

Chapter 4

The Indirect Impact of Tourism

4.1 Introduction

The previous two chapters presented the main direct channels through which tourism impacts upon SIDS and small state economies. We noted significant impacts and gave supporting evidence. This chapter examines the indirect channels. While there is evidence relating to direct channels, there is often a paucity of data concerning indirect channels in SIDS; however, appropriate examples are used here where possible. In terms of reliable and usable data, the WTTC publishes disaggregated data that it has collated into direct, indirect and induced categories. WTTC material is used here where appropriate.

After briefly discussing tourism and growth, this chapter focuses on key economic issues for tourism in SIDS in terms of indirect effects, specifically the issues of linkages (both backward and forward linkages), leakages and why this results in low multiplier values. Induced effects are, almost by definition, the most difficult to substantiate robustly; they are therefore not discussed further in this report.

The chapter concludes with a discussion of inclusive growth strategies and explores ways in which tourism can make a bigger contribution to equitable development.

Tourism is clearly of great significance to SIDS, although the evidence to support this is frequently inconclusive or partial. Specifically, there are limited opportunities to track year-on-year tourism growth given an *overall* lack of robust data across all SIDS. Annual data published by the WTO and WTTC are useful at one level, as it shows the direct and indirect contribution of tourism to national GDP and employment, for example, and visitor volume (expressed in thousands). However, it is difficult to measure value added over significant time periods because at a national level data collection lacks sufficient granularity to understand how tourism spend works its way down through the regional and local economy. This report includes exceptional case studies, including the Caribbean Tourism Organisation, OneCaribbean.org, Jamaica and Maldives, whose detailed data differentiate the socio-economic values of foreign-owned and locally-owned businesses in tourism specific sectors, such as accommodation, F&B and retail (including handicrafts).

Tourism in SIDS and small states can be further influenced by the historical context. For many Caribbean SIDS, the linkages between their colonial past and their present political economy are not dissimilar, with levels of dependence, and thus vulnerability, influencing policy direction for tourism development since the 1970s (Bishop 2010). More recently, the impact of foreign investment and resort enclaves has further limited the opportunity for: (1) traditional economic activity to expand;⁵⁰ (2) innovative and

entrepreneurial activities to develop sustainably; and (3) local people to compete beyond the 'niche market'. Encontre (1999: 261) observes:

In the sphere of 'niche' markets, which involve island-specific products and less global competition, few cases of lasting success have been observed among SIDS, as commercial ventures have often had a short life, or ideas involving niche activities have failed to come to fruition.

It has been suggested '... even when the increase in the terms of trade does not balance the technological gap, the exploitation rate of tourism resources can increase sufficiently to correct the technological gap and to enhance growth' (Lanza and Pigliaru 2000, cited in Seetanah 2011: 294). However, a cautious approach is advised, as over-exploitation and unsustainable use of unique tourism resources can lead to further over-dependence on foreign investments and skills to bridge gaps.⁵¹

The environmental impacts associated with coastal and island tourism are typically associated with habitat loss through land and beach clearance for tourist infrastructure (accommodation, restaurants, bars, attractions and port development), as well as with increased visitor numbers in environmentally sensitive areas such as national terrestrial and marine parks. Erosion, vegetation damage, and loss and disturbance of wildlife are common management issues. One final impact concerns natural resource depletion, specifically fresh water supplies, as well as sewage treatment and waste disposal. These are common issues in many SIDS. To exemplify the final issue of solid waste disposal, Maldives' Thalafushi ('rubbish') island is a well-publicised case. Here the country's capacity to deal with the significant rise in waste generated by the tourism industry seems to have been totally inadequate.

4.2 Tourism and growth

Tourism is a multi-sector economic activity that is not recognised as an 'industry' within the UN SIC system or in official national economic statistics. It is effectively 'a form of final demand' (Benyon et al. 2009: 2128) or composite of sectors, including accommodation, catering, retail, entertainment, transportation and tourist attractions (Jones 2010). This has implications for analysing the economic impacts of tourism within host economies. Tourism expenditure may not only increase incomes in terms of economic contribution, but may also lead to long-term economic growth.

