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Susanne Iwersen-Sioltsidis and Albrecht Iwersen\*

## Tourism and Developing Countries

*The expansion of the tourist industry in developing countries is seen by both the countries themselves and international development organisations as a promising route towards boosting economic development.*

*However, once the benefits and costs to society have been carefully weighed up this route appears very problematic in many cases.*

If one examines the advice given to a large number of developing countries by the World Bank and International Monetary Fund (IMF) under the auspices of their structural adjustment programmes, the thing that strikes one particularly is that in many cases they recommend expanding the tourism sector in order to improve the sectoral structure of the economy and the state of public authority budgets. They create the impression that for "Third World" countries the growth in tourism is some kind of heavenly blessing.

This view and those akin to it are based on the fact that tourism is not only the world's leading service sector, but it is also considered to be a big foreign currency earner around the globe. Thus it is hardly surprising that almost all of the world's economies entertain hopes of considerable macroeconomic benefits by participating in the "global tourism market". Yet the total volume of this market is not only highly dependent on cyclical factors, it also cannot proliferate ad infinitum. Therefore, although the number of tourists continues to rise, in the near future it will increasingly be a question of shares in the "world earnings" from tourism simply shifting from one country to another. Particularly in this respect, current developments are not running to the developing countries' advantage.<sup>1</sup>

Naturally there are a number of developing countries more favoured than others as regards tourism, such as a number of countries around the Pacific or the small Caribbean states. However, even if a country is heavily involved in the tourist industry, there is by no means a guarantee that this will be beneficial

to the economy as a whole. The economic costs and benefits need to be examined and weighed up in each case.

### Incoming Tourism in Developing Countries

The largest factor in worldwide foreign tourism are the holidays taken by people from industrial countries, and although they predominantly still travel to other industrial countries, an ever increasing number are also visiting developing countries. This is particularly true of the USA and Canada (whose tourists travel a lot to the Pacific and Caribbean countries), of Japan (where the emphasis is on Thailand, Indonesia and the Philippines), but also of Europe (northern, but increasingly also southern Africa, South-East Asia and the Caribbean). This development manifests itself in a rapid increase in foreign visitors, as highlighted by selected developing countries of the Pacific Basin (Table 1) and the Caribbean (Table 2). The Pacific rim is especially interesting as tourists from all of the highly industrialised and "wealthy" regions (North America, Europe, Japan, Australia) have this part of the world in their sights. The number of visitors to some countries almost doubled between 1989 and 1994 (e.g. to Chile, Malaysia, and Vietnam). Certain regional clusters emerge regarding the origins of the tourists, (e.g. Japanese travel a lot to the Philippines), the most prominent of which is the dominance of North American tourists in the Caribbean (Table 3).

Tourism in many developing countries shows the tell-tale features of mass tourism ("hard tourism"); so-called "gentle tourism"<sup>2</sup> often plays only a minor role. However, there are countries, such as Bhutan,<sup>3</sup> which

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<sup>1</sup> Cf. S. Iwersen-Sioltsidis, A. Iwersen: *Tourismuslehre*, Berne and Stuttgart 1996, pp. 11 ff.

orient themselves primarily towards gentle tourism out of principle. The most disagreeable form of mass tourism in developing countries is sex tourism,<sup>4</sup> as pursued in Thailand or the Philippines.

### Effects on National Product

An impressive example of how significant incoming tourism can be for a national economy is provided by the Bahamas, where every year between 60% and 70% of the gross domestic product is generated by the tourist industry. Such a high level of dominance inevitably leads to an extremely one-sided economic structure with all the detrimental consequences that implies if goods-producing sectors cannot be simultaneously developed. 80% to 90% of tourists to the Bahamas come from the USA and Canada. This will not produce any serious negative effects as long as neither of those countries experiences a severe economic downturn with repercussions for the travelling habits of its citizens.

Whenever tourism represents a very high proportion of the GDP of a developing country, the risk of the cyclical trend being determined from abroad is the higher the less diversified the regional origins of its foreign holidaymakers. The example of the Dominican Republic shows that within a relatively short period it is possible to gradually eliminate an extremely one-sided dependence by means of a well-directed investment policy: here Germany's share of incoming tourism has increased at the expense of the USA and Canada – direct substitution effects were actually in evidence in some cases.

In the course of recent decades, huge structural changes have come about in a number of developing countries due to the boom in international tourism. Antigua is one example<sup>5</sup> of how deeply a developing tourist economy can alter the structure of a country.

