Department of Economic and Social Affairs
Division for Public Economics and
Public Administration

Report of the International Colloquium on Regional Governance and Sustainable Development in Tourism-driven Economies
Cancun, Q.R., Mexico, 20-22 February 2002

United Nations New York, 2002
NOTE

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries.

The designations “developed” and “developing” economies are intended for statistical convenience and do not necessarily imply a judgment about the stage reached by a particular country or area in the development process.

The term “dollar” normally refers to the United States dollars ($).

The views expressed in the Concept and Case study papers are those of the individual authors and do not necessarily reflect the views of the United Nations.

Enquiries concerning this publication may be directed to:

Mr. Guido Bertucci
Director
Division for Public Economics and Public Administration
Department of Economic and Social Affairs
United Nations, New York 10017, USA
E-mail: bertucci@un.org
Fax: (212) 963-9681

For further information on UNDESA/DPADM activities, please visit United Nations Online Network in Public Administration and Finance (UNPAN): www.unpan.org.
FOREWORD

At the United Nations General Assembly of September 2000 – the Millennium Summit – world leaders pledged to achieve the Millennium Development Goals, through which the world is addressing the many dimensions of human development, including poverty eradication, the protection of our common environment, and the promotion of democracy and good governance. Realization of these goals represents a formidable challenge. Developing countries are working to create their own national strategies to achieve the Millennium Development Goals based on local needs and priorities. The United Nations are supporting these nationally-generated initiatives at the advocacy and policy dialogue level by creating international fora that promote exchange of experiences and ideas, and provide an opportunity for new thinking about key policy issues.

It is within this context that the Cancun Colloquium was envisioned. It is based on the view that decentralization, anchored on democratic principles, might be a viable strategy to achieve more inclusive political processes allowing genuine participation by all citizens, and that local governments can be key actors in local economic development. It is based as well on the awareness that encouraging entrepreneurship and enterprise development in the tourism industry can be a feasible approach for reducing income poverty and promoting the participation in productive activities of the poor, women, the young and the elderly. Finally, it is based on the realization that for tourism-related resources to be a sustainable source of development, they need to be managed in such a way that economic, social and aesthetic needs can be fulfilled while maintaining cultural integrity, essential ecological processes, biological diversity and life support systems.

I am very pleased that we have this opportunity to discuss and exchange experiences and ideas on decentralization and the importance of strengthening local governance in regions whose primary economic activity is tourism. As you all know, tourism is one of the largest and fastest growing industries in the world: 4.4 per cent of the world’s Gross Domestic Product (GDP) flows directly from tourism, which employs over 200 million people. Given its increasing economic relevance and impact on local development, this Colloquium is extremely useful in providing support to policy development and management of the many aspects of tourism-driven economies.

It is widely recognised that the tourism industry can provide great opportunities in terms of economic growth, higher levels of employment, and development. At the same time, however, it also presents challenges. In fact, if the tourist industry is not subjected to clear rules and standards, it can have negative impacts on local sustainable development. It can result in the degradation of the environment, through improper exploitation and/or depletion of natural resources, which ultimately affects the sustainability of tourism itself. Another challenge related to this type of industry is how to deal with global fluctuations in the demand for tourist services. A region that ties its economy mainly to tourism needs to have in place a strategy to counteract the negative effects of sudden international economic or political crises that may halt or diminish tourism activities. Furthermore, tourism, if badly handled, can contribute to the disruption of the historical, cultural, and natural heritage of local communities, which in the end may hinder the future development of tourism itself. This is in part due to the fact that “attractiveness” of a destination is often closely linked to the natural, historical and cultural heritage of a specific region. Indeed, its primary commodity is not something produced by an industry. Its objective is in essence to promote the best aspects of a community and its territory, as well as to encourage foreign direct investment. In this sense, one may say that the opportunities and challenges that tourism carries in its trail are unique to this type of activity.

The first question then is how to promote tourism and ensure at the same time that it is a vehicle for growth and development, which is sustainable. In other words, how to seize the opportunities that
tourism can bring to a country, while minimizing its potentially adverse effects in the short and long term. In this regard, a healthy governance environment seems to be the most important factor in making tourism a successful activity for sustainable development, and specifically three governance aspects:

(a) Effective and transparent political institutions, which are accountable, allow for political participation and representation, and are responsive to citizens' needs and demands;

(b) A coherent and consistent set of policies and a regulatory framework, which address the diverse aspects of tourism in a holistic way;

(c) Partnerships between the State, the private sector and civil society. Because the tourist industry affects many dimensions of the economic and social life of a community and no single actor, either public or private, can solve on its own all the diverse problems related to tourism, partnerships are particularly important in bringing together all the actors involved and in allowing for discussion, mediation and constructive collaboration.

The second question is what level of government is best suited to deal with the challenges of tourism and to manage effectively local natural, financial and human resources, security issues, adequacy of infrastructure, basic services and the impact of tourism on community life. In view of the fact that tourism is an economic activity which is deeply linked to a particular territory and to local variables, central governments are not always suited to manage the complexities of this industry and its impact on the economic and social environment. In many cases local governments seem to be in a better position to cope with issues related to the tourist industry for a number of reasons. They have direct knowledge of the strengths and weaknesses of the region, are more aware of the opportunities and challenges of the business community, and are able to respond in a timely manner to major changes or problems which affect the territory of a community or its people.

Thus, promoting decentralization and strengthening local governance can allow greater representation and participation of all stakeholders in the decision-making process, as well as closer involvement of citizens in the policy-making process. In fact, there is a growing consensus that decentralization is not only an important condition for achieving sustainable socio-economic development, but also a fundamental ingredient for good governance. It can also be instrumental in providing services that respond more closely to the needs of the local population, including the business community. In brief, decentralization, which has come to occupy a prominent role in the debate on sustainable human development, is viewed as an important means of achieving a more democratic and participatory approach to governance.

It must be said that policies concerning the different dimensions of tourist activities also seem to benefit when local governance institutions are strengthened. The need to preserve the environment, to generate and manage financial resources in ways that help develop the best potentials of a community, to manage diversity and to provide an enabling environment for the promotion of local entrepreneurship call for greater involvement of local authorities. Tourism policies involve typically different levels and different functions of government. For example, while the functions of public order and safety are typically the responsibility of the central government, other functions related to education, infrastructure and regulations – key enabling factors for tourism entrepreneurship and business creation – seem to be best managed by local authorities, who have the advantage of being close to the market (tourists), to the private service providers (local businesses), and to the citizens (local culture). Local governments also have a day-to-day understanding of the natural environment situation; in many countries natural resources are the key feature that attracts tourists. Furthermore, local governments are in a better position to formulate and implement policies and regulations, which allow the private sector to operate effectively. This is so because tourism, as many other economic activities, depends on such
factors as local initiative, adaptability and capacity; basic infrastructure to facilitate business activity; a supportive legal and regulatory framework; and the ability to mobilize necessary resources and respond rapidly to the ever-changing environment.

In order to promote tourism within the framework of sustainable development, local policies must be coordinated and supported by national policies. In fact, a clear and effective multi-layered system of governance in tourism-driven economies is vital in ensuring an integrated approach to development. Vertical coordination, i.e. coordination between central and local government, is as important as horizontal coordination, i.e. coordination between policies and programmes regarding the various functional areas of the tourist industry at the local level. Striking a balance between the needs of the business community, the requirements for the preservation of the environment, and the need to preserve the historical and cultural heritage require a holistic approach to development.

Having in place transparent and accountable political institutions, both at the central and local levels, as well as effective policies are not enough to strengthen tourism-driven economies. Partnerships between local government, the private sector and civil society also play an important role in the achievement of economic, social and environmentally sound development goals. The views that either the State alone or the market alone could generate development have been dismissed by concrete facts. Just as the concept centering on the omnipotence of the State was erroneous, reality has proven that the market has a great potential but that without solid institutions and regulations it can generate far-reaching imbalances. This has resulted in a new wave of questioning on how to achieve a different balance among the State, the market, and the other important actor, civil society. It has also led to the understanding that the State and the market are not competitors, but that, as underlined by the United Nations Secretary-General Kofi Annan, both need to work as strategic partners in development together with civil society. The contribution that civil society can make to solving social problems and the need for a more participatory approach to development makes it an invaluable partner in governance. Partnerships between the State, the private sector and civil society can prove to be very important in policy-making processes regarding the protection of the environment, work conditions, and social safety nets.

It must be said, however, that there is no one-size-fits-all solution or recipe for the successful management of the tourist-industry. What responsibilities should be assigned to the central government and what instead to regional authorities depends on many circumstances and can be decided only case by case. In fact, although decentralization is being implemented in many countries, the degree of decentralization and the functions that are decentralized varies widely across regions, reflecting differences in their history, and culture, and their legal, political and administrative structures.

Regardless of how responsibilities are divided among central and local government levels, what is greatly needed today in tourism-driven economies is to strengthen the capacity of local governance institutions. In fact, such countries can greatly benefit from tourism development only if central and local governments, in partnership with the private sector and civil society, have the capacity to deal with its many challenges and act in synergy.

Our intent in this Colloquium is to promote the exchange of experiences and ideas on precisely the importance of reinforcing local governance in regions that have tied their economy to the tourism industry, taking into account a number of important related issues.

I have every confidence that the discussions that will take place during this Colloquium will enhance our understanding of these issues and provide support for policy development and capacity-building of local governance institutions in tourism-driven economies.

Guido Bertucci
Director
Division for Public Economics and Public Administration
Department for Economic and Social Affairs
NEW YORK, 2002
ACKNOWLEDGEMENTS

The International Colloquium on Regional Governance and Sustainable Development in tourism-driven Economies was co-organized under the leadership of Mr. Guido Bertucci, Director of the Division for Public Economics and Public Administration (DPEPA), United Nations Department of Economic and Social Affairs (UNDESA), and of Mr. Joaquín Ernesto Hendricks Díaz, Governor of the state of Quintana Roo, Mexico.

At the United Nations – under the overall responsibility of Mr. Jerzy Szeremeta, Chief of the Public Policy Analysis and Development Branch, DPEPA – Ms. Angela Capati-Caruso had full independent responsibility for the entire event, from the development of the concept to organization and conduct of the meeting in situ. Ms. Neena Koshy was responsible for the day-to-day organizational arrangements, and Ms. Gracia de León-Dizengoff provided administrative services. Ms. Ariane de Lipkowski provided organizational support. Mr. Claudio Aponte established liaison with the Mexican co-organizers.

In the Quintana Roo Government – under the overall responsibility of Mr. José Luis Pech Várguez, Secretary of the Interior – Mr. Iván Hernández Pacheco, Technical Secretary of the Cabinet co-ordinated the local aspects of the Colloquium organization, in collaboration with Mr. Artemio Santos Santos, Secretary of Economic Development, Mr. Guillermo Martínez Flores, Secretary of Tourism, Mr. Carlos Ivan Campos Arana, Deputy Technical Secretary of the Cabinet and with the support of Ms. Alejandra Chávez, Coordinator of Public Relations.

This report was prepared for publication by DPEPA/UNDESA. Ms. Angela Capati-Caruso was editor of the entire report and contributor. Ms. Neena Koshy was responsible for layout/typesetting. Ms. Roxana García assisted in the translation of one paper. Mr. Angel Antonio García provided external editing and translation services.

All the participants and presenters in the Colloquium contributed with information, knowledge and ideas that are incorporated in this report.
CONTENTS

Page

Foreword .................................................................................................................................................. iii
Acknowledgements ...................................................................................................................................... vii
Summary .................................................................................................................................................. 1
Conclusions and recommendations ......................................................................................................... 3

Concepts

Fiscal decentralization: implications for tourism
Marilyn Rubin ........................................................................................................................................... 7

Entrepreneurship and development
Paul D. Reynolds ..................................................................................................................................... 21

Sustainable tourism, environmental protection and natural resource management: paradise on earth?
Frederico Neto ......................................................................................................................................... 33

Management of cultural change in tourism regions and communities
Peter Keller ............................................................................................................................................... 49

Mental images: the influence of culture on economic policy
Huib Wursten .......................................................................................................................................... 63

Case studies

Mexico: the case of Cancun
José Luis Pech Várguez .......................................................................................................................... 81

The Philippines: community response to the challenge of change and development in the Subic Naval Base
Richard J. Gordon ................................................................................................................................... 87

Sustainable cultural tourism: the Rajastan experience
Ashuman Singh ......................................................................................................................................... 93

Decentralization and tourism development: the Kerala experience
Sukhdev Sing Kang ..................................................................................................................................... 101

Spain: Sustainable development and mature tourist municipalities: integrated rehabilitation in the Calvià Municipality
Margarita Nájera Aranzabal ......................................................................................................................... 117
## Annexes

<table>
<thead>
<tr>
<th>I.</th>
<th>Agenda</th>
<th>123</th>
</tr>
</thead>
<tbody>
<tr>
<td>II.</td>
<td>List of participants</td>
<td>127</td>
</tr>
<tr>
<td>III.</td>
<td>Web links of interest</td>
<td>133</td>
</tr>
<tr>
<td>IV.</td>
<td>International Colloquium secretariat</td>
<td>137</td>
</tr>
</tbody>
</table>
This report presents papers that were submitted during the Cancun Colloquium on Regional Governance and Sustainable Development in Tourism-driven Economies (20-22 February 2002). The Colloquium was organized by the Division for Public Economics and Public Administration of the United Nations Department of Economic and Social Affairs (UNDESA), in cooperation with the state of Quintana Roo, Mexico. It brought together over 50 participants from 17 countries who represented all parts of the world and different levels of government (regional, local and central) to discuss a common concern, namely sustainable local economic development in communities where tourism is – or has the potential to become – the driving force of the local economy. Participants set out to debate issues related to the distribution of functions and resources, and to which, among the several layers of government, is best suited to deal with the management of financial, human, natural, and cultural resources that are key to the development of the tourism industry. In addition, they debated the issue of how to maximize the economic benefits of tourism, in view of the limits posed to its growth by environmental, social and economic considerations.

We believe that the moment for such a debate is most appropriate, for many reasons. In recent years we have witnessed, on the one hand, a strong movement toward decentralization and secession, and, on the other, a divided country has reunited, several European Union countries have taken further important steps toward monetary and economic consolidation, and a number of Eastern European countries are considering accession to the Union. It is therefore natural for decentralization to have been at the centre of the political and economic debate in many countries.

Proponents of decentralization argue that stronger subnational governments will generate both political and economic benefits. Decentralization, which has come to occupy a prominent role in the debate on sustainable human development, is viewed as an important means of achieving a more democratic and participatory approach to governance; it is expected to increase political responsiveness and to allow greater representation and participation of all stakeholders in the decision-making process. Decentralization is viewed as instrumental in allowing governments to make better decisions about the use of public resources for the provision of services that respond more closely to the needs of the local population, including the business community, and to increase the willingness of users to pay for local services.

Within this global trend, local governments are increasingly recognized as key actors in local economic development. As providers of social services, builders of economic infrastructure, regulators of economic activity, and managers of the natural environment, local authorities have many direct instruments at their disposal to influence development. Even prior to the United Nations Conference on Environment and Development in 1992, but particularly since the adoption of Agenda 21, many local authorities have focused on the unique challenges of governance of sustainable development. Thousands of local authorities have actively developed Local Agenda 21 processes to create a shared vision for local development that is consistent with the sustainable development concept. Local Agenda 21 processes, in conjunction with decentralization policies originating at the national level, are transforming local governance and reorienting the process of local development in communities throughout the world.

The papers included in this volume highlight the broad range of issues that need to be examined with regard to sustainable local tourism development. Readers are encouraged to consider the complex, cross-cutting nature of tourism and decentralization, and the importance of a comprehensive approach.

The papers presented under the “Concept” section of this report, prepared by leading international...
experts, address a number of key issues related to local governance and sustainable development in tourism-driven economies. They include (a) fiscal decentralization and its implication for tourism; (b) fostering of local entrepreneurship; (c) sustainable tourism, environmental protection and natural resources management; and (d) management of cultural interaction. The “Case studies” section of this report, prepared by leading practitioners from different countries and continents, presents case studies dealing with the most relevant issues and challenges faced by regions where tourism is the driving force of the local economy. These papers contain quite a number of important thoughts and ideas that lead to key policy conclusions.

The Cancun Colloquium provided a rich exchange of experiences and views on ways to look at tourism in the context of decentralization. Participants discussed the importance of tourism as a source of income and employment, and emphasized the need for planning and managing all types of tourism activities and all segments of the tourism sector within the parameter of economic, social and environmental sustainability. The discussions also stressed the implications of fiscal decentralization on tourism-related expenditures and revenues of government, as well as the importance of strengthening local governance for sustainable tourism development. Additionally, the need to open the decentralized governance systems to the participation of local communities, and to promote socially responsible behaviour of the tourism-related business community, was emphasized.

The Cancun Colloquium generated consensus on a number of conclusions and recommendations, which were proposed, discussed and adopted, and are contained in this report. Participants in the Colloquium also identified specific policies, programmes and actions that could be implemented to reinforce local governance in regions that have tied their economy to the tourism industry. They include:

- Formulation of strategic approaches to public policy development of local government in tourism-rich regions;
- Support of public policy development and implementation capacities of local governments in tourism-rich regions;
- Promotion of the participation of local communities, including indigenous people, in decision-making and sharing of benefits;
- Development of human resources;
- Mobilization financial resources to strengthen local and regional governments; and
- Exchange of data, information, experiences and successful practices.

This report identifies and discusses some of the issues with which the international community will have to deal over the coming decades, which relate to the need for intensified and more adequate efforts to address sustainability of tourism development at the local level. Notwithstanding the complexity of the subject matter, it is hoped that the papers presented in this report will enhance the reader’s understanding of the issues discussed and provide support for policy development and capacity-building of local governance institutions in tourism-driven economies.
CONCLUSIONS AND RECOMMENDATIONS

The participants of the Cancun International Colloquium on Regional Governance and Sustainable Development in Tourism-driven Economies discussed decentralization and local public policy issues from the perspective of regions where the economy is driven by the tourism industry and agreed on a number of conclusions and recommendations, as described below.

1. Tourism is one of the largest and fastest growing economic sectors in the world. It is an increasingly important source of income and employment in all countries. International tourism now accounts for a larger share of foreign exchange receipts and export earnings than any other industry in the world. Tourism has the potential to lead towards sustainable development. However, if not planned and managed within the parameter of economic, social and environmental sustainability, it can lead to negative externalities. Sustainable tourism involves activities leading to management of all resources in such a way that economic, social and aesthetic needs can be fulfilled while maintaining cultural integrity, essential ecological processes, biological diversity and life support systems. These principles must be applied to all types of tourism activities and all segments of the tourism sector.

2. Although economic aspects of tourism development are often taking front stage, such as attracting investment, building infrastructure, etc., not enough attention is given to the need to establish appropriate governance mechanisms and systems to deal with tourism. Effective and transparent political institutions, an efficient and accountable administration, and mechanisms to foster participation of citizens in the decision-making process are essential factors in ensuring that the potential benefits of tourism development are maximized and its drawbacks minimized.

3. Experiences shared during the Colloquium lead to the conclusion that regional and local governments are more attuned to the variables of tourism development, and as such they are better suited to deal with its different facets. Consequently, a decentralized governance framework with appropriate authority being invested in regional and sub-regional institutions is quite desirable. There is a need for the greatest possible autonomy of local governments as the most important platform for the implementation of tourism policy. Local authorities should be in a position, in accordance with the principle of subsidiarity, to closely monitor the tourism development process.

4. Decentralized governance systems should be open to the participation of local communities, and ensure their active participation in tourism planning, development and management, as well as in the sharing of benefits. Local communities, including indigenous people, are in fact the most important platform for optimal tourism growth. They participate directly in the development process as co-producers of goods and services and as such cooperate in satisfying the needs of the guests. Participation of local communities in decision-making and sharing of benefits also helps to generate greater awareness of the environmental, cultural and social costs of tourism and thus provides strong incentive to conserve and protect natural and cultural resources.

5. For local institutions to be able to perform their role, it is important that appropriate constitutional, legislative and regulatory frameworks be established to grant them
decision-making and implementing authority. Also, representational and judicial institutions should function in an efficient and independent manner, so as to address the complexities of development through tourism.

6. Given the complexity of the tourism sector, various levels of government are necessarily involved. Therefore, coordination between central, regional and local governments (vertical) and among local government (horizontal) is essential. Appropriate application of the principle of subsidiarity to the specific country conditions could be a useful tool in this respect.

7. The importance of thorough policy-making processes and of planning and strategizing mechanisms emerged in connection with preventing uncontrolled tourism development, foreseeing the possible negative impacts, and guiding the development process. The availability of reliable social, economic and environmental data is deemed to be an essential ingredient of the policy-making process.

8. Planning processes that involve the various stakeholders, namely the different levels of government, the private sector and civil society organizations ensure that the decisions taken enjoy shared views and reduce obstacles in implementation and enhanced ownership. In view of the importance of the rule of law in governing all economic and social activities, including tourism, and the enactment of comprehensive, clear and consistent laws and regulations governing the sector, should be pursued.

9. The allocation of responsibilities according to the principle of subsidiarity requires the transfer of corresponding fiscal capacity to the designated authorities. Inter-governmental transfers from the central government should be used to compensate for variations in fiscal capacity, benefit/cost spillovers and economies of scale.

10. Systems and institutions ultimately function through the activity of people. Therefore the development of human resources capable of planning and implementing tourism policies and initiatives both in the public and private sector should be actively sought.

11. Encouraging entrepreneurial development of the local tourism cluster industries is increasingly perceived as a policy option leading to higher levels of economic development, creation of jobs, and promotion of a more broad-based participation in productive activities – particularly by the poor and by women. Entrepreneurial activity thrives in a particular context, which includes *inter alia* the availability of easily accessible financing, enabling government policies, regulations and programmes designed to support local initiative and the creation of small and medium-sized enterprises, and education and training for entrepreneurship. Key enabling factors for tourism entrepreneurship and business creation seem to be best managed by local authorities, who have the advantage of being close to the market (tourists) and to the local service providers (local businesses). Therefore, the creation of an enabling environment for local entrepreneurship development calls for greater involvement of local authorities.

12. Natural resources are an essential component of tourism. They need to be preserved or rehabilitated for the achievement of sustainable tourism. Unplanned and/or uncontrolled tourism expansion leads to environmental degradation, which, in turn, poses a serious threat to tourism and sustainable development. Reliable environmental information gathering and analysis are a prerequisite for planning and monitoring sustainable tourism activities. Natural resources are being degraded around the
world, and effective measures to protect and enhance them must be implemented in relation to tourism development, including voluntary schemes of sustainability certification.

13. Tourism speeds up the rate of local population growth through the immigration of prospective tourism workers and their families. This generates an increased demand on housing, basic infrastructure and social services, and has the tendency to worsen the working conditions and standards of living of the local population. It is important therefore for local authorities to consider housing, infrastructure and access to education for tourism employees when planning tourism activities.

14. Tourism brings together different cultures, those of the local communities (including indigenous people), the tourists, and the immigrant workers. It is important to create mechanisms to manage the interaction among these cultures and maintain specific local cultural diversity.

15. Inadequate public safety may discourage tourism in specific locations. It is important for central and local governments to provide assurances of safety and security to tourists.

16. Like every other economic activity, tourism lends itself to graft and corruption. It behooves governments, therefore, to reinforce integrity and accountability systems as well as to establish specific such systems for the tourism sector. Monitoring and evaluation systems are also essential to assess the effects of decisions taken so as to adjust the planning process accordingly. At the same time, transparent information should be provided to the citizens in order to permit them to monitor and evaluate government performance.

17. The international community should fulfill its commitment to play an important role in ensuring that tourism development occurs in a sustainable and responsible way. Inter-governmental dialogue is an important component of this process, and is taking place in different fora, such as the United Nations Commission for Sustainable Development, the World Tourism Organization and the World Trade Organization. As part of the work of the Commission on Sustainable Development, the Convention on Biological Diversity is developing international guidelines for activities related to sustainable tourism development in vulnerable terrestrial, marine, and coastal and mountain ecosystems. Agreements between governments are being negotiated in order to deal with trans-national issues related to tourism. Within the framework of Agenda 21 for the Travel and Tourism Industry, the international community should continue to support tourism-based communities and regions to formulate their own “Agendas 21” at the local and regional levels.

18. The international community, together with governments, the tourism industry and other stakeholders, should promote or support various efforts to raise public awareness about the impact of tourists on destinations, to promote respect for local communities and their cultures, and to protect the environment. Efforts to raise consciousness of the importance of natural and cultural heritage, and to familiarize the local population with the cultural and social aspects of tourism should begin at school with children through primary education.

19. The international community should support programmes aimed at strengthening local governments to better deal with the challenges related to in tourism development.
20. Trustworthy codes of conduct, transparent eco-label awards and internationally-agreed programmes of action for sustainable tourism are required at the international level. The international community should play a particularly crucial role in developing a set of internationally recognized accreditation and monitoring systems for assessing the sustainability of services around the world. The Global Code of Ethics for Tourism adopted by the United Nations General Assembly should be the frame of reference for the responsible and sustainable development of international tourism.

21. The international community should fulfil its stated commitment to mobilize financial resources in order to strengthen local and regional actions. The United Nations should encourage governments to promote ways and means to involve the private sector, as well as the tourists, in providing funds for sustainable tourism activities.

22. Governments at all levels can greatly benefit from exchange of data, information, experiences and successful practices. The United Nations and its agencies should continue to foster such an exchange. Existing tools such as the United Network on Public Administration and Finance (UNPAN) could serve as an immediate instrument in this respect.

23. Although progress has been achieved over recent years, one of the key remaining challenges for the international community is to devise ways and means to support developing countries in making their tourism sector more internationally competitive without damaging their natural and environmental resources, as well as their social and cultural identity.

24. The international community, and particularly the development agencies, should provide assistance to developing countries through capacity building activities in all the crucial components of sustainable tourism development highlighted above, including human resources development both in the public and private sectors. This could be done through policy dialogue, training, hands-on experience and horizontal cooperation.

The participants of the Cancun International Colloquium on Regional Governance and Sustainable Development in Tourism-driven Economies appreciated the vision, initiative, generosity and organizational efforts of the Quintana Roo Government and of the Department of Economic and Social Affairs of the United Nations that led to the realization of this important event.
INTRODUCTION

Tourism is the world’s fastest growing industry, generating, on an annual basis, more than 230 million jobs and contributing hundreds of billions of dollars, collectively, to the economies of nations in all regions. In many developing countries, tourism is the number one job and revenue generator. Within the tourism industry, ecotourism activities are also becoming more important and further growth is expected in the future. Recognizing the global importance of ecotourism, the United Nations designated 2002 as the International Year of Ecotourism. This designation is a manifestation of the UN’s ongoing recognition of the importance of tourism resulting from its “direct effects on the social, cultural, educational and economic sectors of national societies and their international relations” (WTO, 1998). The year 2002 UN designation also demonstrates recognition that ecotourism is a critical element in ensuring the sustainable development of tourism.

The continued growth of tourism and ecotourism requires investment by both the public sector and the private sector. This paper focuses on the government financing of tourism-related expenditures in the context of what is known as fiscal decentralization – the process by which countries are moving away from highly centralized service delivery and financing to new arrangements whereby subnational [in this paper, the term “subnational” refers to states, provinces, and municipalities] governments are assuming increasing fiscal responsibilities. The form and extent of fiscal decentralization has implications for the development and implementation of policies related to tourism and other domestic activities as well as for policies dealing with global issues such as foreign investment, trade and international taxation.

Section A of this paper discusses why and how fiscal decentralization is occurring; section B sets the conceptual framework for the assignment of expenditures and revenues among different levels of government; section C applies this framework to the tourism industry and discusses tourism in a decentralized setting. Section D provides a summary of the paper and suggests further areas for research on tourism in the context of fiscal decentralization.

A. WHAT IS DECENTRALIZATION AND WHY IS IT OCCURRING

Decentralization refers to the distribution of a nation’s functional responsibilities between its central government and subnational governments along various dimensions, e.g., fiscal, administrative and political. Fiscal decentralization specifically refers to a nation’s alignment of expenditures and revenues between its central government and its subnational governments. The extent of decentralization ranges from deconcentration where responsibilities are distributed among different levels of the central government to devolution where independent subnational governments are given substantial responsibility for decisions regarding the level of services to be provided, how they are to be provided and how they are to be funded.

Proponents of decentralization argue that stronger subnational governments will increase efficiency in service delivery resulting in a better match of services to citizens’ priorities. They also posit that
decentralization will bring government closer to
the people thereby improving the quality of
democracy and increasing the role of previously
disenfranchised groups – including the indigenous
population and women – in the decision-making
process. Those who are more skeptical about the
efficacy of decentralization question the service-
delivery capacity of local governments, especially
in developing countries.

Despite the skeptics, decentralization is occurring
in countries throughout the world, usually
reflecting the broader process of political and
economic reform underway in a country. For
example, in many Latin American countries,
decentralization is taking place as part of the
overall democratization process. In a number of
African countries, the growth of multi-party
political systems and other governance reforms
have resulted in the demand for more local
participation in decision-making. In transitional
economies, subnational governments are
assuming increasing importance as new
decentralized systems are evolving to replace the
crumbling centralized structure.

The degree of decentralization varies widely
across countries, reflecting differences in their
history and culture and in their legal, political and
administrative structures. Bahl and Linn estimated
that in 21 developing countries, subnational
governments accounted for between 6 and 50 per
cent of total government spending (Bahl and Linn,
1992). In Bird’s comparison of decentralization in
18 developed, developing and transitional
countries, he estimated that between 8 and 60 per
cent of total government expenditures were
attributable to subnational governments (Bird and
Vaillancourt, 1998). In general, the extent of
decentralization appears to be greater in
industrialized countries than in developing
countries and in those in transition. However,
there is variation within each of these three groups
of countries, and developing and transitional
countries are closing the decentralization gap with
industrialized nations.

Not only do countries differ with respect to their
degree of decentralization, but so, too, do they
differ in the extent to which they distribute
responsibilities among levels of government for
specific functional areas, e.g., transportation,
health and education. Variation among countries
in their institutions and laws governing
intergovernmental interaction as well as
differences in their history and culture will have a
strong impact on which functions are
decentralized and to what extent.

