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#### Tourism's contribution to sustainable development

## Sustainable tourism: Contribution to economic growth and sustainable development

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### *Executive summary*

Many developing countries consider tourism to be important for economic progress and poverty reduction. However, it is also clear that the link between tourism and economic growth and poverty reduction is not automatic. It very much depends on whether tourism generates employment opportunities, creates linkages – in particular with agriculture and service-providing sectors – and stimulates the development of basic infrastructure through the construction of roads, port and airport facilities and the provision of financial services from which the economy as a whole can benefit. It also depends on whether the development of tourism is guided by a national strategy comprising policy, regulatory and institutional frameworks with sufficient incentives to stimulate the development of supply capacity in national markets. Equally important is the extent to which the national strategy limits financial leakages from the domestic economy, which appears to be a perennial problem in many developing countries, and the efforts made to minimize the adverse impact of tourism on the environment and on cultural heritage. While the role of tourism in structural economic progress and sustainable development is not a new topic on the international agenda, how to make tourism more sustainable and contribute to developing countries' sustainable development objectives is still a challenge that requires urgent attention.

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## Introduction

1. The development of the tourism sector involves diverse actors ranging from governments – which influence its development through policy intervention, infrastructure development and regulations – to key players in the private sector. These include the numerous small and large, and local and foreign enterprises that provide supplies and services such as hotels, restaurants, transport, local guides, and various leisure and entertainment services. This diversity presents a dilemma. On the one hand, it shows that unlike other sectors that are inherently enclaves, such as the extractive sector, tourism creates linkages across sectors in the economy and, therefore, is more likely to contribute to economic diversification. On the other hand, the diverse range of actors and activities in the tourism sector adds to the challenge of creating a sustainable tourism sector, which requires that each area or activity be sustainable. A range of policies and regulations, investments and training are necessary to make all tourism-related activities sustainable and to contribute to sustainable development.

2. The objective of this document is to identify the key issues that should be addressed in considering the contributions of tourism to sustainable development. Chapter I will review the magnitude and relative importance of the tourism sector from the global and national perspective. Chapter II assesses the potential direct and indirect impacts of tourism on local economies and its potential role in poverty reduction and inclusive growth. Chapter III addresses the challenges posed by the tourism sector, specifically the potential damage to the environment and cultural heritage. Chapter IV examines how the tourism sector could be made more sustainable and how its contributions to sustainable development could be enhanced.

## I. The magnitude and relative importance of the tourism industry

### A. The global perspective

3. With increasing globalization and disposable income, tourism<sup>1</sup> has over the last few decades become one of the largest and fastest growing industries. In 2011 the industry generated an estimated 5 per cent of global gross domestic product (GDP) and between 6 and 7 per cent of the overall number of jobs worldwide.<sup>2</sup> Demand is expected to be sustained due to rising household incomes in emerging economies fuelling leisure activities and growing international trade, which bolsters business travel. Given its size, the sector bears considerable potential for economic growth, diversification and structural transformation of economies.

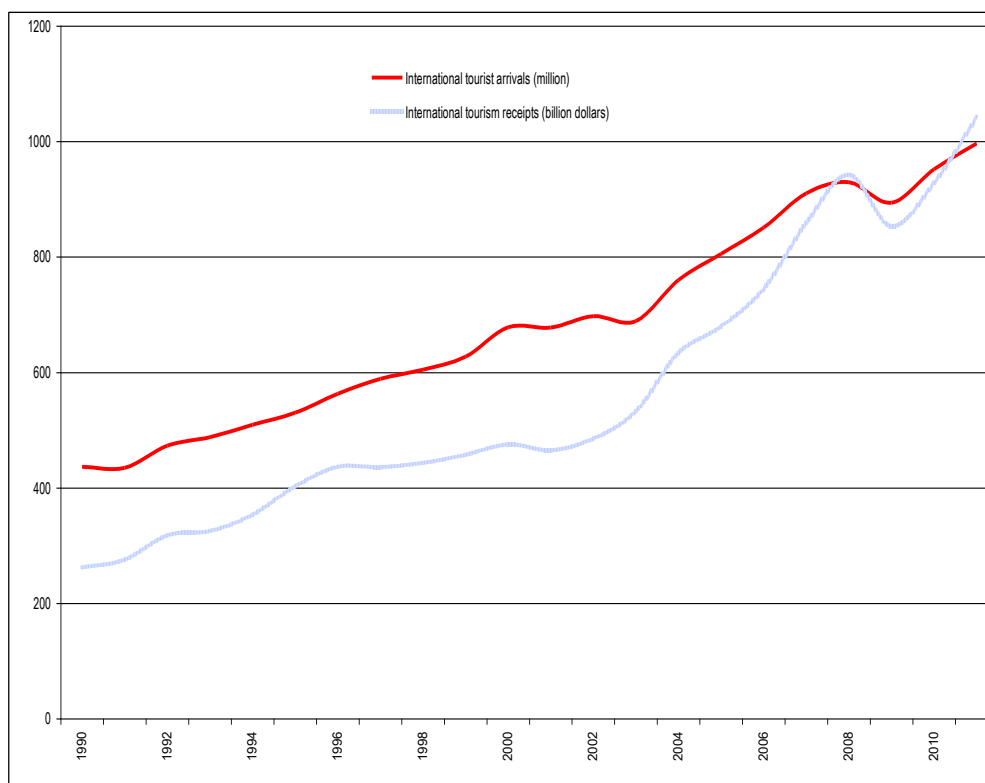
4. International tourist arrivals have shown virtually uninterrupted growth, rising from 25 million in 1950 to 435 million in 1990, 675 million in 2000 and 940 million in 2010 (figure 1). In 2012 it is estimated that one billion tourists travelled internationally. Only in 2008–2009 did the number experience a significant setback. According to the UNWTO, the

<sup>1</sup> A definition of tourism is contained in *International Recommendations for Tourism Statistics 2008*. ST/ESA/STAT/SER.M/83/Rev.1. Department of Economic and Social Affairs Statistics Division. United Nations publication. Sales No. E.08.XVII.28. United Nations, 2010. New York.

