

# Tourism as an Economic Development Tool

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**ABSTRACT** - Probably, the greatest single deterrent to tourism development is the lack of appreciation and enthusiasm for tourism by civic and business leaders. When tourism is not understood and its benefits are unclear, planning and implementation of measures to improve the industry are often lacking. Notably, global tourism has become the largest industry in the world, with nearly 500 million consumers of tourism services per year spending hundreds of billions of dollars. The industry provides employment to over 100 million people worldwide. Thus, in view of tourism's increasing role in economic activity, the factors affecting its performance should be analyzed. An understanding of these factors is crucial to determine the ways in which national and international financial institutions, NGOs and other entities can play the most value-adding role. This paper provides a brief profile of key factors and trends in tourism and their economic effects at the global, national and regional levels.

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## 1. INTRODUCTION

The most important economic feature of activities related to the tourism sector is that they contribute to three high-priority goals of developing countries: the generation of income, employment and foreign-exchange earnings. In this respect, the tourism sector can play an important role as a driving force of economic development. The impact this industry can have in different stages of economic development depends on the specific characteristics of each country. "Given the complexity of tourism consumption, its economic impact is felt widely in other production sectors, contributing in each case towards achieving the aims of accelerated development" (Davidson, 2004).

A major difficulty in defining the boundaries of the tourism sector is to ascertain what investment costs should be ascribed to the development of tourism. Although heretofore not treated by international agencies as a "sector" in national accounting terms, tourism entails a collection of goods and services that are provided specifically for visitors and would not have been provided otherwise. Because of its interdependence with other sectors of the economy, it is difficult to analyze and plan for tourism. Furthermore, the lack of reliable statistical data hampers identification of the mechanisms by which tourism generates growth, as well as its potential for development.

Yet, in those instances where analysis has been carried out and research has preceded planning, tourism's priority in competing for scarce investment funds has been established. In these cases, long-term programmes for tourism development have been designed.

Nature and heritage tourism development has investment needs that differ, in certain respects, from traditional hotel development. There may be a greater need to improve access to the attraction site or facility, and for a mode of development that does not interfere with a sensitive habitat or historic area (Eadington & Redman, 2001).

## 2. LITERATURE REVIEW

### 2.1 Elements of Supply and Demand

There are primary factors that influence the level of nature and heritage tourism demand, namely; the overall tourism growth, the growth in specialty travel and the increasing awareness and concern for the environment. Each of these factors is in turn influenced by a number of elements. Overall tourism, for instance, is expected to continue to grow more rapidly than the world's economic output as a result of factors, such as population growth, rising incomes and employment, shorter working weeks in many parts of the world and the increasing integration of the world's economies and societies. The rapid growth of specialty travel is fuelled by some of the same factors, but there are a number of additional explanations, such as the boom in outdoor recreation and the new interest in health and fitness. Additionally, environmentalism is one of the elements that has changed people's attitudes on how they should spend their vacations.

### 2.2 The Importance of Location

People with incomes high enough for foreign travel are concentrated in a few countries. Most developing countries are far from the key points of origin. In this regards, countries like Mexico and

some Caribbean islands that are close to the United States and Canada benefit from a comparative advantage. These tourist destinations have reaped early success in promoting their attractions (Murphy, 2003).

### 2.3 Income Elasticity

In several countries, travel receipts have been the fastest growing export item. The tourism sector represents over two-third of the value of total exports of goods and services from the Bahamas, three-fifth of those from Barbados and over one-third from the Dominican Republic and Jamaica. As national incomes increase, expenditure on travel also increases even faster<sup>1</sup>. As a result of this trend, international receipts from foreign travel have been increasing by nearly 11 percent a year (over eight percent in constraint prices) or more than twice the rate of national incomes (Hogan & Mcpheters, 2003).

### 2.4 Decreasing Travel Costs

There is evidence that tourism demand is also price-elastic, particularly below certain price levels. The two major costs of a trip abroad are transport charges and expenditures in the destination country. For long-distance traffic, air transport is predominant, and the average air transport costs have been declining as well. Where such transport costs constitute a high potential of the total costs of a trip, this decline is of great significance for potential long-distance travel growth.

