

ECONOMIC DIMENSION OF SUSTAINABLE TOURISM

Economic Tourism Impacts (Slocum, 2020)

Tourism contributes greatly to a nation's economy. *Economy* refers to the system of production, distribution, and consumption of goods and services within a society. It involves all economic activities and institutions that contribute to the overall wealth and financial stability of a country or region. In the case of tourism, the economic activities are the operations related to service provision in hotels, restaurants, destinations, travel agencies, and other sectors.

Tourism products are sold to people interested in travel, which generates profit for both the private and public sectors. It boosts local economies by supporting various industries like hospitality, transportation, and retail, leading to a *ripple effect* (continuing and spreading results of an event) of economic benefits. The taxes and fees collected from tourism activities contribute to the government revenue, which is reinvested in public services (government assistance programs to the citizens) and infrastructure, thereby enhancing overall development.

In the Philippines, the Tourism Act of 2009 declares tourism as "an indispensable element of the national economy and an industry of national interest and importance, which must be harnessed as an engine of socio-economic growth and cultural affirmation to generate investment, foreign exchange, and employment." This means that tourism is crucial for the country's economy and should be used to boost growth, create jobs, and attract investment and foreign money.

Tourism Multiplier Effect (McKercher & Prideaux, 2024)

Tourism can contribute to the economy through the tourism multiplier effect, the economic impact of tourism that extends beyond the initial spending by visitors. The *tourism multiplier effect* refers to how many times the money spent by a tourist circulates in a country's economy and benefits the other sectors and its people.

The following are the pathways of the tourism multiplier effect:

- The **direct effect** happens when tourists' money is spent on tourism-related products (accommodation, transportation, food, and attractions). These spending activities benefit industries directly connected to the provision of tourism products and services. The main sources of tourism spending come from domestic travelers and international visitors who spend money while traveling. This includes things like transportation to a destination, paying for a hotel room or rental car, buying tickets to visit a tourist spot or see a theater show, and paying for meals at a restaurant.
- An **indirect effect** occurs from the intermediate consumption by the suppliers of tourism goods and services. For example, a hotel needs to buy supplies such as linens, cleaning products, and furniture. The businesses that sell these items to the hotel also benefit, as they generate income from these sales. Additionally, those suppliers need to purchase their raw materials, such as fabric for the linens or chemicals for the cleaning products, which creates new rounds of indirect impacts along the production chain.
- The **induced effect** is driven by the spending of people who work directly or indirectly in the tourism industry. This includes their expenditures on food, beverages, clothing, and recreation. An example of the induced effect is when a hotel staff spends their wages on groceries or dining out, which supports local shops and restaurants, or a tour guide might use their earnings to buy clothes or pay for entertainment, benefiting retail stores and theaters in the area.

The tourism multiplier effect shows how a tourist's trip can have a bigger economic impact on both local and global economies. When tourism is managed sustainably, the money earned can be reinvested in important areas like healthcare or education, creating long-term benefits for society.

Positive Economic Impacts of Tourism (Stainton, 2023)

The following are the economic advantages of tourism:

Employment Opportunities

As more tourists visit a destination, more jobs and businesses are created. Tourism requires workers to run hotels, restaurants, transportation services, souvenir shops, and other related businesses.

For example, a new hotel might hire receptionists, cleaners, and chefs, while local tour companies need guides and drivers. Souvenir shops will also require staff to sell local products to tourists. All these create employment opportunities for people in the area.

Revenue for the Public Sector

As tourism grows, it leads to more businesses and jobs, which brings in significant tax revenue for the government. Each part of the tourism industry contributes to this revenue, including property taxes from hotels, airport taxes from travelers, sales taxes from purchases made by tourists, park entrance fees, and income taxes from employees working in tourism-related jobs.

For instance, a hotel pays property taxes based on its value, and its employees pay income taxes. The government uses this money to fund public projects like building new roads, improving parks, supporting community services, or reinvesting in tourism.

Advancement of Local Economies

Tourism plays a crucial role in boosting local economies. It helps the local economies of a destination by attracting visitors to natural attractions, which highlights the importance of preserving them so future generations can visit them. When these attractions are preserved and become famous, this allows informal employment (work without social and legal protections and employment benefits, such as street vendors) in the attraction for the locals, which generates income for them. However, this informal spending still benefits the local economy and contributes to the tourism multiplier effect.

For example, suppose a tourist buys a souvenir from a local vendor or takes a tour with a community guide. In that case, the money generated helps support local families and businesses, improving their way of life. Additionally, tourism revenues, such as fees from national parks, can be used to protect and manage these natural areas, ensuring they remain attractive for future visitors. For instance, entrance fees collected at a wildlife reserve can fund conservation efforts and park maintenance.

Foreign Exchange Earnings

Tourism brings money into the host country by allowing travelers to spend their foreign currency on local goods and services. When tourists visit a destination, they exchange their currency for the local currency to pay for things like hotels, meals, and attractions. This process earns foreign exchange for the host country, which can strengthen its economy.

If a Japanese person visits the Philippines, they exchange Japanese yen for Philippine pesos to pay for their hotel stays and meals.

Tourism Revenue Share

Tourism revenue share refers to how money from tourism benefits the destination and the places tourists travel through or stop along the way. When tourists travel to a destination, they spend money in various places they pass through, which also helps those areas economically.

