Development of Regional Tourism by Collaboration Between Public Sector and Academics in the Asia Pacific Region

14-17 May, 2015
Kuala Lumpur, Malaysia
DEVELOPMENTS OF THE NEW TOURISM PARADIGM IN THE ASIA PACIFIC REGION

May 14–17, 2015
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CONFERENCE PROCEEDINGS
POSITIVE VS NEGATIVE ECONOMIC IMPACTS OF TOURISM DEVELOPMENT: A REVIEW OF ECONOMIC IMPACT STUDIES

Jeetesh Kumar
jeetesh.kumar@taylors.edu.my
Kashif Hussain
kashif.hussain@taylors.edu.my
Suresh Kannan
suresh.kannan@taylors.edu.my
Taylor’s University

The current paper reviews and compares positive and negative economic impacts of tourism development as tourism has become an important economic sector and a major contributing driver of economy in many parts of the world. Most of the developing countries rely on tourism economic contributions to their gross domestic product. Although the economic impacts of tourism development are usually held to balance tourism economic benefits, however, negative economic impacts are also apparent and significant which cannot be ignored, particularly, a likely increase in demand for imported goods once tourists begin to appear, revenue leakages out of the economy, over-dependence on tourism, and land value inflation. This paper also focuses on the importance economic impact studies and deliberates some of the major approaches to measure positive and negative economic impacts.

Keywords: Tourism Development, Economic Impacts, Models, Forecasting

INTRODUCTION

Nowadays tourism is widespread throughout the world. Millions of people travel to different countries all year round seeking rest, new experience, and impressions. Lately tourism has become quite a profitable business, which also brings benefits to a country’s economy (Rogers, 2008; Rogers, 2003; Dwyer & Mistilis, 1999). Tourism has three major impacts on the destination which tourists usually visit (Cooper, Fletcher, Gilbert & Wanhill, 1993), these are mainly economic, environmental, and socio-cultural in nature. However, some impacts have been attributed to tourism though they may in fact originate elsewhere. Instead, more appropriate sources may be the media, the advertising and fashion industries, new industrial development, urbanization, modern agriculture, mining and forestry projects, and government and military activity (Burke & Gitelson, 1990). But while all these factors can be described as frequent features of modern societies, it is widely believed that travel and tourism do generate impacts, including economic ones (Greenwood, 1989; Tribe, 1999). The most important positive economic effects of tourism are to increase in budget revenues, production expansion, stimulation of investments, and improvement in the population’s welfare. Among the negative effects of tourism, the most important impacts are inflation, financial leakage, infrastructure costs, and economic dependence. The main objective of this research is to compare economic impacts of tourism and suggest reducing negative impacts, as tourism is one of the main driving contributors of economy to gross domestic product of many developing countries.

LITERATURE REVIEW

Positive Impacts of Tourism

It is often the positive economic impacts that persuade governments, companies and individuals to get involved with development of tourism destination (Gunn, 1972; Kumar & Hussain, 2014a). Hotels, caravan parks, guesthouses or tourist attractions that provides income for stakeholders and create jobs for local community. According to Stynes (1997) and Jago (2012) the travel and tourism sector has the ability to provide a variety of positive economic impacts and the most important of them are;
• Increased domestic income and foreign currency earnings;
• Economic multiplier effect
• Increased employment
• Improved infrastructure

The travel and tourism sector generates income and wealth for private individuals, local councils, companies, voluntary bodies and national governments – from the modest income earned by a couple running a farmhouse bed and breakfast business to the millions of pounds generated by large travel companies and the billions of pounds earned from tourism. At an international level, the money that tourists spend in a country can make a considerable contribution to its balance of payments (Gee, Makens & Choy, 1983; Kumar & Hussain, 2014a).