### 2.5 Public and Private Sector Involvement

Tourism is mainly a private sector enterprise, but the timely provision of hotel and other visitor services, such as entertainment, food and sport facilities, requires the public-sector participation in the form of infrastructure, promotional support, as well as fiscal and financial incentives, so as to attract private investment to the sector.

### 2.6 Availability of Credit

Another important factor directly related to tourism facilities is the availability of credit on suitable terms, which is an essential catalyst for sound tourism investment. In some countries, when the private financial system does not provide this credit availability, the public sector has established credit lines for tourism investment.

### 2.7 Tourist Destination Attributes

Tourist demand is spurred by innovation in the type of holidays offered (new commodities) and by improvements in transport, accommodations and attractions (quality changes). The tourism sector offers multi-dimensional product that if vigorously promoted, is likely to lead to changes in the pattern of demand and general new demand for services. Yet, as in any other sectors of economic activity, a minimum set of parameters needs to be in place in order to make an investment viable. In this sense, it is important to identify those attributes of a destination area that are necessary to attract tourism projects and make them viable. Such attributes relate to at least six different categories, namely; climate, natural resources, infrastructure, amenities, culture, as well as socioeconomic and political factors. The table below presents these categories with their related attributes (Inskeep, 2008).

An ideal combination of these attributes should result in the form of tourism development that maximizes returns to the economy, the investors and the consumers of tourism services.

### 2.8 Tourism and GDP

The tourism sector in the Latin American and Caribbean countries contributes significantly to GDP earnings, though this contribution is not reflected in the domestic income and product accounts of most countries. In the Bahamas, tourism accounts for about one-third of GDP and most sectors of economic activity are directly or indirectly linked to it. In Barbados, tourism was the leading economic sector, accounting for 15 percent of the GDP in 2002. In Jamaica, the tourism contribution to GDP was 13.4 percent in 2002, while in Mexico, it was only 4 percent, and as for Iran, it was accounted for about 1.3 percent.

Not all tourism receipts are retained within the economy. In fact, there is an outflow of foreign exchange for some of the goods and services consumed by visitors, as well as for capital goods invested in tourism and for payments abroad. The import needs depend on the level of development and the degree of diversification of substitutes for imported products and on the qualitative level of the tourism supply in each country (World Tourism Organization, 2000a).

### 2.7 Tourist Income Multiplier and Value-Added

The tourist income multiplier (time) is a coefficient that expresses the amount of income

<sup>1</sup>- A model developed by the IDB for 17 major source countries gave a weighted average of 1.7 for the income elasticity of tourism demand.

generated by a unit of tourism expenditure<sup>2</sup>. In Jamaica, a stopover visitor spending one dollar creates a ripple effect of US\$1.60 within the local economy, while a dollar spent by a cruise-ship visitor generates US\$1.20. In the Dominican Republic, the time has been estimated at US\$1.70.

The value-added concept is particularly important when considering the impact of tourism in the Caribbean region. Value is added when a product is developed, processed, refined, or remarked in a manner that allows it to be sold at a higher price than the prices of the raw materials, services and agricultural sectors supplying tourist consumption that are well positioned to achieve higher levels of value-added in the tourism sector.

When a country's natural resources are packaged by foreign tour operators and sold through sophisticated marketing techniques, a substantial portion of the value-added is created and captured by those tour operators, and therefore not returned to the country (Murphy, 2005). To increase the value-added of tourism, the host-country businesses and residents must offer travel services such as packaged tours ("land services"), offering locally owned accommodations and providing the necessary means for tourists to visit natural areas.

## 2.8 Income Distribution Effect (IDE) and Employment

The IDE offers one of the strongest socioeconomic arguments in favour of tourism development. It describes how the income generated by the sector is distributed. The analysis can be undertaken at spatial and functional levels.