The tourism-led growth hypothesis was first tested empirically by Balaguer and Cantavella-Jorda (2002) for Spain. Their approach of using Granger causality to test the statistical relationship between tourism (arrivals) and subsequent economic growth has been followed by other authors, with some refinements to the methodology. The hypothesis is that earnings from tourism allow countries to purchase capital goods that lead to further growth, and may also lead to economies of scale and improvements in competition and innovation. The growing literature on the tourism-led growth hypothesis confirms the hypothesis in the majority of countries on which it has been tested (Brida and Paulina 2010). There is also considerable evidence that smaller, more tourism-specialised countries grow faster than less tourism-specialised countries (Brau et al. 2007) (Box 4.1).

Box 4.1 The tourism-led growth hypothesis and SIDS

The tourism-led growth hypothesis in SIDS was confirmed in:

- Mauritius (Durberry 2004)
- Barbados (Jackman 2012)
- A panel of South-Pacific SIDS (Narayan et al. 2010)
- A panel of 19 island economies (Seetanah 2011)
- A panel of three Caribbean countries (The Bahamas, Barbados and Jamaica) – tourism is found to cause GDP growth, but only in the short run (Singhet al. 2010).

4.3 Indirect channels

This section will focus on backward and forward linkages, value-added, economic leakages and multipliers.

4.3.1 Backward economic linkages

When considering indirect channels from tourism, it is necessary to examine the area of economic linkages, both backward and forward.

Backward linkages ‘measure the relative importance of each sector as a purchaser to all other sectors in the economy’ (Pratt 2011: 636), whereas forward linkages measure ‘the relative importance of each sector as a supplier to all other sectors in the economy’ (op. cit.: 636–7).

Backward linkages for tourism are relatively well-explored (Fletcher 1989), whereas forward linkages are less so, as tourism expenditure does not really have any significant forward linkages (Cai et al. 2006; Benyon et al. 2009). This is further complicated by the fact that ‘sectors that service tourism demands do themselves have forward linkages’ (Benyon et al. 2009: 2125).

It seems that ‘backward linkages hint at sector embeddedness and the support of employment and output in the sector’s value chain’ (Benyon et al. 2009: 2128). There are backward linkages from tourism to, for example, the local agricultural sector. Given the role of agriculture in some SIDS, it is reasonable to consider whether or not effective backward linkages can be maintained or established with local agriculture. However, the assumption that strong backward linkages can be developed and maintained has been questioned by Momsen (1998), Latimer (1985) and Telfer and Wall (1996, 2000).

Key issues and concerns:

1. Supply (quantities needed, storage, transport and the overall quality of agricultural produce).

2. Problems specific to SIDS, which include:
 - Cost and shortage of land in islands;
 - High cost of production and transport; and
 - Labour issues.

In the Caribbean region, agriculture is particularly affected by local environmental problems: small crowded islands; the lack of physical variety; and vulnerability of crops to drought and high winds. All these issues add to the problems of supplying tourism (Momsen 1998, citing Latimer 1985).

Bryden (1973) and Britton (1991) argue that some problems with developing backward linkages are the result of the way in which international tourism is organised and structured. For example, foreign-owned hotel groups tend to have strong links to overseas food suppliers and this can act as a barrier to local suppliers.⁵² This is also evident in Seychelles.

Despite assertions by policy-makers that backward linkages can be created between agriculture and tourism, ‘... there is little evidence to suggest that the international tourism industry has been successful in developing backward linkages to local agriculture sufficient to stimulate growth in the agrarian sector’ (Momsen 1998: 118). This is compounded by data problems.

Few data exist on backward linkages from tourism to agriculture in SIDS. Where data do exist, they tend to show significantly weak economic linkages (Box 4.2).

The evidence in Box 4.3, as well as that from other research studies on SIDS, suggests that weaknesses in economic linkages between tourism and agriculture and agro-food sectors are the result of a number of factors.

Box 4.2 Backward linkages between the hotel and restaurant sector and the agro-food sector, Jamaica

In 2008, backward linkages between the hotel and restaurant sector and the primary and agro-food sector in Jamaica existed at two levels.

1. Intermediate inputs from agriculture represented:
 - i. 9.2 per cent (primary sector); and
 - ii. 18.2 per cent (agro-food sector) of total tourism output.
2. Secondary linkages from the agriculture sector (as inputs) represented:
 - i. 11.5 per cent of the total output in food processing.

