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## Tourism

# Chances of Tourism Promotion in LDCs

by Dr Waldemar Hasselblatt, Bonn \*

**The author tries to draw up a balance sheet between, on the one hand, the economic benefits flowing to LDCs from foreign tourism and, on the other hand, the social and cultural harm done to LDCs by tourism. Concluding, he defines a number of conditions under which touristic projects may be suitable for promotion through foreign aid.**

**B**etween 1958 and 1973, the volume of foreign tourism (measured by the total number of travellers' entries from abroad) grew by an annual average of about 10 p.c., according to statistics published by the International Union of Official Travel Organizations (IUOTO). Gross proceeds from tourism, worldwide, also went up — at a slightly higher rate than world trade expanded during the period. IUOTO estimated gross world proceeds from international tourism in 1973 at about \$ 28 bn — a 14 p.c. rise over 1972.

### **Growing Travelling Intensity**

The decisive factor leading to growth of tourism has been the growing real income in industrialised countries, and further support given to it came from longer holiday periods, a rising demand for individual recuperation, a changing attitude to holidaymaking, and the relative cheapening of air transport all over the world (through the introduction of charter flights). However, long-distance holiday travel (over distances of more than 2,000 kilometers, or 1,250 miles), so far, claims only 2 p.c. of all holiday traffic. Demand for touristic services, related to personal incomes, displays an elasticity which is clearly above the unit one. Travelling intensity, expressed by the share of holiday travellers in total population, is more than 60 p.c. in the US and slightly below 50 p.c. in the Federal Republic of Germany, but it is likely to expand further in future years, though the oil crisis and the changes induced by it, particularly the high rate of inflation in the countries from which tourism flows, increasing flight costs and rising prices in countries which tourists wish to enter, will lead to slower growth of tourism than hitherto.

Foreign tourism in LDCs is the almost exclusive source of tourism there. As a rule, travelling by tourists from LDCs, or internal tourism, is of negligible proportions. The share of LDCs in international tourism, expressed in proceeds, amounts to about 20 p.c. This is more than LDCs' share in world trade which — excluding oil exports — has declined, over the last decade, from more than 15 p.c. to 12 p.c. In the same decade, total exports — again excluding oil shippings — of LDCs showed an average annual growth by only about 8 p.c., whilst their proceeds from tourism climbed by about 11 p.c. annually. It must be admitted, however, that the supply of touristic services by LDCs has scarcely remained in step with demand. There was frequently insufficient integration of tourism in overall economic planning, especially through lack of coordination in branches of the national economies which are affected by the influence of tourism, or which influence touristic developments. Therefore, building up tourism in LDCs has not been without its own problems, and in some of these countries has produced harmful side-effects.

### **Foreign Currency Earnings from Tourism**

In the past, foreign currency earnings of LDCs from tourism have increased more rapidly and more steadily than export earnings from selling manufactured goods and the numerous traditional raw materials abroad (because the elasticity of income in this field is mostly lower than the unit one). That is why most LDCs decide to promote tourism — because they expect growing foreign currency earnings from it. For many, and especially the poorer, LDCs there is hardly any other

\* Federal Ministry for Economic Cooperation.

source of foreign currency earnings which has better conditions and prospects for future growth rates, where the corresponding imports (the touristic demand of industrialised countries) are less hampered by tariffs and other obstacles to trade, and where LDCs have so marked comparative advantages in competitiveness, even in the long term. The crucial advantage flowing from tourism is, of course, net and not gross foreign currency earnings, that is: the balance left after all foreign currency spending on touristic facilities and seasonal tourist demand. Regarding such spending, the causes for it must be seen: for there are investments in the infrastructure which frequently benefit also other branches of the economy even when facilities of the infrastructure have been created directly to serve tourism. (For regions that have so far been neglected by general economic development, this is of special importance.)

### Import Contents

The "import contents" of investments, and currency outflow for running imports, are dependent on the type of touristic facilities and on the general import needs of a given LDC. Wrongly conceived notions of prestige, however, frequently lead to unnecessarily generous spending of foreign currency, e.g. when for the construction of government-owned hotels imported materials are used though sufficient local materials of adequate quality would be available. Generally, however, the import contents of touristic investments are lower than in industrial investments. In cases of a strong dependence on imports, setting up higher-class hotels usually requires only up to 40 p.c. of total spending in foreign currencies (because of the high share of construction work), industrial investments frequently require more than 60 p.c. of total outlay (because of the major share of machinery and industrial equipment) in foreign currency. In the field of tourism, the foreign currency share in current imports, too, is usually lower than in many (non-agricultural) substitution industries. The poorer and the less industrialised a given LDC is, the greater will be the likelihood that lower foreign currency outlay for investments and running imports will be a recommendation for tourism. It is clear that it cannot be only the foreign currency effect that will determine decisions about the use of scarce production resources for these or other actual, and not only academic, investment chances. As a rule, however, investments in tourism do not only have a clearly higher foreign currency earnings potential but they have shorter lead periods and experience fewer initial troubles than other economic branches.