Making international comparisons of the
functional distribution of expenditures and
revenues among levels of government is quite
difficult due to differences in fiscal classification
among countries and to variations in how
countries collect and report data. Compounding
the comparison problem is that the International
Monetary Fund (IMF) – the traditional source of
data for international comparisons – no longer
publishes sufficient information on inter-
governmental transfers to permit meaningful
comparisons, by country, of functional
distribution at all levels of government. The IMF
does, however, publish data on functional area
expenditures by local governments – the level of
government commonly below the intermediate
state/province level – that permit international
comparisons. Using these data for 10 countries,
Rafuse found significant diversity in local
governments’ spending among most functions
(Rafuse, 1999). For example, he found that the
transportation and communication function
accounted for a significant proportion of spending
in four of the ten countries, but not in the other
six. Nevertheless, Rafuse found commonality in
spending by local governments on some
functions, e.g., no local government showed any
significant expenditure on the public order and
safety function.

No published estimates are available as to the
extent of the decentralization of “tourism” since it
is not a traditional government function such as
the transportation and communications function.
Tourism is, instead, a “service industry” with
segments in many broad functional areas of
government such as the transportation and
communications function and the public order and
safety function. What activities are included in the
tourism industry and which level of government
should be responsible for providing and funding
them, are discussed in section C of this paper in
the context of the conceptual decentralization framework presented in section B below.

B. EXPENDITURE AND REVENUE ASSIGNMENT

Effective decentralization requires that all levels of government have the authority to make decisions about expenditures and an adequate level of revenues – either raised locally or transferred from the central government – to pay for these expenditures. Following the theme of the fiscal decentralization literature that “finance follows function”, section B begins with an analysis of the decisions regarding which level of government should be responsible for which public functions.

Expenditures

The basic issue in fiscal decentralization is what public functions are most appropriately “assigned” to each level of government. In this paper, these levels of government are defined as a nation’s central government, its intermediate level governments (e.g., states and provinces), and its local governments (e.g., municipalities). To establish the conceptual framework for the distribution of expenditure responsibilities, economists focus on issues of efficiency and equity, where efficiency means satisfying needs/preferences for goods and services at the lowest possible cost. Public administrators, too, are concerned with efficiency, but they also stress other factors such as accountability, transparency, and capacity.

The economists’ framework

Following Musgrave (Musgrave, 1959), economists define three general functions of government in a market-based economy: allocation, distribution and stabilization (sometimes referred to as macroeconomic policy). Musgrave’s functional distribution may be used to establish the framework for the intergovernmental assignment of expenditures. In reference to tourism, the allocation function applies most directly and is therefore described in most detail in this paper. The distribution and stabilization functions are briefly described to provide a fuller understanding of overall government obligations within a decentralized system.

The allocation function pertains to the role of government in providing or arranging for the provision of what are called public goods and quasi-public goods and otherwise influencing the allocation of resources by the market through, for example, regulatory policy and use of selective taxes and subsidies. Public goods and quasi-public goods are distinguished from goods generally supplied by the private sector by: (a) their nonappropriability or (b) their generation of what are known as externalities. In the case of nonappropriability, the exclusion of non-payers is practically impossible and any number of users can consume the same goods/services at the same time. The private sector will not supply the goods since a market price cannot be determined because people will receive them even if they are unwilling to pay for them and the purchaser will not use it up. An example of pure public goods is national defense: once it is supplied, non-payers cannot practically be excluded from protection and the protection of one person does not diminish the protection of others. In this example, the non-exclusion and non-exhaustion characteristics of national defense explain why government is involved in providing or arranging for the provision of national defense.

In the case of externalities, market transactions between a buyer and a seller affect third parties not involved in the transaction. These third party effects (i.e., externalities) may be either positive or negative and their value is unlikely to be fully recognized in a market situation, leading to underproduction or overproduction of the goods/services. For example, in health services a person vaccinated against polio receives direct benefits for which he or she can be required to pay. However, the vaccination also protects those who do not pay – this is the externality or third party benefit that may not be considered and therefore the service may be under-produced from the perspective of society as a whole. In this example, the existence of the externality associated with vaccinations explains why government is involved in providing or arranging for their provision.
Under the allocation function, the role of government is to intervene when the market fails to allocate resources efficiently. The objective of government in fulfilling its allocation function should be to do the best it can to respond to "consumer preferences". Allocation decisions involve not only public vs. private service delivery, but also the spatial domain of benefits and costs, i.e., which level of government should be assigned the delivery of public services to insure that consumer preferences and needs are met.

There is general agreement among public finance experts that the most efficient intergovernmental allocation of responsibilities for providing public and quasi-public goods occurs when the lowest level of government that is capable of adequately providing them is assigned the responsibility of doing so. This is known as the principle of subsidiarity. However, there are a number of factors that may bear upon the capacity of subnational governments to provide goods and services adequately and efficiently. These factors include: economies of scale, the existence of spillovers and fiscal disparities among subnational levels of government.

(a) **Economies of scale.** Economics of scale occur when output responds more than in proportion to an increase in inputs. In the public sector, it means that the cost-per-person served decreases as the size of the service unit increases. For example, if economies of scale were in effect, the per capita costs of supplying water would decrease as the size of the service unit increases. There is some evidence that economies of scale exist for capital-intensive services such as water supply and electricity distribution, but little evidence that economies of scale exist for labor-intensive services such as police and fire protection;

(b) **Spillovers.** Full reliance on the principle of subsidiarity may also be difficult due to what are called spillovers, i.e., externalities that "spill over" jurisdictional boundaries. If benefits/costs accrue to nonresidents, local governments will probably not consider them, resulting in inefficient production and provision decisions. For example, assume that City A constructs a sewer-treatment plant that dumps partially treated sewage into a river that flows downstream past City B that takes water out of the river for its municipal water utility. The more City A cleans up the sewerage, the better off City B will be. However, City A will not take the benefits to City B into consideration when deciding on the most efficient size of its sewer-treatment plant. Given these spillovers, City B could offer to compensate City A for costs incurred in building a larger plant. Or, in the absence of such compensation, a higher level of government that encompasses the entire area that benefits from the service could provide the service. This solution would satisfy what is known as the principle of correspondence that calls for the spillover area and service delivery level of government to coincide (Oates, 1972). In the example of sewage, "operationalization" of the correspondence principle would result in a regional government (encompassing both City A and City B) assuming responsibility for the sewage-treatment plant. In the absence of regional government, a state/provincial government could build the plant. An alternative solution to the existence of spillovers is that a higher level of government could finance the service (in this example, the sewage treatment plant). The grants (or taxes) could internalize the externalities and hence result in a socially efficient allocation of resources;

(c) **Fiscal disparities.** Another problem in fully applying the subsidiarity principle to determine expenditure assignment has to do with economic and fiscal disparities among subnational levels of government in a given country. While application of the subsidiarity principle would lead to the assignment of service provision to the lowest level of government possible, it may not have the fiscal capacity to do so. Because there is often a mismatch between the need for government services and the capacity to finance these services, higher levels of government may intervene by providing various types of fiscal
assistance or by actually providing the service.

The distribution function of government relates to the role of government in changing the distribution of income, wealth or other indicators of economic well-being to make it more equitable than would be under strict market allocation. Most public finance experts argue for assigning this function to the central government based on two assumptions: (a) that the ability of taxpayers to move from place to place within a given country weakens subnational governments’ ability – and perhaps desire – to provide differential benefit and tax packages; and (b) that distribution decisions usually reflect an entire nation’s values regarding the “proper” distribution of resources. Subnational governments have limited ability to affect distribution goals in an open economy where people and economic activities can move from place to place. However, subnational governments do participate in the distribution function through provision of services (e.g., health and education), to those who, in the absence of government provision, would not purchase such services.

The stabilization function pertains to governments’ efforts to stabilize the economy, preventing high unemployment, controlling inflation and improving prospects for economic growth. Governments do this through monetary policy (manipulation of the money supply) and fiscal policy (changes in taxation and expenditures). There is general agreement among public finance experts that the national government should have the primarily stabilization responsibilities, but, here again, subnational governments may have a role, albeit a relatively smaller one than the central government.

The public administration framework

In addition to efficiency and equity, public administrators consider other factors in recommending which levels of government should be responsible for which functions. Among the most important factors are local government capacity—to plan, finance and manage service delivery—and accountability.

(a) Local capacity. The subsidiarity principle suggests that local governments’ proximity to their constituents places them in a better position than the central government to manage resources and to meet constituent preferences. However, subnational governments – especially local governments – may not have the capacity to manage service delivery. Central governments could use – and have used – insufficient local government capacity as a reason to maintain their service delivery dominance. Building local government capacity for service delivery is an important objective of many international organizations, such as the United Nations and the World Bank, and of bilateral donor agencies such as the U.S. Agency for International Development (AID), the U.K. Department for International Development (DFID) and Sweden’s Agency for Development Cooperation (SIDA);

(b) Accountability. For decentralization to be effective, all levels of government in a country must have systems of accountability that provide transparent information to permit residents to monitor government performance and to take actions to improve accomplishments. Related to accountability is the issue of transparency and corruption. It is generally assumed that the desire for more accountable delivery of services will increase the pressure for more transparent local governments in which corruption will be easier to identify and thus to reduce. Although a greater degree of decentralization does not necessarily correlate with less corruption, it is generally easier to identify corruption at lower levels of government (i.e., to “name names” that people know) and to take actions to reduce it.

Revenue assignment

Following the dictum that “finance follows function”, this section of the paper focuses on what revenues are available to finance expenditures at different levels of government. Governments at all levels rely on a wide variety of revenue sources to finance service delivery. These
revenue sources include: taxes, charges for goods and services provided, intergovernmental transfers from higher levels of government and borrowing in capital markets. Each of these sources is briefly described below. A more specific discussion of revenue assignment as applied to tourism is presented in section C.

Taxes

The intergovernmental assignment of taxes will depend, to a large extent, on the particular mix of taxes used in a country. In practice, in some countries, tax assignment is based on constitutional provisions, in others on statutes, and yet in others, on regulations. In most countries where the Constitution provides for an allocation of taxes, the allocation is between the central government and intermediate governments including states and provinces. Local governments are seldom referred to in Constitutions, and it is generally the intermediate levels of government, such as the states in the United States and the provinces in China, that determine local taxing power. However, in some countries, such as Brazil and Mexico, the Constitution recognizes the municipal level of government. For example, in Mexico, the Constitution gives municipios – the level of government below the states – exclusive authority for imposing property taxes, and in Brazil the Constitution prescribes specific taxes that are to be levied by each level of government.

In theory, there is no agreed upon construct as to what level of government should impose any particular tax. However, public finance experts do generally agree on what might be called “principles” of intergovernmental tax assignment that are concerned with efficiency of markets, efficiency of administration and revenue adequacy.

(a) Efficiency of markets. A market economy can be expected to maximize income and wealth if all resources (e.g., labor and capital) are free to move among jurisdictions without distortions created by the tax structure. If subnational governments tax mobile production factors (such as capital), these factors could relocate to lower taxing jurisdictions producing inefficiencies in market decisions. To minimize inefficient behavior, subnational governments should tax, to the extent possible, immobile factors of production such as property;

(b) Efficiency in administration. A general rule in evaluating tax policy at any level of government is that a “good tax” should be relatively easy to administer and collect. Efficiency in tax administration is generally increased when the level of government levying the tax has extensive knowledge of the tax base. For example, local governments have the greatest knowledge of the value of the local property tax base and can most readily manage the local property tax base. In contrast, the corporate tax base may be distributed across multiple jurisdictions and thus efficiency is improved when it is taxed at a higher level of government;

(c) Revenue adequacy. At all levels of government, the tax yield should be adequate to meet government needs. Accordingly, tax instruments used to implement specific policy objectives (e.g., redistribution or stabilization) should be assigned to the level of government having the responsibility for the policy. For example, progressive taxes should be levied by the central government to fulfill its role in income redistribution. The assignment of taxes to subnational governments should “ideally” produce sufficient revenues so that “at least the richest subnational governments … finance from their own-source revenues all locally produced services primarily benefiting local residents” (Bird, 1993). Intergovernmental fiscal transfers from the central government can be used to compensate for variation in fiscal capacity among subnational governments.

User charges

User charges (sometimes referred to as user fees) are payments for voluntarily purchased goods/services sold or rented by the government. A user charge is the public sector version of a market price – nobody has to pay it, but you are excluded from the service or from receiving the license if you are not willing to pay for it. This differs from
a tax that is a compulsory payment based on holdings of the tax base, e.g., if you have taxable income (the tax base), you pay an income tax; if you have no taxable income (no tax base) you pay no tax. User charges include, for example, charges for use of government land, admission to government parks/recreation sites, and licenses (e.g., a dog license) not associated with regulation. Some public finance experts have expressed the opinion that for local governments “the first rule … should be wherever possible charge” (Bird, 1993). This dictum is based on the potential of charges to promote efficiency in service delivery.

**Intergovernmental transfers**

Nearly all countries provide some form of intergovernmental transfers from the central government to subnational governments. In fact, in most developing countries, transfers are the primary revenue source for subnational governments. In general, intergovernmental transfers are undertaken for reasons of efficiency or to equalize the fiscal capacities of subnational governments. For example, in the case of efficiency, transfers can compensate subnational governments for benefit/cost spillovers to non-residents. In the absence of these transfers or other interventions (e.g., a higher level of government actually providing the service) subnational governments may not provide efficient services levels. Intergovernmental transfers can be subdivided into two categories: conditional and unconditional.

(a) **Conditional.** Conditional grants require that the recipient government use the grant for specified purposes. The grant can be either matching or non-matching. A matching grant requires that the recipient government share in the cost of the supported programmes; a non-matching grant does not impose this requirement. Both matching and non-matching grants can take two forms: formula and project. Under formula grants, distribution of funds to eligible governments is generally made according to a legislatively or administratively determined formula. Formula elements may include measures of need, e.g., per capita income and size of applicant (population). Project grants are distributed at the discretion of the grantor for particular projects. They may or may not be awarded on a competitive basis. Negotiated transfers, even with conditions and matching requirements, are less transparent than formula-driven transfers;

(b) **Unconditional.** In some countries, central governments transfer funds to subnational governments through systems that can be described as “tax sharing” or “revenue sharing.” Both provide “no-strings” general fiscal assistance. Revenue sharing is a share of central government revenues distributed by a statutory formula or by negotiation to subnational governments. Tax sharing is a distribution of revenues from a specific central government tax to subnational governments based on origin of collections of the national tax. The distribution can be based on a statutory formula or on negotiations with subnational governments. Negotiation raises issues of accountability and transparency.

**Borrowing**

Theoretically, all levels of government could borrow money to finance selected government activities, especially infrastructure expenditures, but not all central governments permit subnational governments to borrow. However, subnational governments need to borrow for several reasons, primarily to give themselves the ability to tax future beneficiaries for large-scale infrastructure projects rather than imposing the full costs on current taxpayers (who do not receive all the benefits of the expenditure). The primary concern with borrowing by subnational governments is what is known as the “moral hazard problem” which is that access to financial markets by subnational governments may create unplanned fiscal liabilities for central governments. However, according to the World Bank “the academic literature and country experiences … do not suggest an a priori adverse link between decentralizing borrowing powers and the central government's ability to maintain fiscal discipline and macroeconomic stability. Rather, the key seems to be the design of fiscal decentralization, particularly the design of the regulatory
framework under which borrowing powers are decentralized” (World Bank, 1999).

C. FISCAL DECENTRALIZATION AND TOURISM

Tourism activities generate billions of dollars in tax revenues, collectively, to nations throughout the world. On the expenditure side of the budget, tourism activities require governments to: (a) expand services that they already supply to the local economy, (e.g., infrastructure and public safety); and (b) in some cases make expenditures specifically for tourists (e.g., a sports stadium).

Tourism happens at “destination areas” that attract non-local visitors [the words “tourist” and “visitor” are used interchangeably in this paper]. These visitors include business travelers coming to, for example, conventions and trade fairs, as well as leisure travelers coming to see the sights or simply relax on the beach or hike the mountains. Each type of visitor will have different demands but all are similar in that they are “non-local”, are coming to a destination area and generate demands for government expenditures (and for private sector expenditures, as well). In the context of fiscal federalism, the questions that arise are: which level of government should be responsible for expenditures that affect tourists and how should these expenditures be financed?

It is beyond the scope of this paper to examine decentralization issues related to the many types of tourism-related governmental expenditures. The remainder of this paper will thus focus on three specific expenditures that are representative of major functional areas of government and are critical for the sustainable development of tourism. They are: (a) transportation, specifically roads; (b) natural resource management; and (c) water supply and sanitation.

(a) Roads. Roads are a critical component of a country’s infrastructure as it relates to tourism. They provide access for tourists to natural, cultural and recreational attractions; they link tourists to and from airports, trains and other mass transit facilities; and they bring residents of surrounding areas into tourism areas to provide services to visitors. The existence of externalities explains the role of government in the transportation sector. Decentralization theory provides a strong justification for decentralizing the responsibility for roads while still maintaining a role for the central government;

(i) Expenditure responsibilities. When roads primarily benefit local users, decentralization theory – specifically the principle of subsidiarity – suggests that local governments should have the responsibility for them. Citizen preferences can be best incorporated into the decision-making process if planning, implementation, construction and maintenance are localized. Decentralizing to the local level should also increase accountability and transparency, especially when local contractors and workers are considered. If local governments do not have the capacity to provide for local roads, an “intermediate” level of government or the central government can work to enhance this capacity. Intermediate levels of government and the central government can also help to build technical skills for road development for local projects that are technically demanding. International and bilateral donor agencies can – and do – also play a role in working to improve the capacity and technical skills of local governments. Where there are significant inter-jurisdictional spillovers or significant benefits that accrue to non-residents (such as benefits that accrue to tourists who demand wider and better roads), an intermediate level of government should have responsibility for roads. The central government can also have an important role in prescribing national standards for construction such as those that pertain to road width and alignment depending on traffic volume and use by heavy vehicles;

(ii) Revenues. Local governments can finance roads using own-source revenues such as user fees (e.g., tolls), earmarked taxes (e.g., gasoline tax) or general taxes. They can also borrow in capital markets
to finance the roads. Another revenue source is intergovernmental transfers from a higher level of government to the local government. An alternative way of financing roads is what can be called “informal financing” in which local residents/businesses contribute time, money and technical expertise to build them;

(b) **Natural resources management.** In many countries, the key features that attract tourists are part of the natural environment (e.g. national parks, animal reserves, rain forests, coastal zones and beaches). In this International Year of Ecotourism, increasing attention is being focused on these resources and their management. The existence of externalities explains the intervention of government in the management of natural resources. Decentralization theory provides a justification for the decentralization of some, but not all, expenditures associated with natural resources management;

(i) **Expenditures responsibilities.** Determining which level of government should be responsible for natural resources management depends on the nature of the resource. If, for example, it is a local park that benefits local resident then the responsibility should be local. However, most tourism attractions are not small local parks but regional or national treasures. While a local jurisdiction may be the actual site of the resource (e.g., a national park), the principle of subsidiarity would not apply due to benefit spillovers beyond local boundaries. If local governments were fully responsible for managing natural resources, they probably would not consider benefit spillovers in budgetary decisions, thereby resulting in underfunding from the perspective of the nation as a whole. Furthermore, local governments may not have the capacity for natural resource management. However, local government (or the community) can become involved in the protection of natural resources. To encourage local government and community involvement, the central government, as well as international and bilateral donor agencies, can facilitate and build local organizational capacity and effective community participation in decisions regarding the use of resources. Alternatively, there are significant possibilities for the local private sector and local NGOs to contribute to the protection and enhancement of natural resources;

(ii) **Financing.** User charges can be used to pay for the protection and enhancement of natural resources since use of these resources is voluntary and non-users can be excluded. Taxes that are “earmarked” for natural resource management can also be levied. For example, a tax on hotel accommodations in a national park area could be earmarked for natural resource protection and enhancement (almost as a “user charge”). Alternatively, if the benefits of the resource are national, annual budget appropriations from the central government can be directed at natural resource management and enhancement;

(c) **Water supply and sanitation.** Regardless of its natural resources, a country will encounter difficulties attracting tourists unless it has a clean and adequate water supply and acceptable sanitation services. The existence of positive health and environmental externalities explains the role of government in supplying both water and sanitation services. Decentralization theory provides a strong justification for decentralizing water supply and sanitation responsibilities to lower levels of government, while still maintaining a role for the central government;

(i) **Expenditure responsibilities.** Application of the principle of subsidiarity would suggest that the lowest level of government capable of adequately providing water and sanitation services, supply them. This level of government is best able to identify citizens’ preferences and needs and to
assess local water and sanitation conditions. The lowest level of government capable of providing water/sanitation may not be local government, however, due to the existence of economies of scale and, in some cases to inadequate local fiscal capacity, as well. Whether or not local government has the functional responsibility for water supply and sanitation services depends on the size of the local government. For example, some large urban municipalities may be in the position to efficiently supply water and to provide sanitation services. However, if local government’s capacity is not adequate to supply water or sanitation services in the most efficient manner, an intermediate level of government should assume the responsibility. There are also significant possibilities for the participation of the local private sector and local NGOs in some aspects of water supply (e.g., undertaking small-scale irrigation projects) and in sanitation services (e.g., organizing local volunteers to clean up trash). And there is also a role for the central government in, for example, regulating water rights and setting national environment standards;

(ii) Revenues. User charges are the most efficient way to finance water supply and sanitation services since consumers can pay for the levels and types of service they prefer. The structure of the user charges used to support operations and maintenance are important for determining equity and efficiency. For example, in many developed countries – especially in areas with water shortages – an “increasing block tariff” (IBT) is often used to improve the efficiency of water delivery by discouraging wasteful water use. The IBT prices water at a low initial rate up to a specified volume of use, then at a higher rate for additional consumption. In many developing countries, however, many households do not have individual water meters and so the imposition of an IBT would not promote efficient water use. Due to the extensive health and environmental externalities associated with water supply and sanitation, if user charges were imposed, subsidies would have to be provided to those who could not afford to pay for an adequate level of water or sanitation services. An alternative to user charges to finance water supply and sanitation would be general tax revenues of the subnational government, with formula-based conditional transfers from the central government to address differences in fiscal capacity.

D. SUMMARY AND SUGGESTIONS FOR ADDITIONAL RESEARCH

Summary

This paper has addressed a generally overlooked issue associated with tourism: the implications of fiscal decentralization on tourism-related expenditures and revenues of government. The approach taken was: (a) to define fiscal decentralization and to describe why it is occurring; (b) to suggest a conceptual framework for expenditure and revenue assignment to different levels of government; and (c) to apply this decentralization framework to selected tourism-related expenditures.

The decentralization framework set forth in section B provided some general guidelines regarding fiscal decentralization. The efficient intergovernmental allocation of expenditure responsibilities occurs when the lowest level of government that is capable of adequately providing them is assigned the responsibility of doing so. This is known as the principle of subsidiarity. However, there are a number of factors that may bear upon the capacity of subnational governments to provide goods and services adequately and efficiently. These factors include: economies of scale, the existence of spillovers, and fiscal disparities among subnational levels of government. When any or all of these factors are present, higher levels of government may have to subsidize service delivery through intergovernmental transfers or by actually assuming the responsibility for service delivery. Furthermore, subnational governments – especially local governments – may not have the
capacity to manage service delivery. Central
governments could use – and have used –
insufficient local government capacity as a reason
to maintain their service delivery dominance.

In section C, the decentralization framework was
applied to decentralization issues as they refer to
three tourism-related expenditures: (a) transportation, specifically roads; (b) natural
resource management; and (c) water supply and
sanitation. It was shown that the inter-
governmental assignment of service delivery can
take many forms depending on the nature of the
service. It was also shown that there are a variety
of revenue instruments that can be used to finance
tourism-related expenditures, again depending on
the nature of the expenditure.

Suggestions for additional research

This paper suggests a way to begin looking at
tourism in the context of fiscal decentralization.
Other research that would advance knowledge of
this subject includes, but is certainly not limited
to, the following topics:

• Application of the decentralization
framework set forth in section B to other
tourism-related expenditures, including
those that are perhaps not as obviously
related to tourism (e.g. education of the
indigenous workforce) but are
nevertheless critical to tourism’s long-
term sustainability.

• Collection and analysis of information on
how countries are decentralized tourism-
related expenditures and any constraints
to decentralization.

• Collection and analysis of revenue
sources being used by different levels of
government to finance tourism-related
expenditures. Alternative revenue sources
should also be analyzed.

• Analysis of the impact of decentralization
of tourism-related expenditures on
indigenous people, and on women.

• Analysis of the role of the private sector
in service delivery in a decentralized
economy.

******

BIBLIOGRAPHY

Countries. New York, Oxford University
Press.

Expenditure Decentralization in Developing
Countries.” Government and Policy, 4, 405-
418.

Bennet, Robert J., ed. (1990). Decentralization,
Press.

Labyrinth: Some Issues in Fiscal
Decentralization.” National Tax Journal 46,
2, 207-227.

Development. Baltimore, Johns Hopkins
Press.

____ (1990). “Intergovernmental Finance and
Local Taxation in Developing Countries:
Some Basic Considerations for Reformers.”
Public Administration and Development, 10,
277-288.

and Common Markets” in Public Finance and
Performance of Enterprises, M. Neumann
(ed.). Detroit, Wayne State University Press.

____ (1986). On Measuring Fiscal Centralization
and Fiscal Balance in Federal States”
Government and Policy, 4, 384-404.

Countries. Cambridge (UK), Cambridge
University Press.


____ (1990) “Decentralization of the Public Sector, an Overview” in Bennett, 43-58.


SUMMARY

For several years now, evidence has accumulated that documents the significant relationship between entrepreneurship and national economic adaptation and expansion. As a result, the rate of public and private investments devoted to entrepreneurial activity has exploded in the hopes of accelerating innovation, technology development and job creation benefits. Despite the added attention, however, there have been few systematic cross-national comparisons of the level of entrepreneurship, its association with national economic growth, or the factors that influence it over time.

The third annual assessment of these issues has been completed with 29 countries involved in the Global Entrepreneurship Monitor (GEM) programme. GEM was initiated in 1997 by leading scholars from Babson College and the London Business School, with strong support from the Kauffman Center for Entrepreneurial Leadership at the Ewing Marion Kauffman Foundation in Kansas City, Missouri. IBM became a global sponsor for GEM 2001.

In 1999, the first year of the assessment, 10 countries participated. Twenty-one countries participated in 2000 and 29 in 2001. The countries included in the 2001 assessment are:

**Asian region**
- India, Japan, Korea and Singapore

**Latin American region**
- Argentina, Brazil and Mexico

**North American region**
- Canada and the United States

**Other regions**
- Australia, Israel, New Zealand and South Africa

The central aim of GEM is to assemble the world’s leading scholars to address three compelling questions:

- Does the level of entrepreneurial activity vary between countries?
- Are the differences in entrepreneurial activity associated with national economic growth?
- What national characteristics are related to differences in the level of entrepreneurial activity?

Data were assembled for each participating country from four basic sources: (a) surveys of at least 2,000 adults in each country; (b) in-depth interviews with more than 950 national experts on entrepreneurship; (c) standardized questionnaires completed by the national experts; and (d) a wide selection of standardized national data.
The key findings from the 2001 assessment are:

- **Entrepreneurship is a global phenomenon with significant differences between countries.** About 1.4 billion working-age individuals (20 to 64 years old) live in the 29 GEM 2001 countries. Slightly less than 10 per cent of these people are, at any point in time, in the process of creating and growing new businesses. Thus, in the GEM countries alone, almost 150 million people are engaged in some form of entrepreneurial activity! And the level of that activity varies from country to country, from a low of approximately 5 per cent of the adults in Belgium and Japan to about 18 per cent in Mexico. In addition, about 3 per cent of the adults in the 29 countries have recently invested personal funds into the new businesses of other individuals.

- **Entrepreneurship is a multi-faceted phenomenon.** The GEM 2001 assessment uncovered a dynamic dimension inside entrepreneurial activity. Each respondent was asked to indicate whether he was starting and growing his business to take advantage of a unique market opportunity (opportunity entrepreneurship) or because it was the best option available (necessity entrepreneurship). The average opportunity entrepreneurship prevalence rate across the 29 GEM countries was about 6.5 per cent, while the average for necessity entrepreneurship was 2.5 per cent. Four countries ranked highest in opportunity entrepreneurship (in alphabetical order): Australia, Mexico, New Zealand and the United States. Five countries ranked among the highest group for necessity entrepreneurship (in alphabetical order): Brazil, India, Korea, Mexico and Poland. The analysis indicated that developing countries generally have a higher prevalence rate for necessity entrepreneurship.

- **The relationship between entrepreneurship and economic growth is complex.** The prevalence rate for necessity entrepreneurship in 2001 was positively associated with national economic growth. This association was stronger when countries highly dependent on international trade – Belgium, Hungary, Ireland, the Netherlands and Singapore – were excluded. The prevalence rate of opportunity entrepreneurship, on the other hand, was not associated with any measure of national economic growth. Without longitudinal data it is difficult to unravel the mystery of causality in these relationships. However, it does appear that in developing countries, necessity entrepreneurship may have a strong macro-economic function.

- **Several national contextual factors influence the level of entrepreneurial activity.** Both opportunity and necessity entrepreneurship were higher in countries where there was greater income inequality and where the adults expected the national economic situation to improve. Opportunity entrepreneurship was higher where there was (a) a reduced national emphasis in manufacturing, (b) less intrusive government regulations, (c) a higher prevalence of informal investors, and (d) a significant level of respect for entrepreneurial activity. Necessity entrepreneurship was higher in countries where (a) economic development was relatively low, (b) the economy was less dependent on international trade, (c) there was not an extensive social welfare system, and (d) women were less empowered in the economy.

The policy implications of the findings from the GEM 2001 assessment are numerous. Although implementation of any of these principles will vary from country to country, several have general applicability:

- **Emphasize economic adaptation as a collective responsibility.** Governments at all levels can promote the view that all citizens share responsibility for change in the economic system. The greater the proportion of economic activity conducted in the private sector, the
greater the potential for entrepreneurial activity.

- **Enhance education — general and entrepreneurship-specific.** A strong commitment to education, both general and entrepreneurship-specific, is clearly justified across all national contexts. Not only are those with limited education less likely to participate in entrepreneurial initiatives, they tend to match their business aspirations to their level of skills and knowledge. As a consequence, they generally emphasize less ambitious business activities.

- **Lessen the regulatory burden on new and small firms.** The GEM 2001 assessment clearly identified government regulatory burdens as a major deterrent to higher levels of entrepreneurial activity. Governments should ensure that every aspect of their national economic system is supportive of entrepreneurship, including reducing and simplifying the regulatory burden, minimizing taxation and lowering non-wage labor costs.

