CHAPTER-II

REVIEW OF LITERATURE
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2.1 Tourism and development.

According to Boz (200), tourism industry generates substantial economic benefits to both host countries and tourists’ home countries. Tourism primarily helps a country to earn foreign exchange and to pay for their imports and to repay foreign debt. Additionally, it provides jobs to local people especially to semi-skilled youths. Tourism is relatively labour intensive industry, employees diversified skills from accountants and hair dressers to tour guides and tracker. Number of scholars viz. Lanza, Temple and Urga (315), Samimi, Sadeghi, and Sadeghi (28) and Fayissa, Naiah, and Tadasse (1), Nyaupane, Morais, and Dowler (1383) advocated tourism for its developmental impact on the economy.

United Nation World Tourism Organisation (UNWTO) argued that tourism is equally important for the economy of a country like oil exports, food products or automobiles. It has become one of the major players in international commerce. Accordingly, it is the main income source for many developing countries. Tourism has become a significant source of foreign exchange revenues for many countries of the region, including some least developed countries (United Nations 4). Because of its tremendous contribution to income and employment, UNWTO introduced a programme viz. Sustainable Tourism-Eliminating Poverty (ST-EP) in 2002 (Dimoska 175).

Tourism industry contributes significantly to economic growth, employment, and reduction of poverty in countries that suffer from high rates of unemployment, low level of per capita GDP, and in countries that face stiff competition in the international market (Samimi, Sadeghi, and Sadeghi 29). Besides the increase of gross national product and personal income, tourism increases full time and part time jobs, and provide tax revenue for the host country (Sinclair 2). According to Ige and Odularu (71), tourism is a major economic activity in terms of income and employment generation, foreign exchange earnings, and interchange of cultures and people. Aref and Redzuan (208) argued that tourism plays an increasingly important role in the development of host communities. It increases employment opportunities for the local people, and contributes to income and
standard of living (Gu and Rayan 642; Dyer, Gursoy, Sharma, and Carter 415). Employment generation, foreign exchange earning, and community welfare are the major contributions of tourism (Andriotis 333). According to Kwan and McCartney (186), tourism brings in new business and improves opportunities. According to Binns and Nel (236), the emergence of tourism as a leading economic activity in recent decades is undisputed. Goodwin (Local community 355) argued that tourism brings development to the locality. According to him, for the development of the locality involvement of local community in tourism activities is important.

Dimoska (173-174) recorded that tourism is very important for development of developing countries, especially for development of the least developed countries. He advocated tourism for 7 mechanisms through which tourism provides benefits to the local economy. The mechanisms he put forwarded are:

- Employment of the poor in the tourism sector
- Supply of goods and services to tourism sector by the poor
- Direct sales of goods and services to the tourists by the poor
- Establishment and running of micro, small and medium sized enterprises or community based enterprises.
- Impose of tax or levy on tourism income for the spending on the interest of the poor.
- Voluntary support by tourism enterprises and tourists.
- Tourism stimulates investment in infrastructure which helps the locality.

Samimi, Somaye, and Sadeghi (28) also argued in the same line. According to them, tourism not only increases foreign exchange income, but also creates employment opportunities and stimulates economic growth. Tourism can be used as export oriented economic growth strategy which brings jobs and development to the people and help in the reduction of abject poverty (Fayissa, Nsiah, and Tadasse 2). It is a valid and indispensable tool for sustainable development (Zamudio 4).

While these works succeeded in focusing the beneficial picture of tourism, literature is also available which highlighted failure of tourism to promote local economic development and livelihoods of local people (Lacher and Nepal, Leakages to linkages 78;
Lacher 2; Lindberg, Enriquez, and Sproule 553; Weaver, *Peripheries of the Periphery* 305; Walpole and Goodwin 560; Mbaiwa, *Enclave Tourism* 159; Brohman 48; Leong 39; Levitt and Gullati 328; Dwyer and Forsyth, *Measuring the benefits* 228; *Economic significance* 397; Roe, Leader-Williams, and Dalal-Clayton 15). This failure is often common in the peripheral areas of developing countries for which these countries failed to take the full advantage of the tourism industry. This happens because the less developed regions have to import goods and services used in the tourism industry. These economies lack capital to create substantial businesses and skilled human resources to gain upper level employment (Lacher and Nepal, *Leakages to linkages* 79). This lack of local involvement results in high amount of revenue leakage that hinders the economic development of those countries.

2.2 Tourism revenue leakage:

Tourism leakage, in its general term, is the part of the tourist expenditure that leaks out of the economy of the host country (Gu 21). Kim and Kim (54) defined that leakage is a kind of decelerator which removes the part of the revenue generated by tourism. According to them, level of local tax, the propensity to save of the residents, and propensity to import are the causes of leakage. It is the payment made outside the destination economy (Boz 200). He argued that it is the portion of the total holiday price that does not reach or remain in the destination economy.

Mowforth and Munt (186) defined leakage as consisting of three elements:

- Purchase of imported goods and services by tourists;
- Import of goods and services by hotels and other tourism establishments; and
- Repatriation of profits by foreign owners of hotels and other services.

According to Hemmati and Koehler, leakage is the amount of the revenue arising from tourism in a destination country that are not accessible for consumption or reinvestment in the same country. Meyer (*Caribbean Tourism* 6; *Pro-poor tourism* 561) also used the term leakage to describe the percentage of the price of the holiday paid by the tourists that leaves a destination in terms of imports or expatriate profits. Davidson (159) refers to tourism leakage as tourism profits drained away from the local economy to
other countries through profits reaped by foreign owners and repatriated to foreign countries, imports of building materials for the construction of tourism infrastructures, and imports of food, drink, and foreign labour to facilitate day to day tourism transactions. According to Benavides (8), leakage is a process by which part of the tourism revenue repatriated in the form of profits, income and royalty remittances, repayment of foreign loan, and import of equipment, materials, capital and consumer goods.