Total food purchases by hotels in Jamaica for 2008: \$J16 billion

Of that figure, local food purchases by hotels: \$J4.8 billion

Source: Segura 2010: 18

Box 4.3 Factors limiting backward linkages to agriculture and possible solutions

The perceived value placed on locally produced food is lower than the perceived value of foreign imports.

An annual national awareness campaign and marketing exercise, e.g. the 'Eat Jamaican' campaign, can reverse this trend over time.

Sectors in decline can be sidelined by policy- and decision-makers.

Cross-sector collaboration (nationally and regionally) can produce mutually beneficial outcomes for short- and long-term growth, e.g. One Caribbean.

Land available for agriculture is often limited and not able to support the local population and tourists.

Support and promote cottage industries that produce high value locally grown and produced food items, e.g. SENPA (Small Enterprise Promotion Agency), Seychelles.

The cost of fertiliser and animal feed inhibits agricultural production by small-scale farming.

Develop complementary low-impact commercial enterprises, e.g. Belmont Estate, Grenada.

These include:

- Weak policy linkages between the sectors,⁵³ as noted in Seychelles;
- Tourism physically displacing agriculture, as in Antigua (Weaver 1988);
- The 'demonstration effect' from tourist behaviour can create an increased demand for the purchase and consumption of imported foods.

Momsen (1998: 120) sounds a cautionary note and argues that tourism and agriculture may be seasonally complementary in relation to local labour, as hotels are often built in dry coastal areas that are unsuitable for agriculture. A stronger policy link between the two sectors could encourage greater collaboration between local agriculture and the tourism industry.

On the demand side, depending on the types of tourism in SIDS, it may prove possible to create demand for some specialist foodstuffs of local provenance. There are some problems that particularly affect SIDS. For example:

1. Islands cannot produce fresh foodstuffs all year round, and questions remain over the reliability of quality and the freshness of supplies to tourism (this is linked to limited cold storage and lack of transport capacity).

2. The proportion of locally produced food consumed by tourism in SIDS appears to depend on the size of accommodation (and its ownership), the type of tourists and local producers' ability to meet the demand.
3. Potential conflict between local agricultural producers and wholesalers/retailers who import, and SIDS governments, who benefit economically from levying import duties (Momsen 1998: 125).
4. The gender and distributional imbalance seen in some SIDS with locally produced foodstuffs is a potential problem for inclusive growth. For example, in the Caribbean region research shows that male farmers with relatively large farms gain more from the specialist food production required for tourism than small-scale female subsistence farmers (Momsen 1998: 132).

Given the trend within Western consumer societies towards seasonal and local foods (Sims 2009), certain tourist segments, such as heritage, eco and upmarket tourism, could be targeted for this development. However, it is unlikely that mass tourism could be sensibly targeted, because it has different demands, for example for familiar international brands.

It is possible that stronger local backward linkages to agriculture can be developed for some crops in the Caribbean. This could be achieved in Jamaica, on the pattern of the 'Eat Jamaican' national campaign launched in 2003 by the Jamaica Agricultural Society (JAS) to raise awareness among Jamaicans of the advantages of eating more locally grown food as part of a healthier lifestyle. However, there needs to be a concerted effort from other government ministries and the tourism industry (particularly the accommodation and F&B sectors) for this to be truly effective. In 2012 the *Jamaica Gleaner*⁵⁴ reported that in spite of efforts to increase demand for domestic food 'the Eat Jamaican campaign has failed to slow Jamaica's burgeoning import bill, which at the current rate is estimated to reach \$1.2 billion'. As a result of economic measures taken to reduce the food import bill, the agriculture sector is likely to experience an upturn in production as demand for local food (from both local people and tourists) increases. This is not so clear for Indian Ocean and Pacific or dispersed archipelagic SIDS. The question requires further specialist research.⁵⁵

Another option is the development of packaged high value food and beverage souvenirs for tourism, such as rum, specialist coffees, brown sugar, spices and pepper sauce (as seen in the Caribbean SIDS). Such businesses are often owned by expatriate entrepreneurs, which suggests that policy linkage is weak (Momsen 1998: 132). 'Despite the unequal distribution of benefits, backward linkages from tourism are expanding. After thirty years of half-hearted attempts to form economic linkages between tourism and agriculture, the closure of their traditional markets for plantation crops has finally forced Caribbean governments and farmers to take the global market visiting their shores seriously and to capitalize on it' (Momsen 1998: 132).