<sup>2</sup> In general, "gentle tourism" is considerate of local people, culture and natural habitat in its activities. The term originates from the futurologist Robert Jungk and the tourism expert Jost Krippendorf. Cf. R. Jungk: *Wieviele Touristen pro Hektar Strand?*, in: J. Krippendorf et al. (eds.): *Für einen anderen Tourismus*, Frankfurt 1988, pp. 55 ff.; J. Krippendorf: *Für einen ganzheitlich orientierten Tourismus*, in: *ibid.*, pp. 18 ff.

<sup>3</sup> See M. Kohl: *Bhutan: Ein Modell für die Dritte Welt?* In: K. Ludwig et al. (eds.): *Der neue Tourismus*, Munich 1990, pp. 134 ff.

<sup>4</sup> On this topic, see C. Stolle: *Sextourismus*, in: K. Ludwig et al., *op. cit.*, pp. 73 ff.

<sup>5</sup> Cf. K. Vorläufer: *Tourismus in Entwicklungsländern. Möglichkeiten und Grenzen einer nachhaltigen Entwicklung durch Fremdenverkehr*, Darmstadt 1996, p. 130.

**Table 1**  
**Foreign Travel to Developing Countries on the Pacific Rim**

Country	Number of Tourist Arrivals (in thousand persons)					
	1989	1990	1991	1992	1993	1994
Chile	797	933	1330	1052	1357	1544
China P.R.	1461	1747	2710	4006	4753	5013
Colombia	829	733	813	887	1017	1096
Hong Kong	5985	6581	6795	8011	8938	9331
Indonesia	1134	2178	2558	3004	3363	4006
Korea (South)	2407	2959	3196	3244	3300	n.a.
Malaysia	3954	7477	5543	6010	6503	7200
Mexico <sup>1</sup>	66898	69789	82755	84060	83016	n.a.
Peru	334	317	232	201	296	n.a.
Philippines	1076	893	961	1372	1562	n.a.
Singapore	4830	5323	5415	5990	6426	6899
Taiwan	2004	1934	1855	1873	1850	2127
Thailand	4810	5299	5087	5136	5761	n.a.
Vietnam	n.a.	250	300	440	720	1018

<sup>1</sup> Includes short-term US border-tourism.

Source: World Tourism Organization; country reports.

**Table 2**  
**Incoming Tourism in Selected Caribbean States**

Country	Tourist Arrivals (in thousand persons)					
	1989	1990	1991	1992	1993	1994
Antigua/Barbuda	176	184	182	194	221	235
Bahamas	1575	1561	1427	1399	1489	n.a.
Barbados	461	432	394	385	396	n.a.
Dominica	35	45	46	47	52	n.a.
Dominican Rep.	1400	1530	1417	1524	n.a.	n.a.
Grenada	69	82	85	88	94	109
Haiti	122	120	120	120	n.a.	n.a.
Jamaica	715	841	845	909	979	n.a.
St. Kitts & Nevis	70	73	83	88	89	90
St. Lucia	133	138	160	178	194	n.a.
St. Vincent & Grenadines	50	54	52	53	57	n.a.
Trinidad & Tobago	194	194	220	235	248	n.a.

Sources: Eurostat; Statistisches Bundesamt; Karibische AKP-Staaten 1995.

**Table 3**  
**Caribbean Incoming Tourism and its Origins**

Country	Year	Share of Incoming Tourism (in %)					
		USA&Can	GB	F	D	I	NL
Antigua/Barbuda	1992	46.8	18.8	1.1	4.8	1.5	–
Bahamas	1992	87.6	3.3	0.7	2.1	1.2	0.1
Barbados	1992	41.7	23.0	0.7	5.0	2.9	0.3
Dominica	1992	19.3	9.8	5.3	2.9	–	0.4
Dominican Rep.	1992	42.1	0.2	0.1	5.8	0.2	–
Grenada	1994	32.6	16.3	–	6.7	–	–
Haiti	1992	76.7	–	–	–	–	–
Jamaica	1992	73.1	10.6	0.4	3.6	3.2	0.8
St. Kitts & Nevis	1992	58.4	7.4	1.2	1.6	0.2	0.2
St. Lucia	1992	33.3	25.2	2.3	6.9	0.8	0.3
St. Vincent & Grenadines	1992	32.2	13.6	7.3	4.0	2.1	0.3
Trinidad & Tobago	1992	49.0	10.2	0.4	3.9	1.1	0.4

Sources: Eurostat; Statistisches Bundesamt; Karibische AKP-Staaten 1995.

