

Economic leakage in tourism sector

Nareeta Supradist

Supervisors

Mikael Backman

Thesis for the fulfilment of the
Master of Science in Environmental Management and Policy
Lund, Sweden, October 2004

© You may use the contents of the IIIIEE publications for informational purposes only. You may not copy, lend, hire, transmit or redistribute these materials for commercial purposes or for compensation of any kind without written permission from IIIIEE. When using IIIIEE material you must include the following copyright notice: 'Copyright © IIIIEE, Lund University. All rights reserved' in any copy that you make in a clearly visible position. You may not modify the materials without the permission of IIIIEE.

Published in 2004 by IIIIEE, Lund University, P.O. Box 196, S-221 00 LUND, Sweden,
Tel: +46 – 46 222 02 00, Fax: +46 – 46 222 02 10, e-mail: iiiiee@iiiiee.lu.se.

ISSN 1401-9191

Acknowledgements

I would like to express my sincere thanks to Mikael Backman, my wonderful supervisor who has been supporting me since the ARPEA two paper crisis. Your supervision, your patience, and your sense of humours bring me the success today.

I also would like to thank Casper Boks for your valuable comments. I hope my interpretation is not wrong, and my thesis is yummy, crispy and sexy as you wish.

Thank you very much to all friends and staff of the IIIIEE, Adriana Budeanu, Han Brezet, Yvonne Hansen, Åsa Nilsson, Camelia Tepelus as well as Karin Söderberg, a lady cleaner who keeps our place clean. Thank you to Philippe Lemaistre, Henryk Handszuh and Christine Ennew for some email inputs. Thank you very much to Benckt Aspman, Benny Pålson, Henrik Thomke and Lars Axelsson for spending your valuable time with my interview.

Mummy, daddy, P' Nat, grand mum, aunties, Choco & sons, I would like to tell you that finally I have finished my thesis already. I have been waiting for today for a long time, finally, here it comes!

Annett Wolf, do you think that I will not mention you here? I do not have anything special to say to you. I just want to let you know that you jazzed up my days here; although sometimes, you were a pain in the ass. Thanks for everything.

Abstract

Many countries have chosen tourism as a tool for economic development. Economic leakage is a phenomenon that always occurs in the tourism industry of every country. Although this issue has been mentioned for over a half century, it seems that only few researchers have done a thorough analysis about this subject. Despite this fact, it by no means implies that economic leakage should be underestimated because if a high level of leakage prevails in a region, it could decelerate a region moving towards economic sustainability.

The story of economic leakage is presented by starting from concepts of sustainability, tourism and economic development followed by the literature review of economic leakage. The tourism value chain is used to help examine leakage prone points in the tourism sector. Åre and Idre are chosen as cases to apply the value chain to. Finally, some recommendations of mitigating economic leakage and the lessons learned will be elaborated. **Key words:** *economic leakage, foreign exchange leakage, foreign ownership, import content, tourism value chain, economic development, economic sustainability.*

Executive Summary

Many countries have chosen tourism as a tool for economic development. When it comes to negative impacts from tourism sector, economic leakage is one topic that is brought up. Actually, leakage in tourism sector has been mentioned for over a half century; however, to date few researchers have done a thorough study.

Despite this fact, it by no means implies that economic leakage should be underestimated because if high level of leakage prevails in a region, it could decelerate a region moving towards economic sustainability.

With this in mind, this thesis aims to consolidate the story of economic leakage in order to reach a higher level of understanding. Secondly it proposes a simple and practical tool that a region can adopt to describe the overall picture of its tourism industry, to examine the potential points where leakage may occur, and to analyse from a local sustainability perspective how much tourism activities contribute to the local economy and in which points unnecessary leakage could be mitigated. The thesis answers five main research questions as follows:

1. Why is economic leakage of concern?
2. How is economic leakage defined?
3. What are the contributory factors to economic leakage?
4. Are there any methodologies to use as a starting point to examine economic leakage?

Lastly, in the application part, the tourism value chain is proposed and applied to Åre and Idre answering the final research question which is:

5. Are there any ways to mitigate economic leakage along the tourism value chain?

There are some advantages that the local community may obtain if it pays attention to economic leakage. Those benefits are for example, having more income retention, and creating a chance to observe an industrial linkage which would bring new business opportunity to a region.

Economic leakage is categorised into three groups which are export leakage, import leakage and invisible leakage. Each leakage has a different level of difficulty to keep track of. The most renowned ones are leakage through import payment, profit repatriation, and pre leakage through tour operator's package. In general, developing countries, least developed countries and small island countries are more exposed to leakage than developed ones.

Factors resulting in leakage vary for instance the level of development, economic diversification, government policy, business power integration, state of ownership, etc. Over time, leakage can drop or rise, according to all mentioned factors, as it is a dynamic phenomenon.

Measuring economic leakage is a difficult task because it is not easy to detect. There seems to be no methodology specifically made for this purpose yet. In the application part, this thesis proposes the tourism value chain to be a first step tool for a region to see an overview of the depth and breadth of its tourism industry and to indicate the points that leakage could occur and to show what missing elements of the industry that could be added to the whole chain in

order to create a more positive contribution to the local economy. This tool is not complex and it is therefore not over a capacity of average people to comprehend. Nevertheless, when it comes to calculating leakage quantitatively, it seems to be more appropriate to develop another tool such as an econometric model, particularly for this purpose.

The tourism value chain is a continuum of related economic activities from various stakeholders in the region and is associated with visitors. It starts from holiday planning in the home country, to stakeholders in the destination country beginning with transportation, accommodation, food and entertainment, shopping and visiting experience. Each element along the chain may cause different types of leakage.

Two ski resorts in Sweden, Åre and Idre have been chosen as cases to study the application of tourism value chain to. The findings from these cases lead to ideas on how to reduce leakage along the value chain as summarised below:

Elements along the value chain	Causes of leakage	Ideas of mitigation
Holiday planning	Tour operators	Increase sale and marketing points as well as Internet marketing
Transportation	Tour operators	Partnerships with local transportation companies
Accommodation	Foreign chains, seasonal workers, tour operators	Increase sale and marketing points, Internet market, Integrated Quality Management as well as creating all year round business to keep a steady employment.
Food and entertainment	Insufficient amount of local food supplies, food retailers, seasonal workers	Industrial linkage, increase awareness and set up focal points for the management
Shopping	Not obvious though it may have import contents	Promote in tandem with local food
Visiting experience	Foreign control of main facilities	Hard to solve though it may be advantageous to, increase local participation

The lessons learned discuss various controversial topics such as a geographical boundary, and necessary, unnecessary leakage, etc. It reveals that leakage should not be always regarded negatively as in some cases it is necessary and can boost more value added to the tourism industry. Leakage seems to be acceptable as long as the income to the local economy is higher than the loss from all kinds of leakage.

However, it does not mean that there should be no attempt to reduce leakage. Although leakage is not always detrimental to local economy in a short period, in the long run foreign dependency always comes with risks. Over time, in order to get closer to economic sustainability, a region should try to increase the level of self-sufficiency.

The thesis concludes that it is crucial that there be an attempt to increase a capability to retain tourism expenditure in a region and to generate the wealth evenly among local residents. With the fact that the rise and fall of tourism destination also depends on local acceptance, it is essential that tourism development make local benefits a priority.

Table of Contents

List of Figures

List of Tables

1	INTRODUCTION.....	5
1.1	BACKGROUND.....	5
1.2	OBJECTIVES.....	5
1.3	RESEARCH METHODOLOGY.....	6
1.4	LIMITATION.....	6
1.5	RESEARCH OUTLINE.....	7
2	A BRIEF HISTORY: TOURISM AND SUSTAINABILITY.....	9
2.1	GENERAL INTRODUCTION.....	9
2.2	SUSTAINABLE TOURISM.....	9
2.2.1	<i>Economic sustainability.....</i>	<i>11</i>
2.2.2	<i>Social and cultural sustainability.....</i>	<i>11</i>
2.2.3	<i>Environmental and ecological sustainability.....</i>	<i>11</i>
2.2.4	<i>Sustainability.....</i>	<i>12</i>
2.3	CONCLUSIONS.....	12
3	TOURISM AND ECONOMIC DEVELOPMENT.....	13
3.1	GENERAL INTRODUCTION.....	13
3.2	WHY TOURISM?.....	13
3.2.1	<i>Export industry.....</i>	<i>13</i>
3.2.2	<i>Physical economic and industry development.....</i>	<i>14</i>
3.2.3	<i>Poverty alleviation.....</i>	<i>15</i>
3.3	WHAT HAS ACTUALLY HAPPENED?.....	15
3.3.1	<i>Enclave tourism.....</i>	<i>16</i>
3.3.2	<i>Financial effects.....</i>	<i>16</i>
3.3.3	<i>Economic dependency and seasonal jobs.....</i>	<i>16</i>
3.4	CONCLUSIONS.....	17
4	ECONOMIC LEAKAGE.....	18
4.1	GENERAL INTRODUCTION.....	18
4.2	WHY IS ECONOMIC LEAKAGE OF CONCERN?.....	18
4.3	HOW IS ECONOMIC LEAKAGE DEFINED?.....	19
4.4	WHAT ARE THE CONTRIBUTORY FACTORS IN ECONOMIC LEAKAGE?.....	23
4.4.1	<i>Level of development.....</i>	<i>23</i>
4.4.2	<i>Economic diversification.....</i>	<i>24</i>
4.4.3	<i>Government policy.....</i>	<i>24</i>
4.4.4	<i>Business power.....</i>	<i>24</i>
4.4.5	<i>Ownership.....</i>	<i>26</i>
4.4.6	<i>Scale of tourism.....</i>	<i>28</i>
4.4.7	<i>Time and economic evolution.....</i>	<i>30</i>
4.5	ARE THERE ANY METHODOLOGIES TO USE AS A STARTING POINT TO EXAMINE ECONOMIC LEAKAGE?.....	31
4.6	CONCLUSIONS.....	32
5	TOURISM VALUE CHAIN AND THE APPLICATION TO ÅRE & IDRE.....	34
5.1	GENERAL INTRODUCTION.....	34
5.2	TOURISM VALUE CHAIN.....	34
5.2.1	<i>Holiday planning.....</i>	<i>36</i>
5.2.2	<i>Transportation.....</i>	<i>36</i>

5.2.3	<i>Accommodation</i>	36
5.2.4	<i>Food and entertainment</i>	37
5.2.5	<i>Tourist Shopping</i>	37
5.2.6	<i>Visitor destination experience</i>	37
5.3	APPLICATION TO REALITY: ÅRE & IDRE.....	37
5.3.1	<i>How can the application start?</i>	38
5.3.2	<i>Åre</i>	43
5.3.3	<i>Idre</i>	46
5.3.4	<i>The comparison of economic leakage between Åre and Idre</i>	47
5.4	FEEDBACKS FROM THE APPLICATION.....	49
5.5	CONCLUSIONS.....	50
6	RECOMMENDATIONS & LESSONS LEARNED	51
6.1	GENERAL INTRODUCTION.....	51
6.2	RECOMMENDATIONS.....	51
6.3	LESSONS LEARNED.....	56
6.3.1	<i>Necessary & unnecessary leakage</i>	57
6.3.2	<i>Is leakage always bad?</i>	57
6.3.3	<i>What should be the boundary of economic leakage?</i>	58
6.3.4	<i>Differences in leakage definitions</i>	60
6.3.5	<i>Should it be an attempt to reduce leakage?</i>	60
6.3.6	<i>Does it mean that a region with low leakage has sustainability?</i>	61
6.4	CONCLUSIONS.....	61
7	CONCLUSIONS	63
7.1	FUTURE RESEARCH DIRECTION.....	64
	BIBLIOGRAPHY	65
	APPENDIX I	69
	APPENDIX II	70
	APPENDIX III	71
	APPENDIX IV	73

List of Figures

Figure 2-1	<i>Three concepts of sustainable tourism</i>	10
Figure 5-1	<i>The tourism value chain</i>	35
Figure 5-2	<i>Start applying the tourism value chain</i>	39
Figure 5-3	<i>Åre's tourism value chain</i>	42
Figure 5-4	<i>Idre's tourism value chain</i>	45
Figure 6-1	<i>Recommendations</i>	52

List of Tables

Table 2-1	<i>Principles of sustainable tourism</i>	10
Table 4-1	<i>Types of economic leakage and examples</i>	20
Table 4-2	<i>Leakage of gross tourism expenditure by country</i>	21
Table 4-3	<i>Proportion of tour operators' prices received by the destinations</i>	22
Table 4-4	<i>Elements of tourism industry: Power control and tendency of leakage</i>	25
Table 4-5	<i>Ownership investment options in the hotel business</i>	27
Table 4-6	<i>Comparisons of large and small tourism enterprises and tendency of economic leakage</i>	29
Table 5-1	<i>Comparisons of Åre's and Idre's high potential of leakage points</i>	47
Table 6-1	<i>Ideas for alleviating local food problems</i>	55

1 Introduction

1.1 Background

Sustainable tourism is one of the key areas in sustainable development actions under Agenda 21. It usually comprises three main dimensions which are economic, social and environment respectively. Nowadays, tourism is one of the largest industries in the world and is often viewed as a tool for economic development and foreign exchange earning for many countries especially the developing ones. It is believed that tourism brings a lot of economic benefits by creating employment and generating income to a particular region through various rounds of re-spending or the multiplier effect¹.

Nonetheless, an element that many regions have sometimes overlooked is ‘economic leakage’ or ‘foreign exchange leakage’ via various circumstances such as a payment for imported products or profit repatriation from foreign companies or employees. The higher the leakage in tourism sector is, the less a given region and its local people will benefit from the economic impacts created by tourist expenditures. Hence, the economic sustainability, which emphasises the benefits of local people, will hardly be achieved.

‘Economic leakage’ is often mentioned in various tourism research papers. However, although it is one of the factors that influences economic sustainability in tourism sector, in general, the details and aspects of the economic leakage are usually presented in a limited way, and also dispersedly. Thus, the knowledge about the economic leakage seems to be somehow in vague.

1.2 Objectives

The thesis is comprised of two main objectives. Firstly, it is to consolidate the story of economic leakage in order to reach a higher level of understanding. Secondly, it is to propose a simple and practical tool that a region can adopt to describe the overall picture of its tourism industry, to examine potential points that leakage may occur and to analyse from a local sustainability perspective how much tourism activities contribute to local economy and in which points unnecessary leakage could be mitigated.

To reach the two objectives mentioned above, the thesis is presented through the research questions as follows

1. Why is economic leakage of concern?
2. How is economic leakage defined?
3. What are the contributory factors to economic leakage?
4. Are there any methodologies to use as a starting point to examine economic leakage?

Then, in the application part, the tourism value chain is proposed and applied to real cases which will lead to the final research question

¹ Multiplier effect is a magnified effect on total spending through many rounds of spending and re-spending. Each subsequent round of spending gets smaller and smaller because of leakages, but the overall effect is still much greater than the original injection. (<http://www.worldgameofeconomics.com/TerrorismVsTourism.html>)

5. Are there any ways to mitigate economic leakage along the tourism value chain?

1.3 Research Methodology

The thesis is divided into three main components.

First, the *literature review* is conducted to present basic knowledge about sustainable tourism and to consolidate the story of economic leakage. A collection of information shown in the literature review has mainly based on secondary sources namely research papers, textbooks, analytical articles particularly in the past forty years. Meanwhile, data gathered from primary sources through e-mail contacts with some economists, professors, etc. help shape some explanations clearer.

Second, the *application part* aims at proposing a simple tool and learning how to apply this tool to evaluate the tourism industry in a region. In this thesis, the tourism value chain is selected to serve this purpose. Two ski resorts in Sweden: Åre and Idre are selected to be the examples to apply the tourism value chain to.

The motivation for choosing Åre and Idre is because both of them aim to be an all year round ski resort, but the regional development approach seems to be contrasting since started. Therefore, it is interesting to observe whether these two regions share any similarities or differences in term of leakage points, and mitigation schemes.

A list of interview questions was developed. Some key players of each region were selected for the telephone interview. And especially in case of Åre, a substantial information about tourism was already collected in the Strategic Environmental Development (SED) group work in April, 2004 with at least 30 interviews. All of this information was used to draw and explain the value chain diagram of each region.

Third, the *discussion part* aims to utilise both theoretical and applicable knowledge from the former parts to suggest the ideas to mitigate leakage along the value chain as well as to analyse some lessons learned.

1.4 Limitation

First of all, academic literatures about economic leakage are very limited. Relevant literatures were generally conducted long time ago; therefore, the latest figures are hardly obtained. The lack of information is shown by repeatedly quoted data obviously found from one research paper to another. It seems like this topic is not widely or deeply studied by researchers.

For example, even a definition of economic leakage, most research papers just describe it for few sentences. So, it is not easy at all to combine all short fragmented information from each paper. Moreover, there are some data conflicts; the figure of economic leakage even in the same country is different from one paper to another, and this absolutely causes confusion.

In an application part, because of time and financial limitations, the telephone interview was selected to get information from related parties instead of conducting the interview directly in the region. Therefore, some limitations inevitably occur as compare to in person interview. Another limitation is these telephone interviews did not cover all stakeholders along the value chain.

1.5 Research Outline

This thesis is structured as follows

Literature review part

Chapter 2 gives an introduction to sustainable tourism. The history of sustainable tourism and three concepts of sustainability: economic, social and cultural, environmental sustainability are briefed.

Chapter 3 specifically focuses on economic point of view. The reasons why countries use tourism as a tool for economic development are provided. Then, the economic impacts that actually happen from tourism development are explained.

Chapter 4 stresses solely on economic leakage phenomenon. It starts by explaining why economic leakage is of concern, how it is defined, what factors contribute to leakage, and methodologies to start examining leakage. This chapter also points out that the 'leakage' discussed in this thesis and the 'leakage' normally mentioned in economic impact assessment does not have an identical definition.

