ECONOMIC IMPACT OF TOURISM

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Abstract: *As the traffic of tourists increased in a particular area, it was observed that environmental and ecological balances were disturbed due to over commercialization. The scenic beauty was made more 'customer friendly' and the natural tourism products more accessible and 'saleable' by man.*

Environmentalists are agitated about the damages and carelessness showed by the tourists. Culturally and socially, tourism can impact the destination country, but its effect cannot be solely attributable to simple tourist activities. On the road to development, tourism products have also witnessed some changes. As the world changed and developed, new necessities were identified. As people became more aware, the needs changed and new tourism products were developed to satisfy these new found needs. The last few years have seen the emergence of new areas in tourism like, special interest tourism, green tourism, eco tourism, social tourism and so on.

Key words: g*ross domestic product, international tourism, expenditure*

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Earner of foreign exchange

Tourism has major economic significance for a country. The receipts from international tourism are a valuable source of earning for all countries, particularly, the development. Visitor-spending generates income for both public and private sectors, besides affecting wages and employment opportunities. Although tourism is sensitive to the level of economic activity in the tourist-generating countries, it provides more fixed earnings than primary products. The income from tourism has increased at a higher rate than primary products. The income from tourism has tended to increase at a higher rate than merchandise export in a number of countries especially in countries having a low industrial base. Now there is practically an assured channel for financial flows from the developed countries to the developing countries raising the latter's export earnings and rate of economic growth. Tourism, therefore, provides a very important source of income for a number of countries, both developed and developing. The figures from World Tourism Organization (WTO) indicate that, among the world's top 40 tourism earners about 18 were developing countries including India, in the year 1995. Regarding the number of visitor arrivals, in some countries there were more visitor arrivals than the population. France with a population of 57 million received 74.5 million visitors in the year 2000. Similarly Spain with a population of 37 million received 48.5 million visitors during the same year. Several island countries, like the Caribbean Islands, depend greatly on tourist income resulting from visitor arrivals. These earnings form a major part of the gross domestic product (GDP). Even developed countries like Canada which derived over 13% of its gross domestic product from international visitors in the year 1999, rely heavily on income from tourism. Tourism forms a very important source of foreign exchange, for several countries. Although the quantum contributed in foreign currency per visitor varies from destination to destination, the importance of receipts from tourism in the balance of payment accounts and of tourist activities in the national revenue has become considerable for a number of countries.

The major economic benefit in promoting the tourism industry is in the form of earning foreign exchange. Income from these foreign-exchange earnings adds to the national income and, as an invisible export, may offset a loss of the visible trading account and be of critical importance in the overall financial reckoning. This is truer in the case of developing countries particularly the small countries, which depend heavily upon primary products such as a few basic cash crops where tourism often offers a more reliable form of income. In the case of some European countries, namely Spain, Portugal, Austria, France and Greece, the invisible earnings from tourism are of a major significance and have a very strong positive effect on the balance of payments.

Tourism is therefore a very useful means of earning the much-needed foreign currency. It is almost without a rival as an earning source for many developed as well as developing countries. These earnings assume a great significance in the balance of payment position of many countries.

The balance of payments shows the relationship between a country's total payments to all other countries and its total receipts from them. In other words, it may be defined as a statement of income and expenditure on international account. Payments and receipts on international account are of three kinds:

- the visible balance of trade relating to the import and export of goods;
- invisible items (relating to the services such as shipping and Insurance);
- capital transfers.

The receipts from foreign tourism form an 'invisible export', just like other invisibles which come from transportation and shipping, banking and insurance, income on investments, etc. Because most countries at times have serious problems with their international payments, much attention comes to be focused on tourism because of its potentially important contribution to, and also effect upon, the balance of payments.

