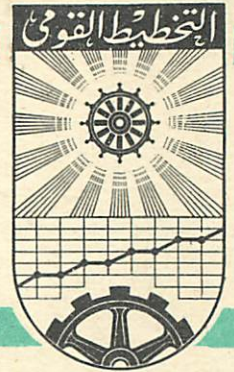


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Tourism As A Source of  
Foreign Exchange

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## TOURISM AS A SOURCE OF FOREIGN EXCHANGE

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Every developing nation will be materially assisted in its development plans if it can obtain more foreign exchange at the same terms of trade or can obtain growing amounts of foreign exchange through time without (significant) deterioration of the terms of trade. The benefits of foreign exchange are that:

- (i) greater imports of capital goods can be made - particularly of goods not made at home
- (ii) foreign credits are more easily obtained
- (iii) the degree of restrictiveness over the use of foreign exchange can be relaxed with consequent increases in allocational efficiency.

Even for nations not constrained by foreign exchange shortages, the third benefit can be enormous. A great deal of research is being conducted at the World Bank and the (American) National Bureau to this effect (particularly by Chenery, Balassa and Krueger).

### I

The main distinguishing theory of tourism exports in international trade is that they can develop a surplus -- an economic rent. This derives from the fact that a tourism industry must utilize natural resources which are scarce. Any asset which is in fixed supply can earn a rent if the demand for it is sufficiently strong and if its alternative use is of little importance. The existence of the surplus, tied to natural assets as it is, requires that I make explicit a value judgement. I hold that the economic surplus should accrue to the process of development -- that is to the nation. In an age and in an industry in which multinational corporations are capable of acquiring rent-earning assets, this feature of tourism distinguishes it from manufacturing industry and, instead, puts it in a class with extractive industries.

A second distinctive feature of a tourism industry is the two types of product which it produces. Foreigners visiting a nation for pleasure purposes\*\* seek either to see or they seek to do something pleasant with negligible national overtones. I distinguish between those two types of business because they use different kinds of assets, require different types of marketing and involve different investment decisions. The two types of tourism are national-culture or wanderlust tourism and resort or sunlust tourism.

Wanderlust is that basic trait in human nature which causes some individuals to want to leave things with which they are familiar and to go and see at first hand different existing cultures and places, or the relics of past cultures in places famous for their historical associations, ruins and monuments. The desire to travel may not be permanent one, merely a desire to exchange temporarily the known, workaday things of home for something which is exotic. Wanderlust is as basic a human characteristic as curiosity, and the attraction of far away places with strange sounding names is for some people tempered only by the mundane economic considerations of money costs, by alternative pleasures competing for limited resources, and perhaps by the fear of some mishap being encountered.

Sunlust generates a special type of travel which depends upon the existence elsewhere of different or better amenities for a specific purpose than are available locally. Obvious examples of sunlust are winter vacations in Florida, Hawaii, Mexico, and the Caribbean by Canadians and people from the northern United States or holidays in winter and on the Mediterranean by northern Europeans or the similar trek to the south in summer in search of a warmer and more reliable sun. Equally, the concept of sunlust could be extended to include any type of pleasure travel which requires a different set of amenities to be available at the destination than are available at home, but those amenities need not be different in culture or kind from those available close by: a seaside vacation, a skiing weekend, or even a visit to a large city.

The crucial differences between the two types of travel relate to the degree to which they are likely to be international (as opposed to domestic), and in the type of travel facilities required by the destination. Wanderlust may be expected to be much more largely international in character than sunlust travel, although the latter category will be proportionately more international the smaller is the country of residence.

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\*\* Or extending a business-related stay for pleasure. This paper emphasizes pleasure travel since that is the type of export which is more sensitive to the economic forces of enjoyment and cost.

The distinction between the two kinds of travel is one of degree. Every journey to a foreign country, even to a beach resort, offers some appeal to wanderlust, while every traveler seeking to satisfy his wanderlust also demands that some of the amenities which contribute to a resort holiday be available. The overlap between the two kinds of travel is equally apparent on the supply side: no center for foreign visitors will fail to cater to the desires of those visitors for sumptuous ease and nocturnal diversions and resorts must necessarily provide some alternative employments for their guests.

The main differences between the two types of travel can be seen from the comparative listing of their attributes:

Sunlust

Resort vacation business  
One country visited  
Travelers seek domestic amenities  
and accommodations  
Special natural attributes a necessity  
(especially climate)  
Travel a minor consideration after  
arrival at destination  
Either relaxing and restful or very active  
Relatively more domestic travel

Wanderlust

Tourist business  
Probably multicountry  
Travelers seek different culture,  
institutions and cuisine  
Special physical attributes likely  
to be man-made: climate less important  
Travel an important ingredient through-  
out visit  
Neither restful nor sportive:  
ostensibly educational  
Relatively more international travel

For nations with different alternative cultures available within the national boundaries and with wider ranges of climatic and geographic differences, increasing amounts of both types of travel will be domestic. Equally, the smaller the nation and the greater the ratio of land to total frontier the higher will be the expected ratio of foreign domestic travel.