Table 1. Positive Economic Impact Studies

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<th>Author(s)</th>
<th>Area of the Study</th>
<th>Methodology Used</th>
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<tbody>
<tr>
<td>Dwyer, Forsyth and Spurr (2006)</td>
<td>Special Events</td>
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<td>Tohmo (2005)</td>
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<td>Bergstrom, Cordell, Watson and Ashley (1990)</td>
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<td>Braun and Rungeling (1992)</td>
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<td>Grado, Strauss and Lord (1997)</td>
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<td>Belisle and Hoy (1980)</td>
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<td>Tyrrell and Spulding (1984)</td>
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Revenue generated by tourism development is often vital to the economic well-being of an area and is boosted by an important concept known as the multiplier effect. Research has shown that the amount spent by visitors to an area is re-circulated in the local economy. Tourism’s ability to create jobs is one of the main reasons why governments encourage its development. Direct employment in tourism occurs in areas such as hotels, transport operators, travel agencies, tourist attractions, tour guides, government departments and tour operators (Lieper, 1979). Tourism also creates indirect employment in industries not directly associated with the sector, for example in construction, banking, design and transport companies. Mathieson and Wall (1982) and Kumar and Hussain (2014a) reports that beside generating revenue and creating jobs, tourism development also contributes to infrastructure improvements in destination areas, e.g. road and rail improvements, airport developments, improvements in telecommunications and utilities such as water and power supply. In this way, local people can benefit from improved facilities that are provided for tourists.

Negative Impacts of Tourism

Even though the economic impacts of tourism are generally positive, it can have some negative economic effects, including leakage, decline of traditional employment and seasonal unemployment,
and increased living costs. A leakage occurs in tourism when money is lost from a destination area. This could be because the hotels are owned by companies that operate in other countries and the profits are taken away from the local area. Also, larger travel and tourism companies buy their goods and services centrally in order to get the best prices (Cooper, Fletcher, Gilbert & Wanhill, 1993; Mathieson & Wall, 1982). Tourism development can lead to the loss of traditional jobs, when workers move from industries such as farming, forestry, mining and fishing into service jobs in tourism. Developing countries that are working hard to attract tourists experience similar problems in keeping workers in primary industries. Seasonal unemployment can be a problem in tourist destinations that are not active all year round, putting extra strain on local and national government resources. An influx of visitors to a holiday area can push up the prices of goods and services, particularly when demand is high in peak season (Cooper, Fletcher, Gilbert & Wanhill, 1993). This disadvantages local people who may have to pay higher prices for food, drinks, entertainment, transport, events, etc. Extra charges may be levied on the local community to finance facilities and services for visitors.

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<tr>
<td>Voltes, Jiménez and Suárez (2014)</td>
<td>Impact of Tourism on Local Budgets</td>
<td>Observation</td>
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<td>Haralambopoulos and Pizam (1996)</td>
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<td>Brougham and Butler (1981)</td>
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<td>Husbands (1989)</td>
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**Importance and Usage of Economic Impact Studies**

While tourism has long been an important part of our lifestyle, recently it has received attention for its role in determining economic importance. Recognition of the potential economic benefits of increased travel (e.g., jobs, wages & tax revenues) has led many nations, states, and local communities to intensify their tourism development efforts (Fleming & Toepper, 1990; Kumar & Hussain, 2014a). National and regional governments/states have started realise its potential benefits and allocates huge amount of tourism promotional budgets (which are funded predominantly from state & local tax bases), gaining increasing exposure and scrutiny among legislators and their constituencies. With mounting state budget deficits, relatively scarce tax dollars are needed to fund a wide array of government financed programs. Tourism budgets can, therefore, be expected to face greater accountability pressure (Inskeep, 1991; Fleming & Toepper, 1990). In order to justify their existing budgets, not to men-
tion any desired increase, tourism officials are being asked with more frequency to show the benefits and costs of their promotional efforts as well as how these benefits and costs accrue to the state or local community. Within the private sector, a softening economy usually leads to reductions in promotional budgets and a decrease in the total demand for advertising space.

