

Is tourism helping to alleviate poverty in the poor southern hemisphere countries? 1

By **Daniel Peak 1**

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Key words 1

Tourism, Poverty, Poverty Alleviation, Developing Country, Southern Countries, Pro Poor tourism. LDCs, Sustainability, World Bank, World Tourism Organisation.

Abstract 1

Data collected for this paper shows that the majority of international tourism activity is conducted in the Northern hemisphere. Further investigation also indicates that tourism is similar to any other global industry. It takes place in the regions of international airline routes and shipping ports as well as other “hubs” which are rich in technology and human resources. Tourism has often been referred to as a North /South industry, in that it is predominantly the rich Northern hemisphere tourists visiting the poor Southern countries in an unequal exchange. This paper explores the current tourist destination trends and uses airline linkages and distribution systems as focal points to enquire if tourism can be an appropriate tool in alleviating poverty.

Introduction 1

Tourism has undoubtedly grown steadily since the end of the Second World War, and it continues to grow despite challenges such as war, SARS, and terrorism. Tourism is no longer just for the elite as it was in the early 1900s. Most of the social classes in the Western world now can participate in tourism whether it is an overnight trip to the next city or a cheap package vacation to Mexico.

Tourism is beneficial for an economy in many ways. International tourist arrivals create a flow of foreign currency into an economy and therefore (indirectly and directly) contribute to business development, household incomes and employment. There are also other hidden benefits from tourism known as the “multiplier effects”. The multiplier effect is also often referred to as the “indirect gross domestic product”. This category includes goods and services such as catering companies, laundry services, accounting and other indirect services a tourist may use. These goods and services are often hard to quantify as tourists as well as locals are using these services. A gas station is good example, as it is hard to know what percentage of tourists and locals are buying fuel and other impulse purchases. The influx of foreign income and the multiplier effect are very helpful for a developing country but unfortunately as with any industry, tourism has some economic and social disadvantages.

Financial leakages in tourism occur when revenue from tourism-related activities in destination countries are not available for (re-)investment or consumption of goods and services in the same countries. In short; financial resources "leak away" from the destination country to another country, especially when the tourism company is based abroad. It can also happen when tourism-related goods & services are being imported to the destination country¹. Prepaid and all inclusive package vacations which are usually purchased before departure are the most common form of leakage in tourism. Furthermore most enclave resorts use the local infrastructure (roads and airports) and local resources (water and energy) but do not return the favour by contributing to the local economy. The cruise industry and transnational companies (TNC) such as club Med have often been associated with economic leakage. However some of these organisations are now changing their policies by getting more involved in the local economy. Resorts such as Sandals have led the way by purchasing food from local farmers rather than buying food

¹ Sustainable Travel & Tourism. Minu Hemmati & Nina Koehler, pp25-29, 2000

off shore and importing it. Nonetheless, some academics estimate that more than 60% of the money coming into some developing countries such as Fiji leaks back out of the country². Some governments and policy makers in the Caribbean and Pacific Islands view tourism as a new form of colonialism. It is often motioned as an “extraction” industry no different than bananas or coffee from the slavery days of the 1800s³. In contrast , Lelei LeLaulu a speaker at the Davos meeting on Climate Change and Tourism and president of Counterpart International claims that “Tourism is the most potent anti-poverty tool ever, it is the largest voluntary transfer of resources from the rich to the poor in history”⁴.

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Methodology 1

This document primarily uses secondary data from the World Tourism Organization (WTO) and the World Bank. Pivot tables and charts are used to analyze the WTO and World Bank information to find out which low income countries are the current emerging tourist destinations. The countries in this study are categorized as having annual increases of at least 100,000 arrivals per year. The low income countries were classified using gross national income (GNI) per capita¹, and were calculated using the World Bank Atlas method.

Other organizations such as Airport Council International, United Nations Educational, Scientific and Cultural Organization (UNESCO), Overseas Development Institute, International Monetary Fund and were also considered while attempting to answer the question "does tourism actually benefit the poor countries in the Southern hemisphere". Marketing and economic development texts and current tourism research from academically peer reviewed journals are also referred to in this paper.