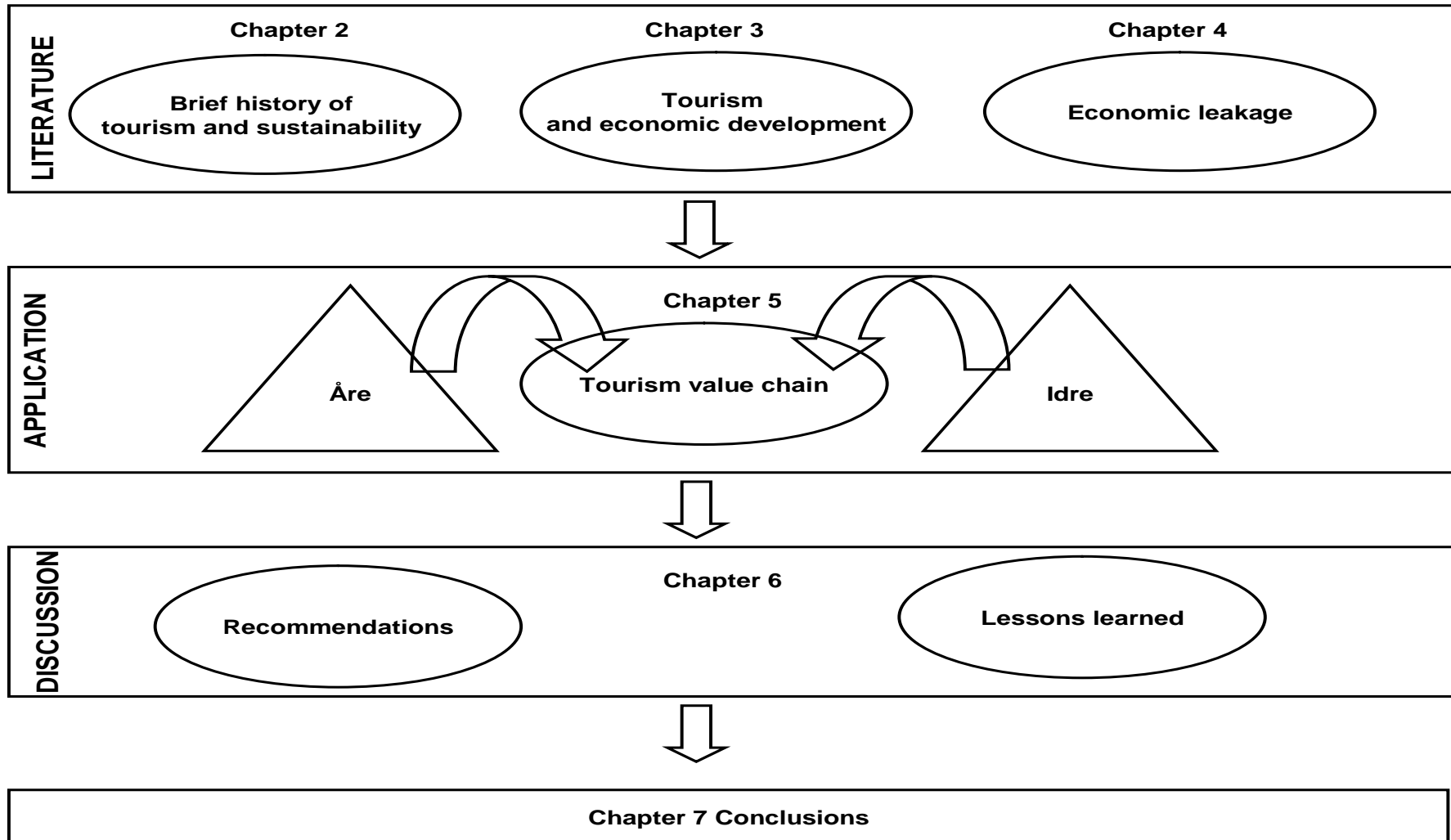
Application part

Chapter 5 proposes the tourism value chain as a tool to examine tourism industry and leakage prone points in the region. Åre and Idre are chosen to be cases to learn how to apply the value chain in reality. The findings from this chapter will lead to recommendations and lessons learned in the discussion part.

Discussion part

Chapter 6 proposes the ideas to mitigate the leakage along the value chain from the cases of Åre and Idre and discusses lessons learned from the thesis.

Finally, chapter 7, the conclusions of the thesis are presented.



2 A brief history: Tourism and sustainability

2.1 General introduction

‘Sustainable development’ has become a buzzword since the publication of ‘Our Common Future’ or the ‘Brundtland Report’ by the World Commission on Environment and Development (WCED) in 1987 (Aronsson, 2000). Thereafter, in 1992, the United Nations Conference on Environment and Development or the ‘Earth Summit’ in Rio de Janeiro, Brazil, discussed this issue further and left one of the prominent results; the Agenda 21, known as ‘a comprehensive programme of action for global action in all areas of sustainable development’ (United Nations, 2004).

To achieve sustainability, many issues according to the Agenda 21 such as agriculture, energy, poverty, sanitation, etc. including tourism have to be carefully developed. During the first five years of the implementation of the Agenda 21, sustainable tourism had been discussed only in a limited point of view focusing on the small island developing countries. However, shortly after, the General Assembly suggested tourism be more considered in the context of the Agenda 21 (ibid, 2004) as tourism sector also uses world resources and also creates both positive and negative impacts to the economy, social and environmental system.

2.2 Sustainable tourism

Before seeing the overall concepts of sustainable tourism development, it should be useful to start from looking into the definitions of sustainability. The World Tourism Organisation (WTO) has defined sustainable tourism development as

‘A development meets the needs of the present tourists and host regions while protecting and enhancing the opportunity for the future. It is envisaged as leading to management of all resources in such a way that economic, social and aesthetic needs can be fulfilled, while maintaining cultural integrity, essential ecological processes, biological diversity and life support systems’.

Source: United Nations Environment Programme, 2004

*‘Tourism development shall be based on criteria of sustainability, which means that it must be ecologically bearable in the long term, economically viable, as well as ethically and socially equitable for the **local communities**’.*

Source: Aronsson, 2000

To elaborate the above sayings, the principles of sustainable tourism are summarised below (see table 2-1).

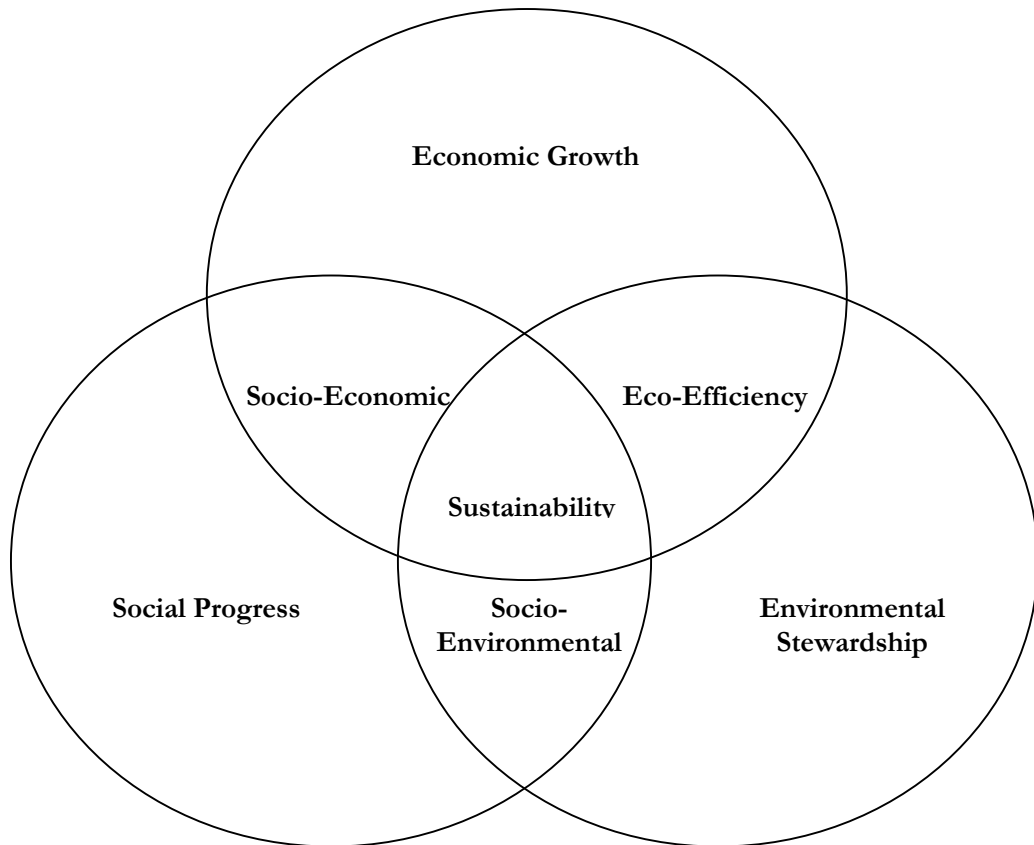
Table 2-1 Principles of sustainable tourism

<ul style="list-style-type: none"> • Using resources sustainable • Reduce over consumption and wastes • Maintaining diversity, cultural, ecological • Integrating tourism into planning • <i>Support local economies</i> • <i>Involving local communities</i> 	<ul style="list-style-type: none"> • Consulting stakeholders and the public • Training staff • Marketing tourism responsibly • Undertaking research, ongoing monitor • Better information provision
---	--

Source: World Wide Fund for Nature; in Budeanu (1999: 77)

Considering the above quotations and principles, it could be said that sustainable tourism concepts cover three main dimensions which are 1) economic, 2) social and 3) environmental or ecological issues. Moreover, these quotations also imply the importance of *local issues* such as local participation in tourism development, and other impacts of tourist destinations in term of cultural, environmental and local economy issues. In the following part, the three main principles of sustainability in tourism will be briefly explained (see figure 2-1).

Figure 2-1 Three concepts of sustainable tourism



Source: Adler (2002)

2.2.1 Economic sustainability

Economic sustainability ensures that the resources are economically sufficient and well managed in order to meet the demand of the future generation without any compromise. (Hawaii tourism study, 2004) Mowforth and Munt (1998: 111) said that it refers to ‘a level of economic gains from the activities sufficient either

- to cover the cost of any special measures taken to cater for the tourists and to mitigate the effects of the tourist’s presence or
- to offer an income appropriate to the inconvenience caused to the local community visited- without violating any of the other conditions’ or both’.

Mowforth and Munt claimed that the above statement implies that although how much the development has a detrimental effect to a society, culture or environment, if the economic benefits are adequate to cover these damages, it seems to be accepted.

However, the above sentences have to be carefully interpreted as it by no means suggests that the economic sustainability is more important than the other two aspects. In contrast, it just simply hints the issue about power and control of the society, the winners and losers of the benefits (ibid, 1998). To simplify, as the issue of ‘money’ and ‘benefit’ naturally catches the interest of the public, this may be the reason why economic issues tend to be frequently raised more than the other angles of sustainability.

2.2.2 Social and cultural sustainability

Social sustainability refers to the ability that a local community can still live in their own society without a social disruption or isolation at least, a social disharmony caused by tourists must be minimised. Some of the negative examples include existence of the non-occurred social divisions as well as the deterioration of the already existing social divisions (ibid, 1998).

An example of these divisions is a disparity between those who benefit from tourism activities and those who slightly or hardly benefit from it. It also includes an occurrence of ghettos, either of the tourists or of those excluded from tourism (ibid, 1998). To mitigate these problems, sustainability measures are needed such as carrying capacity, social carrying capacity calculation, environmental impact assessments, etc.

Meanwhile, **cultural** sustainability refers to the ability of people to maintain their identity or adapt elements of their culture which distinguish them from other people (ibid, 1998). Mowforth and Munt (1998: 109) explained that although a society could go on living in harmony despite of some novel inputs brought by tourists, it does not mean that the culture is not affected or distorted. This is because culture effects take time to be investigated and absorbed. Hence, the prevention of local culture distortion is strongly an essential element of tourism sustainability.

2.2.3 Environmental and ecological sustainability

Environmental sustainability refers to activities that do not deplete environmental resources faster than they can be regenerated, or threaten the viability of ecological systems (polity.org.za, 2004). It is to ensure that tourism development is compatible with the maintenance of essential ecological processes, biological diversity and biological resources (Hawaii tourism study, 2004).

2.2.4 Sustainability

All the above aspects should not be regarded as a separated issue. None of them is more important than the others; in contrast, they support each other as it can be seen from the intersections between each of them. If considering each one of them, for the economic aspect, growth, profit, shareholder return, etc. are regularly main concerns of all organisations. Similarly, social aspect tends to focus on community issues, human right, etc; meanwhile, environmental view includes various kinds of pollutions, emission reduction, wastes, etc.

The intersections of each aspect indicate the necessity that sustainability be discussed in *a holistic way* due to the interrelationship of each dimension. This can be divided into three groups which are 1) socio economic perspective such as job creation, labour training, local economic impact, etc., 2) socio environmental which includes safety health, global climate change, environmental regulations, etc. and finally 3) eco efficiency which refers to the combination between economic and environmental aspect such as resource efficiency, life cycle management, etc. To reach sustainability, all of these dimensions need to be taken into account in tandem.

2.3 Conclusions

The history of sustainable tourism can be traced back to the Brundtland Report in 1987; thereafter, the Earth Summit has further developed the idea for a global action of sustainable development. Sustainable tourism can be grouped into three dimensions: 1) economic sustainability 2) social and cultural sustainability and 3) environmental and ecological sustainability. To reach sustainability it is important that tourism development must take benefits of local community as priority and all of the above three dimensions need to be considered in a holistic approach.

In this thesis, the economic dimension is to be emphasised; therefore, in the next chapter tourism and economic development will be presented followed by a phenomenon called economic leakage in chapter 4.

3 Tourism and economic development

3.1 General introduction

During the past few decades, an expansion of a service sector has been driving economic growth of many countries. Tourism as a major component of a service-based industry has offered a substantial economic advantage to both developed and developing world. Cooper, Fletcher, Gilbert, Shepherd and Wanhill (1998) claimed that tourism is responsible for a service sector growth which accounts for approximately 65% of GDP in developed and 40% of GDP in developing countries respectively.

Like every kind of industry, tourism sector rises and falls, it anyhow remains important to the economic sector. For instance, in 2003, governments in many countries had tremendously attempted to bring back tourists' confidence from some negative factors such as a global economic decline, Iraq conflict, terrorist attack, Severe Acute Respiratory Syndrome (SARS) especially in Asia Pacific region (WTO, 2004). During that time, world tourism had dramatically suffered from those threats.

However, the World Travel and Tourism Council (WTTC) has projected that in 2004, out of the economic shambles, tourism industry shows positive signs to rise again and is going to generate

- US\$ 5490.4 billion of economic activity,
- 10.4% of total Gross Domestic Product (GDP),
- 8.1% of total employment (214,697,000 jobs), and
- 12.2% of total exports

The above figures reveal that tourism industry has played a dominant role in the world's economy. A large number of policy makers have regarded tourism as one of the prime sectors that could bring economic prosperity to the residents. Why do they think so? And what has happened in reality? The contributions of tourism to the economy are to be explored.

3.2 Why tourism?

Mathieson and Wall (1989) suggested some main reasons that governments and development planners advocate for tourism as a tool for economic development. Major motivations are described as followed.

3.2.1 Export industry

Similar to banking, insurance or telecommunication service, tourism is an '*invisible export industry*'. To elaborate, using developing countries as an example should show a clear picture why tourism sector is crucial to many countries.

Start from looking into the characteristics of developing countries, as there are still some lacks of technology and incapability to manufacture their own capital goods, they have to depend on more developed countries for importing these products such as machineries, automobiles, etc.

Moreover, in general, agriculture is a main sector in many developing countries. This industry possesses its own inferior features because the price of agricultural products is fluctuating according to the world supply and demand; therefore, this brings uncertain income to the country. Apart from agricultural products, other kinds of exported commodities are still limited and also contain high imported contents; hence, revenue received once deducted by a payment for imported parts is not as much as what have been expected. (ibid, 1989)

As a development trend tends to emphasise modernisation and industrialisation, it forces developing countries to transform from agricultural society to be more industrialise. Thus, they need huge financial investment for the economic development, loans, financial aids, etc. In other words, in order to develop their economies, they require a lot of foreign exchange earning to pay for the loans, imported capital goods, etc.

From the above reasons, tourism has very much attracted governments and policy planners to use it as a means of export and foreign exchange earning because it provides some comparative advantages (ibid, 1989) such as

- **More price stability:** prices of goods and services in tourism do not as much fluctuate to the world prices as they do in raw material.
- **More price control power:** tourism is more income elastic than agricultural industry. Therefore, tourism allows countries to have a more control power over prices to interest visitors.
- **More economic diversification:** tourism adds a diversification to export based industry, and is another channel of foreign exchange earning to the countries.
- **More foreign exchange earning retention:** ‘tourism generally requires relatively little, by value, in imports for every unit of foreign exchange which it generates. Thus a greater proportion of the foreign exchange earnings of tourism can be used for investment in the development of manufacturing industries or in reducing the foreign debt...’ (ibid, 1989: 45). **However**, it should be noted that the extent to which this is possible greatly depends on the ability of a country to supply the tourist industry from domestic rather than imported sources.

3.2.2 Physical economic and industry development

In general, a potential tourism destination supported by governments usually brings some physical economic development, and wealth sharing to the region such as

- **Infrastructure and facility developments:** tourism requires ‘ancillary goods and services’ (ibid, 1989: 38) namely transportation system, telecommunication system, electricity, water supply, other public services such as post office, banking, and etc. in order to supply visitors. Therefore, not only visitors who will be convenient by having these facilities, but also local residents as well.
- **Income and employment multiplier effect:** all these development projects require a large amount of investment which will not only bring money but also create employment for people in that area both in tourism activity sector and other business sectors that supply goods and services to tourism sector. In an economic term, the money injected to the region will create an income and employment multiplier effect to the region.

- **Industrial linkage creation:** tourism provides '*intersectoral linkages*' to other types of business (ibid, 1989: 42). For example, local entrepreneurs have seen a demand for some goods and services in tourism sectors, and decide to produce such goods and services to back up tourism sector by themselves. Or governments have created a strategic plan to build industrial clusters to support tourism sector.
- **Opportunity for low skilled labours and women:** tourism is often regarded as a labour intensive industry as compared to other non-agricultural sectors. It requires a large number of labours with generally low levels of job specialisation or at least it requires only some minor skill training (ibid, 1989: 43). In addition, it also encourages woman employment.

For the above reasons, particularly to developing countries that possess a lot of resources and labours, and are still in need for basic infrastructures and facilities, tourism is hence considered as a suitable industry to proliferate economic activities.

3.2.3 Poverty alleviation

Many international organisations such as Pro Poor Tourism Organisation, the World Tourism Organisation (WTO), etc. have studied this topic and have presented quite a few interesting ideas. Another term of poverty alleviation and tourism may be called 'pro-poor' tourism. Here, deriving from the report of the WTO (2001), tourism has shown some potential to benefit the poor in a numerous ways.

- **Tourism in cooperation with taxes:** the WTO suggested that if tourism related tax has been carefully imposed by considering a balance between the benefit of the tax revenue to the national or local level and the competitiveness of tourism industry, the tourism-related tax revenue could be used to favour the poor and contribute to some development projects.

For example, tourism tax revenue can be used to finance some constructions of the basic infrastructures, facilities, and improvements of some community services. Such investments would help the poor to have better well being. Moreover, it can be used for some poverty alleviation programmes such as training programmes, capacity building programmes that aim to equip the poor with required skills in order to have more employment opportunities.

- **An Increase in economic opportunities:** this actually follows what described in 3.2.2. Tourism can be promoted in places where natural resources and culture are possessed by the poor (ibid, 2001: 32). It creates linkages to other businesses, encourages an establishment of local enterprises and entrepreneurships. This enhances economic opportunities to the poor, brings jobs to them where there is a surplus of labours as well as creates employment opportunity to women. The higher employment rate in labours' home towns could decrease urban immigrations, and slum problems. Finally, poor countries may have only few competitive exports due to an insufficiency of human resources, funding and technologies. Tourism can thereby be an alternative export for them.

3.3 What has actually happened?

As yet, some motivations for governments to give the green light to tourism development have been expounded. Many countries are overwhelmed with high expectations that tourism

can stimulate the economic and bring prosperity to the region. Nevertheless, in reality, it is also a sector where there could be an uneven distribution of benefits, which causes some detrimental impacts to the society. Some crucial points that governments and policymakers should bear in mind are laconically manifested as follows.

3.3.1 Enclave tourism

Enclave tourism is often referred to when local people are excluded from the market access and cannot reap the benefits of tourism as much as they should be able to. This usually happens particularly in 'all inclusive' holiday packages that everything will be offered in hotels or resorts; hence, local entrepreneurs are implicitly not being able to enter those places. In the meantime, tourists themselves are also not able to easily access the local community.

Therefore, it is often found that local entrepreneurs will emerge in the form of vendors, touts in front of the hotels, resorts, cruised ships, museums, and safari vehicles' exit-entrance points (WTO, 2001). As the market access for local people is impeded, tourists' expenditure will be accumulated only in enclave places and is not distributed much to the local.