<sup>2</sup> World Tourism Organization (UNWTO) (2012). *UNWTO Tourism Highlights: 2012 Edition*. UNWTO. Madrid.

tourism sector is among the first to show early recovery from the recent global financial and economic crisis. With an estimated growth rate of 3–4 per cent in 2012, international tourist arrivals have proved to be remarkably resilient, but sensitive, to economic instability. The recovery is expected to endure over the longer term with 4 per cent annual growth in international arrivals projected through 2020, when it should reach 1.6 billion – nearly 60 per cent above current levels. Europe, East Asia and the Pacific, and the Americas are projected to be the top three receiving regions, followed by Africa, the Middle East and South Asia.<sup>3</sup>

Figure 1  
Inbound tourism, 1990–2011

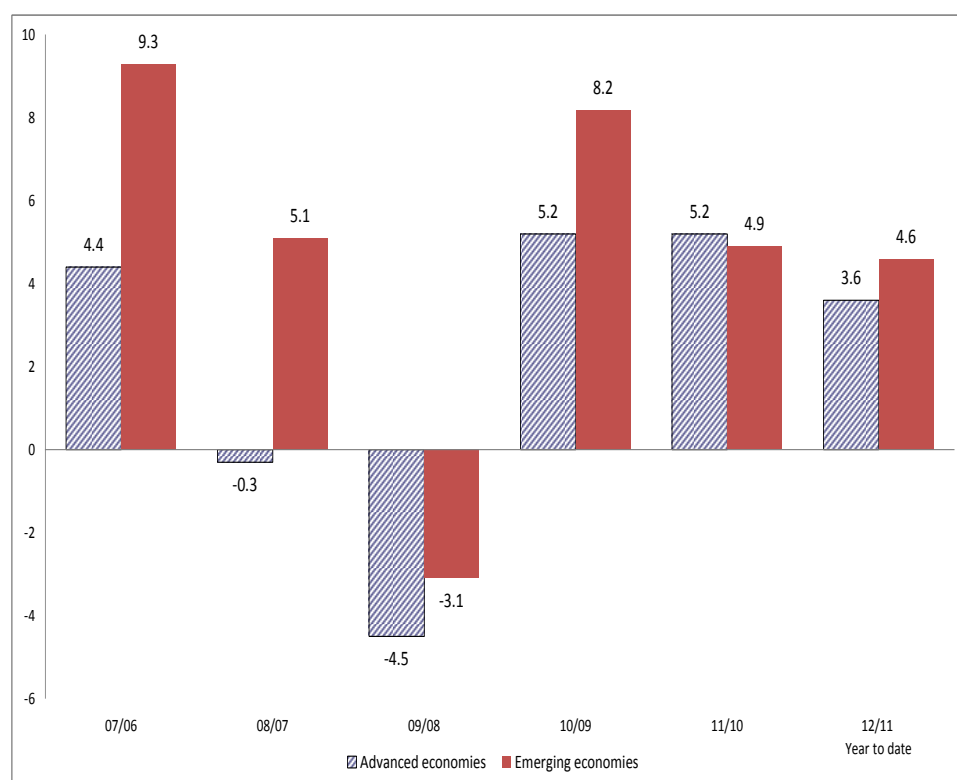


Source: UNWTO.

5. While Europe and North America remain the traditional destinations, the market share of emerging economies increased considerably from 30 per cent in 1980 to 47 per cent in 2010. With emerging economy destinations growing faster than advanced economy destinations, the market share of the former will expand further (figure 2). As regards source markets, generally about three quarters of all international tourists are from developed countries.

<sup>3</sup> Ibid.

Figure 2  
International tourist arrivals, 2006–2012, by type of economy  
(Change, in percentage)



Source: UNWTO.

6. Moreover, figures for 2008 indicate that about 51 per cent of all international tourist arrivals are associated with leisure tourism; 15 per cent with business travel; 27 per cent with other purposes, including family visits, religious pilgrimage, health and education; and 7 per cent are unspecified.<sup>4</sup> Over half arrive at their destination by air transport (52 per cent), the remainder by surface transport (48 per cent).

7. The number of international tourist arrivals – around one billion – is relatively small, compared with the number of annual domestic arrivals, estimated to be nearly four billion. Domestic tourism is important for employment creation and domestic value chains, especially in developed economies. However, the economic development potential of the tourism sector is often associated with international tourism because of its capacity to generate foreign exchange and provide opportunities for the transfer of capital and knowledge.

8. International tourism is a key source of foreign exchange and thus a crucial contributor to the balance of payments and to macroeconomic stability, especially in developing countries. As shown in figure 1, tourism exports, measured by international tourism receipts, reached a record of \$1,030 billion in 2011, or approximately \$1,000 per international tourist. When the value of international passenger transport is added, the overall income generated by inbound travel and tourism in 2011 exceeds \$1.2 trillion.

<sup>4</sup> UNWTO (2009). *Tourism Highlights: 2009 Edition*. UNWTO. Madrid.

9. The tourism sector ranked fourth in global exports in 2011, accounting for 30 per cent of the world's exports of commercial services, or 6 per cent of total exports.<sup>5</sup>

10. Another striking feature of the tourism sector is that women make up between 60 and 70 per cent of the labour force, and half of the workers are aged 25 or younger.<sup>6</sup> Entry into the tourism workforce is also comparatively easy for migrant workers. For many developing countries, tourism services provided by their nationals working abroad bring significant remittance inflows. Countries hosting migrant workers also benefit from tourism and travel services exports generated by the expenditure of migrant workers in their economies.

11. Concerns about the employment pattern of the industry relate to the seasonality and temporary nature of many jobs, together with the relative high share of unskilled and semi-skilled employment opportunities, and in some cases poor employment conditions. Efforts are being made by the International Labour Organization (ILO) and non-governmental organizations (NGOs) to create awareness of poor working conditions and to sensitize tourism employers and the relevant officials to the importance of encouraging decent work and decent wages in the tourism sector.

12. ILO estimates that in terms of the sector's employment-generating capacity, one job in the core tourism industry creates about 1.5 additional or indirect jobs in tourism-related economic activities. The majority of tourism-related businesses in developing countries, particularly in least developed countries (LDCs), tend to be small, medium-sized and micro enterprises, many of which are operating in the informal economy.

## **B. The national perspective**

13. The global picture naturally hides important heterogeneities among countries. The sector's direct contribution to GDP, employment, income and foreign exchange earnings is greatest in developing countries that are largely dependent on tourism, such as many small island developing States. In absolute terms, however, the economic impact of tourism is most significant in large and diversified economies such as the United States of America, China, Japan, France, Brazil, Spain and Italy. UNWTO estimates that "in advanced, diversified economies, the contribution of tourism to GDP ranges from approximately 2 per cent for countries where tourism is a comparatively small sector, to over 10 per cent where tourism is an important pillar of the economy".<sup>7</sup>

14. Over the last two decades, the sector grew considerably faster in developing countries than in developed economies, due partly to increasing disposable income and the fact that travel is now relatively less expensive and easier. Today, developing countries account for over 45 per cent of world tourism arrivals and more than 35 per cent of international tourism receipts. The growing trend in intraregional travel has also contributed to the growth of the tourism sector in many developing countries.