² WWF Report

³ Tourism in the Pacific, Hall and Page

⁴ Lelei LeLaulu Davos meeting on Climate Change and Tourism in October 2007

Discussion 1

This paper will use the term less developed countries (LDC) which are mainly characterized by low levels of living, high rates of population growth, low income per capita and dependence on developed countries. Many countries in Asia, Africa the Middle East, Latin America, Eastern Europe and the former Soviet Union fall into this category. 'Low income' countries are another expression which will be used often in this document. These countries are categorized by having a per capita income of \$905 or less per year.

Tourism has been often been referred to as a North /South industry, in that it is the predominantly rich Northern hemisphere tourists benefitting by using the poor Southern countries as playgrounds. It has been said that it is an industry that focuses on an unequal exchange between the North and the South, an industry in which the South stands to gain less with trade from the North. Examples of this unequal exchange in tourism are obvious: the transnational companies (TNCs) operating in LDCs and the accompanying revenue leakage factors. Aramberri argues that tourists from the North actually do not consume the South's tourism product in a way that results in an unequal exchange because the tourism industry is not largely prevalent in most Southern economies. The exception to this would be islands in the Caribbean and Pacific which are predominately tourism focused. Furthermore Aramberri suggests that international tourism satellite data shows that (overall) tourism does not follow the so called North- South pattern⁵.

Williams points out, 'tourism and travel related services are still strongly dominated by Northern countries'. Core tools of tourism such as air travel, hotel, internet and e-commerce are concentrated in the North and advances in these fields tend to allow a greater consolidation of their stronghold as opposed to any diffusion in favour of developing countries. Generally, in terms of controlling access to tourist expenditures, developing countries have weak bargaining position⁶.

⁵ Tourism Development: Issues for A Vulnerable Industry : Julio Aramberri, Richard Butler

⁶ Hall, Michael Pro-Poor Tourism: Who Benefits? Perspectives on Tourism and Poverty Reduction

The below pie chart (Figure 1) demonstrates that most of the tourism market share throughout the world is in the wealthy Northern hemisphere countries. Tourism does benefit the North more than the South simply because there is far more tourism activity in the North; major tourism players such as France, Spain, US, China ,Italy and the UK take up to two thirds of the tourism market share.