Whilst the sugar industry still constituted some 80% of Antigua's GDP at mid-century, twenty years later the figure was only around 50%; slightly less than 50% of the GDP was already generated by tourism – a sector which now generates some 80% of the GDP as the century comes to a close.

### **Social Benefits Created by Tourism**

A large, readily quantifiable effect on the development of GDP by tourism – as in the case of the Bahamas – is seen as positive and it is assumed that this brings general benefits for the economy. Even so, it is important to distinguish between direct and indirect effects. On the one hand, direct value-added effects are generated in the developing country from the sale of tourist services, on the other wealth is also created indirectly via linkage and knock-on effects. One important linkage effect is the acquisition of goods and services from other sectors. The following indirect effects, which can also be of financial benefit

to a developing country, will be dealt with in turn below:

- ☐ employment effects,
- ☐ budget effects,
- ☐ positive infrastructure effects,
- ☐ training and knowledge effects,
- ☐ balance-of-payments and financing effects.

### **Employment Effects**

It is particularly significant for developing countries that tourism as a service industry can be (but is not necessarily) relatively employment-intensive. The extent of this employment effect depends on

- ☐ the size and nature of tourist facilities,
- ☐ the structural depth of the tourism sector,
- ☐ the type of tourism (individual, package, mass, gentle),

Friedrich Heinemann

## **Die Finanzverfassung und Kompetenzausstattung der Europäischen Union nach Maastricht**

### **Eine finanzwissenschaftliche Soll-Ist-Analyse**

One precondition for the success of the "Maastricht II" intergovernmental conference is an impartial analysis of the weaknesses of the current EU constitutional arrangements.

On the basis of the principles governing public finance, the author analyses the basic financial arrangements which would be best suited to meeting the challenges posed by a single currency. Achievement of this ideal would be characterised by a balanced distribution of tasks between the EU and the Member States and by a high level of self-discipline as regards debt. Corresponding proposals for reforms are put forward with the aim of checking any increased incentives to incur debt following the commencement of monetary union.

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The author works at the Centre for European Economic Research in Mannheim and in 1995 received the Ludwig Erhard award for economic journalism.

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☐ whether tourism is seasonal or all-year-round.

The tourist industry not only generates employment once in operation, jobs are also created during the construction of the tourist facilities. When considering individual cases, one must not overlook the extent to which tourism can also create secondary employment in other industries.

### **Budget Effects**

Large tourism projects also offer governments in developing countries a chance to collect higher revenues and, via the expenditure side, to exert a stronger influence on the development of the domestic economy – i.e. on sectoral structural policy inter alia. Government revenues from tourism chiefly derive from

- ☐ taxation which participates in value added, and
- ☐ investment earnings, in as far as the government is itself involved in the industry.

However, in practice tourist facilities also create financial burdens. In state-owned tourist operations or enterprises in which the government has a stake, the danger is ever present that any losses arising will have to be made good or at least mitigated using public money. If external funds have been raised on the international capital market to finance the project, this often involves a fairly heavy interest burden on the public-sector budget, which is why countries such as the Dominican Republic are happy to cooperate with private-sector hotel groups from abroad (e.g. subsidiaries of big travel companies or tour operators). Even socialist Cuba cooperates closely with foreign travel companies.

### **Positive Infrastructure Effects**

The development, completion and use of tourist facilities in developing countries always goes hand-in-hand with infrastructure measures. Although most infrastructural facilities are not intended exclusively for the tourist trade, a great many infrastructure measures would not have been realised, particularly in developing countries, if there had been no tourism. These include:

- ☐ freight and passenger transport facilities linked directly or indirectly to tourist activities,
- ☐ public utilities,
- ☐ social, medical facilities etc. and accommodation and other provisions for the people employed in the tourist industry.

In many respects such facilities bring wealth-creating effects for the country, both at the development and construction stages and later on when they come into use. In general, the direct gross value added increases in proportion with the significance of tourism in the developing country concerned. However one must bear in mind that once a certain volume of tourist business is exceeded, increasing social costs may arise which then act as a damper on wealth creation (see below).

