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TOURISM AND GLOBALIZATION
Economic Impact in Indonesia

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Abstract: The issue of whether globalization is beneficial remains controversial, particularly because globalization policies are often examined without consideration of their interactions with key sectors of the economy, notably tourism. This paper uses a computable general equilibrium model of the Indonesian economy to examine the effects of globalization via tariff reductions, as a stand-alone policy and in conjunction with tourism growth. The results show that tourism growth amplifies the positive effects of globalization and lessens its adverse effects. Production increases and welfare improves, while adverse effects on government deficits and the trade balance are reduced. **Keywords:** globalization, taxation, economic impact, computable general equilibrium. © 2003 Elsevier Science Ltd. All rights reserved.

Résumé: Tourisme et mondialisation : impact économique en Indonésie. La question des avantages de la mondialisation reste controversée, surtout parce que les politiques de la mondialisation sont souvent étudiées sans égard à leurs interactions avec les secteurs clé de l'économie, en particulier le tourisme. Cet article utilise un modèle d'équilibre général calculable de l'économie indonésienne pour étudier les effets de la mondialisation par des réductions de tarifs douaniers, comme politique indépendante et conjointement avec la croissance du tourisme. Les résultats montrent que la croissance du tourisme amplifie les effets positifs de la mondialisation et en réduit ses effets négatifs. La production augmente et le bien-être s'améliore, tandis que les effets négatifs sur les déficits gouvernemental et extérieur sont réduits. **Mots-clés:** mondialisation, taxation, impact économique, équilibre général calculable. © 2003 Elsevier Science Ltd. All rights reserved.

INTRODUCTION

In recent years, tourism and its associated economic repercussions have taken place within a wider context of globalization of the world economy. Macroeconomic policymakers have been concerned to decrease barriers which impede international flows of goods, services and financial capital and to ensure flexibility of exchange rates, interest rates, and wages, with the aim of inducing markets to operate more efficiently. The introduction of such macroeconomic policies has been

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a source of some controversy because of the implications for income and employment, as well as income distribution and the welfare of local populations. Policies to promote trade liberalization are a case in point. Trade liberalization is occurring in conjunction with World Trade Organization, International Monetary Fund, and World Bank pressures for lower tariffs and the elimination of import quotas, and also as part of the process of integration within regional trading blocs.

Although trade liberalization is supposed to bring about long-term benefits by allowing countries to reap gains from specialization in production on the basis of their comparative advantage (for example, Begg, Fischer and Dornbusch, 2000:553–71; Krugman and Obstfeld 1997:13–37), a number of problems may occur. The first can take the form of a balance of trade deficit, as consumers purchase increasing quantities of the cheaper imports. The second involves a government budget deficit, as the government receives less revenue from the lower tariffs, especially if exports are not stimulated by reciprocal liberalization by trade partners. The third concerns the effects of trade liberalization on the distribution of income and levels of welfare of the local population, and particularly on the income levels of the poorest households in the economy. Thus, the issue addressed here is whether the growth of tourism can help to resolve the problems inherent in trade liberalization by decreasing the trade deficit, increasing government revenues, and improving income distribution.

This issue has received little attention from macroeconomic policymakers, who have tended to formulate and implement policies without taking account of their predicted effects in the context of tourism growth, even in countries whose economies are highly dependent on this industry. Nor has the issue received much attention in the literature, which has tended to concentrate on the income and employment impacts of tourism *per se*, rather than on its wider range of economic impacts, including those on distribution and welfare, in alternative macroeconomic contexts. Therefore, the aim of this paper is to develop existing research in the area by examining the economic impacts of tourism within the macroeconomic context of globalization in the form of increasing trade liberalization, as well as in the context of lower domestic taxation. The issue will be examined for the case of Indonesia, the fourth largest country in the world in terms of its population of over 210 million. As one of the former "Asian tigers", Indonesia is an important emerging economy which has experienced both growth in tourism and a push towards increasing trade liberalization in recent years. It has a wide range of attractions and natural resources. The growing international demand for these assets, in the context of decreasing levels of trade protection, has significant implications for domestic income and employment generation, income distribution, and welfare. This paper will examine these effects in the cases of tourism, trade, and tax policies in Indonesia.

The paper will build on previous contributions to research in the area of tourism impact analysis, which has been undertaken using direct and indirect income changes (Gartner and Holecek 1983; Gartner 1987), input–output models (Archer 1995; Archer and