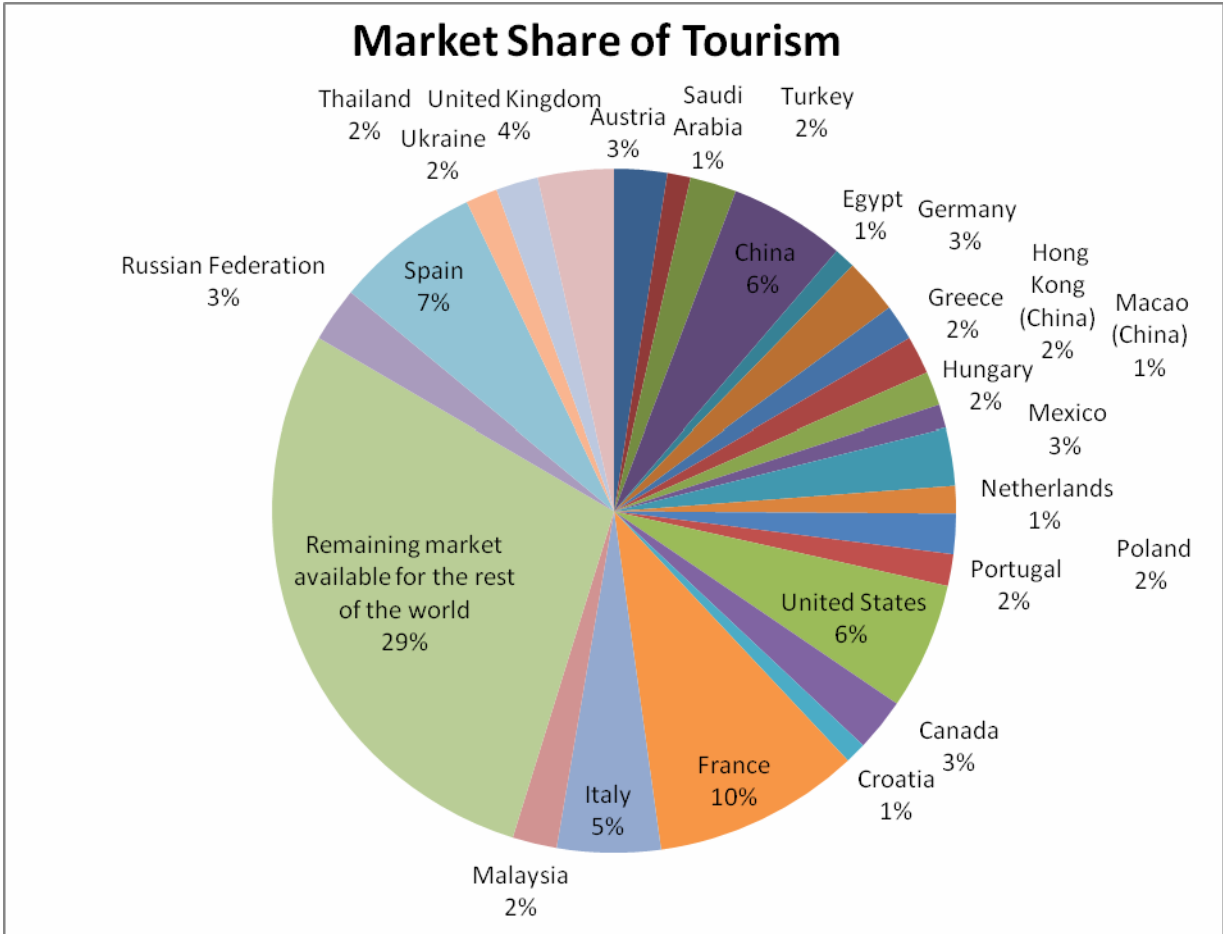


Figure 1 World Market Share of Tourism: Data Source WTO

It is no surprise that the great majority (74.6%) of air traffic flows (1.4 billion passengers) occurs within three regions, North America (35.5%), Europe (23.2%) and Asia (15.9%). Air traffic thus dominantly takes place on east-west axis over the Northern Hemisphere. Unfortunately, without the development of adequate “Aerial highways” that would serve the South, “the poorer countries of the world would continue to be stagnant backwaters of the thriving global economy and its people sentenced to abject poverty”⁷



Figure 2: Major air traffic flows of the world. Source: Airport Council International

⁷ Lelei LeLaulu “Aerial Highway”: Critical for poor countries

Fortunately (although not often enough) organisations such as the World Bank or IMF do decide to invest in low income countries to entice flight linkages with the three major continents. However, a developing country must be seen as a ‘safe investment’ in order for the airlines to start a regular flight service. For example developing countries supporting infrastructure and political stability are major influences on whether an airline decides to start a regular flight service. The international airline industry has a long history of low profits and bankruptcy, mainly because of strong competition within the industry (charter flights), and developmental and fuel costs. Singapore airlines have been the only international carrier to consistently report a profit⁸.

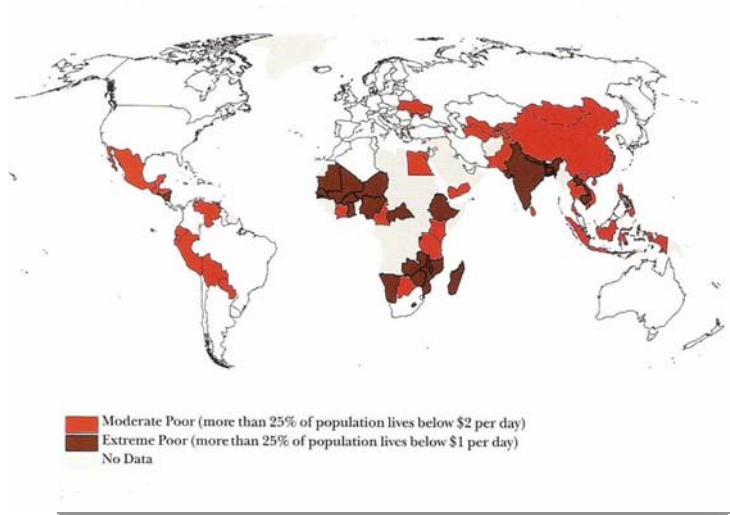


Figure 3 : Moderate and Extreme Poverty Areas of the World. Source: World Bank 2004

Figure 3 (above) clearly shows that moderate and extreme poverty is far from any of the world’s airline and commerce “hubs”. In disparity, Figure 4 illustrate that tourism operates essentially in the vicinity of the “airline highway” along the East West axis and also not far from areas that are ecologically fragile.

