Inputs received

Building an Effective International Architecture for Climate Finance: the Role of the Tourism Industry

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Abstract

Tourism represents one of the main sources of income for many developing countries. It has been acknowledged that tourism generates a positive contribution to the economic growth of host economies. Tourism creates jobs, enhances exports and contributes to the economic welfare of a host country. Recently, international institutions such as the World Bank, IMF and the UN have recognized tourism as an avenue for economic growth and poverty reduction (Vanegas, 2007, UNCTAD, 2007). This paper argues that the tourism industry is an important piece of the puzzle for building an effective international architecture for climate finance. Our research has found that every dollar invested in the tourism industry in developing countries can be expected to generate 2.7-5.4 US$ of GDP. Thus, tourism must be integrated within national development strategies and should be present in international economic development and poverty reduction.

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The Impact of Tourism in Economic Growth

The economic contribution of the tourism industry accounts for about 10.6 percent of the world’s GDP (UNCTAD, 2007). Tourism represents one of the main sources of income for many developing countries (World Tourism Organization, 2008) and for some nations tourism contributes up to 95 percent to their GDP (World Travel and Tourism Council, 2007). Scholars have devoted a lot of attention to the direct and indirect impacts of tourism to the economy of a country (Fretchling, 1994; Stynes, 1997; Mark, 2004; Skerritt and Huybert, 2005). Job generation, tax revenue and flows of foreign currency to a host country (Burchell and Listokin, 1978; Frechtling, 1994; UNCTAD, 2007) are important sources of direct revenue. More recently, research has uncovered the importance of the long-term economic contributions of tourism (e.g. for infrastructure) (Balaguer and Cantavella-Jordá, 2002; Dritsakis, 2004; Kim et al., 2006). The indirect impacts, also known as ‘spillovers’ of tourism, have also been regarded as contributing factors to the host country. It has been found that the ‘spillovers’ of tourism have effects on the productivity, know-how and backward-linked industries of the host country (Mark, 2004; Skerritt and Huybert, 2005). Tourism also stimulates other supporting industries, generating an increase in consumption-demand of goods and services (Stynes, 1997; Mark, 2004). Flechtling (1994) acknowledges this as the multiplier effects of tourism. Tourism has also been endorsed for reviving cultural activities (UNCTAD, 2007) and input toward political empowerment of local communities (Honey, 1999). The economic contribution of tourism has particularly been recognized in developing countries (UNCTAD, 2007).

In recent years, seminal work has found that tourism is an important avenue of economic growth and poverty reduction (Sharpley and Telfer, 2002; UNCTAD, 2007; Rios-Morales et al., 2010). It has been recognized that tourism creates jobs, enhances exports and contributes to the economic welfare of a host country. However, capital investment is a key factor for tourism to be an avenue of economic growth and poverty reduction (UNCTAD, 2007).

Methodological Approach

The goal of the data analysis presented in this section has been to detect links between capital investment in the tourism industry and the increase in GDP that can be expected from this investment. The source of the data has been the data bases prepared by the World Travel and Tourism Council (WTTC, 2010). The data have been analyzed, in total, for 26 developing and emerging countries: Bahamas, Costa Rica, Cuba, Dominican Republic, Ecuador, Fiji, Jamaica, Macau, Malaysia, Maldives, Mauritius, Peru, South Africa, Vietnam, Bolivia, Cayman Islands, El Salvador, Estonia, Kenya, Kuwait, Seychelles, St Lucia, Thailand, Ukraine, Venezuela and Singapore. In our analysis we have compared the absolute values of total capital investment in the tourism industry with the values of the total travel and tourism economy GDP, both expressed in billions of US$. For all 26 countries and every year for the period 1995-2010, we have determined the ratio between tourism related GDP and the capital investment in the tourism industry in the same year. We have used data for the same year because a simple correlation analysis demonstrated that obtained GDP values are better correlated with investment in the same year than with investment in previous years. The computed ratios for the 26 countries in the period of 16 years have been in the range of 1.5 to 20.0. This is a large range, but when some obvious outliers are eliminated, the range becomes much smaller.

There are a number of countries that have positive outliers (with large ratios): the Seychelles has a mean value with the ratio equal to 10.8 during the period 1995-2010, the Maldives with mean value of 6.4, and Thailand with a mean value of 5.8. The negative outliers are Singapore with a mean value of 2.0, Ukraine with 2.0, and Estonia with 2.6. The data for all 26 countries are in Table 1. The analysis concerning why these countries have positive or negative outliers is outside the scope of this work. The important result is that after elimination of these outliers, the ratio between GDP and related investment becomes surprisingly stable. The values of the ratio are in the range 2.1 - 9.1 for some specific years and countries. But these values are for one year. When we look at the mean values, over a 16 year period for each country, then these values are in the range 2.8-5.3, with a mean value for all 20 countries equal to 4.055 and with a standard deviation of 0.68.
The result means that practically all countries that are not outliers, may expect long term values, in the range 2.7-5.4. The range is computed as the mean value +/- 2 standard deviations and presents a result that will be true in more than 95 percent of cases. This conclusion is important, because it demonstrates a basis for the estimation of total expected travel and tourism related GDP, for any country based on the investment in the tourism industry during the same year. The interpretation is that for each additionally invested US$ can expect about 2.7-5.4 US$ of additional GDP.