### **Training and Knowledge Effects**

The staff employed in the tourist industry need to be suitably qualified. A proportion of this qualified personnel will come from abroad; however, the more a developing country has put its economic weight behind the tourist industry, the more often training will take place locally. In some developing countries, however, training all too often means merely learning or being taught simple skills (for example, in cleaning tasks) on modern equipment.<sup>6</sup> This can also be seen in tourist “strongholds” such as Mauritius, the Seychelles or the Dominican Republic. However, the example of Spain – from the days when it was a “developing country” – shows that once a tradition of tourism has been established, knowledge can be acquired which then generates synergetic effects in other sectors of the economy. This is beneficial for the country's economy at large, as the more highly qualified jobs tend to be linked with a higher net value added on account of wage structures.

### **Balance-of-Payments and Financing Effects**

Both the establishment and operation of tourist facilities affect virtually all accounts on the balance of payments. The extent of these effects in developing countries is particularly dependent on

- ☐ the share of equity and loan capital provided by foreign investors and the terms on which international loans are provided for larger tourism projects;
- ☐ the percentage of supplies from abroad, not only of capital goods, but also of regular inputs and other goods for supplying the tourist industry;
- ☐ the proportion in which locals and foreigners provide services to the tourist trade;

<sup>6</sup> However, the example of Kenya also shows that a higher level of qualification and training among local staff does not necessarily lead to the desired job-market effects for the general public. Cf. H.-W. Prah, A. Steinecke: *Der Millionen-Urlaub*, Darmstadt 1979, pp. 93 f.

- the extent of the outflow of capital from tourist projects;
- the inflow of money (particularly foreign exchange) through tourist spending locally.

Just how significant foreign exchange earnings from the tourist trade are for developing countries is shown by the example of several Caribbean countries (Tables 4 and 5). Foreign exchange earnings from tourism in countries such as the Bahamas, Barbados and recently also the Dominican Republic are considerably higher than proceeds from visible exports, so tourism plays the key role in securing a balance-of-payments equilibrium on the current account. However, this only holds true on that sort of scale for a minority of developing countries, even in the Caribbean: whilst foreign exchange earnings from tourism are still significant for Jamaica, they play a much more minor role for the economies of Haiti or Trinidad and Tobago.

Developing countries which concentrate tourist activity on a few resorts are often dependent on

foreign investors, who apply hard business criteria to their direct investment rather than considering any development-policy aspects. Profits from such tourist business may be expatriated in their entirety; that not only creates a negative balance-of-payments effect but the country is also deprived of wealth-creating components for generating secondary value-added effects.

That does not apply to the money tourists spend locally, as long as the holidaymakers do not confine their spending to the hotel complexes owned by foreign companies. The purchase of local goods, crafts, food and drink etc. has a wealth-creating effect in the local economy.

### Tourism-Induced Social Costs

However, in any economy, particularly on a long-term view, all these economic benefits of international tourism are offset to varying degrees by social costs. These costs are mainly incurred in the need to lay on utility services and organise waste disposal, the provision of infrastructure, the destruction of the landscape and natural habitats, reduced quality of life for locals (e.g. their social coherence), cultural effects, outflows of money and capital and other general consequential costs. These various cost categories will be dealt with in turn below.

### Negative Foreign-Trade Effects

International tourism can cause problems for a developing country if goods have to be imported from abroad in order to cater for holidaymaker's needs. Since the majority of tourists from Western industrialised countries expect the standards they are used to at home as regards food and drink and their other day-to-day needs, it is essential that this aspect is taken into account when exploiting tourism potential in developing countries. Excessive imports of – mostly expensive – consumer goods from Western industrialised countries not only create a drain on foreign-exchange resources, but they also have a strong adverse effect on the visible trade balance – especially where small economies are concerned.

### Utility Supply Problems

Utility supply systems in developing countries are often underdeveloped.<sup>7</sup> In many countries, there is

**Table 4**  
**Net Foreign Exchange Earnings from Incoming Tourism in Selected Caribbean Countries**

Country	Income in US\$ m				
	1989	1990	1991	1992	1993
Antigua/Barbuda	255	281	296	213	254
Bahamas	1319	1128	1169	1051	1084
Barbados	484	453	417	423	548
Dominica	14	16	20	19	24
Dominican Rep.	682	756	723	844	1068
Grenada	37	45	49	52	64
Haiti	37	34	33	n.a.	n.a.
Jamaica	539	686	710	818	887
St. Kitts & Nevis	37	40	51	62	65
St. Lucia	86	87	108	118	179
St. Vincen & Grenadines	22	25	25	25	27

Sources: Eurostat; Statistisches Bundesamt; Karibische AKP-Staaten 1995.

