in short supply in the host country. This is an additional inflationary pressure to sum up to the inflationary pressures normal in the development process of LDCs, due to structural changes.

(g) - The vulnerable character of international tourism.

International tourism is a highly vulnerable activity in the short run (much higher than the export of goods). From one year to the following, flows of foreign tourists might change their holiday destination from one country to another. This is so because this activity is highly sensitive to price changes, political stability, health and security conditions in the host country, fashion, advertising, etc. The host countries might compete among themselves for foreign tourists, but the number of tourism supplying countries is high as compared to the demand for tourism though there appears to be a high growth potential for international tourism (demand).

This characteristic of the tourism activity is a shortcoming for the host country since conditions to attract foreign tourists are either exogeneous to the host country, or hard to meet and bear or even unpredicted, making the control of the host country over this economic activity a poor one.

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- 2. In order to test these arguments it will be necessary to conduct a comprehensive study of the tourist region over time. The evolution of the productive structure in the region since the starting of the tourism activity should be thoroughly analysed and compared to the pre-existing productive structure, to the resources of the region and to the alternative development paths.

Also the employment effects, income distribution and access to basic goods and services should be analysed in relation to the development of tourism in the region.

This requires analysing regional studies and surveys carried out for different time periods, during the last decade or so. It will also require to directly survey the standard of living

and consumer patterns of different social groups in the region and their changes under the impact of tourism.

The results of this investigation are expected to be of assistance to governments in designing and implementing strategies and policies which will maximize the integrated development of the region, minimizing or even extinguishing the disruptive effects tourism might generate.

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