At the spatial level, tourists prefer to travel in regions with little industrial development. They also tend towards areas of little agricultural value. For these reasons, tourism can become a dynamic force in regional economies. Within a country, tourism demand originates in urban concentrations where the highest incomes are found. A percentage of such incomes is normally set aside for tourism in areas that are geographically different from the visitors' home base, thus, reinforcing the process of internal income redistribution. Internationally, a portion of the tourism consumption by developed countries occurs in the developing countries, favouring the process of international income redistribution (Williams & Shaw, 2009). On the other hand, at the functional

level, the income generated tends to favour employment, which is estimated to contribute more to the total value-added of the industry than other factors do, because so much of tourism involves personal services. In addition, it has been estimated that, worldwide, tourism directly or indirectly supports sixty-five million jobs, including hotel managers and staff, taxi drivers, tour operators and shop attendants, among others. Conversely, secondary employment is generated in agriculture, industry, handicrafts and services.

Tourism compares favourably with other economic activities as a generator of both employment and income, toothy directly and diffused through the economy. An OAS study on new hotel development in the Caribbean estimates that every investment of US\$80,000 in the tourism industry in the region generates forty-one jobs<sup>3</sup> (Organization of American States, 2005). The same investment would create only sixteen new jobs in the petroleum industry and fifteen in metallurgy. Moreover, according to the CTO, the 77,319 hotel rooms in fifteen Caribbean countries equal 88,697 jobs, or almost 1.15 per room<sup>4</sup> (Caribbean Tourism Organization, 2008).

Hotels account for about 75 percent of tourism employment, i.e. distribution, transport, finance, insurance and entertainment that make up the other 25 percent. Every room in a three- or four-star hotel in Venezuela generates one job. According to the IDB, for five-star hotels, each room creates 1.3 jobs. Moreover, based on the OAS study, one job generated by a hotel generates one more job elsewhere in the tourism trade and two in the rest of the economy; thus, one job generates an estimated three others. The tourism sector, particularly hotels, can play an important role in attracting foreign investment and providing training for employees. Many tourism ventures include foreign equity participation and technical knowledge about the construction and operation of hotels. The former represents a mobilization of international financial resources, which can be regarded as a desirable substitute for foreign borrowing. Outside management can be used to train large numbers of employees who would not otherwise have access to training. Furthermore, business provides a stimulus for the development of other ancillary businesses catering to tourists (WTO & IHRA, 2009).

<sup>2</sup> - The calculation is based on the familiar Keynesian multiplier  $K = 1/MPS + MPM$ , where MPS is the marginal propensity to save and MPM is the marginal propensity to import (or to spend on tourism abroad).

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<sup>3</sup> - Organization of American States. The Optimum size and Nature of New Hotel Development in the Caribbean, Washington, D.C., 2005.

<sup>4</sup> - Caribbean Tourism Organization, Caribbean Tourism Statistical Report, 2008.

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## 2.9 Tourism and Balance of Payments

Tourism can make an important contribution to a country's balance of payments. It offers the developing countries the possibility of diversifying their export earnings, particularly given that; (i) traditional exports are subject to price fluctuations, and (ii) there is a trend towards reducing the administrative, monetary and border formalities that affect international tourism mobility.

With only a few exceptions, the terms of trade for developing countries, i.e. the ration between the prices that a country receives for its exports and the prices it pays for its imports have traditionally been unfavourable because of the fluctuations in the prices of raw material exports. But in the case of international tourism, if the index of average international tourist expenditure is taken as the expression of the price of the international product, the prices received have enjoyed greater stability than the prices of raw materials. In fact, prices have tended to increase in a stable manner due to several reasons, such as the demand for holidays, the growth of business travel and the rigidity of destination

supply in short and medium terms (Kottke, 2008). Conversely, the prices of other products are affected by the speculative or strategic offers; however, this is generally not the case with tourism. It is therefore a sector that trends to improve the terms of trade of an economy in the medium as well as the short terms.

## 2.10 Tourism the Most Important Economic Activity

For many third world countries, tourism has become the most important economic activity, especially as the major earner of foreign exchange. This is in part the result of the declining importance of sugar, bananas, bauxite and oil as the engines of growth. But it is also a reflection of the increasing importance given to recreation and leisure as a result of world's rising income levels. In addition, unlike many goods and services, tourism has no exact substitutes, meaning that the demand for holidays will grow rather than be raided for something else. Political boundaries that split regions, metropolitan areas or other natural market areas may also be an issue.