3.3.2 Financial effects

Tourism development could lead to high expenditure for both governments and local people. A potential destination may ask governments for facility or infrastructure development which is costly and may affect local tax payers.

Moreover, in a tourist destination, there could be an increase in demand for land, food supply, energy supply, etc. which would raise the original prices and thereby affects local people and actually abates their community strength. For example, tourism development that concentrates in real estate development can boost the price of land and houses. Summer houses that are popular among the rich, retired people could be dominated by foreign owners or outsiders. This circumstance could weaken the local power (UNEP, 2004).

3.3.3 Economic dependency and seasonal jobs

Countries that heavily hinge on the tourism business could have to a lack of industrial diversification. Mono-industry dependency does not encourage economic stability. In case that there is an unexpected threat happening such as financial crisis, SARS, animal plague, terrorism, etc.; it is very possible that the economic system will be severely affected. Heavy dependency usually occurs in small islands developing countries such as Maldives that 83% of workforce depends largely on tourism industry, 21% in the Seychelles and 34% in Jamaica respectively (Ibid, 2004).

Secondly, seasonal jobs provide economic insecure to both employers and employees as the employment cannot be guaranteed in the next high season. Moreover, this kind of job tends to be only a low skill job that does not benefit the employees much in term of the knowledge and skills that they would get from the job, working profiles, employment related welfares, etc.

Finally, seasonal workers usually do not pay tax in the region that they work for; hence, if the proportion of seasonal employees is high, this seems not to be good for the local communities as it means that they lose an opportunity to utilise the tax revenue to create benefits for the local residents.

3.4 Conclusions

This chapter has shown some motivations why many countries choose tourism industry as a means for foreign exchange earnings and economic development. However, in reality, it is obvious that tourism sector sometimes may not be able to generate even benefits to the residents or can cause financial difficulty to indigenous people. Seasonal workers come to work and use resources of the region but do not pay tax to that region. All of these situations, although are not always detrimental to local economy in a short period, they seem not to be factors that lead local communities to economic sustainability.

A situation that local community cannot retain its money in its economy (e.g. payment for imports), or a situation that it cannot get the income that actually it should have got (e.g. tax collection from seasonal workers) is called 'economic leakage'. This phenomenon is according to many researchers and international organisations; regarded as a negative economic impact that may hamper local communities to become more sustainable.

Although economic leakage has been existing in every country, it seems like not many people have paid attention to it. Or although they realise its existing, they may think that it is not at all a problem. In the next chapter, this phenomenon is going to be examined.

4 Economic leakage

4.1 General introduction

Economic leakage has been mentioned for half a century. However, it seems like not many researchers have systematically studied about it yet. Researchers tend to focus on in particular with small island countries or developing countries more than developed ones; and they tend to study together with economic impact assessment.

However, despite the lack of thorough research, it does not mean that leakage deserves to be underestimated. Once again, to put it simple, economic sustainability is to ensure that local community can earn money and has a capacity to manage it well, to retain it for the future, to distribute it evenly through out the entire economy, and to ensure that local economy will still survive despite an occurrence of future uncertainty.

Thus, if high economic leakage prevails over a region, although it may not always harm a region at that time, it seems slow down local communities to reach economic sustainability.

In this chapter, economic leakage is to be presented beginning with the reasons why tourism researchers and international organisations such as WTO, WTTC, UNEP, etc. have raised this issue to be considered. Then, an attempt to define this phenomenon and identify the contributory factors is made. And finally, methodologies to use as a starting point to examine economic leakage are introduced.

4.2 Why is economic leakage of concern?

As yet, chapter 3 has shown that many countries have developed tourism industry because it can be another channel to increase foreign exchange earning. Therefore, it is very logical and straightforward, that 'nobody wants to lose their earnings unnecessarily if they could avoid'. And from this simple logic, it could apply to countries or individual entrepreneurs as well.

Income retention: in both macro/micro levels, every country/individual entrepreneur needs a sufficient amount of money to finance their economic activities such as for a payment for imported goods, debts, etc. (English, 1986). As described before, many developing countries have heavily promoted tourism sector because they want to earn foreign exchange inflow in order to offset the outflow that they have to pay for imported products such as oil, automobiles, other capital products, etc. However, there is always some proportion of foreign exchange inflow that is unnecessarily leaking out. Therefore, taking economic leakage into account would help these countries increase their capacity to retain more money in their economies.

Local benefit: according to Hohl and Tisdell (1995: 519), in some areas, local residents do not have significant benefits from tourism development. For instance, they are not employed by hotels as they may lack of skills. And trainings could be costly and time consuming. Thus, hotels owners would hire non local people. Moreover, it could be a matter of foreign ownership, etc. It is found that in Cape York Peninsula, Australia, local residents almost not benefit from tourism at all. Tourism sector just comes to take advantage of the natural resources but the benefits are mostly enjoyed outside the region (Ibid, 1995: 528).

Although money can promote economic growth, if there is a high level of leakage, local people may not benefit from tourism as much as they could. If economic benefits of tourism are largely enjoyed outside the region, and local communities have to put up with the negative

impacts of the industry, resentment to further tourism development will be inevitable (ibid, 1995: 533). Finally, this may cause stress and a feeling of ‘anti’ tourism from the local residents (see appendix 1) that will adversely affect economic growth eventually (i.e. local acceptance can determine a rise and fall of tourism) Thereby, considering economic leakage would help improve the benefits to the destination areas and encourage more sustainable economic growth.

Uncertainty of tourism sector: tourism is an unsteady business that is subject to *strong seasonal variations*, unforeseeable external factors such as plague, terrorism, financial crisis, etc. that could abruptly severely affect the sector. For example, the Iraq conflict, SARS outbreak created a high level of uncertainty and led to an interruption in tourism business in the first quarter of the year 2003 (WTO, 2004). An unanticipated SARS outbreak led Asia and the Pacific tourism sector ground to a halt. Due to the SARS epidemic, the number of tourist arrival to Asia and the Pacific dropped for 9% and particularly South East Asia 16% (ibid, 2004).

Tourism also hinges upon *heterogeneous nature* of tourist motivations and expectations, the taste and style that could change in a different period of time (Mathieson and Wall, 1989) as well as modification in national and international policy (Tisdell and Wen, 1991; in Hohl and Tisdell, 1995). And it is also very *sensitive to income and price elasticity* (Mathieson and Wall, 1989: 39).

All of the above characteristics of tourism naturally promote a low level of customer loyalty with respect to destinations, modes of travel, accommodation units and travel intermediaries (Schmoll, 1977; in ibid, 1989: 38). As tourism is a vulnerable business, it means that in each year an adequate amount of income during a high season must be earned to offset a decline in patronage for the remainder of the year (ibid, 1989: 38).

In short, as tourism industry is uncertainty; but we want to ‘maximise the benefits from it’; therefore, ‘when you earn the money, you must have an ability to ‘keep’ it as well. This emphasised why economic leakage should be closely examined.

Economic structure defect: high level of leakage could reflect some ‘defects’ or ‘missing elements’ of the economic structure that it may not diverse enough or the relationship among industries (*linkage*) may not adequately well clustered to support each other. By considering leakage, it could allow a region to create new business opportunities for local community or to link existing industries to back up tourism sector.

4.3 How is economic leakage defined?

Economic leakage seems to be little known. So far, only few research papers and short definitions from international organisations such as the UNCTAD, WTO, etc. have been found. It sounds like many researchers use the same sources of information and this is witnessed by the quotations that are repeatedly found from one paper to another. Hence, this may be evidence showing that economic leakage has not yet been theoretically analysed or ‘consolidated’. This is perhaps due to the nature of the tourism data that might be intrinsically difficult to keep track of.

Nevertheless, the definitions that have been compiled so far could depict economic leakage in a certain level. The definition varies from a very simple one such as ‘leakage means income from tourism that leaves the destination country’ (people & the planet, 2004), to a more elaborative one namely ‘leakage is an amount of money that is subtracted from the tourist expenditure to that area’.

Or it is broadly defined as ‘the loss of foreign exchange and other hidden costs deriving from tourism related activities’ (Perez and Cuello, 2001). However, short definitions above are not complete. Some authors have used different names for each type of leakage but in general, it shares quite the same meaning. To put it simply, using a table will help, afterwards, more explanation is provided.

Table 4-1 Types of economic leakage and examples

Types of economic leakage	Examples
External/Export leakage	<ul style="list-style-type: none"> - Profit repatriations (such as through infrastructure financed by foreign investors) - External debt amortisation - Overseas promotional expenditures
Pre-leakage	<ul style="list-style-type: none"> - Foreign booking intermediaries (airlines, cruise ship, foreign owned organisation, tour operator)
Internal/Import leakage	<ul style="list-style-type: none"> - Imported goods & services - Costs paid locally for labours/capitals from foreign sources
Invisible leakage	<ul style="list-style-type: none"> - Real losses, opportunity cost - Depreciation of resources (environmental & cultural) - Tax evasion, or not obliged to pay in that area - Informal currency exchange transaction - Offshore saving & investment

Sources: WTO (2001), Smith and Jenner (1992), UNEP (2004), UN Atlas of the Ocean (2004)

From table 4-1, tourism leakage can be divided into three main categories.

1) External or export leakage refers to ‘*tourism expenditures that originate outside of the tourism destination and its linked domestic industries*’ (WTO, 2001). ‘It is the proportion of the total market value of services rendered but not actually captured by the service-providing country’ (Perez and Cuello, 2001: 125). This type of tourism is hard to measure because it ‘originates outside the economic space of the tourism service provider and is not accounted for domestically (ibid, 2001).

External/export leakage could occur from foreign investments such as in tourism infrastructure development and then these investors/foreign workers reap the profits from the investment back to their home countries. Especially developing countries, due to financial and technological insufficiency, the tendency that they have to depend on foreign investors and big multinational companies is very high. For example, small island countries such as Seychelles, St. Lucia, Jamaica, tend to have higher leakage level than that of larger developing or developed countries with more resources and economic diversified such as the Philippines, Korea, New Zealand, etc. (See table 4-2).

Table 4-2 Leakage of gross tourism expenditure by country

Country	Year	Leakage as a % of gross tourism receipts
Mauritius	1965	90
Seychelles	1973	60
Fiji	1979	56
Cook Islands	1979	50
St. Lucia	1978	44.8
Aruba	1980	41.4
Hong Kong	1973	41
Jamaica	1991	40
US Virgin Islands	1979	35.9
Sri Lanka	1979	26.6
Antigua	1978	25.2
Cyprus	1991	25
Kenya	1969	22
Korea	1978	19.7
New Zealand	1977	12
Philippines	1978	10.8

Remarks: 1) These figures do not take expenditures by outgoing nationals into account.
2) The figures were gathered from many sources; therefore, it should not be strictly comparable.
3) Some details in the table have been altered.

Source: Smith and Jenner (1992)

Apart from profit remittances, debt repayments, overseas tourism expenditures from national tourism organisations and private tourism companies are also counted as external/export leakage.

The other type of external/export leakage that is noteworthy is the **'pre-leakage'**. Smith and Jenner (1992) explained that *'pre-leakage is the proportion of the travel price that never reaches the destination'*. This means that tourists' expenditures have not yet even entered the border of tourism service provider destinations. In other words, Perez and Cuello (2001) described that it is 'the loss of potential income due to sales contracted by agents abroad (foreign or otherwise), of which only a margin is paid to the actual tourism service provider due to block contracting and is a cost which detracts from the positive effect tourism can have on the economy'.

The examples include booking package tours through the tour operators because some parts of the money will be deducted for commission and for business operations. Choices of airlines whether it is owned by foreign companies or by the destination's countries as it is another main source of pre-leakage and is one of the crucial parts of tourists' expenditures. Table 4-3 shows the examples of the proportion of tour operators' prices that are received by the destinations.

Table 4-3 Proportion of tour operators' prices received by the destinations

Destination	Proportion of tour operators' prices received by destinations (%)
South America	45-50
Egypt	30-50
North India	35
China	30-35
South India	20
Remarks: The airfare is not included as money received by the destination. The information is only according to Bales Tours company.	

Source: Smith and Jenner (1992: 55)

Besides, Brown et al. (1995) in Wells (1997) studied international tourists' expenditures to Hwange and Mana Pools national Parks in Zimbabwe and found that visitors had to pay for international airfare (not Air Zimbabwe), which considered the hugest part of the expenditures that approximately accounted for 40% of total spending together with 7.4% commissions paid to agents and 5.8% to ground operators. This means that \$ 53 out of every \$ 100 spending by the tourists did not even enter Zimbabwe's border and did not benefit the Zimbabweans. Moreover, \$ 47 that entered Zimbabwe would be once more leak through further commissions and ground operator costs which was about \$ 12; therefore, the real expenditures left in Zimbabwe was \$ 35 for every \$ 100 spending. This identified that the leakage was as high as 65%. Actually, it should be noted that this study seems to show only about the pre-leakage level; if other kinds of leakage had been taken into account, a percentage of leakage might have been higher.

Pre leakage also hints some issues in political economy dimension especially about the power of Transnational corporations (TNCs) vis-à-vis local communities and local governments. This is because it may be said that if the power of the TNCs prevails in the local destinations, the more leakage-prone that destination might be. This issue will be discussed further in the next section (4.4.4).

2) Internal/import leakage Perez and Cuello (2001) defined that internal/import leakage is *'losses or costs due to tourism activities that originate in the economic space of the tourism service provider and are paid and accounted for domestically'*. In general, this could be called 'import content' or 'import coefficient' of tourism or the proportion of imported goods needed to provide the service (Smith & Jenner, 1992, also Perez & Cuello ,2001).

As this kind of leakage occurs through imports that are paid and accounted for domestically; thus, it could be kept track of by a systematic Tourism Satellite Accounts (TSA), which examines the demand and supply sides of tourism within a balanced accounting system that describes the production and demand functions of the whole economy (Wells, 1997). However, this can be a very time consuming tasks which require hard endeavour as it really depends on the availability and reliability of the data which naturally may not be easy to

collect. So far, the TSAs could manifest substantial leakages along the entire tourism value chain for imported goods and services (Gollub, Hosier and Woo, 2004).

As aforementioned, tourism service providers such as hotels may have to serve the demand of the tourists with products that they are acquainted with; for example, food, beverages, furniture, souvenirs, etc., which may have large import contents. However, this kind of leakage could be alleviated by an attempt to replace these products with locally supplied ones.

Apart from the import of goods and services, some researches have found that the employment of foreign national in tourism sector also one of the origins of internal/import leakage especially of those in a big hotels rather than a small scale ones. This matter will be elaborated in the next section (4.4.6).

3) invisible leakage is *foreign exchange costs or losses that originate in the economic space of the tourism service provider but are neither documented nor properly accounted for as a tourism sector cost* (Perez and Cuello, 2001). The invisible leakage could cumulatively affect the economy in a significant level. The outstanding examples are the leakage in financial sector, such as foreign currency flight, tax evasion, etc. This kind of leakage 'can take place at any level of the economy, including in some cases, the private 'capture' of foreign monies through informal exchange mechanisms resulting from significant differences in official and market exchange rates' (ibid, 2001).

Meanwhile, Gollub, Hosier and Woo (2004: 25) explained that *'invisible leakage can as well 'arise from the non-sustainability of environmental, cultural, historic, and other tourism assets over time. Resource depletion and damage such as to coral reefs, beaches, wildlife, forests, water availability and quality, historic structures or districts that may negatively impact tourism arrivals and expenditures over the short term, and also lead to depreciation of a destination's value as an attraction over the longer term as well as to the deterioration of the quality of life for local residents'*.

Perez and Cuello (2001: 126) additionally pointed out that when it comes to depreciation of resources, 'not only a direct cost of the repairing action that must be evaluated, but also the opportunity cost of losing market share and brand (country) reputation during the period of these reparations occur and the duration of their effects thereafter'.

Especially deterioration to environment and culture, this has left a big room for discussion that it should be called leakage or not. However, that it is counted as invisible leakage, maybe because it is a 'hidden potential cost' that is going to incur in the near future and might trigger the emergence of external or internal leakage.

4.4 What are the contributory factors in economic leakage?

Economic leakage is a dynamic phenomenon, and depends on each country's physical, policy and time factors. Hence in one period, the leakage level may rise and fall according to the situation. Some factors that could contribute to economic leakage are described as follows.

4.4.1 Level of development

Christie and Crompton (2001) suggested that economic development, type of tourism facilities existing especially capital intensive products or services such as airports or telecommunication facilities could determine foreign dependency of the countries, the cost of marketing and promotion of the region. Moreover, demand pattern and volume of tourists are also the factors that generally decide the degree of dependency.

It is said that ‘the level of development of industries and sectors that are linked to tourism that can supply materials needed at the construction stage and during operation of tourism facilities’ (ibid, 2001) has shown a significant correlation to the leakage rate.

For example, as mentioned that less advanced economic development particularly small islands and developing countries tend to have higher foreign dependency on the capital investment, infrastructure construction e.g. Skanska! Therefore, such countries lose foreign exchange as a payment for these capital goods (internal/import leakage), and also once these transnational companies get their profits, they transfer it back home (external/export leakage).

4.4.2 Economic diversification

This can be explained similarly to the level of development mentioned above. It is clear that the larger and more diverse the economy is, the more likely that purchases will be made locally and the less possibility that they have to hinge on for example, foreign producers and hence the less leakage could occur. (Cummings and Murray, 2004)

4.4.3 Government policy

Government policies have played a key role in guiding the direction of country development and also indicate the ‘degree of openness’ of the country. Government administration will determine the legislation patterns, trade agreements, rules of investments etc. that would affect the possibility of the local ownership, management and employment in the tourism sector as well as financial and banking rules that would influence financial transfer, taxes, import regulations, and custom regulations. In some developing countries, government is a main source of local ownership discouragement. The following example from Indonesia could show how government plans can trigger leakage level.



‘...Many respondents talked of repeated army visits in May and December 1995 when the huts were demolished. This was confirmed by several respondents. Islanders talked of having land tenure problems, specifically not having formal ownership certificates to land by the main beach. The regional government has published plans for a four star resort development by the main beach and appears to be using physical demolition of ‘unauthorised’ tourism accommodation and restaurants to dissuade unplanned development in the area slated for luxury accommodations. A similar process of ‘discouragement’ has also been documented between 1992 and 1995 in that area around Kuta beach, Lombok, where local villagers without formal land ownership certificated have been forcibly removed and their homes demolished to make way for the large hotel complex...’ (Hampton, 1998).

The governments’ favour of foreign ownership and large scale tourism development and the benefits from that is another big separate issue that can have a lot of pros and cons and need to be further researched. It usually implies various political economy perspectives such as business power, political pole of the first and the third world.

4.4.4 Business power

The main components in tourism industry comprise hotels, airlines and tour companies. They have become very powerful and have had a strong vertical network since 1970s (Lea, 1988; in Mowforth and Munt, 1998: 191). These TNCs have been developing both *vertical* (e.g. airlines own hotels) and *horizontal* (merger & acquisition) integration (Budeanu, 1999) which allows them to ‘exercise overall or substantial control of tourism activities through some forms of contractual relationship while investing the minimum amount of capital in the development’ (Mowforth and Munt, 1998: 191).

