

# Chapter 4

## The economic impacts of tourism

### Learning objectives

At the end of this chapter you should be able to:

- describe in your own words the major economic impacts of tourism;
- demonstrate an awareness of a range of both 'positive' and 'negative' economic impacts of tourism;
- compare the economic impacts of tourism in developed and developing countries;
- discuss the implications of the economic impacts of tourism for the management of the tourism industry.

## Introduction

The impacts of tourism have been historically the most researched area of tourism, and economic impacts have been more researched than any other type of impact. As Pearce (1989, p. 2) indicated:

Studies of the impact of tourist development on a destination or destinations have been the largest single element of tourism research ... much of this is predominantly the work of economists and has concentrated on the effects of income and employment.

Although, as has been stated in Chapter 3, economic impacts of tourism are linked to, and cannot easily be separated from, other types of impact, largely in an attempt to assist with understanding, economic impacts are discussed in this chapter separately from other tourism impacts.

## Key perspectives

Chapter 3 provided a general indication of the key influences on the impacts of tourism, but of particular importance in relation to economic impacts are the following: scale of tourism activities, when tourism occurs (particularly whether tourism is a seasonal activity) and the historical development of tourism (with a particular emphasis on infrastructure for tourism). It is also worth considering again Butler's (1980) model and criticisms of it (see Chapter 2) in relation to the economic impacts of tourism.

As was discussed in Chapter 3, impacts can be considered under the headings of positive and negative. In relation to economic impacts the following are usually considered to be positive effects (Lickorish, 1994):

- contribution to foreign exchange earnings;
- contribution to government revenues;
- generation of employment;
- contribution to regional development.

Such benefits can usually be measured either at a national level or at the local or regional scale.

Negative consequences of tourism include (Pearce, 1989; Mason, 1995) the following:

- inflation
- opportunity costs
- over-dependence on tourism.

Inflation relates to the increases in prices of land, houses and food that can occur as a result of tourism. Prices for these commodities can increase when tourists place extra demands on local services at a tourism destination. The term opportunity costs refer to the cost of engaging in tourism rather than another form of economic activity. For example, in a coastal area, with a predominantly rural hinterland, opportunity costs refers to investing in tourism instead of in arable farming, market gardening or fishing. Over-dependence on tourism can occur in, for example, small states where tourism is seen by the government as the best method of development. Over time, the emphasis on tourism becomes such that there is virtually no other approach to development. As a result, the country becomes dependent on tourism revenue to the extent that any change in demand is likely to lead to a major economic crisis.

One significant factor when discussing economic impacts of tourism is scale. Although similar processes may be operating, effects can be different as a result of them operating at different scales. The global economic importance of tourism has been briefly referred to above with discussion of employment and contribution to balance of payment and global gross domestic product. In addition to this data, is the projection that jobs in tourism are likely to increase steadily during the early part of this century, unlike jobs in other economic sectors. These macro-level figures however hide the unbalanced nature of global tourism. One continent alone, Europe, was the single most important tourist destination with over half of all international visitor arrivals in the early part of the twenty-first century and most international arrivals of tourists in Europe were visits from other European countries.

The United States and Canada are also both important destination areas and tourism generating regions. Asia is an important destination for tourists from Europe, North America and Australasia, but is also becoming increasingly important as a source of tourists. These tourists, from Japan, Korea and

Taiwan in particular, are visiting other parts of Asia and the Pacific Rim but are also making visits to Europe and North America. Two continents, in particular, reveal the uneven balance of international tourism. South America is a growing destination for tourists, but produces few visitors, relatively speaking, to other parts of the world. Africa shows this to an even greater extreme with increasing numbers visiting the continent, with the game reserves of East Africa, parts of the Mediterranean coast and South Africa becoming significant tourist attractions, but the percentage of world tourists originating in Africa is still very low.

Economic impacts of tourism can be particularly marked in developing countries. The Indonesian island of Bali provides a good example of both the gains and problems that can arise from tourism development in a destination located in a developing country. Since tourism began to grow in importance in the 1960s, a significant number of jobs have been created. These have been in the relatively obvious categories of hotel workers and bar staff, but also in perhaps less obvious areas such as boat hire, cycle hire and repair, car and motorcycle hire, food and drink selling and souvenir making and selling. Tourism is also said to have revived the arts and crafts activities of painting and wood carving, as well as the introduction of new arts activities, including batik making (Mason, 1995).

