Economic impacts of tourism

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ECONOMIC IMPACTS OF TOURISM

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Introduction

Tourism is a significant economic activity in most countries around the world owing to its numerous benefits for societies and contributions to local and national economies. Despite a great acceptance of this phenomenon, the economic importance of tourism and travel for a region or a country is usually underestimated, and it extends well beyond the core sectors of this industry. The crucial role of the tourism industry in the world economy and the positive effects of tourism development on a nation’s economy are commonly accepted by many authorities (Chen, 2008). Moreover, tourism can indirectly influence other sectors and sociocultural structures by improving local living standards as the reflections of economic impacts of tourism on communities (Dritsakis, 2004).

The economic impacts of visitors’ presence in destinations result from the fact that tourists spend their money on a wide variety of goods and services. These impacts of tourism can also affect private-sector entities, public revenues, and investments in different ways. The revenues obtained from tourism can have the potential to affect local or national economies. But, as indicated above, the more favorable revenues are the earnings from international tourism, because visitor expenditures can be seen as an injection of foreign money into the local economy, thus creating new levels of consumer demand (Harcombe, 1999), and it is well known that foreign exchange revenues from international tourism can be utilized to import capital goods for the production of goods and services, which in turn aids the growth of the national economy (McKinnon, 1964). Depending on these benefits, many communities have turned to tourism as an alternative means of selling something to other countries (Hughes and Shields, 2007).

In the major tourism destinations, the increase in the number of tourists has been parallel to the increase in the gross domestic product (GDP), giving place to a greater growth in employment and wealth than in a lot of economies that do not specialize in tourism and leading to growth and employment rates higher than in those economies (Capó and Valle, 2008).

In order to understand and evaluate the relative importance of tourism for an economy, it is important to measure its effects precisely. However, there is great difficulty in measuring the economic effects of tourism, as it is a cross-sector consisting of multiple businesses in different branches of activity offering services to the tourists. In other words, tourism is generally regarded as an industry, although really it is a mixture. To get round the problem of its definition, analyses of tourism’s impacts on the economy are generally demand-oriented, that
is they are based on tourist spending in a particular region. Tourists consume an extraordinarily broad range of goods and services supplied by different types of business during their holiday. Therefore, tourist expenditures spread over the other sectors and industries where they spend. Thus, direct spending can easily be identified by collecting data, but other types of spending are only estimated based on the calculations and methodologies developed by the authors. These methodologies will be discussed in the further sections of this chapter.

**Tourism as economic activity**

Tourism as an economic activity is considered as the cluster of production units in different industries that provide consumption goods and services demanded by visitors. Such industries are called *tourism industries*, because visitor acquisition represents a significant share of their supply the production of which, in the absence of visitors, would cease to exist in a meaningful quantity (UNWTO and ILO, 2014, 17). Over the past six decades, tourism has experienced continued expansion and diversification to become one of the largest and fastest-growing economic sectors in the world. Tourism has created continuing growth over time, despite some economic downturns, demonstrating the sector’s strength and resilience (UNWTO, 2017). International tourist arrivals have increased from 25 million globally in 1950 to 1,322 million in 2017. Likewise, international tourism receipts earned by destinations have surged from only US$2 billion in 1950 to US$1,220 billion in 2016 (UNWTO, 2017). This strong momentum was expected to continue in 2018 at a rate of 4–5%.

These figures indicate that tourism is a major category of international trade in services and the third largest export industry in terms of global earnings after *chemicals and fuels*, representing 7% of the world’s exports in *goods and services*, and this industry is responsible for 1 out of 11 jobs and 10% of the world’s economic output (World Trade Organization, 2016; WTTC, 2018). In many developing countries, tourism is the top export category. In addition to receipts earned in destinations, international tourism also generated US$216 billion in exports through international *passenger transport services* rendered to nonresidents in 2016, bringing the total value of tourism exports up to US$1.4 trillion (UNWTO, 2017).