Table 4-4 Elements of tourism industry: Power control and tendency of leakage

Scales	Hotels	Carriers	Operators	Power/ leakage tendency
Large TNCs	Hilton ITT Sheraton Forte Accor Hyatt	British Airways KLM American Airlines Lufthansa Japan Airline	BA Holidays Thomson Swire Group Going Places Saga	Increases (+) 
Medium	Medium-sized hotels	Smaller sized airlines Kenya Air Taca Nepal Air Other transnational carriers/cruise ships Carnival Corp. Greyhound Tica Bus	Specialist operators in First World High Places Africa Exclusive Bales Dragoman	
Small	Small hotels Pensions Lodges	Smaller carriers Car hire firms, taxis, buses, etc.	Service providers caterers, guides, (also informal economy)	Decreases (-)
Remarks: This table may not be always the case, it just simply shows that large TNCs generally have higher business power and have higher tendency to involve with higher leakage level. (e.g. Hilton V small lodge in the farm)				

Source: Hong (1989; in Mowforth and Munt, 1998: 190)

Britton (1991; in *ibid*, 1998) expounded that ‘airlines illustrate this process with their resources to buy into hotels, tour operators and other transport operators to reap the benefits of vertical integration: and by forging alliances, set up computerised reservation systems which create captured international integrated (inter-industry, for example, airlines, rental car, and accommodation) networks’.

When this vertical alliance has begun to pervade other sectors (e.g. accommodations), most of the travelling expenditures paid out for the trips will be commanded and absorbed by the TNCs, which are often owned by developed countries. Hence, instead of benefiting people in tourism provider countries (developing countries/LDCs) the large proportion of expenditures would be accumulated in developed countries. The benefits that local people in the destinations might have got are vitally diminished.

The predatory practices and anti-competitive behaviour of major operators in international tourism create unbalanced distribution of benefits, because of the dominant position and market power of integrated suppliers worldwide. Moreover, this situation will exacerbate economic leakage effect (Benavides, 2001) and undermine the multiplier effects that could

have happened in the destination countries. It will also weaken the capacity of tourism enterprises and ability of countries to earmark necessary resources to maintain and improve basic infrastructure and quality standards to meet the international standard (ibid, 2001). All of these impacts will eventually threaten the possibility of the destination countries to achieve economic sustainability.

4.4.5 Ownership

Foreign ownership does not have to be in a vertical line like what presented in table 4-4. It can be independent in any scales of tourism enterprises but could still induce leakage.

Starting from the *real estate sector and property* development, a lot of foreign investors have been investing and occupying many high potential tourism areas. For example, in many developing countries, beachfront properties are usually leased or sold to non local or foreign investors for a very cheap price. This is because some villagers did not expect that beachfront land would become a bonanza in a tourism sector. When the property price is going up, those who got the benefits are unsurprisingly not local people. In Phuket, Thailand, Bali, Indonesia, people who own beachfront land are usually outsiders, business elites, and foreign owners in South East Asia. Therefore, when tourism industry has developed, the land is already controlled by non local people (Hampton, 1998: 653).

Then, when it comes to *tourism enterprises*, foreign proprietorship takes place in various forms of investments and could determine leakage level. To make it simple, foreign ownership in hotel business will be a good example. In table 4-5, types of investment, benefits and costs that host destination could get is shown.

Table 4-5 shows that types of investment have offered tourism destination countries with a trade-off between costs and benefits as well as leakage tendency. Clearly, 100% of foreign ownership will put the host destination to the highest level of economic leakage prone situation (though it is not always true). The severity of the tendency of the leakage may decline when national ownership is higher.

Table 4-5 Ownership investment options in the hotel business

Types of investment	Benefits	Costs
Total ownership 100% ownership of equity by a foreign subsidiary for an unlimited time	<ul style="list-style-type: none"> • No financial risk to the host country. 	<ul style="list-style-type: none"> • <i>Large outflow of income from tourism (leakage)</i> • Difficult to reflect government policy on tourism development.
Joint venture Partial ownership of equity by foreign capital for an unlimited time	<ul style="list-style-type: none"> • Access to extra capital • Access to international marketing networks • Reduce income leakage 	<ul style="list-style-type: none"> • Requirement for a certain base capital • Risk-sharing • Possibly unfavourable contracts due to limited bargaining power
Franchising The right to do business in a prescribed manner under an existing brand name is sold to a local firm	<ul style="list-style-type: none"> • Transfer of managerial and marketing skills • Assured standard of quality • Brand image 	<ul style="list-style-type: none"> • Management risk is with the host country's firms
Management contracts The business is controlled and managed by a foreign firm, without ownership	<ul style="list-style-type: none"> • Possible transfer of knowledge, skills and technology through a co-operation agreement 	<ul style="list-style-type: none"> • No control over finance, management and planning
Hotel consortia Independent hotels pool resources in order to compete with integrated and franchised chains	<ul style="list-style-type: none"> • Joint national and international publicity campaign 	<ul style="list-style-type: none"> • Small-size hotels may not be considered attractive to a consortium • Initial lack of brand reputation
Full national ownership Domestic investment without foreign links	<ul style="list-style-type: none"> • <i>Reduced international leakage</i> • Independence in adoption of corporate strategies 	<ul style="list-style-type: none"> • Lack of international reputation • Higher marketing costs

Source: Benavides (2001)

It should be noticed that it by no means says that local ownership will not create any kinds of leakage at all. Economic leakage is a phenomenon in tourism industry that will always come to pass. For example while the local owned hotels help reduce tendency of leakage through profit repatriation, it will more or less experience leakage phenomenon by another way such as through payments for imported products or services. Moreover, they may have to resort to foreign tour operators, marketing companies for overseas tourism promotions due to a limited local capacity.

It should be stressed that it will be definitely wrong if it is to say that foreign investment should be deprived of a country. Foreign investment is absolutely an indispensable element for the economic growth especially in the case that the destination countries have a limited capacity to invest by themselves.

However, while not impeding foreign investment, local ownership ought to be encouraged in parallel as well. Not only could it allow local residents to be business owners, but it also enables them to enjoy more benefits from tourism industry as suggested by Cohen (1982; in Hampton, 1998) who stated that *'local ownership implies that economic success for the entrepreneur results in benefits to the local community'*.

Nowadays in many countries, the importance of local ownership is gaining ground by strong government financial support schemes. For instance, in Thailand, there has been a clear policy aiming at encouraging people to create their own Small and Medium Enterprises (SMEs). One of the prime examples is the 'One Tambon, One Product' (one district/locality, one product), which aims to encourage local people in that district to create their own local products such as food, furniture, souvenirs, decorations, etc. by using resources in their own areas. This can be viewed as a way to create more economic diversity and linkages to back up tourism industry as hotels may switch to use more locally supplied products instead of importing. Therefore, in this sense, local ownership will not only enhance income of local people but also help create identity and local pride which are the factors leading to socio-economic sustainability.

In short, while not hindering foreign investment, local ownership remains what to be fond of. National ownership does not mean that economic leakage will disappear. In contrast, economic leakage is a phenomenon that will happen anyway; but whether that leakage is *'necessary'* or *'unnecessary'*, this issue absolutely needs a further discussion.

4.4.6 Scale of tourism

'The small-business owner tightens. The region loses its diversity of enterprises, which is the basis of a more sustainable economy and environmentally responsible business sector.'

(Robert Swann in Schumacher, 1998: 226)

Scale of tourism is a follow up issue from the aforementioned factors. As yet, it sounds like business power and ownership issue have hinted that scale of tourism could influence leakage level.

It should be emphasised here that the following example is **not** always true, there is always an exception. But here the attempt is to point out the *'possibility'* that a scale of tourism enterprise may have a role in activating different level of leakage. To make it easy to imagine, the accommodation sector is used as an example again.

Assuming that in a given destination, there is a large hotel complex, and a small resort. How can these two accommodations be associated with economic leakage?

Table 4-6 Comparisons of large and small tourism enterprises and tendency of economic leakage

	Large hotel complex	Small scale resort
Employment	<ul style="list-style-type: none"> • Create more employment/room • Higher possibility of non-local 	<ul style="list-style-type: none"> • Higher proportion of local labour
Ownership	<ul style="list-style-type: none"> • More possibility to be associated with foreign ownership 	<ul style="list-style-type: none"> • More possibility to be associated with local ownership
Imported content	<ul style="list-style-type: none"> • More possibility to have more imported content 	<ul style="list-style-type: none"> • More possibility to use local supplied products
Tourist expenditure	<ul style="list-style-type: none"> • High income tourists have possibility to spend more and benefit local area 	<ul style="list-style-type: none"> • Lower income tourists (e.g. backpackers) could have tight budget

First of all, with regards to *employment*, it is found that large scale enterprises employ more labours per room than smaller operations. Rodenburg (1980; in Hampton, 1998) revealed that in Bali, the largest hotels employed 2 per room compared with home stay accommodation figures of 0.47 per room. In this sense, a large hotel creates more employment to the region than a small hotel and hence creates more benefit to the local.

By using this rough figure, it could also show the reason why governments tend to favour large scale tourism more than a smaller one.

However, when looking deeper into this issue, some factors that are often overlooked appear.

First is the *job opportunities* offered by these two scales. Hampton (1998) argued that an increase of employment level does not always come with a good job opportunity. He raised the question that '*which one is better between being a cleaner in big hotel and being an owner of small bungalows?*'

Second is the *proportion of local composition and ownership*. Kontogeorgopoulos (1998) has studied accommodation employment and economic opportunities of local people in Samui Island and Phuket Island, Thailand. He found that in Samui, there is a **negative correlation** between local employment, local ownership and the scale of business. This is to say that around 76% of local population staff has been employed in small-sized accommodations, and this proportion falls to 27% and 15% respectively when the scale is increased to a medium and a large one. In the mean time, in Phuket, although there is a fairly even distribution of local people across the three scale accommodation, small-sized establishments also feature higher rates of local employment than the larger ones.

Therefore, according to this study, a tendency of economic leakage through profit repatriations from foreign owners, remittances from non-local staff may occur in a higher level in large scale operators than that of smaller ones.

Regarding *imported content*, a large hotel complex is likely to use more imported products and services to satisfy its customers than a small resort; and this leads to a higher internal leakage. Generally speaking, assume that high income tourists tend to choose a large hotel as a place to stay, and lower income tourists (e.g. backpackers) choose a small resort. It is likely that high income tourists may require a provision of very high quality and luxurious products that cannot be locally supplied; whereas, backpackers tend to accept different conditions, not

require a high standard of living and tend to value and consume local resources as part of tourism experience (Benavides, 2001).

However, it is often argued that despite higher leakage large scale operations could trigger, that could be offset by higher *tourist expenditure* that high income visitors have more potential to spend in a destination. Meanwhile, though small scale resorts have lower leakage, their guests are low income tourists who may have a tight budget and hardly spend much money in the destination. Eventually, small scale enterprises may not benefit as much as they expect.

Nonetheless, an argument saying that backpackers do not spend a lot of money is not always valid. Especially, today that small scale tourism sector (that also implies ecotourism, alternative tourism) has been gaining a lot of attention from many governments, international tourism organisations, etc. Backpacker tourism is accruing its importance and the impact from backpacker expenditure cannot be underestimated. Jarvis (1995) has found that the expenditure of each backpacker that visits Australia is 5.8 times higher than the yield of the average conventional Japanese tourist. Meanwhile the Government of Australian found that the total backpacker expenditure was almost three times that of other types of visitors (Hampton, 1998: 652). Jarvis (1995) has found that backpacker tourism does not only cause minimal leakage, but also brings higher income to local people because they tend to stay in places that mostly provided by local Australian owners.

In short, although it is not always the case, there are some factors in small scale operations (e.g. ownership, local labour, etc.) that show a tendency to minimal leakage level as compared to the larger ones. Small scaled operations are more possible to be owned by local people and this encourages local community involvement which is one of the principles towards sustainable tourism.

4.4.7 Time and economic evolution

Economic leakage is a dynamic phenomenon. As a whole, Gollub et al. (2004) suggested that economic leakage will rise and fall overtime.

It starts from the *seed stage* which the curve will climb up dramatically due to a lot of investment in infrastructure such as airports, ports, roads, sewage systems, energy provisions, etc. During this period, many countries may have to create foreign debt. Foreign multinational companies may also come for investment opportunities.

Then, it comes to *emerging stage* where the curve will decline as countries have return on investment from jobs and tax revenues as well as income from some tourism pioneers. As this is still in the beginning stage of tourism, leakage through package tour will not appear much.

The third phase is *expanding stage* where the curve may rise again as tourism industry gain more interest from both local and international investors such as big chain hotels. Import/internal leakage will take place here such as an import of facility products such as air conditioners, computers, furniture, etc.

Finally is *transforming stage* where the tourism industry has enjoyed a certain level of growth and reached a transition stage where it is going to develop itself to a lagging, static or dynamic region².

Lastly, as there is a demand from tourism sector for new products and services, this could be a driver of *economic evolution* and could affect leakage rate. For instance, local entrepreneurs may learn to develop products by themselves, and replace the products that once have to be imported. Hence, this would lead to less economic leakage.

4.5 Are there any methodologies to use as a starting point to examine economic leakage?

Economic leakage is not easy to measure. However, in a national level, internal leakage (import) is a type of leakage that could be systematically recorded most by national bodies such as the central bank, national tourism statistical department, etc. The methodology requires mathematical and statistical knowledge with careful definitions, assumptions, econometric models, reliable data collections. Short descriptions of the macroeconomic accounting tables used in a national level are presented below.

Input – Output table (I-O table): according to Stynes (2004) the I-O Model is a mathematical model that represents the flows of economic activity between sectors within a region. The model captures what each business or sector must purchase from every other sector in order to produce a dollar's worth of goods or services. Using such a model, flows of economic activity associated with any change in spending can be traced forwards (spending generating income which induces further spending) or backwards (visitor purchases of meals leads restaurants to purchase additional input—groceries, etc.). Multipliers may be derived from an input-output model based on the estimated re-circulation of spending within the region. Export and import are determined based upon estimates of the propensity of households and firms within the region to purchase goods and services from local sources. The more a region is self-sufficient and purchases goods and services from within the region, the higher the multipliers of the region; hence, may imply the slower rate of leakage.

Tourism Satellite Accounting (TSA): developed by the World Travel & Tourism Council (WTTC), the satellite account allows the demand and supply sides of tourism to be examined within a balanced accounting system which describes the production and demand functions of the whole economy (Wells, 1997). This system does not use multipliers or attempt to estimate secondary effects; however, it captures a great deal of travel-related economic activity, not covered by visitor trip spending, such as durable goods purchases, construction and investment in tourism, and government expenditures. (Stynes, 2004). Furthermore, Benavides (2001) said that the satellite accounts can measure the 'internal leakage' by established within national accounting and survey procedures to detail all tourism related economic activities.

Nonetheless, it should be noted that these two accounting tables seem not to be invented for particularly estimating economic leakage. Many researchers use I-O table to assess the economic impact from *rounds of spending* according to their assumptions. For example, to examine the economic impact of tourism spending, the multiplier effect results from that spending will be taken into account. The multiplier figure consists of some kinds of elements

² Lagging: domestic share of tourism revenues is rising slower than the actual total rate of growth. Static: the curve of tourism growth becomes flat as the volume of visitors and their per capita expenditure ceases to grow. Dynamic: the growth of total tourism revenues corresponds closely with the flow of revenues to the domestic and regional economy.

counted as leakage, that will reduce the value of multiplier; hence, undermine the economic impact that such spending could generate in that destination.

However, **the word ‘leakage’ used in multiplier does not have an identical meaning as the word ‘leakage’ being discussed here.** In economic impact assessment, the meaning of leakage comprises factors that cause money out of a given ‘economy’ such as saving, taxation, payment for import. The higher the value of marginal propensity to save (MPS), marginal rate of taxation (MRT), marginal propensity to import (MPM), the lower the value of a multiplier; hence the lower the economic impact that tourist expenditure (money injection) could generate to that given economy.

To simplify, people will have less money to re-spend or re-inject into the economic system in the *next rounds* due to their saving, taxation, import. Therefore, the *total economic impact* from tourist expenditure that is originally injected into the economy will be curtailed due to these leakages (tax, import, saving).

From the explanation above, the differences of a definition of the word ‘leakage’ could be perceived. The meaning of ‘economic leakage’ discussed in this thesis **does not** include saving and taxation, but only payment to import. **In contrast**, the money that is retained in the region no matter in the form of saving (in local people’s pocket) or taxation (in the government’s coffer) is assumed to create great benefits to the economy.

Thereby, leakage from imported goods and services may be obtained from the I-O table, TSA but other kinds of leakage are still not easy to detect. However, as the development and application of the input output table is complicated and require some specific knowledge, it will not be discussed further in this thesis, for those who are interested in economic impact assessment and input output table, reading lists of some research papers is suggested in the appendix 2.

Tourism value chain: the ICF consulting company in Virginia, U.S.A has developed a tourism value chain, which is a cluster-based economic development approach that can apply to a region to help minimise leakage from tourism industry. Tourism value chain itself may not be a tool to calculate leakage figure, but it is a diagram to help describe the overall picture of tourism industry and can be a good starting point to help examine the leakage.

4.6 Conclusions

Economic leakage has been mentioned for a half century although it seems like not many researchers have done a thorough study. Despite this fact, it does not mean that leakage should be underestimated because if high economic leakage prevails in a region, although it may not always harm a region at that time, it may hamper a local economy moving towards economic sustainability.

This chapter has shown some advantages that local community could have if it pays attention to economic leakage. Those benefits are such as having more income retention, creating a chance to observe an industrial linkage which would bring new business opportunity to a region.

Economic leakage is categorised into 3 groups which are export leakage, import leakage and invisible leakage. Each leakage has a different level of difficulty to keep track of. The most renowned ones are leakage through import payment, profit repatriation, pre leakage through

tour operator's package. In general, developing, least developed countries and small island countries are more exposed to leakage than developed ones.

Factors resulting in leakage are varied such as level of development, economic diversification, government policy, business power integration, state of ownership, etc. Over time, leakage can drop or rise, according to all mentioned factors, as it is a dynamic phenomenon.

Measuring economic leakage is a difficult task due to its nature that is not easy to detect. It seems like there is no methodology specifically made for this purpose yet. However, this chapter has introduced some methods namely Input Output table and Tourism Satellite Account. These two methods use econometric models to analyse the data and require a specific mathematical knowledge. Due to its complexity, and a difference in leakage definitions; therefore, they are not selected to discuss further.

Meanwhile, tourism value chain, which although not a tool to calculate leakage figure, it is a diagram to help describe the overall picture of tourism industry. And from a local perspective, tourism value chain is a good first step tool to help a region examine economic leakage because it is very much less complex than the former tools and it is not over a capacity of average people to comprehend.

Lastly, as the purpose of this thesis is to try to increase a level of understanding of leakage and to suggest a primary tool to identify leakage phenomenon, in the next chapter, **a tourism value chain** is selected to present as an option that would allow tourism destinations to get an overall picture of its tourism industry and allow them to investigate the leakage prone points.

5 Tourism value chain and the application to Åre & Idre

5.1 General introduction

In order to investigate how much tourism activities contribute to local economy, tourism value chain (developed by ICF Consulting) is proposed to be a simple tool for destinations to examine the economic activities in tourism sector and allow a region to examine the points which may be associated with economic leakage.

The *motivation* for selecting a tourism value chain is because

1) It is a simple first step to start looking at the overview of the region. 2) The drawing of value chain helps depict the depth and breadth of tourism industry and show leakage prone points. 3) It shows some missing elements of the industry that if they were added to the chain, tourism industry might create more value added and positive economic impacts to the local economy (Gollub³ et al, 2004).