Residents have tried to benefit from tourism, either through direct involvement in tourism in hotel, restaurant and guide service jobs, as well as through the manufacture and sale of craft products, the undertaking of cultural performances and food production to feed tourists (Wall, 1997). Particular examples of ways in which Balinese have benefited from tourism include the provision of home-stays and the increase in those providing informal services to tourists (Wall, 1997). Home-stays are the Balinese equivalent of the Western bed and breakfast. The great majority of home-stays are run by local residents, rather than outsiders and hence almost all of the economic gain from the activity goes directly to the local population (Cukier and Wall, 1994).

A large number of young males (aged 15–25) have traditionally worked as street and beach vendors in Bali. They mostly lack formal education, but have substantial language skills. In the mid-1990s, although they worked long hours, and believed they had few alternative job opportunities, most of these vendors were relatively happy with their lifestyle and were well remunerated by Indonesian standards (Cukier and Wall, 1994). Tourism grew so rapidly in Bali

in the period from 1970 that by 1995, if the associated craft industries were included, then tourism contributed over 30 per cent of the gross provincial product (Wall, 1997).

On the negative side, however, Bali provides evidence of tourism promoting inflation. Before 1968 (roughly the beginning of the growth of tourism) land prices had been steady for about 20 years, however, during the following 25 years land prices rose by nearly 100 per cent on average, but by over 150 per cent in the tourist areas (Mason, 1995). Although it is difficult to calculate opportunity costs, there is some evidence from the large-scale development at Nusa Dua, on the southern coast of Bali (which was supported by the World Bank) that the money may well have been better spent on a smaller scale, less intrusive hotel complex. Something smaller would have been more in keeping with local values and may have contributed more to the local economy. It has been argued that the money would have been better spent on agriculture or forestry or locally based retailing rather than tourism that is primarily aimed at an up-market, international segment (Mason, 1995).

The future of tourism in Bali is far from clear after the terrorist bombings at Kuta in October 2002 and the second bombings in almost the same area in October 2005. Bali has become heavily dependent on tourism and what happens after these events may indicate whether the island, in the longer term has become economically over-dependent on tourism. There is further discussion of tourism issues in Bali in the final chapter of the book where the nature and impacts of the bombings of 2002 and 2005 are presented.

Similar issues to those of Bali in its early stages of tourism development can be found in the Himalayan country, Nepal. As in Bali, tourism was relatively unimportant until the second half of the twentieth century, but more recently has come to be very significant to the economy of Nepal. Nepal, the fourth poorest country in the world, is a landlocked Himalayan kingdom relying on access to imports via India. Throughout the period of European global exploration, dating from about 1400 until as recently as the 1950s, Nepal was almost inaccessible and hence it holds attractions for significant numbers of potential tourists. Tourism began in the early 1960s but took off in the 1970s. By 1999, there were in approximately 500,000 tourists, although this total had fallen to approximately 350,000 by 2005, due partly to the political instability in the country (IRIN, 2007). However, particularly rapid growth took place in the 1980s. Between 1977 and 1988 there was a 60 per cent increase in tourist numbers and foreign earnings from

tourism went up by 75 per cent. In the capital city Kathmandu, there were 2,800 people employed in the accommodation sector in 1977 and 14,500 rooms for tourists, but by 1988 there were 4,100 employers and 23,700 tourist rooms (Department of Tourism, 1990).

Nepal also shares some similarities with Bali, in that violence there has had an adverse effect on tourist numbers and hence the economic contribution of tourism to the economy. Although not usually direct targets, tourists have been put off visiting by Maoist rebels who have become particularly active since the mid-1990s as well as the legacy of the, still not fully explained, killing of almost all members of the Nepalese royal family in June 2001. In early 2005 a state of emergency was declared in Nepal after an intensification of the Maoist insurgency which did little to entice tourists to the country in the numbers that were visiting in the late 1990s (IRIN, 2007).

As in Bali, jobs in Nepal's tourism industry are often outside the formal sector and hence difficult to measure but include part-time guide work (often undertaken by students/teachers and lecturers as this pays as much as US\$ 10 a day compared with an average monthly wage of US\$ 35). Souvenir producing and selling is also important in terms of job creation. Hand massage is a speciality of Nepal and there is a charge of about US\$ 1 a time. Those involved can make between US\$ 15 and 20 a day.