While traveling to their destination, a tourist might buy food and drinks at a rest stop, purchase toiletries at a convenience store, or fill up their car with fuel at a gas station. All these purchases contribute to the local economies of these stopover locations, not just the destination.

Negative Environmental Impacts of Tourism (Stainton, 2023)

While tourism offers significant economic benefits, it is also important to acknowledge its potential negative economic consequences. Here are the following:

Seasonality Employment Patterns

Seasonal employment patterns in tourism mean that many jobs only last for part of the year, based on when tourists are most active, leading to job insecurity. This is due to the tourism industry having lean and peak seasons. *Lean season* refers to periods when tourist numbers are low, leading to reduced business activity and fewer job opportunities. The *peak season* is when tourist activity is at its highest, resulting in increased demand for services and more job opportunities.

For example, Baguio City's peak season is during the summer months, so tourism establishments often hire extra staff to handle the increased visitor numbers. Once the peak season ends, the workers may be given less or no schedule at all and must wait until the next summer to be employed again.

Opportunity Costs

Opportunity costs are what is sacrificed when choosing to prioritize one activity over another. In tourism, this means considering what will be missed when resources like money or time are spent on tourism instead of other activities.

When a rural community decides to invest in developing a tourist attraction, they might not invest in farming, gardening, or fishing. This choice could mean losing out on the benefits and income those other activities might have brought. If resources are used to build a hotel instead of improving farm equipment, the community may miss out on the potential benefits of increased agricultural production.

Inflation

Inflation occurs when prices for things like land, houses, and food go up over time, often due to increased demand from tourists. When more tourists visit a place, they spend money on local services, which can lead to higher prices for everyone.

For example, if a popular tourist destination attracts many visitors, local restaurants might raise their prices because they know tourists are willing to pay more. Similarly, if a town experiences a tourism boom, the demand for housing might drive up rental prices, making it more expensive for residents to find affordable places to live.

Leakages

Leakages in tourism happen when the money that tourists spend does not stay in the local economy, reducing the host country's economic benefits. This occurs when local businesses must import goods or services to meet tourists' demands instead of using locally produced items.

For example, if a popular tourist destination needs a specific type of food that is not grown locally, restaurants might import it from another country. The money spent on these imports leaves the local economy and goes to foreign suppliers, which means less money benefits local businesses and workers.

Tourism Overdependence

Tourism overdependence occurs when a country relies too heavily on tourism for its economic well-being. If tourist numbers drop or the tourism industry has problems, the country can face serious economic difficulties because it has few other sources of income.

For example, suppose a small island province depends mainly on tourism for revenue, and there is a natural disaster or global travel restrictions. In that case, the sudden drop in tourists can lead to economic problems, as there are not enough other industries to support the economy.

Knowing the good and bad economic effects of tourism allows decision-makers to balance tourism growth with the needs of local communities and the environment.

The Role of Tourism on the Economy (Pongponrat, 2022)

Tourism significantly contributes to economic management by offering various sources of income and generating revenue through different channels, which help support the development of infrastructures and job creation. It also promotes regional development and economic resilience by reducing the dependence on single industries and attracting investment. Below are the significant roles of tourism in economic management:

- **Economic driver.** Tourism acts as a key economic driver by stimulating local economies through increased demand for tourism offerings. This demand supports various sectors (e.g., accommodation, food and beverage, and transportation), which foster economic growth and create an active economic environment.
- **Job Creator.** Tourism creates a wide range of employment possibilities within the sector (direct employment) through careers in hotels, restaurants, and travel agencies and in supporting industries (indirect employment) like agriculture and construction. This job creation helps reduce unemployment and provides income stability for many individuals and families.
- **Developer.** Tourism contributes to regional and urban development by funding and encouraging the construction of infrastructure such as roads, airports, and public amenities (parks and recreational areas, healthcare facilities, educational institutions, and public safety services, such as police and fire stations). This development not only enhances tourist experiences but also benefits local communities by improving overall living conditions and access to services.
- **Revenue generator.** Aside from the direct income for tourism businesses, tourism is also a significant source of revenue for governments through taxes on tourism-related activities. This revenue can be reinvested into public services, infrastructure, and community projects, which help support broader economic and social development.
- **Economic diversifier.** Tourism provides an alternative source of income to traditional industries, reducing economic dependence on a single sector and enhancing a country's overall economic resilience. This also encourages the development of new business ventures and services, allowing variation and innovation in the economy. For example, agriculture is a significant part of the Philippine's economy. By promoting tourism in agricultural regions, such as through farm tours or stays, they can generate additional income. This reduces their reliance on agricultural production and creates opportunities for local entrepreneurs to develop new businesses aside from agriculture.
- **Investor.** Tourism drives investment in both public and private sectors, with funds allocated to developing tourism infrastructure, enhancing services, and promoting destinations. This investment often leads to long-term economic benefits, including improved facilities, increased property values, and enhanced business opportunities. Collaboration between the government and private businesses can lead to the development of facilities that can benefit tourists and residents.

By focusing on these roles, tourism can contribute to sustainable economic development, maximizing economic benefits while addressing environmental and social concerns. Balancing economic growth with sustainability ensures that tourism remains a positive force for the economy and the community.

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