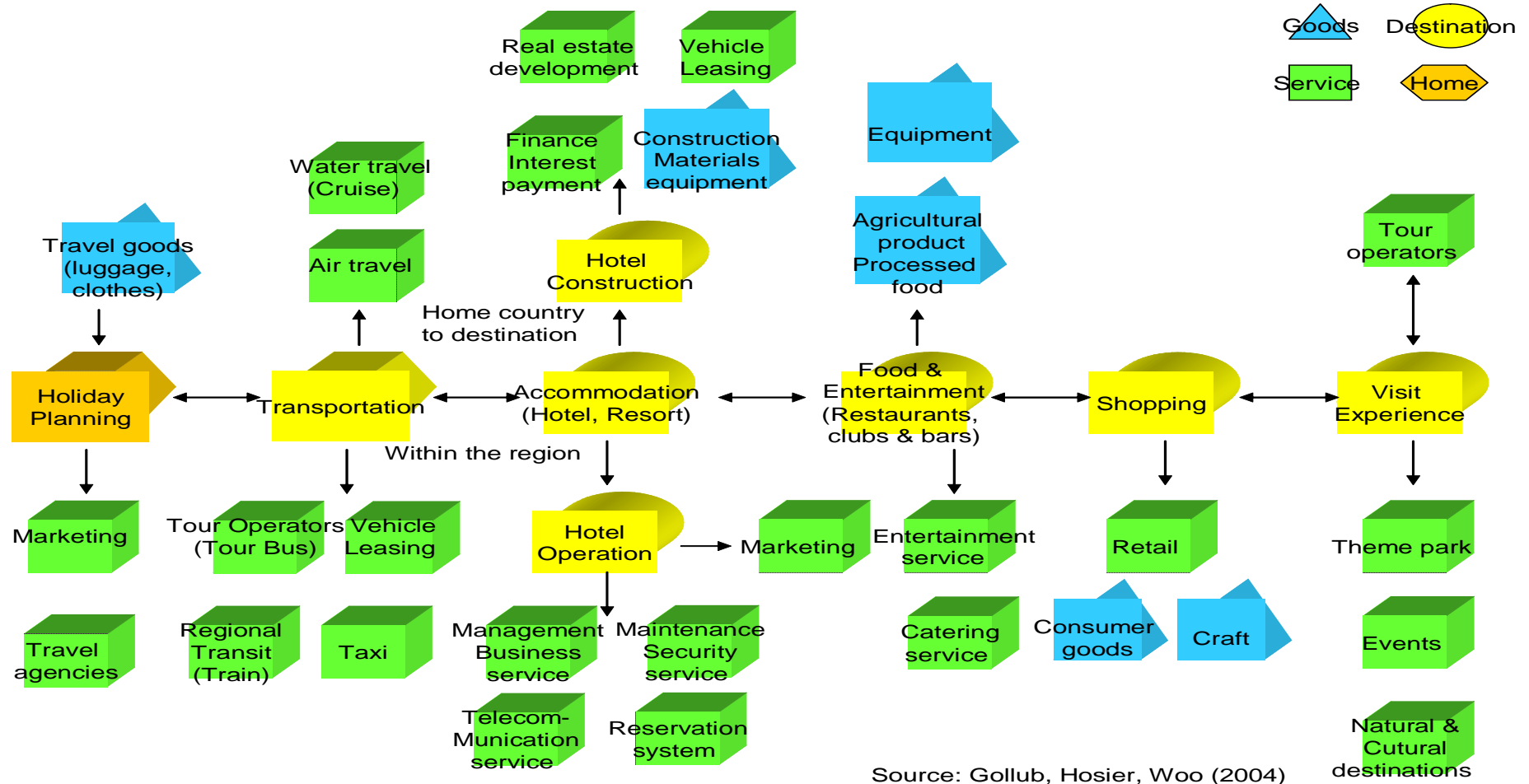
Then, in 5.3, Åre and Idre are selected to be the places to learn how to apply this tool.

5.2 Tourism value chain

Tourism value chain is a continuum of related economic activities from various stakeholders in the region and is associated with visitors (WTO, 2001). Suffice to say that it is impossible that in an entire value chain, all economic activities could be delivered and captured wholly within that region (ibid, 2001). The level of economic leakage is different from one place to another, and even in the same place, it fluctuates in different periods. In the diagram, a value chain starts from activities in holiday planning that occur in home countries, transportation phase and so on (see figure 5-1). The explanations of each phase are given as follows.

³ Mr. Gollub is a Senior Vice President of ICF Consulting, which is an international research and consulting company based in Virginia, U.S.A, that has developed tourism value chain as a cluster based economic development approach to minimise leakage.

Figure 5-1 The tourism value chain



5.2.1 Holiday planning

The potential points of leakage at this stage could stem from marketing and sales department of hotels or resorts. As they want to reach an international market, they may have to use external support due to limited local capacity. For instance, many local hotels have little bargaining power as they have to hinge on major tour operators for delivering guests to their hotels.

Besides hotels or resorts managed by international hotel chains usually work closely with international tour operators, agencies, etc. which are, as mentioned in the former chapter, perhaps also owned by themselves as vertical lines of business. Moreover, doing marketing tools and materials may have to use imported materials, printing systems, interpreters, etc.

Therefore, from the first step of the chart, a destination could have both internal/import and external/export leakage (involving pre-leakage) through for example, tour operator as commission fees, hiring of foreign labours, remittances, import contents.

5.2.2 Transportation

It is a pity that a large number of destination countries have lost a lot of money from pre-leakage that occurs when tourists use foreign owned airlines instead of using ones locally owned. This frequently happens to particularly in developing countries or small island countries that do not have their own airlines or other types of transportation and have to depend heavily on foreign companies.

In case of cruising, for example, a one day trip cruising to a given destination country, that country may not benefit anything much from tourists' expenditure at all because tourist spend most of their money on board, the rest of the money that a destination could get may come from food, shopping, visiting experience, etc. which as compared to the whole expenditure, it is just a small proportion.

5.2.3 Accommodation

Economic leakage could stem from ownership, construction management, financing and human resource especially in an early stage of tourism development. As described, many pieces of land may be occupied by foreign investors.

Hotels may be constructed, designed by international firms, consultants. The finance of the hotels may come from foreign mortgage. Hotels may have to hire foreign labour such as general managers, specialists, lawyers, etc. Some types of the projects may use legal and insurance services served by international law firms.

Hotel management composes many functions such as maintenance and security, accounting department, sales services that may have to resort to foreign consultancy, leasing equipment. Reservation system through world travel agency network may require license fees, payments for software, hardware, commission fees, etc.

All the above circumstances could bring various forms of leakage such as profit repatriations from international firms, remittances from foreign employees, import payment from imported products and services, debt repayment, etc.

5.2.4 Food and entertainment

Despite food, entertainment and shopping could be the stage that local destination could retain tourist expenditures most; there are still some points that leakage may arise. Although some local regions are abundant with food and resources, it is frequent that linkage industry does not connect with tourism industry; hence, leads to unnecessary leakage because local agricultural and processed products cannot reach the market. Hotels and restaurants may have to order these products from outside the region instead. Many destinations may intentionally order products from abroad for customer satisfaction such as wines, cheeses, cigars, etc.

Leakage could happen through the global franchise food enterprises such as McDonald, Pizza Hut, Hard Rock Café, Planet Hollywood, etc. that are expanding over places especially to world famous destinations that have a lot of tourist arrival annually. A big company like Disneyland usually provides services from the parent company or outsources to foreign partnership (Gollub et al, 2004).

Small scale media and entertainment services are usually run by local entrepreneurs, but when there is a growing demand for international access, it may be necessary to use professional broadcasting, media companies that have enough capacity to do so. And it is likely that international joint venture would take part in this matter.

5.2.5 Tourist Shopping

Normally, it is likely that tourists may want to buy local products such as souvenirs, crafts, artwork, kitsch etc. However, some sorts of leakage that could happen are tourists' purchase of imported products such as medicine, brand name products that may have lower prices in some destinations. In this case, it is internal/import leakage in the same manner as that of in the hotels, resorts, restaurants that they may have to import these products for customers' convenience and satisfaction. Actually, some kind of souvenirs can also contain imported contents.

5.2.6 Visitor destination experience

Natural destinations, historic and cultural sites, amusement parks, theme parks need infrastructures, constructions, maintenances, restorations, etc. All of these activities may need international financing, capital and labours, international procurement, etc, which would lead to leakage such as profit repatriation, payment for import, etc (ibid, 2004).

Business, sport and cultural events are also elements in tourism industry that keep growing around the world. The competition among destinations to lure their customers and expand their market share is likely to involve global media, international partners, standard facility constructions, etc. that could lead to leakage in a certain degree.

5.3 Application to reality: Åre & Idre

After getting the perceptions about the value chain and sources of leakage, Åre and Idre are selected to be the cases to learn to apply this tool. The purpose of this is to learn how to describe and examine the economic activities that could be associated with leakage along the chain in reality.

The motivation for choosing Åre and Idre is because both of them aim to be an all year round ski resorts. Åre situates in Jämtland county (North of Sweden); and Idre locates in Dalarna county (Mid of Sweden, under Jämtland county). However, the regional development

approach of these two areas seems to be contrasting since a starting point. While Åre seems to have 'outside-in' approach i.e. a lot of foreign or investments from the outsiders, Idre seems to use the 'inside-out' approach i.e. use money mainly in their own region to invest.

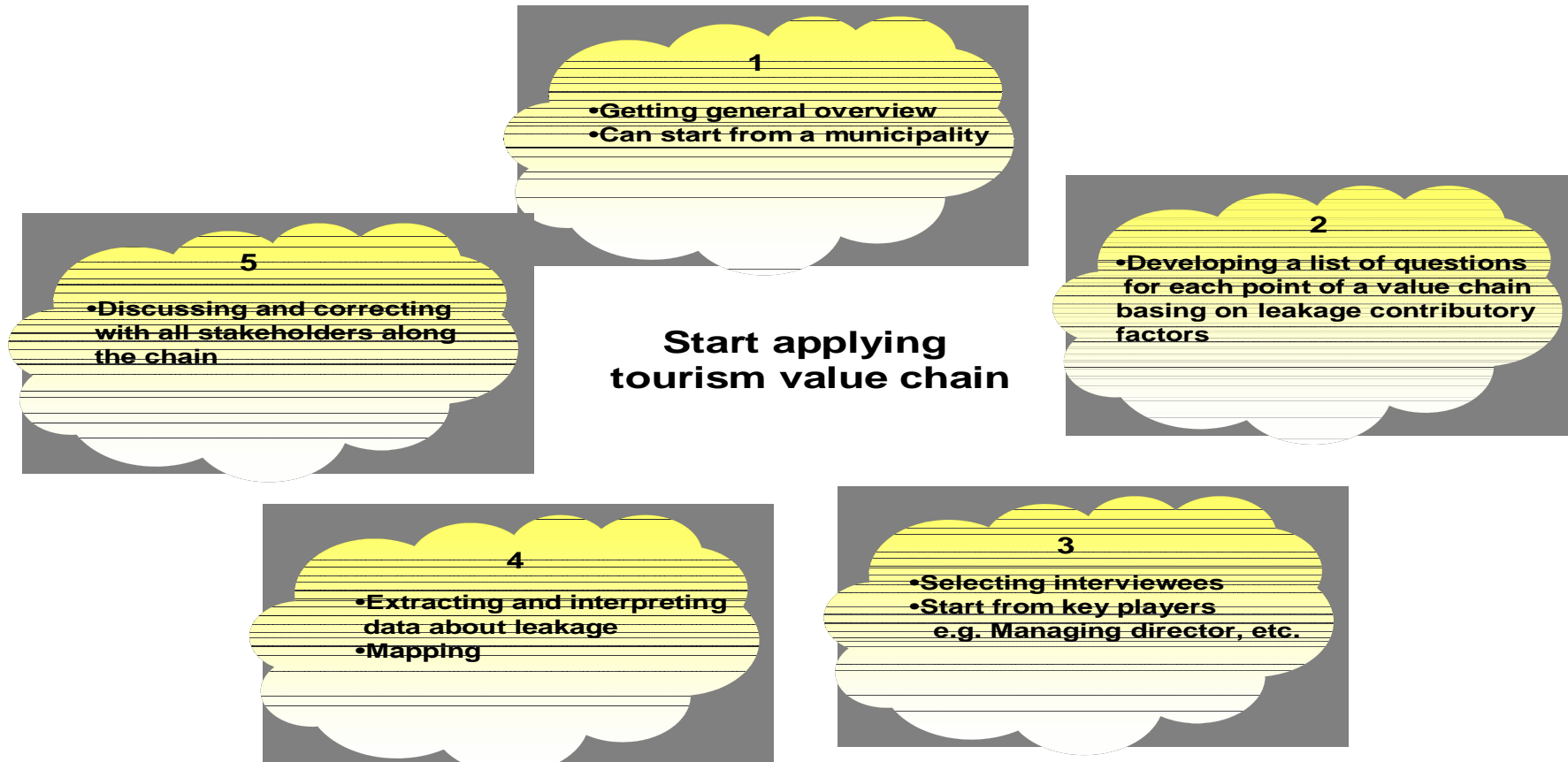
Therefore, it is interesting to observe whether these two regions share any similarities or differences in the types of economic leakage, the findings from these cases will lead to ideas of mitigation.

5.3.1 How can the application start?

With a diagram of the tourism value chain in hand, a methodology of mapping value chain that independent researchers can start at is (see figure 5-2)

1. Getting general overviews of a region such as some histories of what people did before they come to tourism industry, why they become tourism area, what are the main business activities apart from tourism, what impression local people get of tourism, etc. This can be done by searching from secondary sources such as internet, travel brochures. Getting information from primary sources can also be done by talking to people, for example, starting at the municipality of a region because people in the municipality usually have connections with local people in the region; hence, they can recommend other persons that may be useful for the research.
2. Developing a list of questions regarding each points of the value chain. A list of questions are formed by considering the contributory factors in leakage presented in chapter 4, particularly focus on factors that are not too difficult to track down such as foreign ownership, business power of tour operator, import content and tax collection from seasonal workers (see appendix 4).
3. Selecting a small number of people whom expected to be able to give a large amount of data. In this thesis (using telephone interview), as the time is limited, it tried to offset this limitation by selecting key persons that were assumed to be able to represent the overall picture of a region such as a managing director of a company which plays a major role in the area, or a person who has been involved in tourism development since started. In case that there is plenty of time, going to the region and conducting interviews in person, or doing a focus group interview for each point along the value chain could be a good option.
4. Extracting and interpreting pieces of information about leakage from interview data and map it to a diagram.
5. Discussing and correcting with all stakeholders along the value chain of what elements that are missing, or should be removed, etc.

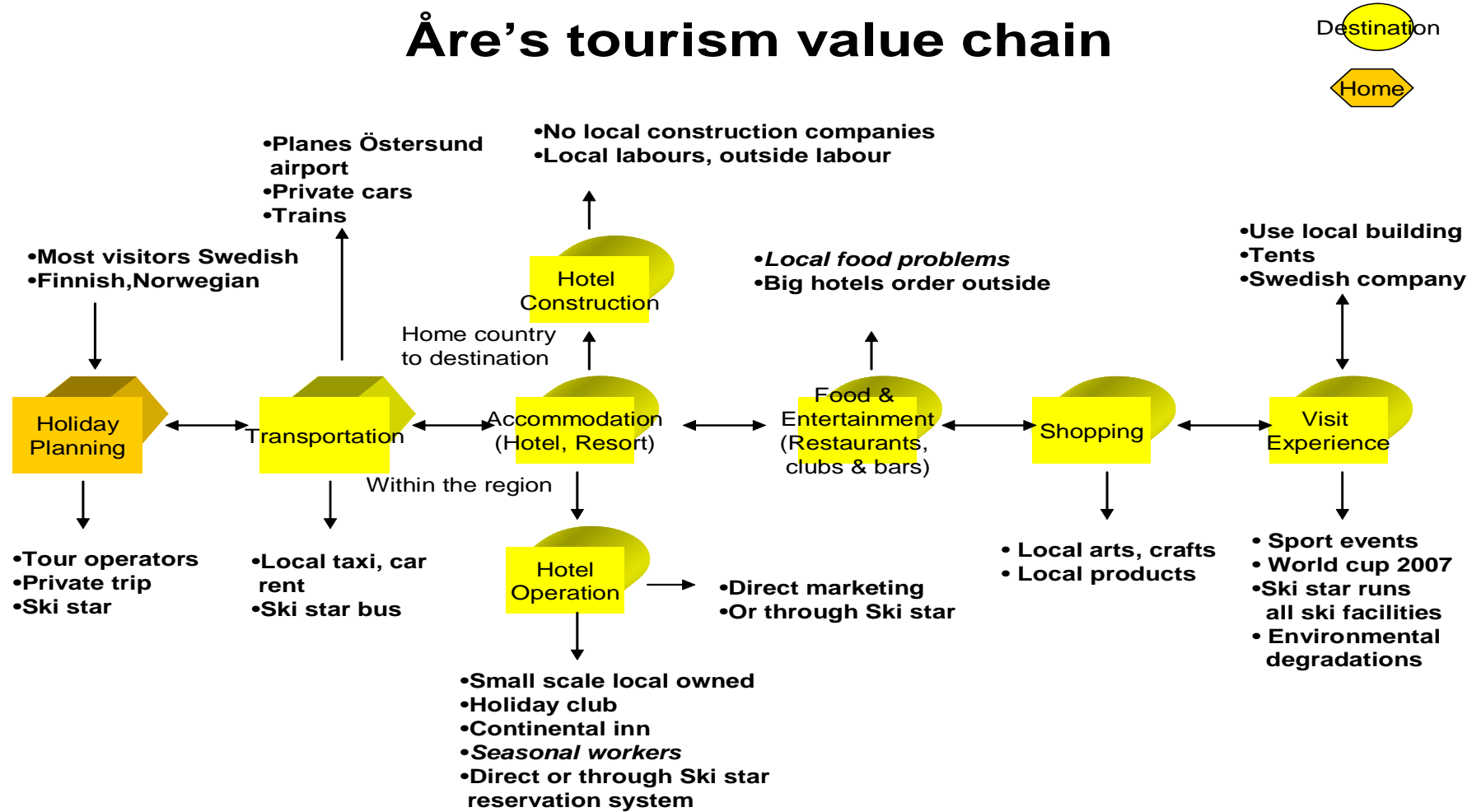
Figure 5-2 Start applying the tourism value chain



However, it should be stressed here that this study has some limitations due to time, financial constraints. The interviews could not cover all stakeholders but they were responded by interviewees who originally have been involving with the development of these regions and assumed to be able to present the overall situations of the regions.

In the next section, the findings from Åre and Idre are presented together with their value chain diagrams.

Figure 5-3 Åre's tourism value chain



5.3.2 Åre

Holiday planning: a majority group of visitors are Swedish, followed by Finnish and Norwegian, etc. They can come to Åre by a package from tour operators in their countries, or book directly with Ski star⁴ through its website. Or they can arrange their own private trip. However, the percentage of those who buy a package trip and those who arrange their own trip are not revealed. *Leakage: foreign tour operator, the Ski star*

Transportation: visitors come to Åre by their own cars, trains or planes to Östersund airport. However, there is no information about airlines used by visitors, but there are flights from SAS to Östersund airport. For those who come by train, there are local owned transportations such as car rents, taxis for them. *Leakage: not obvious*

Accommodation: in the construction period, the information is not much available. It is said that there are no local construction companies, outside investors will bring it by themselves, and they use both local and outside labours.