⁸ Air Transport World

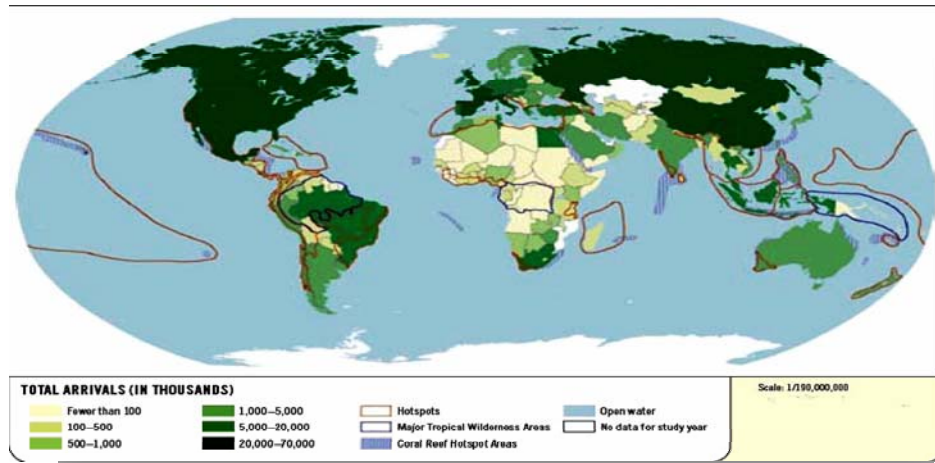


Figure 4: Tourism Arrivals and Ecological Hot Spots: Source UNESCO

Fortunately tourism (depending on one’s perspective) is flourishing in some of the world’s poorer areas at a rate above the world tourism arrival average of 5% to 10%. WTO data indicates that these countries are having an annual increase of at least 100,000 arrivals per year. For example, in Africa the emerging tourist destinations include Angola, Uganda, and Cape Verde which are growing at annual rates of 40%, 20% and 13% respectively. In South America, El Salvador, Cuba and Peru have annual arrival increases of 17%, 11%, 10% respectively. The up- and coming countries in Europe include Armenia, Azerbaijan and Kyrgyzstan and the rising destinations in the Middle East are Yemen, Oman and Syrian Arab Republic.