- **Strike a balance between economic security and self-sufficiency.** GEM 2001 revealed a strong negative association between the level and duration of unemployment benefits and the prevalence of necessity entrepreneurship. National policy should strive to balance the need to protect the unemployed with the need to encourage higher levels of individual self-sufficiency.

- **Facilitate greater levels of female participation.** Women participate in entrepreneurship at about one-half the rate of men across all GEM 2001 countries. There is perhaps no greater initiative a country can take to accelerate its pace of entrepreneurial activity than to encourage more of its women to participate.

- **Compensate for gaps in the population age structure.** Across the 29 GEM 2001 countries, participation of adults in entrepreneurship is highest between the ages of 25 and 44. Countries with a relative shortage of these mid-career adults or a projected decline in adults in this age range, particularly males, should explore ways to encourage their older citizens to become more active in entrepreneurial efforts.

- **Encourage toleration of diversity in personal income and wealth.** GEM has indicated that greater diversity in household and personal income is consistently associated with higher levels of entrepreneurial activity. As long as this diversity reflects appropriate contributions to national economic growth, governments should ensure that policies reflect a recognition and acceptance of diversity in wealth.

### ENTREPRENEURIAL ACTIVITY

The Global Entrepreneurship Monitor (GEM) programme was designed to answer three fundamental questions:

- Does the level of entrepreneurial activity vary between countries, and, if so, by how much?

- Are the differences in entrepreneurial activity associated with national economic growth?

- What national characteristics are related to differences in entrepreneurial activity?

Data were assembled for each participating country from four basic sources: (a) surveys of at least 2,000 adults in each country; (b) in-depth interviews with more than 950 national experts on entrepreneurship; (c) standardized questionnaires completed by the national experts; and (d) a wide selection of standardized national data. In a truly collaborative manner, each country was represented by a national team that participated in development of the research design, collected all data from the national experts, paid for the adult population surveys, contributed to the costs of the coordination activity and reviewed the final data sets for errors and ambiguities.
The total population of the 29 countries participating in GEM 2001 is about 2.5 billion. Approximately 56 per cent (1.4 billion) are adults of working age. GEM surveyed random samples of at least 2,000 adults from each participating country to ascertain several measures of entrepreneurial activity. From the more than 74,000 surveys conducted with those 18 to 64 years of age, about 10 per cent of the adults were engaged in entrepreneurial activities. Results were similar for the 21 countries participating in GEM 2000. This means that in the 29 GEM 2001 countries, at any point in time, approximately 150 million people are involved in starting and growing new firms.

INFORMAL FINANCE AND VENTURE CAPITAL

Some of the most startling findings from the GEM adult population surveys are the overall degree to which people informally invest in entrepreneurship throughout the world and the high level of variation in this activity between countries. The overall prevalence rate of informal investors 18 and older among GEM 2001 countries is 3.1 per cent. The percentage ranges from 0.9 per cent in Brazil to 6.2 per cent in New Zealand, more than a six-fold difference. Based on population counts, it is estimated that informal investors provide 196 billion dollars per year to start-up and growing companies in the participating GEM countries. In the context of national economies, the total informal investment was 1.1 per cent of the combined GDP for all GEM countries. Korea had the highest level of informal investment as a percentage of GDP at 3.7 per cent. Brazil had the lowest at 0.14 per cent.

Clearly, when the amount of informal investment for start-up and growing businesses is as much as 1 to 2 per cent of a nation’s GDP, it is a significant factor in that nation’s economy. In all GEM 2001 countries, informal investors allocated more money for start-ups and growing businesses than did professional venture capital firms. For every dollar of classic or traditional venture capital there was an average of 1.60 dollar of informal capital invested. In New Zealand, Australia, Denmark and Korea, informal investors provided 90 per cent or more of informal and classic venture capital. The lowest proportion was in Israel, the United States and Canada, where informal investment represents slightly less than 60 per cent of the total investment pool.

Classic venture capital is a rare but extremely important form of financing for entrepreneurial start-ups. To illustrate how rare this form of venture financing is, consider that while an estimated 150 million adults are involved in start-ups or new businesses at any point in time in the 29 GEM countries, fewer than 20,000 businesses received classic venture capital in 2000.

Though venture capital-backed financings are rare, their impact is significant. According to a recent study by the Wharton Econometric Forecasting Associates which was supported by the National Venture Capital Association, venture capital-backed companies created 4.3 million new jobs in the United States. These same companies generated 736 billion dollars in revenues in 2000. Put another way, the relatively small number of venture capital-backed companies account for 3.3 per cent of the total jobs in the United States and 7.4 per cent of GDP.

In 2000, the total amount of classic venture capital invested by domestic firms in the 24 GEM countries where such data were available was 123.9 billion dollars, or 0.5 per cent of the total GDP of those countries. Of the total, 100.6 billion dollars (81 per cent) was invested in the United States and 23.3 billion dollars (19 per cent) in the other 23 countries. The proportion of classic venture capital that was invested in the United States increased from 76 per cent of the total for all the GEM countries in 1999.

The year-to-year gains in the amount of venture capital invested were substantial. All but two of the countries for which 1999 data were available had an increase in the amount of classic venture capital invested in 2000. The single largest percentage increase was in Israel at 179 per cent. Sweden had the lowest increase at 18 per cent over 1999 levels. The two countries where the amount of classic venture capital invested in 2000 was less than that invested in 1999 were Belgium (18 per cent decrease) and India (23 per cent decrease).

It is clear that both forms of financial support – classic venture capital and informal funds from
family and friends – are important sources of support for the wide range of new businesses being developed around the world. While venture capital is well known to policy makers, the flow of informal investment – the source of the largest share of the new venture funds – should be examined more carefully.

RESEARCH AND TECHNOLOGICAL DEVELOPMENT AND ENTREPRENEURIAL ACTIVITY

According to modern theory, economic growth is ultimately driven by the search for new ideas by profit-seeking innovators. Greater investments in research and technological development are assumed to increase the rate at which innovations are produced. Innovations then translate into economic growth and well-being.

While economists agree on the causal role of technology in economic growth, they are generally silent about the organizational forms through which these benefits materialize. Even though Schumpeter initially assigned this role to entrepreneurs who start new firms, he later revised his theory and assumed these contributions were provided by large, established firms who could afford long term R&D projects. This change of mind coincided with the invention of the industrial R&D department in large institutions in the 1940s.

The empirical evidence on the relationship between technological development and entrepreneurship appears mixed. The available data and analyses suggest that some economic sectors may be more conducive to the creation of technology-based new firms than others. For example, many information technology sectors, such as packaged computer software, tend to be populated by new and smaller firms. Typically these firms are able to respond to the rapid pace of development with speed and flexibility. The pharmaceutical industry, on the other hand, requires massive investments in R&D with which only the largest and financially resourceful companies are able to keep pace.

We explored the GEM data for relationships between various aspects of national research and technological development and entrepreneurial activity. Consistent with recent theorizing on national innovation systems, which emphasize the interactive nature of the technological innovation process, we classified national research and technological development (RTD) indicators into three categories: input, process and output. Input indicators comprise various resource and knowledge inputs for basic and applied research. Process indicators relate to interactions between various institutions within the national innovation system. Output indicators describe the results of innovative processes. In addition, we also analyzed relationships between various aspects of the national technological development infrastructure and entrepreneurial activity.

Insights

Differences in national RTD systems reflect the increased variety of culture and social systems of the 29 countries in the GEM 2001 consortium. The total national expenditure on R&D, as a percentage of 1999 GDP, ranged from 0.5 per cent in Argentina to 3.9 per cent in Israel. The average level of national expenditure on R&D was 1.9 per cent for all GEM countries. After Israel, the next three highest percentages were Sweden (3.8 per cent), Finland (3.3 per cent) and Japan (3.1 per cent).

Additionally, the total national income from royalties and license fees, as a percentage of 1999 GDP, varied greatly, suggesting a high level of disparity in the ability of countries to benefit commercially from their investment in RTD. Royalties and license fees ranged from 0.1 percentage of GDP in Argentina and India to 0.6 per cent in the Netherlands, the United Kingdom and Sweden. The average for all GEM countries was 0.2 per cent.

The outputs of national RTD processes varied significantly across the 29 GEM countries, as did the sophistication of the national technology infrastructure. The number of scientific and technical journal articles per 100,000 people ranged from 0.87 in India to 96.0 in Israel. The average for the 29 GEM countries was 42 articles per 100,000 people. The per capita computing power available for R&D, as measured by millions of instructions per second per 1,000 people in 1998, ranged from a low of 513 in India to a high of 96,000 in Sweden.
The great diversity among the GEM countries made it necessary to run several correlations, one for each facet of entrepreneurial activity. Four of the GEM measures of entrepreneurial activity were included in the analysis: (a) the overall TEA index; (b) the TEA Opportunity Entrepreneurship; (c) the TEA Necessity Entrepreneurship; and (d) the level of firm-sponsored start-up activity.

One of the most important findings from this exploratory analysis is that the relationships between national RTD investment and various facets of entrepreneurial activity appear highly complex. It is clear that more data and more sophisticated analyses are required to uncover these effects. For now, we have only scratched the surface of the multi-faceted and complex processes through which national RTD feeds entrepreneurial activity and through which entrepreneurial activity, in turn, converts national RTD investment into economic growth and well-being.

**NATIONAL ASSESSMENTS: EXPERT INSIGHTS**

The creation and growth of new firms, whether out of necessity or opportunity, is the essence of entrepreneurship. However, as GEM has revealed, there are considerable differences from country to country in the levels of entrepreneurship and the context in which entrepreneurship flourishes. Many countries struggle with increasing the level of entrepreneurial activity due to deeply rooted cultural issues that may take decades to resolve through standard policies, programmes and practices. Some of the struggle, however, is due to a lack of understanding regarding what makes a country entrepreneurial.

As in previous years, the GEM 2001 assessment included semi-structured face-to-face interviews with experts on entrepreneurship within each country. This year, more than 950 such informants from 26 countries were interviewed for their unique expertise in one or more of the nine entrepreneurial framework conditions outlined in the GEM model.31 The interviews constitute a rich data source for identifying and assessing the major entrepreneurial issues in each country and a unique basis for crossnational comparisons. The observations provide an in-depth perspective only available through a qualitative research protocol that offers a systematic assessment of patterns across countries.

**Defining the global landscape**

The first phase of the analysis consisted of a count of the three most important issues raised in each country. This gives a basis of comparison with data obtained through interviews in GEM 2000 and defines the common global landscape for entrepreneurship. This analysis revealed the three most important issues for 2001 as (a) cultural and social norms, (b) financial support and (c) government policies. Interestingly, these issues were also ranked highest in the GEM 2000 analysis, making it clear that issues in these domains dominate the international scene.

**Culture and social norms**

Across the GEM 2001 countries, the most pressing issue with respect to cultural and social norms is the public’s general attitude toward entrepreneurship. This includes the public's attitude toward, support for and understanding of the importance of entrepreneurship in society. In nearly every country, this attitude was mentioned as one of the greatest inhibitors to, or enhancements of, entrepreneurship. The specific issues include the social legitimacy of entrepreneurship, the value society places on self-employment and the reward for individualism and self-reliance. Experts also expressed a concern over the idea of creating wealth. Even those from countries with higher levels of entrepreneurial activity agreed that when some within society earn substantially more than others earn, perceived inequities are created.

The experts consistently expressed additional concern for the way in which societal norms impacted entrepreneurial behavior. In several European countries, for instance, the experts were clear that a society's negative posture with respect to creativity, innovation and change significantly reduces the number of people engaged in starting new firms. For many such countries where societal norms mitigate against entrepreneurship, there is little regard for personal characteristics that define the entrepreneurial mindset, such as self-confidence, self-reliance, personal drive and a strong internal locus of control.
There were some additional concerns about attitudes toward failure. While experts agree there is little understanding of what actually motivates individuals to take risks, it is clear a culture that rewards risk taking is more inclined to support higher levels of entrepreneurial activity. A willingness to accept failure also tends to be associated with higher levels of risk taking. Countries where the people understand and value innovation and risk taking have learned that benefiting from entrepreneurship means being willing to accept some failures along the way.

Financial support

The overriding issue that dominated the global landscape concerning financial support for entrepreneurial efforts is the perception of an inadequate supply of risk capital. This includes issues associated with too little capital (i.e., the funding gap), access systems difficult to navigate, inappropriate structures for different stages of venture development and a lack of understanding of how to determine financial needs. Two additional patterns identified in the experts’ opinions involve the reluctance of many financial providers to invest in start-up entrepreneurship activities and the level of ignorance of financial matters on the part of entrepreneurs.

Experts around the world believe that the burden of proof is on the investment community to efficiently track and do deals. The entrepreneurs in these countries, while they would prefer easier, quicker and cheaper access to funds, believe the investment community (equity and debt) has difficulty assessing risk in early stage deals. The traditional approach is not appropriate for many new economy deals. Experts agree that the investment community needs to develop more effective ways of evaluating and doing deals. In addition, the investment community needs to address issues of minimum capital requirements, exit strategies, an over-reliance on debt and a general unwillingness on the part of entrepreneurs to share equity.

Experts from all countries consider the cost of capital to be too high. Rather than lowering the cost of capital directly, experts from countries with high levels of entrepreneurial activity wanted to see more direct tax relief that would keep the earnings of the business in the business during its growth phase. Experts from the countries with lower levels of activity expressed greatest concern about costs of capital itself. Across all countries there was a general concern among the experts that their country lacked an investment philosophy that rewarded and encouraged savings and wealth accumulation. All experts expressed equal concern about weakening equity markets around the world and the impact it would have on the entrepreneurial sector.

Government policies

Experts in all of the GEM 2001 countries identified government regulations as a top priority limiting the level of entrepreneurial activity. Regulatory demands burden burgeoning businesses with respect to (a) the time and cost of compliance, (b) excessive intrusion into personal and business affairs, and (c) an enormous learning curve to understand what policies apply to their business situation. Taxation, as a specific form of regulation, was mentioned frequently. Experts were particularly adamant about the negative effects of excessive taxation on options, profits and personal distributions.

Other specific areas frequently identified included the government's direct support for entrepreneurship and the impact of broad national policy on the level of entrepreneurial activity. Though few policies directly relate to entrepreneurship, those that do are believed to have significant impact. When governments lack support for small business and entrepreneurship in a general policy context it suggests that the government is not aware of the significant contribution entrepreneurship makes. When the national government is supportive through its policies, there tends to be a higher overall level of recognition and support across the country. As such, government policy can play a strong advocacy role for increasing the level of entrepreneurial activity.

It is also evident to the national experts that general policies on business practices have a significant impact on the level of entrepreneurial activity and the ability of new firms to survive and prosper. In particular are policies on health care, industry deregulation, competition and fair trade,
intellectual property, minimum wage and other labor practices, and export trade. It is the opinion of experts in most GEM countries that governments enact policies and legislation around these types of issues with little or no regard for how those policies impact the small business and entrepreneurship sectors.

**Patterns between countries**

GEM 2001 incorporated an in-depth, qualitative assessment of the individual issues in each area to identify thematic differences between countries with high levels of entrepreneurial activity and countries with low levels of activity. For this analysis we separated the countries into two groups based on their overall level of entrepreneurial activity. Countries with entrepreneurial activity equal to or above the median TEA 2001 prevalence rate were labeled “high entrepreneurial activity,” while countries below the median prevalence rate were labeled “low entrepreneurial activity.” High entrepreneurial activity countries included Australia, Brazil, Hungary, Italy, Mexico, New Zealand and the United States. Low entrepreneurial activity countries included Belgium, Denmark, France, Germany, Ireland, Japan, the Netherlands, Portugal, Sweden, Spain, South Africa and the United Kingdom.

**Financial support**

Experts in countries with lower levels of entrepreneurial activity argued that banking and access to debt capital were of special concern. This concern included the impersonal nature with which the banking industry evaluates investments in new start-ups, the strong reliance on asset-based lending, and the widely shared, risk-averse investment philosophy. Of particular concern was the inability of banks to appropriately evaluate business deals. In one country this was viewed as the most significant issue contributing to the capital gap for new and promising start-ups, particularly in combination with the “zero tolerance rule” under which any terminated business was viewed as a major banking failure. In less entrepreneurial countries, the experts were also negative about the ability of entrepreneurs to assess capital needs, to identify potential sources of funds and to negotiate deals. Entrepreneurs are, by necessity, more sophisticated in countries with more active entrepreneurial sectors.

Another key difference is the role that new venture performance plays in creating the investment culture of a country. Experts from the countries with high levels of entrepreneurial activity were clearly concerned with the ability to provide investors exit mechanisms and the ability to earn money on investments even when the deals are initially over valued. The experts from the least entrepreneurially active countries argue that there should be more formal controls over the entrepreneurial firms to improve performance. The investment communities in the countries with low levels of entrepreneurship appear to place unreasonable expectations on new firm performance, even while these investors are unwilling or unable to provide the level of management expertise that investors in the highly entrepreneurial countries typically provide.

**Government policies**

In countries with more entrepreneurial activity, the experts contend that government lacks a long-term focus and could benefit from a more strategic approach to policy planning. The experts from less entrepreneurial countries contend that government policies need to be more closely aligned to the immediate situation and that there needs to be better coordination between programmes. The focus for experts from countries with low levels of activity was on what government is doing, while the focus of those from high activity countries was on the underlying philosophy or strategic approach to government's role in creating the best climate for entrepreneurship. Experts in the more entrepreneurially active countries expressed concern about the permanence of government political power, economic stability and the lack of economic and business skills in the government ranks. Experts from the less entrepreneurial countries worried about better coordination between various regions and programmes.

While experts in both types of countries agreed that government needed to deepen and extend its understanding of entrepreneurship and its impact on the economy, they differed as to how such an understanding would be beneficial. Experts from
less entrepreneurial countries argued that governments need to deepen their understanding of entrepreneurship in order to change the attitudes toward the entrepreneurial sector for a more positive image. Experts from the highly entrepreneurial countries were much more concerned that government understands the impact of its policies on entrepreneurial activity. For experts in the less entrepreneurial countries the issue is image and awareness, attempting to overcome the general sense of distrust and disrespect policy makers have for entrepreneurs. For experts in the more entrepreneurial settings, the issue is more about policy effectiveness, including policies that reduce the barriers to growth for young emerging entrepreneurial companies.

Variation in the national context, then, is well captured by the systematic personal interviews with national experts. While experts from all countries seem to agree on many topics, the problems identified in countries with high levels of entrepreneurial activity are somewhat different compared to those with lower levels of entrepreneurial activity. While this should not be a surprise, it certainly suggests that universal “one-size-fits-all” or “best practice” solutions may not be an optimum strategy for policy development.

**IMPLICATION FOR PUBLIC POLICY**

It is clear that entrepreneurial activity, through its contributions to growth and adaptation, is an important feature of modern economic life. The evidence that new and growing firms are a major source of net job creation in developing countries assures us that the entrepreneurial process makes a significant and systematic difference. But given what we know, what can national governments do to accelerate the entrepreneurial process?

Determining the priority issues and developing recommendations for national policy is complicated by several of the leading findings from GEM 2001. First, many of the factors associated with higher levels of entrepreneurial activity, like the age distribution of the adult population, are difficult to affect. Second, factors associated with higher levels of opportunity and necessity entrepreneurship form a complicated set of inter-relationships. Some factors, such as the level of high-tech imports, have the same association with both opportunity and necessity entrepreneurship. Many factors affect one form of activity but not the other, and a few affect one form in the opposite way they affect the other. Lastly, any resulting policy implications, if they are to be effective, will be different for countries at different levels of economic development. This scenario is particularly complicated for developing countries where a number of factors associated with national economic development also have a negative association with necessity entrepreneurship.

Despite these limitations, the GEM initiative has added tremendous insights to our understanding of the role of entrepreneurship and the contextual and personal factors that lead to higher levels of entrepreneurial activity. Obviously, more work is needed. However, clear and direct policy implications are evident in the findings. The following propositions seem to apply to all countries regardless of their level of economic development:

- **Enhance education — general and entrepreneurship-specific.** A strong commitment to education, both general and entrepreneurship-specific, is clearly justified across all national contexts. Not only are those with limited education less likely to participate in entrepreneurial initiatives, those that do tend to match their business aspirations to their skills and knowledge. As a consequence, those with less education tend to emphasize less ambitious business formation activities. The resulting businesses often make relatively little economic contribution beyond employing the entrepreneur. There has consistently been a high level of association between educational attainment, confidence in one’s skills to implement a start-up business and participation in entrepreneurial initiatives.

- **Simplify government regulations.** The GEM 2001 assessment clearly identified government regulatory burdens as a major deterrent to higher levels of entrepreneurial activity. When national policies are developed in consideration of
only large established firms, those policies can become disproportionately expensive for entrepreneurial firms to understand and follow. Despite the entrepreneurial community’s perception of many government policies as overly intrusive, successful entrepreneurs are concerned about the difficulty in understanding how a specific policy applies to their business. Given the GEM 2001 findings, the greatest negative impact of a burdensome regulatory system may be the time and cost these regulations place on starting new businesses, a critical element in any healthy economy.

- **Strike a balance between economic security and self-sufficiency.** GEM 2001 revealed a strong negative association between the level and duration of unemployment benefits and the prevalence of necessity entrepreneurship. National policy should strive to balance the need to protect the unemployed with the need to encourage higher levels of individual self-sufficiency. If a country is to fully realize its potential for entrepreneurial activity, its government should avoid creating a welfare state where everyone is provided for regardless of personal initiative. However, policy makers should be equally aware of the fact that not everyone can, will or should choose to be an entrepreneur. Thus, the goal of any social security initiative should be to provide the context in which individual citizens are motivated to recognize and pursue entrepreneurial opportunities.

- **Compensate for gaps in the population age structure.** Across the 29 GEM 2001 countries, participation of adults in entrepreneurship is highest between the ages of 25 and 44. For men, the level of participation overall drops off rapidly after age 44. For necessity entrepreneurship, however, the drop in male participation begins as early as 25 years of age. Countries with a relative shortage of these mid-career adults or a projected decline in adults in these age ranges, particularly males, should explore ways to encourage their older citizens to become more active in entrepreneurial efforts.

- **Facilitate greater levels of female participation.** Women participate in entrepreneurship at about one-half the rate of men across all GEM 2001 countries. As such, there is perhaps no greater initiative a country can take to realize higher levels of entrepreneurial activity than to encourage more of its women to participate. However, the solutions are not that simple. Why women don’t currently participate at higher levels most likely involves their career pursuits as well as cultural norms and beliefs about the appropriate role of women in society. Changing a country’s core value system is not easy. Such efforts would likely need to begin during younger years when the factors that ultimately influence career choices are molded. For those women already predisposed to entrepreneurship but in sectors (e.g., education and social service) where opportunities for entrepreneurship are limited, proper training, strong incentives and celebrated role models may also be effective.

- **Encourage technology commercialization.** Entrepreneurship is the means by which societies extract value from innovations. As such, an increased investment in technology development is positively associated with higher levels of opportunity entrepreneurship. In addition, the many connections between technology development and the level of necessity entrepreneurship suggest a clear wealth creation effect. The greater a country’s technology investment, the smaller the number of necessity start-ups. Investments in technology development appear not only to create new wealth, but also to provide the job creation effect that cuts the level of necessity entrepreneurship in the more technologically sophisticated GEM countries.
A more difficult but equally important task involves increasing the social acceptance of entrepreneurship. This is especially challenging in those societies where individuals are not encouraged to think and act independently in the pursuit of personal economic gain. Some of the more challenging propositions include:

- **Emphasize economic adaptation as a collective responsibility.** Governments at all levels can promote the view that all citizens share responsibility for change in the economic system. Modern societies are too complex and change too rapidly for any centralized coordination mechanism to provide timely adaptation. The role of government may be to supervise the adaptive process carried out by private initiatives and to provide incentives for all members of society to get involved.

- **Encourage toleration of diversity in personal income and wealth.** As GEM has indicated, greater diversity in household and personal income is consistently associated with higher levels of entrepreneurial activity. As long as this diversity reflects appropriate contributions to national economic growth, it should be recognized and accepted. Envy of success and resentment of wealth should not be so strong as to discourage those who may choose to contribute to national economic adaptation by implementing a new firm for personal gain. Governments can ensure that policies reflect a recognition and acceptance of diversity in wealth (e.g., a tax structure that does not penalize successful firms).

- **Accept the inevitability of business failures.** A key feature of such a shift in social norms is the acceptance of business termination as a normal, appropriate feature of modern societies. Business failure should never be confused with personal failure. At the macro-level, business failures are necessary for the efficient operation and adaptation of the economy. When one firm goes out of business, its resources are acquired and reallocated to productive uses in other businesses. Thus, the constant births and deaths of business entities has a positive net influence on the national economy, ensuring an efficient market for moving resources to the most productive and beneficial entrepreneurial activity.

The GEM 2001 assessment, involving 29 countries and an enhanced methodology to explore different rationale for pursuing entrepreneurial activity, has clearly led to dramatic new information regarding entrepreneurial phenomena – who gets involved, why and under what conditions. Also, many new questions have surfaced. As the GEM programme expands the range of participating countries in the coming years and builds up a longitudinal portrayal of entrepreneurship and its relationship to economic growth, more precise answers will be forthcoming.

*****
CONCEPTS

SUSTAINABLE TOURISM, ENVIRONMENTAL PROTECTION AND NATURAL RESOURCE MANAGEMENT: PARADISE ON EARTH?

Frederico Neto
Economic Affairs Officer
Development Policy Analysis Division
Department of Economic and Social Affairs
United Nations

INTRODUCTION

Recent and future trends in tourism

Tourism can be considered one of the most remarkable socio-economic phenomena of the twentieth century. From an activity “enjoyed by only a small group of relatively well-off people” during the first half of the last century, it gradually became a mass phenomenon during the post-World War II period, particularly from the 1970s onwards. It now reaches an increasingly larger numbers of people throughout the world, and is a source of employment for a significant segment of the labour force.

Although domestic tourism currently accounts for approximately 80 per cent of all tourist activity, any countries tend to give priority to international tourism because, while the former basically involves a regional redistribution of national income, the latter has now become the world’s largest source of foreign exchange receipts. According to the latest figures compiled by the World Tourism Organization (WTO), foreign exchange earnings from international tourism reached a peak of 476 billion US dollars in 2000, which was larger than the export value of petroleum products, motor vehicles, telecommunications equipment or any other single category of product or service.

International tourist arrivals grew at an annual average rate of 4.3 per cent during the 1990s, despite major international political and economic crises, such as the Gulf War and the Asian financial crisis.

<table>
<thead>
<tr>
<th>Region</th>
<th>Million arrivals</th>
<th>Market share (%)</th>
<th>Growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>15.0</td>
<td>26.5</td>
<td>27.6</td>
</tr>
<tr>
<td>Americas</td>
<td>92.9</td>
<td>122.2</td>
<td>128.5</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>54.6</td>
<td>97.6</td>
<td>110.6</td>
</tr>
<tr>
<td>Europe</td>
<td>282.7</td>
<td>380.2</td>
<td>403.2</td>
</tr>
<tr>
<td>Middle East</td>
<td>9.0</td>
<td>18.2</td>
<td>21.2</td>
</tr>
<tr>
<td>South Asia</td>
<td>3.2</td>
<td>5.8</td>
<td>6.4</td>
</tr>
<tr>
<td>World</td>
<td>457.3</td>
<td>650.4</td>
<td>697.5</td>
</tr>
</tbody>
</table>

Note: Totals may differ from the sum of columns because of rounding.
Sources: WTO, Tourism Market Trends, 2001 (World Overview and Tourism Topics), and revised updates released in January 2002.
According to the latest WTO figures, compiled with data received up to August 2001, the turn of the millennium recorded one of the most impressive annual growth rates in international tourism. As table 1 below shows, all regions of the world recorded significant growth in international tourism in 2000, during which the number of international arrivals grew at an extraordinary rate of 7 per cent to reach almost 700 million arrivals.

The September 2001 terrorist attacks in the United States, however, appear to have had a more serious impact on the tourism sector than any other major international crisis in recent decades. The attacks had a particularly severe impact on air transport, business travel and long-haul travel. Worldwide travel reservations were estimated to have dropped by 15 per cent at the end of October 2001, although not every destination nor every part of the tourism sector was badly affected.\textsuperscript{17} For example, while air transport and luxury hotels have suffered from considerable fall in demand, travel within the same country or region, as well as travel by rail and road, appear to have weathered the worst effects of the crisis, or even benefited from it.

Nevertheless, initial forecasts of 3 to 4 per cent rise in international tourist arrivals for 2001, made before the September 2001 attacks, were subsequently revised downwards to around a 1 per cent increase over the 2000 figures.\textsuperscript{18} The latest data, released by WTO in January 2002, show that there was a sharp decline of 1.3 per cent in international arrivals, to a total of less than 690 million, in 2001.\textsuperscript{19} Given that the northern hemisphere summer holiday season was coming to an end by the time the attacks took place, this significant drop confirms that the short-term impacts of the attacks were devastating to international tourism as a whole. The last four months of 2001, in fact, recorded a drop of almost 11 per cent in arrivals worldwide and substantial decreases in all regions of the world.\textsuperscript{20}

It is worth noting, however, that this considerable fall in international arrivals was caused not only by a widespread fear of travelling generated by the attacks – particularly in airplanes and to certain destinations – but also by a downturn in the world economy. The economic downturn that began in the United States during the first half of 2001 had already been affecting the tourism sector before the terrorist attacks were carried out. The attacks merely aggravated the economic slowdown already under way.

According to the most recent United Nations economic forecasts,\textsuperscript{21} growth of only 1.5 per cent in gross world product (GWP) is expected in 2002, as compared to 1.3 per cent last year. Such a modest improvement is linked to a number of economic uncertainties, notably the high dependency of the global economy on the recovery of the United States. Higher rates of population growth would thus make 2002 the second consecutive year with no real growth in per capita GWP. This, in turn, is also likely to undermine the short-term prospects for a recovery in international tourism, at least until mid-2002, when the summer holiday season begins in the northern hemisphere, and probably until the end of the year. Although much will depend on the evolution of the world economy during this year, it is also likely that some destinations will experience a prolonged decline in tourism revenues regardless of any world economic improvements.