4.3.2 Forward linkages

In theoretical terms, forward linkages exist between tourism and the rest of the local economy; however, Pratt (2011) argues that in practice these are typically very weak

from the tourism component sectors. International tourism is an export activity, so it is natural that the forward linkages are low.

Forward linkages tend to be stronger where there is a diverse economy with significant business tourism (still defined as tourism) or where specific sectors, such as restaurants that cater for local as well as international demand, are developed. These are still low linkages because the sectors related to tourism are generally end or final user sectors (Professor John Fletcher, personal communication, June 2012).

Benyon et al. (2009) suggest that any such development of effective forward linkages is associated with the notion of 'clusters of competencies' (Porter 1990). This is not covered in the present tourism and SIDS literature, but could be worth pursuing.

Box 4.4 Small agricultural production on Mahé, Seychelles

The photograph below shows vegetables grown on flat land adjacent to the beach. Vegetables are sold to local restaurants, guest houses and the local market. Local farmers are given advice and support by the Seychelles Agricultural Agency.



The photograph below shows pineapple farming on steep ground. Pineapples are sold locally. This farm is privately funding development (cold stores and preparation rooms) to enter the export market and the agritourism business.



4.3.3 Economic leakage

Economic leakage within tourism is relatively well-researched and has been defined as the ‘share of direct and indirect tourism activity that accrues overseas’ (Mitchell and Ashley 2010: 80).

Leakages, especially in less developed countries, have been estimated as being as high as 40–50 per cent because of tourism’s reliance on imports; however, leakages have been estimated as being up to 75 per cent in some destinations if external intermediaries such as tour operators and firms which have highly vertically integrated operations play a prominent role (Diaz Benevides 2001).

However there may be problems with this concept. It has been argued, particularly by Mitchell and Ashley (2010), that if leakages are poorly identified and perhaps over- or understated, this can lead to policy-makers misunderstanding the impact of tourism. This can then lead to problems with policy prescriptions that could harm other sectors.⁵⁶

According to Adama Bah (a tourism researcher in Gambia) ‘... much of the debate about “leakage” from tourism destinations is based on the erroneous assumption that somehow the destination country “owns” the whole value chain. Without international tour operators and airline companies, there would be no tourists and no value chain’ (Mitchell and Faal 2007). This raises an interesting point and suggests that further clarification is needed to disaggregate the economic contribution at different stages of the inbound value chain, so the actual economic leakage at the destination can be measured more accurately.

Overall, there is concern in the literature that leakages may be highest in small developing countries and SIDS (Wilkinson 1989; Meyer 2007). Many studies exist, but typically the use different calculations so it is difficult to compare results. For example:

1. Jayawardena and Ramajeessingh (2003) estimate leakage for Caribbean SIDS ranging from 45 per cent (Dominica) to around 90 per cent (The Bahamas).
2. In addition, when tourism is disaggregated, economic leakage may vary between different tourism sectors with air transport (often foreign-owned) having higher leakage than, say, local ground transport or accommodation, if it is small scale or locally owned (Walpole and Goodwin 2000).
3. The types of tourists going to SIDS may have different levels of economic leakage, for example small-scale tourism (involving independent travellers like backpackers, cultural tourists or some types of eco-tourist) may arguably have lower levels of leakage than mass tourism as a result of lower import components and locally retained profits (Diaz Benevides 2001; ECLAC 2005).

Very little is known at present about leakages from these sub-sectors and types of tourist, and more research is needed specifically on this issue. Reasonable estimates could be generated to assist policy-makers, using detailed survey work on expenditure patterns based on research on SIDS in different world regions.

4.3.4 Multipliers

Economic multipliers associated with tourism activity have been developed from Keynesian analysis. These multipliers tend to be associated with a variety of economic variables, including sales (transactions), output, income and employment multipliers.

The type of multiplier that is most significant depends on the objectives associated with tourism development; in much of the literature income multipliers seem to receive most attention. Textbooks typically state that income multipliers are highly significant measures of impact, as tourists' expenditure circulates and recirculates through the local economy (Meyer 2007).