Tourism continued to show its resilience in 2017, contributing direct GDP growth of 3.1% and supporting 6 million net additional jobs in the sector. In total, tourism generated US$8.2 trillion (10.4% of global GDP) and 313 million jobs in 2017. The sector accounted for 6.5% of total global exports and almost 30% of total global service exports (Table 7.1). The direct contribution of travel and tourism to GDP growth is expected to support more than 380 million jobs by 2027 (WTTC, 2018). All these figures show the size and significance of tourism as an economic activity, particularly for small economies (WTO, 2016).

**Tourism and national economies**

Tourism has played an increasingly significant role in the economic growth of many countries for more than 60 years. Depending on the volume of visitor expenditures, the development of tourism in a region creates different benefits and costs in many fields of the local economy. These benefits and costs may change in terms of their effects, depending on the economic structure of the countries. The most significant difference concerning the effects of tourism on economies may appear between developed and less-developed countries (Icoz, 2005, 183). In developing countries, GDP is typically low, income and wealth distribution is unfair, unemployment rates are substantial, and industrial progress is relatively slow owing to insufficient human and capital stocks. Therefore, these countries are more interested in tourism than...
Economic impacts of tourism

Table 7.1 Direct and total contribution of tourism and travel by selected countries (2017)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Direct contribution to GDP, US$ bn (% of GDP)</th>
<th>Total* contribution to GDP, US$ bn (% of GDP)</th>
<th>Direct contribution to employment, number of jobs (% of total)</th>
<th>Total* contribution to employment, number of jobs (% of total)</th>
<th>Visitor exports, US$ bn (% of total exports)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>402.3 (3.3)</td>
<td>1,349.3 (11.0)</td>
<td>28,250,000 (3.6)</td>
<td>79,900,000 (10.3)</td>
<td>125.3 (5.2)</td>
</tr>
<tr>
<td>Croatia</td>
<td>6.0 (10.9)</td>
<td>13.7 (25.0)</td>
<td>138,000 (10.1)</td>
<td>320,500 (23.5)</td>
<td>11.02 (39.0)</td>
</tr>
<tr>
<td>France</td>
<td>93.9 (3.6)</td>
<td>232.0 (8.9)</td>
<td>1,192,000 (4.2)</td>
<td>2,830,500 (10.0)</td>
<td>50.3 (6.5)</td>
</tr>
<tr>
<td>Greece</td>
<td>16.2 (8.0)</td>
<td>39.7 (19.7)</td>
<td>459,000 (12.2)</td>
<td>934,000 (24.8)</td>
<td>19.5 (28.4)</td>
</tr>
<tr>
<td>Italy</td>
<td>106.8 (5.5)</td>
<td>253.5 (13.0)</td>
<td>1,490,500 (6.5)</td>
<td>3,394,500 (14.7)</td>
<td>44.9 (7.4)</td>
</tr>
<tr>
<td>Japan</td>
<td>107.4 (2.2)</td>
<td>331.2 (6.8)</td>
<td>1,098,500 (1.7)</td>
<td>4,171,500 (6.4)</td>
<td>35.3 (4.1)</td>
</tr>
<tr>
<td>Malta</td>
<td>1.7 (14.2)</td>
<td>3.2 (27.1)</td>
<td>31,000 (15.7)</td>
<td>55,500 (28.3)</td>
<td>1.9 (12.3)</td>
</tr>
<tr>
<td>Spain</td>
<td>70.9 (5.4)</td>
<td>196.2 (14.9)</td>
<td>930,500 (4.9)</td>
<td>2,838,500 (15.1)</td>
<td>75.4 (16.4)</td>
</tr>
<tr>
<td>Turkey</td>
<td>32.0 (3.8)</td>
<td>98.4 (11.6)</td>
<td>462,000 (1.6)</td>
<td>2,093,500 (7.4)</td>
<td>31.3 (14.8)</td>
</tr>
<tr>
<td>UK</td>
<td>93.5 (3.7)</td>
<td>266.1 (10.5)</td>
<td>1,716,500 (4.9)</td>
<td>4,055,000 (11.6)</td>
<td>35.6 (4.7)</td>
</tr>
<tr>
<td>USA</td>
<td>509.4 (2.6)</td>
<td>1,501.9 (7.7)</td>
<td>5,285,500 (3.4)</td>
<td>13,668,000 (8.9)</td>
<td>200.7 (8.6)</td>
</tr>
<tr>
<td>World total</td>
<td>2,570.0 (3.2)</td>
<td>8,272.3 (10.4)</td>
<td>118,454,000 (3.8)</td>
<td>313,221,000 (9.9)</td>
<td>1,494.2 (6.5)</td>
</tr>
</tbody>
</table>