15. According to World Travel & Tourism Council estimates, the top 10 countries with the highest growth rates in travel and tourism in 2011 were all developing countries. These include Uganda (17.2 per cent), Thailand (15.7 per cent), Uruguay (15.1 per cent), Hong Kong, China (14.4 per cent), Namibia (13.4 per cent), Turkey (13.4 per cent), the Lao

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<sup>5</sup> See footnote 2.

<sup>6</sup> Bolwell D and Weinz W (2008). Guide for social dialogue in the tourism industry. Sectoral Activities Programme. Working Paper No. 265. International Labour Organization. Geneva. October.

<sup>7</sup> See footnote 2.

People's Democratic Republic (12.2 per cent), Singapore (11.6 per cent), Tonga (11.5 per cent) and Mali (10.7 per cent).

16. In terms of contributions to GDP and employment, the role of tourism is particularly prominent in small island developing States, some of which are also LDCs. In some, tourism accounts for over 25 per cent of GDP. Indeed, tourism is the No. 1 or No. 2 source of export earnings in 20 of the world's 49 LDCs. The sector is the principal source of export earnings in 10 of these countries. Among developing countries as a whole, tourism accounts for 12–15 per cent of total export receipts.

17. The tourism sector has gained considerable importance at the global and national levels as a source of economic growth and employment. As a result, governments have been paying increasing attention to the development of the sector with an expectation that it will help generate employment and higher income, thereby contributing to poverty reduction.

## **II. The potential role of tourism in economic growth and poverty reduction**

18. The contribution of the tourism sector to economic growth, job creation, domestic capacity-building and poverty reduction depends on the following factors:

(a) The extent to which the tourism sector is integrated into the national economy through backward and forward linkages with other sectors and integration into regional and global value chains;

(b) The extent to which revenue generated by tourism, including foreign exchange, is used to finance infrastructure development, support local enterprises, in particular small and medium-sized enterprises (SMEs), and to develop the skills and institutions needed to create a vibrant local economy;

(c) The policies and strategies adopted by governments, and whether they encourage increased domestic and foreign investment in tourism, transfer of technology and know-how; promote labour-intensive activities; and target regions where the poor live and work;

(d) National efforts to ensure that tourism activities are carried out sustainably and meet economic, social and environmental objectives.

### **A. Linkages**

19. A prominent feature of tourism is its potential to create backward and forward linkages that are strong and diverse. Indeed, a study of the tourism sectors in India, Brazil and Indonesia by Geloso et al. found that linkages (both backward and forward) were particularly strong for the tourism sector relative to linkage strengths for most other sectors, confirming tourism as a sector capable of stimulating broad-based economic activity.<sup>8</sup> In effect, strong linkages catalyse a multiplier effect that can generate broad-based economic benefits at the national level as well as in situ employment opportunities and poverty reduction at the local level.

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<sup>8</sup> Geloso Grosso M, Leshner M and Pinali E (2007). Services trade liberalization and tourism development. OECD Trade Policy Working Paper No. 57. JT03235678. Organization for Economic Cooperation and Development. Paris.

20. As shown in figure 3, the tourism value chain can incorporate many sectors in an economy. Its promotion will require the construction and operation of hotels, restaurants and other tourism-related facilities through backwards linkages and the development of basic infrastructure services, such as energy, telecommunications and environmental services; agriculture, manufacturing and other support services. It can also create a wide range of forward linkages with sectors supplying services consumed by tourists. These include financial, telecommunications, retail, recreational, cultural, personal, hospitality, security and health services. In addition, countries wishing to strengthen their tourism sector will need to develop other tourism-supporting infrastructure such as airports, proper roads, ports, hospitals and banks, which are essential for providing access to high-quality services and creating a competitive tourism destination.

21. However, building linkages requires an effective national strategy comprising targeted policies, regulatory and institutional frameworks, and sufficient incentives to stimulate private investment and the development of domestic supply capacity. Having a national strategy is critical, but active government involvement in the development of basic infrastructure is equally important. Developing countries that have been most successful in tourism development have been those that have designed a clear public- and private-sector strategy for investment and the development of essential tourism-supporting infrastructure.

22. However, in many developing countries, tourism linkages remain weak and underexploited. Consequently, most of the value added in the tourism sector tends to be captured by foreign investors, international tour operators and foreign airline companies, and only limited benefits flow to the poor. For example, Mitchell and Ashley suggest that at best, between one fifth and one third of total tourist expenditures in the destination is captured by the poor from direct earnings and supply chains.<sup>9</sup> Hence the concern about leakages as discussed below.

23. Therefore, in designing strategies for sustainable tourism, governments need to assess and identify the potential linkages or tourism-related value chains in the economy. For example, agriculture is a key sector with strong backward linkages with tourism, as hotels and restaurants need a steady and large supply of foods and beverages. According to Telfer et al., about one third of all tourism expenditure is spent on food items.<sup>10</sup> However, supplying food and beverages for the tourism industry is generally demanding, in terms of reliability, quantity and quality requirements (e.g. complying with health and phytosanitary standards). A means to facilitate the integration of local producers into the value chain is through direct contractual agreements between producers and hotels. Such contracts offer producers an opportunity to pre-negotiate prices, plan production and enable them to invest in better technologies due to more secure income. Many hotels also invest in the facilitation of extension services and skills upgrading to contribute to product quality improvements. While such initiatives benefit suppliers, they also allow hotels to exert influence over production volumes, quality and variety. In addition, increased demand for agricultural produce generates spillover effects to rural non-farming activities, such as stimulating the development of the agroprocessing industry and boosting demand for rural transport, storage and trading activities.

