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How holidaying in developing countries affects local inequality

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Tourism hotspots like the Dominican Republic are no strangers to worker exploitation.
EPA

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A few years ago, one of us (Alex) went for a vacation to the Dominican Republic. The motivation was similar to millions of other tourists every year: escape the daily routine, enjoy the sun and beaches, and gather some strength to face another cold winter.

Unfortunately, a few things weren't very conducive to a happy break. The staff at the mammoth hotel were making as little as US\$1 (£0.79) for a 12-hour shift. Worse, most of them lived in a shanty town nearby. They had no sewers and no reliable electricity.

The hotel also exploited its power over local farmers to procure food exceedingly cheaply. Schools were overcrowded and many children dropped out to work in businesses like these hotels and farms, perpetuating the cycle.

This anecdotal picture is corroborated by the country's economic data. Despite GDP growth frequently above 5% each year, the Dominican Republic suffers from substantial inequality. The wealthiest 1% capture 30% of all income, compared to 18% in the US.

But how bad is tourism for inequality in developing countries overall? Our recent research has sought to answer this, looking at 71 countries around the world. The picture is complicated, but the overall results are not as bleak as you might fear.

Upsides and downsides

Clearly there are pros and cons to tourism. It makes holidaymakers happy while bringing people closer and promoting awareness of other cultures. It empowers communities and provides disadvantaged groups with opportunities, from the local artisan who can sell directly to customers, to women who would otherwise be struggling to find work.

Tourism sustains a lot of jobs and economic value overall, making it attractive to governments as a way of boosting growth. In 2019 there were a whopping 1.5 billion international tourist arrivals around the world. They were serviced by nearly 300 million travel and tourism workers, and the sector generated over 7% of global GDP.

On the other hand, tourism can degrade the environment. Witness the Inca citadel of Machu Picchu in the Peruvian Andes needing to restrict the number of visitors, for instance, because the site was getting damaged.

Equally, tourism is associated with other knock-on effects such as water scarcity, pollution, crime, sex exploitation and destroying tradition.

Tourist numbers have been restricted in Peru's Inca sites at Machu Picchu. EPA

But what about inequality? The tourism industry is frequently associated with ridiculously low wages, long hours without a break, and unhealthy conditions for live-in staff. Dedicated trade unions often don't exist, or they're underpowered and cannot effectively protect workers.

Tourism can also distort the economy. In the UK for example, communities in many popular tourist destinations cannot afford to buy a home anymore.

Yet when you look at how tourism affects equality overall, the existing academic literature shows conflicting results. A number of studies find that it worsens income inequality, while others find the opposite.

If you were wondering about the Dominican Republic, there's a study showing that tourism actually has a negligible impact on inequality.

Our findings

Ours is the first study to look at the effect of a few potential determining factors to try and gain a deeper understanding of the relationship between tourism and equality. These factors include the country's level of economic and financial development, inflation rate and government policies seeking to redistribute wealth.

Our dataset spans from 1996–2016. We would have ideally looked at even more than 71 countries, but others had to be excluded because good-quality data was unavailable.

We found that tourism eased income inequality in lower income countries when it went hand in hand with redistributive policies. Tanzania, for example, gets 17% of its GDP from tourism. This has enabled the country to significantly increase its spending on health, education and infrastructure.

New findings turn previous ideas about tourism and inequality on their heads. EPA

In wealthier countries, the opposite was counterintuitively the case: increasing tourism exacerbated inequality when combined with redistributive policies.

It may be that in places where education and infrastructure are already at high levels, improving them has less effect on inequality. Or it may be that improving the welfare system reduces workers' incentive to upskill and seek better paid jobs in other sectors. These possibilities need further investigation.

Our analysis also highlighted the importance of financial opportunities such as broad access to bank credit. All countries with more inclusive financial systems comparatively reduced inequality when they brought in more tourists.

It might be that financial access enables a broader cross-section of entrepreneurs to set up or expand tourist businesses, with knock-on benefits to their communities. This is bad news for developing countries like India, Brazil South Africa and Barbados, where it's difficult to obtain long-term loan, which usually come with onerous terms.

Having said that, the benefits from financial access were more marked in developed countries. In such countries, it may be that this galvanises proportionately more entrepreneurs because they are not being held back to the same extent by other problems like corruption and poor education.

When we looked at the effect of inflation, it worsened inequality in richer countries like the UK as tourism increases. We suspect that when inflation takes off in wealthier countries, it's more difficult for tourism workers to renegotiate their wages quickly because employment contracts are more formal.

Equally, poorer countries are often more used to higher inflation, so workers may be more adept at such negotiations.

So overall, it's not possible to say that increasing tourism widens or reduces inequality – it very much depends on other factors. But clearly tourism can be good news for inequality in poorer countries when it's combined with redistributive policies and financial inclusion.

This certainly won't solve problems like worker exploitation across the board, but it does mean that holidaying in developing countries will often be helping them to become more equal over time.