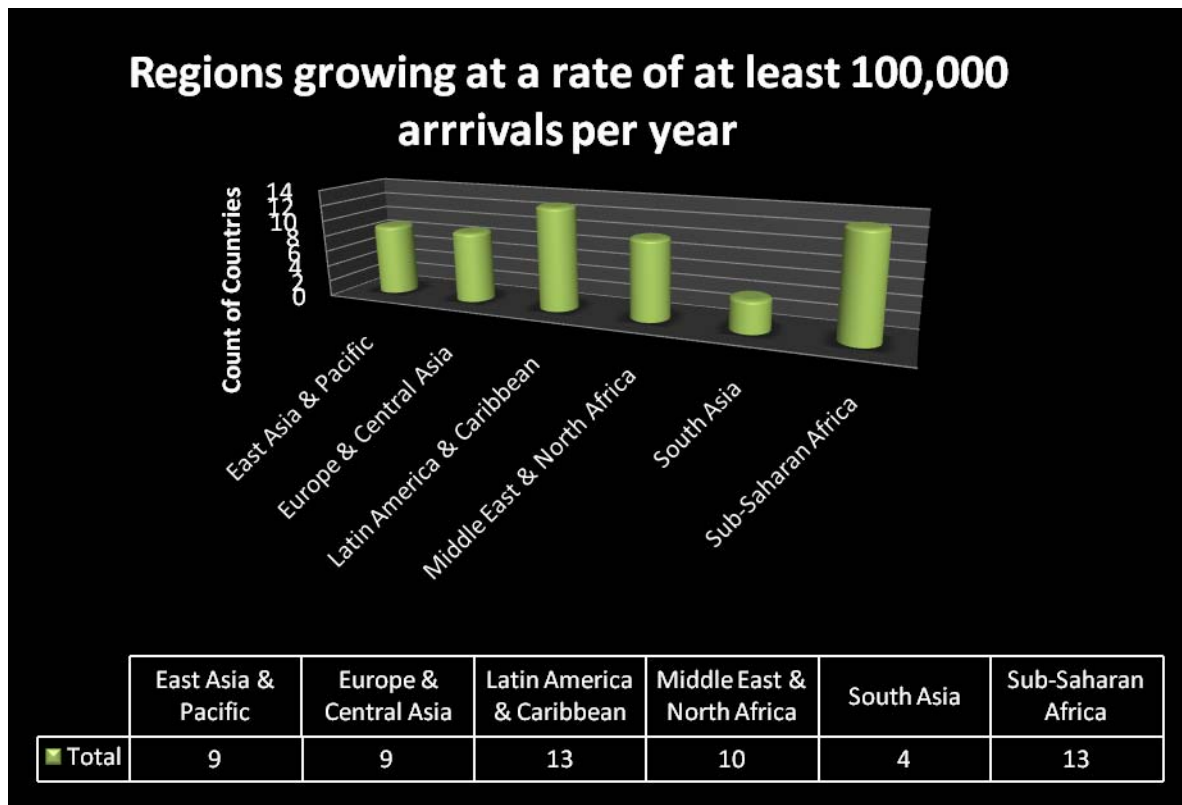


Figure 5: Regions where tourism arrivals are growing the fastest. Data Source: WTO and World Bank

Using data from the WTO and the World Bank, figure 5 shows that tourism arrivals are increasing in the regions where the foreign income is indeed needed the most, namely: Sub-Saharan Africa, Middle East / North Africa and Latin America. The Caribbean countries include Costa Rica, Cuba and Dominican Republic and not the already “tourist saturated” destinations such as Bahamas and Grand Caymans.

The emerging regions (below, figure 6) uses income groups according to 2006 gross national income (GNI) per capita, and was calculated using the World Bank Atlas method. The income groups used in this analysis are:

- Low income, \$905 or less
- Lower middle income, \$906–3,595
- Upper middle income, \$3,596–11,115
- High income, \$11,116 or more.

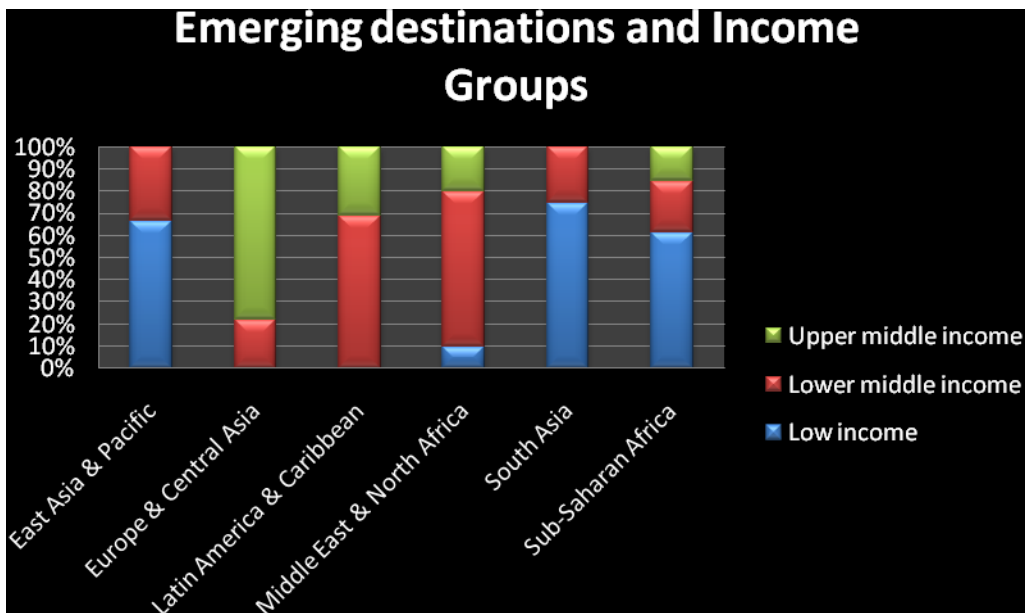


Figure 6 : Emerging destinations and Income Groups: Data source WTO and World Bank

Emerging tourism to low income countries is more prevalent in South Asia, Sub – Saharan Africa and East Asia and Pacific. The data demonstrates that tourists are starting to travel to the worlds heavily indebted countries such as Bolivia, Ethiopia, Ghana, Honduras, Madagascar, Malawi, Nicaragua, Tanzania, Uganda and Zambia. Seven out of these ten countries are considered low income. However there are a total of 40 countries in this category, and 34 of these countries are also considered low income.