In the medium and long term, however, international tourism is expected to resume its rapid growth, in view of rising living standards and discretionary incomes, falling real costs of travel, expansion and improvement of various transport modes, increasing amounts of free time and other factors. WTO has recently reiterated its long-term forecasts, made before the September 2001 attacks, of an average annual growth rate in international arrivals of over 4 per cent in the period up to 2020.\textsuperscript{22} The number of international arrivals is thus expected to reach the striking mark of 1 billion by 2010 and 1.6 billion by 2020.\textsuperscript{23}

A. MAIN ECONOMIC BENEFITS OF TOURISM

Tourism, as a sector that comprises an extensive range of economic activities, can be
considered the largest industry in the world.\textsuperscript{24} International tourism is also one of the fastest growing and most ramified sectors of the global economy, covering a broad range of enterprises, sectors and stakeholders. During the 1990s, when the globalization of tourism reached unprecedented proportions, international tourism receipts had a much higher average annual growth rate (7.3 per cent) than that of GWP.\textsuperscript{25} By 1999, international tourism receipts accounted for more than 8 per cent of the worldwide export value of goods and services, overtaking the export value of other leading world industries such as automotive products, chemicals, and computer and office equipment (see table 2).

<table>
<thead>
<tr>
<th>Industry</th>
<th>Export Earnings (US$ billion)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>International tourism\textsuperscript{b}</td>
<td>555</td>
<td>8.1</td>
</tr>
<tr>
<td>Automotive products</td>
<td>549</td>
<td>8.0</td>
</tr>
<tr>
<td>Chemicals</td>
<td>526</td>
<td>7.6</td>
</tr>
<tr>
<td>Food</td>
<td>437</td>
<td>6.3</td>
</tr>
<tr>
<td>Fuels</td>
<td>401</td>
<td>5.8</td>
</tr>
<tr>
<td>Computer and office equipment</td>
<td>394</td>
<td>5.7</td>
</tr>
<tr>
<td>Textile and clothing</td>
<td>334</td>
<td>4.8</td>
</tr>
<tr>
<td>Telecommunications equipment</td>
<td>289</td>
<td>4.2</td>
</tr>
<tr>
<td>Mining products (other than fuels)</td>
<td>155</td>
<td>2.3</td>
</tr>
<tr>
<td>Iron and steel products</td>
<td>126</td>
<td>1.8</td>
</tr>
<tr>
<td>Total worldwide export of goods and services (including other industries)</td>
<td>6,890</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Notes:
\textsuperscript{a} For economic purposes, international tourism receipts are considered exports and international tourism expenditures imports.
\textsuperscript{b} Total international tourism receipts include those generated by international fares.

Tourism is also the only major service sector in which developing countries have consistently recorded trade surpluses relative to the rest of the world. Between 1980 and 1996, for instance, their travel account surplus increased from 4.6 billion dollars to 65.9 billion dollars, due primarily to the impressive growth of inbound tourism to countries in Africa, the Caribbean, and the Asia and Pacific regions.\textsuperscript{26} The 1990s also experienced a significant growth of international tourism receipts in the 49 poorest developing countries: total tourism receipts in these countries more than doubled from 1 billion dollars in 1992 to over 2.2 billion dollars in 1998.\textsuperscript{27} Tourism is now the second largest source of foreign exchange earnings in the 49 least developed countries (LDCs) as a whole, after the oil industry, which is concentrated in only three of these countries.

Tourism has become the main source of income for the economies of an increasing number of small island developing States (SIDS) – as well as less developed regions of large countries – with a natural environment appealing to tourists. Foreign exchange earnings can, however, vary significantly among these tourism-driven economies because of “leakages” arising from imports of equipment for construction and consumer goods required by tourists, repatriation of profits earned by foreign investors and
Besides export earnings, international tourism also generates an increasingly significant share of government (national and local) tax revenues throughout the world. In addition, the development of tourism as a whole is usually accompanied by considerable investments in infrastructure, such as airports, roads, water and sewerage facilities, telecommunications and other public utilities. Such infrastructural improvements not only generate benefits to tourists but can also contribute to improving the living conditions of local populations. This increase in social overhead capital can also help attract other industries to a disadvantaged area and thus be crucial to regional economic development.

The tourism sector is an increasingly important source of employment – including in tourism-related sectors, such as construction and agriculture – primarily for unskilled labour, migrants from poor rural areas, people who prefer to work part-time, and notably women. Because the sector is relatively labour-intensive, investments in tourism tend to generate a larger and more rapid increase in employment than equal investment in other economic activities. Furthermore, given that the sector provides a considerable amount of jobs for women and unskilled workers, tourism can significantly contribute to empowering women and alleviating poverty.

At the same time, available data suggests that most workers in the tourism sector, notably in hotels and catering, tend to earn less than workers in socially comparable occupations in both developed and developing countries. In addition, the differential tends to be larger in less developed countries and regions, particularly those with high rates of unemployment amongst unskilled labour. Informal employment relations in small and medium-sized enterprises, which employ about half of the labour force in the hotel and catering sub-sectors worldwide, also contribute to a relatively high proportion of child labour and non-remunerated employment in these sub-sectors in many countries.

The increasing reliance of less diversified economies on tourism also increases their vulnerability to international shocks, such as natural disasters, regional wars and other unexpected events. The recent crisis generated by fear of international terrorism, for example, caused devastating immediate effects on tourism-dependent economies, including regional economies in large countries. In addition, sudden changes in consumer tastes and sharp economic downturns pose significant risks to such economies, given that demand for mass tourism tends to be relatively income-elastic and can produce drastic negative responses to economic recession in source markets. Nonetheless, it is now generally recognized that tourism can make a vital contribution to employment, export receipts and national income in most countries and regions. Furthermore, tourism is often identified as the most promising driving force for the economic development of less developed countries and regions endowed with areas of natural beauty – including SIDS – because it offers them a valuable opportunity for economic diversification.

B. ENVIRONMENTAL IMPACTS OF TOURISM

While tourism provides considerable economic benefits for many countries, regions and communities, its rapid expansion can also be responsible for adverse environmental (and socio-cultural) impacts. Natural resource depletion and environmental degradation associated with tourism activities are sometimes serious problems in tourism-rich regions. The management of natural resources to reverse this trend is thus one of the most difficult challenges for governments at different levels. The fact that most tourists choose to maintain their relatively high patterns of consumption (and waste generation) when they reach their destinations can be a particularly serious problem for developing countries and regions without the appropriate means for protecting their natural resources and local ecosystems from the pressures of mass tourism.

The main environmental impacts of tourism are (a) pressure on natural resources, (b) pollution and waste generation, and (c) damage to ecosystems. Furthermore, it is now widely recognized that not only uncontrolled tourism expansion is likely to
lead to environmental degradation, but also that environmental degradation, in turn, poses a serious threat to tourism.

**Pressure on natural resources**

In addition to pressure on the availability and prices of resources consumed by local residents – such as energy, food and basic raw materials – the main natural resources at risk from tourism development are land, fresh-water and marine resources. Without careful land-use planning, for instance, rapid tourism development can intensify competition for land resources with other uses and lead to rising land prices and increased pressure to build on agricultural land. Intensive tourism development can also threaten natural landscapes, notably through deforestation, loss of wetlands and soil erosion. Tourism development in coastal areas – including hotel, airport and road construction – is a matter for increasing concern worldwide as it can lead to sand mining, beach erosion and land degradation.

Fresh-water availability for competing agricultural, industrial, household and other uses is rapidly becoming one of the most critical natural resource issues in many countries and regions. Rapid expansion of the tourism industry, which tends to be extremely water-intensive, can exacerbate this problem by placing considerable pressure on scarce water supply in many destinations. Water scarcity can pose a serious limitation to future tourism development in many low-lying coastal areas and small islands that have limited possibility for surface water use and storage, and whose groundwater may be contaminated by saltwater intrusion. Overconsumption by many tourist facilities – notably large hotel resorts and golf courses – can limit current supplies available to farmers and local populations in water-scarce regions and thus lead to serious shortages and price increases. In addition, pollution of available fresh-water sources, some of which may be associated with tourism-related activities, can exacerbate local shortages.

Rapid expansion of coastal and ocean tourism activities, such as snorkelling, scuba diving and sport fishing, can threaten coral reefs and other marine resources. Disturbance to marine aquatic life can also be caused by the intensive use of thrill craft, such as jet skis, frequent boat tours and boat anchors. Anchor damage is now regarded as one of the most serious threats to coral reefs in the Caribbean Sea, in view of the growing number of both small boats and large cruise ships sailing in the region. Severe damage to coral reefs and other marine resources may, in turn, not only discourage further tourism and threaten the future of local tourism industries, but also damage local fisheries.

**Pollution and waste generation**

Besides the consumption of large amounts of natural and other local resources, the tourism industry also generates considerable waste and pollution. Improper disposal of liquid and solid waste generated by the tourism industry has become a particular problem for many developing countries and regions that lack the capacity to treat these waste materials properly. Disposal of such untreated waste has, in turn, contributed to reducing availability of the above-mentioned resources at the local level.

Apart from the contamination of fresh-water from pollution by untreated sewage, tourist activities can also lead to land contamination from solid waste and the contamination of marine waters and coastal areas from pollution generated by hotels and marinas, as well as cruise ships. It is estimated that cruise ships in the Caribbean Sea alone produced more than 70,000 tons of liquid and solid waste a year during the mid-1990s. The fast growth of the cruise sector in the region may have exacerbated this problem in recent years. Furthermore, a particular cause of concern for coastal areas and small islands is the illegal disposal of sewage, solid waste and cargo residues by merchant ships, which cause marine and beach pollution.

In addition, relatively high levels of energy consumption in hotels – including energy for air-conditioning, heating and cooking – as well as fuel used by tourism-related transportation can
also contribute significantly to local air pollution in many host countries and regions. Local air and noise pollution linked to exhaustive tourism development or urban congestion can sometimes even discourage tourists from visiting some destinations.

**Damage to ecosystems**

Intensive tourism activity in natural areas can interfere with fragile vegetation and wildlife and cause irreversible damage to ecosystems, particularly if the infrastructure in those areas is not adequately prepared to absorb mass tourism.

Uncontrolled tourism activities can lead to the severe disruption of wildlife habitats and increased pressure on endangered species. As it has been widely documented, it can also disrupt wildlife behaviour, such as tourist vehicles in Africa’s national parks that approach wild cats and thus distract them from hunting and breeding; tour boat operators in the Caribbean Sea that feed sharks to ensure that they remain in tourist areas; and whale-watching boat crews around the world that pursue whales and dolphins and even encourage petting, which tends to alter the animals’ feeding and behaviour.\(^{36}\)

Tourism can also lead to the indiscriminate clearance of native vegetation for the development of new facilities, increased demand for fuel wood and even forest fires.\(^{37}\) Ecologically fragile areas, such as rain forests, wetlands and mangroves, are also threatened by intensive or irresponsible tourist activity. Moreover, as will be discussed below, it is increasingly recognized that, the rapid expansion of nature tourism (or “ecotourism”) may also pose a threat to ecologically fragile areas, including natural world heritage sites, if not properly managed and monitored.

In many countries, coastlines are becoming overbuilt due to tourism development until the damage caused by environmental degradation – and the eventual loss of revenues arising from a collapse in tourism arrivals – becomes irreversible. As mentioned above, intensive tourism development and recreational activities in coastal areas can not only lead to beach destruction and coastal degradation, but can also threaten coral reefs and other marine ecosystems. The delicate ecosystems of most small islands, together with their increasing reliance on tourism as a main tool of socio-economic development, means that these environmental impacts can be particularly damaging, since the success of the sector in these islands often depends on the quality of their natural environment.\(^{38}\) In addition, pollution of coastal waters – in particular by sewage, solid waste, sediments and untreated chemicals – often leads to the deterioration of coastal ecosystems, notably coral reefs, and thus harms their value for tourism.

The equally fragile ecosystems of mountain regions are also threatened by increasingly popular tourist activities such as skiing, snowboarding and trekking. One of the most serious environmental problems in mountainous developing countries without appropriate energy supply is deforestation arising from increasing consumption of fuel wood by the tourism industry. This often results not only in the destruction of local habitats and ecosystems, but also in accelerating processes of erosion and landslides. Other major problems arising from tourist activities in mountain regions include disruption of animal migration by road and tourist facilities, sewage pollution of rivers, excessive water withdrawals from streams to supply resorts and accumulation of solid waste on trails.\(^{39}\)

**Environmental threats to tourism**

In many mountain regions, small islands, coastal areas and other ecologically fragile places visited by tourists, there is an increasing concern that the negative impacts of tourism on the natural environment can ultimately hurt the tourism industry itself. There is now plenty of evidence of the “life-cycle” of a tourist destination, that is, “its evolution from discovery, to development, to eventual decline, … attributed to a site's overuse and the subsequent deterioration of key attractions or facilities.”\(^{40}\) In other words, the negative impacts of intensive tourism activities on the environmental quality of beaches, mountains, rivers, forests and other ecosystems also compromise the viability of the tourism industry in these places.
In addition, tourism in many destinations could be particularly threatened by global environmental problems, notably the potential threat of “global warming”. There is increasing scientific evidence that human activity has begun to change the average temperature on the Earth’s surface. According to the authoritative United Nations Intergovernmental Panel on Climate Change (IPCC), this process of global warming has been caused by several factors associated with the intensification of economic activities, including the emissions of “greenhouse gases”, such as carbon dioxide produced by burning fossil fuels and forests.

According to the Third Assessment Report of IPCC, it is expected that the globally averaged surface air temperature will have warmed between 1.4 and 5.8 degrees Celsius by 2100 relative to 1990. One of the main consequences of global warming will be sea-level rise: according to IPCC, it is projected that the globally averaged sea level will have risen between 9 and almost 90 centimetres by 2100. Global warming is also expected to increase climate variability and to provoke changes in the frequency and intensity of extreme climate events, such as tropical windstorms and associated storm surges and coastal flooding.

Significant rises in sea level could cause serious problems to tourism activities, particularly in low-lying coastal areas and small islands. According to IPCC, because of their high degree of environmental vulnerability, small island States are likely to be among the countries most seriously affected by global warming. The likely impacts of sea-level rise and coastal flooding on small islands and in some coastal areas would include: (a) increased coastal erosion, (b) loss of land and property, including tourist facilities, (c) dislocation of people, (d) increased risk from storm surges, (e) saltwater intrusion into scarce fresh-water resources, and (e) high financial costs associated with attempts to respond and adapt to these changes. Severe negative impacts on coastal ecosystems, such as bleaching of coral reefs and deterioration of mangroves, are also expected to threaten tourism in many destinations around the world. In fact, global warming is expected to severely disrupt tourism activities not only in coastal areas and small islands, but also in mountain regions because snow conditions in ski resorts are likely to become less reliable.

C. SUSTAINABLE TOURISM: THE WAY FORWARD

Countries and regions where the economy is driven by the tourism industry are becoming increasingly concerned with the environmental, as well as the socio-cultural problems associated with unsustainable tourism. As a result, there is now increasing agreement on the need to promote sustainable tourism development to minimize its environmental impacts and to ensure more sustainable management of natural resources. The concept of sustainable tourism, as developed in the United Nations sustainable development process, refers to tourist activities “leading to management of all resources in such a way that economic, social and aesthetic needs can be fulfilled while maintaining cultural integrity, essential ecological processes, biological diversity and life support systems.”

These sustainability concerns are, therefore, beginning to be addressed by governments at national, regional and local, as well as international, levels. In addition, given the leading role of the private sector in the tourism industry in most countries, many initiatives have also been undertaken in this sector. Broadly speaking, the main policy areas regarding sustainable tourism are: (a) the promotion of national strategies for sustainable tourism development, including the decentralization of environmental management to regional and local levels, (b) the use of both regulatory mechanisms and economic instruments, (c) the support for voluntary initiatives by the industry itself, and (d) the promotion of sustainable tourism at the international level.

National and regional strategies for sustainable tourism development

Generally speaking, the main priority for national and regional governments is to incorporate
tourism planning and development effectively into overall sustainable development strategies. For example, regional development strategies for areas containing water resources that are potentially attractive to tourism, should carefully consider the availability of those resources in an integrated manner that takes into account all potential water users. Government policies to promote the domestic tourism industry and to attract foreign direct investment should also ensure that tourism is properly planned and managed so as to minimize adverse environmental impacts and its use of natural resources.

Since the environmental impacts of tourism development are primarily felt at the local and regional levels, national governments need to promote decentralization of public environment management to the regional and municipal levels. Given that in many countries local and regional governments already have important responsibilities for tourism development, central governments should also support capacity building programmes at lower levels in order to better respond to the challenges of sustainable tourism development in the areas under their jurisdiction. National and local governments also need to develop clear strategies to monitor progress towards sustainable tourism.

Last but far from least, governments at all levels can greatly benefit from working in partnership with all major stakeholders, including local communities, to ensure their active participation in tourism planning, development and management, as well as in the sharing of benefits. Participation of local communities in decision-making and sharing of benefits also helps to generate better awareness of the environmental costs of tourism and thus provides strong incentives to conserve natural resources and protect local environmental assets. Governments, together with the tourism industry and other stakeholders, should also promote or support various efforts to raise public awareness about the impact of tourists on destinations, to promote respect for local communities and their cultures, and to protect the environment. Such public awareness campaigns often succeed in promoting positive behavioural changes not only in tourists, but also in tourism workers and host communities as a whole.

Regulatory mechanisms and economic instruments

Sustainable tourism can also be promoted by a careful mix of government policies comprising both direct regulation and market-based instruments, although financial incentives that encourage environmentally damaging activities, such as energy subsidies, should be reduced or removed. The major challenge for governments is, therefore, to formulate and effectively apply an appropriate mix of regulatory and economic instruments for both sustainable natural resources management and environmental protection.

The most direct tool for promoting sustainable tourism involves the use of regulatory mechanisms, such as integrated land-use planning and coastal zone management. In many cases, it may be necessary to protect coastlines through rigid building restrictions, such as existing legislation in several Mediterranean countries that bans any buildings within a defined distance from the coast. It is also essential that environmental regulations be applied transparently throughout the tourism sector, regardless of business size, type of tourism activity or location.

Mass tourism, in particular, should be carefully monitored, regulated and sometimes even prohibited in ecologically fragile areas. In protected areas, such as national parks and natural world heritage sites, tourism activities should be strictly subject to the preservation of biological diversity and ecosystems, not stressing their limited capacity to absorb human presence without becoming damaged or degraded.

In addition to regulation, governments should also consider the use of economic instruments to promote sustainable tourism, including in remote regions where institutional capacity for environmental regulation may be limited. In fact, it can be argued that market-based mechanisms, which apply monetary values to environmental assets, are more efficient for environmental
management than government regulation, even at the global level.\textsuperscript{46} Since the tourism industry consumes significant amounts of natural resources, economic pricing of scarce local resources – together with the phasing-out of existing subsidies that encourage wasteful consumption – will help to ensure that the true costs of these resources are adequately incorporated into tourist activities.

Prices that reflect the economic value of water and energy, for example, will promote their efficient use and conservation, and provide additional revenue that can be used to improve the management of those resources.\textsuperscript{47} Pollution taxes can also be applied on the amounts of liquid and solid waste produced, as a means to reduce discharges and to generate funds for proper treatment and disposal.\textsuperscript{48} Similarly, market-based instruments can also be used effectively for the sustainable use of marine natural resources.\textsuperscript{49}

Economic instruments, such as user fees and tourist taxes, can actually be utilized to better internalise environmental costs and thus to promote broader environmental protection objectives. As it is well known, one of the main reasons why markets fail is that important environmental costs, such as pollution, are not reflected in the prices of goods and services. In a free-market economy, individual economic agents will only attempt to maximize their own utility or profit; external costs will thus not be reflected in prices. If total production costs do not incorporate full environmental costs, resources will be allocated inefficiently, both within countries and globally. One way to deal with externalities is thus to internalize them through taxes so that the full costs of production are reflected in prices.\textsuperscript{50}

One well-known example of charging user fees to support environmental conservation is the Bonaire protected marine areas in the Netherlands Antilles.\textsuperscript{51} This was one of the first protected marine parks in the Caribbean to become entirely self-financing through the levying of admission fees on scuba divers. The private diving industry in Bonaire was initially opposed to the levy because of its potential negative impacts on future demand and revenues, against the background of intense competition offered by many Caribbean diving destinations. This scheme, however, has been an unqualified success since it was introduced in January 1992 because many divers – and an increasing number of tourists in general – are willing and able to pay higher prices to support environmental protection. Fees from the scheme also support the active management of the park’s coral reef and mangrove ecosystems, as well as educational activities and orientation sessions for divers.

**Voluntary industry initiatives**

As noted above, tourism services in most countries are provided primarily by the private sector, which tends to oppose greater government regulation and taxation of the industry on the grounds that they are ultimately detrimental to efficiency, competitiveness and profits. The predominantly private tourism industry has thus developed several self-regulation and voluntary initiatives to promote greater environmental sustainability. These include waste and pollution reduction schemes, voluntary codes of conduct, industry awards and eco-labels for sustainable tourism. In addition, environmental management schemes to encourage responsible practices have been promoted in various sub-sectors, including hotel and catering, recreation and entertainment,
transportation, travel agencies and tour operators.

For example, the World Travel and Tourism Council (WTTC), the main international industry association, has developed an environmental management programme (Green Globe), for both travel and tourism companies and tourism destinations, aimed to raise the level of environmental awareness and to provide a low-cost practical means for improving the environmental performance of the industry. It is also responsible for ECoNETT, an internet-based tool that provides an extensive information resource on all tourism and environmental issues.

Another innovative global programme is the International Hotel Environment Initiative (IHEI), led by a council of leading international hotel chains, aimed to promote environmental management in the hotel industry, which is one of the main consumers of resources and sources of waste. Such initiatives are particularly important not only because they can lead to significant reductions of water and energy consumption, as well as liquid and solid waste, but also because they promote positive behavioural changes in both tourists and employees. In addition, they can lead to improved economic efficiency and increased profitability.

At the regional level, it is worth noting the successful implementation of the Blue Flag Programme – which now extends to 18 countries in Europe – in providing an incentive to protect and improve the quality of beaches and coasts. Under this programme, environmental standards at individual beaches in Europe are assessed by measuring compliance with acceptable concentrations of a range of pollutants to ensure clean bathing water. Beaches are also judged by their compliance with guidelines dealing with litter management, the availability of sanitary and beach safety facilities, and environmental education. Beaches that meet these stringent criteria receive Blue Flag awards, which also serve as a marketing tool to attract tourists.

Despite these helpful initiatives of the tourism industry to improve its standards of environmental management and protection, the very proliferation of such voluntary codes of conduct and eco-label awards at global, regional and local levels – which are not, in any case, adopted or recognized by all industry enterprises – can sometimes lead to confusion and difficulty to evaluate and compare them. While national and regional governments should fully support these voluntary initiatives and encourage the dissemination of the best practices in the private tourism industry, there is also a role for independent supervision, monitoring and comparative assessment by relevant government agencies. In addition, trustworthy codes of conduct, transparent eco-label awards and internationally agreed programmes of action for sustainable tourism are required at the international level. The international community has a particularly crucial role to play in developing a set of internationally recognized accreditation and monitoring systems for assessing the sustainability of tourism services around the world.

International activities in support of sustainable tourism

Although tourism was not specifically addressed in Agenda 21 – the international programme of action on sustainable development agreed on at the 1992 Earth Summit in Rio de Janeiro, Brazil – its growing economic importance, significant use of natural resources and environmental impact all contributed to its gradual introduction into the international sustainable development agenda over the past ten years.

One of the first concrete sectoral programmes of action arising from the increasing cooperation between the tourism industry and inter-governmental agencies was “Agenda 21 for the Travel and Tourism Industry,” an action plan for sustainable tourism development jointly launched by the WTO, the WTTC and the Earth Council in 1996. Among its innovative key objectives are the estimation of the economic
value for resources, such as wildlife, natural areas and cultural heritage, “whose conservation would otherwise be seen as having no financial value”, and the establishment of “essential infrastructure, such as water treatment plants, for residents as well as visitors .... [in order to] stimulate other economic activities”.

Many tourism-based communities and regions have also formulated their own “Agendas 21” at the local and regional levels.

In 1997, the United Nations General Assembly, at its special session convened to review the five-year implementation of Agenda 21 – decided that there was a need to consider the importance of tourism in the context of the Agenda and to “develop an action-oriented international programme of work on sustainable tourism.” This request was followed up during the seventh annual session of the United Nations Commission for Sustainable Development (CSD), held in New York in 1999, which discussed tourism as an economic sector and held a multi-stakeholder dialogue on the topic.

The Commission adopted an international work programme on sustainable tourism development, which is due to be reviewed during the forthcoming World Summit for Sustainable Development in Johannesburg, South Africa, later this year, as part of the ten-year review of progress achieved since the Earth Summit. The CSD also invited the WTO to seek further input from the private sector, NGOs and other stakeholders in the further development of its proposed global code of ethics that had been drafted in consultation with the industry over the previous two years.

The final Global Code of Ethics for Tourism, introduced by the WTO in late 1999, sets a frame of reference for the responsible and sustainable development of international tourism. The Code includes nine articles outlining the basic rules for governments, tour operators, developers, travel agents and workers, as well as host communities and the tourists themselves. The Code’s tenth article deals with implementation and includes a proposed mechanism for conciliation, through the creation of a World Committee on Tourism Ethics made up of representatives of each region of the world and representatives of each group of stakeholders in the tourism sector, governments, the private sector, labour, and NGOs. The United Nations General Assembly adopted the Global Code of Ethics for Tourism at the end of 2001.

Although progress has been achieved over the past ten years, one of the key remaining challenges for the international community is to devise ways and means to assist developing countries to ensure that their tourism industries become more internationally competitive without damaging their natural resources and environmental assets base. This will require, amongst other things, greater technical and financial assistance, including human resources development, institutional capacity building and the transfer of environmentally sound technologies to many developing countries. The international community could also support the wider use of “debt-for-nature swaps”, through which a portion of the foreign debt of developing countries is purchased at a discount by various international partners in exchange for the debtor's country investment of an agreed sum of local currency in environmental protection projects.

D. CONCLUSION

As stressed above, tourism is expected to resume its rapid growth in the future because of improved living standards, rising incomes and amounts of free time, the falling real cost of travel, and improved transportation around the world. This growth can be harnessed not only for the enjoyment of tourists themselves but, more importantly, for maximizing economic benefits and thus increasing the living standards of host communities and countries. At the same time, it is bound to have negative environmental and socio-cultural impact on those communities, whose involvement in tourism planning, development and management can be crucial to minimizing the impact. The major challenge for the international community is, therefore, not only to minimize the negative impact of tourism but also to ensure that the economic benefits of tourism can contribute to environmental protection and the sustainable use of natural resources.
The International Year of Ecotourism – officially launched at the United Nations headquarters in New York on 28 January 2002 – offers an ideal opportunity not only to review ecotourism experiences around the world, but also to promote worldwide recognition of the important role of sustainable tourism in the broader international sustainable development agenda.

Ecotourism is one of the fastest growing segments of the tourism sector and further rapid growth is expected in the future. There is, however, little agreement about its exact meaning because of the wide variety of so-called ecotourism activities provided by many different tour operators and enjoyed by an equally broad range of diverse tourists. Its main features include (a) all forms of nature tourism aimed at the appreciation of both the natural world and the traditional cultures existent in natural areas, (b) deliberate efforts to minimize the harmful human impacts on the natural and socio-cultural environment, and (c) support for the protection of natural and cultural assets and the well-being of host communities.

In other words, if carried out responsibly, ecotourism can be a valuable means for promoting the socio-economic development of host communities while generating resources for the preservation of natural and cultural assets. In this way, ecologically fragile areas can be protected with the financial returns of ecotourism activities generated by both the public and private sectors. In many developing countries, ecotourism has been particularly successful in attracting private investments for the establishment of privately-owned natural parks and nature reservations. Many of such reservations are well-managed, self-financed and environmentally responsible, even when profit remains the main motivation behind the operation of a private reservation. In this way, the tourism industry can help to protect and even rehabilitate natural assets, and thus contribute to the preservation of biological diversity and ecological balance.

However, if not properly planned, managed and monitored, the concept of ecotourism can be distorted for purely commercial purposes and even for promoting ecologically-damaging activities by large numbers of tourists in natural areas. Given their inadequate physical infrastructure and limited capacity to absorb mass tourism, the fragile land and ocean ecosystems of many developing countries can be literally overwhelmed by large numbers of tourists. It is increasingly recognized, therefore, that unsustainable ecotourism activities may threaten the very natural environment upon which they depend. There is, in fact, a crucial distinction between ecotourism and sustainable tourism: while the former can be broadly defined as an alternative, nature-based type of tourism, the above-mentioned sustainability principles must be applied to all types of tourism activities and all segments of the tourism industry.

At a campsite on the long trekking route to Concordia and K-2 base camp in northern Pakistan, there is a presumably “politically correct” sign that reads: “Take nothing but photos; leave nothing but footprints.” If tourists follow those instructions, but do so insensitively or in mass numbers, those seemingly inoffensive acts can disturb local cultural values and ecological balance, respectively. It should be clear by now that even ecotourism activities can cause adverse ecological impacts, particularly if they are not properly managed or if they involve tourist numbers beyond the local carrying capacity. After all, there is no paradise on Earth.
CONCEPTS

MANAGEMENT OF CULTURAL CHANGE IN TOURISM REGIONS AND COMMUNITIES

Peter Keller
Professor, School of Economics and Management
University of Lausanne, Switzerland, and President of the Regional Commission for Europe of the World Tourism Organization (WTO)

A. STRATEGIC ISSUES

Travel and tourism are considered the most popular form of individual enjoyment in the countries of origin of the visitors. Despite this fact, the consequences of the steady growing tourism are often criticised by the citizens of these same countries. The ephemeral nature of the tourism phenomenon is a cause of insecurity; moreover, it is often subject to misleading, emotional and even ideologically-inspired interpretations. As for the impact of tourism on local cultures and populations, this remains a highly controversial subject.

For a better understanding of tourism we need first to clarify a few basic concepts and processes. To begin with, it would help to know just why “homo turisticus”, the most important actor in the tourism process, needs to travel in the first place. Another question that needs to be answered is: in what context do contacts take place between visitors and the resident population at the local level? A related question is: to what extent does the globalisation process, which seems to be irreversible, modify this interaction?

If we are to arrive at a meaningful formulation of the cultural interactions between visitors and local residents, we need first to engage the critics of tourism civilisation in a proper debate. We also need to answer the question of whether or not tourism destroys local cultural resources and identities and thus favours the trend towards internationally standardised cultural “pap”. Furthermore, the consequences of the collision between different cultures needs to be assessed from the point of view of cultural and social sustainability. Another question that needs to be addressed is: to what extent does tourism create dependence on the countries of origin, and lead to culture shock and the commercialisation of culture?

