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Musings On Tourism and Tourism Development

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Good afternoon and Aloha.

Dean Dubanoski asked me to make a presentation on tourism. I asked him what he would like me to talk about. He said that he would leave it up to me, and I have 30 minutes. Don't you hate it when people say that? In the time allowed, I will share with you a few of my personal thoughts on tourism and tourism development based on my 35 plus years of research on the subject. My presentation will be built around a few thoughtful quotations about travel and tourism.

(1) *The urge to travel is universal.*

This statement by Harold Vogel (2001) states the obvious; people want to travel because we are all born with innate and insatiable curiosity. Tourism has a long history. Historians have traced one of the first lists of tourist attractions to 146 B.C.—the Seven Wonders of the Ancient World. Only the Great Pyramid of Egypt remains. Today, a listing on the World Heritage List is prized by tourism destinations as a way to increase tourism. As of June, 2010 there were 936 sites on the coveted list. No, Las Vegas is not on the list.

A prominent tourism economist, H. Peter Gray (1970), once described travel driven by the need to satisfy one's curiosity about other places as "wanderlust travel." Hawaii offers another kind of tourism, the 3 Ss of sun, sand, and sea, or what Gray described as "sunlust travel." (Some countries have been widely known to offer a 4th S, "sex"…or in some cases, "socialism.") Sunlust travel destinations face stiff competition from many other similar destinations. In Hawaii we try to find ways to differentiate ourselves. Tourism officials here say that the "Aloha Spirit" makes Hawaii different. Hawaii Revised Statutes 5.7-5, a law passed in 1986, defines Aloha Spirit as the "co-ordination of mind and heart within each person." To tourists, it represents the kindness and warm hospitality that they can expect to receive when they visit Hawaii.

For most of us tourism means traveling for personal pleasure. But that's not how the World Tourism Organization (UNWTO) defines it. Tourism is defined as travel away from one's usual place of residence for less than a year for reasons other than for emigration or for employment. Thus, all of you in this room who don't live here are tourists, even though you may not be having any fun at all. In 2010, travel for leisure, recreation and holidays comprised 51 percent of (or 480 million) international tourist arrivals; business and professional travel accounted for another 15 percent; and visiting friends and relatives (VFR), health, religion, and "other" reasons comprised another 27 percent. We have no idea why the remaining 7 percent were traveling; perhaps some for not-so-forthright reasons. I have always been puzzled by why "visiting friends and relatives" is not considered pleasure travel. If it's not fun to visit your friends and relatives, why bother?

The number of tourist arrivals, thus broadly defined, has become staggering. Worldwide, international tourist arrivals reached 940 million in 2010 compared to 69 million in 1960; international tourism receipts totaled $919 billion (measured in nominal U.S. dollars), excluding passenger transportation costs. We don't have good data on domestic travel; but what's available suggest that domestic travel exceeds international travel by several-fold.

The 2000-2010 decade was difficult for international travel. Even so the number of international tourist arrivals grew from 675 million to 940 million, or at an average annual compound growth rate of 3.4 percent. The numbers indicate that tourism is a resilient business. If there is a war, political unrest, a natural disaster, or an infectious disease outbreak in one place, tourists simply change their travel plans and go to some other place instead. Between 2000 and 2010, North-East Asia with 6.7 percent growth per year and South-East Asia with 6.8 percent growth per year exceeded all other regions, except the Middle East, in the growth rate of international tourist arrivals. Last year, international tourism receipts in North-East Asia totaled $122 billion and $68 billion in South-East Asia.

