If all its impacts are not integrated and regulated, tourism may carry risks, particularly for least developed countries. Although “internal”, “external” or “invisible” foreign exchange leakages can weaken the economic and financial input that the tourism business provides, the latter can itself cause economic nuisances (strong dependence, competition with other business sectors), social nuisances (destruction of cultural habits) and environmental nuisances (deterioration of sites).

Due to its specificities, the tourism business – when it is well-planned, well-managed and developed in the right manner – may be seen as having a relative superiority over other economic activities in terms of economic, social and environmental development. Tourism is a major source of employment and provides the opportunity to develop the assets that populations de facto possess, even though the latter may be disadvantaged (“natural” and environmental capital and “cultural” capital). It can act as a substitute for international markets (difficult to access), help the economy diversify and create new activities. Finally, it is a truly “imported external demand” and has a considerable and beneficial knock-on effect on infrastructure.

Yet these beneficial effects are first and foremost potential effects: tourism may, of course, generate costs and nuisances from an economic, social or environmental perspective. The expected benefits may particularly be challenged by a whole host of clearly identified risks, which may jeopardize the tourism business – or even an entire vulnerable economy.

“Internal”, “external” and “invisible” leakages

The existence of internal and external leakages sap the economic and financial viability of the tourism industry in least developed countries by eroding attractive resources, weakening its investment capacities (in physical and human capital) and depreciating the fiscal base of the State – and consequently its investments in infrastructure in this business. The leakages are often sizeable in these countries, which directly compromises the economically sustainable nature of long-term tourism. These leakages may be “internal”, “external” or “invisible”.

Leakages of internal origin refer – from the perspective of the host country – to the visible loss of currency or revenue from its accounts due to the tourism business. Imports of goods and services required for the tourism business partly explain these leakages. According to the World Bank (2000), roughly 55% of income from the tourism business received by developing countries is transferred abroad. The promotion, marketing and sale of holidays often lead to services being imported. Moreover, foreign operators working in the tourism business repatriate all or part of the profits they make on their assets to their countries of origin – the share of local investment is often low. In Costa Rica, it is estimated that 65% of the hotel portfolio is foreign-owned (Stabler et al., 2009). Finally, it is a common practice for tourism to use foreign workers – a foreign exchange leakage once again occurs when workers transfer part of their salaries to their countries of origin. Leakages of internal origin consequently clearly reduce currency inputs from tourism, as the increase in domestic
Revenue generated by tourist spending is stemmed by the import of goods, services and labor.

Leakages of external origin, for their part, refer to potential losses of currency or revenue that occur outside the economic space of the host country. They are a serious external drain on the value created by tourism - benefitting a country other than the host country - and this shortfall cannot be counted in the balance of payments and is not given in the national accounts. For example, least developed countries have practically no control over the way their tourism products are marketed in the countries the tourists come from, or over the international transport of visitors. According to Sinclair (1991), Kenya's economy only collects 38% of the money spent by a British tourist when he travels with a foreign airline company. This share rises to 66% if, in addition to his beach holiday, this tourist decides to go on a safari in the country using Kenyan Airways, and to 80% if he also uses a national company for his international flight (Sinclair, 1991). However, the actual scale of external leakages is not easy to assess; they do, nevertheless, appear to be sufficiently high to have a negative impact on the profitability of certain tourism projects or block their implementation. Local operators have to face tough competition: they consequently see their margins dwindle and their viability jeopardized. This weakens their investment capacity. There can be real consequences on the environment: as the State often does not have the financial resources to treat waste and wastewater, the companies may themselves be required to handle it. When they are faced with financial difficulties, it is the investments that they sacrifice.

Finally, the so-called “invisible” leakages are the losses of currency or revenue that occur within the very economic space of the host country, but they are not counted as costs for the tourism sector. They may be the most difficult to assess, but they are nonetheless very real. These costs can, for example, be linked to damage caused to the environment or natural and cultural sites used by tourism, illicit capital flights abroad, deterioration and congestion in public infrastructure, etc. All these factors have an impact - in the short or long term - on the viability of the tourism industry.