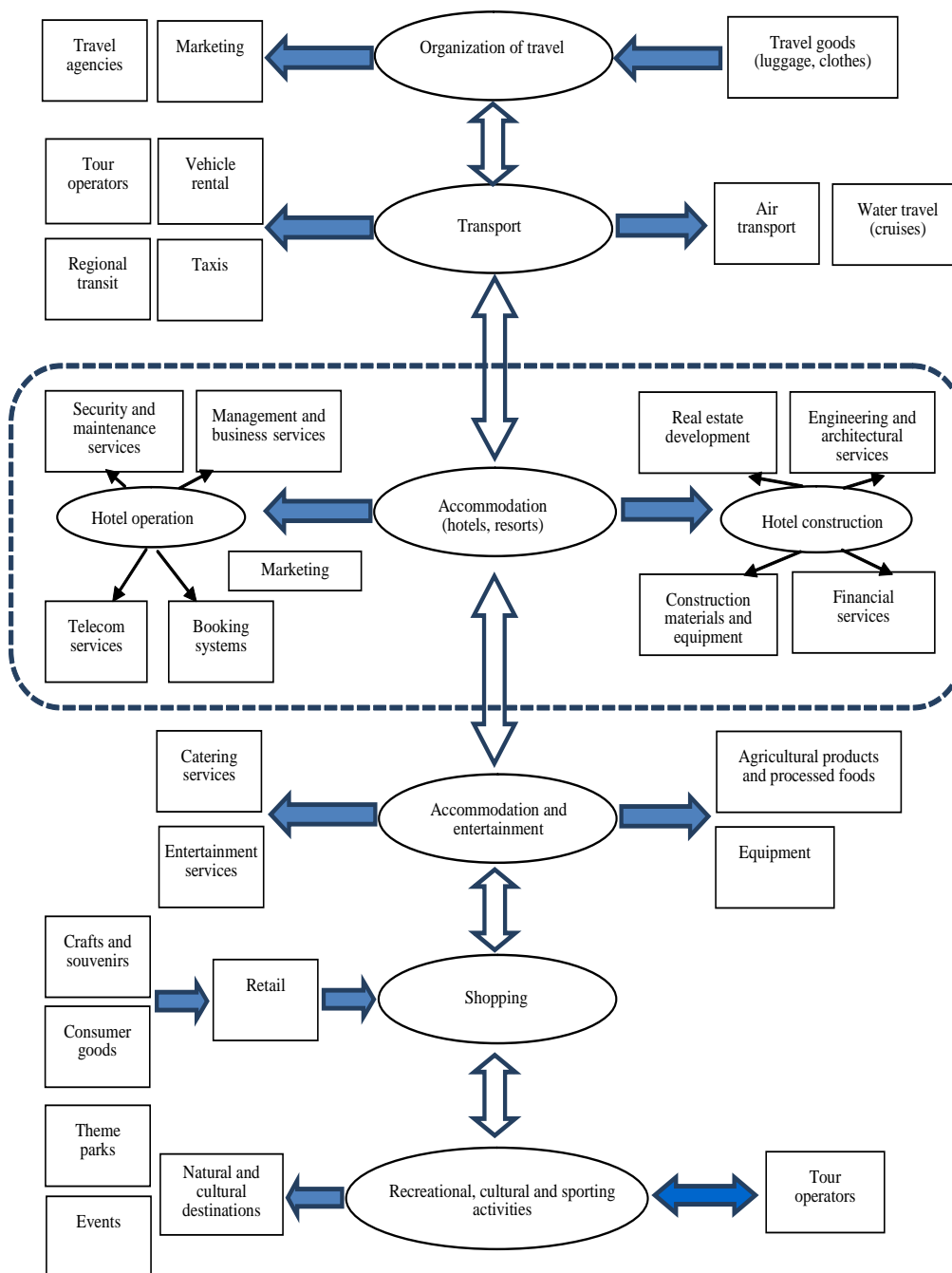
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<sup>9</sup> Mitchell J and Ashley C (2007). Can tourism offer pro-poor pathways to prosperity? Examining evidence on the impact of tourism on poverty. Briefing Paper 22. Overseas Development Institute (ODI). June. <http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/110.pdf>.

<sup>10</sup> Telfer DJ and Wall G (1996). Linkages between tourism and food production. *Annals of Tourism Research*. 23(3):635–653.



Figure 3  
Tourism value chain



Source: ECLAC, on the basis of Gollub J, Hosier A and Woo G (2003). *Using Cluster-Based Economic Strategy to Minimize Tourism Leakages*.

Note: The activities enclosed within the dotted lines are the core activities of the sector.

24. Many developing countries, in particular LDCs, still encounter constraints in sourcing agricultural products locally. Some of these constraints are well-known (inadequate quality, reliability or delivery of supply) and can be exacerbated by poor transport and a lack of communication and information between suppliers and purchasers. The strategies to overcome these problems and the implementation challenges facing developing countries as well as the role of international organizations in strengthening the agriculture–tourism supply chain linkages need further attention. The box below offers an example of a partnership that succeeded in integrating small holders into the tourism value chain.

#### **Gambia is Good**

In the Gambia, tourism is an important source of income. Despite the interest in sourcing locally, hotels and restaurants often import fruits and vegetables, as the local supply tends to be unreliable, of inconsistent quality and insufficient in peak periods. The partnership Gambia is Good (GiG) was created with funding from the Business Linkages Challenge Fund of the Department for International Development of the British Government. This partnership is made up of Concern Universal, an international NGO, and Haygrove Ltd., a leading British horticulture business, and local producers. It purchases fresh horticulture produce from smallholder farmers and markets them to tourist hotels and restaurants, thus replacing middlemen between growers and buyers. GiG provides marketing support and production training, and facilitates input procurement. More specifically, it translates the needs of hotels, restaurants and supermarkets into detailed production plans for growers, negotiates fair prices, sets up a seed store and a produce grading system, helps with irrigation systems and diversifying crops to enable year-round production. As a result, produce is purchased from nearly 1,000 growers, 90 per cent of which are women. The growers supply around 20 tons of produce per tourist season month to more than 40 hotels and restaurants.

*Source:* UNCTAD, based on information available on the web.

25. The tourism sector's potential to stimulate and facilitate growth and development in the manufacturing, construction and transport sectors has also been the subject of much debate. The sector's direct effects on the demand for manufactured products, ranging from simple products such as bed linens, towels, soap and furniture, to high-tech or capital-intensive manufactured products that the construction and transport industries need in order to provide high quality and competitive tourism service, could be substantial. The expansion of the sector often boosts demand for the construction of tourism facilities such as hotels, ports, roads, and modern airport facilities and the provision of vehicles and other means of transport to tourist sites. This, in turn, generates multiplier effects along the value chain and in sectors as diverse as mining, energy, water supply, and the manufacture of products with higher knowledge content, such as inputs into the construction and transport sectors. Further, the construction of transport infrastructure benefits not only tourism but also facilitates trade. In countries where tourist sites are located in remote areas, the construction of a transport network could have a beneficial impact on rural development. However, given the low level of industrial development and the weak production structure across sectors in many developing countries, in particular LDCs, linkages are generally the weakest between tourism and key sectors such as agriculture, transport and manufacturing. Therefore, a large part of the inputs needed to build the basic infrastructure and to promote tourism is often imported.