True wanderlust tourism derives from something inherently national. This could be culture, monuments of an ancient culture, specific scenery or natural wonders or history. Any of these attributes will be unique to the exporting nation and therefore a type of consumption not available to the tourist from domestic sources. If the desire to visit the particular asset which is the source of the uniqueness is strong, the tourist will pay a price in excess of the costs incurred by the exporting nation. This is the source of gain from tourism that is important. Moreover, if tourism is to be used to its economic potential, (\*) this surplus must be garnered.

Sunlust tourism is likely to require particular types of land suitable for the vacationing visitor -- beaches, sun, hills, valleys, etc. The availability of these (and their ability to generate a surplus) depends on the location of the beaches and the quality of the ancilliary services. A surplus is possible, but if the tourist-originating centre is Europe, the availability of good beaches in Madagascar will earn no rent. Such rent as might be available from the intrinsic quality of its beaches will be more than eaten up by the cost of transportation. Good quality assets near the source of tourism demand are important if resort or sunlust tourism is to be a viable industry. If the proximity of the tourism-originating source is high so that the cost of getting to alternative resorts is high, then resort resources can command a surplus.

From this simple sketch we can identify some of the features of a tourism industry. It will generate greater flows of foreign exchange the more distinctive the national cultural resources. Anything which generates interest in these assets is tourism-creating. Wanderlust tourism will be less sensitive to price competition than sunlust tourism and, therefore, it will be less sensitive to geographic distance. (\*\*) A wanderlust industry can be created as a small endeavor even though the country is too far from a tourist-originating centre to a viable sunlust

Both types of business will be sensitive to prosperity in the importing nation or region. While recession will reduce any surplus earned by the export industry in all countries, appropriate pricing policies may maintain volume of sales. The marginal supplier will suffer most severely.

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(\*) Not unnaturally, some nations regard their national treasures as a source of national pride and use the treasures to stress their own identity.

(\*\*) What matters is additional distance or cost. Proximity to a busy transportation route may be a substitute for proximity to a tourist-originating center.

The distinction between to two kinds of tourism exports is, as noted above, somewhat artificial in that wanderlust attractions are enhanced by services emphasized in sunlust industries and sunlust industries are enhanced by the diversion of wanderlust assets. Nonetheless, the framework does provide a useful analytic tool. Nations with extant tourism industries as well as those seeking to develop tourism should:

- (i) identify tourism resources by type of tourism
- (ii) identify potential sources of surplus and ensure that is it being garnered
- (iii) examine the possibility of combining the two kinds of assets in a complementary way (\*)
- (iv) examine national tourism policies to ensure that the nation is benefiting from the industry's existence.

## II

A tourist industry has several advantages as a source of foreign exchange for a developing country. For most among these is the probable high rate of growth of tourism imports by developed nations.

Nearly all studies of demand for tourism imports show high elasticities with respect to income. This characteristic of the industry derives from two separate sources. First is the income-elastic demand for tourism services from domestic and foreign sources combined. Second is the inability of most developed nations significantly to expand their own tourism supply to the extent that the demand for tourism is a wanderlust demand, it is clearly difficult for nations to generate more capacity. Resort capacity is also very limited since most local sunlust assets will have been developed in the early stages of industry development. As a consequence, all increases in demand for resort tourism tend to manifest themselves as a demand for imports. These two mechanisms are further enhanced by the utilization by domestic customers of resort services previously available to foreigners, thus increasing the market for nations peripheral to the tourist-originating region. Equally increased wanderlust exports in many developed nations force residents to seek wanderlust interests abroad.

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(\*) One of the best examples of a combination of this kind is a package vacation in Kenya featuring one week's tour of big-game parks and one week's stay at a resort on the Indian Ocean.

For example, as British income increases its resort-tourism demand will spill over completely on to foreign (non-British) sources of supply. But greater demand for tourism by the French and Italians will leave less capacity for the British in France and Italy and the volume of British imports from Mediterranean nations will increase by a larger percentage than either total resort-tourism imports or total resort-tourism expenditures. Equally, a larger number of Americans and Saudis in London leave less space for provincial Britons to visit London and to enjoy internal wanderlust.

The sheer growth of the market argument is the main one. It offers a rebuttal of the gloomy "Prebisch Thesis" according to which the inadequacy of foreign-exchange earnings by developing nations will get worse because manufacturing nations have an income-inelastic demand for the products of developing nations. (\*) Tourism exports, then, will allow the foreign exchange earnings of the bloc of developing and semi-developed nations to increase simultaneously with improvements in the terms of trade. Within the bloc, nations may still place too great a reliance on tourism and can, in the urgency of their need for foreign exchange, assess their tourism prospects too favorably.