Economic impact studies are also an important policy and planning tools which aid both public and private travel promoters in setting goals and objectives for their programs (Han & Fang, 1997; Kumar & Hussain, 2014b). The effectiveness of promotional programs can be assessed and it can be determined where to focus one’s promotional efforts. If standardized, promotional programs can be compared to programs within a state or in other regions. Trends can be tracked and changes in the industries related to travel and tourism can be monitored. Changes in consumer tastes and preference patterns can also be identified by monitoring spending and travel patterns over time (Antigua & Barbuda Tourism Development Programme, 2003; Frechtling, 1994). The results of economic impact studies help travel and tourism developers in determining the feasibility of and site selection for transportation, accommodation, amusement, and recreation facilities. These studies can also be used to measure the costs and benefits of travel and tourism activities.

Other uses of economic impact studies have been explored less than the traditional uses of measuring the direct impacts. These studies analyze the total impacts including direct, indirect, and induced impacts of travelers spending on the economy of a state, region, or other economic area. For the most parts, these studies have been limited to analyzing the multiplier or ripple effect of travelers spending within an economy (Vogelsong & Graefe, 2001; Kumar & Hussain, 2014a; Kumar & Hussain, 2014b). Another growing use of economic impact studies is forecasting and econometric simulation of travel impacts. Forecasting models allow us to predict the direction of travel impacts given past trends and events, together with predictions of social and economic forces which shape trends within travel-related industries (Kumar & Hussain, 2014b).

**Issues Related to Economic Impact Studies**

Economic impact studies vary greatly in the methodological approaches utilized as well as in the level of information yielded. Unfortunately, this variability has led to suspicion of the information obtained through economic impact estimation studies and has undermined much of their credibility. This undermining of credibility is due to a number of factors. The accuracy of the information obtained through economic impact studies is a function of the budget under which the study is taken (Archer, 1987). As tax generated funds for tourism marketing and development become even scarcer, many tourism organizations are pressured by industry members to allocate the majority of their limited funds directly upon promotional efforts. Accurately defining what is to be measured within the economic impact study is another factor which influences the results. A related issue is whether the economic impact results for one community can be compared with results obtained through economic impact studies from other similar communities. Incorrect interpretations of the meaning of a multiplier and the underlying assumptions about the time frame within which the multiplying rounds will occur, also lead to exaggerated economic impacts (Wang & Irwin, 1993; Faulkner & Raybould, 1995; Kumar & Hussain, 2014b).

**Measuring Economic Impacts**

A range of methodologies are available to access the economic impacts of tourism. Each of those methodologies has its advantages and disadvantages and each suit different types of tasks, studies with different objectives, looking on the quantity of data available and the region where study is being carried out (Mathieson & Wall, 1982; Kumar & Hussain, 2014b). Direct and indirect negative economic impacts sometimes can be attributed to tourism development. For a long time, tourism industry has drawn the public’s attention only to the positive economic impacts for which tourism claims responsibility. But recent increased attention has been focused on acknowledging and addressing the negative economic impacts which often accompany travel and tourism.
Estimating Direct and Positive Economic Impacts

Fleming and Toepper (1990) mentioned in their study that direct positive economic impacts of an event for an economic area resulting from tourists spending in terms of income, jobs and taxes. Estimation for these economic impacts varies on the base of primary data collection, an approach used to conduct the study and primary data collection. There are three different methods for primary data collection and aggregate or disaggregate the data to design impacts estimates.

Survey Methods: This is the most popular way to collect data. In this method structured questionnaire can be distributed to participants with whom we need to collect the information. In economic studies questionnaire can be distributed to tourists, organizers and operators of the travel businesses. Survey method will be less reliable if we conduct survey with the organizers or travel operators to collect data regarding tourists because they cannot accurately estimate the percentage of spending by the tourists (California Division of Tourism, 1974). With the survey method we can easily collect the information on trips frequency, transportation used, and length of stay, accommodation used, spending pattern for several tourism and hospitality products and the demographics of the tourists. Survey could vary in sample design or selection of the respondents, as there are few sample design techniques like haphazard, representative, quota, probability or non-probability sampling techniques. Each technique has its pros and cons. Haphazard sampling techniques usually include samples of volunteers or the respondents that doesn’t represent the population. Therefore these samples can’t be generalized. Representative and quota sampling techniques included the sample selected on the basis of researchers judgment, experts rejects this way if the several researchers are being used to collect data and on different venues (Kish, 1965; Kumar & Hussain, 2014). In probability sampling technique each participant has equal chances to get selected for survey. With this method we can easily develop the confidence interval for the sample which results that sample estimates are within particular range for a given confidence level. Surveys can be conducted through different ways, like face to face, on telephone or through mail. Most often face to face conducted surveys are good because it has less chance of non-responses (Kumar & Hussain, 2014b; U.S. Travel Data Center, 1989). Even though conducting face to face surveys are quite expensive as compare to other two options but it has its own value if researcher wants to reduce non-response rate. Mail surveys and telephonic surveys are less expensive but traditionally they have highest non-response rate and could have biasness as well. Choosing the appropriate way to conduct survey rely on the population, the sampling and the budget (Kish, 1965).