The receipts from international tourism, however, are not always net. Sometimes expenditures are involved which must be set against them. Net foreign exchange receipts from tourism are reduced principally by the import cost of goods and services used by visitors, foreign exchange costs of capital investment in tourist amenities and promotion and publicity expenditure abroad. According to Peters, "Certain imports associated with tourist expenditures must be deduced… the importation of material and equipment for constructing hotels and other amenities, and necessary supplies to run them; foreign currency costs of imports for consumption by international tourists; remittances of interests and profits on overseas investment in tourism enterprises, mainly hotel construction; foreign currency costs of conducting a tourism development programme, including marketing expenditure overseas". Reliance on imports to meet the tourist's needs does not, in any way deny developing countries the opportunity of earning foreign exchange in supplying such goods and services. Imports are, to a large extent, essential to the operation of the tourist sector as to that of other sectors.

The important question is whether the value added domestically on an item or service in is maximized? Maximization of import substitution without due regard to the effect on overall tourism receipts (i.e. demand) may be counterproductive. Also, differences in the pattern and level of reliance on imported goods and services, capital equipment and manpower are very wide, depending upon the level of development of a country. In some cases, this reliance is simply due to a lack of resources that transform into items which are to be sold by the industry. In other cases, the industry has not yet drawn on such supply potential, for which it may be an important stimulus. There is a general need for careful programmes of positive import substitution.

Multiplier effect

Without taking into account receipts from domestic tourism, international tourism receipts alone contribute to a great extent. The flow of money generated by tourist spending multiplies as it passes through various sections of the economy. In addition to an important source of income, tourism provides a number of other economic benefits, which vary in importance from one country to another; depending upon the nature and scale of tourism. The benefits from infrastructure investments, justified primarily for tourism such as airports, roads, water supply and other public utilities, may be widely shared by the other sectors of the economy. This enables us to understand how tourism impacts development in the economy. Tourist facilities such as hotels, restaurants, museums, clubs, sports complexes, public transport, and national parks are also used by domestic tourists and visitors, businessmen and residents, but still a significant portion of the costs are sometimes borne by international tourists. Tourists also contribute to tax revenue both directly through sales tax and indirectly through property, profits and income taxes.

Tourism provides employment, develops infrastructural facilities and may also help regional development. Each of these economic aspects can be dealt with separately, but they are all closely related and are many times considered together. Let us first look at the income aspect of tourism. Income from tourism cannot be easily measured with accuracy and precision. This is because of the multiplier effect. The flow of money generated by tourist spending multiplies as it passes through various sections of the economy through the operation of the multiplier effect. The multiplier is an income concept.

The Concept

The ‘multiplier’ measures the impact of extra expenditure introduced into an economy by a person, it is, therefore, concerned with the marginal rather than average changes. In the case of tourism, this extra expenditure in a particular area can take the following forms:

a) Spending on goods and services by tourists visiting the areas;
b) Investment of external sources in tourism infrastructure or services;
c) Government (foreign or domestic) spending (e.g., domestic government spending on infrastructure in a region or foreign government aid);
d) Exports of goods stimulated by tourism.

The expenditure can be analyzed as follows:

a) Direct Expenditure;

In the case of tourism, this expenditure is made by tourists on goods and services in hotels and other supplementary accommodation units, restaurants, other tourist facilities like buses, taxis coaches, railways, domestic airlines, and for tourism-generated exports, or by tourism related investment in the area.

b) Indirect Expenditure;

This covers a total sum of inter-business transactions which result from the direct expenditure, such as purchase of goods by hoteliers from local suppliers and purchases by local suppliers from wholesalers.

c) Included Expenditure;

This is the increased consumer spending resulting from the additional personal income generated by the direct expenditure, e.g. hotel workers using their wages for the purchase of goods and services. Indirect and induced expenditure together are called secondary expenditure.