Ryan (159-160) argued that leakage is the part of tourism revenue in terms of savings, taxation, and imports. He stated that

The leakages in the system are savings, taxation and imports. The act of saving withdraws money from the economy, and diminishes overall levels of demand for goods and hence employment. Savings become useful only when used by financial intermediaries to fund investment. The same is true for taxation. By raising taxation, the government withdraws money from the economic system, and so, again diminishes levels of demand. It is only by government expenditure that that money is released back into the economy. Imports are a leakage in the sense that by purchasing from overseas, the jobs associated with the production of those goods are also to be found overseas, funded by the expenditure of the importing country (159-160).

The United Nations Conference on Trade and Development (9) defines leakage as the process whereby part of the foreign exchange earnings generated by tourism, rather than reaching or remaining in tourism-receiving countries, is either retained by tourist-generating countries or other foreign firms. In this definition it is argued that even money that never reaches the destination is considered as leakage. The United Nation World Trade Organisation (as quoted in Lange 18) lists the following types of expenditure on imports as the main causes for leakage:

- Imports for materials and equipment for construction
- The import of non-durable goods such as food and beverage
- Repatriation of income obtained by foreigners
- Repatriation of profits obtained by foreigners
- Interests paid for foreign loans
- Marketing expenses abroad

The above literature study indicates that leakage is defined from the point of view of national scale or international scale. Most of the studies that evaluated tourism leakage took into consideration external leakage, structural leakage, financial leakage or capital leakage, and pre-leakage or invisible leakage. These kinds of leakages may be meaningful or significant when economic impact of tourism is discussed in national level or international scale. In such a case, some macro methods such as input-output analysis or multiplier analysis are used. But such large scale techniques are inappropriate for local level inquiries where significant data are often unavailable (Belisle 499; Kotke, Application of linear programming model 6; Lacher and Nepal, Dependency and development 955; Ryan 195; Smith 9; Sandbrook, Putting leakages in its place 127; Walpole and Goodwin 563).

The works done by Lacher and Nepal (Dependency and development 963; Leakages to linkages 77), Mitchel and Ashley (1), Sandbrook (Putting leakages in its place 124), and Walpole and Goodwin (559) have given another angle of thought about the leakage of tourism revenue. It is seen that the study of impact of tourism on local level economy or village level economy is also very much important specially when we discuss about the economic benefits from rural tourism or nature tourism based on national parks, heritage sites or protected areas. When we have to analyze the benefits achieved by local communities from nature tourism, the economic analysis based on regional to international scale does not help since these analyses do not cover the impact on local community. For making economic development of the local communities of such small area through tourism, such type of macro studies do not help the policy makers. Examples are also found where exaggerated leakage rate found in macro study influenced policy makers in adoption of wrong policy (Lea 40-41). In that situation, a local level study is more suitable for policy making for the development of local economy through tourism. In this situation, the comment of Mitchell and Ashley (1) is relevant:
Some respectable organizations have cited research that 75% of the benefits of tourism ‘escape’ the host country and ends up in the rich source countries through what is termed as ‘leakages’. Unfortunately for the poor in developing countries, these figures are generally based on flawed arithmetic, and can be unhelpful to policy makers trying to improve the impact of tourism on the poor (1).

Mitchell and Ashley (1) argued that calculations of leakage often include spending on external items such as marketing, insurance, retailing, packaging or international flights which could not possibly have been provided by the destination economy. This results in overstated leakage rates which do not accurately reflect conditions within the host economy. In estimation of leakage, the payments made for goods and services that are not provided by the destination economy should not be included (Mitchell and Ashley 1). Therefore, to narrow down ‘leakage’ to the destination, Sandbrook (Putting leakages in its place 128) defined Tourism Revenue as the money which was spent by the tourists in the study area, either directly or indirectly through their tour operator. “This eliminates money paid by tourists to tour operators which was subsequently spent on other elements of the holiday or retained as profit, as this money was never present in the study area and is therefore not considered relevant for calculation local leakage” (Sandbrook, Putting leakages in its place 128).

Considering this view of tourism leakage, a number of empirical studies have been done on local level economy by Lacher and Nepal (Dependency and development 947; From leakages to linkages 77), Sandbrook (Putting leakages in its place 124), and Walpole and Goodwin (559). According to them, tourism leakage is the part that is spent for imports of goods and services, wages and salaries paid to non-local employees, and profits of the non-local tourism business. They argued that the retain revenue is a part of the total revenue that retains in the destination as the income of the local people in terms of goods and services provided, wages and salaries, profits, and other kind of income.
2.3 Kinds of leakage:

Depending on the nature of expenditure by the operators in the tourism industry, different scholars have categorized leakage in different groups. These categories of leakage are discussed below.

Previous studies on tourism leakage have focused on leakages occurring during tourism construction and operation, from imports of building materials, equipments, food and beverage to fees paid for overseas advertising and marketing. Davidson (159) pointed out four types of leakage. They are:

- The construction materials for tourism infrastructures imported from other countries;
- The profits from tourism operation leaking abroad to the owners of tourist facilities;
- Imports of food, drink, and manufactured goods to meet the demand of inflexible tourists; and
- Wages paid to foreign workers and not spent in the local economy.

According to Kim and Kim (54), wages given to employees living outside the region, import of raw materials, import of goods and services consumed by the tourist or tourist sectors (e.g. hotels, restaurants etc.), and local taxes are the main causes of revenue leakage for the poor and small periphery. They argued that the bigger and more prosperous the country is, the greater the chance that the country will benefit from the development of tourism due to less tourism leakage. Brown (239) examined revenue leakage in terms of expenditure on imports of manufactured goods and capital goods, payment on interest, payment made to tour operators and travel agents abroad, taxation on income etc.