As already noted, tourist spending within a host economy has been conventionally linked to three distinct impact levels: direct, indirect and induced. Therefore the income multiplier attempts to measure the change in local income in the destination (at the direct, direct plus indirect or the direct, plus indirect plus induced levels of impact), resulting from a given change in tourist expenditure. In islands and small economies, it is reasonable to expect that income multipliers will be lower than for large economies, since by definition SIDS tend to be small, open economies.

Estimates of income multipliers depend on whether they are direct and indirect, and whether they are direct, indirect and induced, the latter having larger values than the former.

Multiplier values also depend on the type of models that are used to construct them, with ad hoc multiplier models generating lower income multiplier values for the same economies as input–output (I–O) models (by a margin of around 30 per cent); however, CGE⁵⁷ models tend to generate lower values than I–O models because they take into account changes in prices and allow factor substitution. This makes it very difficult, and quite suspect, to compare multiplier values for different economies unless it is known that they have been generated using the same method of analysis and refer to the same levels of impact.

The literature shows income multipliers ranging from below 1.0 to 2.0. Karagiannis (2004, cited by Meyer 2007) discusses multipliers for seven Caribbean destinations and notes a range of multipliers from 0.39 (the lowest) to 2.0 (the highest, for Trinidad and Tobago). Some islands have an income multiplier of over 1.0: for example, the multiplier for Bermuda was 1.17 at the direct, indirect and induced level of impact. Corresponding figures were 1.27 for Jamaica; 1.56 for St Lucia; 1.59 for Dominica; 1.79 for St Vincent and the Grenadines; and 2.0 for Trinidad and Tobago (Archer and Fletcher 1990: 54).⁵⁸

Another problem with applying multiplier analysis is the different types of tourism experienced in SIDS. For example, cruise ship day visitor spending is typically lower per person in absolute terms than stay-over tourism (Dowling 2006) and the pattern of spending, and hence the income multipliers associated with the different types of tourists, differs. However, often this granularity of data level collection may not exist in many SIDS with small government statistics departments and human resource constraints.

To further use multipliers to inform policy, multiplier values need to be calculated at sector level and then aggregated to reflect tourist spending patterns. Existing applied studies on island tourism economies distinguish between the different activities involved in tourism, for example between accommodation and catering or transport, as well as making distinctions within these sectors, for example distinguishing different types of accommodation. Typically, small accommodation units tend to have a greater propensity to purchase locally whereas the larger hotels – because of chain purchasing policies or the volume of goods bought – tend to purchase outside the local economy. Therefore it is likely that small guest houses in SIDS will have a higher income multiplier than four or five star hotels, as there will be less of an import component in the circulation of the expenditure within the SIDS economy.

The next section explores the inclusive growth framework as an alternative approach to increasing the economic benefits for the local destination and reducing economic leakage.

4.4 Inclusive growth

Linking inclusive growth explicitly to tourism is a relatively new development that shares certain principles with the more established pro-poor tourism approach. Inclusive growth is not yet an established alternative, as the principles and framework for implementing a new model for growth remain at an abstract level of discussion, rather than being a policy recommendation. Few publications refer explicitly to SIDS, but inclusive growth as a concept is increasingly discussed by academics, international agencies and policy-makers. Box 4.5 illustrates the main principles of inclusive growth and the enabling factors that can contribute to inclusive growth strategies.

It is evident that inclusive growth is concerned with economic growth, but it is equally clear that this is not the only mechanism driving the inclusive growth strategy. The concept differs from sustainable development in that the latter is typically viewed as the three pillars of environment, economy and society (WCED 1987); however, inclusive growth typically focuses on the economic and social aspects. At a country level, inclusive growth may work in parallel with sustainable development, where sustainable development is the overarching framework and inclusive growth sits within this.⁵⁹

Inclusive growth concepts show that definitions follow one of three routes: process, outcome, or process and outcome (Klasen 2010).

1. *Process*: Growth as a catalyst to employment that is productive (World Bank 2009), equal, well-distributed and accessible (Ali and Zhuang 2007).
2. *Outcome*: Inequality declines (Rauniyar and Kanbur 2009) and non-income production increases with growth (Ali and Son 2007).
3. *Process and outcome*: Includes participation in growth and benefit-sharing from growth (IPC-IG 2012).