There are several different concepts of the multiplier. Most multipliers in common use incorporate the general principle of the Keynesian model. The four types of multipliers are intrinsically linked as follows:

a) Sales (Transaction) Multiplier;

This measures the extra business turnover created (direct and secondary) by an extra unit of tourist expenditure.

b) Output Multiplier;

This is similar to the sales multiplier, but it also takes into account inventory changes, such as the increase in stock levels by hotels, restaurants and shops because of increased trading activity.

c) Income Multiplier;

This measures the income generated by an extra unit of tourist expenditure. The problem arises over the definition of income. Many researchers define income as disposable income accruing to households within the area, which is available to them to spend. However, although salaries paid to overseas residents are often excluded, a proportion of these salaries may be spent in the local area and should therefore be included.

Income Multipliers can be expressed in two ways:

a) the ratio method which expresses the direct and indirect incomes (or the direct and secondary incomes) generated per unit of direct income;
b) normal method, which expresses total income (direct and secondary) generated in the study area per unit increase in final demand created within a particular sector.

Ratio multipliers indicate the internal linkages which exist between various sectors of the economy, but do not relate income generated to extra sales. Hence, on their own, ratio multipliers are valueless as a planning tool.

Employment Multiplier: The employment multiplier can be expressed in one of the two ways:

a) as a ratio of the combination of direct and secondary employment generated per additional unit of tourist expenditure;
b) direct employment created by tourism per unit of tourist expenditure.

Multipliers can be further categorized by the geographical area which is covered by the research, such as local community, a region within a country or the country as a whole. The multiplier mechanism has also been applied to tourism and, in particular, to tourist expenditure. The nature of the tourism multiplier and its effect may be described in the following example:

"The money paid by a tourist in paying his hotel bill will be used by the management of the hotel to provide the costs which the hotel had incurred in meeting the demands of the visitor, e.g., such goods and services as food, drink, furnishing, laundering, electricity, and entertainment. The recipients, in turn, use the money they have thus received to meet their financial commitments and so on. Therefore, tourist expenditure not only supports the tourist industry directly, but also helps indirectly to support many other industries which supply goods and services to the tourist industry. In this way money spent by tourists is actually used several times and spreads into various sectors of the economy. In sum, the money paid by the tourist, after a long series of transfers over a given period of time, passes through all sectors of the national economy, stimulating each in turn throughout the process". On each occasion when the money changes hands, it provides 'new' income and these continuing series of exchanges of the money spent by the tourists form what economists term the multiplier effect. The more often the conversion occurs, the greater its beneficial effect on the economy of the recipient country. However, this transfer of money is not absolute as there are ‘leakages’ which occur. Such leakages may occur as a result of importing foreign goods, paying interest on foreign investments, etc. The following are some examples of such leakages:

- payment for goods and services produced outside, and imported into, the area;
- remittance of incomes outside the area, for example, by foreign workers;
- indirect and direct taxation where the tax proceeds are not re-spent in the area;
- savings out of income received by workers in the area (i.e. where there is a low propensity to consume).

Any leakages of these kinds will reduce the stream of expenditure which, in consequence, will limit and reduce the multiplier effect. Income generated by foreign tourist expenditure in countries possessing more advanced economies, which generally are more self-sufficient and less in need of foreign imports which are less self-sufficient and need to support their tourist industries by substantial import. If the developing countries are desirous of gaining maximum economic benefits from tourism, they should strictly control the imported items for tourist consumption and keep foreign investment expenditure at a reasonable level. If the leakages are not controlled then the benefits arising from tourism will be greatly reduced or even cancelled. The most important leakage would arise from expenditure on import of agricultural products like food and drink.

In a primary macro-economic approach to the prospects opened up by tourism establishment in a developing country, it is regarded as advantageous that a good portion of tourist consumption should consist of food products. It is estimated that the major part of these products can be found in those countries, whose economic structure is largely agricultural in character. In this sense tourist consumption, derived from international flow, can offer an assured outlet to a production which is already active within the domestic economy, without raising problems connected with export of such products and could thus be substituted for imported food stuffs and a significant saving effected thereafter.