The negative effects of the rapid expansion of tourism in Nepal, and the desire of local people to derive economic benefit, can be seen at important Buddhist and Hindu temples. These temples are not just tourist attractions but are used for religious activities. Those who wish to use the temples for religious activities have to deal not only with the crowds of tourists who are causing physical damage to buildings but also with those who are becoming economically dependent on tourism. These include service providers such as the souvenir sellers, the drink hawkers and even beggars of all ages and both sexes who are there because of the reliance on tourist handouts (Mason, 1991).

Some parts of Europe are not completely unlike developing countries in terms of being resource frontiers for tourism development. In the far north of Europe is the unlikely setting for the 'Santa Claus industry'. This industry, a focal point for domestic and international tourism, is located in Finnish Lapland and is centred on the Santa Claus Village. The village opened in 1986, focusing on the concept of it being the home of Santa Claus. An account of its foundation and economic impacts is provided in the following case study.

## **Case Study: Tourism in Lapland, the Santa Claus industry**

Lapland is the northern-most province of Finland and is the least populated region of the country. Traditionally, the region has attracted two major types of tourists. Lapland provides wilderness and solitude sought by those escaping from routine who wish to find solace in the forest. Many of this type of tourists come from within Finland. The other main type of tourist is interested in the indigenous culture of the Sami (Lapp) people.

The economy of Lapland has become increasingly dependent on tourism, with in excess of 6,000 people in the industry in the early 1990s. The Finnish Tourist Board expected the number employed to rise to between 9,500 and 10,000 by the early part of the twenty-first century. The Board was particularly keen to encourage more foreign tourists. Despite the success of encouraging more domestic tourism during the 1980s when the number of overseas tourists appeared to be rising in the 1980s numbers then fell in the early 1990s. Overseas tourists made up about 20 per cent of all tourists to Lapland in the early 1990s. The main overseas generating countries were Germany, the Netherlands, Switzerland, Italy and France. Most tourists from these countries visited in summer. Many of these were in transit to the North Cape, the most northerly point of mainland Europe. Tourists from Britain and Japan come in winter to take part in winter sports, experience a 'white winter' or see reindeer.

In the late 1970s and early 1980s, the Board declared that the natural and cultural attractions of Lapland were not sufficient to attract tourists in the desired numbers and decided that a new attraction had to be created. The idea of promoting Santa Claus as an attraction was appealing.

### **The Santa Claus industry**

In 1985, the Governor of Lapland declared the entire state 'Santa Claus Land'. However, there were also a number of rival claims for the home of Santa Claus at this time; in Alaska, Norway, Sweden and Greenland. In 1989, the Santa Claus Land Association was founded by 16 Finnish companies and this was connected to the Finnish Tourism Board. This association had as its sole role the marketing of the Santa Claus idea. The Association operated the Santa Claus Postal Service coordinated Santa Claus visits overseas and promoted Santa Claus at various international gatherings.

### **The Santa Claus Village**

The showpiece of Santa Claus Land is the Santa Claus Village. This is located exactly on the Arctic Circle a few kilometres north of the town of Rovaniemi, the capital of



**Photo 2** The Santa Claus Village, Rovaniemi, Finland, which has been specifically located on the Arctic Circle. *Courtesy: Petteri Lampi. Copyright © Rovaniemi Region*

Lapland (Photo 2). The site was chosen as, prior to the establishment, tourists had stopped at the Arctic Circle sign to have their photograph taken. The village site is on the main North–South route through Lapland. The village was opened in 1985 and contains Santa’s workshop, where he may be visited at all times of the year, Santa’s Post Office, a reindeer enclosure, several restaurants and many gift and souvenir shops. The Santa Claus Village property is owned by a company based in Rovaniemi and individual businesses within the village are privately owned.

Of particular significance within the village is the Santa Claus Postal Service. In the 1950s, letters written to Santa Claus by European school children were received in Helsinki. In 1976, the Santa Claus Postal Service was moved to Lapland when some 18,765 letters were received. The number of letters steadily grew. Visitors to the Santa Claus Village were encouraged to sign their names in Santa’s guest book and in 1990 over 550,000 letters were sent out at Christmas each containing a free gift. By the early 1990s, letters were dispatched to 160 countries.