(2.) *Tourism depends on economic development and open, free societies.* (Graham Todd)

It is well known that the most important economic determinants of demand for travel are income and the cost of transportation. In ancient times, "travel was pretty much limited to the elite, the nomad, the warrior, and the pilgrim." Mass tourism—defined as "the participation of large numbers of people in tourism"--is a post-World War II phenomenon. Economic growth and the decline in transportation costs due to improvements in transport technology-- and not just in commercial passenger aviation-- have made it possible for the middle class people to travel. This is especially true of long-haul travel where air travel is the preferred mode of transport. Researchers from the Boston Consulting Group (2006) find an S-shaped relationship between demand for long-haul travel and a country's GDP per capita. They show that rising income fuels demand for long-haul travel only after income in a country exceeds $15,000 (U.S.) per person. They argue that current expectations on international outbound travel by tourists from Mainland China and from India are far too optimistic. They don't expect China to reach the level of U.S. absolute demand for long haul travel until the year 2050. (In 2009, U.S. resident outbound travel totaled 61.5 million of which 31.2 million trips were to neighboring Canada and Mexico.) The UN Statistics Division reported 2009 GDP per capita for China as $3,769, for India, $1,075 and for the U.S., $44,872. But average income data conceal the disparity of income within a country. The number of millionaire Chinese households now ranks third in the world, after the U.S. and Japan. There are a lot of rich people in China.

Economic development affects tourism in two ways. Higher income due to economic development provides travelers with the financial means to travel. Research has also shown that tourists prefer to visit more highly developed countries. In July of this year, Chinese travel agencies began offering package tours to North Korea for about $600 to $700 per person for a 3 to 4 day tour. On the televised newscast about the inaugural flight that I saw, the reporter asked a few people on the street if they would like to visit North Korea. Although it wasn't a scientific survey, most of the respondents said that North Korea was a poor country and there wasn't much to see; they would rather go to Japan or an exotic place like Bali, or somewhere else.

Unfortunately, research indicates that many people (e.g. my sister) really don't like to visit very poor countries or see a lot of poor people. My colleague Chung Lee, a development economist, argues that it is not poor people *per se* that turns potential visitors off. Poverty in scholarly research is a proxy for a whole host of other deficiencies, like lousy infrastructure, lack of touristic attractions, weak cultural heritage, poor sanitation and medical care, et cetera, et cetera, and et cetera. With sincere apology to former New York Yankee baseball catcher Yogi Berra for making up another Yogi-ism, there are a lot of poor people in poor countries.

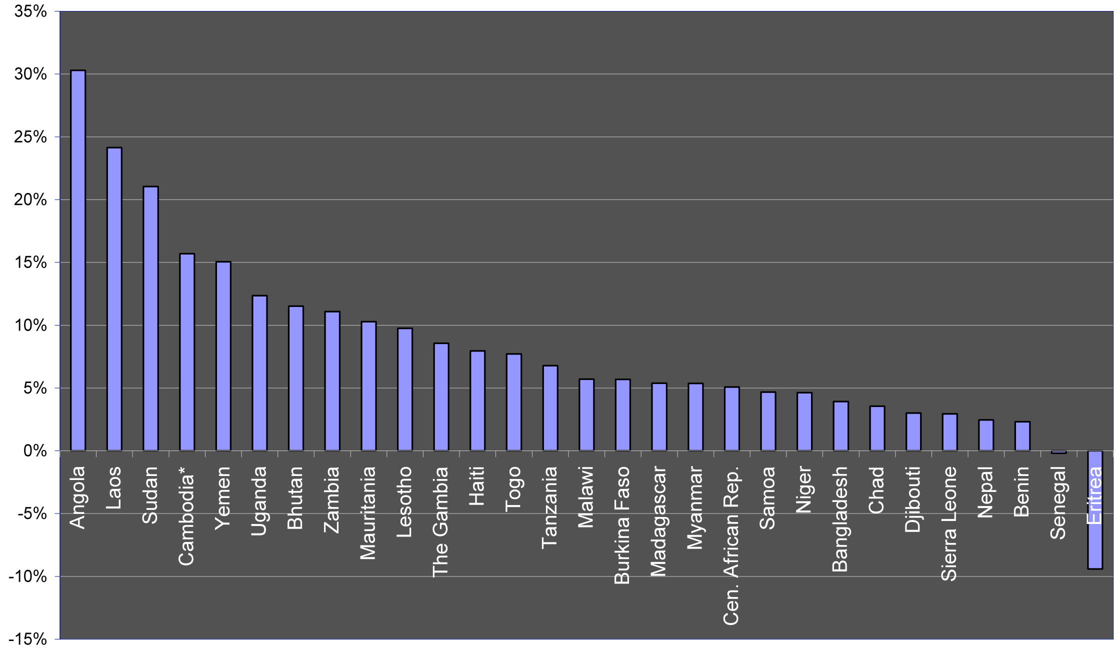
The reluctance of some people to travel to less developed countries is unfortunate because the primary concerns in developing economies today are to achieve economic growth and reduce poverty. Following the United Nation's Millennium Declaration to reduce global poverty during the 21st century, the World Tourism Organization (UNWTO) has declared its commitment to reducing global poverty through tourism. In June 2002, the UNWTO and the United Nations Conference on Trade and Development agreed to pool their efforts.