**Table (1): Tourist Destination Attributes**

CLIMATE	NATURAL RESOURCES	INFRASTRUCTURE	AMENITIES	CULTURAL	SOCIOECONOMIC POLITICAL
Temperature Rainfall Humidity Sunshine	Beaches Lakes Rivers Forests Mountains Flora Fauna	Water/energy Supply Drainage Telecommunications Roads Railways Ports Airports Waste removal	Accommodations Tourism Organizations Restaurants Shopping Sport facilities Recreational Parks Zoos Entertainment	Historic Features Theaters Concert Halls Art galleries Museums Architecture Exhibitions Festivals	Industrial Structure Government Structure Planning System Language Religion Gastronomy Hospitality

**Table(2): What 100 Tourists a Day Mean to a Community (Jobs Created).**

Industry	Transportation	Retail	Hotels and Amusement	Eating and Drinking Places
Construction	0.19	0.41	0.52	0.19
Manufacturing	0.84	1.91	2.43	1.87
Transportation	8.21	0.68	0.87	0.37
Communication & Utilities	0.19	0.55	0.70	0.28
Wholesale Trade	0.39	0.68	0.87	0.94
Retail Trade	0.97	34.24	2.09	1.12
Finance Insurance & Real Estate	0.65	1.36	1.22	0.75
Hotel Amusements	0.13	0.27	22.08	0.19
Eating & Drinking	0.78	2.05	1.74	24.84
Services	2.13	5.73	6.26	2.72
Other	0.06	0.00	0.17	0.09
<b>Total Jobs Created</b>	<b>14.45</b>	<b>47.87</b>	<b>38.95</b>	<b>33.37=134.75</b>

Differences in local values and laws can have a dramatic effect on the apparent relative attractiveness of two otherwise comparable areas. The tourism effects appear most often when two adjacent jurisdictions have differing policies on such controversial recreational and entertainment activities as legalized gambling or the sale and consumption of alcoholic beverages. Often, however, in these cases, customers are drawn from the local or regional markets (Beckhuis, 2001). Thus, less of an "export" effect is created from spending, and therefore, little economic stimulus is added to the region. Nonetheless, in comparison with nearby jurisdictions which do not permit these activities, the counties or communities permitting such activities can be tremendously successful as measured by the revenues and jobs created at the local level.

The following table summarizes the economic impacts and demonstrates the multiplier effects of adding 100 tourists on job creation in a community.

**Table (3): Jobs Created from \$1 Million in New Demand for Final Output for Hotels and Amusements.**

Industry	County	Metro Area
Construction	0.3	0.4
Manufacturing	1.4	1.9
Transportation, Communication & Utilities	0.9	1.1
Wholesale Trade and Retail Trade	1.7	2.4
Finance Insurance & Real Estate	0.7	1.0
Hotel & Amusements	12.7	14.5
Services	4.6	5.9
Other	0.1	0.2
<b>Total Jobs Created</b>	<b>22.4</b>	<b>27.4</b>

### 3. Conclusion

Research found that an average of 22.4 direct and indirect jobs is created in non-metropolitan counties for each \$1 million of new demand for final output from the hotel and amusement industries. The impact on metropolitan areas is slightly higher at 27.4 new jobs created. The increase in demand for hotel and amusement services also affects almost all major sectors of the business community as shown in the following table. As may be expected, the greatest impact is on direct employment in the hotel and amusement industries, where 12.7 and 14.5 jobs are created in rural counties and metro areas, respectively

(World Tourism Organization, 2006).

There are other local revenues that are not easily quantified, as not all tourist expenditures are formally registered in the macro-economic statistics. Money is earned from tourism through informal employment, such as street vendors, informal guides, rickshaw drivers, etc. The positive side of informal or unreported employment is that, the money is returned to the local economy and has a great multiplier effect as it is spent over and over again. The World Travel and Tourism Council estimates that tourism generates an indirect contribution that is equivalent to 100% of direct tourism expenditure.

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