Note: * The sum of direct, indirect and induced contributions
Source: WTTC, 2018 (data compiled by the authors).

others are, as it has low technology requirements and high potential to create more employment opportunities owing to its service nature (Dritsakis, 2004).

In developed countries, the tourism industry is only one productive part of economic diversity, and, hence, economic dependency on tourism is weak, the tourism industry’s relative share of GDP is low, and, for most cases, this share is not more than 5% (Table 7.1). Therefore, developed countries primarily see tourism as an industry that offers adequate and favorable tourism services for their citizens. The objective of tourism managers is to create opportunities for their nationals to participate in tourism as much as possible. In developing countries, on the other hand, the basic objective is to increase the socioeconomic benefits of tourism, concentrating on the supply-side investments of the market. Tourism also provides a possible means for lower-income countries to escape from the low product quality, low expenditure, and low income pattern which generally constraint their development (Sinclair and Stabler, 1997, 149). For these reasons, the relative share and significance of the tourism industry in their economies is high enough that it may create overdependence on tourism to an undesirable level. Tourism’s share of GDP may reach up to 15% in some of these countries (Table 7.1).

However, tourism is considered an efficient source of foreign money, employment, and investment, and it has a comparative advantage owing to natural endowments and almost zero opportunity cost for resource use if tourism production is relatively efficient (Lickorish and Jenkins, 1997, 53; Sinclair and Stabler, 1997, 128; Zhang and Jensen, 2005); the major threat awaiting less-developed countries is the fact that they may heavily be influenced by international demand fluctuations and negative external economies caused by industrial tourism.

Economic impacts of tourism

It is widely accepted that the tourism industry has a positive influence on the local economy by resulting in effects such as economic diversity, revenues, jobs, and tax revenue (Brida, Osti, and Faccioli, 2011). However, tourism also brings some negative economic impacts for
destinations as it leads to price increases in real estate property, goods, and services, as well as many others. In a broad context, tourism development contributes to both profits and costs to the local economy, as higher demand from tourists will significantly influence an increase in prices (Marzuki, 2012). Table 7.2 summarizes overall positive and negative economic impacts of tourism development.

The economic impact of tourism can be summarized as follows: (a) it is a powerful economic force providing employment, foreign exchange earnings, and tax revenue; (b) visitors are generators of economic impact for a destination area, directly from their spending and indirectly from the tourism multiplier effect. All positive and negative economic impacts of tourism are discussed under the headings of the benefits and costs of tourism.

**Economic benefits of tourism**

Tourism expenditures and investments in a destination provide a significant amount of income and create jobs for the local community. Particularly, the economic benefits are the major reasons for governments to get involved with development of tourism. The most prominent economic benefits of tourism are as follows:

**Income creation**

The economic impact of tourism is a function of the size of domestic and international visitor expenditures (Goeldner, Ritchie, and McIntosh, 2000, 412). Tourists usually buy a wide range of goods and services while visiting a region. They spend money in the region and demand goods and services supplied by local firms (Baaijens, Nijkamp, and Montfort, 2010). These expenditures generate considerable economic benefits for local businesses (Caughlan, 1998, 5). The income and employment resulting from purchases from local businesses represent monetary injections into the economy. As tourism generates significant economic impact on an economy, the industry is gaining growing importance for all stakeholders (Mazumder, Al-Mamun, Al-Amin, and Mohiuddin, 2012, 270). For most economies, tourism income may be seen as better than other income earned from the export of tangibles because much of it is received for services whose import potential is zero (Lundberg, Stavenga, and Krishnamoorthy, 1995, 139).