Finally we need to ask ourselves whether or not local cultural interactions would really respond to focused efforts to manage them. First however we need to understand how a tourism enterprise functions from a management point of view. And, most important of all, we need to clarify the role that regional and local authorities could play as representatives of the interests of resident populations.

B. BASIC ANALYSIS

Open definitions

Tourism and culture are two distinct phenomena that influence each other and that are both open to interpretation. The vagueness of the two concepts leaves room for original and often contradictory thinking. This can result in conflicting interpretations, often rooted in an ideological view of the dynamic and tense relationship between tourism and culture.

Tourism is an aspect of modern culture that in its most common form is understood as a system of relations that arise when individuals travel and stop over at various destinations to get away from the routine of normal daily life. The concept of tourism is more objective and empirically ascertainable than certain other cultural concepts. The social, economic and spatial meaning of tourism can be described in terms of both ideas and physical realities (AIEST, 2000). As a general term culture does not call to mind any immediately identifiable specific thing. Physical historic buildings that represent a large part of man’s heritage are however very much a part of the concept of culture. The concept also includes a large number of symbols and rituals. These are the more or less visible manifestations of ideological systems and views of the nature of the human being that are perceptible only to the intellect.
They are based on inherited values, of which individuals and whole societies are often not consciously aware, and which are themselves the result of idealistic consensus (Hope, 2000).

**Conflictual interactions**

The relationship between tourism and culture is extremely tense, both in theory and practice. Modern tourism has been the target of cultural criticism right from the start (Keller, 1984). Large numbers of tourists are as unwelcome as hordes of migrants, since they upset the normal cultural equilibrium of a society or a territorial entity. Coming “from outside” society and having a high degree of visibility, they are not readily accepted. The greater their number the more disturbance they cause. The limits to the tolerance of visitors fall in the host areas in accordance with recognised group sociology mechanisms (“in-group/out-group” mechanism). Critics see this apparent “mass phenomenon”, which is basically a question of quantity or large numbers, as a threat to the intrinsic values of the host cultures.

The intrinsic value of cultural manifestations cannot be disputed. Unique cultural landscapes and cultural monuments are part of the history of all human being. They should not be sacrificed to tourists’ appetite for new experiences. We cannot allow them to be trampled and destroyed by hordes of visitors. Indeed one of the fundamental duties of scientists and authorities is to alert the public to the potential negative cultural consequences of tourism. It is also important that local resident populations make an effort to combat the negative externalities of tourism, which they are the first to perceive as excessive, since this is the only way in which they can protect their cultural identity (Keller, 1996; 1999).

However, we need to bear in mind that tourism in all its permutations is a part of culture and must be accepted as such. The meeting between a visitor and his or her host is one of the oldest forms of culture, which is governed by the necessary mechanisms for dealing with strangers in the least conflictual way possible. Travel and tourism also help to make individuals and society at large more aware of the need to protect and preserve existing cultural attractions.

**Cultural differences as a resource**

Tourism’s fundamental association with culture reflects the basic motivations of the people we call tourists. Let us attempt to answer a simple question: why are more people travelling today than ever before, and with greater frequency? No economic theory can provide a satisfactory explanation, nor can such notions as the increased income and travel budget available to households, the comparative advantages of places, the competence of service providers, or the growth of networks in the field of product development and promotion, provide the answers. The reasons people travel and the choice of destination are in fact meta-economic in most cases. People travel for immaterial cultural reasons that are beyond the logic of supply and demand (Keller, 1996).

Travel motivation based on existing cultural differences remain of crucial importance for tourism. Most people travel to discover or rediscover something different, new and unique. In economic terms such differences create competitive advantages. They result in imperfect competition between destinations, since local cultures and cultural monuments are unique. To see Chitzen Itza you have to go to Yucatán in Mexico.

The reason a given destination is no longer in demand and no longer considered “fashionable“ can often be found in the cultural roots of tourism. In most cases cultural resources are the foundations on which innovative tourism products and services are developed (Jafari, 1982). Sustainable commercial success often depends on the availability of cultural resources able to create that all-important difference.

**Local cultural interaction**

Very different cultures come together in a given tourism region. The four-cultures model shows how cultural exchanges work (see graph 1 below).

The region of origin of the visitor determines his or her cultural self-awareness. It also determines the behaviour of individual tourists to a great extent. Generally speaking, visitors from the
industrialised countries have a similar behavioural pattern. Their objective is to get as far away as possible from the world of work and to find compensation in the leisure world of tourism for the things that are lacking in everyday life. But even when such visitors go on holiday the culture of their region of origin goes with them as a kind of ballast. The popularisation of tourism has however resulted in the development of a genuine tourism lifestyle, which includes all activities essential to preparing for and making the journey. This has given rise to a kind of holiday culture, which is basically determined by the leisure society of the country of origin. Local residents at the travel destination, as “a minority who provides services”, develop over a period of time a service culture, in which their own lifestyle is modified in accordance with the visitors’ needs and interests. This culture reduces cultural confrontation since residents are used to dealing with visitors,

Graph 1
LOCAL CULTURAL INTERACTION: DESTINATION AS A CULTURAL LABORATORY

Sources: Jafari, 1982; Thiem, 1992.
particularly those directly involved in tourism. Finally the cultural exchanges are also influenced by the original and traditional culture of the region and of the specific location. It is this that attracts visitors and also provides the basis for the identity of local residents.

**Impact of the globalisation process**

The irreversible process of globalisation has an ever greater impact on the relationship between tourism and culture at the local level, shrinking the world and promoting the emergence of a “global village” through intercontinental tourism, as the locomotive of a worldwide process of integration. Tourism of course does little more than to reinforce the other driving forces of globalisation at work in the world. Thus, for example, the influence of the mass media on the emerging new world culture is considerably greater than that of tourism, since the latter is limited to certain times of the year and to specific areas. In any case, tourism and the new world culture are by now inseparable.

The development of cultural similarities favoured by tourism introduces a note of banality and to some extent threatens existing resources based on cultural differences. One common observable reaction to this conundrum is a renaissance of support for local cultural uniqueness and increasing concern about protecting traditional culture. With the growing internationalisation of everyday relations societies are beginning to recognise the importance of the roots that provide meaning and promote cohesion. Thus the more uniform the world seems to become, the stronger the resistance of those who try to defend and preserve local identity. The levelling of world culture is thus counteracted by the rediscovery of local cultural differences. This local trend acts as a counter-force to the process of global integration (see graph 2).

**Graph 2**

**IMPACT OF THE GLOBALISATION PROCESS: DEVELOPMENT OF CULTURAL SIMILARITIES AND RENAISSANCE OF LOCAL CULTURAL RESOURCES**

Source: Peter Keller, seco/HEC.
Suppliers of tourism products and services are having to make the best of the new situation. They are taking advantage of the similarities in the area of tourism preferences and supply-side standards of comfort and quality emerging around the world for an increasingly industrial production and marketing supported by information technology. Globalisation is increasingly leading to design-oriented tourism products, which often combine traditional cultural goods and the achievements of modern civilisation.

**Elements for a change in paradigms**

As the world becomes smaller a new view of cultural interaction in tourism regions becomes increasingly essential. The customary complaints of the civilisation critics need to be reconsidered. A solution must be found to the old conflict between economic requirements and cultural concerns. Local cultures and identities must become more open, and must learn to adapt. What is needed above all is a better general understanding of the phenomenon of tourism (see graph 3).

### Graph 3

**CULTURAL INTERACTION IN TOURISM REGIONS: ELEMENTS FOR CHANGE IN PARADIGMS**

<table>
<thead>
<tr>
<th>Main traditional critics</th>
<th>New understanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss of complex realities and their stereotyping</td>
<td>Holistic experiences with emotional character</td>
</tr>
<tr>
<td>Commodification and commercialisation</td>
<td>Consumption as a meaningful act of self-realisation</td>
</tr>
<tr>
<td>Loss of authenticity by simulation of attractions</td>
<td>Put on stage authentic and manmade attractions</td>
</tr>
<tr>
<td>Cultural shock and confrontation</td>
<td>Opportunities of an intercultural laboratory</td>
</tr>
<tr>
<td>Levelling of cultural differences</td>
<td>Differentiation by typical local elements</td>
</tr>
<tr>
<td>Destruction of cultural heritage</td>
<td>Fascination and willingness to pay for cultural attractions</td>
</tr>
</tbody>
</table>

Source: Peter Keller, seco/HEC

**Imagineering and reduction of reality**

Modern tourism is a very special sector of the economy. It is part of the emerging fourth sector, the so-called experience economy, which thanks to increases in productivity and prosperity made possible by information technology is providing an ever greater number of goods and services to meet immaterial needs in the areas of individual well-being and self-realisation. These include, in particular, all cultural experiences. The experience economy thus creates additional employment and income.

Tourism manufactures and markets very special experiences, which invariably have a cultural component. Tourism is like a dream factory, which oversimplifies reality. The potential visitors are attracted by inspiring dreams that are no more than stereotypes of reality. These are the raw materials which economic actors use for the development and marketing of the final tourism products. Products are designed and brands created in order to stimulate these dreams and generate demand.
Suppliers of tourism products and services popularise cultural content by appealing to the emotions. They make culture popular in ways that are far from ideal, from the strictly educational point of view. They create a stereotyped dream destination on the basis of existing cultural resources. In this way they reduce the complexity of genuine traditional culture and create something that is closer to the stereotypes cherished by visitors. This involves the development of a new language of symbols, and ultimately results in the invention of a new tourism culture. The “immaterial” of culture is integrated in the “materiel” of packaged tourism services. This package of services can then be marketed as a complete experience.

**Commodification and commercialisation of cultural resources**

The aim of the supplier of tourism products and services is to encourage the visitor to consume as much as possible through promotion based on images and the stage-managing of experiences. From the economic point of view tourism is above all a business whose stock in trade is cultural differences and increasingly also cultural events, buildings and installations. From the point of view of human and cultural sciences this materialisation (“commodification”) and commercialisation is regrettable. However this assessment overlooks one important fact: the suppliers of tourism products and services are creating new cultural inputs.

Existing cultural resources only become relevant from the point of view of tourism when put to economic use. This means turning them into attractions. Attractions serve as the basis for the development and marketing of packages of tourism services. Their materialisation into tourism products renders them consumable. For those to whom culture is an end in itself this materialisation and commercialisation of cultural resources is a bitter pill to swallow.

People often lose sight of the fact that a great many human activities are possible only because of the consumer at the end of the line. In the widest sense consumption is a cultural act which provides meaning and can contribute to individual self-realisation. Critics should also need to be made aware of the fact that without the support of the economy the care and preservation of culture, and its further development, would scarcely be possible. From the economic point of view cultural resources are to be counted among the advantages of a location, which help to position a tourism destination in the market.

**Simulated attractions**

One of the most frequently discussed topics in the context of the conflict that exists between tourism and culture is the problem of authenticity. This refers to the effort required to protect humankind’s traditional cultural heritage in its most genuine timeless and unique form, avoiding at the same time the creation of standardised cultural “pap”. As the experience orientation of tourism becomes generalised, and increasingly encroaches on the cultural domain, this need is taking on a new dimension.

Indeed the conscious reception of cultural resources is invariably experience-oriented; they cannot be deep-frozen for consumption at some future date. Such experiences are almost always emotional, frequently served with more than a pinch of nostalgia and seen in the light of contemporary wisdom (Schouten, 1995).

What is experienced as genuine is also genuine (see graph 4). This view does not rule out the antagonism discussed by civilisation critics between traditional cultural attractions and replicated or new attractions, such as the leisure parks. It becomes increasingly hard to tell however where the “genuine” ends and the copied or simulated begins (Romeiss-Stracke, 1999).
Intercultural laboratory

In this age of globalisation the debate that has been going on since the 1970s about the cultural externalities of streams of visitors in less developed areas, needs to be rekindled. No one today questions the fact that the arrival of visitors in a destination invariably leads to a confrontation between different cultures and lifestyles. To date, the culture shock which the open and largely unstructured lifestyle of visitors causes in the more or less closed local societies of the typical destination has been subject to criticism.

Too little attention is paid to the fact that the demonstrative behaviour of these visitors not only causes shocks and confrontations but also provides experiences that are important for survival in our increasingly multicultural world. In this sense, the tourism destination can be seen as a kind of intercultural laboratory for both visitors and local residents. In the more developed tourism regions increasing prosperity has brought greater understanding of the need to maintain local specificity and prevent the overexploitation of resources, as well as the resolve to do so.

The traditional theory of acculturation, based on the assumption that the dominant culture will win in the end, can thus no longer be accepted at face value. The impact of the touristic lifestyle on the workaday world of the local resident population, characterised by the demands of the workplace and the fight for survival, is not entirely effective. Moreover, the influence of tourism on the general development process is only one among others. It is also clear that globalisation, and the new world culture which it is creating, softens the impact of the local cultural confrontation.

Convenience and cultural differentiation of products

Growing world integration is also having an impact on the local production and marketing of tourism services. Various studies have shown that customer expectations with regard to comfort and service quality are more or less the same all over the world (Weimair, 1999). Of course, at the same time, visitors from different cultures continue to sleep, eat and drink in their own peculiar ways. The levelling of customer expectations is above all a matter of the general “convenience” that an increasingly universal industrial service culture is able to guarantee.

Nevertheless, potential visitors to traditional tourism regions expect typical local elements of differentiation to be included in the tourism products on offer. The supplier thus creates an additional benefit that is increasingly noticed and appreciated by the visitor. Needless to say it is by no means easy for the small-to-medium tourism enterprises (SMEs) of traditional destinations to successfully meet international standards of comfort while at the same time respecting
differences in cultural practices and integrating local characteristics in their products.

The inclusion of local elements in the tourist service culture in any case requires participation of the local population in the production process. The negative experiences of tourism centres created “ex nihilo” show that this is the only way to ensure a typical local atmosphere (Williams, 2000).

**Cultural sustainability**

The ruins of ancient monuments are a reminder of the transient nature of man and of his cultural creations. Despite occasional ideologically inspired atrocities such as the wanton destruction of the Buddha statues in Afghanistan, cultural resources, and buildings in particular, are generally distinguished by their longevity. They outlive both political systems and economic cycles. Cultural monuments are the most timeless tourist attractions of all.

Even so, given the great number of such attractions, there is a fundamental problem of care and maintenance, which has to do with the general development of civilisations and not just with tourism. In Italy, for example, a land rich in cultural history, there are so many thousands of churches, palaces and other historic buildings, both privately and publicly owned, that it is impossible even for such a prosperous economy to maintain them properly, and many are therefore doomed to crumble into ruins (Landi, 1999).

Less sustainable is the utilisation of cultural attractions when they are visited by too many tourists or excursionists. Well-known attractions are indeed often inundated by visitors. The world’s main culture capitals, as well as the attractions in developing countries and emerging economies, all have the same problem controlling the “throughput” of visitors. In many cases visitors come and go without the benefit of an enjoyable culture experience, disappointed in the quality of the offer (Origet du Cluzeau, 2000). Clearly there are also capacity limits in the cultural arena (carrying cultural capacities).

**Management approaches**

It is not possible to manage the cultural exchange between visitors and the resident population in the same way as one manages a company or an organization, nor would it be worth attempting. It is more a question of monitoring this open, dynamic and complex process, and setting the necessary framework conditions. This will require for all stakeholders a new understanding of culture and tourism as well as clear ideas about the role to be played by each individual actor who participates in the cultural interactions. Finally, one needs to have a definite idea about the purpose of the cultural exchanges, and the results expected.

**Cultural diversity and multicultural identity**

Ensuring the greatest possible cultural diversity is not only necessary for the well-being of the human race, it is also a prerequisite for economic success in tourism. Meeting the objective in this age of globalisation requires taking a fresh look at the traditional concept of cultural identity. A society that is wrapped up in its own values, and that takes too negative a view of differences and looks unfavourably on all things foreign is out of step with today’s world. It is no longer an option to live in “splendid isolation”. Too much concern about one’s own identity is harmful, leading to ethnocentricity and making it impossible to “live and let live”.

Paradoxically, visitors are the first to seek the greatest possible cultural differences and to want to preserve picturesque “cultural backwardness”. Their ideal is a real-life museum. The age of dialogue between cultures has already begun in the tourism regions. Basically it seems that in this increasingly networking world we are no longer able to distinguish between the things that originate in local cultures and the things such cultures absorb from the outside. The same people who have reservations when it comes to foreign visitors and the way they behave may have already unconsciously adopted foreign cultural practices themselves. They may eat like Italians, love American jazz or classical music from Vienna, and dress like Parisians (see graph 5).
Cultural diversity
a necessity for the human race’s well-being

Cultural identity
Originated locally

Cultural facets
Absorbed from outside

Source: Peter Keller, seco/HEC.

Cultural identity only makes sense today if it is open to the world and gravitates towards an identity that incorporates many multicultural facets. Today’s “civilised human being” must be ready to accept foreignness as an opportunity and must be ready to take the best from the great variety of cultural possibilities.

Tourism business process

It is also time for a new understanding of tourism, which from the holistic point of view of the visitor is a complete experience. The job of the supplier of tourism products and services is to reconcile the motivations of potential visitors with the available local resources. In this context the quality of individual services is still important. A more demanding task however is to manage the entire chain of tourism services including transport, overnight accommodation, catering, entertainment and cultural activities – as a single package.

Tourism management is today a fine-tuned business process. Design, image-building and promotion are tailor-made to ensure that the needs of all potential visitors are met. The package of tourism services is planned, developed and above all stage-managed *in situ* just like a play or a film (see graph 6).

The crux of the matter to make the travel and the stay as attractive as possible for the visitor. Among other things this requires a “front stage”, a hearty welcome and customised services. Meanwhile “back stage” it is necessary to ensure that everything runs just as smoothly for the customer, and with the help of cost-effective technology will be as productive as possible. Tourism requires management skills combining “high touch” with “high tech”.

Role of the stakeholders

Those who manage cultural interaction need the support of a new understanding of culture and tourism. They must know how to address the needs and interests of a variety of “stakeholders”. These include not just visitors but also the resident population, the local authorities and various tourism industry representatives (see graph 7).
Graph 6
NEW BUSINESS MODEL FOR TOURISM: A HOLISTIC EXPERIENCE

Product

Customization
design
imagineering
promotion

Bundle of
services

Ressources and
infrastructure

Put on stage
theming
planning
research

Source: Peter Keller, seco/HEC.

Graph 7
ROLE OF THE STAKEHOLDERS: BUILDING LOCAL TOURISM UNDERSTANDING/AWARENESS
AND CREATING THE TOURISM INDUSTRY SPIRIT

Guests

Authorities

Tourism understanding

Hospitality

Residents

Tourism awareness

Spirit of tourism industry

Industry

Source: Peter Keller, seco/HEC.
As for the visitor, the principle that applies in tourism as a buyer’s market remains that of “the customer is king”. But the visitor must nonetheless be careful to respect the local environment, an ability which in most cases depends on family background (“upbringing”) and experience as a traveller. A minimum of tourism ethics is also needed to ensure that visitors behave in a responsible manner. Successful contacts with the local population also serve as a cultural learning process and create meaning for the individual tourist. Tourism experiences can also have an impact on everyday life including on a visitor’s professional skills and abilities, and can thus bring advantages to an increasingly internationalised economy.

Finally, the role of the tourism industry in the area of cultural interaction should not be underestimated. The readiness to cooperate and to innovate in a given tourism location depends on the “spirit of enterprise” of all local economic actors. This is important, since the development and marketing of tourism products and services is possible only through a successful partnership involving the various suppliers.

**Institutional prerequisites**

An ability to meet the requirements and satisfy the interests of the individual stakeholders in the intercultural processes requires the right sort of institutional support (see graph 8).

Above all there is a need for the greatest possible autonomy at the level of the local authority, as the most important platform for the implementation of tourism policy. The local authority must be in a position, in accordance with the principle of subsidiarity, to closely monitor the tourism development process. The higher authorities should do their utmost to ensure that local authorities are given the necessary planning authority and revenue sources. It is equally important to ensure the full democratic participation of the entire local resident population in the most important decisions concerning new tourism projects.

Tourism entrepreneurs are key partners for the local authorities. Experience has shown that vertical cooperation involving all tourism service providers working through a local tourism organization is likewise essential. This is the platform on which the destination management approach is developed and perfected. This approach is based on the assumption that a tourism location can be managed in the same way as a cruise ship. More recent studies have shown however that there are limits to vertical integration, and that it is no longer possible to manage the bigger resorts like Cancun as a single enterprise. It has also been shown that the success of integrated resorts depends to some extent on their ability to take into consideration the concerns of the constituent communities.
Local tourism organizations are particularly well suited to the task of creating an effective “public/private partnership” between local authorities and the private sector. They have the advantage of being close to both the citizenry and the market. Such organizations make it possible for the majority of local service providers, which are small-to-medium enterprises, to approach the market with the extra strength of a partnership. These organizations can provide effective protection against the market power of the international tourism industry actors including the big tour operators and hotel chains, which with their transnational strategies are able to take full advantage of local development potential.

BIBLIOGRAPHY


*****


INTRODUCTION

There are deeply rooted values that differ between cultures and have a significant impact on the way societies are organized, what role government plays, and how the various organizations within societies work. These differences are often seriously underestimated. As a result, international organizations, universities, and governments often assume that approaches that have been successfully applied elsewhere will be successful everywhere. In practice, this is extremely doubtful, to say the least. Experience has shown that if change processes are undertaken in a way that goes against deeply rooted beliefs and values, people and organizations can perhaps be forced to act in a certain way for a short period of time. However, as soon as the situation has been normalized, the natural inclination will be to revert to “old” approaches.

An understanding of the fundamental cultural values would explain why apparently unrelated issues can be traced back to the same basic principles. It can also help to explain systematic differences in political systems, economic systems and management practices, for example between the United States, Japan, France, Mexico and the Netherlands.

Many problems arise when debates on important social policy issues such as the economy, proceed from an implicit assumption that culture is secondary to rational technical argument. Consider for instance the view expressed by L. A. Geelhoed, Secretary-General of General Affairs of the Netherlands, in an article ESB a magazine for economists, in which he defends what he calls “healthy policy competition” within Europe (Geelhoed, 1997). For a good understanding of this view, note that, this idea was in fact aired during the Treaty of Rome negotiations in the 1950s, on the subject of social harmonization within Europe. Geelhoed’s conclusion was: “May the best system win!”.

Underestimating the significance of culture and its consequences on policy can lead to some unusual conclusions. For instance, the report “Institutions, values, standards and growth” by the Nijenrode Forum for Economic Research (NYFER) of the Economics department of Nijenrode University in the Netherlands. “With the whole world writing admiringly about the Dutch economic miracle,” NYFER’s report warns, “of the six original EU states, the Netherlands is the shabbiest”. He adds: “Belgium’s constitutional state is considerably less stable than that of the Netherlands and its politics are being poisoned by stalemates between the Flemish and the Walloons, yet statistics show Belgium to be richer than the Netherlands” (NYFER, 1997). The interesting point is that both of NYFER’s statements contain a grain of truth. In comparison with many surrounding countries, the Netherlands has succeeded in keeping labor costs low, achieving a flexible job market and modernizing the social security system. Yet the average Belgian is still 33 per cent richer than the average Dutchman.

However, such statistics beg the question of how they have been calculated and what issues have and have not been included. For instance, there is a discrepancy between NYFER’s claim that the United Kingdom has a higher average level of wealth than the Netherlands and The Economist’s observation that: “The EU members poorer than the Union average were the Finns, Britons, Irish,
Spaniards, Portuguese and Greeks” (The Economist, 1997). The real question about a statement such as this is: what were the implicit assumptions of the author when gathering statistics and drawing conclusions?

NYFER’s report states that their study was based on the proposition in an increasing number of studies that culture does have an effect on economic growth. They refer to two recent published works claiming that “countries have a stronger competitive position in the world economy if their citizens have more trust in one another” (NYFER, 1997). This proposition is subsequently linked to the “dataset” of World Values Survey, which contains descriptions of value orientations of the citizens of a large number of countries. More detailed analysis in the study is limited to a comparison of approximately 20 prosperous OECD countries with respect to seven indicators: lack of public morality, law-abidance, permissiveness, post-materialism, intolerance, trust in institutions, and trust in humanity.

NYFER refers to the author Fukuyama, who assumes that countries have a stronger competitive position in world markets if their citizens have more trust in each other (Fukuyama, 1995).

Fukuyama makes a distinction between countries with a high level of trust and those with a low level, and links his analysis to this distinction. It is questionable whether trust is as uniform a concept as Fukuyama believes. For instance, does trusting the Government and institutions in Russia mean the same as in China or Germany, or in the Netherlands? In other words, is “trust” sufficiently uniform or do we need to examine more fundamental underlying concepts? (ibid.).

Trust in economic theory

In his review of Fukuyama’s book “Trust the social virtues and the creation of prosperity”, (ibid.) the researcher Geert Hofstede, argues that an analysis of national cultures based on a single aspect is over-simplistic. In his view, Fukuyama chooses a single aspect, and then categorizes a number of countries according to the very simplest of typologies: whether there is great trust or just a little. His criteria are arbitrary: for instance, in Korea there is great mutual trust compared to China, Taiwan and Hong Kong. He continues by asking if the model can also be applied to countries which Fukuyama does not mention. For instance where should the Netherlands be placed? The high-trust/low-trust dichotomy is also hardly relevant to the US situation which he wants to focus on. The family plays only a minor role as a productive unit in the United States, and this is unlikely to change in the future (Hofstede, 1996).

Hofstede subsequently demonstrates in his study that there are at least two cultural dimensions that are related to mutual trust between people: power distance and individualism. The NYFER report briefly discusses Hofstede’s findings. The relationship between four of the five basic values that Hofstede found and the World Values Survey (WVS) values (World Values Survey, 1994) is examined. Its conclusion: “Hofstede’s variables are theoretically better founded and are validated by comparisons with other investigations from a range of disciplines.” However, the report subsequently criticizes Hofstede’s data saying they (a) are obsolete; and (b) give a much more abstract description of society than the variables in, for instance (NYFER, 1997).

This is like saying that the laws of thermodynamics can no longer be used because they were formulated some time ago and that Copernicus is more valuable than Einstein because Copernicus is less abstract. According to the Danish scholar, Sondergard, people from various parts of the world have repeated Hofstede’s investigations about 70 times, on various scales. Analyzing the outcome of these repeat studies on a meta-level, Sondergard concludes that they confirm Hofstede’s findings. (Sondergard, 1994).

In this essay I will attempt to:

- Use Hofstede’s singular dimensions (Hofstede, 1984) to show where the connections lie between the most fundamental characteristics of culture (including the element of trust) and
their relationship with economic factors;
• Show that these connections can best be understood as functions of combinations of these dimensions;
• Develop verifiable new hypotheses on the connection between these combinations (“collective mind-sets”) and policy-making models for society (including economic development and human resource management).

A. THE IMPORTANCE OF CULTURAL EXPLANATIONS

Culture has not always been popular as a source of explanations for behavior. Of course, culture cannot be used as an explanation for everything that takes place in society. Life is far too complex to pretend that one-dimensional explanations can adequately map the human condition. Human behavior is not always predictable.

However, as people become aware of themselves in relation to their environment, they are able to make new choices. Furthermore, when examining individual life histories, we find that the choices people make are by no means random. We recognize regularities, “scripts”, which can be traced back to deeply rooted values in people’s personalities that give direction to their actions and reactions to their surroundings. In psychology, these are called mind-sets. Mind-sets are values that both give direction to new behavior and set its boundaries. (In this paper, values are defined as a preference for a certain situation above another, linked to strong emotions.) We can also find cultural mind-sets in history. Culture is defined as the collective, mental programming which distinguishes one group or category of people from another. This programming, or mind-set, influences patterns of thought, which are reflected in the meaning people give to the different aspects of their lives, and therefore help shape the institutions of a society.

This does not mean that everyone in a particular society is “programmed” in exactly the same way. There are considerable individual differences. But when fundamental values of various societies are compared, “majority preferences” are found to exist, and to recur again and again as a result of the way children are brought up by their parents and the educational system. When we examine how societies organize themselves, these majority preferences turn out to have a modifying influence at both the micro and macro levels. They appear to have an influence on the ways in which good leadership is defined, on how the decision-making process is structured, and on the way people monitor how policies are implemented; in short, everything that has to do with organizational behavior.

The problem is that a great many people do not recognize these “gross group” descriptions as having an influence and being consistent over time. On average, individuals tend to feel that they are very different from their parents, and their grandparents are very different from their own parents. The reason for this “true” observation is that it is usually the visible aspects of culture that are compared. In so doing, it appears to be easy to establish that the clearly visible behavior of the present generation is different from the behavior of past generations. The mind-set approach can be used to gain insight into what is different and what is consistent. Our parents and grandparents behaved differently because they lived in totally different conditions. Who had to deal with issues such as globalization, the European Union, the Internet, and mobile telephones 50 years ago?

The world is changing rapidly and we are being forced to adjust to these changes and to develop new behavior. But the development of this new behavior is constantly influenced by the set of collective preferences that we have designated as mind-sets.

This concept may appear to be “as soft as butter”. It is true that there is some hesitation at the international level, and even resistance, to employing these cultural explanations; some people even see them as a cloak for obscure deterministic arguments.

Not long ago a lead article in The Economist was dedicated to culture as an explanation for behavior. The author’s conclusion, after reviewing a number of recent books on the influence of culture by authors such as Fukuyama (1995.
Trust: The social virtues and the creation of prosperity; Harrison (1995. Who prospers? How cultural values shape economic and political success); and Huntington (1992. The clash of civilizations and the remaking of world order), was extremely cautious; his subtitle was “Which civilization you belong to matters less than you might think” (The Economist, 1996). What is about this article is that it ignores the perspective of empirical scientific research.

The authors quoted by The Economist all have different basic premises (historical, philosophical and religious) that they link to observed views about the world. No wonder that the authors’ conclusions are so inconclusive. It is, however, worth considering what the author would have found if he had included some empirical approaches. The most frequently quoted researcher in this field is Professor Geert Hofstede. When we examine his work, we find that it is indeed possible to make verifiable statements based upon comparative empirical research.

1. Research

Geert Hofstede first carried out fundamental research in the 1970s into the dominant values of countries and the way in which they influence behavior in organizations, when he worked for IBM (Hofstede, 1984). IBM decided to measure the extent of the spread of its “corporate identity” around the world and the motivation of its employees. A total of 116,000 questionnaires were distributed in 72 countries in 20 languages over a six-year period. As Hofstede limited his investigation to IBM staff, he was able to obtain “matched samples”. He could compare bookkeepers with bookkeepers in the various countries; technicians with technicians, top managers with top managers, middle managers with middle managers and so on.

