

*Tourism's impact on the local community:
Economic Impact*

It is important to consider the **im**_____ that tourism makes within a *community*

It can be highly **ben**_____ **l** and **pos**_____ to the local community but also be **dam**_____ **g** and have a **neg**_____ effects

Is it right to develop a tourism product /destination without the permission of the local community?

What do you think?



There exist many **positive** and **negative** impacts of tourism. Firstly, let's look at the **Economic** impact of tourism.

Economic impact of tourism on the local community:

Briefly, the **negative economic** impacts of tourism:

- **Leakage:** Enclave tourism- Geographically isolated and closed-off resorts containing all tourism facilities and services required by tourists, and thus encouraging them to stay inside and spend **within the compounds (borders)** of the enclave
 - **Infrastructure c**_____ - cost to build new networks etc.
 - **In**_____ **in prices** - for local people)
 - **Economic de**_____ **ence** - local people dependant on Tourism for money and income
 - **Se**_____ **l character of jobs** – jobs only available in summer for example
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The **direct income** for an area is the amount of **tourist expenditure** that **remains** locally (at that destination) after:

- **Ta**_____, **pr**_____ and **wa**_____ are paid outside the area and after imports are purchased
- These subtracted amounts are called **leakage**.

In most all-inclusive package tours, about **80%** of travellers' expenditures go to the **air**_____, **ho**_____ and other international companies, and **not** to local businesses or workers

Consider a holiday to Thailand:

- You *pay your money* to a Chinese travel agency for your **accommodation, meals** and **transport**.
- The Chinese company will pay only a small fee to the local (Thailand) businesses and then **keep the rest** of money:
 - In _____ **d** competition means that **travel agencies** are in a better negotiating position, driving down their costs and increasing profits/passing it on to the customer
 - Consider that a hotel has *high fixed costs* and they seek to make a *contribution* to this, sometimes through *marginal* profits
 - A study of tourism 'leakage' in Thailand estimated that **70%** of all money spent by tourists ended up **leaving** Thailand
 - Estimates for other **Third World** countries range from **80% in the Caribbean** to **40% in India**.

There are **two** main ways that **leakage** occurs:

Import leakage

- This commonly occurs when tourists **demand standards** of equipment, food, and other products that the host country cannot supply
- Especially in **LEDCs** (Less Economically Developed Countries), food and drinks must often be **imported**, since local products are not up to the hotel's (i.e. tourist's) standards or the country simply **doesn't have** a supplying industry
- Much of the income from tourism expenditures leaves the country again to **pay for these imports** (further consider exchange rates again)

Export leakage

MNC (Multi-National Companies) have a *substantial share* in the **export leakage**. Consider *Coca-Cola, McDonalds* and *Hilton* and their profits. They have shareholders who want to be paid dividends on profits.

However, often and especially in poor developing destinations, MNCs are the only ones that **possess** the **necessary capital to in _____** in the construction of tourism **infrastructure** and **facilities**.

- As a consequence of this, an **export leakage** arises when overseas investors who finance the resorts and hotels **take their profits back to their country of origin** - consider *Macao* and the *casinos...* The Venetian, MGM, Wynn and Hilton (all foreign companies).

- The Chinese Government doesn't like the fact that Chinese people spend their money gambling in Macao and the profits are sent back to America. Therefore (one of the reasons) they had stricter visa restrictions during 2008-2009. This is **leakage**.

Other negative economic impacts:

Infrastructure cost

- Tourism development can cost the local government and local taxpayers a lot of money...
 - **Developers** may want the **government** to improve the **airport, roads** and other **infrastructure**, and possibly to provide *tax breaks* and other financial advantages, which are costly activities for the government...
 - Public resources spent on **subsidized** infrastructure or tax breaks may reduce government investment in other critical areas such as **education** and **health**.

Increase in prices

- **Increasing demand** for basic services and goods from tourists will often cause price increases that negatively affect local residents whose **income does not increase proportionately**.
 - As you learn in your economic class, **increase** in demand means an _____ in prices
- Tourism development and the related rise in **real estate demand** may dramatically increase **building costs** and **land values**. Macao is a great example of the above as almost everything has increased in price.
 - This makes it more difficult for local people to meet their basic daily needs.