The proposed inclusive growth concepts, whether process or outcome led, consider income and non-income dimensions as equally important, and income growth as a

Box 4.5 Principles of inclusive growth

Inclusive growth:

- Is broad-based across different sectors of the economy
- Includes low- and middle-income groups within the workforce;
- Promotes a productive workforce; (World Bank 2009: 1)
- Promotes equal opportunities with economic growth (Ali 2007); and
- Reduces inequality as economic growth continues (Rauniyar and Kanbur 2009).

A number of enabling factors contribute to inclusive growth by reducing inequality, including:

- Improvements in the communication and transport infrastructure to catalyse a local business and investment climate (Ali and Yao 2004);
- Improved rural infrastructure and agricultural technologies that give greater access to tourism and other markets and increase local production (Fernando 2008; Rauniyar and Kanbur 2009);
- Support for rural economic development by removing institutional and infrastructure constraints (Bolt 2004; Fernando 2008) and, more broadly, social inclusion in the policy process (Ali and Son 2007); and
- Support for social and health protection and security measures to reduce inequalities in social development (Ali and Son 2007; Tandon and Zhuang 2007; Fernando 2008).

necessity. Furthermore, the concepts acknowledge similarities with pro-poor growth strategies and at the same time offer a summary of differences. Those differences are presented in Box 4.6 for comparison (Rauniyar and Kanbur 2009; 2010).

Box 4.6 Inclusive growth and pro-poor growth

Inclusive growth

Creates employment and economic opportunities
 Targets low- and middle-income groups
 Increases opportunities
 Creates greater equality
 Growth reduces inequality
 Improves the average achievement critical threshold

Pro-poor growth

– Redistributes direct incomes
 – Targets low-income groups
 – Increases welfare
 – Improves equality
 – Growth alleviates poverty
 – Improves average and below average achievement

Box 4.7 Inclusive growth strategies: quality infrastructure

In 2011, Seychelles hosted the 8th Indian Ocean Islands Games. The games village, in Ile Perseverance, was designed and built to accommodate international athletes for the duration of the games with new housing, a desalination plant, kitchen facilities and a cultural performance area.

Hosting the games served several purposes for Seychelles, apart from raising its profile through extended regional media coverage:

- It catalysed a long-term solution to the potential urban sprawl on the main island, Mahé. Ile Perseverance is a reclaimed island.
- In doing so, protected areas and forested areas can remain intact. 48 per cent of Mahé is either forested (38%) or a designated protected area (10%). The natural unspoilt landscape is a unique feature of Seychelles.



- The infrastructure (housing, roads, etc.) developed to host the sports teams is now affordable and modern housing for Seychellois. Further housing developments were evident in Ile Perseverance in May 2012.



- Sports infrastructure (stadiums, a swimming pool, etc.) that were upgraded for the Games continue to be used regularly for national and regional sports events and are in daily use by schools and the general public.

Developing non-tourist infrastructure that improves the livelihoods of local communities is part of a long-term inclusive growth strategy.

A crucial parallel can be drawn between inclusive growth and pro-poor growth that indicates that inclusive growth and pro-poor growth could be construed as sharing the same ideology. Pro-poor growth is measured in either absolute or relative terms, and it is the former which bears most resemblance to inclusive growth, as it includes all low-income groups as beneficiaries in relation to overall economic growth. The distribution of beneficiaries is prioritised to achieve a greater distribution of equality (or reduced inequality). It is relative pro-poor growth that is frequently compared with inclusive growth to highlight the disparities between them (Saad-Filbo 2010).

4.5 Summary

This chapter has examined the economic impacts of tourism as initially discussed in Chapter 1. Chapter 1 focused on direct channels (where most of the evidence can be found), whereas this chapter mainly examines indirect channels, with a short explanatory note about induced channels. Nevertheless, it has been shown that in most host economies, and especially in less developed countries, questions of how to maximise economic linkages to other sectors and how to minimise economic leakage are of pressing concern. For tourism-dependent SIDS, these are compounded by their characteristics of smallness (often combined with remoteness) and economic vulnerability, especially to exogenous shock, and by being highly open economies (Briguglio 1995; Armstrong and Read 1998; Santos-Paulino 2010). The challenge in relation to inclusive growth is how to refocus tourism in SIDS so that it operates more equitably and sustainably for the demonstrable benefit of local communities.