Hofstede analyzed the questionnaires in various ways. For instance, he applied factor analyses to test whether clusters of values existed which described and explained the value pattern of a specific country. Hofstede found four clusters of values, which he called “dimensions of national cultures”. In practice, these four clusters proved to be very useful for predicting the success and failure of, among other things, management techniques or leadership styles. When the questionnaires were returned, a consistent difference in the answers per country was found.

The investigation was repeated several years later and the same phenomenon was found (ibid.). Hofstede analysed these differences and formulated “dimensions” that predict the way people are motivated, communicate and manage in a specific culture. Hofstede’s research is still seen as the most thorough ever done. A description of the dimensions and a short overview of the effect they have on organizations is given below.

The dimensions are primarily classifications of countries around clusters of values. In principle, the scale runs from 0 for the lowest value in the classification to 100 for the highest. In subsequent investigations in new countries, scores were found exceeding the 100. For one dimension, a value of 114 was measured.

1.1 Power distance

The first dimension is called “power distance” and defined as the extent to which people in a culture accept the unequal distributions power. The emphasis here is on the word “accept”. The classification of countries goes from 11 (Austria) to 104 (Malaysia). This acceptance starts very early in a child’s life, due to the way parents and children relate to each other and the messages parents, the first power holder in the lives of children, send to their children.

Cultures that score low on power distance create, from the moment children can talk, an environment that whereby parents give signals such as “tell us what you think; express yourself; you have a brain, so speak your mind”. By doing this, parents, the fist power holder in the life of children, are trying to communicate that children are entitled to speak their mind, even in the presence of power holders. Thus, the real underlying message is: “you are independent and autonomous in your relation to power holders”. Teachers in such cultures have the same attitude. They invite the students to enter into discussion,
both with each other and with their teachers. It is even appreciated and rewarded if a student, with good arguments of course, tries to refute what a teacher claims.

Cultures that score high on power distance create an environment in which the first signal from the parents to a child is: “you must primarily respect the older generation. If you would like to say something, you can politely raise your hand and if you are granted permission, you may politely ask a question or make a comment”. The central message is: “you are dependent on power holders”. Teachers have the same role in these cultures. Normally they stand in front of the class and impart their knowledge to the group. Now and then pupils are given the opportunity to politely ask questions. This results in an entirely different atmosphere. The educational objectives are also entirely different, e.g. reproduction of knowledge and not the development of an open or critical mind.

These two systems have a fundamental effect on the conduct of people in organizations. One of the consequences is the way in which people act in meetings. The expectations of what a meeting should be are, in fact, quite different. People from cultures with a lower power distance (e.g. the Dutch, Americans, English, Swedes, Danes, Norwegians, Germans) expect meetings to be places where people can have open discussions, defend their interests and eventually decide on actions, strategies or policy together. The general view is that people who do not speak up at a meeting lose their right to be obstructive afterwards. Therefore, the level of irritation with respect to people who do not subsequently comply with what has been agreed during the meeting is extremely high. In countries that score high on power distance (France, Belgium, Portugal, Greece, Russia and practically all developing countries), meetings are expected to be places where power holders are given the opportunity to inform others about their plans, ideas or strategies and the others are allowed to politely ask questions.

The leadership styles in these two types of culture are totally different. In countries that score low on power distance, managers tend to be invisible. If they are is too visible and constantly look over people’s shoulders, that will demotivate people.

In countries that score high on power distance, managers are expected to motivate their employees. When decisions have been made, they explain how they want them implemented by means of clear task descriptions and instructions. They subsequently verify whether everything has been done according to plan. In short, an attitude which irritates both parties in countries that score low on power distance. However, this attitude should not be misunderstood for authoritarian behavior, which is detested all over the world; it could be called instead, paternalistic behavior: top-down, but with awareness for the needs of people.

Implications of power distance for trust

Low power distance

There is a greater than average need for independence in these cultures. Hierarchy is interpreted as an “inequality” of roles in society and in institutions, which is used for the convenience of communication and decision-making. But in principle power holders have the same feeling about subordinates as subordinates have about power holders: “they are people like you and me”. As a result, people in these cultures feel less threatened and are more willing to trust others; there is more underlying harmony between people with power and those without. Hence, the adage “no news is good news” applies to the communication between the various echelons in society and in organizations. If people feel that they have been wronged, or if things do not go well, this is reported without fear and usually an open discussion will follow. The way to change a social system is through the redistribution of power, i.e. evolution.

High-power distance

In these cultures, people have, on average, a greater need for dependence. Hierarchy is interpreted more as an “existential inequality”: there must be an order of “inequality” in which everyone finds his or her rightful place. “Bosses” (superiors, managers) consider subordinates to be
another kind of people and want to be treated respectfully by them. Subordinates also consider superiors to be another kind and regard them with potential distrust. The consequences of these attitudes are that there is always a dormant conflict between people with power and those without, due to a lack of basic trust; “no news is good news” is less so due to the underlying distrust. Therefore the power holders are more inclined to check the implementation of rules and laws. A saying in such countries (e.g. France, Belgium, Spain, Russia) is: “you only respect what you can inspect”.

### Table 1. Differences in Boss/Subordinate and Subordinate/Subordinate Interaction Related to the Power Distance Dimension

<table>
<thead>
<tr>
<th>SMALL-POWER DISTANCE SOCIETIES</th>
<th>LARGE-POWER DISTANCE SOCIETIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stress on impersonal “truth” which can in principle be obtained from any person</td>
<td>Stress on personal “wisdom”, which is transferred in the relationship with a particular teacher (guru)</td>
</tr>
<tr>
<td>A “boss” should respect the independence of his/her subordinates</td>
<td>A boss merits the respect of his/her subordinates</td>
</tr>
<tr>
<td>Subordinate-centered communication (premium on initiative)</td>
<td>Boss-centered education (premium on order)</td>
</tr>
<tr>
<td>A boss expects subordinates to initiate communication</td>
<td>Subordinates expect a boss to initiate communication</td>
</tr>
<tr>
<td>A boss expects subordinates to find their own way</td>
<td>Subordinates expect a boss to outline paths to follow</td>
</tr>
<tr>
<td>Subordinates may speak up spontaneously</td>
<td>Subordinates speak up in meetings when invited by the boss</td>
</tr>
<tr>
<td>Subordinates allowed to contradict or criticize boss</td>
<td>Boss is never contradicted nor publicly criticized</td>
</tr>
<tr>
<td>Effectiveness of work related to amount of two-way communication</td>
<td>Effectiveness of work related to top/down communication</td>
</tr>
<tr>
<td>Outside work, bosses are treated as equals</td>
<td>Outside work, respect for bosses is also shown</td>
</tr>
<tr>
<td>Younger bosses are liked more than older bosses</td>
<td>Older bosses are more respected than younger bosses</td>
</tr>
</tbody>
</table>

### 1.2 Individualism versus Collectivism

The second dimension Hofstede found is “individualism versus collectivism.” The scale runs from 6 for Guatemala to 91 for the United States. In individualistic societies, people are raised with the idea that they must focus on themselves, and the development of their own talents. A psychologist like Maslow, from a super individualistic country like the US, calls self-actualization the highest level in his motivation theory. Hence, in the social interaction, people proceed from their “own interest” and develop some kind of “rules of the game” for this purpose, applicable to everyone (Maslow, 1970). Hofstede calls this aspect universality: “everyone is equal in the eyes of the law”. The starting point is: “what’s sauce for the goose is sauce for the gander”.

In collectivist societies, the first loyalty is to the in-group. In exchange for strict loyalty, the in-group looks out for its members’ interests. The term in-group can differ from country to country. However, it always begins with loyalty to the “extended family”. In some other countries, next comes the tribe and, in others the ethnic or religious group or the region. But in all cases there is a direct trade-off: people are protected and taken care of, in exchange for loyalty. It is
dangerous to risk this protection, sometimes even life-threatening. Rwanda or the former Yugoslavia, are examples where ethnic groups are locked in life and death conflicts. There is a set of rules and standards for the association with the in-group, and there is a totally different set for outsiders. Hofstede calls this particularism.

It is extremely important to maintain harmony within the group. People learn not to cause trouble in communicating with their surroundings. Harmony must be maintained and loss of face must be prevented for both parties. Therefore, direct questions and answers are avoided as much as possible. Usually, a direct question is always answered with “Yes” to prevent loss of face by either party. “Yes” can mean “yes”, or “no”, or “I have heard”, or “I will try”. “Yes” can mean anything. The real meaning should be derived from the context, including body language. In theory, the latter is called “high context communication”. Direct communication is called “low context communication”.

Implications of the individualism/collectivism dimension for trust

The basis of these implications lies in the difference in range of the validity of values and standards. In individualistic cultures, people proceed from the idea that values are applicable to everyone: “what’s sauce for the goose is sauce for the gander”. There is universalism. In collective cultures, there is particularism: core values are only applicable to the in-group. Different rules apply to outsiders.

<table>
<thead>
<tr>
<th>COLLECTIVISTIC SOCIETIES</th>
<th>INDIVIDUALISTIC SOCIETIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual subordinates will only speak up in meetings when called upon personally by the “boss”</td>
<td>Individual subordinates will speak up in meetings in response to a general invitation by the boss</td>
</tr>
<tr>
<td>Individuals will only speak up in small groups</td>
<td>Individuals will speak up in large groups</td>
</tr>
<tr>
<td>Large groups split socially into smaller, cohesive sub-groups based on particularistic criteria (e.g. ethnic affiliation)</td>
<td>Sub-groups vary from one situation to the next, according to universalist criteria (e.g. the task at hand)</td>
</tr>
<tr>
<td>Formal harmony in work situations should be maintained at all times</td>
<td>Confrontation in work situations can be salutary; conflicts can be brought into the open</td>
</tr>
<tr>
<td>Neither the boss nor any subordinate should ever be made to lose face</td>
<td>Loss of face is not a major issue</td>
</tr>
<tr>
<td>Bosses are expected to give preferential treatment to some subordinates (e.g. based on ethnic affiliation or recommendation by an influential person)</td>
<td>Bosses are expected to be strictly impartial</td>
</tr>
</tbody>
</table>
1.3 “Masculinity” versus “femininity”

Hofstede’s third dimension refers to the prevailing view about motivation and whatever people want to achieve in their lives. There is big difference in this between, for example, the Scandinavian countries and the Netherlands, on the one hand, and the Anglo-Saxon countries, on the other. This dimension is identified with the label “masculinity/femininity”.

In “masculine” cultures, people are motivated by competition, ambition, accepting challenges and making a career. Even at kindergarten, play gravitates towards a world of “winners” and “losers”. In “feminine” countries, people feel less comfortable about these terms. Even at an early age, one is suspect if one tries to excel, and is regarded as a “show-off”. This kind of conduct is discouraged at an early age: if you try too hard, you will be harassed and excluded from the group. In “feminine” cultures, people are motivated by cooperation, interdependence, consensus, quality of life, “content”, relationships with colleagues, and equality. However, criticizing other people’s ideas is rewarded. By doing so, one demonstrates being “smarter” than the person who formulated the idea. In education, the ultimate goal is often described as “developing a critical mind”.

Implications of the masculinity/femininity dimension for trust

In “masculine” societies, the emphasis is on being competitive. Usually, the world is divided between winners and losers. The system is oriented to the acceptance of the attitude of “winner takes all”. In principle, one can speak of a reward system that focuses on materialistic things. Trust is based on the feeling people should have in a system of winners and losers, although an element of fairness is observed. In those countries, shareholder value is emphasized in discussions about economic issues.

Problems arise if shareholders pressure companies to “downsize” or “reengineer” and people are fearful of large-scale redundancies and of having to find work in hamburger “joints”. Recent research by among others Harvard University shows that in these circumstances problems arise because people in the organizations tend not to share information, as they mistrust what could happen, and are inclined to “adopt a defensive attitude”. This is disastrous for organizations that work with systems such as matrix management, and assume that information is readily available to everyone.

In “feminine” societies the key word is consensus. Trust is gained if the parties involved feel that they are “seen” and can participate in decision-making processes with a focus on “shared interest”. In these countries there is much sympathy for the underdog. And, as a result, “feminine” countries that are economically developed have sophisticated social security systems and, in principle, their citizens are willing to pay taxes for this purposes. It is a characteristic of “femininity” that people will complain about the tax system in these countries, but that there are no political majorities against the system itself. Mistrust in society grows if governments appear to act from a one-sided view of what is important and fail to take into account the needs of diverse groups in society.

1.4 Uncertainty avoidance

Hofstede’s fourth dimension, “uncertainty avoidance”, is complex. It is a dimension that indicates people’s need for predictability and shows the extent to which they are willing to take risks. Countries that score high on uncertainty avoidance (e.g. Germany, France, Belgium, Russia) have a strong need for formality in social interaction. Examples of this are the formal forms of address (“Sie” in Germany and “Vous” in France), stringent dress codes, and a focus on procedures, communication and management. Those who can provide high predictability in society and organizations – the experts – are the most acclaimed (e.g. “Herr Prof. Dr.” in Germany). In countries with a low score, pragmatic generalists are more appreciated. Even the thinking process is different. If one reads German or French professional literature – in whatever field of study – one finds that books always begin with the philosophy and/or the basic principles of the field of study from which a theory can be derived. How this works out in practice is discussed later (the deductive
approach). In countries with a low score (such as the United Kingdom and the United States), pragmatic aspects are always discussed first: an inventory is made of what is successful in practice and what is not, i.e. case histories. Theory is secondary (the inductive approach). Philosophy is something for “eggheads”.

### TABLE 3. DIFFERENCES IN BOSS/SUBORDINATE AND SUBORDINATE/SUBORDINATE INTERACTION RELATED TO THE “MASCULINITY” VERSUS THE “FEMININITY” DIMENSION

<table>
<thead>
<tr>
<th>“FEMININE” SOCIETIES</th>
<th>“MASCULINE” SOCIETIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Bosses” avoid openly praising subordinates</td>
<td>Bosses openly praise good subordinates</td>
</tr>
<tr>
<td>Bosses use average subordinates as the norm</td>
<td>Bosses use best subordinates as the norm</td>
</tr>
<tr>
<td>System rewards subordinates’ social adaptation</td>
<td>System rewards subordinates’ academic performance</td>
</tr>
<tr>
<td>A subordinate’s failure is a relatively minor accident</td>
<td>A subordinate’s failure is a severe blow to his/her self-image</td>
</tr>
<tr>
<td>Subordinates admire friendliness in bosses</td>
<td>Subordinates admire brilliance in bosses</td>
</tr>
<tr>
<td>Subordinates practice mutual solidarity</td>
<td>Subordinates compete with each other in work</td>
</tr>
<tr>
<td>Subordinates try to behave modestly</td>
<td>Subordinates try to make themselves visible</td>
</tr>
<tr>
<td>Subordinates choose academic subjects in view of intrinsic interest</td>
<td>Subordinates choose academic subjects in view of career opportunities</td>
</tr>
<tr>
<td>Male subordinates may choose traditionally feminine academic subjects</td>
<td>Male subordinates avoid feminine academic subjects</td>
</tr>
</tbody>
</table>

### TABLE 4. DIFFERENCES IN BOSS/SUBORDINATE AND SUBORDINATE/SUBORDINATE INTERACTION RELATED TO THE UNCERTAINTY AVOIDANCE DIMENSION

<table>
<thead>
<tr>
<th>WEAK UNCERTAINTY AVOIDANCE</th>
<th>STRONG UNCERTAINTY AVOIDANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subordinates feel comfortable in unstructured work situations: broad assignments, loose timetables</td>
<td>Subordinates feel comfortable in structured work situations: detailed assignments, strict timetables</td>
</tr>
<tr>
<td>“Bosses” are allowed to say “I don’t know”</td>
<td>Bosses are expected to have all the answers</td>
</tr>
<tr>
<td>A good boss uses plain language</td>
<td>A good boss uses academic language</td>
</tr>
<tr>
<td>Subordinates are rewarded for innovative approaches to problem solving</td>
<td>Subordinates are rewarded for accuracy in problem solving</td>
</tr>
<tr>
<td>Bosses are allowed to express emotion (and so are subordinates)</td>
<td>Bosses are expected to suppress emotions (and so are subordinates)</td>
</tr>
<tr>
<td>Bosses interpret intellectual disagreement as a stimulating exercise</td>
<td>Bosses interpret intellectual disagreement as personal disloyalty</td>
</tr>
<tr>
<td>Bosses seek everybody’s ideas</td>
<td>Bosses consider themselves experts who cannot learn anything from lay persons and lay persons agree</td>
</tr>
</tbody>
</table>
2. Mental images

Professor Stevens of INSEAD, a business school in Fontainebleau, France has conducted research (unpublished) into the mental images people from various cultures have about organizations. It was found that there was a direct relation between Hofstede’s four dimensions and the position the countries in question had in that respect. Stevens found three of these mental images. Hofstede added one image to these three. The author’s own research produced a fifth and a sixth image.

Mental images are fundamental social structures that we all have in our minds. They transcend all types of activity and delve deeper than differences in an organization culture. Both in the private and public sector, among those employed in the uniformed services and in welfare departments, people from the same culture have a similar image of the way society works.

The consequence of this is that if two different mental images are operational between two cultures where one communal language is spoken, as is the case with the Netherlands and Flanders, this can lead to major problems. The different images lead to misunderstandings and differences in appreciation with regard to desired styles of leadership, desired degree of centralization, reward systems, etc. The six mental images are: the contest model, the network, the pyramid, the Solar system, the family, and the well-oiled machine.

2.1 The contest model

This image is applicable to the Anglo-Saxon countries. The cultural context of this mental image is: low power distance, lower uncertainty avoidance and high individuality. The central assumption of this mental image is: if you give people and organizations the freedom to compete with each other, something good will always come out of it. The characteristic of this organization outline is that hierarchy is not seen as an existential difference between people, but as something that is agreed among people to facilitate the work in organizations; it should be clear who is delegating to whom and who is reporting to whom.

In principle, employers and subordinates negotiate about objectives, targets and work content. Targets are very important because people experience them as a challenge. No one should "fiddle" with targets once they have been formulated, since they function as the central element of performance monitoring. The assessment of the targets set beforehand is the foundation for work motivation. People are rewarded for their performance as measured against the targets fixed. The reward is given in the form of bonuses or career moves.

Solutions to problems are achieved by communicating with each other. Open competition is central in this model. In order to motivate people, they must be able to compete with others, but also with themselves. In this model, important concepts include achievement, target setting, winners and losers, making it, career, bonus systems, and special career paths for “high potentials”. There is a trap in the tendency to give these theories and concepts a universal value. The management theories that are taught at universities and business schools around the world mainly stem from Anglo Saxon scholars. The explanation for this is a commonly human one. The inclination exists to imitate the conduct of economically successful people. This is true all over the world with respect to US culture. People drink Coca-Cola, and there is even a McDonalds on the Square of Heavenly Peace in Peking. These people constitute, as it were, a symbol for progress and success. US management ideas are blindly adopted by managers everywhere.

Some well-known consequences of this situation for organizations are the introduction, inter alia, of flexible reward systems, career-oriented management development systems, “management by objectives”, and special training courses for “high potentials”. Other consequences are that people partly adjust to the new “rituals”. It is a common human tendency to act according to what is expected by their environment; however, this does not mean that tendency corresponds to their own inner motivation.
2.2 The network model

This model is a combination of low power distance, high individualism and “femininity”. From actual experience of working for international companies such as IBM, Boskalis, Heineken, Shell and Philips, the author discovered that there is a big difference between the Anglo-Saxon view on leadership, motivation and negotiations, on the one hand, and the Scandinavian-Dutch view on the other. In the latter countries practically everyone agrees with the proposition that the worst punishment one could be given at work would be to be rewarded in the American way: with a portrait on the wall as “employee of the month”. This would be a punishment in these countries because it would be the immediate cause for cynical remarks and jokes by co-workers.

The “network” countries are found to share something that is described with adages such as: "just act normal, that’s mad enough", and “if your head sticks out above the ground level, it will be chopped off”. It is not appreciated in these countries if you try to present yourself as a “winner”. People who try to do this give other the feeling that something is quite wrong with them. This is known as the “Jante law” in Sweden, Denmark and Norway: “don’t think you are better than any other person in your environment”. This is regarded as normal behaviour in “contest” countries.

A fundamental difference between the network model and the contest model is the “feminine”/“masculine” character of the cultures concerned. Competition, career and external material rewards are not central issues network model. Other elements are important. For instance, autonomy in the field of work, work content, quality of the relations-network, cooperation, the feeling of mutual independence, and harmonisation of interests between heterogeneous groups. Decisions are normally made by involving all the relevant stakeholders and trying to develop consensus among them. These are the consequence of the countless meetings that take place in organizations.

The most important characteristic of these meetings is its objective to find “support”: consensus between the main stakeholders on what should be done. The criterion for good policy is the satisfaction of all stakeholders regarding the manner in which their interests are protected by the decisions taken. That is why changing decisions already taken is allowed. In principle, if the stakeholders after a meeting have second thoughts, it is not regarded as strange to allow him or her to return to the organization and say to a colleague: “I’ve been giving it a lot of thought and have decided that it is not a good idea. Can’t we do it in another way?” In a country like the Netherlands, this means that decisions that have been taken tend to be open for further development the following day. This takes place on a macro level, in politics (think of the fast railway line), meso level (the negotiations between Fokker and Dasa) and in micro organizations.

2.3 The pyramid of people

The third image identified was that of organizations as a pyramid of people. The main dimensions of culture are power distance, uncertainty avoidance and collectivism. Generally, this is the system in the majority of countries in the world. Many Asian countries, all Latin American countries, all Arab countries, and in Europe, countries such as Portugal, Greece and Russia have this in common: the decision-making process is top-down. Hierarchy is important, and essentially acknowledged and accepted by everyone. There is a strong need for centralisation by government.

A frequent reference point for the legitimation of actions is the “general interest”, as formulated by the “top” people. There is a strong need to formalize the communication between the various levels in the organization as well as the relations between colleagues.

Leadership is defined in a “moral” way. In return for their loyalty employees expect their “boss” to take care of them, to be like a good father (or mother) of the family. Delegation in these
countries takes the shape of clear-cut institutions subordinates receive from their superior, describing exactly what they are supposed to do and how. The way to evaluate policy is to verify in a direct way whether those at the lower level in the hierarchy have implemented, effectively and efficiently, the decisions taken at a higher hierarchical level.

2.4 Solar system

This is the culture of, for instance, France, Belgium, the North of Italy and Spain. Its characteristics are: high power distance, high individualism and high uncertainty avoidance.

The main difference between these cultures and the pyramid system is the tension between, on the one hand, high acceptance of hierarchy and, on the other, high degree of individualism. This creates tension, and leads to a tendency of not contradicting powerholders in their presence, but of “drawing your own plan”, outside their reach.

Because of the individualistic element, leadership is not so much being “father of the family”, but being a highly visible intellectual technocrat. Delegation and control are the same as in the pyramid system.

2.5 The organization as a family

This is the dominant image in some Asian countries, especially those with Chinese-dominated cultures, and in some Caribbean countries.

This image is formed by a combination of high power distance, collectivism and a low score for uncertainty avoidance. The main characteristic is a strong acceptance of hierarchy, generally linked to old age or seniority. Old age is usually synonymous with wisdom. As in the pyramid model, there is a “moral” relation between employers and subordinates. In exchange for loyalty from the employees, the employer will ensure their well-being. This means that in a way the employer acts like the father (or mother) in a family. Employees can always go to the employer if they have personal questions or problems. Normally, they can do so during and outside office hours. These contacts can be about any subject from money problems to family problems. Any “boss” who does not provide this support is not a good employer.

The main difference between this image and the pyramid model is the low score for uncertainty avoidance. Bureaucratic rules are unimportant. This system is very flexible. The “boss” decides everything. The communication between managers and subordinates is not formalized. Usually, it is easy to gain access to the boss if one has a good idea or a problem.

2.6 The well-oiled machine

This image fits countries such as Germany, Austria, Switzerland (the German-speaking part), and Hungary, and partly the Czech Republic. Its special element is the combination of a low score on power distance and a high score on uncertainty avoidance.

Usually, people in these countries feel autonomous and want to perform tasks independently. This results in the reduction of all uncertainty about expectations in terms of task completion and task description. Clarity of structure and explicit procedures are the core of internal discussions on organization. Decentralization within clear, “unshakeable” agreements is the natural form of leadership and management.

An example of this image is the autonomous position of the “states” in Germany vis-à-vis the central authority in Berlin. The reference point for evaluation is whether all the parties involved have followed the previously formalized planning.

B. MENTAL IMAGES AND THE ORGANIZATION OF SOCIETY

The mental images outlined in this paper have an effect on the way in which people relate to their environment. They “send” preferences via their behavior in micro-organizations as well as in macro-organizations, as society in general does.

This becomes clear if one compare the political system in, for example, the United States and the United Kingdom, as representatives of the market
model, with that of the Netherlands and Sweden, as representatives of the network model.

Two strong political parties can be seen as a logical consequence of the first “mind-set”. These compete with each other in a strongly polarized manner and accept that after the elections the “winner takes all”, i.e. control of the entire government, including the top officials. In the Netherlands and Sweden, governments are already formed and there is no change in top officials.

Such fundamental differences in approach between these two systems can also be seen in other areas: insights into the role of the government, the approach to unemployment, the role of social security, and the role of trade unions are almost diametrically opposed. In order to illustrate the significance of these differences, it is worth examining the attitudes of two very different approaches to solving some of the problems governments experience all over the world.

In a published interview in a Dutch newspaper the German philosopher Rolf Dahrendorf (Dahrendorf, 1995) claimed that governments experience three central problems:

(a) To help organizations in their country remain competitive in increasingly competitive world markets;

(b) To ensure that social cohesion in their society remain intact; and

(c) To create so stable a political climate that is that elementary democratic freedoms are maintained, even in bad times.

There is a tendency for politicians nowadays to prefer the competition model when seeking answers to all those questions. The views of both economists and captains of industry seem to corroborate this. The theories taught in MBA programme all over the world also seem to make the same assumption. It is therefore interesting to look objectively at the degree of success of different cultural mind-sets in dealing with global challenges.

1. Competitive strength

It is not easy to pass judgment on the extent to which countries ensure that companies can remain competitive in the international arena. It is all a question of definition. However, this discussion could be linked to annual attempts to measure the competitiveness of countries. Every year, lists of countries ranked on the basis of competitiveness are published. Up to 1996, such a list was drawn up jointly by the World Economic Forum (WEF) and the International Institute for Management Development (IMD).

In 1996, these lists were published independently, the main change being that WEF, under the influence of Jeffrey Sachs, the American Harvard economist, decided to define competitiveness in strictly economic terms. Hence, competitiveness is defined as “the ability of a country to achieve sustained high rates of growth in GDP per capita”. IMD, however, uses a definition that attempts to create an integrated economic and social model. When the two systems are compared for the year 2001, only one of the ten highest classified countries in the integrative IMD model operates according to the “family” model (Singapore). Four operate according to the “network model” (Finland, Sweden, The Netherlands and Iceland). Two correspond to the “well-oiled machine” model (Switzerland and Germany), two to the “competitive” model (the US and Ireland), and one to the “pyramid” model (Luxembourg).

In WEF’s strictly economic model, where the only important aspect is the possibility of a country to sustain long-term GDP per capita growth, the picture is very different. It is striking that in this classification, which has built-in bias towards market theories, the network model also scores highest, with four countries ranked among the top ten (Finland, the Netherlands, Denmark and Sweden). The competitive model follows with three countries (United States, United Kingdom and Australia). The machine model follows with two countries (Germany and Switzerland) and one for the family model (Singapore).
Naturally, caution should be excused when using such general terms as competitiveness. Paul Krugman, an American economist, maintains that the term is meaningless when it is applied to national economies (Krugman, 1994). He claims that the major nations of the world are not competing with each other at all, contrary to what some popular politicians say. He provides the following arguments for this claim.

All economies produce most goods and services for domestic consumption. So, even if an economy is not at all competitive, it is still “business as usual”. If two companies are competing with each other, one wins and the other loses. If two economies are competing with each other, both can win, thanks to the law of comparative advantage. While an organization which is not very competitive is not able to lower costs, an economy that is not very competitive is able to do so, for example by depreciating the currency after a period of high inflation. Krugman’s conclusion is that an important criterion for an economy to be competitive is domestic productivity, in other words, output per worker. If this is taken as the standard, more factors come into play than only the drive to succeed alone.

The level of education in a country, the degree of innovation, political stability, and, for example, the number of strike days are found to be important. Moreover, the IMD model is also found to provide a broader basis for the evaluation of policy. In these circumstances, network countries do not appear to be doing so badly. This result is directly related to the second element mentioned by Dahrendorf: social cohesion (Dahrendorf, 1995).

2. Social cohesion in the context of cultural mind-sets

Why is it important for a government to aim for social cohesion and what is the connection with culture? In relation to the three elements formulated by Dahrendorf (ibid.), it seems particularly interesting to note what can be said about social cohesion in relation to the competitive power and the maintenance of democracy.

A measure that can be applied to the discussion of social cohesion is the degree of social inequality in a country and the degree of acceptance of that inequality. The degree of “femininity” of a society in a cultural sense relates, among other things, to an unwillingness to think in terms of winners and losers. An important characteristic of “feminine” societies is that there is a great deal of sympathy for and solidarity with the underdog, irrespective of whether they are part of the family or ethnic group. This can be demonstrated from the official statistics regarding foreign aid as a percentage of the GDP. The latest statistics show that most feminine countries of the OECD (Denmark, Sweden, Norway and the Netherlands) are at the top of the donors’ list with 0.8 to 0.9 per cent of their GDP, compared with 0.09 per cent for the US and 0.2 per cent for the United Kingdom.

A similar picture is obtained if one looks at unemployment benefits. An OECD overview shows that four of the five countries with the highest level of benefits have a high “feminine” score: Denmark, the Netherlands, Norway and Finland) and one has a middle score (Belgium). This is a factor of 2 to 3 compared to “masculine” countries (such as the US, the UK, and New Zealand).

Value differences between countries with the market model and those with the network model become clear when one looks at the degree of acceptance of income inequality. “The British Social Attitudes Survey”, a study conducted in the United Kingdom, shows that, compared with the Netherlands, four times as many people in the US and twice as many in the UK think that large inequalities in income are necessary for economic growth (British Social Attitudes Survey, 1996).