It isn't easy to foster growth and reduce poverty through tourism if people prefer not to visit poor countries. It becomes a Catch-22 problem. People don't want to visit poor countries until they first become less poor. It has been suggested by Jamieson, Goodwin, and Edmonds (2004) that backpackers might be more easily attracted to visit countries without rated services and quality facilities. It is not a suggestion that would be well received in Bhutan, a small Himalayan kingdom that has been on the UN list of the world's "least developed countries" since 1971.

Bhutan's tourism policy states, "The Royal Government of Bhutan adheres strongly to a policy of high value, low impact/volume tourism which serves the purpose of creating an image of exclusivity and high-yield for Bhutan." Bhutan requires visitors to spend a minimum of $200 per person per day; next year the amount goes up to $250. Some Bhutanese look at Nepal—another country on the UN list of least developed countries—and its "pot-smoking, penny pinching backpackers and chaotic tourist quarter, and say that's exactly what they don't want." The high price of visiting Bhutan hasn't deterred tourists; indeed, there is concern that there may be too many people who want to visit the kingdom. Bhutan seems to have hit on the right policy. Nepal may see it differently. The lesson here is that there is no one-policy-fits-all solution. In the end, what works best for a country is one that also achieves political equilibrium.

The good news is that UNWTO data (Figure 1) indicate that tourism is doing quite well in many of the least developed countries in the world.

Figure 1
Average Annual Growth Rates in Tourist Arrivals for Select LDCs (1995-2009)



Note: Cambodia is for 2004-2009

Figure 2
Tourism Receipts as a % of GDP for Selected LDCs (1995-2009)