Economic dependence of the local community on tourism

- **Diver**_____ in an economy is a sign of health, however if a country or region becomes **dep**_____ **t** for its **economic survival** upon **one industry**, it can put major stress upon this **industry** as well as the people involved to perform well.
- Many countries, especially developing countries with little ability to explore **other resources**, have embraced tourism as a way to boost the economy (increased foreign money into the country)
- In The Gambia (Africa) for instance, 30% of the workforce depends directly or indirectly on tourism. In small island developing states, percentages can range from **83% in the Maldives** to **21% in the Seychelles** and **34% in Jamaica**

Over-reliance on tourism carries risks to tourism-dependent economies

- **Economic recession**, the impacts of **natural disasters** such as tropical storms and **changing tourism patterns** can all have a devastating effect.
- Consider the Tsunami in 2004 and its impact on the local economies.

Seasonal character of jobs

Problems that **seasonal workers** face include:

- Job (and therefore income) **insec**_____ **y**
- **No gua**_____ of employment from one season to the next
- Difficulties in getting training, employment-related medical benefits, and recognition of their experience
- Unsatisfactory housing and working **cond**_____ **s**

POSITIVE ECONOMIC IMPACTS OF TOURISM:

- **Foreign exchange earnings** – foreign income money can be vital for weaker currencies and weak economies.
- The **D**_____ (\$) and the **E**_____ (€) are accepted in many countries due to their strength, stability and reliability (*Cuba* and *Cambodia* are good examples)
- This assists countries that have **hyper-infl**_____ (i.e. Zimbabwe) or have unstable currencies
- **Contributions to government revenues** – t_____
- **Employment generation** – making new **jo**_____
- **Infrastructure investment** – improving **ro**_____ and connections
- **Contribution to local economies** – improving standards of living, providing **em**_____, **ed**_____ and opportunities for local businesses.

POSITIVE ECONOMIC IMPACTS OF TOURISM: Foreign exchange earnings

- **Tourism expenditures** generate income to the host economy and can **stimulate** the investment necessary to finance growth in other **economic sectors**.
- Some countries seek to accelerate this growth by **requiring visitors** to bring in a certain amount of foreign currency for each day of their stay (in Syria, Iran for example)
- An important indicator of the role of international tourism is its generation of foreign exchange earnings.
 - Tourism is one of the top five export categories for as many as 83% of countries in the world and is a **main source** of foreign exchange earnings for at least 38% of countries in the world

Contribution to government revenues

- **Direct contributions** are generated by **ta** _____ on incomes from tourism employment and tourism businesses, and by direct levies on tourists such as **dep** _____ taxes.
- **Indirect contributions** come from taxes and duties levied on goods and services supplied to tourists.

The WTO estimates that travel and tourism's direct, indirect, and personal tax contribution worldwide was over US\$ 800 billion in 1998 - a figure it expects to double by 2010.

Employment generation

The rapid expansion of international tourism has led to significant employment **creation**.

- For example, the hotel accommodation sector alone provides around **13 million jobs** worldwide
- Tourism can generate jobs **directly** through hotels, restaurants, nightclubs, taxis, and souvenir sales, and **indirectly** through the **su** _____ of goods and services needed by tourism-related businesses.
- Tourism supports some **7%** of the world's workers.

Stimulation of infrastructure investment

Tourism can induce (**encourage**) the local government to make **infrastructure improvements**

- Better **water** and sewage systems, **roads, electricity**, telephone and public transport networks
- This can improve the quality of life for residents as well as facilitate tourism.

Contribution to local economies

- As the environment is a basic component of the **tourism industry's assets**, tourism revenues are often used to measure the economic value of **protected areas**.
- Other local revenues that are not easily quantified, as not all tourist expenditures are formally registered.

- Money is earned from tourism through **informal employment** (e.g. street vendors, informal guides, rickshaw drivers)
 - The positive side of informal 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.