**Table 5**  
**Foreign Exchange Earnings as a Percentage of GDP (Caribbean)**

Country	Year	Share of GDP (in %)
Antigua & Barbuda	1994	93.3
Barbados	1994	40.9
Dominica	1993	19.0
Grenada	1992	25.0
St. Kitts & Nevis	1993	44.0
St. Lucia	1994	58.3
St. Vincent & Grenadines	1994	23.0

Source: Caribbean Tourism Organisation.

<sup>7</sup> Cf. also J. Hammelehle: Schattenseiten des Ferntourismus in Entwicklungsländern, in: K. Ludwig et al. (eds.), op. cit., pp. 47 ff.

quite often an acute shortage of electrical power and water – a situation which parts of Spain (the Balearic Islands, the region around Malaga, the Canary Islands) have been familiar with for decades. Many tourism-oriented developing countries will be facing similar problems very soon. Almost all of the low-rainfall, “sunshine” regions in the equatorial belt are already affected.<sup>8</sup> There are some well-known instances in West Africa and Mexico. Particularly at risk today are all those countries where the number of beds available is growing unchecked in a bid to meet the boom in demand – countries like the Dominican Republic.

The discussion surrounding some new holiday resorts highlights a fundamental problem: the local people, who suffer from a poor supply situation in the first place, have to cope with additional shortages, possibly also coupled with price increases for their power and drinking water. This may also affect other sectors which play a vital part in supporting local livelihoods. An especially telling example of this would be taking irrigation water from agricultural areas to ensure that holiday resorts are well supplied. High social costs then arise which must be weighed up against the positive effects of tourism.

A special kind of supply risk is again well illustrated by the example of the Dominican Republic: tourism with its new large-scale resorts is squeezing out the traditional local fishing industry – a move which is sanctioned by the government. Touristically interesting coastal regions are kept “clean” by imposing fishing bans which inevitably leads to locals losing their livelihoods – at the same time as it threatens their supply of fish and fish products. Here, the “uncaring side” of the free-market principle comes to the fore: which industry brings the highest direct net benefit for the country’s national product – fishing or tourism? A similar question can also be asked in connection with the displacement of traditional farming.<sup>9</sup>

### **Waste Disposal Risks**

More serious than the supply problem is the waste disposal problem – especially where mass tourism is prevalent in developing countries. Such a large volume of sewage and waste is created that huge investments are necessary for suitable waste disposal

systems. Most developing countries do not have the means for such projects and solve the problem by improper “dumping” in the sea or countryside. Burning refuse in rubbish tips or storing it in remote mountain valleys can cause such serious damage to the natural environment that the very basis of tourism – the scenery itself – is put at risk over the long term.

### **Negative Infrastructure Effects**

As already suggested above, infrastructure measures necessary to ensure a smooth-running tourist industry can also lead to high social costs. These effects are in evidence especially where mass tourism is prevalent. Traffic congestion, noise, pollution and similar problems are caused which directly affect local people living close to tourist facilities. This generates considerable costs for those affected – costs which really ought to be borne by the holidaymakers themselves or the tourist trade. However, this view has so far found few friends, making it difficult to enforce, meaning that a great number of tourist industry operations generate profits, as it were, at the expense of others.

### **Implications for Tourism Policy**

In conclusion, it has to be stressed that extremely detailed and careful planning is required when expanding the tourist industry in developing countries. In many regions, the effects on these countries are very problematic once all of the social costs and benefits are taken into consideration. The across-the-board claim made by the World Bank and other international organisations that the expansion of tourism will bring structural improvement to many countries, proves rash on closer inspection and its consequences – if one looks at the results of some studies – have not been sufficiently thought through. Rarely is the important aspect of social compatibility given adequate consideration – especially significant in developing countries with traditional ways of life, an independent cultural tradition<sup>10</sup> or a pronounced subsistence economy: instead a positive contribution to the GDP and employment effects are made the main priorities. On account of this one-sided and short-sighted view, developing countries repeatedly have to suffer detrimental consequences which in many cases could well have been avoided or at least alleviated with careful planning.

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<sup>8</sup> The total cost of supplying Kenya with water was considerable. During the period when tourist areas were under development, this cost was as high as that of building the hotel complexes. Cf. H.-W. Prah, A. Steinecke, op. cit., pp. 92 f.

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<sup>9</sup> Cf. K. Vorlauffer’s discussion on farming, op. cit., pp. 155 ff.

<sup>10</sup> We refer to Vorlauffer’s interesting discussion. Cf. K. Vorlauffer, op. cit., pp. 201 ff.