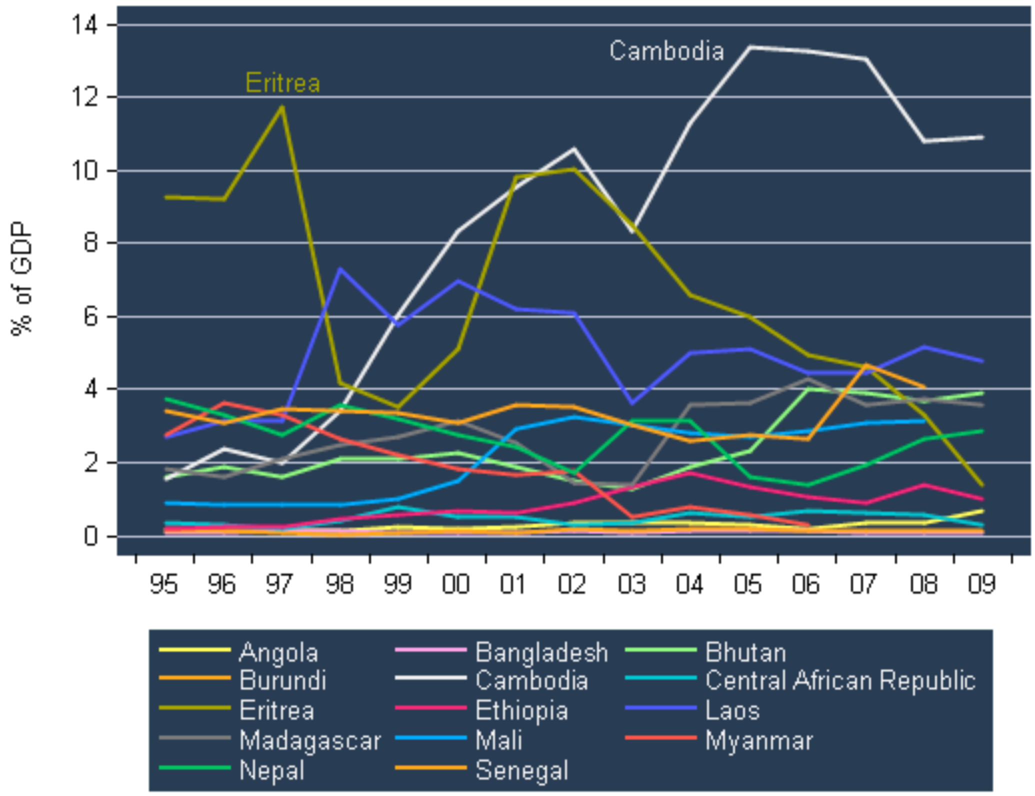


Figure 2, which displays the ratio of tourism receipts to GDP, indicates that economic dependence on tourism vary widely among countries on the UN list of the least developed countries. The sharp increase in dependence on tourism in Cambodia is striking. The decline of tourism in Eritrea is equally striking. For most of the remaining countries, the ratio of tourism receipts to GDP still appears to be quite modest—below 4%. Some island countries like Maldives (not included in Figure 2) are much more dependent on tourism than the group of countries displayed here. The reasons for the differences in the performance of tourism in these countries, and in other higher income--albeit still considered less developed countries--need to be carefully studied.

I am not sure that tourism depends on open and free societies. That may be asking too much. However, it certainly helps to spur tourism if people were allowed by governments to travel freely. That was not always true in the post-WWII era. In the rush to industrialize to achieve economic growth, Asian countries did not accord tourism the same priority given to manufacturing or other political goals.

Policies toward inbound and outbound tourism were, and remain, asymmetric. In the '60s, and even long after that, developing countries in Asia sought to increase inbound tourism by promoting tourist travel to their countries, investing in tourism infrastructure, and easing and streamlining entry formalities; at the same time they were imposing tight restrictions on out-bound pleasure travel by their nationals to curtail consumer spending (and thus raise domestic savings) and conserve foreign exchange needed for industrialization. Tourism's role in economic development was to generate foreign exchange to support industrialization.

Japan, for example, did not permit its citizens to travel abroad for tourism (pleasure) purposes until 1964, after the conclusion of the Tokyo Olympics. Even after the travel ban was lifted, foreign exchange restrictions remained in place until the late 1970s. By 1989, Japan led the world in spending on international tourism. South Korea did not fully liberalize outbound pleasure travel until 1989, after the conclusion of the 1988 Olympic games in Korea. Taiwan began a course of outbound travel liberalization beginning in 1979 except for men of military age who had not yet served their military obligations. Experience with travel liberalization shows that outbound travel spiked upward right after people were permitted to travel freely.