What are the effects of these views on the economy? Could an empirical method be found to evaluate the effects of the two cultural mind-sets? As a result of recent research we can cautiously claim that the more compassionate “feminine” approach does not in fact have a negative effect on the economy. For instance, a study conducted in more than 56 countries found that there is a very strong negative relation between income inequality and the growth in per capita GDP. In these countries, social and political conflicts lead
to developments that inhibit growth (see Persson and Tabellini, 1995).

A recent article by another US economist (Perotti, 1996), discusses which elements affect growth. The author gives three reasons:

(a) Greater inequality in income leads to less education;

(b) Unequal division of income leads to an increase in the number of poor people. They do not have money – and cannot borrow it – to give their children a good education. This is particularly true of secondary education. Furthermore, less inequality in income will lead to a reduction in the number of births, because people will be inclined to invest more in the education of fewer children, instead of having more children;

(c) Greater inequalities in income can also lead to political instability. Large differences between poor and rich can lead to crime, revolts etc. This political instability leads to an unwillingness by individuals to invest, and that is bad for the economy.

The cultural context in relation to income inequality and poverty deserves further analysis. Discussion on income inequality is also taking place in the US, but this has little to do with a change in values. According to a survey published in American Enterprise Magazine in 1990, less than a third of Americans questioned said that they thought the Government should do something about income inequality. As may be expected of a country with a market mind-set, even the “have-nots” support the idea of inequality. The idea apparently is: “I have nothing now, but I may win the lottery next week. And if I do, I in principle against having to hand over this money”.

The problem of many in the US is not so much that income inequality is growing. The unease is caused by the fact that poor people have become much poorer in absolute terms in the last 20 years. By way of illustration, the poorest people are 11 per cent worse off in income terms, while the richest 10 per cent of the population are 18 per cent better off.

3. Social cohesion, income inequality, work and benefits

In international comparisons, a distinction is often made between the Anglo-Saxon economic model (in this paper’s term, the competitive model) and the Rhineland model. The latter is found in continental Europe, where there is a strong emphasis on social security.

It is interesting to note that there is apparently some similarity between the ideas in “masculine” countries, (e.g. Germany), “feminine” countries (e.g. the Netherlands) and those with a middle position (e.g. France). On closer analysis, however, it is found that the motives behind this apparent similarity are quite different. A characteristic of “feminine” countries is sympathy for the underdog. As already mentioned, people always complain about the tax system in these countries (complaining is a characteristic of the “feminine” degree of a culture). But a political majority can never be found to stop the solidarity with the financially weaker people in these countries. People talk about discouraging misuse of resources and the problem of long-term affordability. But there is always support.

The motives in countries that score high on uncertainty avoidance are entirely different. And high uncertainty avoidance is what countries such as France, Belgium, Germany and Switzerland have in common. The support for social programmes in these countries has little to do with sympathy for those worse off; it is rather the result of a focus on social order. If the differences between the poor and the rich are too great, society becomes unpredictable. The prevailing consensus thus is not so much influenced by solidarity as by fear of losing social cohesion, which will lead to social disorder.

A distinction has been made between the different economic rationale behind the Rhineland, the Anglo-Saxon and the Delta models. (The Delta model is the Dutch approach, where there is close
consultation between social stakeholders like trade unions, employers and the Government about reform of the welfare state.

The network model is seen in action with its emphasis on consensus, support and common interests. A complaint heard from market economists is that the network model is ineffective in combating unemployment. However, poverty does not always rise if unemployment rises. Poverty figures in the rich industrialized countries have remained stable practically everywhere, while unemployment (in this context defined as the percentage of the population that has an income below half the national average) fluctuated.

Cantillon concludes that poverty is directly influenced by social security. Countries that are willing to invest in social security generally have low levels of poverty. The effect of different mental images can also be seen here: countries that uphold the competition model (e.g. US, Canada, Australia) have a low unemployment rate, but high levels of poverty (e.g. 18 per cent in the US). Countries that employ the network model (the Scandinavian countries and the Netherlands) have somewhat higher unemployment rates, but low levels of poverty (e.g. 8 per cent in the Netherlands). Cantillon demonstrates that poverty in all OECD countries will increase if social security is further reduced (Cantillon, 1994). The conclusion is that an increasing proportion of the population in the OECD countries is unable to rise above the poverty line through work alone.

The danger of this development is that it leads to the formation of an underclass. Pierre Bourdieu, a Professor at the College de France in Paris has described the underclass as people who behave in such a way that they are unable to control their future. Bourdieu claims that there is a difference in the composition of the underclass in Europe compared with the US. In the US the divisions run primarily on racial or ethnic lines, which creates a fundamental tension. In Europe, the majority of the unemployed are white. But the effect in both cases is long-term unemployment with as a resulting polarization and marginalization (Bourdieu, 1992).

However, even if unemployment in Europe is not fundamentally a race issue, first and second generation immigrants have often had a particularly hard time. Twenty to thirty years ago, they came to the West European countries to do the work nobody else wanted to do. Many of these jobs have since disappeared, and they and their children are now finding it very hard to adjust.

Unemployment sometimes takes the form of spatial separation (e.g. in ghettos). People on the wrong side of the line start to cut themselves off from society. For example, in the Netherlands a disproportionate number of the long-term unemployed have ex-directory phone numbers. This voluntary segregation is dangerous, because it represents a loss of the feeling of mutual involvement and mutual responsibility.

The belief in “work, work and more work” that the Dutch coalition cabinet propagates can also be interpreted as “involvement, involvement and more involvement”. This is important. Exclusion leads to feelings of “what do I care?” And this is precisely what leads to criminality and polarization.

The problem in Europe as well as in the US is that if the middle classes disappear from an inner city and only the poor are left behind, this leads to a downward spiral of urban decline. The only people who want to live there are those who cannot go anywhere else. Burglaries and violence increase as frustrated youths turn to drugs and crime. And, as unemployed men are less marriagable, the number of extramarital children rises and the growth in the numbers of one-parent families creates a new hard core of dependence. The fact that this can threaten public order was made clear in the spate of inner-city riots and looting across the US in the “long hot summers” of the late 1960s, as well as in Los Angeles in the early 1990s. Furthermore, the middle classes are retreating to their fortified suburbs.

The overlap of concentrations of urban decline and immigrant communities also creates an easy target for political extremists. Before proceeding to an analysis of these circumstances, it should be stated, regarding the discussion on work and
employment, that it is very important to maintain
a distinction between the economic and cultural
aspects of the discussion about unemployment,
inequality and poverty.

The Netherlands is one of the most “feminine-
oriented” countries in the world. One of the
consequences of this is a different attitude toward
work. People are very interested in the quality of
life. In employment terms this means that people
do not “live to work” but rather “work to live”.
Indeed, one of the reasons why the Dutch work
force is relatively flexible is because many people
work part-time. A recent Rotterdam survey has
indicated that a sizeable proportion of the working
population choose to work part-time to enhance
their quality of life. Thus, the counter arguments
in the social discussion with proponents of the
market model focus on issues such as the quality
of work and solidarity (another strongly
“feminine-oriented” issue) rather than on fear of
the consequences of poverty.

Another interesting fact is that the Dutch
“feminine-orientation” focus on the quality of life
produces a somewhat unexpected result in official
statistics: the attitude about saving. It is well
known that the Belgians jest about Dutch
frugality. These “surprising” statistics show that
the Netherlands was the country with fewer savers
in all the OECD countries in 1995 and 1996.
Which country was most frugal? It was Belgium!

4. Democracy

Many economists have maintained that, even in
objective economic terms, democracy is the best
system. Only democracy can ensure long-term
economic freedom. Ownership rights for example,
are safeguarded by independent leaders or
regimes.

A more detailed study of political systems
however, shows that democracy has different
effects in the various cultural systems, e.g. France
(representing the pyramid system); the Russian
Federation (the family system); the United States,
(the competition system); and the Netherlands (the
network system). A presidential democracy (e.g.
France’s) is part of a typically pyramidal system.
Hierarchy is acknowledged and accepted. The role
that central government has played historically
can also be seen within the framework of a
pyramidal social structure. In the US we see the
democratic translation of the competition model:
two political parties competing with each other
and allowing the “winner to take all” after the
elections. In Russia we find a great deal of
continuity in culture from the time of the Czars to
the present.

Dutch politics cannot be understood without
knowledge of a particular kind of network. This
form of democracy – strongly influenced by the
network system – assumes that the parties
involved are always willing and able to participate
in consultation, with a focus on the common
interest. As we have already seen, this form of
participation is perfectly “normal” in network
cultures because of their low score on power
distance, while all cultures that score high on
power distance have low participation in public
discussion.

The common interest is arrived at via open
discussion. Teisman calls this “an interweaving of
goals” in his thesis on decision-making processes
in Rotterdam (Teisman, 1992), which
characteristically take place in a horizontal
manner. Not all stakeholders are equal, but
nobody tolerates unilateral decisions made by
the hierarchy. Developing broad social support is
the key to the Dutch democratic process. The
government is just one of the network players.
However, in addition to its role as a stakeholder, it
also has a very special role: that of process
monitor. Government must identify the players
and ensure that all of them, even the less vocal,
are invited to sit at the conference table. The
conclusions of such discussions are increasingly
formalized in voluntary agreements, which
themselves have to be continuously tested against
their consequences in practice. This often takes
place in public meetings, during which
“stakeholder satisfaction” is tested. If the public
are not happy with a decision, it is open to
modification. Therefore, in this version of the
democratic process, it is essential that participants
both want and are able to participate and that they
understand how the implicit model works.

*****
BIBLIOGRAPHY


NYFER (1997). “Institutions, values, standards and growth”, Nijenrode University, Breukelen, the Netherlands.


CASE STUDIES

MEXICO: THE CASE OF CANCUN

José Luis Pech Várguez
Secretary of the Interior
State of Quintana Roo
Mexico

For more than two decades Cancun's case has been known in Mexico as the “Cancun Phenomenon”. This development area, the result of a visionary project started in the 1970s, is an exemplary case study for this Colloquium.

Cancun is indeed a case of successful planning. In Cancun everything seems to be linked to development and success. However, in the 1970s, its possibilities of success were uncertain. Other cases, such as those of Acapulco or Vallarta, confirmed the viability of tourism as an element for development in Mexico, and raised hopes for the nascent state of Quintana Roo.

Within a space of virtually pristine forest, magnificent coast, and thick mangrove, an illusion started to emerge, barely a dream with a mixture of doubts and hope. Fortunately, this illusion was well nurtured from the beginning. It was underpinned by large federal investments which provided basic infrastructure for the project, in both urban and suburban areas. Everything was carefully planned, as the goal then was to create from scratch a development centre to support the new state, and make possible the consolidation of the self-government recently achieved.

At that moment it was thought that Cancun’s bountiful and fascinating nature would be enough to guarantee its success as a tourist destination. Time has proven right those who held that view.

Cancun’s success is valued and recognized worldwide. However, successes also have drawbacks. Most of these drawbacks had been anticipated from the start, but others had not because at the time they simply were unimaginable. Tourist activities in Cancun grew at a vertiginous pace and soon surpassed all parameters envisaged at its inception. For example, at that time, it was estimated that every hotel room built would attract 7 inhabitants to the new city. However, Cancun's success was such that 30 years later each new hotel room meant 20 new inhabitants. This gives an idea of the demographic pace of Cancun's development.

Of course, this kind of population growth certainly carries risks and increases demands difficult to fulfill. Nevertheless, there was a response to this situation. The federal Government owned tracts of land reserved to support population growth and, at that time, land grants were relatively inexpensive.

The National Fund for the Promotion of Tourism (Fonatur) became the main body for the support of this unbounded growth. It had available land purchased at very low cost and could thus successfully respond to the development-related demands of the city. Therefore, all resources provided by the federal Government to Fonatur were used to build the necessary infrastructure to support the emergence of a tourist centre at the international level. In this way, the state of Quintana Roo acquired drinking water, sewage, electricity, urbanization, subdivision of land in the hotel zone, a bridge connecting the island to the mainland, road systems in urban areas, an international airport, and federal highways - all of which had a cost that the new state of Quintana Roo could have possibly afforded.

At the very beginning, the most prestigious names in the hotel industry were given preferential prices in order to attract them to the area. The economic resources provided to Fonatur enabled Cancun’s
success to remain at the highest levels. Problems caused by success were alleviated at such a rapid pace that, even though lags could not be avoided, they did not accumulate at levels that could lead to severe social conflicts.

Up to this point, the success of an integrally planned tourism-based project is unquestionable. Today Cancun is the main generator of foreign exchange in the Federation, is a permanent contributor to the economy of the region, and is a source of employment for Mexicans who arrive daily and settle in Quintana Roo, as well as for those who already live there. This means that Cancun has been able to meet, to varying degrees, all initial expectations and even surpassed some of them.

Cancun's hotel industry holds the highest occupancy percentage in the country, reaching levels of 90 per cent during the high season and 65 per cent in the low season. This makes it possible for Quintana Roo to accommodate 4.3 million tourists a year. Cancun's international airport operates more than 38,000 flights yearly, a figure is surpassed only by the airport of the nation's capital.

The trade and service sectors of the northern part of the state, closely linked to the hotel industry, represent 79 or the gross state product. Quintana Roo, as a federative body, contributes with more than 10 per cent of the gross national product for the tourist sector. This means that this sector generates almost 3 billion dollars annually for Mexico, that is, 40 per cent of the nation's total. Moreover, the federal government collects close to 600 million dollars in taxes every year.

However, problems caused by such explosive development led to serious difficulties in meeting the demands created by immigration. In the last 30 years, the nation's population doubled while in the same period, Quintana Roo's population grew tenfold. In other words, while the nation grew 100 per cent, the state grew 1,000 per cent, or ten times faster than the rest of the country.

This growth greatly surpassed Fonatur's housing forecasts as it only offered residential lots for upper and middle classes. Requirements of land and housing for the lower classes became a social burden, and it was not clear who should assume responsibility for it. On the one hand, Fonatur, acting as promoter of tourist development responsible for providing general infrastructure for settlement, focused on services for the hotel zone. On other hand, the municipalities and the Government of the state struggled to acquire land at low prices in order to lots and low-cost housing for the working class.

This situation has not improved in the last 18 years. Demands for housing, critical urbanization space, services and employment have multiplied at an immeasurable pace. In the same fashion, informal settlements have affected ecological preserves surrounding urban areas and expropriations of common land have taken place in order to support Cancun's growth.

Housing demand and costs have increased at the same pace, encouraged by the added value generated by Cancun's success as a development area. In nearby towns, agricultures no longer the economic activity. It has been replaced by real estate speculation for diverse uses, including the trade in building materials for the growing construction industry. The environment has been affected by this situation. A paradox results from the link of Cancun's success to the beauty of its natural environment, which is being unavoidably affected by development.

We are now aware of the challenge represented by a successful project such as Cancun. For the Government of the state of Quintana Roo, the situation is even more complex, as it has been compelled to allocate a great part of its day to day efforts and use its reduced budget to resolve a number of problems caused precisely by success.

Recently, the consolidation of the Cancun project opened new possibilities for development in its immediate surroundings, the phenomenon expanding in such a way that during the last decade an even more complex phenomenon has challenged us, in what is known as “Riviera Maya”, a 120-km strip of land between Cancun and Tulum along the coast of the Mexican Caribbean.
Riviera Maya, settled in the disproportionate parameters of its main city, Playa del Carmen, has experienced such an explosive growth that it has greatly surpassed that achieved by Cancun. However, Rivera Maya does have the advantages and support that Cancun had at that same time. Currently, this zone registers the highest demographic growth in Latin America and the highest immigration rate in all the country. All is concentrated in only one activity: tourism. Playa del Carmen has reached an annual growth of approximately 20 per cent, which means that its population doubles every five years.

This is to be expected, as Riviera Maya now has 19,000 hotel rooms built in only one decade, while Cancun has 25,000 hotel rooms built over 27 years. However, Rivera Maya does not have access to the economic support of an institution such as Fonatur to provide the infrastructure for basic services that tourist destinations require.

Economic activity has centered in tourism almost as a matter of fact, and other activities have been reduced. Even trade is based on the expectations of the average tourist, and land speculation has become a way of life for the privileged.

The difference between Riviera Maya's and Cancun's development is evident when we learn that during the last 27 years Cancun has required an investment from the federal Government of approximately 865 million for general and basic infrastructure. In Riviera Maya, the federal Government has only invested 87 million dollars in a period of 12 years. This means that with a total investment of 10 per cent of that invested in Cancun for infrastructure, Riviera Maya maintains 76 per cent of its hotel rooms. Therefore, it does not have the same magnitude or quality of basic infrastructure to support its development. However, Cancun also pays for Riviera Maya's success by serving as “city-bedroom” for those who do not have housing in the new development area.

In addition, Cancun's demographic index shows an annual growth of 9.1 per cent, while the Municipality of Solidaridad, heart of Rivera Maya, has an annual population growth of 19.9 per cent.

The complex economic, political and social problems caused by this situation are compounded by the fact that the taxes the federal Government returns to the state Government are not proportionate to the tax amounts generated by the tourist industry. This leads to a serious gap in infrastructure for basic services (e.g. drinking water, sewage, waste disposal, and electricity), which affect the environment as well as the sustainable development of that zone.

Therefore, while it is true that the tourist industry as a key element for development is a highly profitable activity, polarization of this industry's development puts considerable stress on social, cultural, ecological, economic and political environments. This stress is caused by unexpected development exclusively oriented to tourism, which is not supported by proper planning to identify foreseeable scenarios, anticipate problems and propose solutions, in order to enable the development and consolidation of different options to ensure sound financial conditions in the region.

This is a present and unavoidable challenge. The reaction of the state Government is to use all its available tools and develop policies directed at setting development models in order to revert current tendencies and overcome the lag caused by the situation.

The implementation of the 2000-2005 Strategic Plan for the Integral Development of the State 2000-2005 is the response to this challenge through the introduction of policies oriented to tourist development, because tourism is certainly the base of the state's economy. Moreover, the plan also strongly emphasizes, among other matters, ecology, urban development, and social policies in housing, by and large the sectors most affected by the current situation.

Riviera Maya's development and Cancun's continued viability cannot be left adrift nor can they respond any longer to the inertia created by their own explosiveness. It is absolutely necessary to find ways to sustain Riviera Maya's growth; encourage alternative economic activities;
diversify investment; and obtain the return of its taxes in order to finance its own infrastructure and to support its own growth, as there are no state or municipal entities that can afford the expenses engendered by this situation.

Now more than ever, the problems caused by explosive development in the tourist sector must be seen as a shared responsibility. It is true that the challenge is initially faced by the Government of the state, but only by joint federal, state and municipal efforts the necessary conditions to fully benefit from tourism will be created. The development of this region should be seen as a shared responsibility because improvisation, misdirection and scattered efforts must be avoided. Federation, state and municipality should join efforts as the only way to find a solution to this complex problem.

Additionally, private investment and economic activities should be diversified to offer alternatives to tourism. In spite of the problems caused by its growth, Cancun is still a clear example of successful, sustained and supported from its conception. This experience should guide us towards the consolidation of Riviera Maya as another successful tourist destination, with fewer problems and more solutions, capable of supporting its own growth, managing its development, and guaranteeing its future viability.

Cancun is also an excellent case to enrich the theory of tourist development. It should enable us to arrive at conclusions that will help us develop more rational planning in the future. Unfortunately, cities such as Guadalajara, Oaxaca or Merida - all of them Mexican tourist destinations - are no help to us in understanding the problems caused by tourism activities in our state. In those other destinations, those activities do not grow at a pace similar to ours, since they do not have so many infrastructure requirements, since they are established cities and do not attract tourism-related immigration by Mexicans to their areas; in sum, their challenges are different to ours.

Everything in our state started from scratch. Now we know that a hotel room attracts more than 20 inhabitants to a region where there used to be nothing. They all come willing to work and full of dreams. They seek better-paid jobs, housing for their families, education for their children, water, electricity, sewage, among other things. The problem is that it is not clear who should pay the social debt generated by their presence.

Entrepreneurs believe that by paying their taxes they pay their debts. The federal Government, as it does with other entities, returns to the state Government the same amount per inhabitant as it views as equal the social needs of someone living in Riviera Maya (a city in construction) or in Guadalajara (an established city without infrastructure problems). The state Government transfers the money to municipalities and carries out public infrastructure work - never in sufficient measure - for housing, sewage and water. Finally, municipalities try to pay the cost of the social debt engendered by development. Although this seems a balanced scheme, the lag infrastructure keeps on growing.

As can be seen, the rationale assumed by each party to justify its insufficient participation in the solution of the problem could lead to flawed conclusions. The fact is that the growth of tourism activities in Quintana Roo has to be conceptualized under a perspective. Let us consider its most important characteristics:

- It is the best sun and beach tourist destination in the country;
- It is the tourist destination that attracts the highest foreign investment in tourism;
- It contributes 40 per cent of the tourist domestic product;
- It generates a large amount of foreign exchange and fiscal resources for the country;
- It is a driving force for regional development;
- It offers the opportunity of well-remunerated employment to thousand of Mexicans;
- It takes place in a new region where all infrastructure has to be built;
- Its growth rate is the highest in Latin America.
If we dare see tourism activities in Quintana Roo as one of the most attractive sale products of a great enterprise called Mexico, we can conclude that there are two leading products: Cancun, in a maturation process, and Riviera Maya, in a developing process and with a higher potential to that of Cancun. What Cancun required for success in terms of infrastructure investment should be considered as the parameter if the orderly growth of Riviera Maya is the goal. Cancun is already mature, while Riviera Maya is in still developing and awaiting to be treated by the federal Government, in terms of infrastructure investment, in the same way Cancun was treated in the past, and in the way a successful product should be treated during its growing phase.

If in Mexico, our great enterprise, tourism, is considered good for national development because of its impact on foreign exchange, employment, taxation, growth, etc., the federal Government should assign the fiscal resources required to achieve its sustainable development. Tourism activities in Quintana Roo have proven to be highly beneficial for national development and investment rules on infrastructure should not be broken with impunity. Such action would mean an absence of entrepreneurial and social vision. If, as a nation, we are betting on tourism, this activity should be provided with what it has been demonstrated is required to avoid deterioration. Furthermore, the taxes it will generate will largely compensate the initial effort. That is the answer.

In Quintana Roo, Cancun and Playa del Carmen represent two stages of development, in terms of treatment in accordance with their particular circumstances as they progressed. They are both clear examples of the possibilities for development provided by tourism, but at the same time, of the serious problems it can generate.

Sustaining the development of a region implies taking into account all aspects of economic growth and participation by all actors. All should play their respective role viewing tourism in an integral way. A country should not drive region towards tourism development only to achieve national benefits. It should also recognize and pay the necessary investment costs to make this activity productive in the region, now and in the future.
INTRODUCTION

When the struggle of the people of Subic and Olongapo to raise their community from the ashes began in 1991, their attention was wholly focused on just surviving a double crises in the same year – Mt. Pinatubo’s massive eruption and the sudden uprooting of the US Naval Base at Subic Bay. No one gave our community a chance of surmounting these twin crises.

That we have survived and achieved infinitely more as a community is the reason Subic is in the Colloquium agenda. For it may well be that Subic’s story bears lessons for other peoples and communities who are also struggling in their own way to lift themselves from crisis and despair. As in other cases for discussion in this Colloquium, in our story there are possible kernels of insight and example to enrich the literature of local governance and development.

HISTORICAL BACKGROUND

To understand how and why our community responded the way it did to catastrophe and crisis, one must go back in time to the period when Olongapo first evolved into the city that it is today.

Olongapo was granted its city charter on June 1, 1966, thanks mainly to the pioneering efforts of its residents, who were led by its first mayor, the late Mayor James Gordon, who was the author’s father. Olongapo at the time was like most local communities – troubled by too much politics and riddled by graft and corruption. In the view of the author’s father, the community could not modernize without banishing corruption and elevating its politics. But for his efforts at reform, three attempts were made on his life. And the third one – on February 20, 1967 – succeeded. And it would take a while before the city regains its bearings and surmounts its political trials.

Olongapo’s emergence from this morass is exemplified in the message the author gave his constituents when he became Mayor of Olongapo on 3 March 1980: “What this country needs is not just a change of men, but a change in men!” To realize the change we all desire in our community and our country, we must ourselves become the change we seek. Attitude is everything. It takes leadership and people to form a partnership for change.

This message was especially necessary for Olongapo because it was widely regarded as “sin city.” It was called so because it was totally dependent and oriented toward serving the US Navy – its shipyard facility, logistics work, and so on. Outside the base, the city was nothing but houses, bars and nightclubs. Then, Olongapo was also a crime-ridden area. It had no agriculture, and all commerce and industry was dedicated to the service of the US Navy.

In the author’s view, two things were needed: first, a new vision of the future, and second, a new ethic of citizenship for all residents of Olongapo.

With respect to vision, the author raised before his constituents the vision of becoming a freeport city, as the key to obviating any dislocation that would arise from the withdrawal of US forces from Subic Bay. A conversion plan was devised for the building of a freeport on the other side of Subic Bay facing the US facility and we submitted to the national government.
With respect to citizenship involvement, we tried to directly engage our citizens in dialogue. We sat down with the people and asked: “What are Subic and Olongapo going to be like in the year 2000?”

We held a conference and invited everybody: jeepney drivers, lawyers, doctors, even women working in bars. It was a very big group. We told them about the plan to transform our community into a freeport side-by-side with the US Navy. We decided to pursue a programme to become a model city. We concluded that crime had to be eradicated in order to attract investors to our community.

Our basic approach was to create a system that gave responsibility to the ordinary people of Olongapo by making each of them a “miniature mayor.” We told them: “you can become Mayor of this part of the street. You have to keep it clean; you have to have a dustpan; you have to have a broom; you have to have a uniform so that people will recognize you; you have to have an ID card; and you have to report crime when you see it happening – if you do not report it, you will be replaced by somebody more responsible.” We told them that they could not bring their children onto the streets because we did not want them growing up as street children; we wanted them to have an education.

We accompanied this with slogans such as “All together now!” to encourage unity in a politically fragmented community. “Aim high, Olongapo!” for citizens to have ambition like establishing a free port or even becoming the cleanest and most peaceful city in the Philippines. We also used slogans like “Bawal ang Tamad sa Olongapo” [Lazybones are forbidden in Olongapo] to instill a strong work-ethic and “Lalong Bawal ang Tanga.”[Ignorance is forbidden as well]. Thus, encouraging and instilling the value and importance of education.

After we launched these programmes, walking the streets became safer. They were a lot cleaner. We then decided to work on the public transportation system.

The central government taxed jeepneys and tricycles without consulting the local government, saying: “You have to grin and bear it.” There were many abuses in the city’s transport system. People were robbed. There was virtual chaos in our streets.

Our approach was to introduce controls and order as well as public accountability in the system. We told drivers that they had to paint their jeepneys a particular color. We informed them that we would color-code them, put numbers on them, make the drivers wear uniforms with their names on their back, and issue photo ID cards every year so that we could have some control and that they become answerable to the commuting public.

There was much resistance at first. Political will was necessary. We held meetings with all the jeepney operators and the tricycle drivers. In the end, they all saw the wisdom and necessity of the reform. The system was a resounding success. In fact it became so successful that the Government of Sri Lanka sent a delegation to Subic in the late 1980s to copy our system.

Another reform introduced was to get people to volunteer for services such as garbage collection. They were so used to having their garbage picked up that many of them just threw it onto the streets. We announced that garbage would be collected twice a week, that it must be placed in plastic bags, and that everybody would have to pay garbage collection fees. In the Philippines many people are used to indiscriminately throwing litter on the street, but over time attitudes have changed inspired by the example of Olongapo City.

The same situation existed regarding our hospital. We received no funding from the national government. Volunteers contributed equipment, beds, air conditioners, microscopes, and laboratory equipment. Finally we had a better hospital. We employed young doctors and allowed them to treat the wealthy for pay, provided they also rendered free medical services to people who could not afford to pay for treatment.

Along with this improvement in public services and rise in citizen involvement in city affairs, public infrastructure was improved. Our idea of a government that was accountable and responsible
began to tell on the character of our city. People saw that Olongapo was typified by community participation and vigorous leadership. In short, it began to gain a reputation as a model city.

Twin catastrophies

In 1991, Mt. Pinatubo hit the city – it was the volcanic eruption of the century: earthquakes every two minutes, a blizzard of ash accompanied by typhoon, five inches of ash, buildings collapsing. We had to bring down 9,000 aborigines from the mountain. In the middle of that evacuation, there was another eruption and many more buildings collapsed. We never gave people a chance to pity themselves. We were always putting out messages that encouraged people to think positively about their circumstances.

It was a prolonged struggle of survival and rebuilding. We dug our way through the ashes. And then we rebuilt our homes, schools, hospital and public market.

But as we surmounted the fury of Mt. Pinatubo, another catastrophe descended on us. In September 1991, the Senate of the Philippines voted to reject a new military bases agreement with the United States, decreeing that there would be no more foreign military bases in the country. The Subic Bay Naval Base, along with Clark Air Base in nearby Angeles, would have to go.

The timing could not have been worse. With people still trying to rebuild their lives after the Mt. Pinatubo disaster – and Clark and Angeles buried under the ashes – the rug was literally being pulled from under our feet. The very base of our local economy was wiped out with a single stroke.

At Clark and Angeles, the pangs of transition were met by much looting and pillaging of the base facilities. At Subic, we were determined that the same thing would not happen. For, as early as then, we saw that our future laid in turning the former base into a viable economic zone and freeport.

We therefore asked our people to volunteer to guard the facilities under the slogan of “Protect and preserve to prosper.” Protect the reputation of our country, we urged, preserve its facilities, and we will prosper.

More than 8,000 people volunteered. They guarded homes that did not belong to them. They cut the grass. They kept the base and its facilities like the petroleum tank farm, seaport and airport intact. They ran the power plant without pay for four or five months.

BLUEPRINT FOR THE FUTURE

At the same time, we began to lay the foundations for the future of Subic and our community. No transformation can happen without a clear vision and blueprint of the future. Our plan was basically to implement our dream of transforming Subic into a freeport and industrial zone, along with its tourism potential. And the key was to get investors to locate in the area and participate in the full modernization of our city.

We persuaded a power company from Texas to build a plant. Within a year we had 118 megawatts of power. People who had volunteered were getting jobs with better pay than during the time of the US Navy. The point was made that those who had volunteered to protect Subic, were original stakeholders. If they did not steal, and worked hard without pay, business opportunities would become available to them.

Our plan succeeded. Soon another Houston based company invested and took over a total of 68 petroleum tanks with a capacity of 2.4 million barrels. A new pipeline between Subic and Clark field carried a 14-day supply of oil to the country. Tankers began arriving at Subic Bay daily.