Measured by the required capital equipment per job, it is true that tourism does not have a high labour content. Within the touristic sector of any given LDC, hotels require the highest capital quota. In spite of this, investment costs there are only about the equivalent of investments in the less capital-intensive industries. As an example: in Kenya, investments per job in hotels of the better medium type are of the order of DM 25,000. Less capital per job is required in restaurants, transport companies, travel agencies, *et al.* Also the foreign currency requirements per job-unit are comparatively low in tourism.

Apart from the direct employment effect – in the case of hotels the number of employed people per bed is estimated to be between 0.3 and 1.5 – related employment effects in other branches of the economy are of about the same order. The number of new jobs per monetary unit invested in tourism is therefore probably bigger than with many other private investments. Finally, it has to be seen that it is not only essential whether a new job in tourism costs more or less than a new job in either industry or farming – the decisive question is whether these investment alternatives really exist or not. It is of particular importance that growth of tourism frequently creates additional jobs and additional income in places where the local population has only limited chances for improving its real income level. Contrasting with industrial development, tourism dampens the flight from the land and its effect of growing urbanisation, thus broadening the economic foundations of a country. Tourism may, in this way, provide incentives for regional development and even out economic and social inequality within a given national economy. Moreover, even in its early stages, tourism distributes individual incomes noticeably broader than export industries and reaches comparatively larger sections of that part of the population which, in LDCs, needs special economic support. Distribution of total touristic income therefore appears to be socially more equitable, because it channels more of such income to the poorer population groups than industrialisation which, in LDCs, often grows in separate enclaves.

### Dependence on Travel Industry

It must be admitted that additional income created by expanding tourism will hardly find full expression in additional real purchasing power of the local population. If supplies in local markets are not fully elastic, relative purchasing power will decline for incomes, that do not benefit from tourism, when they meet rising prices. For the entire economy, improvements in income will be

reduced — but not cancelled out — in this way. But similar effects can be seen in all the branches of a national economy which undergoes development. Taking into account the fact that the demand of touristic facilities and of tourists themselves usually calls for goods and services which are of scant interest to the poorer parts of the population (whose greatest need is of basic food-stuffs and simpler consumption goods), tourist developments will probably set up fewer inhibitions to meeting local mass requirements than export industries do. Industries substituting former imports usually also cater for more sophisticated demand and therefore scarcely produce anything that the masses need.

Catering industry in the target countries of tourism, which has usually been built up by private enterprise, is not infrequently confronted by oligopolistic big travel agencies and/or air transport companies domiciled in the countries where tourism comes from. Since many holiday locations are mutually exchangeable, this creates a strong dependence of target countries on the travel industry of "source" countries. On the other hand, the specific form of touristic investments requires a mass turnover that is guaranteed in the long term. That is why investors (foreign ones included) seek to control demand. (Incidentally, it seems that resentments in LDCs against foreign capital is less acute in the case of touristic investment than in that of industrial participations.) Moreover, keen competition which prevails in the touristic industries of "source" countries seems to offer a certain measure of security against exaggerated profits at the expense of LDCs. There remains the question whether there are other sectors of the economy where services of LDCs would be better rewarded than in tourism. Is it possible to set "fair prices" for the use of palm-studded beaches that would otherwise remain a lonely wilderness, or for tourists viewing wild animals? If it is intended to channel an "adequate" reward to LDCs for their products, this can only be achieved through a balance between supply and demand. The position in the touristic market will be influenced decisively by a realistic assessment of LDCs' potentialities in relation to expected demand.

In this context, it must not be forgotten that any economic crisis which leads to a decline in personal incomes in "source" countries may cause exceptionally severe cuts in touristic demand — because of the high income elasticity of demand. It would therefore be foolish to build a country's economy on tourism only. On the other hand, almost all the export industries of LDCs operate under the influence of numerous elasticities or

inelasticities of demand and are thus exposed to wild fluctuations of demand and of prices in the world market. The task of tourism would be to supplement export supplies, that are so sensitive to disturbances, and thus to bolster the resistance of a given national economy against slumps.