Table 1: Data based on investment in the tourism industry during the period 1995-2010: Nicaragua and 26 other developing countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Slope of relative investment in tourism industry 1995-2010</th>
<th>Mean ratio GDP/investment 1995-2010</th>
<th>Investment in tourism per capita in year 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nicaragua</td>
<td>0.04</td>
<td>2.79</td>
<td>0.02</td>
</tr>
<tr>
<td>Bahamas</td>
<td>0.03</td>
<td>3.95</td>
<td>3.86</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>0.03</td>
<td>4.48</td>
<td>0.21</td>
</tr>
<tr>
<td>Cuba</td>
<td>0.02</td>
<td>4.22</td>
<td>0.09</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>0.03</td>
<td>4.65</td>
<td>0.17</td>
</tr>
<tr>
<td>Ecuador</td>
<td>0.07</td>
<td>2.81</td>
<td>0.11</td>
</tr>
<tr>
<td>Fiji</td>
<td>0.02</td>
<td>4.38</td>
<td>0.22</td>
</tr>
<tr>
<td>Jamaica</td>
<td>0.03</td>
<td>3.46</td>
<td>0.37</td>
</tr>
<tr>
<td>Macau</td>
<td>0.09</td>
<td>4.65</td>
<td>7.73</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.02</td>
<td>3.51</td>
<td>0.21</td>
</tr>
<tr>
<td>Maldives</td>
<td>0.04</td>
<td>6.42</td>
<td>0.43</td>
</tr>
<tr>
<td>Mauritius</td>
<td>0.01</td>
<td>4.61</td>
<td>0.36</td>
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<tr>
<td>Peru</td>
<td>0.05</td>
<td>3.49</td>
<td>0.11</td>
</tr>
<tr>
<td>South Africa</td>
<td>0.06</td>
<td>3.19</td>
<td>0.17</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0.11</td>
<td>4.16</td>
<td>0.04</td>
</tr>
<tr>
<td>Bolivia</td>
<td>0.01</td>
<td>3.53</td>
<td>0.03</td>
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<tr>
<td>Cayman Islands</td>
<td>0.02</td>
<td>3.18</td>
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<td>El Salvador</td>
<td>0.03</td>
<td>3.64</td>
<td>0.05</td>
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<td>Estonia</td>
<td>0.14</td>
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<td>0.78</td>
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<td>Kenya</td>
<td>0.02</td>
<td>5.07</td>
<td>0.01</td>
</tr>
<tr>
<td>Kuwait</td>
<td>0.04</td>
<td>4.35</td>
<td>0.47</td>
</tr>
<tr>
<td>Seychelles</td>
<td>0.00</td>
<td>10.79</td>
<td>0.33</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.01</td>
<td>2.03</td>
<td>1.70</td>
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<tr>
<td>St Lucia</td>
<td>0.00</td>
<td>4.46</td>
<td>0.56</td>
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<tr>
<td>Thailand</td>
<td>0.00</td>
<td>5.79</td>
<td>0.07</td>
</tr>
<tr>
<td>Ukraine</td>
<td>0.09</td>
<td>2.04</td>
<td>0.07</td>
</tr>
<tr>
<td>Venezuela</td>
<td>0.03</td>
<td>5.33</td>
<td>0.12</td>
</tr>
</tbody>
</table>

Source: Source: World Travel and Tourism Council, Data Bases, 2010

Conclusion and Recommendation

Our findings suggest that in developing countries, for every dollar invested in the tourism industry, we can expect 2.7-5.4 US$ of GDP. Table 1 demonstrates that the mean values for the GDP/investment ration are stable in spite of the large differences in respect of the absolute values of investment in tourism per capita. The table also demonstrates that the conclusion is true for Nicaragua, even though it has not been included in the countries analysed in this paper.

The result demonstrates that tourism is an essential component of economic growth and of poverty reduction, together with tourism’s ability to play an important role in building an effective international architecture for climate finance. Investment will generate a positive contribution to economic growth and poverty reduction when the necessary conditions are set in place. We argue that tourism must be integrated within national development strategies and should be present in international economic development and poverty reduction. Finally, our study suggests that due to the limited resources that developing countries have, financial cooperation from the international community through private investment, technical assistance and advisory work is required.
References