The host country derives maximum economic benefits from the tourism industry as these savings help in increasing the benefits from the tourism multiplier. This aspect of the question is all the more important as the multiplier effect maintains its efficacy and effectiveness as long as no importation takes place. It follows that if the national economy is to derive the maximum benefit from the impact of international and national tourism, there is an elementary obligation to find all those products needed for tourist consumption. The dynamics of agricultural production in recent years confirms the ability of developing countries to produce the major part of their agricultural products required for tourist consumption without resorting to massive imports. The tourist economy of any country, if it is to remain healthy, must rely upon local agricultural production and this condition seems today to be on its way to realization in most of the developing countries.

Multiplier of Tourism Income

To sum up, Multipliers are a means of estimating how much extra income is produced in an economy as a result of initial spending or after cash is injected. Every time the money changes hands it provides new income and the continuing series of conversion of money spent by the tourists form the multiplier effect. The more often the conversion occurs, the greater its beneficial effect on the economy of the recipient country. A significant benefit of tourism is development and improvement of infrastructure. The benefits from infrastructure investments, justified primarily for tourism – airports, roads, water supply and other public utilities – may be widely shared by the other sectors of the economy. In addition to development of new infrastructure, the improvements in the existing infrastructure which are undertaken in order to attract tourists are also of great importance. These improvements may benefit the resident population by providing them with amenities which they desire. Furthermore, the provision of infrastructure may provide the basis or serve as an encouragement for greater economic diversification. A variety of secondary industries may be promoted which may not directly serve the needs of tourism. Therefore, it is evident that tourist expenditure is responsible for stimulating other economic activities.

One of the characteristics of under development is that of deficiencies in the basic infrastructures, which lie at the root of a series of problems related to the development of tourism. Development of infrastructure requires a certain size of investment. Tourism provides the size of demand which justifies the development of infrastructure. On the basis of this minimum demand for such facilities and for such social capital, the size of such infrastructural services evolves. Construction of primary infrastructures represents the foundation of any future economic growth, even though they are not directly productive. The tourism industry illustrates the elementary need for basic infrastructure. It has today the important benefit of being able to profit from the existing infrastructures and thus to make a decisive contribution to the growth of the national economy. The international and national tourist traffic, moreover, represents a reward for the capital invested and can now contribute to the financial efforts required for maintenance. The satisfactory degree of development achieved in this specific sector now permits major tourist progress, while also giving further proof of the complementary character of tourism in relation to other economic sectors. Creation of basic infrastructures for tourist usage will also be of service to the other sectors of the economy such as industry and agriculture. This results in better equilibrium of general economic growth. Tourism also results in tax revenues both at national and local levels. Taxes can provide the financial resources for the development of infrastructure, enhancing and maintenance of some types of attractions and other public facilities and services, tourism marketing and training required for developing tourism, as well as to help finance poverty alleviation programmes by governments both at local and national levels. In addition, tourism-related tax revenues help finance general community improvements and services used by all residents.

WTO's 1998 report on tourism taxation emphasizes that taxation policies in a country must be carefully evaluated in an integrated manner to ensure that tourism-related taxes are giving the necessary substantial revenues. However, taxes should not be so high for the country's international competitive position to be counter productive and produce a loss of tourist traffic. The aim should be to strike a balance between, a level of taxation that maintains a competitive position for the country and reasonable profits for the industry, and, receiving adequate revenues to support investment in and maintenance of the tourism sector, and to contribute towards general community welfare.

Balanced regional development

Another important domestic effect relates to the regional aspects of tourist expenditure. Such expenditure is of special significance in marginal areas, which are relatively isolated, economically underdeveloped, and have unemployment problems. The United Nations Conference on International Travel and Tourism held in Rome in 1963 stated that tourism was important not only as a source of earning foreign exchange, but also as a factor determining the location of industry and in the development of underdeveloped regions. It further stated that in some cases the development of tourism may be the only means of promoting the economic advancement of less-developed areas lacking in other resources. In fact underdeveloped regions of the country usually greatly benefit from tourism development. Many of the economically backward regions contain areas of high scenic beauty and of cultural attractions. These areas, if developed for use by tourists, can bring in a lot of prosperity to the local people. Tourism development in these regions accordingly becomes a significant factor in redressing regional imbalances in employment and income.