On the tourism receiving side, while other Asian countries, especially those in Southeast Asia, began courting tourism seriously, Japan never did until the launching of the Government's 2003 Visit Japan campaign. In 2008, tourism was elevated to the Cabinet level. Until the burst of the "bubble economy" in 1991, getting foreigners to visit Japan, except on business trips, simply wasn't a top priority. Exporting industrial goods was. As one Japan National Tourism Organization (JNTO) executive said recently of tourism in the Land of the Rising Sun, "…compared to other Asian countries, Japan has not been such a major tourist destination…Many Japanese people travel outside the country but not that many visit Japan. From now on, we're going to try to promote more and more; March 11 acted as sort of a stimulus to us to further promote Japan to the outside world." [Of course, March 11, 2011 was the date of the devastating earthquake and tsunami that hit Fukushima, Japan.] Close neighbors, South Korea, Mainland China, and Taiwan, are currently Japan's leading sources of inbound tourists.

China was a latecomer to international travel; it formally opened its doors to international tourist arrivals in 1978 after the end of the Cultural Revolution in 1976. By 1989, China recorded the largest number of visitor arrivals in the Asia-Pacific region. Before 1989 China assigned greater priority to the development of inbound foreign travel than in developing domestic tourism primarily to generate foreign exchange. At the same time China did not open its doors to outbound pleasure travel until the 1980s when Mainland Chinese were permitted to travel to Hong Kong and Macao (or Macau) on group tours. In the late 1980s, China began to implement a selective travel liberalization program that allowed its citizens to travel abroad on group tours but only to countries that the government had granted Approved Destination Status (ADS). The first countries to receive ADS designation were China's close neighbors, Thailand (1988), Malaysia (1990), and Singapore (1990). For the benefit of the attendees here this afternoon, South Korea was granted ADS in 1998, Japan in 2000, Russia in 2005, and Mongolia in 2006. For a while China continued to impose currency restrictions. But certainly after 2003 China's foreign currency rules were no longer an impediment to its citizens who wished to travel anywhere abroad for pleasure.

China's tourism policy stated that its main goals were to control the mobility of the Chinese, limit the outflow of foreign currency, and to protect its domestic tourism sector. Given China's current huge surplus in its external account, the continued need to limit the outflow of foreign currency is no longer convincing. Today (2010), China is the world's third largest recipient of international tourist arrivals (with 55.7 million arrivals), the fourth largest recipient of international tourism receipts ($48.5 billion U.S.), and the third largest spender on international tourism ($54.9 billion U.S.). Well over 50 million Chinese traveled abroad in 2010. Last month both Hilton Hotels and Starwood Hotels announced plans to add (incrementally) specialized hospitality services for Chinese tourists in their hotels and resorts worldwide. China could become the 800-pound gorilla in international tourism way before 2050.

As a reflection of the dramatic surge in its external account, China is currently financing and several thousand Chinese workers are set to build the largest tourist resort (Baha Mar) valued at $3.4 billion in the Caribbean. With well over 100 countries having received ADS, including the most important ones, it seems pointless for China to continue its Approved Destination Status program. Israel, which has frequently cast votes against China's positions in the UN General Assembly, has finally (2007) been granted ADS.

One country's international tourism expenditures are other countries' receipts. We have seen that government policies on tourism do affect the flow of international tourist travel and tourism expenditures and receipts. As most international travel is intra-regional (as opposed to inter-regional) travel, the liberalization of travel is one major reason why tourism has grown so much faster in the Asia-Pacific region than in the other regions of the world. It has been good for the countries in the region and their people.

We in Hawaii are hoping to cash in on the continued expansion of tourism in the Asia-Pacific region stemming from both the recent U.S. granting of visa waiver status to South Korea and the signing of a memorandum of understanding (MOU) between the U.S. and China permitting Mainland Chinese to visit the U.S. on pre-paid package tours. Indeed, on the way back from Turkey in May, I sat amongst a group of Chinese visitors from Shanghai on the Los Angeles to Honolulu flight. They were surprised and delighted that I could speak Shanghainese. They thought I was American. They seemed quite pleased with their own explanation that I looked American and not Chinese surely because of all the years I have been eating American food. I wasn't about to disappoint them with some other explanation—which I didn't have anyway. But I must say, in looking over their 2-week itinerary in the U.S. during which they were scheduled to spend only 2 days in Honolulu before flying back to Los Angeles, someone surely can design a better package tour than that one. Imagine the severity of the jet leg on that tour. All of them were seniors; they appeared to be closer to my age than your age. (I've seen younger ones, with children, at the Hanauma Bay Nature Preserve.) The price was right. The tour was priced at 20,000 yuan or a little over $3,000. It seems to me to be a better value than the package tour to North Korea.