### Social and Cultural Effects

Adverse side-effects of touristic developments on the social and cultural life of LDCs are probably overestimated just now. Tourism, as a form of economic relations between poorer and richer countries, is geared to the requirements and desires of the consumers in affluent mass societies. Affluence and greater freedom have entered, within a few years, the lives of vast population groups that were not psychologically prepared for them. The earlier style of individual travelling has been replaced by organised mass tourism. People from very different civilisations meet each other far more often than ever before. Much has been written recently on the effects of this development<sup>1</sup>). But adverse changes are not only produced by tourists and local people meeting. Difficulties of adaptation are a completely normal accompaniment of incipient modernisation, which confronts ancient civilisations and traditional structures with modern societies. They can also be observed during industrialisation. Incidentally, as another example, the adverse influence of western films has been much more aggravating than tourism in some LDCs. Such films are viewed by a much larger part of the local population, including people who hardly ever meet tourists. Many LDCs, facing immediately pressing material problems, tolerate adverse influences of tourism on their social and cultural fabric. It was made quite clear during the first meeting of the ECAFE Sub-Committee on Tourism and Facilitation of International Traffic, which was held in Bangkok in September 1973, that touristic "target" countries think that economic gains from tourism are much more important for them than their potential loss from adverse side-effects. As could be seen there, warnings by donor or "source" countries, in this psychologically highly-charged field, were strictly unacceptable. Recipient countries declared that they themselves would be capable of pinpointing undesirable developments and to weigh them in the context of national priorities.

In the longer run, developing tourism might suggest to LDCs that they gradually re-vitalise their

<sup>1</sup> cf. e.g. Waldemar B. Hasselblatt, *Tourism Promotion in Developing Countries*, in: *INTERECONOMICS*, No. 8/1974, pp. 241 et seq., and: *Urlaub in der Dritten Welt* (Holidays in the Third World); *Series: Entwicklungspolitik — Materialien*, No. 40, published by the Federal Ministry for Economic Cooperation (Department for Public Relations), Bonn, Aug. 1974.

own intangible inheritance, because the new values introduced by tourism revive the interest taken by the local population in their own history, their cultural and natural surroundings, and thus make a contribution to historical self-identification and self-respect, which is the basis of "nation-building", that must not be underrated.

#### **Eligibility for Development Aid**

In a free society, government development aid is unable to stop or reduce the torrent of mass tourism. But through corrections, it might be able to support a kind of touristic development that favours its useful and slows down or prevents its adverse side-effects. Within the framework of German development policies, as a rule, special priority will not be allotted to the promotion of tourism in LDCs. But after what has been said, it is necessary, when assessing the development value of aid for tourism, to judge, together with its economic effects and its possible adverse social potential, also its political and cultural advantages. Even though the expected economic result may be moderate in such cases, such projects might become eligible for development assistance. The following principles of eligibility should be used as a yardstick:

☐ Especially such countries will be eligible for promotion of tourism which are still at an early stage of their touristic development and which, judged by their overall economic situation, have a particularly pressing need for additional foreign currency.

☐ The eligible LDC must give tourism priority rating among its various economic aims, it must show sufficient willingness to promote tourism which means that it must possess sufficient institutional capacities of its own, and it must be willing to, and capable of, fighting against adverse side-effects of tourism and keeping them within limits. Moreover a tourism potential capable of development and a secured potential demand is required.

☐ Since the development of tourism is part and parcel of overall economic development, its promotion must be geared to its effects on other parts of the national economy. In general, additional income gained from tourism ought not to be confronted by inelastic supplies from local production.

☐ Infrastructures set up for touristic purposes should also yield benefits to other parts of the national economy. If a new infrastructure, even in the long term, will be useful only to tourism, its overall economic utility will have to be examined with particular care.

☐ Adverse economic and extra-economic side-effects of touristic developments must be pinpointed and, if necessary, be obviated or limited through supplementary measures. No development aid will be available if adverse side-effects go beyond what is unavoidable in all modernisation efforts, and if they outweigh, more than admissibly, the overall economic benefit of touristic developments.

☐ Aid is intended to help keeping foreign private participation within limits and to give support to investments of local capital, in order to reduce the risk of a "sell-out" to foreigners.

#### **"Target" Countries Should Take the Initiative**

☐ Particular attention is to be paid to the risk of oversupply and misdirected supply in LDCs. Since touristic investments have a relatively high capital content and a life span of several decades, regular observation of demand fluctuations through thorough market research is highly desirable.

☐ Investment incentives for foreign investors should have the effect of being crucial for profitability and for safeguarding it. Such investments make sense only if, without them, desirable development investments would not be made. In cases of projects of excellent prospective development utility, investment incentives should be set up also by the donor countries.

☐ Aid measures should give support to planned development of tourism. This means that planning for tourism must be coordinated with development plans for interdependent sections of the economy, or must be integrated into the overall development plan. Besides, it must be based on an assessment of the touristic potential, and on analytic studies of present-day and expected demand. Financial aid for investments in hotel capacities and in infrastructural facilities can only be given after the completion of overall and coordinated planning for tourism.

☐ Enlightenment and information relating to tourism, which has already been started, should be used to support touristic developments. Within the Federal Republic, enlightenment work via suitable channels of information, notably tour leaders, should be strengthened. This work has to supply all aid to communication and interpretation for making tourists understand better the problems of host countries and their population. Measures to be taken within the "target" countries must be left to their initiative. Methods and information aids are to be developed which will be suitable for reducing cultural adaptation conflicts in LDCs and will be passed on to them, if so desired.