In a labor-intensive industry such as tourism, the greater proportion of income is likely to be derived from wages and salaries paid to those working in jobs either directly serving the

<table>
<thead>
<tr>
<th>Positive impacts/benefits</th>
<th>Negative impacts/costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>contributions to balance of payments</td>
<td>increases in the price of goods/services and the cost of living</td>
</tr>
<tr>
<td>generation of income and government revenues</td>
<td>additional infrastructure costs</td>
</tr>
<tr>
<td>improvement of economic structure</td>
<td>competition for land with other economic uses</td>
</tr>
<tr>
<td>more employment opportunities</td>
<td>profits exported by owners</td>
</tr>
<tr>
<td>investment and development</td>
<td>import leakages</td>
</tr>
<tr>
<td>public utilities and infrastructure</td>
<td>overdependence on tourism</td>
</tr>
<tr>
<td>new business opportunities</td>
<td>increased propensity to import</td>
</tr>
<tr>
<td>encouragement of entrepreneurial activity</td>
<td>external costs</td>
</tr>
<tr>
<td>gender structuring of tourism employment</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Kreag, 2001, and Mathieson and Wall, 1982, 52.*
needs of tourists or benefiting indirectly from tourists’ spending (Holloway, 1999, 46) and it is also generated from interest, rent, and profits on tourism businesses. Taxation on tourism activities, such as value added tax, hotel bills, and fuel used by tourists, and other direct forms of taxation, which countries may choose to levy on tourists to raise additional public income, is another source of tourism impact on income (UNWTO and ILO, 2014, 24). In addition, income generation results not only from expenditures by foreign tourists, but also from the associated increases in private investment and public expenditure (Sinclair and Stabler, 1997, 139).

Increases in production and sales volumes through tourism can lead to increases in local individual income and contribute to government revenues (Frechtling, 1994; Gasparino, Bellini, Del Corpo, and Malizia, 2008). This is the first type of economic impact on the economy, also known as direct effects of tourism expenditures. An increase in demand from tourism will raise prices for products, semi-products, and production factors (Dwyer, Forsyth, and Spurr, 2004). Also, real property values and returns on capital invested in tourist facilities can be affected (Frechtling, 1994); this is the second type of economic impact described as indirect effects that result from the re-spending of the initial tourist spending. A third category, induced effects, emerge if an increase in employment caused by direct and indirect effects results in an increase in income to be spent by households. This means that other sectors of the economy take advantage, because of an increased demand for goods and services as well (Otgaar and Klijs, 2010). The induced effects are the impact of tourism arising from people in the host community spending revenue from tourism profits and wages for their own different needs such as housing, education, health, and so on (Muñoz, Muñoz, and Pérez, 2016).

The greatest changes in economic structure probably arise when the transformation is from a traditional agricultural production economy to one dominated by tourism in rural destinations. Many of the changes can be the result of demographic pressures, technological progress, and employment opportunities outside the rural economy. Tourism has often contributed to the acceleration of such changes, but is not always a major cause (Mathieson and Wall, 1982, 85). The result is the changing profile of tourism revenue earners.

Contribution to balance of payments

An important indicator of the role of international tourism is its generation of foreign exchange earnings and contributions to the balance of payments. The balance of payments is “an account which shows a country’s financial transactions with the rest of the world” and it records inflows and outflows of currency. It is a statement that takes into account the value of all goods, services, and capital loans (Vanhove, 2005, 178). This account is composed of two main parts: (1) The current account, which includes goods, services, incomes, and current transfers; and (2) the capital and financial account, which refers to capital transfers and acquisition disposal of non-produced, financial, and nonfinancial assets and liabilities (Vanhove, 2005, 178).

In this account, inbound tourist spending is considered as an invisible export, and outbound tourist spending is seen as an invisible import (Smith, 1991, 270; Holloway, 1999, 50). So, the total value of receipts minus the total payment made during the year represents a country’s balance of payments on the tourism account. The money that a large number of inbound tourists spend in a country can make a considerable contribution to its balance of payments (Kumar and Hussain, 2014). The contribution of tourism to the balance of payments is measured as net travel balance, which shows the difference between tourism earnings from visitors and resident expenditures outside the country. A positive net balance is clearer in traditional tourism destination countries (Spain, France, and Italy) and most developing countries.
Many countries are bearing large foreign trade deficits and they are searching for measures to balance the payments. Despite some of the critiques of tourism industry, most countries view the possibility of expanding the tourist industry with favor. The relationship between the balance of payments and tourism is very attractive for policymakers and causes them to search for guidance on the continuity of enlarging this industry (Mathieson and Wall, 1982, 56).