Tourist expenditure at a particular tourist area helps the development of the many areas around it. Many countries both developed as well as developing have realized this aspect of tourism development and are contemplating developing tourist facilities in underdeveloped regions with a view to bringing prosperity there. There is no dearth of areas which could, after they are developed for tourism, become great assets to the region in particular and to the country as a whole. The French government has created a series of new resorts particularly to bring prosperity to the areas which traditionally have been underdeveloped. The Italian government is likewise attempting to develop tourism in Southern Italy in order to help redress the economic imbalances which have long existed between the northern and the southern parts of Italy.

Tourism is to be regarded not as an area of peripheral investment whose benefits will help in creating employment opportunities and in the regeneration of backward regions. In India a similar approach needs to be adopted to develop areas with great tourism potential.

Employment is an important economic effect of tourism. The problems of unemployment and under-employment are more active in the developing countries. Tourism can be looked upon in this light as a major industry which employs manpower on a large scale. The problems which the industrialized countries face in recruiting manpower for the tourists industry confirm that, in any productive process consisting of services, human labour remains the basic need.

If a comparison is to be drawn with the productive sector none of the technological progress achieved has succeeded in rendering the human factor less indispensable than in this sector, and this is true to an absolutely indisputable extent. The high social impact of the tourist industry is well known, for it has repercussions in every other national economic sector through the multiplier effect, which is particularly marked in those services that are complementary to the tourist accommodation industry.

The tourist industry is a highly labour-intensive service industry and hence is a valuable source of employment. It employs a large number of people and provides a wide range of jobs which extend from the unskilled to the highly specialized. In addition to those involved in management there are a large number of specialist personnel required to work as accountants, housekeepers, waiters, cooks and entertainers, who in turn need a large number of semi-skilled workers such as porters, chambermaids, kitchen staff, gardeners, etc. Tourism is also responsible for creating employment outside the industry in its more narrowly defined sense and in this respect those who supply goods and services to those directly involved in tourism are beneficiaries from tourism. Such indirect employment includes, those involved in the furnishing and equipment industries, souvenir industries and farming and food supply.

Construction industry is another very big source of employment. The basic infrastructures-roads, airports, water supply and other public utilities and also construction of hotels and other accommodation units create jobs for thousands of workers, both unskilled and skilled. In many of the developing countries, where chronic unemployment often exists, the promotion of tourism can be a great encouragement to economic development and, especially, employment. However at this point it is, necessary to consider the seasonal nature of the tourism industry. Where general diversification alternatives are scarce, a combination of heavy dependence on tourism and highly marked seasonality calls for measures to develop off -season traffic. Employment multiplier: This multiplier is similar to the Income Multiplier except that in this case a multiplier impact on employment is observed.

Employment Multiplier can be expressed in the following two ways:

a) as a ratio of the combination of direct employment. At the destination, the jobs are directly created in the industry there.

b) as a ratio of secondary employment generated per additional unit of tourist expenditure to direct employment. The workers and their families require their own goods and services giving rise to further indirectly created employment in shops, schools, health care institutions, etc.

Other dimensions

The World Tourism conference which was held at Manila, Philippines in October 1980, considered the nature of tourism phenomenon in all its aspects. The role tourism is bound to play in a dynamic and vastly changing world was also identified. Convened by the World Tourism Organization, the conference also considered the responsibility of various states for the development and enhancement as being more than a purely economic activity of nations and peoples.

The significance of tourism was discussed in detail during the conference. The participants in the World Tourism Conference attached particular importance to its effects on the developing countries.

It stated its conviction “that the world tourism can contribute to the establishment of a new international economic order that will help to eliminate the widening economic gap between developed and developing countries and ensure the steady acceleration of economic and social development and progress in particular of the developing countries.” For more details please refer to the appendix at the end of the chapter.

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