The Continental Inn and the Holiday club⁵ are big foreign owned hotels. There are also a lot of small scale local owned accommodations. However, sometimes, it is found that small scale operations experience some problems about marketing and reservation system due to a limited capacity as compared to large hotels that have a lot more capacities to reach customers. If they market themselves through Ski star's reservation network, 10% commission will be charged/reservation. *Leakage: Foreign owned hotels, Ski star, seasonal workers*

Food & entertainment: the use of local food is another major problem concerned in Åre. It is found that big hotels and restaurants order a major proportion of food from big retailers (e.g. ICA). However, there are various reasons underlying this problem such as prices of local products that are generally higher than those of retailers, the supply quantities that cannot be guaranteed, long distance between farms in Åre and abattoirs in Östersund, etc. Today, local products are promoted under 'Smakrikt' label and are supported on the shelves of some stores including ICA. However, whether or not this label scheme is successful, it should be carefully evaluated. *Leakage: Food retailers, seasonal workers*

In high season, there are around 1100 people working in tourism sector. Seasonal workers are a major problem of Åre, but to what extent the percentage of seasonal workers is, is not available. They do not pay tax in Åre because they do not register here. Therefore, Åre loses the opportunity to utilise this amount of tax collection that actually they should have got.

Shopping: there are some local product shops in Åre and its satellite towns. The products include local arts, crafts, souvenirs such as reindeer fur, wooden crockery and cutlery, moose leather products as well as consumer products such as concentrated fruit juice, pickle, etc. However, the problem that might occur for these local producers is a marketing capacity. *Leakage: not obvious*

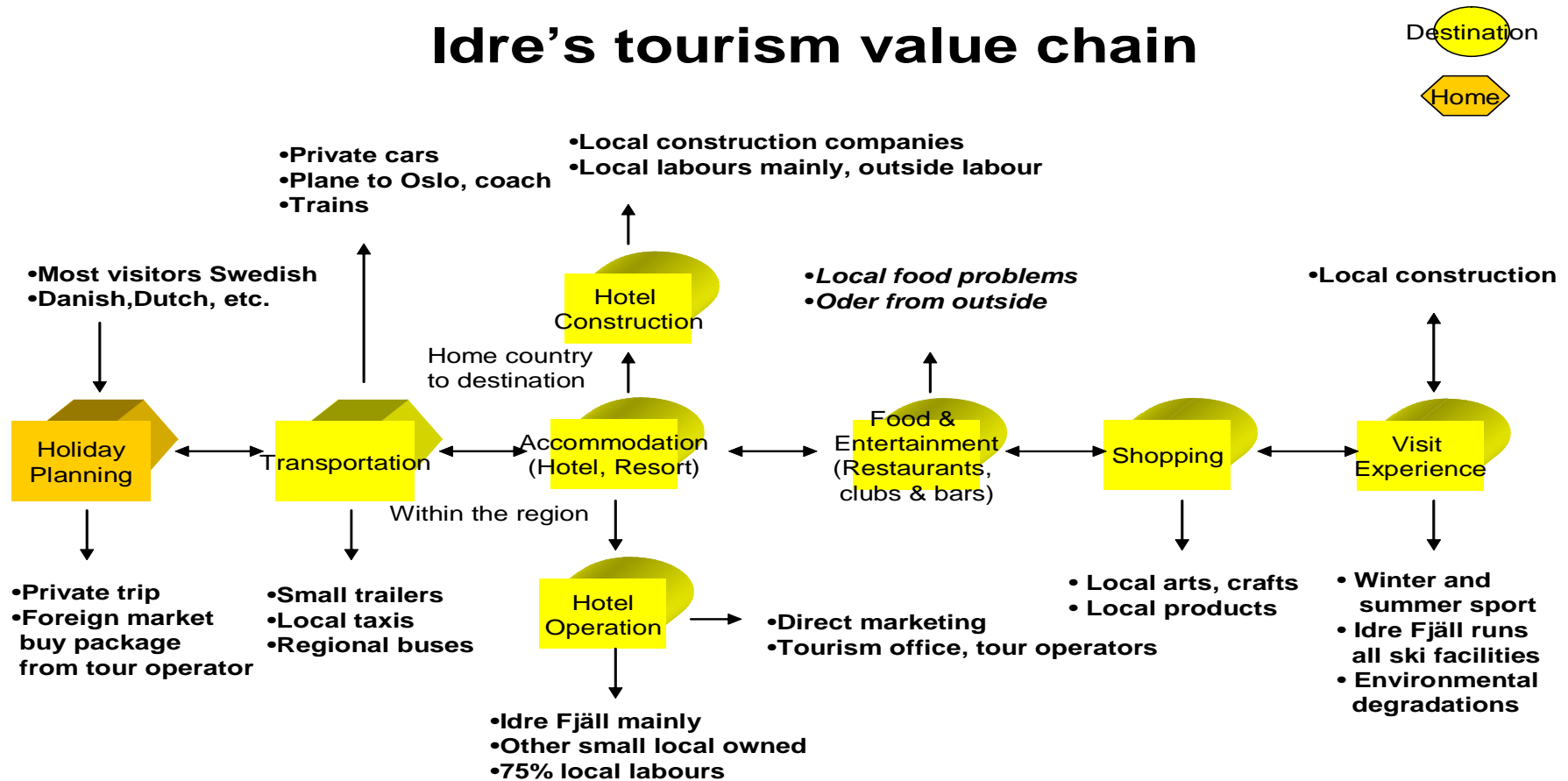
Visit experience: Åre is a place for sport events especially skiing. The ski world cup will be hold here in 2007. In summer, they try to attract visitors by creating summer sports and fairs such as kayaking, canoeing, etc. The unbalance of the number of visitors in winter and

⁴ Ski star is a foreign owned company (Norway-Sweden) and is also a tour operator who plays a major role in Åre and owns all key facilities such as ski pass, ski rental, ski school, reservation networking system, etc.

⁵ The Holiday club is a foreign owned company (Finland) which owns a hotel and multi complex hall in Åre and also regarded as a big player in the near future. (Now the project is under construction.)

summer is also another problem concerned in Åre. In term of local event promotions and marketing, it is said that the region does it by themselves. The construction of all receptions in each event is limited because they will use already existed buildings, tents, etc. Ski facilities such as ski passes, ski rental, etc. are owned by Ski star. The Holiday club is now having its multi complex building built for activities in summer and winter. *Leakage: Ski star, Holiday club*

Figure 5-4 Idre's tourism value chain



5.3.3 Idre

When referring to Idre, it could be assumed that it means Idre Fjäll, which acts the same role like the Ski star in Åre, but Idre Fjäll has been developed by local foundation and owned by local community.

Holiday Planning: a main group of visitors to Idre are the Swedes from the south of Idre as well as from the south of Sweden, and this accounts for 80%. The rest of the group are mixed among Danish, Dutch, German, Finnish and Norwegian. In foreign market, 75% have bought a package from tour operators. Tour operators will get around 10-18 % commissions but from only the lodging part. Idre will get around 80-90% of all expenditures. The percentage of a direct booking is increasing. *Leakage: tour operators in foreign market*

Although Idre has resorted to tour operators, and absolutely has some business risks, this seems not to be a big problem. It is claimed that they have quite a good relationship and mutual interest with tour operators. Moreover, this is not a case of vertical business power that tour operators own everything including accommodations in Idre. And as mentioned above that tour operators will get only 10-18% in only the part of lodging. The rest of the expenditure which is the payment for ski pass, ski rental, ski school, etc, will be occupied by Idre. Therefore, a major amount of tourists' expenditure will benefit local community.

Transportation: 99% of them come to Idre by their own cars, only a minority group abroad come by plane; for example, go to Oslo airport and takes the bus to Idre. However, the information about the airline is unclear but possible to be SAS and KLM. There are local transportations in Idre such as buses running from the train station to the top of the mountain. There are small trailers running in Idre Fjäll. Between the towns, there are regional buses. Taxis are also available, but there is no car renting company. *Leakage: not obvious*

However only a small group of visitors use these facilities because as claimed above, most people come by their own cars, and Idre is only a small town, in Idre Fjäll, everything is in a walking distance. The construction of infrastructures such as roads was built by the Swedish government and municipality.

Accommodation: Idre has an accommodation capacity around 8000 beds, of which 7500 beds are owned by Idre Fjäll, the rest are locally owned or only a few owned by foreigners or outsiders from Denmark, Norway or Stockholm. From the interview, it is unveiled that local construction company nearby (200 km from Idre) were responsible for this and they used a large proportion of local labours, although there are some circumstances that outside labours are used due to large investment. However, it should be noted that the details about capital goods that the construction company uses and the state of ownership of the construction company is difficult to know. It is unsure that furniture, decorations, etc. would be locally supplied; but as a whole, it is assumed that it is bought from different parts of Sweden or Scandinavia.

In term of international marketing, partly Idre depends on tourism office and some helps from big travel agents (as mentioned in the holiday planning). Apart from that, Idre has done marketing by itself through Idre TV network (broadcasting within Idre), direct post, brochure, internet, etc. The reservation system is normally done by direct phone; meanwhile, the internet marketing and reservation system is gaining its ground and is expected to increase by 20%. Some visitors book for the room for next season after departing this year. Therefore, it is believed that foreign dependency rate is going to decrease especially once the online system becomes well known. *Leakage: imported products, in general not obvious*

Food and entertainment: food supply seems to be the biggest problem of Idre. Idre is a small town and do not have enough producers to supply large quantity and not a lot of local people do food farming. Although it has cooperation with Sami people for reindeer meat production, the Sami have to send meat to the abattoirs in the north. They do not have product develop locally. The interviewee has seen this problem as a national problem and is not sure that there should be an abattoir in Idre in the future or not because it requires a huge investment and has to comply with all EU regulations that finally, it may not be worth to do though some leakage may be reduced. Nowadays, food is supplied by 2 major retailers which are ICA and the local one named Dahlbergs. *Leakage: food retailers*

In high season, there are around 500 people working in tourism sector, the main composite of labour is local people in Idre which accounts for 70%. The rest are labour from outside Idre who will come to work in winter such as students who come to visit home. Therefore, *seasonal workers* are not a major problem of Idre, as they also try to create business all rear round to keep local people stay in the region.

Shopping: Idre has a few local shops which sell local products such as crafts, clothes, fish, and moose leather products under Idre brand. Some local products are sold in restaurants. However, it is said that the visitors' interest to buy local products or request for local products is not high. *Leakage: not obvious*

Visiting experience: the main activity in Idre is winter sport. It used to be the venue of the speed ski world cup in 1999. In summer, tourism activities account for around 20%, and summer activities include climbing, fishing, hiking, etc. Main target groups of Idre are family, conference business group, etc. The constructions for activity reception are locally constructed. Ski facilities such as ski passes, ski rental, ski school, etc. are owned by Idre Fjäll. *Leakage: not obvious*

5.3.4 The comparison of economic leakage between Åre and Idre

Table 5-1 Comparisons of Åre's and Idre's high potential of leakage points

High potential of leakage points	Åre	Idre
Holiday plan	<ul style="list-style-type: none"> • Tour operators • Ski star 	<ul style="list-style-type: none"> • Tour operators in foreign market
Transportation	Not obvious	Not obvious
Accommodation	<ul style="list-style-type: none"> • Holiday club • Continental Inn • Ski star • Seasonal workers 	<p>Not obvious</p> <ul style="list-style-type: none"> • but may have some through imported facilities
Food	<ul style="list-style-type: none"> • ICA • Seasonal workers 	<ul style="list-style-type: none"> • ICA • Dahlbergs
Shopping	Not obvious	Not obvious
Visit experience	<ul style="list-style-type: none"> • Ski star • Holiday club 	Not obvious

Tourism value chains of Åre and Idre have shown some potential points where leakage occur (see table 5-1). As compared to Idre, Åre seems to have more potential for high leakage.

Holiday planning: if visitors buy a package from tour operators, some portions of tourist expenditure will be taken away as commissions, how much the rest will go to the destinations depending on contracts, and business power of tour operators (e.g. vertical integration), etc. If visitors book directly through Ski star, Idre Fjäll, this pre-leakage may be lower. However, it should be noted that Ski star is a foreign owned company (Swedish-Norwegian) who mostly owned all key facilities in Åre; therefore, it could be assumed that there is more potential that leakage will occur such as through profit repatriation as compared to Idre Fjäll, which is locally owned.

Transportation: pre-leakage could occur especially through foreign owned transportation e.g. foreign owned airline. However, information about this matter is not clear. Moreover, a majority group of visitors to both Åre and Idre are Swedish, or from other Scandinavian countries, and from the interviews, it is found that most tourists come by their own cars. Therefore, leakage through this point may not be obvious.

Accommodation: generally speaking, Åre seems to be risky in facing higher leakage than Idre. Åre has big foreign hotel chains which could attract a lot of tourists, also it may be assumed that these standard hotels are possible to use more imported products and facilities as compared to small local owned lodges. Therefore, in this case, internal leakage could happen.

Due to a limited capacity, many local owned accommodations use Ski star reservation network, in this case although visitors stay in local owned accommodations, some leakage will occur through Ski star already in a form of commissions that local owners have to pay. It is noteworthy that leakage through Ski star is hardly possible to avoid because Ski star is a major player in Åre and occupies all key facilities such as ski pass, ski rental, etc.

Meanwhile, Idre seems to be in a more secure position because Idre Fjäll is local owned and it possesses all key facilities for skiing. Therefore, in general, it could be said that leakage level through profit repatriation should be lower. Although in case that visitors stay in other local accommodations that market themselves through Idre Fjäll reservation network system and have to pay commission to Idre Fjäll, it does not matter much because Idre Fjäll is locally owned.

In accommodation sector, Idre is not quite obvious. Internal leakage could happen in Idre through imported content such as furniture, some energy facilities; however, in general this may be regarded as necessary leakage. When compared to Åre, it seems like Idre may have lower leakage level from this matter.

Food: food supply is a major leakage problem to both Åre and Idre because there are not enough food producers locally. Although Åre may have some local producers, they still have problems from not being able to guarantee quantity supplies, higher prices, etc. Therefore, both of them depend on big retailer such as ICA. Leakage through importing food supply for both regions seems to be necessary and not easy to be solved.

Seasonal workers in accommodation and food sector, is a main leakage problem for Åre as workers will come to work in winter and go away in summer without having to pay tax to the region. Compared to Idre, though it has some seasonal workers, it still has high proportion of

local workers (70%) who pay tax to the region. Actually, it is possible that the amount of tax that Åre gets may be higher than that of Idre because the tourism industry in Åre (1100 workers) is bigger than Idre (500 workers). However, the point is not about the amount of tax, but it is about the ability to collect the tax to benefit their region, which Åre seems to be inferior.

Shopping: both Åre and Idre offer visitors with their local art and crafts. Although visitors may buy something imported that local shops order to supply them, it is not clear that leakage in this case is. In Åre, there is now an initiative to promote the use of local food products in the region called 'Smakrikt'.

Visiting experience: both Åre and Idre aim to be an all year round resort. It should be emphasised that a key player who control all winter activities in Åre is Ski star. And in the near future, the Holiday club has its multi complex hall to use for both summer and winter activities; and is believed that this could attract more visitors. This kind of region control could cause some inevitable leakage because these two companies are not locally owned. Meanwhile, Idre Fjäll who controls all activities is locally owned.

5.4 Feedbacks from the application

After applying the value chain into the real cases, a diagram could show relationship and potential points of leakage in a certain degree. At least, it meets the objective of being able to help describe the overall picture of tourism industry in a region and identify leakage points. However, there are several remarks that should be given here.

- One should not be stringent to the elements (boxes) in the value chain diagram. This is because it is possible that there could be some more/less boxes varying from one region to another according to the context of each individual region. So, this diagram should be seen as a guideline, not a panacea.
- A diagram could acceptably perform its function: describes picture, and shows leakage points. But if there is an effort to calculate leakage figure from this diagram, it seems to be intricate because there are a lot of 'hidden difficulties' in tracking leakage figures. For example, about the scope, boundary i.e. how deep should it be traced back? (See lessons learned 6.3.3).

However, the above remarks do not imply that tourism value chain fails to be a good starting point. In contrast,

- It tends to show that it is a good starting point to help indicate 'where' leakage comes from, what are the causes of such leakage? It can answer the question of 'how serious the situation is?' in an abstract sense (i.e. qualitatively), but seems difficult to be able to show in a figure (i.e. quantitative).
- Therefore, tourism value chain is a good starting point to get qualitative data such as where, what from, how much (serious) the leakage situation is. But when it comes to calculating leakage figure (quantitative), it will be another issue in a next step and it seems like there is a need for a development of a mathematical model made specifically for this purpose as well as a need to involve experts, statisticians for this task.

5.5 Conclusions

Tourism value chain is a simple tool to help a region see an overview of depth and breadth of its tourism industry and also helps indicate which points that leakage could occur and shows what missing elements of the industry that could be added up to the whole chain to create more positive contribution to the local economy.

For the first step, tourism value chain is a good starting point to help indicate the *qualitative* picture of where, what from and how serious leakage situation is. But for calculating leakage figure, it seems to be over a capacity of tourism value chain. In that case, a development of mathematical models made particularly for this purpose should be more appropriate.

The findings from these cases will be reused in the discussion part (chapter 6). Some recommendations for these cases of how to mitigate economic leakage along the value chain is presented, as well as some lessons learned.

6 Recommendations & lessons learned

6.1 General introduction

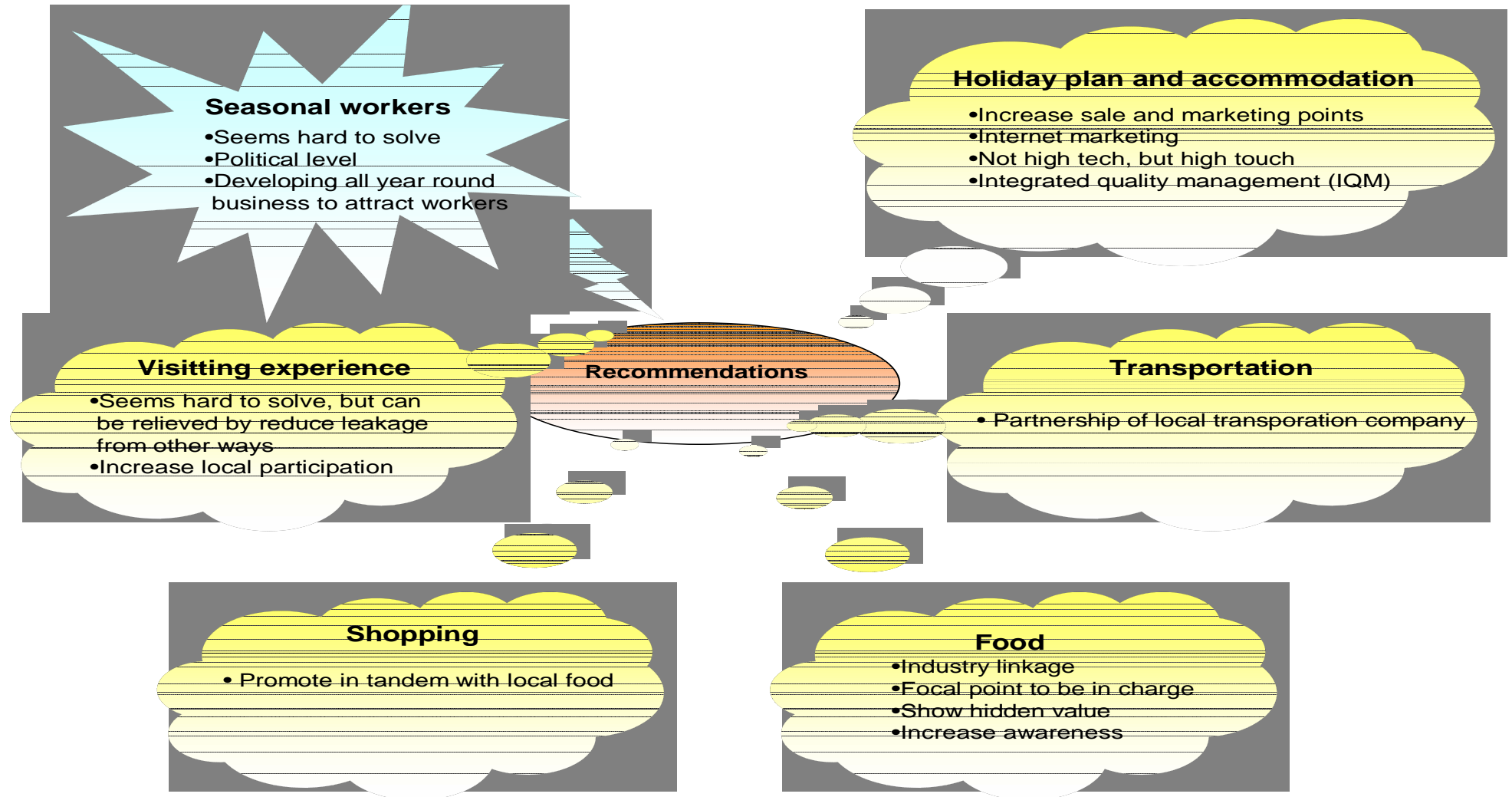
As suggested in the previous chapter that tourism value chain helps the region see the potential leakage points and missing elements that if they could add up to the chain, the leakage could be reduced.