The generation of employment

Employment, together with income generation, is the most obvious benefit of tourism development (Vanhove, 2005, 199). Tourism can generate jobs directly through hotels, restaurants, transportation, and so on, and indirectly through the supply of goods and services needed by partly tourism-related businesses that are not directly associated with the sector, such as construction, banking, and local transport. According to the latest statistics, this industry supports some 10% of employment worldwide (UNWTO, 2017). These data show the importance of tourism to the creation of job opportunities all around the world. Especially in underdeveloped countries, tourism is able to employ more people than other industries. Moreover, if an area suffers from declining industries and levels of unemployment are high, tourism can be a way of revitalizing that area and creating employment opportunities (Filiposki, Ackovska, Angelovska, and Metodieski, 2016).

The impact of tourism industries on employment is brought about in three ways:

- **Direct employment** in the tourism industries such as hotels, travel businesses, and government organizations (Leiper, 1979),
- **Indirect employment** in the sectors supplying inputs to the tourism industries,
- **Induced effect** on employment as a result of subsequent rounds of spending.

Total effect on employment is also reflected in the employment multiplier (ESCAP, 1990). Tourism also brings about changes in the pattern of employment. Studies of employment in tourism have indicated the ways in which it is structured by gender. In most countries, jobs in the transport sector are fulfilled by men, for instance, whereas those in accommodation and catering are undertaken by women. An inflow of foreign tourists is accompanied by the construction of large hotels in which many younger and more educated women have obtained employment in developing destinations (Sinclair and Stabler, 1997, 145).

However, some authors draw attention to the negative aspects of tourism employment due primarily to its transient nature, such as high turnover rates, seasonality (Albrecht, 2000; ILO, 2010), a flexible workforce based on part-time, temporary contracts, and agency work far more common than in any other industry. Further, employment in the tourism industries involves a disproportionately high degree of employers/owners/proprietors, as well as own-account workers. Some also argue that economic dependency on service-sector jobs contributes to income differences in urban versus rural locations (Jensen and Tienda, 1989; Lichter 1989). Noting that service sectors tend to employ more female workers, some researchers argue that economic dislocation and lower marriage rates are more prevalent in communities where service-sector jobs predominate (Albrecht, 1998).

When it comes to measurement of the contribution of tourism to employment, it should be admitted that it is more difficult to measure employment in tourism than is the case for many other industries owing to the above-mentioned reasons where exact measurement is almost impossible (Wood, 1992; Smeral, 2004). Data and measurements are frequently based on the labor statistics collected by public organizations, observations, and estimations.
Investment and development

Tourism development generates dynamic impacts and contributions to infrastructure improvements in destination countries, because tourism can induce the local government to make infrastructure improvements such as better water and sewage systems, electricity, communication, and public transportation. Growth in tourism typically leads to development of restaurants, retail establishments, and other tourism-related businesses. These investments contribute to improving the living standards of residents, as well as to encouraging long-term economic growth, and local people can also benefit from the improved facilities that are needed to attract and satisfy visitors (Mathieson and Wall, 1982; Blake, Arbache, Sinclair, and Teles, 2008; Spenceley and Meyer, 2012; Kumar and Hussain, 2014).

The benefits that business travel brings to international trade also foster investment by domestic firms and foreign investors. Foreign direct investments bring new capital, technology, more knowledgeable people, know-how, and extra demand for local supplies and improvements in trade balances (Oxford Economics, 2011, 43; UNWTO and ILO, 2014). It can also create new products and provide opportunities for local businesses further down the supply chain, and policymakers encourage more investment in tourism facilities in order to attract more tourists to peripheral regions (Zhang and Jensen, 2005). Once tourism is shown to be successful, private developers or government agencies are often willing to invest even further. Economists refer to this process as the “accelerator concept” (Holloway, 1999, 51).