Mill also argued in the same line about the classification of the leakage. According to him, leakage occurs through six different mechanisms. These are

- Imports of goods and services including raw materials used to make tourism related goods such as souvenir;
- Infrastructure viz. construction of hotels, airports etc.;
- Foreign factors of production in terms of foreign investment, foreign agents;
• Promotional expenditure in advertisements and publicity in foreign countries;
• Transfer pricing in terms of reducing taxes or other duties for businesses owned by foreigners; and
• Tax exemption to foreign investors.

According to Vaugeois (9), there are six forms of leakage or leakage resulting due to six factors:

• **First**, the costs of imports of goods and services to meet the demand of the tourists. For example, if the tourists want to consume food that is not produced domestically, the destinations have to import it from other places.

• **Secondly**, when the destinations have to purchase construction material and equipments from other countries to develop of tourism infrastructure, leakage occurs. Developing countries generally lack materials, equipments, and expertise to build hotels, transportation facilities, sewage facilities that are essential to support tourism and hence, they have to bear this kind of leakage.

• **The third form of leakage** is for making payments to foreign factors of production. The commissions, interest payments, rent or profits paid outside the country for tourism related products viz. labour, building materials, furnishings etc. are considered as leakage.

• **The fourth form of leakage** occurs when the destination country has to make payment for the promotion of the tourism of the destination in the foreign countries. For example, different countries operate a National Tourism Organisation in foreign countries. Costs involved in promoting the destinations and attracting tourists is considered as leakage.

• **The fifth form of leakage** is transfer pricing. When profits and taxes are paid in the visitor country rather than in the destination, this kind of leakage occurs. For example, many tourists purchase package tour from tour operators who use foreign owned hotels and other services. The tourists, when purchasing all-inclusive tour-packages, spend little money in the destination area. Even local banks do not get any income when the tourists rely on the use of credit cards and travelers’ checks for purchases.
• **The sixth form of leakage** occurs when destination countries exempt foreign owned companies from paying duties or taxes as an incentive to attract foreign investment. At the early stage of tourism development, most of the developing countries have to bear this kind of leakage.

On the basis of the above discussion on different kinds of spending, leakages were broadly classified as external leakage (also termed as export leakage or pre-leakage), internal leakage (Import leakage), invisible leakage, structural leakage, operational leakage, financial leakage, necessary leakage, and unnecessary leakage by the different scholars (Gollub, Hosier, and Woo 23; Supradist 20; Benavides 8; Boz 201; Chirenje et. al. 14; Meyer, *Pro-poor tourism* 561-562; Tyson 4; Jules 8; Davidson 159).

**External Leakage:** According to Gollub, Hosier and Woo (23), external leakage is tourism expenditures that originate outside the tourism destination but it has link with domestic tourism industries. External leakage refers to tourism expenditures that accrue outside of the destination (Lange 19). Cuello (125) argued that it is the portion of the total market value of services rendered but not actually captured by the service-providing country. According to them this type of tourism leakage is difficult to measure because it originates outside the economic space of the tourism service provider and is not accounted for domestically. External leakage arises in a number of ways:

- Profits repatriation in terms of foreign investment on infrastructure viz. construction of hotels and resorts;
- External debt repayment;
- Income of the external intermediaries viz. foreign travel booking agents and airlines and promotional costs in overseas market supplying tourists.

Cernat and Gourdon (1048), Boz (201), Supradist (20), Jules (8), Benavides (8), Chirenje et. al. (14), and Mayer (*Pro-poor tourism* 561) also provided the same line of explanation regarding external leakage. Of course, Boz (201) and Supradist (20) termed external leakage as export leakage. Jules (8), Smith and Jenner (53), and Cuello (125) termed external leakage as pre-leakage.
Internal leakages: This kind of leakage arises due to import of foreign commodities and paid and accounted for domestically (Gollub, Hosier, and Woo 24; Lange 19; Mayer, Pro-poor tourism 561; Cernat and Gourdon 1048). Cuello (125) defined internal leakage as the 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. This kind of leakage occurs due to tourists’ demand for quality leisure and entertainment related services and goods like branded alcoholic beverages that are produced elsewhere, organic produce, scuba equipments produced at international safety standard, quality linens and mattresses for hotels, satellite television etc. Chirenje, Chitotombe, Gukurume, Chazovachii and Chitongo (14) also argued in the same line. According to them this kind of leakage occurred due to purchase of imported wines, computers, services, cutlery, and servicing machines. The developing countries have to import these products from developed countries and therefore have to bear this kind of leakage. According to Gollub, Hosier, and Woo (24), Tyson (4), and Jules (8) internal leakage also occurs when costs are paid out locally for capital and labour taken from foreign countries. The import leakage tends to be highest when the local economy is weak in terms of either insufficiency of domestically produced goods, or low quality goods (Mayer, Caribbean tourism 6). Boz (201), Benavides (8), and Supradist (22) termed this kind of leakage as import coefficient or import leakage.

Invisible leakages: This category of leakages refers to those real losses or opportunity costs that cannot be documented reliably, but which can exert significant and cumulative effects. One major source of invisible leakage is financial leakage and associated with tax avoidance, informal currency exchange transactions, and off-shore savings and investments (Gollub, Hosier, and Woo 24; Lange 19; Benavides 8; Supradist 23; Tyson 4). According to them another source of invisible leakage is the non-sustainability of environmental, cultural, historic and other tourism assets over time. Resource depletion and damage (for example, damage of coral reefs, beaches, wildlife, forests, water availability and quality, historic structures or districts) may negatively impact tourism arrivals and expenditures in short run, but lead to depreciation of a destination’s value as
an attraction over the longer term as well as deterioration of the quality of life for local residents. Mayer (Caribbean tourism 7), Jules (8) and Boz (201) also defined invisible leakage in the same line. According to them, invisible leakage is nothing but the real losses or opportunity costs related to resource damage or deterioration. Cuello (126) argued that invisible leakage is the 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.

According to Gu (12) tourism leakages are associated with three types of activities in tourism development:

- Financing activity, such as profits reaped by foreign owners and repatriated to foreign countries;
- Construction activity, such as imports of building materials for the construction of tourism infrastructures; and
- Operating activity, such as imports of food, drink, and foreign labour to facilitate day-to-day tourism transactions.

Based on the activities involved in international tourism, he classified tourism leakages into three categories:

- Structural leakage,
- Operational leakage, and
- Financial leakage.

**Structural leakage:** This type of leakage occurs due to the imports of construction materials and technologies in establishing tourism infrastructures. Of course, according to Ankomah (434) the salaries or counseling fees repatriated to foreign countries due to the imports of foreign experts are only included into structural leakage.

**Operational leakage:** The operational leakage caused by imports of foreign goods, services, and managerial skills necessary for daily operation of tourism. Ankomah (434) and Smith and Jenner (53) also acknowledged this kind of leakage.
Financial leakage: This kind of leakage is the return to foreign capital providers in the form of profits, dividends, and interests repatriated to capital originating countries. Foreign capital providers can be tourism venture owners, partners, stockholders, and creditors. Harrison (12) and Smith and Jenner (53) also acknowledged presence of this kind of leakage with tourism revenue. Smith and Jenner (53) argued that tourism leakages occur because of not only imports of capital goods and consumables for the tourism industry, but also due to debt interests and equity profits repatriated to foreign countries by foreign individuals or companies. Harrison (12), Lapp (22) refers to profits repatriation as a capital leakage.

Necessary leakage and unnecessary leakage: Gollub, Hosier and Woo (23) and Supradist (57) termed import that cannot be produced in the host country as necessary leakage. On the other hand, the imports that has potentiality to be produced in the home country is an unnecessary leakage.

The classifications of leakage made by different authors viz. Gollub, Hosier and Woo (23-25), Gu (12), Supradist (20), Benavides (8) Tyson (4), Jules (8), Lange (19), Chirenje, Chitotombe, Gukurume, Chazovachii and Chitongo (14), and Boz (201) are presented in Table 2.1.
2.4 Causes of leakage:

The main cause of low positive impact of tourism on peripheral regions is existence of economic leakage (Lacher and Nepal, *From leakages to linkages* 79; Britton 332; Dedina and Young, Percy). The causes for high leakage of tourism revenue in the backward peripheral destinations are multifaceted (Lacher and Nepal, *From leakages to linkages* 80). They identified the main reasons of leakages are lack of capital, lack of

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<th>Types of tourism revenue leakage</th>
<th>Causes</th>
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| External leakage/ Export leakage/ Pre-leakage | • Profit repatriations through infrastructure financed by foreign investors, External debt amortization, Overseas promotional expenditures.  
• Foreign booking intermediaries (airlines, cruise ship, foreign owned organization, tour operator) |
| Structural leakage | Imports of construction materials and technologies in establishing tourism infrastructures, salaries or counseling fees paid to the foreign experts for planning of tourism development |
| Operational leakage | Imports of foreign goods, services and managerial skills necessary for daily operation of tourism |
| Internal leakage/ Import leakage | Imported goods and services, costs paid locally for labours/ capitals from foreign sources |
| Invisible leakage | 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 |
| Financial leakage | Return paid to foreign capital providers in the form of profits, dividends, and interests repatriated |
| Necessary leakage | Leakage that cannot be avoided due to inability of the host destination either to produce specific goods or provide specific service required for tourism business. |
| Unnecessary leakage | Unnecessary import though there is potentiality to produce in the home country itself. |

Source: Compiled from Gollub, Hosier, and Woo (23-25), Gu (12), Supradist (20), Benavides (8) Tyson (4), Jules (8), Lange (19), Chirenje, Chitotombe, Gukurume, Chazovachii, and Chitongo (14), and Boz (201)
local ownership, lack of local employment, and inability to link tourism to the local economy. According to them, “the ultimate reasons are caused primarily by the nature of peripheral regions because they tend to be poor, uneducated and unfamiliar with the tourism industry” (80). The cyclical relationship caused by these factors results in high leakages is depicted with the Figure 2.1.

![Figure 2.1. Causes of leakage](source)

The main factors identified by Lacher and Nepal (From leakages to linkages 80-81) that determines tourism leakage are discussed below:

**Lack of local ownership:** Since majority of the profits of a business are kept by the owner of the business, local ownership is crucial. Local owners retain business’s revenue in the destination. Besides, by employing local people in the business and purchasing local products, local owners reduce leakage. But this does not happen because the local people do not have proper education and they are not familiar to the tourism industry (Lacher and Nepal 80). Thus it is due to the non-local ownership of tourism related enterprises for which leakage is found in host economy (Xu, Lu, Chen and Liu 35). Hampton (652) argued that local ownership increases the benefits of the local people.
**Lack of capital:** According to Lacher and Nepal (*From leakage to linkages* 80), the local entrepreneurs do not have sufficient amount of capital to start tourism business. In peripheral areas, the local people even cannot run the basic services due to lack of capital (Lange 23; Tosun 624). The local entrepreneurs do not have sufficient money to start tourism business. Therefore, large businessmen from outside the locality enter into the tourism business and repatriate profits, which is a leakage.

**Lack of local employment:** The tourism businesses do not employ local people specially in the top managerial positions. As, the local residents do not have proper education, experience and language skill (Hemati and Koehler), they are not ideally suited for the jobs in tourism sector. Therefore, large businesses import skilled labour from outside the destinations (Ashley, Boyd and Goodwin 3; Hemati and Koehler; Mbiawa 159). The majority of the locals work as unskilled labourers and earn income below the poverty line (Lacher and Nepal 81). Even hotels cut over half of their local workforce in the low tourism season (Lacher and Nepal, *From leakages to linkages* 81; Thompson, O’Hare, and Evans 578).

**Lack of ability to link local industries to tourism:** The local residents of rural area cannot supply the goods and services the tourism industry needs. Therefore, goods and services have to be imported. This is because of lack of linkages of local resources to tourism.

According to Lacher and Nepal (*From leakages to linkages* 82), Torres (556-562), and Belisle (503) there are number of factors that are responsible for the low level of linkage of local resources with the tourism industry. They are broadly categorized in to three sub-heads by Lacher and Nepal (*From leakages to linkages* 82) and Torres (556-562): the supply related factors or production related factors, demand related factors, and marketing related factors. The supply or production related factors are poor local growing conditions, lack of local production of types of food demanded by tourists, lack of high end or value added products, high price of the local products, resistance to change traditional production techniques, inconsistent quality of products, poor economies of scale, increase in wage due to shift of labour from agriculture to tourism sector, increase
in property values due to tourism, undercapitalization of local industries, uncertainty of future land tenure, increase in demand for natural resources etc. The demand related factors are tourists’ preferences for familiar products, tourists’ fear of illness from local food, tourists’ desire for inexpensive products, seasonal variation in demand, chefs’ desire for more sanitary products, and chefs’ inexperience with local food. The market related factors include local people’s inexperience in marketing, their failure to cooperate with one another, their inability to purchase from large wholesalers, their inability to educate themselves in marketing technique, their inability to create strategic alliance with tourism industry, predatory intermediaries, inability to compete with larger corporations, kickbacks paid to chefs by large corporations, local producers’ inability to provide receipts, and insufficient transportation system.

Besides the above mentioned causes, some other causes have been identified by different scholars. They are:

- Lack of familiarity of local people with tourism and lack of education (Fuller, Buultjens, and Cummings 894)
- Lack of experience and skills of the local people (Holder 312; Tosun 623; Nyaupane et al. 1381; Xu, Lu, Chen, and Liu 33)
- Lack of local manpower and expertise (Keller 20)
- Lack of information with local people (Tosun 618)
- Poor knowledge of local people about tourism (Tosun 624)
- Problems of Marketing and management (Torres 548)
- Imports of goods from outside the region (Xu, Lu, Chen, and Liu 34)
- Lack of appropriate local industries (Wilson, Fesenmaier, R, Fesenmaier, J, and Van Es)

Some other causes of leakage are the economies of scale the larger companies enjoyed and the competition between agriculture and tourism (Lacher and Nepal, From leakages to linkages 83). Due to economies of scale the larger companies can supply products at a lower price than the local suppliers though it is seen that local suppliers have advantage of proximity and lower labour costs (Lacher and Nepal, From leakages to linkages 83; Belisle 501; Brohaman 64; Holder 312; and Torres 556)
Hemmati and Koehler also identified different causes of leakage. They are:

- Lack of local resources for which the destination has to import such resources,
- Remittance of profits of foreign direct investment,
- Commission of package tours made outside the host country,
- Lack of marketing expertise, language capacities, and infrastructure for which the tourism destination has to depend upon outsiders,
- Strong linkages between foreign-owned hotels and overseas suppliers which tend to increase leakage,
- Tourists' preference for food of their own county for which resorts have to import such food,
- Imported food are cheaper, have consistent quality, and more reliable supplies by importers,
- Barriers of communication and understanding between foreign tourism companies and local producers,
- Import of luxury goods to meet the demand of the tourist,
- Lack of proficiency of foreign language, required qualification and education.

2.5 Methods of quantification of revenue leakage:

Different scholars used different techniques for measuring tourism leakage. Generally there are four related techniques commonly used to estimate leakage and impact of tourism. They are the use of multiplier studies, the use of input-output measures, the use of tourism satellite accounts, and local impact studies utilizing a number of ad hoc measures of varying degrees of sophistication like tourists’ expenditures measuring (Ryan, 158). Scholars like Chang (1-150), Goldman, Nakazawa, and Taylor (1), Meyer (*Caribbean Tourism* 8), Janeczko, Mules, and Ritchie (27) and Kim and Kim (50) used multiplier for assessing tourism impact. Goldman, Nakazawa, and Taylor (2-3) also advocated the use of other types of measures like visitors’ expenditure measuring using tourists diaries (Huhtala 125-126), exit tourists’ interview, mail surveys at home of the tourists, and surveying tourist-related businesses.
Ryan (166), Crompton and McKay (34) have criticized the use of tourism multiplier because tourism multiplier requires complex data in different rounds where there is chance of double counting. Due to lack of availability of data for doing multiplier analysis, studies have to rely on imported data from other studies which in turn gives rise to a question mark regarding the accuracy of the data (Ritchie 120). The multiplier analysis requires a detailed database. In many cases researchers generate their own data. The problem is that in general terms the smaller the research area, the less likely it is to have data available in a suitable format (Horwath Tourism and Leisure Consulting 7).

Belisle (499) and Lea (40-41) also stated examples of how faulty calculations of multipliers in the Caribbean gave rise to poor policy decisions. One of the criticisms made by Lea (40), Levitt and Gulati (340) was that in the Eastern Caribbean Islands, Zinder and Associates (44-45), a consulting firm, calculated tourism income multiplier amounting to 2.3 but when it was recalculated after some serious omissions, the multiplier went down to just 1. Such type of data create problems for the policy makers (Lea 43).

One of the means of assessing the economic impact of tourism is the use of Input-Output analysis, as done by Little and Doeksn (921) and Richards (128). This technique attempts to show the flow of economic transactions through the economy within a given time span, usually a year. This technique shows the inter-relationship between defined sectors of the economic system. But the main problem is that it is very difficult to define the inter-related sectors since there is no standard industrial classification for tourism industry. Because of this it is problematic to collect required data from such inter-related industries (Ryan 181; Murphy 220; Hamilton 7; and Smith 9).

Kotke (Application of a Linear Programming 6, Estimating economic impacts of tourism 123), Lacher and Nepal (Dependency and development 955), Lacher (15), Lea (43), and Walpole and Goodwin (563) also argued that the large scale technique like input-output analysis is inappropriate for local level inquiries regarding economic impact where significant data are often unavailable. They argued that in case of a small scale local economy, the economic impact can thoroughly be identified through direct estimation by primary data sources and the use of local secondary data sources.
Another factor relating to such studies is the size of the region being considered (Ryan 181). He argued that it is becoming more common for input-output analysis to be conducted at regional as well as national levels. In most cases the regional data are extracted from the national data by applying computer generated statistics. However, it should be noted that such regions are generally based on administrative zones rather than on tourists flows. In most cases due to lack of availability of data, the result of one study are used for getting result of another study. For instance Vaughan (as quoted in Ryan 181) utilized findings from one area and applied them to another due to lack of availability of data. Thus in such a case there is a question of accuracy of the result of the analysis made for the tourist frequented rural and small area on the basis of data extracted from other sources.

The UNWTO argued for the use of Satellite Accounting for measuring tourism impact. But according to the critics, this method has a problem of overestimation of the impact. The World Travel and Tourism Council (WTTC) measured tourism impact in Canada which was as much as three times more than the impact calculated by Hansen and Jensen (Ryan 188).

However, it can be said that no mode of calculation will be entirely beyond criticism because to some extent, there will be an arbitrary component in the definition of any activity. But, the important thing is that what might be sufficient for national study may not always be sufficient for getting results for the small scale local study (Ryan 189).

Due to the problems associated with the above discussed methods some scholars suggest use of Tourism Expenditure Modeling. Ryan (179) himself advocated the use of different measures to estimate local impact of tourism. He argued that when assessing the economic impact of events, the key variables are simple to identify and include the number of visitors, the duration of their stay, the main types of accommodation the tourists accessed and tourists’ expenditure on food and drink. An estimate of these main variables will account for much of the first round impact of tourist spending. Similar works were done by Lacher and Nepal (From leakages to linkages 77; Dependency and development 947), Lacher (1-64), Perz and Sampol (624), Sandbrook (Putting leakages in its place 124; Local economic impact 21), and Walpole and Goodwin (559).
In all the above cases, the scholars accounted only those amount of tourists' expenditure that are spent in the study area to estimate tourism revenue of a destination. In their view, it thus becomes important to disaggregate tourists’ expenditure spent outside the study area in different heads such as flights, commission of the tour operators from outside the destination etc. Whereas Perz and Sampol (624) did the study by doing tourist survey, the others did census study of tourism business houses including tourist’ guide and other tourism related services of the study areas and sample survey of tourists so that data can be compiled and compared. Besides doing census of tourism businesses, Lacher and Nepal (From leakages to linkages 77; Dependency and development 947) and Lacher (12) did in-depth studies of the tour guides, tourism businesses and local residents, and consulted visitation records available with tour camps and did sample survey of tourists to estimate their expenditure. The implication of doing census of tourism business houses is that the revenue of all business houses and other tourism related business activity is equal to the tourists’ expenditure in the study area. By collecting data related to revenue of the business houses and the spatial distribution of their expenditure on purchase of goods and services and on payment of salaries and wages of the workers, leaked revenue and the retained revenue were estimated. Besides doing census of tourism business viz. tour camps, restaurants and tourists frequented shops, Walpole and Goodwin (559), and Sandbrook (124) interviewed tourists to estimate the amount of expenditure of the tourists that have not been spent in any tourism business but spent on payment of tips, donations or expenses in the destinations on accompanied drivers or guides. By summing up tourism revenue, retain revenue and leaked revenue of each of the tourism businesses, tourism revenue, retain revenue and leaked revenue of the study area as a whole were estimated. The studies undertaken by the scholars like Lacher and Nepal (From leakages to linkages 77; Dependency and development 947), Walpole and Goodwin (559), and Sandbrook (Putting leakages in its place 124) indicate that the tourism revenue leakage can be easily be estimated by deducting retained revenue from the total tourism revenue in the study area.
2.6 Severity of tourism leakage:

Tourism leakage reduces the beneficial impact of tourism on the economy of the host country. Though it is believed that tourism helps developing countries in earning foreign exchange, it has been challenged in many studies because of tourism revenue leakage (Gu 12; Cernat and Gourdon 1048). Different scholars found different amount of leakage in their studies.

Boz (202) estimated different rates of leakage for different countries. According to him, 70% of the tourism revenue leaves Thailand as leakage via foreign owned tour operators, airlines, hotels, imported drinks and food etc. Third world countries viz. Caribbean and India have to lose 80% and 40% respectively as leakage (Boz 202). On the Caribbean, St. Lucia, Aruba, Antigua and Barbuda, and Jamaica had a leakage rate of 56%, 41%, 25% and 40% respectively (Boz 202).

Benevides (8) and Mayer (Pro-poor tourism 561) argued that leakage rate is higher in case of developing countries compared to that of the developed countries. According to Benevides (8) developing countries have leakage between 40-50% whereas developed countries have leakage between 10-20%. Dieke (430) estimated that leakage rate in Gambia in the early 1990s were 77% which is a combination of internal and external leakage. Besides, Beekhui found 30-50% leakage in St. Lucia in early 1980s, Pattullo (37-39) found around 70% of leakage in the Caribbean region as a whole. In a study undertaken by Jayawardena and Ramajeesingh (177) it was found that Dominica and the Bahamas had 45% and 90% of leakage respectively. According to Markandya (7) and Peric, Mujacevic and Simunic (4), the leakage rate is 55% in the islands of the underdeveloped countries and is less than 15% in Mexico, Thailand, Turkey and the Dominican Republic. Barnes, Schier and Rooy (17) estimated that in Namibia, the leakage rate was 59%. According to Lejarraga and Walkenhorst (419) the leakage rate is 37% in low income countries and it is 34% in high income countries.

Khalifah and Tahir (as quoted in Gu 12) noted in their analysis on Malaysia’s tourism industry that 50% of foreign exchange earned in Malaysia’s tourism was lost by way of import of foreign goods, overseas payments of profits and capital remittances of foreign tourist companies, remittance of wage of the expatriate workers, repayment of interest on foreign loans, management fees of foreign managerial firms, royalties and
other fees paid to foreign companies and payment for tourism promotion and publicity in
foreign countries. According to Mazumder, Ahmed, and Al-Amin (152), the tourism
leakage in Malaysia was 22% of the tourists’ expenditure. According to Liu and Liu
(170), the tourism leakage was 16% in 1975 in Malaysia. According to the World Bank,
on an average, 55% tourism revenue of the developing countries leaks out of the host
economy due to the dependency of these countries on foreign goods and services (Lantz).
According to UNCTAD 2010 (9) the average leakage for most of the developing
countries is between 40% and 50% of gross tourism earnings. According to Smith and
Jenner (60) this amount is as high as 90%. Ryan (as quoted in Gu 13) found in his study
that out of the total tourism revenue of US $ 3.3 billion in Caribbean Countries, two third
of it leaked out of the region due to imports. In the Island of St. Lucia in the Caribbean,
58% of food and 82% of meat consumed by tourists were imported from foreign
countries. In the same year, in Fiji, 80% of the tourism revenue leaked out due to imports.
In another study undertaken by United Nations Environment Programme (UNEP), it was
found that leakage rate for Caribbean, India, and Thailand were 80%, 40%, and 70%
respectively. These amounts were also recognized by Muhanna (41). Forsyth and Dwyer
(68) found in their study that in Australia, about 44% of total tourist expenditure goes to
the hands of the firms owned by foreigners.

In most all-inclusive package tours, about 80% of travelers' expenditures go to the
airlines, hotels and other international companies (who often have their headquarters in
the travelers' home countries), and not to local businesses or workers (UNEP). A study of
tourism leakage in Thailand estimated that 70% of all money spent by tourists ended up
leaving Thailand (Sinha, Qureshi, Uniyal, and Sen 215).

The above mentioned estimates are calculated from the point of view of national
scale or international scale. Considering pessimistic view of tourism leakage in a local
level economy like a village or a region, a number of empirical studies have been done on
local level economies by Lacher and Nepal (From leakages to linkages 77; Dependency
and development 947), Sandbrook (Putting leakages in its place 124) and Walpole and
Goodwin (559) which found that there were 50 to 60% leakages from those areas.
2.7 Strategies to Reduce Leakage:

Some sources of leakage are unavoidable. Foreign-owned hotels and airlines are necessary for most of the established tourism industries. However, encouragement of domestic involvement in a country's tourism industry may reduce leakage in the long run. Currently, the most popular measure is that resorts ban the tourists from purchasing goods outside the resorts (Lacher and Nepal, *From leakages to linkages* 80; Freitag 550). Countries may limit the use of foreign currency within their borders, reducing the effect of transfer pricing. Many countries require visitors to have a certain amount of money before entering (Mill).

The literature suggests a variety of potential methods for reducing leakage. Those strategies are illustrated in the Table 2.2.

<table>
<thead>
<tr>
<th>Name of scholars</th>
<th>Strategies suggested</th>
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</table>
| Supradist (53-54) | • Increase locals’ sale and marketing points  
                    • Provision of internet marketing to reduce foreign dependency  
                    • Small scale enterprises may try to retain their customer base by making a good relation with them such as sending direct mail, customer care activities, sending a birth day card to customer etc.  
                    • Maintenance of quality by the small accommodation providers  
                    • Local company’s involvement in transportation through partnership with big foreign transportation company  
                    • Increase link of the agricultural sector with the tourism industry etc. |
| Boz (203)         | • Buying the commodities from people of home country  
                    • Use of local fruits and vegetables  
                    • Employment from local source  
                    • Use of accommodation owned by local people  
                    • Support the destination that integrates tourists into the local economy so that the tourists can purchase local products.  
                    • Promoting resorts that employ local people and pay reasonable salaries  
                    • Using airlines from the host country |
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<th>Name of scholars</th>
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| Gollub, Hosier and Woo (37-47)   | • Building of brand image,  
• Building of product diversity through development of premium beaches,  
• Off-shore activities,  
• Sports facilities,  
• Cultural destinations,  
• Natural attraction (viz. colonial ranches, homes, farms, orchard, etc),  
• Urban culture and event supply,  
• Amusements and theme parks etc.,  
• Improvement of skills of the staffs at all level of management viz. hotels, restaurants and destinations, and  
• Improve adequacy of infrastructure.                                                                                                                                                                                                                                                                                                                                               |
| Benevides (11)                   | • The provision of incentives to reinvest profits and potential cash transfers that otherwise would be invested abroad;  
• The enhancement of the capacity of tourist destinations for intensifying the production of goods and services required by the tourism sector;  
• The provision of incentives to domestic investors to expand their participation in tourism; and  
• The enforcement of domestic competition policy against anti-competitive practices by tour operators.                                                                                                                                                                                                                                                                                                                                                                                                 |
| Goodwin (Sustainable tourism and poverty elimination 4) | • Enable local community access to the tourism market,  
• Maximise the linkage into local economy,  
• Build on the complement existing livelihood strategies through employment and small enterprise development,  
• Evaluate tourism projects for their contribution to local economic development,  
• Ensure the maintenance of natural and cultural assets,  
• Control negative social impacts,  
• Control the rate of growth of tourism.                                                                                                                                                                                                                                                                                                                                                                                                  |
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<tr>
<th>Name of scholars</th>
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| Goodwin (Local community involvement 349) | - Co-operative society of the local people should be formed  
- Better quality service with improved safety facilities should be provided.  
- Local residents should be permitted to provide drinks and souvenir to visitors in some capacity.  
- Training to be imparted to local communities, particularly ecological knowledge and language skills for residents who wish to be a tour guide (Tosun 624)  
- Training should be imparted to the local residents in the field of making souvenir.  
- Local people should be involved in planning and management of tourism activities.  
- There should be increased tourist events such as fishing, boat races, kite flying, and festivals should be organized. |
| World Tourism Organisation (as quoted in Akma and Kieti 744) | - Encouragement of local ownership (Milne 511; Hampton, Backpacker Tourism 652; Heritage 474; Small is beautiful 4)  
and management of tourism resources, and small and medium enterprise development;  
- Enhancement of linkages and partnerships to the local economy; and  
- Developing local sources of supply of goods and services to the tourism establishments. |
| Akama and Kieti (746) | - Expansion of local employment and self-employment,  
- Expansion of informal sector opportunities,  
- Development of partnership amongst public and private sectors, NGOs and local communities,  
- Improving social and cultural impacts,  
- Increasing local access to infrastructure and services provided to tourists,  
- Increasing participation of local people in decision making process, and  
- Capacity-building to enable their participation. |

Source: Compiled from Supradist (53-54), Boz (203), Gollub, Hosier, and Woo (37-47), Benevides (11), Goodwin (Sustainable tourism and poverty elimination 4, Local community involvement 349), World Tourism Organisation (as quoted in Akma and Kieti 744), and Akama and Kieti (746)
Andriotis (338) and Rodenburg (193) suggested in decreasing the size of hospitality firms in order to minimise leakage. They found that larger the size of the hospitality firm, larger is the amount of leakage. Because, the larger the size of the firm, the greater the possibility of purchases outside the locality. Hospitality firm with big size tend to buy their supplies outside their locality in order to enjoy economies of scale that are unavailable to their smaller counterparts. On the other hand, the smaller sized hospitality firms are more likely to purchase their supplies from local market or vendors. Rodenburg (193) found that “smaller scale enterprises offer a greater opportunity for profit and control to local people than do enterprises on a large scale”. Smaller hospitality firms employ a higher number of family members and hence have to bear minimum amount of leakage (Andriotis 338). Freitag (549), Brohman (56), Lepp (Tourism and dependency 1207; Tourism in a rural Ugandan Village 24), and Mbaiwa (Enclave tourism 169; The socio-economic sustainability 503) advocated elimination of enclave tourism for reducing leakage. “Tourism that develops in remote areas and is largely owned and controlled by outsiders is enclave tourism. Enclave tourism is a kind of internal colonialism” (Mbaiwa, The socio-economic sustainability 503). They argued that leakage can be avoided by developing a small scale tourism industry free of mega resorts and luxury enclave.

Besides these, important strategies suggested by different authors are increase of domestic tourism (Seckelmann 89), increase of the level of host involvement (Nyaupane, Morais, and Dowler 1375), local control and participation (Hampton, Backpacker tourism 653), creation of a sense of responsibility in the rural village (Lepp, Tourism and dependency 1208; Tourism in a rural Ugandan village 20), increase of linkage of the agricultural sector with tourism (Belisle 509; Torres 546), and promotion of alternative or backpacker tourism (Brohman 56; Scheyvens, Backpacker tourism 147). Unfortunately, these factors are generally outside the destination periphery’s control and are more likely to be determined by travel agencies and tourism companies located in the urban areas (Lacher and Nepal, From leakages to linkages 83). Other studies have discussed strategies that involve both the peripheral tourism destinations and the urban centres (Lacher and Nepal, From leakages to linkages 83; Telfer and Wall 642; Torres 547). But
executing such strategies can make insignificant impact on the rural local economy and face resistance from stakeholders outside local economy who will not profit from the strategy, as reducing leakage from rural areas may decrease earnings in urban areas (Cohen 224). Lacher and Nepal (From leakages to linkages 90-94) focused some strategies that are applicable in the local level and also compatible with the economy. According to them, adapting proper strategies depending on the diversity of the levels and kind of leakage in the village level economy, tourism income can be distributed throughout the local residents, more local residents can be turned into stakeholders in the tourism industry and leakage of tourism revenue can be minimised. A village should adopt such strategies that are based on resources available there. For minimising leakage Lacher and Nepal (From leakages to linkages 90-94) focused three unique strategies that are compatible to the situation of the local economy. Those strategies are:

- Formation of co-operative
- Charging substantial entrance fees
- Selling locally made products