Evaluating Method: A huge literature is available on evaluating direct economic impacts models. Frechtling, 1987; Dwyer, Forsyth and Spurr, (2004) addressed the criteria for economic impact model which includes significance, exposure, precision and pertinence. Significance refers to the technique for estimation of the economic impacts for tourists spending. The approach should clearly differentiate between tourist related impacts and the local residents impacts. Exposure of the approach can be checked by the category of expenditure measured. Several studies argued that what expenditure should be included, mainly expenditure on transportation, accommodation and retail shopping including food can be covered in the tourist expenditure survey. Precision or accuracy denotes the quality of data gathered for the economic impact study, accuracy can be checked by the source, techniques used to gather the data (Fleming & Toepper, 1990; Fletcher, 1985). Pertinence over here covers the consistency of the technique over time and for different locations.

Modelling Method: Survey methods can collect the information regarding business tourist’s travel behavior, expenditure and the demographics but it cannot help to measure the benefits generated by tourists spending in the destination visited. In order to analyze the collected data and to measure the economic benefits, we need models. There are two types of modelling approaches available to estimate the economic benefits. First approach estimates impacts for city or regions and aggregates these results upwards to estimate the state or country wide impacts. The other approach estimates the state or country wide impacts initial then disaggregates the results down to estimate city or regions. Survey
Research is necessary to conduct to collect the data like tourists spending patterns for the accommodation in particular destination (Cooper, Fletcher, Gilbert & Wanhill, 1993).

In this method, survey is required to arrogate the data (Kumar & Hussain, 2014b). All data can be used in the model to come up with trips budgets. A model is employed to develop estimates of the aggregate dollars spent by tourists for a given amount by combining trip budgets, and information gathered from surveys of accommodations’ occupancy and rates, and information from a survey of the incidence of tourists visiting friends and relatives. Some of these models use payroll, employment and tax information ratios to generate estimates of these impacts from the expenditure estimates. Others use input-output techniques which give information on employment, income, and tax receipts. Analysis of these impacts can be extended to sort of accommodations, season, and kind of trip (Georgia Hospitality and Travel Association, 1998; California Office of Economic Research, 1988).

**Estimating Indirect and Induced Positive Economic Impacts**

Travelers in an economic area produce secondary impacts over that of their original expenditures. Indirect impacts occur when travel related industries, such as hotels, purchase goods and services from suppliers within the economic area. These purchases generate additional output or sales. The industries meet the demand by supplying goods and services required by hotels. The other type of secondary impact is the induced effect on sales or output. This results as the employees of industries and their suppliers spend part of their earnings in the economic region. The sum of the indirect and induced effects comprises the total secondary impact of travelers spending in the economic region (Tyrrell & Johnston, 2001; Baade & Matheson, 2001; Chhabra, Sills & Cubbage, 2003).

Multipliers are often derived from industrial transaction tables such as those found in input-output models. The input output model is an intra-regional flow study that records economic interdependence within a region. Understanding the linkages within the economic region is important for assessing the feasibility of attracting certain kinds of tourism activities. An important issue with input-output models is how they are constructed. Some input-output models show the transactions of broad industry categories in a 39 by 39 matrix and analyses are based upon broad classifications. Others may contain almost 600 detailed industry classifications allowing for more precise analysis of industry linkages.