Tourism, on the other hand, can be recognized as an economic activity that supports the growth of the “green economy,” which is one of the long-term objectives of the tourism sector, and as an effective means of sustainable development (De Lacy and Lipman, 2010). As an extension of the green economy, green tourism brings new demand which motivates less use of transport and heavy infrastructure, as well as a better regional distribution of tourism flows.

Economic costs of tourism

As the positive economic impacts of tourism are widely accepted all over the world, the fact is that this industry may cause some negative economic effects which cannot be underestimated. The most commonly mentioned negative impacts are explained in the following sections.

Leakages

The term “leakage” has been mentioned for half a century in economics. It is defined as “financial processes through which less money gets back into the economy” (Rátz and Puczko, 2002, 82) and is considered as the monetary loss from a region or other hidden costs through tourism (De Cuello, 2001; Cooper, Fletcher, Gilbert, and Wanhill, 2008, 136). This could be because the tourism businesses are owned by foreign companies, and some of their earnings (i.e., profits, wages/salaries, fees, and royalties) are transferred to the home countries, also known as “export leakage” (Supradist, 2004, 20; Kumar, Hussain, and Kannan, 2015). This type of leakage is not considered to be direct leakage, as the main source of money is tourist spending anyway. Therefore, the most significant leakage caused by tourism is “import leakage” (Supradist, 2004, 22), where tourists demand goods that the host country cannot produce and supply. According to some experts, import-related leakage for underdeveloped countries and small economies is on average between 40% and 50% of gross earnings, whereas the same figure for advanced and diversified economies is only between 10% and 20% (Ardahey, 2011).
Overdependence

Many destinations, even countries, may be highly dependent on tourism. Without tourism, most of the businesses (hotels, restaurants, etc.) would struggle, as they are not places that locals visit every day. When destinations become overdependent on tourism, they make themselves vulnerable to changes in tourist demand (Mathieson and Wall, 1982, 87). Tourism is a susceptible industry and is heavily influenced by socioeconomic and political changes, both domestic and international. For instance, areas with political unrest have lost out on tourists, who prefer to travel to other relatively stable destinations. In order to avoid economic disruption due to changes in demand, tourism destinations should support a diversified tourist industry and base economy (Ardahey, 2011). Therefore, overreliance on the tourist industry carries some risk to tourism-dependent economies. For example, economic recession or downturns, the impacts of natural disasters, such as tropical storms, and changing tourist preferences may all have a harmful effect on tourism-dependent destinations (Harcombe, 1999). Similarly, the strategy of dependence on a single market or a few markets is also crucial. Changes in the economic conditions or fashions in these limited-number tourist markets, as well as changes in political conditions and travel links, can have a significant effect in the destination economy (Bull, 1998, 186).

Inflationary effects

The relationship between tourism and inflation is more complex, temporal, and frequently local. A high inflow of tourists during a season may cause a rise in prices of many goods and services in the destination. Some authors suggest that it is undeniable that in tourist areas the prices for products and services are, in general, higher than in regions where there is very little or no tourism, and that in holiday destinations the prices for tourist services are higher in the peak season than in the rest of the year. This upswing of prices is frequently greater in underdeveloped regions than in richer ones (Vanhove, 2005, 175). The consequences of increases in prices may arise in many different ways. Wealthy tourists will be able to purchase products at higher prices, and, when suppliers recognize that this increases their profits, they continue to raise the prices further (Mathieson and Wall, 1982, 88). Consequently, local residents are forced to pay more and may even have to travel further in order to get what they need, as local enterprises concentrate on a more limited range of products.

On the other hand, mass or industrial tourism makes land and real estate prices higher as well. Development of tourism brings additional demand for land, and competition from potential buyers forces the price of land to rise. Locals are compelled to pay more for their homes (Vanhove, 2005, 176). Inherently, there are losers and winners as a result of these price increases for land. Indeed, the losers are those local people who have fixed incomes, such as wages and salaries, while the winners are landowners and traders. In the long run, this may be a problem for visitors, if prices are to rise in a stable manner. The primary danger is the displacement of tourists to cheaper destinations due to the unbearably higher prices in the region.

Unpaid costs

As an economic reality, many projects in tourism escalate many economic, social, and/or environmental costs for which the investor does not want to pay, and a third party has to pay the cost (Vanhove, 2003). This outlay is defined as “unpaid cost” in economics. Most obvious examples are environmental pollution and traffic congestion. The local residents have to pay these costs caused by tourism growth. The opportunity cost in such situations, on the other hand, is the...
cost of using scarce resources for tourism, either as consumption or development, as opposed to using the money for alternative, perhaps more society-related purposes. For example, it is assumed that resources allocated to the tourism industry are resources removed from other activities such as agriculture, which represents a forgone opportunity for the regional economy (Lundberg et al., 1995, 28). Likewise, if labor or land is used for tourism, its social cost to an economy is its opportunity cost or the cost of the opportunity of using it in the next best activity (Vanhove, 2005, 176). Therefore, tourism should be carefully planned and managed for efficient resource allocation and use in developing regions where resources are mostly scarce.

**Enclave tourism**

When tourists stay for their entire holiday at the same resort, which provides everything they demand and where they make all their expenditures, not much opportunity is left for locals to earn from tourism. For example, as widely observed in developing countries, all-inclusive accommodation generates the largest amount of revenue, but its impact on the local economy is smaller per dollar of revenue than other hotels. Similarly, in a region or destination, intense revenue leakages due to the above-mentioned reasons might create enclave resort conditions, where buyers are discouraged from spending their money outside the hotels, and where most of the goods are supplied from the local community (Freitag, 1994). The process of “enclavisation” in tourism has been a result of the need for exclusivity of the product and dependability of income. However, enclave models that signify a high concentration of tourism activities in a closed geographic area often result in little benefit to the local economy. Furthermore, there is a less social interaction and sometimes greater environmental impact owing to the intensity of development (Equations, 2008, 8).

**Measurement of economic impacts**

Notwithstanding the effects of tourist expenditures on economies are widely accepted all over the world, attempts to identify or measure the impacts of tourism are always difficult, because it is not easy to distinguish between the money spent by tourists and inhabitants in local businesses. The main obstacle to identifying the monetary effects of tourism is the fact that this industry is neither acknowledged as a single industry nor regarded as an isolated economic activity. So, its contribution to the development of economies cannot be definitely measured. In resorts, on the other hand, even such businesses might be highly dependent upon visitor spend where a large number of tourists are in self-catering facilities. However, several methods have been developed by a number of authors in order to estimate and analyze the economic impact of tourism. The most widely used methods aimed to measure the economic impacts of tourism are explained in the following.

**Tourism multipliers**

Tourism’s contribution to income in an area is boosted by a phenomenon known as the tourism multiplier. This arises because money spent by tourists in the area will be re-spent by the earners, expanding the total. The multiplier, by definition, is the factor by which tourist spend is increased in this process (Archer, 1977; Horwath Tourism and Leisure Consulting, 1981, 3; Wanhill, 1983; Var and Quayson, 1985; Holloway, 1999, 47) and it shows the relationship between an additional unit of tourist spending and the changes that result in the level of income in the economy. In theory, any income accruing to nonnationals resident in the area is extracted
from the sum (Vanhove, 2005, 185). The basic purpose of multiplier methodology is to measure the secondary effects of tourist spending, and it takes account of the short-term effects of tourism on income and employment, but the models are not appropriate for examining its longer-term reflections in the economy. Empirical evidence about the role of tourism within the structural transformation of economies over the long run is limited but indicates that the common conception of the development process as a transition from an agriculture-based economy to manufacturing and thence to services may be misguided (Sinclair and Stabler, 1997, 141).

Fletcher and Archer (1991, 37) suggested four different multipliers: (a) the transaction multiplier, (b) the output multiplier, (c) the income multiplier, and (d) the employment multiplier. They all relate the measure of total impact to the initial tourism expenditure.