26. To attract increasing number of tourists and remain competitive, the tourism sector should have access to reliable and efficient utilities such as electricity, clean water and modern sanitary services. These are, of course, utilities that countries should develop for

the well-being of their population, regardless of concerns for tourism. However, policy efforts to promote the tourism sector will give additional impetus to the development of these essential services. Today's tourism industry creates additional demand for information and communications technologies (ICTs), providing another opportunity to deepen linkages. A recent study by the Economic Commission for Latin America and the Caribbean (ECLAC) states:

The availability of information and communications technologies ... has helped to make the tourism industry more productive and competitive and has made tourist services, such as flight and hotel room reservations, more accessible to potential travellers. Internet has radically changed the international tourism industry by shortening the distance between providers of tourist services and their clients. There are two main dimensions to this shift. First, all categories of firms, large and small, from anywhere in the value chain, can now communicate directly with their end customers. Second, whereas consumers used to be outside the value chain, they are now at the heart of it. Just as suppliers can reach consumers directly, so clients have direct access to the supply side.<sup>11</sup>

27. Moreover, the benefits of ICT infrastructure open up vast opportunities outside the tourism sector. For instance, telecommunication links, such as mobile phone facilities and Internet coverage benefit the poor because they provide or facilitate access to information that is crucial for their livelihoods, for example, crop prices.

28. The sector also has the capacity to integrate a large number of local entrepreneurs into its value chain, such as craftsmen/women or local guides. An important share of tourism out-of-the pocket expenditure is spent on buying local crafts and art, and this expenditure generally represents direct income to local communities. Moreover, the exchange between tourists and local entrepreneurs contributes to the positive image of the destination.

29. Beyond the more immediate benefits that tourism can generate, the industry offers another valuable asset, that is, knowledge and technology transfer. In a dynamic industry where client preferences tend to be diverse, acquiring certain intangible knowledge – knowledge of customer's needs, access to booking systems, brands and forms of business organization – becomes key a competitive advantage and is crucial to capture global demand. In this respect, transnational corporations (TNCs) play an important role in facilitating knowledge transmission either through foreign direct investment (FDI) or other non-equity modes of investment, such as licensing or franchising, which are common forms of entry in the tourism industry.<sup>12</sup> Attracting FDI remains a key requirement for the tourism sector in developing countries where domestic resources are limited. Investment requirements cover primary facilities such as hotels and recreational amenities, as well as supportive physical infrastructure and basic services. However, FDI can also be a challenge for countries that are trying to capture a greater share of tourism earnings. The issue of leakages, discussed below, is a major concern for developing countries and could seriously undermine the positive development impacts of tourism.

<sup>11</sup> ECLAC (2009). *Foreign Direct Investment in Latin America and the Caribbean 2008*. United Nations publication. Sales No. E.09.II.G.24. Santiago.

<sup>12</sup> UNCTAD (2007, 2012). *World Investment Report 2007: Transnational Corporations, Extractive Industries and Development*. United Nations publication. Sales No. E.07.II.D.9. New York and Geneva. *World Investment Report 2012: Towards a New Generation of Investment Policies*. United Nations publication. Sales No. E.12.II.D.3. New York and Geneva.

## B. Poverty reduction

30. Tourism, on its own, may not be the answer to the elimination of poverty, but it can make a significant contribution. The impact of tourism on poverty reduction, however, depends on a number of factors. It depends, for example, on the type of tourism, in particular, whether it is large-scale tourism or specialized or exclusive tourism. The former is highly likely to generate more employment, including for semi-skilled workers, and to provide opportunities for direct sales of goods and services to visitors by the poor or small enterprises. However, large-scale tourism could pose its own problems in terms of pressure on domestic resources, the environment and the preservation of cultural heritage; therefore, it requires a strategy to mitigate any possible negative impacts.

31. The poverty reduction impact of tourism also depends on the level of out-of-pocket expenditure that occurs or is encouraged in a destination. This matters because a much higher proportion of discretionary spending usually reaches the poor (often through the informal economy) than of big-ticket items such as accommodation, tour operators and international travel. An ODI study shows that 25–50 per cent of tourist spending reaches the poor from expenditure in restaurants (especially where supplies are purchased locally), shopping (particularly handicrafts) and local transport and excursions.<sup>13</sup>

32. As noted above, the linkage with local food production and supply also matters. The agricultural supply chain for the tourist sector often sustains more poor households than jobs in hotels and restaurants. Similarly, the wage level determines the pro-poor impact of tourism; the higher it is, the more it can reduce poverty, as long as the poor have access to jobs. Investment in infrastructure, utility services, transport network and so on, stimulated by tourism, could also benefit the poor locally either directly or through support of other sectors.

33. Thus, the pro-poor impact of tourism development is not only or not predominantly a matter of size (i.e. tourist arrivals and tourism growth rate), but depends on how the poor are integrated in, or can become part of, the tourism value chain.

34. Employment generation is key to poverty reduction. As a highly labour-intensive activity, the tourism economy tends to create a high proportion of employment and career opportunities for low-skilled and semi-skilled workers, particularly for poor, female and younger workers. It can be a major source of employment for many workers who have become unemployed during the financial crisis or are joining the workforce.

## III. Concerns and risks associated with tourism

35. In developing their tourism sectors, countries, in particular low-income developing countries, face a wide range of challenges and constraints. Some are related to external factors over which national stakeholders or governments have no control. For instance, tourism volumes are sensitive to prevailing global and regional economic conditions (i.e. periods of growth and recession) and to adverse events such as natural disasters, pandemics, political unrest and terrorism. These factors can significantly influence tourists' travel decisions. Beyond these, however, there are also challenges stemming from national policies or a lack thereof. They include a lack of capacity or failure to stimulate linkages, which could lead to financial leakages, sociocultural tensions and environmental damage resulting from tourism-related activities.

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<sup>13</sup> ODI (2007). Assessing how tourism revenues reach the poor. Briefing Paper 21. ODI. London. June. [http://www.sarprn.org/documents/d0002767/ODI\\_tourism\\_briefing-paper\\_Jun2007.pdf](http://www.sarprn.org/documents/d0002767/ODI_tourism_briefing-paper_Jun2007.pdf).

## A. Weak linkages means greater financial leakages

36. Tourism pumps vast amounts of income into the local economy and to the international economy as well. How to capture a greater share of this income is a perpetual challenge facing most poor economies that rely on tourism for their development. The share that is not retained in the local economy – the leakage – limits the multiplier effects and thus reduces the sector’s positive economic impact and development potential. Leakage occurs when there is a need to procure tourism-related goods and services from abroad. It can take the form of profits and revenue paid abroad to international tour operators, the cost of imported goods and services, or interest payments on debt. The average leakage for most developing countries is between 40 and 50 per cent of gross tourism earnings and between 10 and 20 per cent for developed and more diversified developing countries.

