



# *Introduction*

- ✦ Tourism is an export item made up of a series of services
- ✦ Unlike other exports, international tourism is produced and consumed within the destination, even though it is sold in the external marketplace
- ✦ Tourism is thus an invisible export
- ✦ For small and comparatively undiversified economies like those of us in the Caribbean, even a modest tourism industry can have a significant impact



# *Looking to Tourism for Economic Growth and Vitality*

- ✦ Development of tourism offers a country a means of increasing economic well-being
- ✦ Economics: The social science that seeks to understand the choices people make in using their scarce resources to meet their wants



# *Looking to Tourism for Economic Growth and Vitality, continued*

- ❖ Concept of comparative advantage
  - ❑ Tourism has comparative advantage over other industries if it yields a better return on the region's human and natural resource inputs
  - ❑ Tourism is likely to have a comparative advantage for a region if:
    - ❑ It has features that are highly attractive to visitors
    - ❑ It is easily accessible to potential tourists
    - ❑ It has necessary infrastructure and abundant labor force
    - ❑ Tourism may have comparative advantage if the region has no other industry alternatives



## Three Major Goals of Tourism

- 1) Maximize the amount of psychological experience for tourists.
- 2) Maximize the profits for firms providing goods and services to tourists.
- 3) Maximize the direct (primary) and indirect (secondary) impacts of tourist expenditures on a community or region.

***These goals are often compatible but in certain situations they can be incompatible.***



# Constraints Faced in Tourism Goal Attainment

- Demand
- Supply of attractive resources
- Technical and environmental constraints
- Time constraints
- Indivisibilities
- Legal constraints
- Self-imposed constraints
- Lack of knowledge
- Limits on supportive resources



## *Tourism in the Caribbean, it can:*

- ❖ Generate jobs
- ❖ Provide hard currency foreign exchange with which to pay for consumer and capital imports
- ❖ Generate taxes and other direct and indirect revenues for government
- ❖ Stimulate activity in the agricultural, industrial, and commercial sectors of the economy that come in contact directly or indirectly with tourism
- ❖ Foster foreign and local investment
- ❖ Encourage entrepreneurial activity



## *Economic costs in the Caribbean*

- ⊕ Increased inflation and land values
- ⊕ Increased pressure on imports
- ⊕ Seasonality of the product
- ⊕ Problems with over-dependence on a product
- ⊕ Unfavourable impact on the balance of payment
- ⊕ Heavy infrastructure costs
- ⊕ The effect on growth of having much of the labour force employed in the service industry with poor productivity prospects



# *Employment*

- ❖ Travel and tourism is the world's largest job creating industry
- ❖ In the Caribbean 2,643,000 in 2006 or 1 every 6.5 jobs (15.4% of total employment), 13,000 in Belize
- ❖ The common denominator: if travel and tourism flourishes, so will jobs; if it does not, they will simply disappear





## *3 Types of Employment*

- ❖ Direct employment from expenditure on tourism facilities like hotels and restaurants
- ❖ Indirect employment in business affected by tourism in a secondary way like local transport, handicrafts, and banks
- ❖ Induced employment arising from spending of money by local residents from their tourism income



# *Looking to Tourism for Economic Growth and Vitality, continued*

- ✦ Tourism and foreign exchange rates
  - ▣ Relative exchange rate of currency is one of the most important factors in determining the level of international tourism to (and from) a country
    - ▣ That's why we go to Chet!



# *Foreign Exchange*

- ❖ Some US\$200m in Belize
- ❖ Our economy depends on foreign exchange and thus foreign exchange earnings is of utmost importance
- ❖ Tourism brings in considerable foreign exchange earnings but as well uses a lot as well



# *Foreign Exchange leakages*

- ❖ Repatriation of profits by foreign firms
- ❖ Commissions to tour operators and travel agents and airlines
- ❖ Fees to foreign corporations for payment of marketing services
- ❖ Salary transfers of expatriate managers and other staff
- ❖ A heavy import bill
- ❖ Interest payment on foreign loans by governments and investors



# *Multiplier Concept*

- ❖ Output multiplier: One of the most common measures of the economic impact of tourism
- ❖ The ratio of new national income to initial tourist spending is the “tourism multiplier”
- ❖ What goes around comes around
  - ❑ Three levels of impact created by tourism purchasing
    - ❑ Direct
    - ❑ Indirect
    - ❑ Induced effects
- ❖ Fresh money circulates and generates successive new rounds of income and spending
- ❖ Tracking the impact of tourism expenditures
  - ❑ Multipliers are indicator of economic independence of a country



# *Economic Multipliers*

## ✚ Direct Effect

- ✚ Result from visitors spending money in tourist enterprises and providing a living for the owners and managers and creating jobs for employees.

## ✚ Indirect Effect

- ✚ This is the **multiplier** impact. This is where visitor spending circulates and recirculates.

## ✚ Employment Multiplier

## ✚ Income Multiplier



# Income Multiplier Formula

$$\text{Multiplier} = \frac{1}{1 - \text{MPC}}$$

where

M = marginal (extra)

P = propensity (inclination)

C = consume (spending) MPC

S = savings (money out of circulation) MPS

**A more simpler formula is Multiplier = 1/MPS**

## Example

\$1,000 of tourist expenditure and an MPC of 1/2.

$$\text{Multiplier} = \frac{1}{1 - .5} \times \$1,000$$

$$= \$2,000$$



## *Other Economic Impacts, continued*

- ❖ Potential problems in tourism-based economies
  - ❑ Area can become overdependent on tourism so that major decline in tourism has devastating effect on entire economy; e.g., islands and hurricanes
  - ❑ Problem of too much of a good thing, attracting too many visitors
- ❖ Tourism in the economic balance
  - ❑ Use of cost/benefit analysis to determine the total economic impact of tourism
  - ❑ Attempts are now made to quantify difficult to value pluses and minuses