Residual receipts

This is a model developed by R.D. Kreutzwiser in 1973 to estimate total visitor expenditures in a specific and relatively small region using secondary data (Smith, 1991, 281). The model assumes that the expenditures due to local consumption in a tourism destination are usually less than total local receipts, and the difference is attributed to visitors from outside the local area. The method begins with multiplying total household income in a region by the percent of this income spent on retail goods and services. Then, this total is subtracted from the sales of retail and service establishments in the region, and this residual is the amount attributable to tourists in the region (Frechtling, 1994, 10). However, the basic inadequacy of this approach lies in the fact that the method cannot categorize the expenditures by type of product purchased, type of business used by tourists, or type of visitor for detailed analysis and, especially, segmentation purposes.

Input–output models

The input–output model developed by W. Leontief in 1973 is a means of analyzing inter-industry transactions in the production process (Hamston, 1969; Frechtling, 1994, 32). It permits analysis of the flow of goods and services from one producer to another and from the final producer to the final purchaser. It covers all production and also provides a detailed understanding of the linkages among industries (Ritz, 1979).

Input–output analysis starts with the development of a table representing how transactions flow through an economy during a given period of time (Fletcher, 1989). The table shows the sales of the sector, listed on the left, to every other industry and the final demand sectors, listed at the top of the columns (Lundberg et al., 1995, 143). Input–output tables represent the characteristics of an area’s economy at a particular point in time. However, the weakness in the application of input–output tables to smaller areas, such as regions, is that the tables are usually constructed at the national level. Therefore, unless a specific region is an actual sample or representative of the country, the forecasts made in this way will easily be biased. In the case of tourism, the application of these models is further complicated by the fact that tourism consumption includes elements that do not belong to final demand but to intermediate consumption of activities instead.

Tourism satellite accounts

The tourism satellite account (TSA) methodology developed by WTO is essential for obtaining accurate measurements of the impact of tourism. It is used to supplement the system of national
accounts by measuring the economic contribution of tourism and is a means of measuring the size of the tourism sector in an economy. The TSA estimates the worth of the tourism sector by combining the contributions of different goods and services across the economy. TSA has the ability to show maximum linkages to input–output models as well as to demonstrate results originating from product-specific records (Mazumder et al., 2012, 285).

The TSA’s essential contribution is that it represents entire official figures, within the national accounts, for a tourism “industry”. Because the TSA is developed in a manner which is consistent with the national accounting system as a whole, it makes it possible to compare the tourism industry with other sectors of the economy, examine its components, and measure tourism’s added value in a national economy. For instance, tourism’s relative share of GDP and employment, the relative importance of tourism components to overall tourism activity, and their contribution to other non-tourism industries can all be determined (Dwyer, Forsyth, Spurr, and Ho, 2004, 27). The TSA can be used to evaluate the proportion of tourism activity per se (resulting from tourism travel) in branches typical of the tourism sector (Vellas, 2011). Alongside the TSA-based analysis, it is possible to measure the expected impacts of tourism by calculating its multiplier effects. The TSA can also be used to predict tourism-related employment.

Conclusion

The economic impacts of tourism have been researched in the literature on a large scale, but there has been substantially more interest in the positive economic effects than the negative ones. The research on the positive economic impacts has contributed to the broad optimism among policymakers concerning tourism’s potential for fostering economic growth. However, as is well known, each coin has two sides, and there is no economic activity without its costs. Among the negative effects of tourism, the most widely discussed ones are inflation, financial leakage, infrastructure costs, and economic dependence. However, in recent years, as societies’ awareness of the environmental problems grows worldwide, the costs of tourism begin to draw more attention than ever. So, we can expect that there will be more research on the negative impacts of tourism on economies.

To conclude, tourism is undeniably one of the more powerful operators of employment and wealth. Despite some turbulent times with the world recession, these facts are not likely to change. Therefore, policies should focus on the wealth-creating power of tourism rather than the creation of negative effects. Considering the positive and negative economic impacts of tourism, it could be concluded that, with short-term and long-term strategic planning and using the specific abilities and tourism products of developing countries, most of the economic problems can be solved through a well-planned and -managed tourism industry.

References


Economic impacts of tourism