37. In developing countries with limited economic diversification, in particular low-income countries, leakage remains a daunting challenge. Some studies have shown that at best between one fifth and one third of total tourist expenditures in the destination is captured by the poor from direct earnings and supply chains. While the capture of even these small percentages of tourism expenditures may have positive pro-poor impacts and is preferable to no tourism at all, emphasis should be placed on reducing leakage so that benefits can be increased. The point here, however, is not to suggest that all goods and services should be sourced domestically;<sup>14</sup> rather it is a question of minimizing leakages by strengthening local linkages and improving the tourism value chain, notably by building domestic capacity, and by fostering linkages between foreign investors and domestic firms. The degree of leakage may be associated with the level of development. Geloso et al. note that “in the early stages of development, as infrastructure and service investment takes place, leakages are likely to be high. Thereafter, they may diminish in parallel with the country’s rising ability to meet its investment, services and goods needs domestically, and by developing appropriate policies to strengthen local capacities”.<sup>15</sup>

38. The presence of transnational corporations (TNCs) in the tourism sector, together with the influx of FDI, leads to financial leakages. While such FDI provides important amounts of capital, TNCs repatriate profits, tend to be vertically integrated with suppliers outside the local economy and often bring in highly skilled international staff that take up the managerial positions. This raises concerns because it could hamper the potential for capital accumulation, integration with local suppliers, transfer of technology and knowledge, and the ability of local staff to upgrade their skills and take up higher value added jobs. According to a recent UNCTAD publication, “in many cases, the main benefit to be expected from investment in tourism is not in the size of the capital investment but in the impacts on training, the upgrading of management processes and links to international value chains”.<sup>16</sup>

39. The solution to the leakage problem is to promote strong linkages between tourism and the other sectors discussed above. As noted previously, building linkages requires ensuring an effective national strategy.

40. It is also important to address anticompetitive business practices that constrain the development of the tourism sector by increasing the costs of doing business in the country and compromising the quality of local goods and services. The absence of competitive

<sup>14</sup> If there is a lack of competitive advantage, international supply is more efficient (e.g. brands benefiting from international reputation, such as champagne).

<sup>15</sup> See footnote 8.

<sup>16</sup> UNCTAD (2010). Promoting foreign investment in tourism. Investment Advisory Series. Series A, No. 5. UNCTAD/DIAE/PCB/2009/16. New York and Geneva.

markets can greatly hinder the development of linkages to the tourism sector. For instance, the presence of monopolies in the telecommunications or energy sector can result in high prices, poor quality and erratic delivery. Lack of competition in the financial services sector leads to costly credit that raises investment costs for local tourism service providers. The absence of a competitive airline sector or domestic transport sector raises air fares and domestic travel costs. Constraints related to anticompetitive practices should be addressed through competition laws and a competition policy framework with collaboration between the competition authority, the State and the economic sectors to promote competition.

## **B. Sociocultural concerns**

41. Tourism brings populations with different values, cultures, income levels and lifestyles in contact with each other. While this exchange can be very valuable in several regards, it can also lead to friction or threaten established values and cultures. Some observers even argue that it may lead to cultural degradation or disruption for communities, in particular women and vulnerable indigenous people, in the destination country, as well as resentment and ultimately rejection of foreign tourists by local residents.

42. A recent report by the United Nations Environment Programme (UNEP) states:

There are examples of communities overrun by large numbers of visitors, commercialization of traditions and threats to cultural survival from unplanned and unmanaged tourism. Tourism destinations are occasionally built by outsiders (usually with government approval) in areas that indigenous or traditional communities consider to be theirs, and where the development was neither desired nor locally validated. . . these situations could lead to conflicts that make cooperation and mutual benefits nearly impossible to achieve, and instil animosities that negatively affect the local communities and the tourism destination. In countries where resources are limited and communities are vulnerable to external shocks, the cultural issues could overlap or even be aggravated by environmental concerns and problems related to access to water, coastal resources and wildlife”.<sup>17</sup>

## **C. Environmental damage and damage to cultural heritage**

43. Possibly the most pressing negative impact of tourism is the one it exerts on the environment. As it is energy- and water-consuming, produces large amounts of waste and affects cultural heritage by attracting large crowds of people to these sites, tourism can cause considerable environmental and cultural heritage damage.

44. The aforementioned UNEP study warns that “the sector’s growing consumption of energy, especially in travel and accommodation, and its dependence on fossil fuels has important implications for global GHG [greenhouse gas] emissions and climate change as well as for future business growth.” Factors contributing to the increasing energy consumption are the growing number of international and domestic tourist arrivals, a preference for energy-intense transportation and a trend to travel further and over shorter periods of time. UNEP estimates that tourism creates about 5 per cent of total GHG emission, primarily from tourist transport (75 per cent) and accommodation (21 per cent).

45. In many tourist destinations, water is an increasingly scarce resource. While water use by tourism is far less than that of agriculture, for instance, in some areas it can be the

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<sup>17</sup> UNEP (2011). *Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication – A Synthesis for Policy Makers*. UNEP. [www.unep.org/greeneconomy](http://www.unep.org/greeneconomy).

main factor in water consumption. There are various examples where such a situation has led to water inequity between tourists and neighbouring communities jeopardizing subsistence needs of local communities. Gössling and Hall reckon that luxury resorts on an East African island use up to 2,000 litres of water per tourist per day, almost 70 times more than the average daily domestic consumption of local people.<sup>18</sup>

46. The production of waste and waste management systems, or the lack thereof, is another factor that negatively affects the environment. First, tourism generates a comparatively high level of waste. Second, wastewater management is often dismal, with hotels discharging untreated sewage directly into the sea. It is estimated that in the European Mediterranean only 30 per cent of municipal wastewater from coastal towns receives any treatment before discharge.<sup>19</sup>

47. The impact of tourism on biodiversity has already been immense. There are many examples where large-scale tourism has had detrimental effects on biodiversity, including coral reefs, coastal wetland, rainforests, arid and semi-arid ecosystems and mountainous areas.<sup>20</sup> According to UNEP, “Failure to incorporate biodiversity concerns in destination planning and investment will have detrimental effects on the natural environment, increase conflict with local communities, and lead to reduced value-creation potential for both the destination and investors (notably as interest in nature-based tourism is growing rapidly around the world).”<sup>21</sup> Nonetheless, it should also be mentioned that in several countries tourism has heightened the awareness about the value and need to protect biodiversity.