Multiplier Effect:

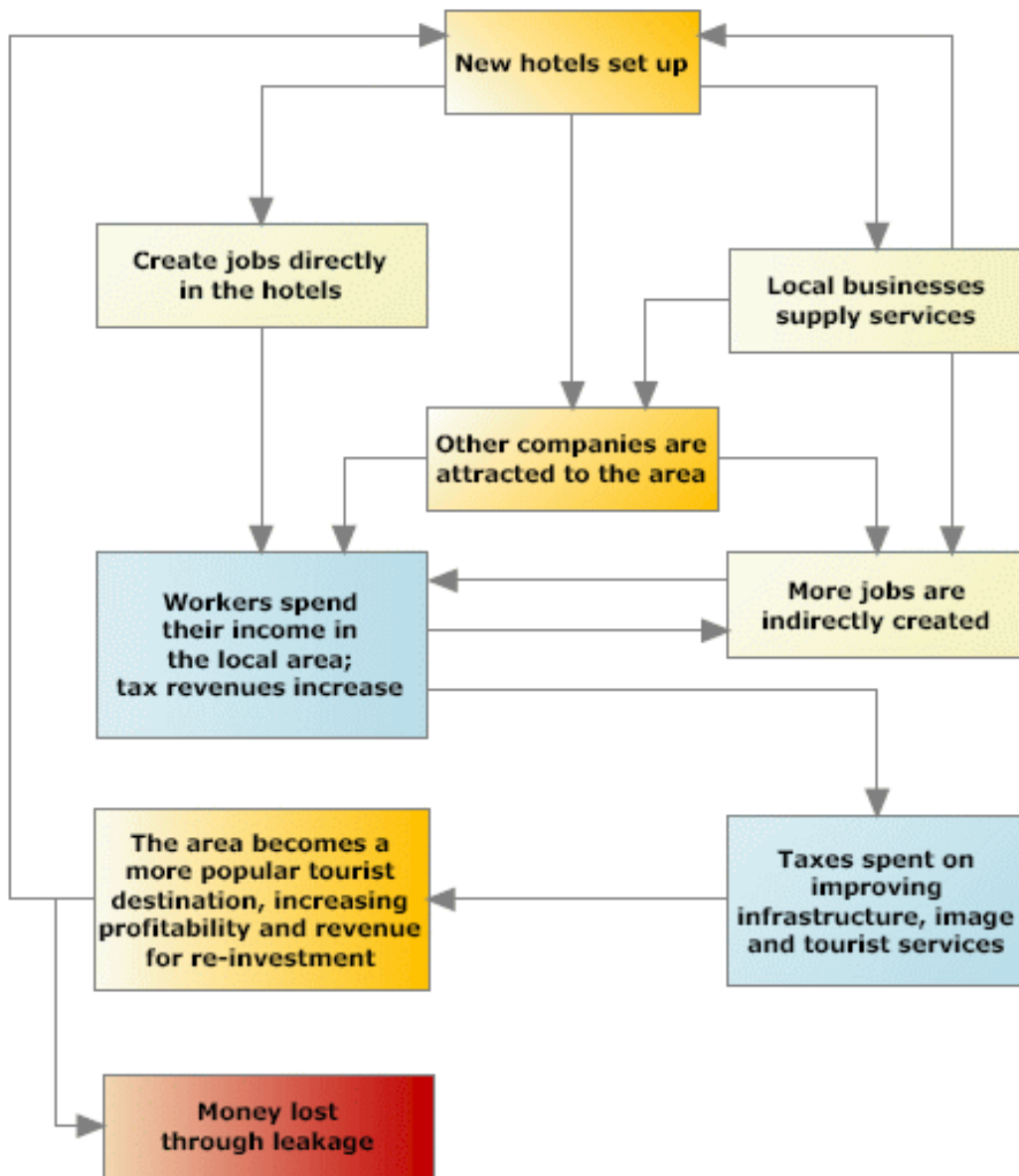
New money spent by tourists is then re-spent by hotels and restaurants in the community for goods and services



The new money has a **knock-on** effect. It is **new money** rather than old money circulating throughout the economy.

As a foreigner here, is my salary an example of the above? Y/N

Here is an example for some hotels (let's say Hilton, Ramada and Sheraton) setting up in a tourist area



Summary of worksheet	Summary of worksheet in Chinese

In your opinion, what is the most important thing to remember?

What are the keywords from this worksheet?

English:	Chinese translation: