

Is tourism-based development good for the poor? A general equilibrium analysis for Thailand

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Received 1 September 2007; received in revised form 1 January 2008; accepted 1 February 2008

Available online 25 March 2008

Abstract

In low-income countries, the use of tax revenues to fund tourism promotions is motivated in part by the belief that tourism growth will improve income distribution by expanding demand for relatively low-skilled labor. We examine this belief for the case of Thailand, a highly tourism-intensive economy, using a new and specifically designed applied general equilibrium model. Thailand's tourism boom, fueled in part by a series of publicly funded promotional campaigns, has coincided with a period of worsening inequality. We find that growth of inbound tourism demand raises aggregate household income, but worsens its distribution. This is because tourism sectors are not especially labor-intensive in the Thai context, and because the expansion of foreign tourism demand creates general equilibrium effects that undermine profitability in tradable sectors (such as agriculture) from which the poor derive a substantial fraction of their income. These results indicate that tourism growth is not a panacea for other goals of development policy; to address inequality, additional policy instruments are required. We explore this implication with the example of a lump-sum tax imposed at different rates for rich and poor households. In addition, we examine the robustness of our main results with respect to alternative factor market assumptions relevant to the Thai economy.

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JEL classification: D58; L83; O15; O53

Keywords: Tourism; Thailand; General equilibrium; Income distribution

1. Introduction

Tourism is an increasingly popular component of development strategy in low-income countries. This popularity seems to be based on three beliefs. First, that tourism can serve as a substantial

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source of foreign exchange earnings, so contributing to economic growth. Second, that tourism services are labor-intensive, so expansion of this industry will create jobs and improve income distribution. Third, that tourism is a “clean” industry, i.e., its growth is good for the environment. The promotion of tourism thus appears to generate private gains and also to advance broader societal goals; in particular, policies that promote tourism are seen as ‘pro-poor’ in that they are supposed to create disproportionately more jobs for less-skilled (and thus poorer) workers.

The first of these beliefs is well founded in many cases. In many developing countries travel and tourism (T&T) sectors contribute a larger share to total GDP than the world average and also generate a larger than average share of jobs and exports (WTTC, 2006).¹ The other two beliefs are less robust, however, at least in the case of Thailand, a major tourist destination and a country in which tourism is large in relation to national aggregates. Tourism expansion in Thailand certainly creates jobs for unskilled workers, and this has a direct poverty alleviation impact. But much of the gain from tourism growth accrues to factors other than unskilled labor, so income distribution may actually worsen. In addition, low-skill jobs in other sectors may be destroyed, and returns to agricultural land, from which the poor derive a considerable share of their income, may fall as tourism expands.² Government efforts to promote tourism growth may thus be inconsistent with the goal of reduced income inequality.

When tourism is relatively large in relation to GDP and employment, changes affecting the industry have economy-wide impacts. Poverty and distributional outcomes of tourism growth cannot easily be predicted except in a numerical model capturing some of the complexity of interdependent sectors and markets, as well as the effects of economic policies and other distortions. Subject to availability of data, applied general equilibrium (AGE) models can be used to examine such complex economic systems. In this paper we present an AGE model for Thailand and simulate the effects of tourism growth. Our goal is to take account of general equilibrium adjustment mechanisms in answering the question: is tourism growth pro-poor?

1.1. *Tourism in the Thai economy*

Foreign tourism is Thailand’s largest export industry, by a wide margin. “Visitor exports,” or sales of tourism goods and services to foreign visitors, averaged US\$ 10.2 billion (bn) (12% of total exports) in 1998–2005 on more than 10 million annual visitor arrivals. The next largest category of exports, computers and parts, averaged US\$ 8.5 bn in the same period.³ On average during 1998–2005, Thai tourism directly and indirectly accounted for 13% of GDP, 10% of employment (3 million jobs), and 12% of investment. Using the industry’s GDP share as a measure, Thailand is ranked 60 of 174 countries in the World Tourism and Travel Council’s global tourism satellite accounts (TSA). If we exclude very small countries like Bahrain, Brunei, and

¹ Tables of T&T shares in GDP, employment, and exports for 150 countries are available on the website of the 2006 Travel & Tourism Economic Research, World Travel & Tourism Council (WTTC). <http://www.wttc.org/2006TSA/>. Compiled tables also available on request.

² Tourism can also have substantive environmental interactions, both direct and through its impacts on markets for other goods and services. These are of considerable importance in the Thai case. The model described in this paper also contains environmental and natural resource information. A companion paper reports on environmentally focused aspects of this research.

³ Data in this paragraph are compiled from the World Bank’s *World Development Indicators Online* (exports of goods and services; www.worldbank.org, accessed 1/5/2007); Asian Development Bank’s *Key Indicators* (merchandise exports; www.adb.org, accessed 1/5/2007); and the World Travel and Tourism Council’s Tourism Satellite Accounts (visitor exports and employment; www.wttc.org, accessed 1/5/2007).

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