#### IV. Towards sustainable tourism

48. The previous two chapters discussed the dilemma of tourism development: on the one hand, the tourism industry provides many opportunities for backward and forward economic linkages, foreign exchange earnings, economic diversification, increased income, employment and poverty reduction. On the other, tourism could pose threats to the preservation of culture and environmental resources, which are vital amenities for attracting tourists. Can these two contrasting dynamics be reconciled? In other words, can the sector be made sustainable so it contributes to economic development, employment and poverty reduction without destroying culture and damaging the environment? There is a growing consensus that sustainable tourism is possible. However, it requires a strategy that takes into account economic, environmental, social and cultural factors. According to UNWTO, such a strategy should ensure the following:<sup>22</sup>

(a) Make optimal use of environmental resources that constitute a key element in tourism development, while, at the same time, maintaining ecological balances and helping to conserve natural heritage and biodiversity;

(b) Respect the sociocultural authenticity of host communities, conserve their built and living cultural heritage and traditional values, and contribute to intercultural understanding and tolerance;

<sup>18</sup> Gössling S and Hall C M, eds. (2006). *Tourism and Global Environmental Change: Ecological, Social and Political Interrelationships*. Routledge. London.

<sup>19</sup> See footnote 17.

<sup>20</sup> UNWTO (2010). *Tourism and Biodiversity: Achieving Common Goals towards Sustainability*. UNWTO. Madrid.

<sup>21</sup> See footnote 17.

<sup>22</sup> Sustainable tourism has been defined by several institutions and authors. While the proposed definitions differ in their focus or level of detail, they share the view that the concept includes economic, environmental, social and cultural considerations.

(c) Ensure viable, long-term economic operations, providing socioeconomic benefits to all stakeholders that are fairly distributed, including stable employment and income-earning opportunities and social services to host communities, and contributing to poverty alleviation.

49. In light of the potential negative effects of tourism, the need for promoting sustainable tourism to ensure future gains and to minimize the possible negative impact on the environment and cultures has acquired renewed urgency. This, in turn, has heightened the awareness of policymakers, tourists and tourism business operators about the need and value of conserving unique natural, social and cultural assets of destinations. Tourists are becoming more demanding of the environmental quality of destinations. Similarly, tourist destinations have incentives to conserve and improve the environment, not only for their own sake, but also for creating value.<sup>23</sup> Indeed, sustainability and creating pro-poor and environmentally conscious tourism business have become important marketing tools and could also provide tourism service providers with a competitive edge.

### **A. A policy agenda towards sustainable tourism**

50. There are a variety of ways that governments and private-sector operators can make tourism more sustainable. As noted, long-term prospects for sectoral growth depend on building adequate infrastructure and supply chains, and strengthened policies and institutions to ensure that tourism activities are carried out sustainably, meeting economic, social and environmental objectives. As the sector matures, planning at the national level, environmental regulations and cultural preservation initiatives will also become increasingly important. In the short term, however, some of the main requirements for implementing sustainable tourism would include the following:

- (a) Creating awareness of how environmental damage can reduce the attractiveness of destinations;
- (b) Promoting knowledge of principles and methods of environmental management, including energy and water conservation strategies;
- (c) Providing tourism firms with access to market information and financial resources;
- (d) Enhancing coordination between government departments dealing with tourism and the environment and private investors in the tourism sector;
- (e) Upgrading infrastructure in isolated tourism sites where private-sector investment is unlikely to go.

51. Efforts are under way at the national and international levels to implement some of these basic requirements or principles. At the international level, on the initiative of UNWTO, the United Nations Steering Committee on Tourism for Development was set up, bringing together the tourism-specific experiences and expertise of nine international agencies and programmes.<sup>24</sup> The Steering Committee's main objective is to generate synergies for a more coordinated, effective and efficient delivery of tourism-related technical assistance to developing countries.

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<sup>23</sup> See footnote 16.

<sup>24</sup> International Labour Organization, International Trade Centre, UNCTAD, United Nations Development Programme, UNEP, United Nations Educational, Scientific and Cultural Organization, United Nations Industrial Development Organization, UNWTO, World Trade Organization



52. Another initiative that also extends to the private sector is the Global Sustainable Tourism Council. It has identified a set of indicators to track and monitor tourism operations and management of hotels and tour operators and destinations to evaluate their sustainability. Indicators are identified for four areas, namely sustainable management, and socioeconomic, cultural and environmental impacts (including consumption of resources, pollution reduction and conservation of biodiversity and landscapes). This framework aims to foster increased knowledge and understanding of sustainable tourism practices, to promote the adoption of universal sustainable tourism principles and to build demand for sustainable travel.

53. It is expected that rising environmental awareness will lead to greater demand for sustainable destinations and this, in turn, will create incentives for transforming the sector towards greater sustainability. Several governments, international organizations, consumer groups and environmental organizations have already demanded that environmental quality and sustainability of raw materials be an integral part of public policy and corporate priorities.

54. Greater awareness of climate change and its negative impact has further impelled the willingness to invest in more environmentally friendly products and services. However, increasing climate-change awareness could be a double-edged sword. It will, on the one hand, encourage the development of new low-carbon tourism products. On the other hand, it could negatively affect tourist flows to certain destinations, if, for example, carbon taxes are raised on long-haul flights and this results in higher flight prices.

55. With regard to public policy, it is necessary to design and implement taxation and subsidy policies that encourage investment in sustainable tourism activities and discourage unsustainable tourism. When governments invest in, inter alia, protected areas, cultural assets, water and waste managements, this sends a signal to private investors and works as an incentive to take investment decisions towards greener outcomes.

56. Promoting sustainable tourism is far-reaching and involves broad actions, ranging from the adaptation of new technologies and practices to obtain efficiency improvements in energy, water and waste systems, to the implementation of policies to restore biodiversity. This can lead, among others, to energy-efficiency gains in transport and accommodation, fewer health risks or the upgrading of the attractiveness of a destination. To enable stakeholders to move towards more sustainable tourism, there are many elements that are required or must be considered. They may include:

- (a) Clustering;
- (b) Linkages with local suppliers of goods and services;
- (c) Skills and human resources development;
- (d) Access to finance and investment;
- (e) Institutional framework and mainstreaming of tourism in national policies;
- (f) Promotion and marketing;
- (g) Protection and conservation of cultural heritage.

## **B. Clustering**

57. The quality of the environment is not only a crucial concern of local communities but the most valuable asset of tourist destinations that compete on the grounds of natural beauty and attractions. There is thus a mutual interest of governments, companies and community organizations to protect and conserve the environment. By clustering,

stakeholders can advocate more effectively for sound environmental management (e.g. design and enforce regulation), benefit from economies of scale (e.g. cost sharing of upgrading a road), and extend the benefits to communities (e.g. putting in place a waste management system). This strengthens the competitive position for the entire cluster.

### **C. Linkages with local suppliers of goods and services**

58. As discussed in chapter II, tourism has considerable potential to create strong backward and forward linkages in the national economy. To ensure the sustainability of tourism operations, sustainability policies cannot be limited to tourism itself, but must encompass sustainability considerations at all levels that are linked with the industry. In agriculture, for instance, this could mean that policies should encourage the use of irrigation systems with adequate drainage or practices that avoid long-term damage to soil quality. Strong linkages that generate employment, income and facilitate skills upgrading will contribute to viable long-term economic operations and poverty reduction.