As shown the allocentricⁱⁱ type of tourists are always looking for “new products” to consume, however these trend setters usually only constitute a small demographic within a population. This niche is highly desirable for a low income country as this demographic is usually older (over 30), have more disposable income, educated, and are aware of social, economic and environmental issues related to globalisation. Albeit, it may be argued that that this market alone is not enough to make a big difference in a developing country. For example in the ‘discovery’ stage of the destination life cycle travellers to LDCs spend a large proportion of their tourism dollar on the airline ticket getting to the destination. This is because the many larger airlines do not find it profitable enough to fly to these countries. Also accommodation often cannot be arranged before departure due to inadequate technology and

infrastructure in the developing country. Therefore accommodation is usually supplied by a TNC. After these expenses many travellers have less tourism dollars to spend in the local economy.

To remain competitive and enter the global market the LDC must inevitably use the service of a foreign intermediately; this means that they often lose control on how the country markets and distributes its tourism product. According to Morgan the tour operators' ability to deliver affordable prices depends on achieving economies of scale for charter flights and large resort hotels. These packages are made possible by negotiating low rates from hoteliers which in turn are made possible by low wage levels.⁹

When a LDC starts to lose control of its distribution channel, the country may have already started to lean toward low end / mass market tourism with low profit margins. Figure 7 is an overview on the type of tourism and the impacts on local economies.

Type of market/ scale/ stage	Impact on local Economy	Type of tourist
Luxury private destination	Small, some special jobs, property security but few services.	High end wealthy, celebrities, royals, etc.
High-end resort/ Exclusive	Large, many specialized jobs, and services. Leakage is common.	High end wealthy, "jet-set"
Mass Market resort/ Fatigued stage	Very large, most local jobs are related to tourism and has a peak season demand.	Euro-US-Japan and upper middle classes.
Low-end Familiar stage	Very large, low paid, summer and Fall, domestic travelers	Middle class, domestic working class in rich countries
Established Adventure-travel. Emerging destination.	Small, specialized, guides and small hotels and seasonal	Wealthy youth, sports, surfers, skiers, etc.
Eco Tourism/ Discovery stage	Very small, seasonal, locality dependent	Adventurers, youth, academics, etc.

Figure 7: Types of tourism in developing countries and the impact on local economy

Most tourism professionals agree that adventure /eco type of tourism would be most beneficial for alleviating poverty in developing countries because they produce higher spending per visitor, and are geared toward the rural areas. Rural areas in low income countries are often considered the poorest of the poor. This leaves poor countries with the familiar long-standing predicament of not having adequate infrastructure, and distribution systems to make the rural areas accessible for tourists and therefore miss out on much needed revenue.

⁹ Global Tourism, William Theobald, Elsevier 2005, Pg 348

As stated earlier, tourism related TNCs are owned and controlled from the in the high income countries. TNCs operating in LDCs often yield a large amount of economic and political power, hence; they frequently end up dictating their terms of business to the LDCs. This equates to more inequities between the North and South, however this is a negative side of globalization and not exclusive to the tourism industry. One of the most well know examples of TNCs power in tourism is when Royal Caribbean Cruise Lines was convicted on many counts for deliberately polluting the waters off the Alaskan coast. However, soon after the judgement the town of Haines, Alaska was dropped from the Royal Caribbean cruise itinerary. Locals saw this as a type of “economic punishment” for brining the pollution complaint to the courts and public attention¹⁰.

Tourism in LDCs also contributes to the informal sector in the form of “tourism services” such as taxis and personal guides and “street vendors” such as food and beverage and souvenirs. A study in the Gambia by the Overseas Development Institute found that 33% of discretionary spending was in the informal sector. Although a large source of urban employment, these small, mostly family owned businesses do not compensate as well as other sectors as they do not have access to capital in order to “grow” the business. For example: a souvenir street vendor in a LDC would probably not have the capital (or lending capabilities) to hold enough inventory to satisfy demand during the busy season, therefore the small enterprise would constantly run out of stock and therefore business would never have a chance to grow. Also, the owner may not make enough profit to pay another person to stay open late at night for the tourists. Therefore, it is often accepted that sons or daughters are to help out at a young age, which in turn makes going to school more difficult. Finally many participants in the informal sector are unregistered business which do not pay taxes (or cannot afford to pay taxes) hence they are not contributing money for infrastructure and long term development of the country.