Dependence, inter-sectoral competition and other risks

Beyond the phenomenon of leakages, tourism can, despite itself, jeopardize the economy, the environment and the social balance of a fragile country: it can contribute to the decline of other sectors (agriculture, for example), increase economic instability, dismantle the structure of traditional societies, intensify pressure on the environment, impoverish vulnerable populations.

Certain developing countries’ heavy dependence on the tourism sectors can carry risks. Among them - and despite performances that have been constantly improving since the 1990s and extremely promising prospects - least developed countries remain in a marginal position in international tourism flows (Table 1).

Yet the economic importance of tourism is considerable in these countries: taken as a whole, tourism revenue constitutes their largest source of currency (Table 2). According to the World Tourism Organization (WTO) and UNCTAD (2001), it represents almost 17% of all non-oil exports, well ahead of cotton and textiles. Tourism ranks as one of the three largest exports in over a third of these countries. One can observe, moreover, that the contribution tourism makes to a country’s economy is particularly high in the small insular economies.

This dependence on tourism in least developed countries may make them more vulnerable, as the tourism sector is reputed to be unstable, particularly sensitive to economic fluctuations in the tourists’ countries of departure and to international political events. However, these arguments must be put into perspective: forecasts (particularly those of WTO) show that host countries enjoy a solvent and constantly growing tourism market and there is no evidence to prove that tourism export revenue is more unstable than that, for example, of (highly speculative) agricultural or mining products. Tourism also gives a country an invaluable means of diversification that can allow it to mitigate the instability and general volatility of export revenues.
However, the very real risks relating to the competition between the tourism sector and other sectors of the economy must be recognized. This “inter-sectoral” competition concerns key factors of production. By developing, tourism becomes more profitable, has increased needs for labor, land, capital. This additional demand creates tensions on markets for factors of production and causes a sometimes substantial increase in their costs: sharp rise in prices and rents, which may lead to an inflationary process, conflicts of use between local populations and tourists, privatizations of community land (cases observed in Burma, Egypt, Mexico, Morocco and the Philippines). Tourism can also lead to a decline in thriving activities (Nowak and Sahli, 2007).

Finally, there are social and environmental risks associated with tourism. Due to the necessarily asymmetric relations, tourism can create tensions between tourists and populations, can greatly change behavior and local cultural values. The structure of communities may dismantled and this can lead to the disappearance of their cultural wealth (one of their assets). The latter could have been developed in the framework of responsible and sustainable tourism. Asymmetries can also appear on the labor market, where abuses have an impact on its different dimensions (salaries, working conditions, absurd hierarchical behavior, etc.). This situation has, unfortunately, been observed on a number of occasions (International Labour Organization (ILO), 2001). Finally, the deterioration of natural environments and the increase in pollution that can result from a badly designed and managed tourist activity are not the least of the dangers – population concentration sometimes leads to a given site exceeding its reception capacity. This causes environmental deterioration that jeopardizes its very survival (the examples are unfortunately legion: destruction of coral reefs, coasts that become a sprawl of concrete, water pollution, etc).

The need for sustainable tourism

All these risks highlight the need for tourism to be designed and planned to be sustainable. In order to benefit from the potential benefits offered by this activity, all the risks it may carry must be taken into account. Tourism development can - and must - take place in compliance with the norms of sustainable development, which foster benefits by reducing risks. The resulting development strategy is based on building a balance between economic, social and environmental objectives and necessarily requires the active participation of all stakeholders: private and public, individuals and communities, national and foreign. Its cornerstone must be the need for equity, both intergenerational (preservation of natural and cultural heritage for future generations) and intragenerational (equitable distribution of benefits within each generation, consequently with a greater involvement of disadvantaged groups). With these conditions, the tourism business can provide sustainable benefits for both those working in the sector and the host countries – including the least developed of them.

Footnotes

¹ This paper is based on research conducted for the United Nations Conference on Trade and Development (UNCTAD) “Train For Trade” program. The content of this article is the responsibility of its authors, and does not necessarily reflect the position of UNCTAD.

² In essence, tourism creates a foreign demand for local or national goods and services. But unlike traditional trade, where industrial and agricultural goods are physically transported from the production site to the foreign consumers via exports, in this case, on the contrary, it is the foreign consumers that travel to the production site.