Nearby, Rovaniemi has an international airport and can handle international jet aircraft. The most famous international flights were the regular flights by British Airways Concorde at Christmas between 1986 and 1992.

### **Economic impacts**

In 1985, 225,000 visitors came to the village and the number of visitors increased rapidly from then until the late 1980s reaching 277,000 in 1989. In the early 1990s, related to the general global depression visitor numbers fell. However, in the second part of the 1990s visitor numbers once again increased and reached over 300,000 in



1995. In 1996, there were 1.6 million international and domestic visitors to Lapland and 325,000 visited the Village. In excess of 300,000 tourists visited the village each year in the period between 1995 and 2005, with 317,000 visitors in 2002 and 321,000 in 2004 (Finnish Tourist Board, 2007). Visitors to Lapland increased by 22 per cent between 1986 and 1994 and foreign earnings were up by 29 per cent and this was attributed mainly to the Santa Claus Village. The Village employed 290 people, which in 1990 was 7 per cent of total tourism employment in Lapland.

Although this development is a totally artificial creation, it is an attempt to bring tourists to an area perceived as lacking many natural attractions. The village has been heralded as a great success in bringing tourists to a relatively remote and inhospitable location, and that at present there is little recorded environmental or social damage there.

Adapted from Pretes (1995).

Other relatively peripheral areas in terms of the global reach of tourism have also gained tourist in the past 25 years, or so. Hence, although New Zealand received only 0.2 per cent of international travellers in 1996, this percentage has increased in the last decade of the twentieth century and the economic impacts were highly significant. (Figures presented below are based on New Zealand Tourist Board data from 1996, 2000, 2001 and 2002.) From 1993 to 1996, the number of visitors increased by an average of 6.5 per cent per year. The average spend per trip in 1993 was NZ\$ 2,041, but in March 1996 this had increased to NZ\$ 2,776. By 2000, the average visitor spend per trip had risen to NZ\$ 3,222. Spend continued to rise in the early 2000s and the 2006 figure was up by 4 per cent on that for 2005, so that international visitors spent \$NZ 6.4 billion in 2006 (NZTB, 2007).

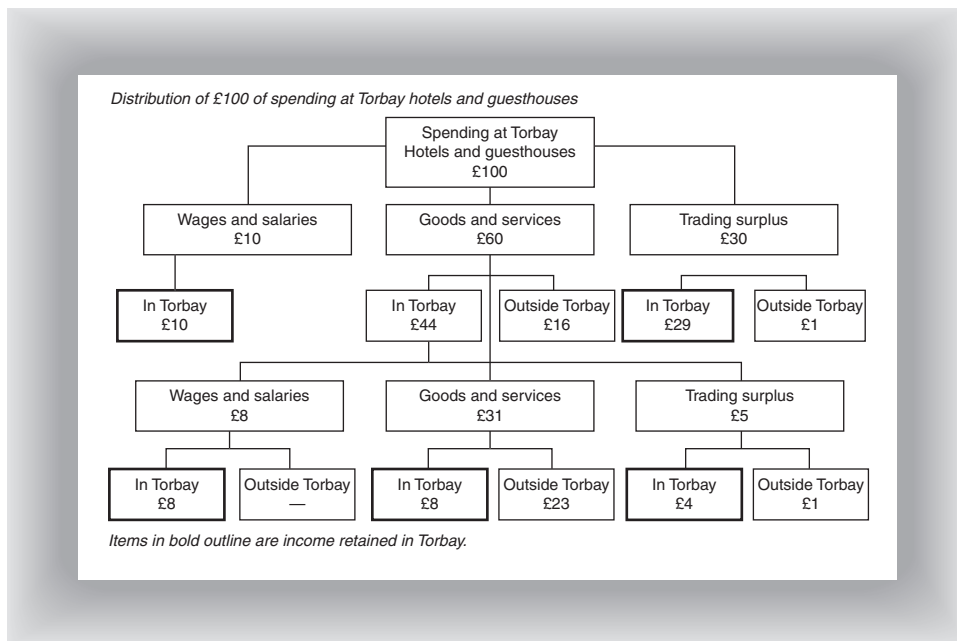
In terms of the main groups of tourists, Australia, United Kingdom, Japan and the United States were the major origin areas. New markets areas were Taiwan and South Korea and in March 1996 these two areas made up 15 per cent of total visitors, which was an increase over 1995 of 3 per cent. Japanese, Taiwanese and South Koreans were the biggest spenders, averaging over NZ\$ 200 per day. The importance of this expanding market can be seen in the following figures: there were 216,162 visitors from these three countries in 1996 with an estimated spend per head of NZ\$ 234. By 2000, the average spend per head had

increased to NZ\$ 330 for Japanese visitors (the largest daily spend of any visitor group) and NZ\$ 221 for Koreans. Only American visitors (averaging NZ\$ 248 per day) in 2000 spent more than Koreans (Hall and Kearsley, 2001).