¹⁰ Tourism and Sustainability: Development and New Tourism in the Third World

Conclusion 1

Many LDCs are poor because they are heavily indebted to western countries, geographically far from the world's ports, business and airline hubs; and do not have adequate human resources or land. Poor countries do not have enough money for infrastructure development, cannot save money and therefore cannot break the poverty cycle.

Tourism requires a good distribution system for tourists to purchase the product and get to the destination.

Ironically, airlines and other TCNs choose not to invest in the world's poorer regions due to inadequate infrastructure.

The majority of the TNCs are on the East West axis far from poor areas because of accessibility to the "airline highway" and other commerce. Nonetheless trends in tourism data show that travellers are becoming more interested in destinations that are 'off the beaten track'. Niche tourism seems to be the most sustainable route for many developing countries but this demographic is small and soon moves on to other unexplored places.

In order for charter airlines to fly to LCDs they must first be able to forecast a profit. This is done by negotiating a good price with the LDC and selling large quantities of the product; in other words making the destination affordable so the plane does not leave ½ empty. As LCDs have limited capital they have trouble penetrating international tourism markets without the help of tour operators in the Northern hemisphere countries. This strategy further increases the risk of losing control of their distribution system, increases leakage and then the LCD could possibly end up in a low yield, mass tourism situation. In the countries which are further along the development path the internet gives SMEs a chance to provide tourism services directly to the consumers via web sites. This strategy avoids the unsustainable path to mass tourism, cuts out middlemen and maximizes profit. Eighty percent of internet users plan their vacations online and 30% to 50% of Internet users also order tourist services online¹¹. However; the tourism web sites need to be maintained and managed in a way so that potential consumers can book directly online. Currently, most LDC tourism web sites only provide information about the destination. Internet users visit on average 5.4 sites when researching a trip and are not very brand loyal¹² therefore; the web sites need to be interesting and user friendly. Unfortunately, broadband availability is still very poor in developing countries which also further widens the digital divide¹³.

¹¹ comScore Networks and DoubleClick, 2006

¹² comScore Networks and DoubleClick, 2006

¹³ Information Economy Report 2006: The Development Perspective

Lastly, before a LDC pursues tourism it may want to prioritize how it would like use its scarce resources. In Lima, Peru residents in shanty towns spend 6 times more on water (add 30% more including fuel costs to boil it in order to make it safe) than residents in the richer tourist areas of Lima. Therefore a cost/ benefit analysis for tourism would be recommended for many LDCs. Some questions may be:

- The size of potential target markets – “Are they worth pursuing?”
- The nearness and convenience of target markets – “Is there as means to get to the LDC, does the market have access to adequate “aerial highways to get there?”
- The costs to the target markets of visiting the region – “Can they afford the ticket and accommodation and also have enough spending money?”
- The “drawing power” of the area's attractions. “Is it enough to entice visitors from far away?”
- How the informal sector of the economy is affected by tourism. “Is tourism contributing money for infrastructure and long term development of the country?”

In conclusion this paper only touches on a couple of challenges for poor countries developing tourism. This paper has shown that tourism is becoming a phenomenon in seven out of the world’s thirty four low income countries. Assuming the benefits of tourism are reaching the locals, and not a few elite - it could be argued that tourism is actually helping to indirectly and directly fight poverty in 20% of the world’s poorest countries. Realistically tourism could be viewed the same as any other TNC/ corporation, in that its main purpose is to make money. Tourism is essentially an experience that is traded for cash. It is up to the LDCs to decide the extent they wish their culture, society and environment to become a commodity. The tourism development should be monitored and regulated just as much, or even more than the TNCs. The pro poor tourism argument for developing countries is very similar to the debate on globalisation and industrialization.