It is still legally difficult for the Chinese to visit the U.S. Potential Chinese visitors to the U.S. must appear in person at one of the 5 U.S. consulates in China for a personal interview. The current wait for an interview averages 48 days--64 days in Shanghai and 60 days in Beijing--and there is no assurance that the visa application will be approved. We are currently getting the cream of the crop from China. Tourism officials here issue statistics that show Mainland Chinese visitors to Hawaii spend more money per person per day than visitors from any other country. That is not likely to remain true once the floodgates are open to Chinese visitors to the U.S.

China has not been singled out by the U.S. for such restrictive treatment. Potential visitors to the U.S. from Brazil, Russia, and India also must undergo in-person interviews. If the U.S. can relax its onerous visa restrictions, America will surely reap a tourism bonanza from China. Surveys show that Chinese have great interest in visiting America. In 2010, approximately 3.7 million Chinese visited Europe, which has much easier visa application rules, compared to 800,000 who came to the U.S.; 80,000 came to Hawaii. Tourism officials here are hinting at securing visa waiver status for Mainland Chinese visitors, but I don't see that happening soon.

(3) *The freedom to travel safely and cheaply is one of the great blessings of our time—something that immeasurably expands the range of human experience.* (Michael Elliott, NY Times).

I'm sure travel today is lot safer than it used to be, if you go back to the days of

Marco Polo. For most people, personal safety is of paramount concern when it comes to travel. With so many people traveling nowadays, they must feel pretty safe although that may not be true of travel in all countries and at all times. Today there is heightened concern about terrorist attacks. Tourism is a favorite target of terrorists because it is a soft target that makes a lot of headlines. It is amazing how quickly tourists return to a destination after an attack. People have short memories. Research shows that it is the frequency of attacks rather than the severity of an attack that has the greater impact on tourist travel.

The U.S. government issues precautionary warnings to Americans about travel to certain countries when warranted, sometimes offending tourism receiving countries. However, individuals must still take responsibility for their own personal safety when they travel. How many of you would like to visit Afghanistan as a tourist right now? Well, the Canadian operator, Bestway Tours and Safari, is offering tours to that war-torn country in October of this year and April next year. The October 15 9-day tour, advertised as “a cultural tour of Afghanistan”, is priced at $2,990 (U.S.), double-occupancy. Airfare of $2,400 (U.S.) from the west coast of Canada is not included in the price, but meals are. It is the quintessential wanderlust travel experience!

Unfortunately some tourists do get into trouble when they travel. In would be most helpful to travelers if destinations established travelers' aid organizations. In Hawaii, the Visitor Aloha Society of Hawaii (VASH)--a non-profit organization--assists visitors when they become victims of crime or misfortune.

Statistics show that travel by air is safer than ever, and definitely safer than travel by land. And air travel is a lot cheaper than it used to be. With bigger and better planes and economic deregulation, the real cost of flying has come down dramatically since the 1960s. In 2010, airplanes carried more than half of the international tourist arrivals around the world. Air transportation is a much more important mode of travel in the vast Asia-Pacific region. For island destinations like Hawaii, the airplane and its subsequent improved versions were critical to the growth of their tourism industries.