**Estimating Direct and Indirect Negative Economic Impacts**

Direct negative economic impacts associated with travel and tourism include those costs which are directly attributable to tourists being in the destination community. The most obvious direct negative impacts are the fiscal costs to the government. These negative economic impacts usually involve the construction and maintenance costs of providing tourism-related facilities and services such as parks, visitor information centers, marketing promotional programs, museums, police and fire protection (UNWTO, 2006; Styres, 1997).

Indirect negative economic impacts are much less clear and harder to delineate. These are costs which indirectly result from tourism activities. Several researches do not attempt to measure either the direct or indirect negative impacts such as those listed because of the inherent difficulty. The approaches for estimating the costs vary considerably-especially the quality of life costs-and the impacts have often gone uncounted or under-counted as a result.

**Expert Opinion Method:** It is necessary to obtain expert opinions about the direct negative economic impacts of tourism when primary data collection is unavailable or cost-prohibitive. However, such experts frequently are very aware of indirect long-run impacts unknown to other types of interviewees. Many simplifying and subjective assumptions are often required in these cases as well to produce useful estimates (Kumar & Hussain, 2014a; William & Toepper, 1990).

**Civil Engineering Method:** The civil engineering method is also called as economic method and based upon obtaining cost estimates for individual
items from building specifications or assumptions about facility demand and aggregating the individual component costs to arrive at reasonable estimate of total cost (Loveridge, 2004). This same technique is applied to other relevant individual cost components and then aggregated accordingly. One of the similarities of this model with others like the expert opinion and survey method is that, it requires many subjective assumptions and over-simplifications (Johnston, 1972).

Referenda Method: This method can be used to gain insight into the negative costs of tourism is the referenda method. This method involves placing an important direct cost issue, such as substantially increasing the state tourism marketing program budget or introducing a bond issue to purchase waterfront property to maintain resident access, before the public in the format of a referendum. If the referendum fails or succeeds, then some insight into the willingness to pay by the residents is reflected in that decision (Archer, 1987; Kumar & Hussain, 2014a).

Projecting and Scheduling: Forecasts attempt to predict the direction of a trend and measure the magnitude of change in the trend. Forecasting methods range from simple and guess work based upon the past to sophisticated mathematical models. Forecasting approaches vary in quality and utility. The more sophisticated approaches are generally expensive, require more data, and are more difficult to use (Theil, 1966). However, if the approach is too simplistic for the question under study, very inaccurate forecasts will be made. Forecasting is an essential part of the planning process for managing tourism development. Forecasts of travel volume and expenditures are needed for managing resources and controlling the inventory of tourism products (West Virginia University, 1981; Burke & Gitelson, 1990). Tourism forecasting is relatively new, but its popularity is growing rapidly. For the most part, forecasting in the travel industry has been focused on demand and traffic pattern studies which ultimately can be used to predict expenditures and other positive economic impacts. Environmental and urban planners have long been engaged in forecasting the fiscal and social costs of development to economic areas.

CONCLUSIONS

Tourism clearly provides a significant number of beneficial economic impacts to any country or locality which receives a steady flow of visitors. International visitors are a valuable source of foreign currency. At the same time, the spending of both domestic and foreign visitors produces a cascading effect of new money through the economy via the multiplier effect. Enterprise is stimulated, and new jobs created, together contributing to increased government revenue. But there are some negative factors also to be considered. Determination of economic benefits is becoming an increasingly common tool used by state and local tourism agencies to justify their existing and proposed promotional budget levels. The manner in which the results of the economic impact studies are obtained and presented will greatly determine the credibility of the economic impact study and assist the state and local agencies in achieving their goals. In this article, it has been illustrated that there are many methodological approaches for measuring both positive and negative economic impacts of tourism. There are a number of critical issues facing each of the techniques for which a brief overview was provided. There is growing sentiment within the economic impact research arena for further refinement of existing approaches as well as the development of new approaches to better capture direct and indirect economic impacts such as opportunity costs, environmental costs, and social costs. The issues presented and implied within this article will improve the practicality of economic impact studies to the tourism industry.

REFERENCES


DOI:10.1177/004728759002900108.