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Appendices 1

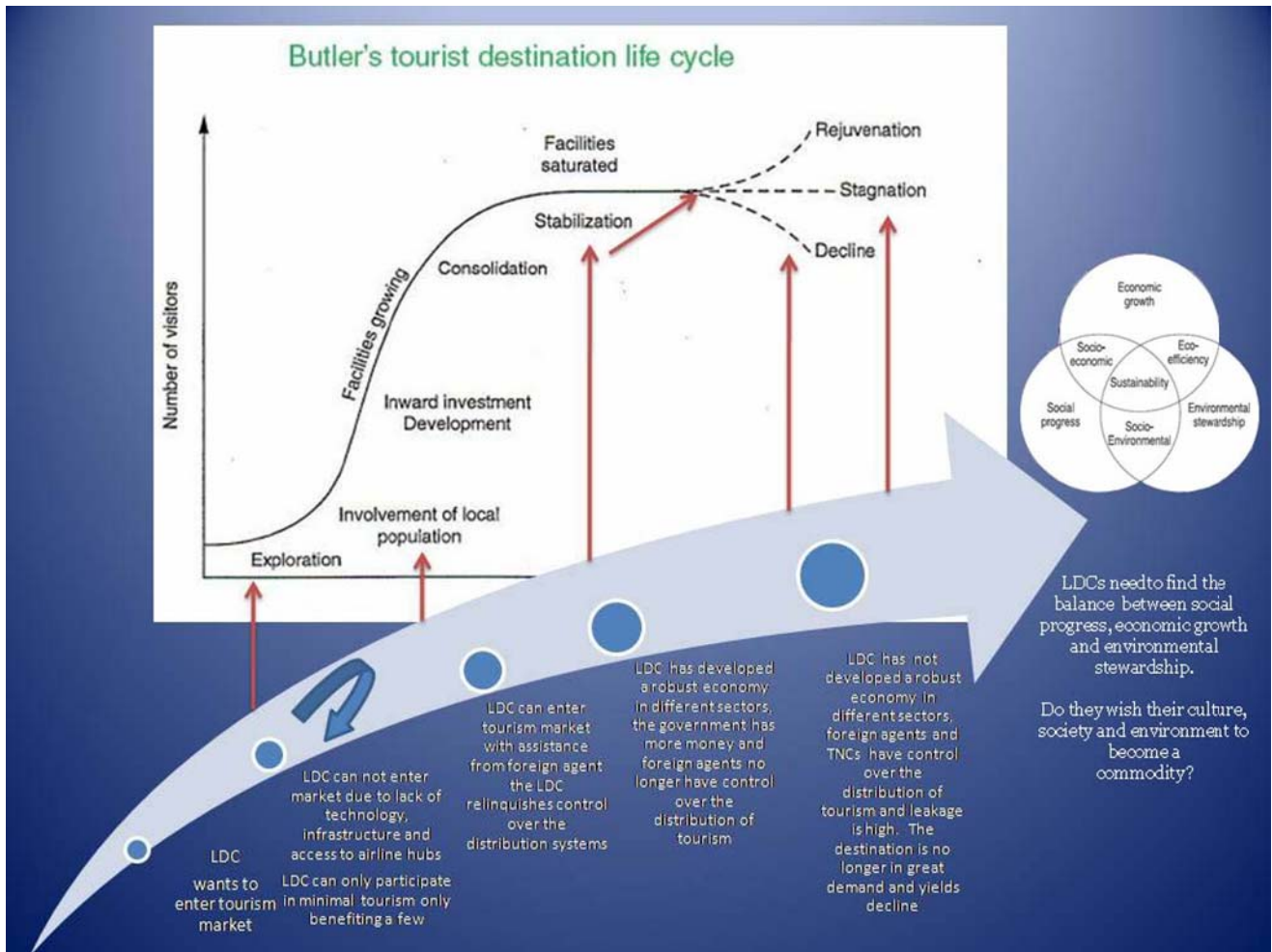


Figure 8: Butlers tourism destination cycle and developing countries challenges entering the tourism market.

ⁱ Gross National Income (GNI) is the total domestic and foreign output claimed by residents of a country. It comprises of Gross Domestic Product (GDP) plus factor incomes accruing from residents abroad, less the income earned in the domestic economy accruing to persons abroad.

ⁱⁱ Tourism academic Stanley Plog introduced the psychological types in relation to tourism in 1974 in his article: "Why destinations areas rise and fall in popularity", Cornell Hotel Restaurant and Administration Quarterly, pp. 55-58.

Allocentric types are outward looking, interested in discovering the world- for example: backpacking. Psycho centric types prefer familiarity for example: enclave resorts.