Not unrelated to the value of a tourism industry is the probability of slow increases in manufactured imports by the developed world in the near future. Two main reasons for this may be short-lived but they are related to fundamental problems in the developed world. First, the developed world is still adjusting (or trying to adjust) to the shock of the very large increase in energy costs. The adjustment process involves historically high levels of domestic unemployment and displacement of domestic output by imports will be resisted. (\*\*) Second, many countries in the developed world suffer from excess supplies of low-skilled labor. Exports by developing nations to manufacturing nations tend to emphasize goods which utilize low-skilled labor intensively and, in this way, seriously aggravate an existing problem.

Where tourism uses unique resources that are capable of generating an economic surplus, a tourism industry will generate a very high rate of return on invested capital. Another positive feature of tourism is its ability to utilize labor which acquires its skills through on-the-job-training. In this way a tourism industry is unlikely to have a significant cost in the sense that it diverts scarce skills from other industries.

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(\*) Adverse features of tourism development are considered in the following section but severe competition among tourism exporters does mean that tourism is not a certain source of foreign exchange.

(\*\*) While this will retard the growth of tourism imports, much of the effects of stagnation and adjustment are focused on the lower-income segments of the population which do not contribute importantly to tourism demand.

Tourism has a final virtue that gives it a degree of flexibility not available to many manufacturing industries. Demand for tourism is very price-sensitive and frequently, an infant tourism industry may need to establish its reputation at a price level which barely covers costs. Fortunately, a tourism industry is one which allows subsidy to be achieved quite easily by special rates of exchange for foreign tourists. Such a procedure is both administratively feasible and, since it rarely conflicts with domestic capacity utilization, importing nations do not raise countervailing import duties.

Tourism is then a growth export industry with a potentially high rate of return on invested capital. In addition it provides an industry with a fair degree of price flexibility. Tourism is likely to utilize low-skilled labor to an important degree and provides an outlet for many traditional products. But it is a fiercely competitive industry and any economic surplus that accrues will be gained through the perceived quality of services provided not by inertia.

### III

Tourism receipts from foreigners are not net receipts. A great deal of earnings from tourism is spent on imports used by the tourism industry. Therefore, tourism exporters need to utilize home-produced goods to the greatest degree possible. In a similar way, it is important to avoid attracting low-spending tourists, since these people utilize capacity and add to congestion without benefiting the host. This section considers these negative aspects (or costs) of tourism.

Little can be done to reduce expenditures on imports of goods which foreign tourists require as part of their daily routine. However, care must be taken when tourism is subsidized to ensure that the subsidy is more than offset by duty on touristic imports. Equally, any import-substitution increases net tourism receipts.

Marketing costs incurred in foreign countries can be very high. This is particularly probable if the exporting nation is only a marginal supplier and has to rely on foreign wholesalers to achieve the needed volume. These wholesalers tend to develop a powerful position and can squeeze the exporter's industry. This problem has been encountered in its most severe form by Ceylon.



The existence of a surplus or rent countenances that the rent will accrue to a foreigner and will be lost to the host nation. While rents are more likely to accrue to wanderlust exporters, they can be obtained by resort exporters. Rents accrue to foreigners in two ways: when the foreigner (usually a hotel chain) owns the rent-generating asset; and when the foreigner owns an asset which derives a rent from a public good -- proximity to a freely available good. Provided that the foreigner asset-owner has surplus, no loss is incurred. But in many instances, assets are acquired at significantly less than the present value of the surplus. Under such circumstances some or all of the rent should be diverted. Clearly nationalization is one means of reacquiring the rent. A second is to levy a tax on the property equal to some proportion of the rent generated.

The possibility that the exporting nation will wish to wring the potential rent out of the tourist and the hotel chain by specific levies lends itself to the problem of seasonal price variation. One of the negative aspects of many tourism industries is the pronounced seasonality of sales. High-season and low-season rates are a partial answer to this in that they increase the load-factor or occupancy rate in the low season. No surplus is earned in the low season and no tax should be levied. In this way, a government helps the industry meet the seasonality problem.

I am not arguing here for gauging foreign companies. I am arguing for a very rational awareness of the existence of a surplus and for recognition that the surplus should accrue to the host/exporting nation.

#### IV

A tourism industry that is based on assets must stress the preservation of those assets. The quality of beaches must be maintained against pollution; tangible assets and monuments must be protected against pollution by tourists and by modern industrial wastes; even a culture can be deluted by too many foreigners. The question of tourism density is/can be important for small nations that feel themselves overwhelmed and, perhaps, antagonized by tourists. This raises another potentially important aspect of the tourist industry: it may be good policy to restrain the capacity in order to prevent antagonism creeping in. Restraint of capacity means a better quality of tourism and higher prices can be commanded to the benefit of the wanderlust exporter and to the intra-marginal sunlust exporter.

Here let me digress to the subject of tourism relations. There is much to be said for some oversight of tourism firms and much to be said for making people who come into contact with tourists aware of their roles as an exporter. Mrs. Nadhan, Director of the Southern Area of India, made this point to me. She was busy pointing out to cab-drivers, hotel employees, guides -- to everyone the need for exports and the need for recognition of the role -- not that tourists singly and in mobs are not exasperating, they are!

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