59. An increasing number of developing countries have established dedicated tourism linkages programmes setting out actions that are needed to amplify links, for example in India or Jamaica. Similar programmes are required to strengthen linkages in LDCs and small island developing States. Some actions proposed by UNCTAD to catalyse the development of local supply chains include the following:

- (a) Strengthening productivity of the agricultural sector and its linkages to tourism;
- (b) Providing small-scale businesses with start-up grants, education and training, and low-interest loans to stimulate SME development;
- (c) Introducing incentive measures to encourage hotels and restaurants to source inputs locally;
- (d) Relaxing zoning and licensing requirements so that small-scale businesses can participate in the downstream tourism value chain.

### **D. Skills and human resources development**

60. Although tourism employs a comparatively high share of un- and semi-skilled workers, it also needs professionals with specific skills. There is an increasing need for specialized training to expand tourism markets, including management and leadership training, information technology and foreign languages. To adopt more environmentally friendly technologies and manage tourist facilities in ways that comply with sustainability standards, it is necessary that the skills base be compatible with sustainability objectives. This calls for investment in human resources development so that people can acquire those skills, and in addition, engage in higher value added activities.

### **E. Access to finance and investment**

61. The quality of tourism infrastructure is highly dependent on access to finance to undertake public and private investments. In many developing countries, access to credit is extremely costly, and public spending for building and upgrading infrastructure is often very limited. Policies should thus facilitate access to credit, especially for SMEs, given that they are the backbone of the tourism industry. This requires that banks rethink how they evaluate environmentally sound investments. While such investments have a cost, their

payback periods can be relatively short and lead to cost savings that make them financially viable and attractive.

62. Moreover, policies should encourage domestic investment alongside foreign capital involvement (TNCs/FDI, development assistance and triangular cooperation). As argued above, the benefit of foreign investment goes much further than the capital injection. Importantly, some national experiences have shown that governments can negotiate with TNCs the terms of involvement in their economies and thus align TNCs with national policies, and for instance, engage investors in helping to finance infrastructure and operate services.<sup>25</sup> Moreover, by sharing information and coordinating negotiations with foreign investors and tour operators, domestic tourism firms can secure higher volumes and margins for nationally produced tourism goods and services.

## **F. Institutional framework and mainstreaming of tourism in national policies**

63. As a highly interconnected industry, maximizing the potential of tourism requires coherent and comprehensive policy frameworks. Such policy frameworks need to ensure that sustainable tourism is integrated into the country's overall economic, social and environmental policies. Integrating multiple policy areas and actors requires a high degree of institutional capacity. It also calls for strong tourism agencies that are capable of coordinating with other governmental agencies and stakeholders, such as local authorities, the private sector and NGOs. This is a challenge, given that the industry is fragmented with many enterprises, particularly of small, medium-sized and micro enterprises.

64. It can be helpful for policymakers and businesses to have guidelines that suggest actions on how they can contribute to sustainable tourism. UNCTAD proposed a series of guidelines for economic, social and environmental considerations that can strengthen the positive impacts of tourism:<sup>26</sup>

(a) Economic guidelines – Assess economic impacts before developing tourism, maximize local economic benefits by fostering linkages and reducing leakages, ensure that communities are involved in and benefit from tourism, assist with local marketing and product development, and promote equitable business and pay fair prices;

(b) Social guidelines – Involve local communities in planning and decision-making, assess the social impacts of tourism activities, respect social and cultural diversity, and be sensitive to the host culture;

(c) Environmental guidelines – Reduce negative environmental impacts when developing tourism, use natural resources in a sustainable way and maintain biodiversity.

## **G. Promotion and marketing**

65. Promotion and marketing of tourism destinations require a coordinated approach developed jointly with the private sector. Investment promotion agencies can play an important role in reaching out to foreign investors, guiding them towards sustainable development, and targeting foreign investors in economically, socially and environmentally sustainable projects.

<sup>25</sup> For further information, see UNCTAD (2012). *Investment Policy Framework for Sustainable Development*. UNCTAD/DIAE/PCB/2012/5. United Nations. New York and Geneva. [http://unctad.org/en/PublicationsLibrary/webdiaepcb2012d6\\_en.pdf](http://unctad.org/en/PublicationsLibrary/webdiaepcb2012d6_en.pdf).

<sup>26</sup> See footnote 16.

66. At the firm level, several major hotel groups have already adopted charters on sustainable tourism and environmental protection, and use them as promotion- and quality-control tools.

## **H. Protection and conservation of cultural heritage**

67. Cultural heritage is one of the main drivers of tourism, but large crowds of visitors can pose a serious risk to the conservation of these sites. In developing cultural heritage sites, it is essential to create partnerships with local communities to enable the assessment and management of the impacts of tourism on their communities.

68. Tourism development can contribute to raising awareness of natural and cultural heritage and to more resources being allocated to the protection and conservation of that heritage. It can even contribute to the continuation, rejuvenation and enhancement of traditions. However, local communities can be negatively affected by the sector. When projects still move ahead, it is important to consider economic measures to compensate and offset unavoidable impacts.

## **V. Conclusions**

69. Tourism has the potential to contribute to economic growth and poverty reduction, in particular in low-income developing countries. The sector's capacity to generate employment and income owing to its backward and forward linkages makes it important for economic diversification and economic growth. At the same time, however, the negative impact it can inflict on the environment and culture cannot be overlooked. To ensure that tourism provides employment and income opportunities in the long run and contributes to sustainable development, its operations, including the activities that are linked with it, must be sustainable. As argued in this issues note, this calls for ambitious strategies and policy agendas.

70. In this context, the expert meeting provides an opportunity to address the key issues regarding the contribution of tourism to economic growth and sustainable development. The key questions are as follows:

(a) What are the specific features of tourism that lend themselves to domestic capacity-building and economic development, and are particularly relevant to poverty reduction?

(b) What are the negative aspects of tourism that require policymakers to pay extra attention in formulating policies and strategies for tourism development?

(c) How can governments attract adequate levels of investment to build supply capacities, develop effective linkages between tourism and various other sectors, and, at the same time, address economic leakage and anticompetitive practices in the tourism industry?

(d) Given that tourism-related activities rely on the development of infrastructure, preservation of the environment and cultural heritage sites, supply of energy and water, and other factors, how can tourism as an economic activity be made sustainable?

(e) What are the policies and strategies that governments need to pursue to promote sustainable tourism and to ensure that tourism contributes to sustainable development?

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