However, the Golden Age of declining cost of air travel is likely over. In the U.S. mainland-Hawaii market real airfares declined sharply after WWII with each innovation in air transportation, beginning with the land-based piston engine plane after WWII (replacing the flying boat), followed by the jet plane in 1959 and finally the Boeing 747 jumbo jet in 1970. After that real airfares haven't fallen as dramatically as previously. And planes aren't flying any faster. They are among the major reasons for the decline in the growth rate of tourism in Hawaii after the 1980s. Globally, rising oil prices, airport congestion (people don't want to build more airports or enlarge existing ones in their neighborhoods), environmental taxes, and the skyrocketing misery of flying should combine to keep the cost of travel high.

The alternative to flying is driving. That is especially true in America. America has been described as a nation on wheels. With crumbling roads and bridges that need to be replaced and the rising cost of fuel, the cost of automobile travel is not likely to trend downward in the future. In other countries around the world, the popularity of travel by automobile is increasing with growing affluence, often at the expense of rail travel. With greater ownership of automobiles, traveling by road can be pretty nerve wrecking. In my recent vacation trip to Turkey, our tour bus driver said that in Turkey highway stop signs are for decoration only. If we want some real excitement on our next trip to Istanbul, we should rent a car. Sightseeing on foot in the big cities in China may be just as treacherous; I swear, drivers in China must be pedestrian-blind. We really haven't figured out politically how to solve our road problems.

(4.) *Tourism Reassessed: Blight or Blessing.* (Frances Brown).

This is the title of Frances Brown's book published in 2000. But I think the title is a red herring. Is tourism bad or good? Is that supposed to lead us to reject or accept tourism? If I were to put the question on a test to my students, I would expect an answer in return that says, "Tourism can be both good and bad." I think most people realize that. Typically, when you ask that question to people, they will say that the good things about tourism are its contribution to the economic wellbeing of the residents--the income, the jobs, the tax revenues, and foreign exchange earnings. The bad things are the potential negative social and cultural impacts that tourists and tourism can inflict on the host community, such as contribution to crime, congestion, inflation, etc. Oh…there might be positive social and cultural impacts as well like contribution to the revival of cultural practices, art, music, and festivals.

Some people would like to calculate benefit-cost ratios for tourism, but are stymied by the difficulty of quantifying the non-monetary impacts. The way they talk about the benefits and costs of tourism, you'd think that tourism's good and bad are carved in stone. In my 2004 book (*Tourism and the Economy*, University of Hawaii Press), I emphasized that "…it is not the ability to calculate the benefits and costs of tourism to the last dollar that is critical; it is the realization that host communities hold the power to make changes that can make tourism work for them." In other words, residents of tourist destinations can change the benefits and costs of tourism more in their favor by adopting appropriate policies.

In my latest (2008) book (*Developing a Dream Destination: Tourism and Tourism Policy Planning in Hawaii,* University of Hawaii Press) I listed 8 lessons for destination policy makers. The most important lesson is: *In developing tourism, the welfare of residents must be paramount.* Often that message is lost in the rush to maximize the number of tourist arrivals. Because the benefits from tourism don't always go to those who bear the costs, it is also important to pay attention to the distributional effects of tourism development. In 2003, a Native Hawaiian Advisory Group to the State's sustainable tourism study concluded that many Native Hawaiians do not believe that "corporate tourism as generally contributing to the betterment of conditions of Native Hawaiians." That perception needs to be changed.

I could say more about tourism and tourism development. What is the proper role of government in tourism development? Is promoting tourism an effective strategy to achieve economic growth? But time has run out. So let me conclude by wishing you a wonderful time in Hawaii, even though this is supposed to be a serious educational trip. Aloha and mahalo for coming to visit us. Just remember to spend a lot of money while you're in town.

Finally, I am also grateful to Carl Bonham, Jimmy Jones, and Kimberly Burnett of the University of Hawaii Economic Research Organization (UHERO) for providing valuable assistance to me in the preparation of this presentation. A version of this presentation can be downloaded from the UHERO website.