The findings from Åre and Idre leads to the ideas of lessening economic leakage along the value chain, followed by lessons learned.

6.2 Recommendations

Following along Åre and Idre's value chains, the recommendations is proposed as follows (see figure 6-1).

Figure 6-1 Recommendations



Holiday planning, accommodation: it is quite obvious that to reach international market, some regions have to depend on foreign tour operators and hence, have to pay the commissions to them. The real amount of money that will come to the region will be large or small depending on the overall business contexts such as contracts, the power of tour operators, business relationship, etc. In order to relieve some leakage, the preventative options could be as follows.

Increase sale and marketing points: They (Åre and Idre) may increase their own sale and marketing points abroad or where they see that the leakage through tour operators is quite high. However, the cost benefit should be evaluated before because although they have to pay tour operators commission fees, it may be worth than investing for an establishment of sale and marketing offices by themselves. Another option that may be more economical is to use the Swedish tourism authority offices abroad to help promote the regions.

Internet marketing: This option is getting more popular and may be seen as a high potential tool to curtail foreign dependency. Both Åre and Idre have their own booking websites through Ski star and Idre Fjäll. This could be a major means to help them reach global customers. Small scaled accommodation owners who do not want to use Ski star's, Idre Fjäll booking network system, may form themselves together to finance for the marketing website

Not high tech but high touch: small scaled enterprises may try to retain their customer base by making a good relation to them such as sending direct mail, customer care activities, sending a birthday cards to customers. This kind of investments is not 'high tech', but 'high touch' and does not require a huge budget to do and also possible to have more customers by words of mouths.

Integrated quality management (IQM): this is a follow up of a high touch approach. Small scaled accommodations normally have price advantage over large scale accommodations. However, tourists do not only care about price but they also expect for standard quality of services, which sometimes, it is doubtful that small scaled owners could guarantee that. And this is also a reason why some tourists choose to stay in big foreign chain hotels.

To help standardise and help these small scaled local accommodations compete with big hotel chains, the government of the region may try to promote integrated quality (IQM) management, which has some code of practice to follow (see appendix 3) to small scaled accommodation owners. This could be a way that tourism could contribute more to local economy, assuming that small scaled generally has low leakage as discussed in chapter 4, and also because the IQM code of conduct emphasises the use of local resources and the contribution to local economy.

Transportation: it is not obvious in case of both Åre and Idre for leakage that occurs through transportations as most visitors come by their own cars. However, in general, if visitors come by package tours from their countries, it is possible that all means of transportations will be owned or managed by the tour operators. In this sense, the options that a region could do is

Partnership of local transportation company: the region should try to expand the use of local transportation by negotiating with tour operators offering them to use more local transportations. However, the safety and standard should be assured.

In case of small countries or developing countries that do not have their own airlines, this pre leakage seems to be very difficult to reduce. However, they may be able to alleviate leakage

once visitors have arrived at the destinations by trying to use more local transportation systems.

Food: Generally speaking, food is normally a prime part that local people could participate. However, many regions in the world not only Åre and Idre have high leakage through food supplies imports. Before making some suggestions, it should be useful to know why hotels do not use local food. Bélisle (1983: 503) explained that the reasons include

- Tourists prefer the type and taste of food consumed in their home countries.
- Imported food is cheaper than local food
- Hotels accept an opportunity cost to ensure superior quality and/or regularity of food supply
- Deficient quality of local food (hygienic quality)
- Hotel entrepreneurs are not fully aware of they type and quantity of locally available food
- Local farmers do not want to change their traditional crop production
- Farmers cannot increase their production
- Farmers lack information on the types and quantities of food needed by hotels
- Farmers are inhibited from dealing with hotels or vice versa
- Farmers or intermediaries are unreliable in terms of regularity of supply or fulfilling other contract agreements

It could be noted that the recommendations below may not be able to apply to all cases because of the heterogeneity of each region such as geography, occupations of people, funding, social contexts, etc. But, in general, some recommendations could be

Industry linkage: the region may try to create its food linkage industry by linking its agricultural sector to serve tourism sector. The government may take part in this initiative by organising a workshop between local food producers and buyers to exchange the ideas of what could be implemented.

To clarify, the region is divided into two cases:

1) *If some regions have inherent problems* due to its geographical area, such as they do not have farming areas, cannot expand plantation land, etc. industrial linkage within the region may be difficult to be established. For example, Idre needs a huge investment in building a back up linkage such as an abattoir. As there is no abattoirs in Idre, although they try to promote reindeer meat products by having a contract with Sami people, it is found that the meat will be sent away to the north and return by retailers because they do not have meat processing activity their own region.

However, setting up their own abattoir may not be a good solution. This is because the cost of managing an abattoir to comply with the EU regulations will be very high and may not worth for the region to do so. The cost benefit analysis should be at least conducted.

Therefore, in case that a region has a lot of intrinsic problems, it may be difficult to reduce leakage from food sector, however, the overall leakage level could be mitigated through other channels such as accommodations, transportations, etc. as mentioned before.

2) *In case that they have a potential to do agricultural activities, if there is cooperation between tourism sector and local producers*, it is possible that some problems could be reduced. In case of Åre, the ideas of mitigating local food problems are as follows:

Table 6-1 Ideas for alleviating local food problems

Problems	Ideas for solutions
1)Quantity supply guarantee 2)Transaction costs 3) logistically inconvenience	<ul style="list-style-type: none"> • Set up a <i>focal point organisation</i> for the distribution and sales to be in charge of all orders from the buyers. • This focal point could help reduce transaction costs and solve logistic problem. • The producers do a production capacity plan for each period and present it to the focal point organisation to estimate the quantity available in each period.
4)Relatively higher price	<ul style="list-style-type: none"> • Show <i>hidden value</i> as <i>SEK/ nutrition</i> instead of price/kilogram of the products. In Åre, most products are ecologically produced, and it is found that free range lamb meat provides more nutrition value (fat quality) than that of in normal lamb.
5) Low awareness	<ul style="list-style-type: none"> • Normally, it is possible that tourists want to experience local products, but they are not enough informed. By creating a <i>local brand logo</i> to distinguish local products from normal products could be a good way. • Hotels use <i>local product in the menu</i> and also use the menu as a way to educate tourists about value of local products • Organising local products fair, campaigns, and festivals.

Source: Boeser, Lindgren, Mulder and Supradist (2004)

Seasonal workers: Åre has encountered a big leakage through tax collection because the workers are from outside the area and do not have an obligation to pay tax to the region. This problem seems to be over a capacity of the municipality to solve alone because it is the

political issue and should be seen as a national agenda for the government to look into. Developing all year round business (in summer) may also help attract workers to settle down and register for tax in the region.

Shopping: Local products may be promoted similarly with local food. They can be put side by side or sold in tandem. They should try to upgrade their products, use more creativity and increase varieties. For the case of some necessary products that a region has to import such as medicine, this seems to be difficult to solve.

Visiting experience: In case that key facilities are controlled by foreign company such as that of in Åre, leakage through profit repatriation will likely to occur, and seems to be hard to solve. However, they may try to focus on reducing leakage through other means such as trying to employ local workers, using more local products, etc. For invisible leakage such as environmental degradation, it sounds necessarily to happen. They nonetheless can reduce leakage by using some environmental policies, raising environmental awareness of visitors by informing them with signs, brochures, etc.

Finally, Perez and Cuello (2001) suggested some *political/economic* recommendations that could generally apply to any region and maybe regarded as leakage preventative schemes such as

- Limitation of foreign capital to a limited number of projects e.g. 15% of all projects
- Restriction of foreign personnel to higher management in international chain hotels
- A provision of incentives to reinvest profits and potential cash transfers that otherwise would be invested abroad
- The provision of incentives to domestic investors to expand their participation in tourism
- Macroeconomic policies to watch out suspicious monetary transactions, exchange rate speculations, etc.
- Prevention of predatory behaviour and anti-competitive practices by dominant integrated suppliers in the originating markets according to liberalisation under GATS 2000. (Benavides, 2001)

However, it should be noted that with too much stringent policies, instead of flourishing local economy, those policies could result in a shrink of investment, which may eventually bring adverse effects to local economy. It is hardly possible that there will be no leakage in a given economy, but it is possible to minimise unnecessary leakage. Before implementing any policies, cost benefit analysis, or economic assessment should be cautiously evaluated to find a balance of tourism income and accepted leakage level for that economy.

6.3 Lessons learned

In this part, the lessons learned from the whole thesis will be presented. Insofar, what has been presented has led to questions that are very difficult to conclude. Hence, the lessons learned may provide some explanations why 'leakage' remains a phenomenon that is not easy to jump into one conclusion. To make it easy, it will be discussed under each sub topic.

6.3.1 Necessary & unnecessary leakage

Leakage is a phenomenon that occurs in every region! This is because it is impossible that all goods and services can be entirely supplied by only local producers within a region.

After applying a value chain to examine tourism industry, it could be said that leakage occurs differently according to the diversities of fundamental factors of each region. In each region, leakage may be categorised as ‘*necessary*’ and ‘*unnecessary*’ one. For example, in a small island country where there is no agricultural plantation area, importing food supply may be seen as a necessary duty; meanwhile, when comparing to an agricultural country where there is a good system of industrial linkage to back up tourism sector, importing the products that are actually available in the country may be regarded as unnecessary.

Can it be concluded that ‘it will be unnecessary leakage if there is an import in any goods and services that actually can be locally supplied?’

Definitely the answer is ‘No’. This is because it seems to be impossible to conclude what is necessary or unnecessary for whom? Hotel business owners who have set a theme of their business as a first class hotel would say that importing French wine, furnishing rooms with famous global brand furniture is very necessary to meet the expectations of their customers. Whereas, another hotel owner who is in the same business scale as the former, but has different customer target group may say that the above mentioned imports are not at all essential. And all those imports can be replaced with local supplies.

Therefore, this would lead to conflicts in defining what is ‘necessary’ and ‘unnecessary’ as in reality, consumer behaviours varies from one to another, and it is absolutely difficult to judge which decisions are economic rational as long as it seems like the criteria are very much in vague.

6.3.2 Is leakage always bad?

Generally, the impression of leakage seems to be quite negative. However, one should bear in mind that some contributory factors in leakage are also beneficial to tourism development. The examples are given below.

Are investments from foreign owned companies or outsiders’ companies bad?

Once more, the answer is definitely ‘No’. It has emphasised many times that it is impossible that tourism development in one region can be supplied by the local producers along the entire value chain. Outsiders’ companies should definitely not be deprived of investment.

Using an extreme example may give a clear picture. When a country that has a limited economic development and capacity wants to develop its tourism sector; constructions of necessary infrastructures may be the first thing it has to do. Suppose the construction is over its capacity, if there were a policy not to let foreign owned construction companies to invest, its tourism sector would not be possible to happen at all, let alone some positive benefits that the local economy will receive.

In this extreme example, it is easy to indicate that this kind of leakage is ‘necessary’ at least at the period that such country does not have a capacity to develop tourism industry by itself. It is certain that some leakage would occur at the beginning; however, overtime, as the industrial sector is developed, local companies may have a capacity to do afterwards. Therefore, leakage could be reduced overtime. (Dynamic phenomenon)

Is import bad?

In many cases, paying for some costs of imports may allow the region to concentrate on producing or developing something else that brings a lot more value added and income in return. Perez and Cuello's (2001) example gives a clear picture about this.

... 'Suppose there are three tropical islands, one of which imports bananas because the agricultural sector is not developed enough, the second imports them because local produce does not meet tourism quality standards and the third because the economy has dedicated its resources to higher value added activities such as commerce or services. The first two cases lead to different leakage containment measures. The third, although leakage, is a low cost to pay for the value added contributed by tourism'.

Hence, to indicate how much leakage level could be acceptable, a break even point analysis of tourism income and leakage should be conducted. As long as the earning to local economy is more than a loss through economic leakage, especially in case that such leakage is necessary or the region cannot for example, find import substitution products, it seems to be unfair to always condemn leakage negatively.

Which one is better?

Situation A

Suppose there is a big hotel that has high leakage level through money remittance from non local employees. It employs 200 local people and 300 non local people. Compared to

Situation B

A Small hotel 100% local owned and 100% local employed, but 100% equals only 15 people.

It is difficult to tell, it depends on various factors. In term of employment rate, A is better because it can create a large number of employments to a region. But there can be other factors that should be taken into account such as the type of job that A creates to local people? Salary? For example, if 200 local people work as low skilled labours, but 15 people in B work as high skill labours, have high salary; so, in term of career path, which one is better?

6.3.3 What should be the boundary of economic leakage?

One of the questions that would come up is how the boundary could be assumed when considering economic leakage. In this thesis, some words such as 'destination', 'region', 'country', etc. have been many times mentioned, and no differences have been made between those words.

In the literature review part, looking from many research papers, it is found that not even a single of them has stipulated its boundary splendidly before making their studies. It sounds like they assume or take for granted that 'it goes without saying'. However, the reasons that not many researchers want to touch it maybe because boundary is a very tricky issue that could lead to a big confusion and complication and finally, the studies cannot convey any message to people at all.

What boundary do they take for granted that everyone knows?

It should be noted that the key idea to think about this is to **'keep it simple.'** The general impression of those research papers, when they mentioned 'economic leakage', the most outstanding component is payment for 'imported products.'

This could be interpreted that the boundary that they use should be

- Geographical boundary especially 'country'

Therefore, if there is a purchase from other countries, or if there is a payment out of the country for imported products, it will be regarded as leakage. This is quite clear and easy to see the picture. However, when the words 'region' 'province' 'county' or 'destination' or even '50 km diameter from the main municipality' are used instead of 'country', **does that make any differences?**

The answer is it can be either 'yes' or 'no', according to their assumptions. This is because one may argue that it may be able to interpret in the same way that for example, if the boundary is a 'region', any payments for products paid out of region A, will be regarded as leakage no matter it is paid out to region B, which is the same country or paid out to other countries.

One should bear in mind that the saying of the above paragraph also includes a payment for domestic products that locally made in region B. And should that payment be regarded as leakage?

Actually, the answer for this question could again be both yes and no, totally up to researchers' purpose of study of what they are focusing on.

However, in this thesis, and also definitions in table 4-1, it seems to be clear that when mentioning 'economic leakage', it will focus on any payments that are paid out for products made in other countries. This is to say that, although the boundary is reduced to regional level, if they pay money for products made by another region but within the same country, it seems to imply that 'that is not leakage.'

To make it clear, to what extent it will be regarded as leakage also depends on

- Origin of products

This is to say that, if the origins of such products are from abroad, although region A has bought them from region B within the same country, or even hotels in region A has bought products from a distributor in their own region (A), it will be counted as leakage anyway.

In contrast, if the products are made in the same country in spite of different regions, it will not be included as leakage.

Therefore, in this thesis, although different words such as country, region, and destination are used, one should not be confused and interprets that in a different way.

What about labours?

The above mentioned is about products, but when it comes to labours, is it different?

Foreign labours

In this case, it is clear that they will be assumed to be a cause of leakage through remittances back home.

Non local labours, but come from the same country

In case of labour, it seems like there is no rule about the 'origin of labour'. It seems like if they are 'non local', though they come from the same country, they could be assumed as a cause of leakage as in case of foreign labours.

It should be noted that this kind of discussion will have no end because there are a lot of exceptions that one can argue. For example, it is not always the case that those labours have to send money back home because if their family move to live with them, why should they be assumed so?

Tax collection is another important issue.

If those labours come from abroad or even other regions within the same country, but they register to pay tax in the region that they work, in this case although some leakage may occur through remittances but a region can benefit from tax collection. And it seems to be 'acceptable'. At least, a region will not have a problem like seasonal workers.

6.3.4 Differences in leakage definitions

As already explained in 4.5; hence, it will not be repeated here. However, it should be kept in mind that when referring to 'leakage', the meaning of this word can vary. Especially, in economic impact assessment research papers, saving, tax, and payment for import will be counted as 'leakage' because it reduce the multiplier effect; meanwhile, leakage discussed in this thesis dose not include saving and tax as 'leakage'. In contrast, that would be regarded positively to the local economy. Therefore, this could be a source of confusion and should be carefully considered.

6.3.5 Should it be an attempt to reduce leakage?

Although the lessons learned above have shown some good points of leakage, especially when it is said that *leakage could be accepted as long as the earning to local economy is higher than the expense they have to pay for all costs of leakage*, this does not mean that there should not be any attempt to reduce it.

Yes! There should be an attempt to reduce. Why?

It could be traced back to one of the principles of economic sustainability that emphasises sustainable local contribution. It is true that leakage can be accepted as long as income of local economy is still higher than the costs. However, high foreign dependency put a country into risk as well. Suppose there is an economic recession, or suppose the price of those products that a country decides to import has substantially soared. In this case, this would bring economic instability to that country and could finally lead to a decline of local income, or in the worst case, total income may turn out to be lower than the costs of leakage.

Thereby, there is no guarantee that if local economy has total income higher than the costs of leakage right now, it would be so forever. It cannot deny that leakage is good in a particular time, but overtime, to achieve economic sustainability, local economy should try to minimise leakage and increase its self-sustained level.

6.3.6 Does it mean that a region with low leakage has sustainability?

'No'. It cannot be concluded that a region with low leakage is sustainable. One should bear in mind that when it comes to sustainability, there are many factors involving. Imagine that a region has low leakage, main facilities are controlled by local owned company, etc. But when looking into income distribution, the benefits go to only a few local people. This is absolutely not sustainable.

But is controlling leakage a way to become more sustainable?

Yes, it is. Reducing unnecessary leakage is a way to economic sustainability. (But also depends on other factors! such as evenly income generated).