However, the economic crisis in Asia that occurred in late 1997/early 1998 affected the projected continued growth in this Asian market and in 1998–1999 the percentage of visitors from this region fell in relation to total visitors. Nevertheless, in 2000, visitor numbers from Asia recovered and there was a 13 per cent increase on the 1999 figure by the end of December 2000, a further 7 per cent increase during 2001 and an 8 per cent increase in 2002. By the end of 2002, visitors from Asia exceeded 500,000 for the first time, with Korea (104,000 visitors in 2002) and China (71,000 visitors in 2002) growing particularly rapidly in the first years of the new millennium.

At the end of 2002 for the first time, New Zealand received more than 2 million visitors in 1 year. In relation to employment, in 1995 there were 155,000 jobs in New Zealand tourism and by the end of 2001 this had reached 176,000. This upward trend continued during the early years of the twenty-first century, so that visitors to New Zealand reached 2.4 million in 2006 and by then there were 183,000 jobs in tourism (TIANZ, 2007).

It is not the intention of this book to discuss techniques for assessing economic impacts (or other impacts) of tourism in any detail. However a very common tool for assessing economic impacts of tourism is the multiplier and this frequently has a prominent place in government and international reports on the impact of tourism on an economy. The multiplier effect takes place when spending is circulated throughout an economy. It is a form of 'knock-on effect'. In tourism it is a useful way of conceptualizing what happens when tourists spend money in a destination. The multiplier concept is used to distinguish between direct and indirect income derived from tourism (Lomine and Edwards, 2007). Hence, the local (or regional/national) economy can be seen to not only benefit directly from money tourists spend, but also when staff working in tourism, spend their wages on goods and services in the economy. This circulation of income derived from tourists is the secondary or indirect income. Figure 4.1 shows, in relatively simple terms, the direct and indirect effects of tourism spend. In most real settings, multiplier analysis is complex and involves various tools, data sources and statistical analysis. It enables the calculation of, for example, income multipliers, output multipliers and government revenue multipliers. However there is a lack of agreement about precise values in multiplier calculation. Nevertheless, most



**Figure 4.1** The multiplier: effects of tourist spend in a hotel in South West England  
(Source: Mason, 1995)

commentators agree that although it is not an entirely accurate technique, it can provide a valuable framework for assessing economic impacts of tourism (Lomine and Edwards, 2007).

## Summary

Economic impacts are one of the most researched areas of tourism. They have tended to be far more researched than other forms of impact. Economic impacts can be subdivided into both positive and negative groupings. Often, countries perceive positive economic benefits as the major type of tourism impact and hence are supportive of tourism development. Evidence suggests that a number of developing countries have selected tourism as part of their approach to development. Such countries desire the positive economic benefits; however they tend to be less aware that their tourism may also bring some negative economic effects.

However, tourism is often one of a range of development options facing both developed and developing countries and regions within countries. Tourism is often viewed as a preferred option, in relation to other possible choices. Hence, either, where there are old, dying industries and the area is in need of revitalisation, or in relatively un-exploited locations seeking new developments, but with few choices, tourism can bring significant economic benefits. Nevertheless, this chapter has raised the issue that to maximize economic benefits and minimize costs, tourism requires careful planning and management.

## Student activities

- (1) From the perspective of a community affected by tourism that you know well, identify the positive and negative economic impacts of tourism.
- (2) Suggest what type of economic impacts of tourism might occur in small states, such as tropical islands or landlocked states.
- (3) How might the economic impacts of tourism in these small states differ from those in more developed countries, such as those in Europe, North America or Australasia?
- (4) What factors could contribute to the impacts being different in these small developing countries?
- (5) What factors (a) acting internally within a country and (b) acting externally (beyond the country) could affect the economic impacts of tourism, particularly in a negative way?