But how much should it be controlled?

Too much stringent mitigation scheme could bring a region into 'lagging' period.

It is useful to use an extreme example again, suppose region A has a very strict policy in leakage reduction that importing were not allowed! What could happen to region A?

- Region A cannot satisfy customers with standard products. There may be a decline in tourist arrivals, and finally leads to a fall in region A's tourism industry.
- Region A could lose its competitiveness to other regions; hence, lose tourism income, and local residents lose benefits.

So, with the facts that no regions can supply themselves with all local made products; thus,

To what extent leakage level should be?

This is very difficult to answer. The leakage level will off course vary from one region to another. There is a need to study about the break even point of tourism income and economic leakage and this will be put in future research direction.

6.4 Conclusions

The recommendations for mitigating leakage along the value chain have different levels of difficulties. This is because it is dependent on the fundamental factors of each region, business power, etc. For holiday plan, accommodation phase, a mitigation scheme focuses on increasing sale and marketing points, the use of internet marketing, using high touch approach, IQM. In transportation, expanding partnership with of local companies could help relieved some leakage. For food sector, industry linkage to back up tourism industry could be a solution; however, cost benefit analysis should be carefully evaluated. Some problems such as tax collection from seasonal workers are difficult to solve in a regional level. The government should see economic leakage as a national agenda, and put some initiatives.

In the lessons learned part, it has shown that leakage should not be always regarded negatively. However, although the earning to local economy is higher than the payment through all kinds of leakage, it does not mean that leakage should not be reduced. Overtime, to get closer to economic sustainability, a region should try to increase its self-sustained level to minimise the risk of economic uncertainty.

7 Conclusions

Many countries have chosen tourism industry as a means for foreign exchange earnings and economic development. However, in reality, it is obvious that tourism sector sometimes may not be able to generate even benefits to a local community where the tourism takes place. One type of the negative impacts is called economic leakage, which is a phenomenon that occurs in every tourism industry and may hamper local communities moving towards economic sustainability.

There are some advantages that local community can have if it pays attention to economic leakage. Those benefits are such as having more income retention, creating a chance to observe an industrial linkage which would bring new business opportunity to a region.

Economic leakage is categorised into 3 groups which are export leakage, import leakage and invisible leakage. Each leakage has a different level of difficulty to keep track of. The most renowned ones are leakage through import payment, profit repatriation, pre leakage through tour operator's package. In general, developing, least developed countries and small island countries are more exposed to leakage than developed ones.

Factors resulting in leakage are varied such as level of development, economic diversification, government policy, business power integration, state of ownership, etc. Over time, leakage can drop or rise, according to all mentioned factors, as it is a dynamic phenomenon.

Measuring economic leakage is a difficult task due to its nature that is not easy to detect. It seems like there is no methodology specifically made for this purpose yet. However, if a local community wants to start examining leakage in its tourism industry, the tourism value chain can be a good starting point for a region to see an overview of depth and breadth of its tourism industry, to indicate which points that leakage could occur and to show what missing elements of the industry that could be added up to the whole chain to create more positive contribution to the local economy. This is because this tool is not complex and it is not over a capacity of average people to comprehend. Nevertheless, when it comes to calculating leakage figure, it seems to be more appropriate to develop another tool such as an econometric model made particularly for this purpose.

Due to the heterogeneity of tourism structure, the ideas of leakage mitigation along the tourism value chain are different from one place to another. For the case of Åre and Idre, a cause of economic leakage from the holiday planning and accommodation comes from tour operators, so it is recommended to increase sale and marketing points or use the integrated quality management. For the transportation, the leakage could come from tour operators because they use their own transportation; therefore, it is recommended that local transportation company should try to build a partnership with tour operators, by convincing them to use more local owned transportation. For food and shopping sector, it is recommended to create industry linkage, to use more local products. Leakage from seasonal workers is quite difficult to be locally solved because it involves political issue. Thereby it should be seen as a national agenda. Finally, leakage from visiting experience stemming from foreign control seems hard to solve. However, it could be reduced by other means such as to employ more local workers, to use more local products as well as to impose some political/economic policies.

Leakage should not be always regarded negatively as in some cases it is necessary and can boost more value added to the tourism industry. Leakage seems to be acceptable as long as the income to the local economy is higher than the payment through all kinds of leakage.

Despite the fact above, it does not mean that there should be no attempt to reduce leakage. This is because although leakage is not always detrimental to local economy in a short period, in the long run foreign dependency always comes with risks. Hence, overtime, in order to get closer to economic sustainability, a region should try to increase its self-sustained level.

Finally, it is crucial to increase an ability to retain tourism expenditure in a region (i.e. reduce leakage) and generate the wealth evenly among local residents. With the fact that the rise and fall of tourism destination also depends on local acceptance, it is very important that tourism development take local benefits as a priority.

7.1 Future research direction

Some suggestions for future research are

- Tools for calculating economic leakage. The study may focus more on developing a mathematical model.
- Break even point analysis. Is there a way to calculate the optimum point of economic leakage for a local community?
- Mitigation methods particularly for unnecessary leakage.

Bibliography

Research Papers/books/working papers/presentations

Adler, Peter S (2002) Sustainability. *The Keystone Forum on sustainable development* 15 November

Aronsson, Lars (2000) *The development of sustainable tourism*, London

Bélisle, Francois J (1983) Tourism and food production in the Caribbean. *Annals of tourism research* Vol.10 p497-513

Benavides, David Diaz (2001). *'The sustainability of international tourism in developing countries'* Seminar on tourism policy and economic growth, Berlin, 6-7 March, 2001

Boeser, Richard, Lindgren, Alexander, Mulder, Maarten, Supradist, Nareeta (2004). *Stimulating local food production in Jämtland County*. International Institute of Industrial Environmental Economic, Lund University.

Brown, F. (1998). *Tourism Reassessed Blight or blessing?* Butterworth- Heinemann

Budeanu, Adriana (1999) *A tour to sustainability*. International Institute of Industrial Environmental Economic, Lund University.

Christies, Iain T, Crompton, Doreen E. (2001). *Tourism in Africa* February 2001, Africa Region Working Paper Series No. 12 the World Bank.

Cooper, Chris, Fletcher, John, Gilbert, David, Wanhill, Stephen (1998) *Tourism Principles and Practice*. Addison Wesley Longman Limited

Cummings, Harry, Murray, Don (2004). *A kinder, simpler, gentler economic impact assessment process*

English, Phillip (1986). *The Great Escape An Examination of North-South Tourism*. The North-South Institute, Ottawa

Ennew, Christine. (2003). *Understanding the Economic Impact of Tourism*. Som Nath Chib Memorial Lecture, Feb 14, 2003. Christel DeHann Tourism and Travel Research Institute, University of Nottingham Business School, UK.

European Commission (2000) *Summary towards quality rural tourism*, Integrated quality management (IQM) or rural tourist destinations

Gollub, James, Hosier, Amy, Woo, Grace (2004). *Using cluster-based economic strategy to minimize tourism leakages*, World Tourism Organisation.

Hampton, Mark P. (1998). Backpacker tourism and economic development *Annals of Tourism Research, Volume 25, Issue 3, July, Pages 639-660*

Hohl, Andreas E, Tisdell, Clem A (1995). Peripheral tourism: Development and management. *Annals of Tourism Research, Volume 22, Issue 3, Pages 517-534*

Jarvis, Jeff (1995) The Billion Dollar Backpackers (see Faculty of Arts Monash University online)

Kontogeorgopoulos, Nick (1998). Accommodation employment patterns and opportunities. *Annals of Tourism Research, Volume 25, Issue 2, April Pages 314-339*

- Mathiesson, A. and Wall, G (1989). *Tourism economic, physical and social impacts*, Longman Scientific & Technical, UK.
- Mowforth, Martin, Munt, Ian (1998). *Tourism and sustainability, New Tourism in the Third World*, Routledge, London.
- Perez, Ellen, De Cuello, Ducey (2001) *Financial Leakages from Tourism, Evaluation and Policy Issues for LDCs*, World Tourism Organisation
- Rodenburg, E (1980) The Effects of Scale in Economic Development: Tourism in Bali. *Annals of tourism research* Vol.7 p177-196
- Schumacher E.F. (1998). *Small is beautiful economic as if people mattered*. Hartley & Marks Publishers Inc
- Shuman, H Michael (1998). *Going local*. The Free Press, New York
- Sinclair, M.T. (1991) The tourism industry and foreign exchange leakages in a developing country. In: Sinclair, M.T. and Stabler, M.J. (eds) *The Tourism Industry: An International Analysis*. Wallingford: CAB, pp.185-204.
- Smith, Christine, Paul, Jenner 1992. The leakage of foreign exchange earnings from tourism. *Travel & Tourism Analyst*. No 3: 52-66. Economist Intelligence Unit, London.
- Stynes, Daniel J (2004). *Economic impacts of tourism*.
- Telfer, J David, Wall, Geoffrey (1996). Leakages between tourism and food production. *Annals of Tourism Research*, Vol. 23, No.3 p635-653
- Wells, Michael P (1997). *Economic perspectives on Nature tourism and Conservative and Development*. September 1997, the World Bank
- World Travel & Tourism Council (2004) *Executive Summary Travel & Tourism Forging Ahead*. The 2004 Travel & Tourism Economic Research.
- World Tourism Organisation (1999). *Contribution of the World Tourism Organisation to the SG report on tourism and sustainable development for the SCD 7 meeting*. April 1999.
- World Tourism Organisation (2001). *Tourism and poverty alleviation*. April 1999. High level meeting on Tourism and development in LDCs. Gran Canaria, Spain, March
- World Tourism Organisation (2004) *WTO barometer*, Global trouble took toll on tourism 2003, growth to resume in 2004, January 2004 Volume 2, Issue 1

Website

- United Nations (2004) [Online] Available
<http://www.un.org/geninfo/bp/enviro.html> [June, 2004]
<http://www.un.org/esa/sustdev/sdissues/sdissues.htm>
- Sustainable tourism in Hawaii [Online] Available
http://www2.hawaii.gov/dbedt/index.cfm?section=READ_LatestData990 [June, 2004]
- Unesco Organisation [Online] Available
http://www.unesco.org/education/tlsf/theme_a/mod02/uncom02t01bod.htm [June, 2004]
- United Nations Atlas of the Ocean [Online] Available

<http://www.oceansatlas.org//servlet/CDSServlet?status=ND0xNzk0MCY3PWVUjYxPSomNjU9a29z> [June, 2004]

Faculty of Arts Monash University [Online] Available

<http://www.arts.monash.edu.au/ncas/teach/tourism/Backpackers.htm> [July, 2004]

Planeta.com [Online] Available

<http://www.planeta.com/planeta/96/0896cruise.html> [August, 2004]

World tourism organisation [Online] Available

http://www.world-tourism.org/market_research/facts/menu.html [August, 2004]

United Nations Environmental Programme (2004) [Online] Available:

<http://www.uneptie.org/pc/tourism/sust-tourism/economic.htm#negative-econ> [August, 2004]

People and the planet (2004) [Online] Available

<http://www.peopleandplanet.net/doc.php?id=1113> [August, 2004]

World travel and tourism council (2004) [Online] Available

<http://www.wttc.org/2004tsa/frameset2a.htm> [August, 2004]

Hawaii tourism study (2004) [Online] Available

http://www2.hawaii.gov/dbedt/index.cfm?section=READ_LatestData990 [June, 2004]

Polity.org.za (2004) [Online] Available

http://www.polity.org.za/html/govdocs/white_papers/localgov/wpglossary.html [June, 2004]

Appendix I

Irridex model of stress relative to tourism development

Stage	Characteristics	Symptoms
Stage 1	Euphoria	Visitor welcomed, little formal development
Stage 2	Apathy	Visitor taken for granted, contacts become commercial
Stage 3	Irritation	Locals concerned about tourism, efforts made to improve infrastructure
Stage 4	Antagonism	Open hostility from locals, attempts to limit damages and tourism flows

Source: Doxey (1975); in Budeanu (1999)

Appendix II

For those who are particularly interested in tourism economic impact assessment, multiplier effect, and Input Output analysis, may find the following reading list useful.

Archer, Brian H (1984). Economic Impact: Misleading Multiplier. *Annals of tourism research* Vol. 11 p517-519

Archer, Brian H. (1995). Importance of Tourism for the Economy of Bermuda. *Annals of Tourism Research* Vol. 22: 918-930.

Archer, Brian H., Fletcher, John E (1996). The Economic Impact of Tourism in the Seychelles. *Annals of Tourism Research* Vol. 23: 32-47.

Fletcher, John E (1989) Input-Output Analysis and Tourism Impact Studies *Annals of tourism research* Vol. 16 p514-529

Frechtling, Douglas C. ; Horvath, Endre (1999). Estimating the Multiplier Effects of Tourism Expenditures on a Local Economy through a Regional Input-Output Model. *Journal of Travel Research*, Vol.37:4 324-333

Gartner, W.C, Holecek, D.F (1983) Economic Impact of Annual Tourism Industry Exposition. *Annals of tourism research* Vol. 10 p199-212

Habibullah Khan, Chou Fee Seng and Wong Kwei Cheong (1990). Tourism multiplier effects on Singapore. *Annals of Tourism Research, Volume 17, Issue 3, 1990, Pages 408-418*

Jeremy Baster (1980). Input-output analysis of tourism benefits: Lessons from Scotland. *International Journal of Tourism Management, Volume 1, Issue 2, June 1980, Pages 99-108*

Liu, Juanita, Var, Turgut (1982). Differential multipliers for the accommodation sector *Tourism Management, Volume 3, Issue 3, September 1982, Pages 177-187*

Sung, Yun-wing, Lin, Tzong-biau (1984) Tourism and economic diversification in Hong Kong. *Annals of tourism research* Vol. 11 p231-247

Wagner, John E (1997) Estimating the Economic Impacts of Tourism, *Annals of Tourism Research* Vol. 24 No 3 p 592-608

Wanhill, Stephen (1994).The measurement of tourist income multipliers *Tourism Management, Volume 15, Issue 4, August 1994, Pages 281-283*

West, G.R. (1993) Economic significant of tourism in Queensland, *Annals of tourism research* Vol. 20 p490-504

Zhou, Deying, Yanagida, John F, Chakravorty, Ujjayant, Leung, PingSun (1997) Estimating Economic Impacts From Tourism, *Annals of Tourism Research* Vol. 24 No 1 p 76-89

Appendix III

Fifteen principles of Integrated Quality Management (IQM) suggested by European Commission (2000) are as follows:

1. **Integration:** Concern for quality, and the management techniques aimed at achieving it, should be integrated into all the tourism functions of the destination.
2. **Authenticity:** Visitors are looking for genuine experiences. The special rural heritage of Europe's countryside should be honoured and celebrated. It should be presented in a real way, which does not fabricate nor devalue its quality
3. **Distinctiveness:** Visitors travel to experience something different; otherwise they may as well stay at home. Delivering quality should be about bringing out the special, distinctive features and flavours of the destination.
4. **Market realism:** Quality management should be based on an informed and realistic assessment of the area's potential in the market place, identifying its competitive strengths and ensuring they are not eroded.
5. **Sustainability:** Many rural areas have fragile sites and small communities sensitive to intrusion and congestion. However, visitors themselves are increasingly looking for unspoiled environments. Any rural destination seeking to deliver quality must be concerned with managing the impact of tourism.
6. **Consumer orientation:** Quality management is about getting close to the visitor, understanding his or her needs and finding out whether they are being met.
7. **Inclusiveness:** Destinations should not be content with delivering quality to a few people while delivering a mediocre experience to others. A good experience should be provided for all visitors, and especially those with special needs.
8. **Attention to detail:** Quality is about being creative but also taking care over the detail- providing enough information, checking on facilities, providing extra services.
9. **Rationalisation:** Sometimes quality can be about not doing things. A small number of good initiatives and products is better than many poor ones. It is about stopping activities that are under resourced and not delivering quality, or combining them into something stronger.
10. **Partnership:** Quality management is about involving people. Working together is right in principle and also essential for success. The many small tourism enterprises, related organisations and community groups should all be involved together in delivering quality in the destination. Their well-being should be regularly checked.
11. **Interdependence:** Special attention should be paid to the role of tourism in the destination as a whole. Quality rural tourism depends on, and in turn supports, many other activities such as agriculture, craft industries, transport and local services.
12. **Time:** Improving quality in a destination takes time. Success depends on planning for steady, achievable progress year on year rather than setting unrealistic targets.
13. **Commitment:** A fundamental requirement of success is personal enthusiasm and commitment to achieving quality. Really successful destinations not only have individuals driven by this, but also a way of ensuring that it is spread to everyone.

14. **Accurate communication:** Providing visitors with accurate information is a key to matching expectations to reality and ensuring satisfaction. Effective communication with everyone involved in the destination is essential for success.
15. **Monitoring:** Quality management is all about regular monitoring and evaluation of impacts on the visitor, enterprise, the environment and local community.

Appendix IV

Interview questions

1. What do people in your region talk about this development? Do they support or against this idea?
2. What do they benefit from this development?

Holiday planning

1. Where do most visitors come from?
2. How do they come to your region? By what kind of transportation?
3. If foreigners, how do they come to the region, (package tour, private trip)
4. Where is the nearest airport to Åre/Idre? Which airline that tourists use to come to Åre?
5. If package tour, so they have to book through tour operators? In their country?
6. Do you have local tour operators / travel agencies in the region?

Yes,

How do they do their international marketing?

Do they have international partners?

Where do the employees come from?

No,

(Package) So, tourists come from tour operators in their own country who will arrange everything for them?

(Private) So, how do tourists know about your region?

How does Åre do a PR for themselves?

Transportation

1. Do you have local transportation to serve the tourist? A local bus link, Or local car rental company? Or taxi
2. Do tourists often use them?
3. Is that owned by your region or foreign investors?
4. How is the infrastructure in your region built? Roads, energy facilities, etc.
5. Is it built by a foreign construction company?

Accommodation

1. Do you have a lot of hotels, accommodations in the region?
2. How is the ownership? Are most of them owned by local people or foreign investors?
3. Where does a hotel construction company come from?
4. Where do the construction materials, capital goods and labours come from?
5. Where do products that they have to satisfy customers, decorations, furniture, communication system come from?
6. How can the hotels do the marketing about themselves?
7. How can visitors reserve for the room?
8. Where do the employees of the hotels come from?
9. How do you manage with a lot of seasonal workers?

Food

1. Where does food and beverage come from?

Shopping

1. Where do visitors go shopping here? What do they usually buy?
2. Do you have a showroom/place of selling local products?
3. Are visitors concerned about what they buy? Do they ask for local products?
4. How do you do marketing about this?

Visitor experience

1. How do you promote the activities of the region?
2. When there is a business event or sport event such as world cup in 2007, how does the region promote it?
3. Where does the construction company, labours come from? For organising, preparing each event?

End

1. What do you think is the main leakage point of your region? How are you going to cope with it?
2. Do you think local people are satisfied with this development? Do you think they benefit from this development approach?
3. Do you think this benefit will be sustainable?
4. Do people in the region see leakage as a problem? Do they try to fix it?

Contacts references

Åre

Benckt Aspman, (Åre municipality office) 0705 32 44 65, Benckt.aspman@are.se

Benny Pålson (Åre tourism bureau) 0647 17720, bp@aretouristbyra.com

Idre

Henrik Thomke (Consultant) 0707 49 70 71

Lars Axelsson (Managing Director, Idre Fjäll) 0253 41271, lars.axelsson@idrefjall.se