We also worked on infrastructure. We devised three strategies:

First, the moral infrastructure – the people. Honest, hardworking people, volunteering without pay;
Second, the legal infrastructure – the rule of law. We persuaded Congress to implement the freeport scheme. And, with the help of the World Bank, and later of ADB, we created rules and regulations that were predictable, consistent and enforceable;

Third, we concentrated on the physical infrastructure, the modernization of Subic Bay. We modernized the power plant, the petroleum tank farm, and the telephone system. We achieved this through a joint venture with the Philippine Long Distance Telephone Company. That Company had a monopoly at that time, but was told that it was not going to prevail unless it participated in a joint venture with the multinational corporation AT&T. The Subic Bay Metropolitan Authority would also have a share in the operation. Eventually it became a 40/40/20 arrangement. We insisted that the Company install a modern switching facility for telecommunications – which it did – even if a strong market did not exist at the time. Thus, international standard telecommunications were established.

Then we proceeded to deal with the airport. The airport had no radar, no electronics, nothing. We approached DHL, the courier service, but it was not interested. We went to the United States to talk to Federal Express and invited them to come to the city. Of course, we took into account the fact that the Chairman of the Federal Express was a former US Marine who had visited Subic. And we managed convince him to come to the city. He saw the volunteers, saw the wonderful workforce, and was impressed. But he said: “I’m sorry Dick, but we’re going to go to Taipei because according to our analysis that is a better location. They have an airport that can handle 747s. Your airport is made for jet fighters and occasional landings of heavy aircraft. But that airport pavement is going to collapse unless you replace it with one foot of concrete. Besides, you don’t have a radar or an ILS, and you have time constraints. We want to start our Asian hub this year.”

At that time the World Bank was granting us money for infrastructure work and the airport was part of this project. We just said: “Well, we need to accelerate!” And we did. In 29 weeks we built an airport. Working together we extended the runway and from end to end we cemented in an additional one foot of concrete. Also, we were able to borrow money from the local banks to get a state-of-the-art radar and landing equipment. Then we called Mr. Smith – FEDEX’s Chairman – and told him that we were ready to “rock and roll” with Federal Express. FedEx came to Subic. Others followed.

Subic Bay has become a business hub for the Philippines and for Asia itself. Every day aircraft land in Subic Bay from US cities, Tokyo, Osaka, Shanghai, Taipei, cities in Korea and Kuala Lumpur, sometimes even from cities in Australia. Speed is “the name of the game.” Goods arrive every night for sorting and distribution throughout Asia and the United States. Because of our hard work in attracting Federal Express we now have over 300 companies in Subic Bay who have invested a total of 2.6 billion dollars in four and a half years.

It is now nearly ten years since the US Navy pulled out. During this time we have created more than 90,000 jobs in Subic, and we produce everything from ships to telephones. We even have a Subic Bay Industrial Park in partnership with Taipei, and a Japanese industrial park called Subic Technopark. These are all joint ventures. We provide the land, we borrow money at concessional rates, develop the land and provide utilities, and finally lease it at very concessional rates so as to attract business. We generated 24 million dollars from exports in 1994. Today, exports total over a billion dollars annually. And what is more, Subic no longer receives any financial assistance from the national government. In fact, since 1996, it has been returning 2.5 billion pesos to the government in taxes and duties.

Subic is not just a transhipment facility. Our deepwater port, Subic Bay itself, is able to handle many ships. The Philippines lies in a very strategic location of the world. The fact that 60 per cent of the world population is only a few hours away is an important strategic advantage. This is why we are pursuing connectivities by land, air, and sea, and communications by satellite and cyberspace.
The most important aspect of all this change is the human resource element. Giving confidence to individuals who were previously downtrodden is a most important outcome. We have discovered that creating partnership between leaders and people and keeping a positive attitude makes all the difference. Saying that we can bear the burden if we bear it together, that we can actually create business ourselves, is another important outcome.

Faith in people and trust in each other have counted for much in Subic’s success. Our young people, for example, worked with the former base employees to make Subic what it is today. Young people from Harvard, Stanford and Wharton have come home to work with us. Many, many young people volunteered their time for Subic.

DECENTRALIZED GOVERNANCE

If we succeeded so well and so quickly in transforming Subic Bay into a major economic powerhouse, it was due in no small part to its decentralized governance. When the Bases Conversion Act was passed by the Philippine customs authority, which created the Subic Bay Metropolitan Authority (SBMA), it provided for local autonomy and authority to negotiate. It did not have to go to the President or the national government to implement the vision.

This was the reason why as SBMA chairman and administrator, the author was able to negotiate freely and quickly with hundreds of foreign investors from all over the world. This was the reason we could make an offer to Fedex that it could not refuse.

This character of Subic’s governance was radically changed in June 1998, when President Joseph Estrada came into office and a new leadership was installed in SBMA. Despite the still unexpired term of the author, he was removed from office and replaced. Although Mr. Estrada has since been deposed, the new administration has decided not to repeal the action of its predecessor.

Without decentralized governance and with an intrusive national authority, the Subic system does not work as well. Thus we have seen a deceleration of Subic’s development, and a retreat even from the freeport vision.

Tourist arrivals to Subic decreased greatly from 1998 to 2001, and until today. While the years 1993 to 1997 with the incentive of duty free shopping and the allure of Subic’s natural wonders saw arrival growth rates in the 90 per cent to 200 per cent range, the years 1998 and beyond have seen as much as a minus 45 per cent growth rate in arrivals. Correspondingly, the number of international flights and tourist arrivals at the Subic Bay International Airport has decreased since 1997, when a record number of 1,525 international flights arrived with 125,488 tourists. In 1998, Subic’s numbers went down to 1,190 international flights (75,072 tourists), to 882 flights (66,099 tourists) and later to 842 flights (60,914 tourists).

Despite the fact that the facilities and attractions in Subic did not change – one would hope that the casino, yacht club, equestrian center, and golf course would attract the same visitors, and that the hotels would readily accommodate the tourists – foreigners stopped coming. The change in thrusts brought about by the change in administration in 1998 caused a lack of confidence in government in general, and resulted in poor maintenance, poor cleanliness, poor promotional efforts, and lack of investment.

CONCLUSION

As we look to the future, a question hangs over the unfolding saga of Subic and Olongapo, and the full realization of our Subic blueprint. That future still hangs in the balance because politics has reigned in Subic’s affairs, and there has been a significant deviation from autonomous, decentralized governance.

It is to the credit of Subic’s strong foundations that despite the political intramural discord and deviation, it continues to march forward, albeit incrementally. The resilience of the workers and the “locators” have remained and managed to survive. And Subic’s magnificent natural endowments also remain.
What has slackened over the past two years, however, is the implementation of the second stage of development that we originally envisioned – the flowering of a second city next to Olongapo that would replicate the rise of Singapore, Hongkong and other Freeport-driven cities. This must wait perhaps for another time, when decentralization will return and vigorous leadership will dare to reach for Subic’s incomparable potential.

These setbacks and delay notwithstanding, the story and lessons of Subic remain. And the author submits that it can serve as a model for communities that really want to modernize and transform themselves – by attracting foreign investments, conserving its precious natural assets, and tapping into its human resource pool. The challenges and adversities we have faced are not unique, for other communities have also had to face their own trials and tribulations. What is perhaps special is the way we have tapped into the spirit of volunteerism and citizen involvement in raising our community from the ashes. For this, in the final analysis, the author truly believes is what accounts for our success. Once this spirit is awaken, everything becomes possible for a community seeking to better itself.

The author has, therefore, been preaching the gospel of volunteerism all over the Philippines as a way of galvanizing reform and modernization in the entire country. Adopting a clear vision of the future, fostering cooperation and good citizenship among the people, and holding up volunteers as stakeholders in a common future – these are the threads for making things happen in every community.

The author is proud to state that the story of Subic is not unique in the Philippines today. It is happening in other communities in the country.

In this Colloquium, there is the belief that successes can be replicated and ideas can be shared, that there is a ripple effect where there is the will to spread the lessons of development. The author hopes then that, in recounting the Subic experience, some of its lessons will ripple and flow into the societies represented here.
CASE STUDIES

SUSTAINABLE CULTURAL TOURISM: THE RAJASTHAN EXPERIENCE

Anshuman Singh
Governor
State of Rajasthan
India

BACKGROUND

Rajasthan is one of the 28 states of the Indian Union, and, in area, its largest with 3,42,000 sq km, and a population of over 50 million. The state of Rajasthan was formed by the merger of 22 princely states into the Indian Republic on 30 March, 1949.

The state of Rajasthan is one of the most colourful and culturally rich states of the Indian Republic. It is equally rich in history and geographical diversity with a very rich varieties of species of fauna and flora. The landscape of Rajasthan is varied; it has one of the oldest mountain ranges in the world known as the Aravali. Two thirds of its landmass are covered by the Thar desert, while the southern part of the state is very green and picturesque and has a beautiful city of lakes, Udaipur. The south-east part of the state is rocky and has the only perennial river of the state, Chambal.

The state’s regions are: as Marwar (West), Mewar (South), Hadoti (South East), Braj (East), Shekhawati (North Central) and Dhundhar (Central). These regions have unique living traditions and culture, styles of architecture and cuisine, schools of paintings and rich traditions in the performing arts, and a variety of rich handicrafts. Every few miles in these regions, the change seen in local dialect and socio-cultural variety is immense.

The state is so richly endowed with history, culture, art and craft forms, and ecologically abundant biodiversity of flora and fauna that it has become the most popular state in the country with international and domestic tourists.

Rajasthan as a tourist state

The state of Rajasthan has emerged as a prime destination for international and domestic tourists. While in 1973 about 2 million tourists visited the state, in 2001 that number increased to 8 million.

Rajasthan with its rich history, coupled with colourful fairs and festivals and its friendly people has become a favourite destination for tourists from all over the world. Except for a sea beach and snow-clad mountains, it offers everything to the tourists. Some of the tourism attractions of Rajasthan – such as Palace-on-Wheels, Heritage Hotels, Camel Safaris, Pushkar Fair, Desert Festival and Wildlife Sanctuaries/National Parks – have become internationally famous and popular among the tourists. The Government of Rajasthan declared tourism an industry in 1989.

Rajasthan state as a tourist economy

The over 8 million tourists who visit the state of Rajasthan every year include one in four of all international tourists that come to India. The majority of international tourists visiting Rajasthan are from France, the United Kingdom, Germany, the United States, Italy, Australia, Japan, Switzerland and Canada. It has been estimated these tourists spend over 200 million dollars in the state every year.

Tourism provides direct employment to some 100,000 people and indirect employment to over 300,000.
Following is the projected tourists arrivals in Rajasthan (2000-2020): (In millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Foreign</th>
<th>Domestic</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>0.60</td>
<td>7.28</td>
<td>7.88</td>
</tr>
<tr>
<td>2005</td>
<td>0.84</td>
<td>11.20</td>
<td>12.04</td>
</tr>
<tr>
<td>2010</td>
<td>1.18</td>
<td>17.23</td>
<td>18.41</td>
</tr>
<tr>
<td>2015</td>
<td>1.66</td>
<td>26.41</td>
<td>28.07</td>
</tr>
<tr>
<td>2020</td>
<td>2.33</td>
<td>40.78</td>
<td>43.11</td>
</tr>
</tbody>
</table>

The growth of tourism in Rajasthan is crucial for:

(a) Employment generation.
(b) Poverty alleviation;
(c) Empowerment of women;
(d) Survival of rural artists;
(e) Upliftment of rural artisans;
(f) Improvement in urban and rural infrastructure;
(g) Better image, quality of life and attitude of people;
(h) Revival of traditions and heritage conservation and management.

Tourism impact

The following chart depicts the impact of tourism in generating employment in rural areas:
The following chart depicts the impact of tourism in generating employment in urban areas:

**TOURISM'S IMPACT ON URBAN ECONOMY**

- Boost to Fine & performing arts
- Hotels & restaurants
- Entertainment facilities
- Jobs to youths
- Conservation of cultural properties
- National global image & identity
- Urban infrastructure

In the state of Rajasthan tourism activities have helped generate employment in chronically drought-affected areas paving the way for “drought proofing” of the region and producing many economic activities for all segments of society in the desert region. The following chart explains this phenomenon.

**“DROUGHT PROOFING” OF RAJASTHAN THROUGH TOURISM**

- Revival of traditional arts & crafts
- Marketing of dairy & animal husbandry products
- Revival of traditional building arts
- Tourism development as a means of drought proofing in Rajasthan
- Providing ready marketing opportunities for rural artisans
- Synergy with canal system
- Marketing synergy with Khadi sector
- Employment generation during entire year
**Economic gains**

**Multiplier effect of tourism**

Tourism is a multi-sectoral activity, whose linkages to many other industries as tourists spending flows through the entire economy. In order to gauge the true impact of tourism on the economy, it is therefore imperative to extend the statistics to include contributions by the tourism industry as well as the tourism economy, otherwise it would be tantamount to underestimating the GDP generated by the sector. The tourism industry itself is just the tip of the iceberg when the total impact of the sector on the economy as a whole is considered.

Such a measurement is facilitated by the Satellite Accounting System (SAS) as developed by the World Travel and Tourism Council (WTTC) for India. India has initiated steps to use this system. SAS uses the National Income Accounting system to provide an unprecedented insight into the complex impact of new and growing service industries such as tourism and the effects of visitors’ consumption as well as the indirect economic impact of travel companies, suppliers and support services.

**Contribution to GDP**

Currently, the tourism economy contributes an estimated 904.06 billion rupees to the GDP, accounting for 5.6 per cent of India's GDP (according to WTTC) as compared to a world average of 10 per cent of GDP. The sector is expected to continue its steady growth rate in spite of the current uncertain economic environment. Forecasts suggest that the overall economic activity stimulated by tourism should grow at a rate of 8.4 per cent per annum.

**Employment generation**

The total impact would encompass both the direct and the indirect jobs created by the sector. The visit of each foreign tourist provides employment to one person, and 17 domestic tourists generate one job. Labor/capital ratio per million rupees of investment at 1985-1986 prices is 47.5 jobs in the tourism sector, and is as high as 89 jobs in hotels and restaurants compared to 44.7 jobs in agriculture and a mere 12.7 in the manufacturing sector. This indicates the labour intensive nature of the jobs created by tourism and related activities.

The jobs generated by the tourism sector have a number of characteristics, which make them attractive to governments worldwide, and in particular provides an appropriate channel to reduce the voluminous unemployment that challenges the Indian economy. These jobs:

(a) Are rapidly generated at relatively low cost;
(b) Are concentrated in small businesses and local communities, helping to equalize economic opportunities throughout the nation and provide an incentive for the residents in rural areas not to move to overcrowded cities;
(c) Provide significant opportunities for women, as a natural affinity to dexterity is required. In fact, women are employed in greater numbers than men in hotels, airlines, etc.;
(d) Offer education, training and skills development and thus impart a much needed vocational training that could absorb the unemployed educated youth;
(e) Protect and revitalise traditional arts and crafts and thus raise the living standards of the impoverished artisans of the country.

The direct employment generated by the tourism industry has been projected at the rate of 8 per cent from 1998-1999, with 1997-1998 as the base year. In 2001, the direct employment in this sector amounted to over 10 million people and the indirect employment to over 21.5 million.

According to WTTC, tourism supports 9.3 million direct jobs in India. By 2010, this number is expected to grow to 12.9 million jobs. The tourism economy also supports 17.4 million
indirect jobs in India, or 5.8 per cent of total employment. By 2010, this number is expected to rise to 25.0 million jobs, or 6.8 per cent of total employment.

The realization of the employment potential would, however, depend on the extent to which education and training imparted by the public and private sectors in tourism is integrated into the various employment generation schemes of the central and state governments.

Foreign exchange earnings

Tourism is presently the world's largest export industry and India's third largest, after ready-made garments, and gems and jewelry. The foreign exchange earnings from tourism were over 2,918 million dollars for the year 2000.

The import component of the tourism industry is negligible and does not exceed 7 per cent of total earnings, as compared to 72 per cent in the case of gems and jewelry.

The hotel industry is the major source of foreign exchange earnings in the tourism sector, as 50 per cent of foreign tourists total expenditure is on accommodation and food. Foreign exchange earnings from tourism in 2000 covers almost 45 per cent of the import bill on petroleum – crude and products – the country's largest import item.

Current account deficit (CAD) and foreign travel

As it is known, the current account consists of foreign transactions relating to exports, imports and invisibles. Foreign exchange from tourism is classified under invisibles, which include items such as net receipts generated by foreign travel, transport, insurance, investment income and private and official transfer payments.

If one excludes private transfers, the largest invisible receipts, foreign travel receipts account for 30 per cent of total receipts. The positive net receipts from invisibles have a balancing effect which significantly bring down the negative net receipts on the trade account, and finally result in a more favourable current account deficit. If receipts from foreign travel are increased, this could lighten the burden and together with private transfers could possibly bring down the CAD over time. The tourism sector thus has a potential role to play in improving the CAD.

Infrastructure investments

Travel and tourism stimulates enormous investments in new infrastructure, most of which helps to improve the living conditions of the local residents as well as the tourists. Such investments facilitate the development of backward areas. Tourism infrastructure encompasses both the tourism-specific infrastructure, such as hotels and airports, and the basic infrastructure such as energy, roads and telecommunications.

Social gains

Balanced development

Tourism not only accelerates “economic growth” but also brings about greater economic development which implies more equitable economic growth. The activities associated with tourism lead to a balanced development of backward and weaker areas, and creates an environment of equity in the long run.

Sustainable human development

Tourism generates sustainable human development including poverty alleviation, employment creation, environmental regeneration, advancement of women and promotion of social integration and international understanding.

Target and achievements: a wide gap

Despite the enormous potential of the tourism sector in accelerating the economic growth of a country, it is disheartening to note the huge gap between targets and actual achievements. At present, India accounts for a minute 0.4
per cent of the world tourist traffic. The country has set a target of attracting 5 million foreign tourists by the year 2005. However, given the present state of affairs, achieving the target seems elusive. Projections of foreign tourist travel up to 2005-2006, based on historical trends, portend a dismal picture. By 2005-2006, only 4.39 million foreign tourists are expected to visit India. These projections are based on the historical annual growth rate of 8 per cent.

The factors that impede the growth of the sector can be broadly listed as follows:

(a) Lack of adequate infrastructure;
(b) Taxes on tourism and tourists;
(c) Policy hurdles;
(d) Inadequate security;
(e) Poor human resource development;
(f) Lack of innovation in marketing;
(g) Less diversified tourism products.

India's performance compared to neighbouring countries

India's performance compared to neighbouring countries is not favourable. While 5.63 million tourists visit Singapore annually only 2.36 million tourists visit India, and Singapore's tourism receipts are 5.16 billion dollars compared to India's 3.12 billion dollars.

India's Ministry of Tourism is undertaking initiatives to project the country as a viable tourist destination. The new draft tourism policy formulated in 2001 by the Ministry, has recognized the need for:

(a) Creating awareness among all sections of society about the socio-economic benefits of tourism and the importance of providing assurances of safety and security to tourists;
(b) Providing a national focus for the development of tourism;
(c) Diversifying the tourism product, developing it as a part of the overall area development, and removing regional imbalances;
(d) Providing for people's participation in the development of tourism and in sharing the benefits of tourism;
(e) Creating awareness about promotion of eco-tourism and preservation of the national environment and heritage;
(f) Facilitating the development of a dynamic private sector;
(g) Coordinating the efforts of different Government departments and agencies in making India a tourism-friendly country, and in providing the required infrastructure;
(h) Ensuring easy international access to India, enhancing carrying capacity and improving the quality of services;
(i) Facilitating domestic tourism by promoting amenities and facilities for budget tourists;
(j) Promoting integrated development and identifying tourist destinations with the involvement of all the infrastructure departments, State Governments, and the private sector;
(k) Developing of tourism in the North East, the Himalayan region, Jammu and Kashmir, and the islands of Andaman, Nicobar and Lakshadweep, as part of the overall strategy of economic development of the regions.

While the strategy does reflect to a great extent many of the aspects of the millennium vision of WTCC, the challenge will be to implement policies with the requisite funding and to follow through, particularly in the critical areas of infrastructure development and liberalization.

Tourism infrastructure

Infrastructure remains a critical component in travel and tourism development in India, if the full potential of employment generation, export earnings and regional development is to be realized. WTCC has recommended that, for a proper development of infrastructure, distinction should be made between the need
for basic infrastructure (i.e. transport links, telecommunications, energy, and water treatment) and travel and tourism assistance (i.e., signs and information, and facilitation and services), and product development options (i.e., eco-tourism, special tourism areas and health tourism). From a national policy perspective the focus should be on:

(a) Public infrastructure, such, as roads, railways and airports, which supports travel and tourism expansion, and which will also serve other urban and regional development purposes;

(b) Airport expansion and air traffic control system modernizations are priorities for tourism development. The new civil aviation policy is an important step, with its commitment to upgrading facilities with the broad involvement of the private sector.

Human resources development

Education and training present major opportunities for a rapidly developing travel and tourism sector in India. Strategies, which enhance the employment capacity of the tourism industry and raise the quality of service to international levels, must therefore be developed.

Public education and career programmes should draw attention to job prospects in the travel industry. The private sector should also play an active role in ensuring the maintenance of the highest international standards of management and service, both through access to international skills and experience to ensure competitiveness, and the implementation of training and career structures capable of supporting the development of skills. Thus, tourism should be put in a broader socio-economic context:

(a) As a leading XXI century service sector economic driving force;
(b) As a unique vehicle for social and cultural development; and
(a) As an instrument for environmental improvement.

The tourism policy of the state of Rajasthan

The state of Rajasthan announced its tourism policy on 24 September 2001. The policy’s mission statement includes the following:

(a) A pragmatic policy designed to ensure optimum utilisation of the rich tourism resources of the state to generate employment specially in rural areas, to develop a ready market for the rich and varied handicrafts, to preserve varied bio-diversity and the natural, historical and cultural heritage of the state by scientific methods, and to accelerate the contribution of the tourism industry in the socio-economic development of the state by making tourism a truly people's industry in Rajasthan;

(b) The affirmation that tourism has emerged as an important instrument for sustainable human development including poverty alleviation, employment generation, environmental regeneration and development of remote areas, and advancement of women in order to promote social integration and international understanding;

(c) The enunciation of the new pragmatic policy, taking into account the changing socio-economic and investment scenario in the state of Rajasthan and the emerging trends in the tourism sector;

(d) The primary objective of the policy is to promote the tourism industry as a means for the socio-economic development of the state.
The essence of Rajasthan's experience in
tourism management

This tourism policy of Rajasthan state has been
designed to ensure the management of resources
to fulfil the following:

(a) Economic, social and aesthetic needs;
(b) Maintenance of cultural integrity;
(c) Essential ecological processes;
(d) Bio-diversity;
(e) Life support systems;
(f) Making tourism a “people's industry”
in Rajasthan.

The implementation thrust would be on following
issues:

(a) Sustainable generation and manage-
ment of revenues;
(b) Natural resources management,
keeping in view local eco-systems;
(c) Impact of tourism on local culture in
tourism-intensive regions;
(d) Exploration of policies conducive to
fostering local entrepreneurship;
(e) Creation of employment, especially in
rural areas.

It is emphasized in this paper that, to ensure
sustainable development in tourism-driven
economies such as that of the state of Rajasthan,
the following points are being taken into account:

(a) Carrying out scientific management of
natural, historical and socio-cultural
resources;
(b) Balancing the competing claims on
limited natural resources such as water,
vegetation, and human beings;
(c) Evolving a code of conduct for guests
and hosts;

(d) Ensuring a symbiotic relationship
between guests and hosts;
(e) Ploughing back tourism earnings for
conservation, preservation and
nurturing of local arts, crafts, cultural
properties and living traditions of the
people;
(f) Including tourism and cultural
conservation in the school syllabus as
has been done by the Government of
Rajasthan for the students of Secondary
level from the academic year 2001;

(g) The state should perform the role of
facilitator, catalyst and pragmatic
regulator to ensure sustainable
development of tourism in the tourism-
driven economies;
(h) There should be an institutional
mechanism for sharing of knowledge,
experience and practices in the field of
tourism development, so that a module
could be developed for a smooth and
effective regional governance for
sustainable development in tourism-
driven economies.

This International Colloquium convened by
Department of Economic and Social Affairs
(DESA) and the state of Quintana Roo, Mexico,
surely would go a long way in promoting the
exchange of experiences and ideas, and providing
an opportunity for new initiatives about
decentralized development in regions that have tied
their economy to the tourism industry. There is
reason to be hopeful that this Colloquium would be
successful in achieving its aim of supporting sub-
national governments in the development of a
strategic approach to public policy development
and to creating the necessary local capacities for
taking advantage of the opportunities of sustainable
tourism development in decentralized economies.
INTRODUCTION

This case study consists of two parts. Part One deals with the status of tourism in the state of Kerala, providing detailed general information on tourism development as well as its tourist attractions and facilities. Part Two focuses on the process of decentralization taking place in the state and the potential benefit of decentralization in tourism development.

Governance and Sustainable Development in Tourism-driven Economies, the subject of this Colloquium, is very relevant in the present context of the global economy. In Kerala, a small state of India, tourism has already become a core competency sector, and the state's economy is gradually becoming tourism-driven. For this reason, Kerala is keenly interested in sustainable tourism development, including the decentralization of this sector of the economy.

PART ONE

BACKGROUND

Tourism as everybody knows, has become one of the fastest growing industries as a result of technological advancement and improvements in communications. Global tourism is expected to continue to expand because people are beginning to discover more and more new destinations, and the travel industry is becoming more and more organised.

The undeveloped and developing countries promote tourism as a means of generating foreign exchange, increasing employment opportunities, attracting development capital and enhancing economic independence. It is often maintained that existing forms of mass tourism development are unsustainable in terms of the negative impacts on the environment, the way in which it corrupts local cultures and the manner in which any potential economic benefits are frittered away. It is from this negative premise that the thought of “sustainable tourism” takes its position to redress the impact of tourism and establish forms of new tourism that are environmentally, economically and culturally sustainable.

GENERAL FACTS

India is the largest democratic republic in the world with immense possibilities of growth in the tourism sector, given its vast cultural and religious heritage, and varied natural attractions. However, the country plays a comparatively small role in the world tourism scene. Kerala, located at the southwestern tip of the Indian sub-continent, has already become one of the leading tourist destinations in the country. Kerala, a small state lying in the southern tip of India, has an area of 38,863 sq km, with a population of 32,840,000 as per the 2001 census. The major cities in Kerala are Thiruvananthapuram (the state capital), Kochi, Kozhikode, Kollam and Thrissur. The state has a tropical climate. The economy is mainly agro-based with rubber, cashew and spices bringing in valuable foreign exchange. The marine industry is also one of the major components of Kerala's
The trend in the last few years shows that the tertiary sector is rapidly increasing in importance. It contributes almost 50 per cent of the state’s income. The primary sector is also a significant actor, with a contribution of about 30 per cent towards the state’s income, though its importance is gradually diminishing.

The significance of tourism in Kerala

The unemployment in Kerala is around 4 million. In the context of the poor prospects of the manufacturing sector and the severe threats being faced by the agricultural and traditional sectors, tourism is considered to be the best alternative for priority in the state’s development. Sustainable tourism development not only improves the state’s income, brings in valuable foreign exchange and increases employment but also results in the distribution of benefits across the state as opposed to most of the other sectors which tend to localise the economic and social benefits in a particular region. This is particularly so in Kerala where quality tourism assets are dispersed throughout the state.

Tourist attractions

Kerala is a unique case in that its rich tourism experience keeps intact the customs and traditions of the state, while being receptive to new ideas and alien cultures. The state has a long list of tourist attraction centres, ranging from Portuguese ports, Dutch palaces, British bungalows, churches, mosques and temples attracting all types of tourists of various nationalities. Located between the Western Ghats and the Arabian Sea, Kerala is blessed with unmatched natural diversity that provides immense scope for tourism. This virtual paradise comprises almost all the types of tourist attractions in the world: serene beaches, enchanting backwaters, mist-clad hill stations, lush forests, exotic wildlife, exciting trekking trails, scintillating waterfalls, extensive plantations, tropical islands, invigorating monsoons, ayurvedic health centres, historic monuments, sacred pilgrim centres, magical festivals, spectacular art forms, splendid cultural heritage, spectacular boat races, spicy cuisine, and everything else that enthralls a visitor.

A physical quality of life comparable to developed nations and an almost fully literate population in this beautiful land are important factors that have helped to transform Kerala into an important tourist destination.

Important tourist centres

The important tourist destinations in the state are Kovalam, a world-renowned beach resort; Kumarakom, the most important backwater destination; Thekkady, one of the best wildlife sanctuaries in the country; Munnar, the fastest growing hill station; Kochi, the meeting point of heritage and modern developments; Thiruvananthapuram, the capital city; and Kozhikode, once the capital of the powerful Zamorins and now a prominent trade and commerce centre. There are three international airports, a good railway network and a reasonably well-knit road network to facilitate the easy movement of tourists within and from outside the state. All the destinations are developed with quality provision of, among other things, drinking water, power and communications of quality.

International and national acclaims

Kerala has emerged as the most acclaimed tourist destination of the country in the recent past. The World Travel and Tourism Council has selected Kerala as a “Partner State”. National Geographic Travel, after two years of research, has chosen Kerala as “one of the 50 must-see destinations of a lifetime”. Kerala has been identified as “one of the ten paradises of the world”. Other acclaims received by Kerala tourism include “One of the 100 great trips for the 21st Century”, by Travel and Leisure; “One of the ten hot spots for the millennium”, by Emirates Inflight Magazine; “One of the best breakfasts in the world”, by Travel and Leisure; “One of the ten love nests in India”, by Cosmopolitan; and “One of the six destinations of the millennium”, by Khaleej Times.

Kerala has won the “Best performing State award”, instituted by Outlook Traveler, for the year 2000-2001. Kerala has also been awarded the “Best performing State Award” by the

**Growth in tourist arrivals**

Kerala tourism has recorded remarkable growth in the last few years. The number of foreign tourists visiting the state has increased from 42,000 in 1985 to 210,000 in 2000, an average annual growth of 27 per cent. Domestic tourist arrivals to the state have increased from 330,000 in 1985 to over 5 million in 2000, an average annual growth of 94 per cent.

Though tourists from all parts of the world visit Kerala every year, the top five countries in terms of tourists origin are the United Kingdom, Maldives, Germany, the United States and Sri Lanka. Sizeable numbers of tourists also come from France, Italy, Switzerland, the Arabian Gulf, Japan and Australia. The distribution of tourists by occupation shows that proportionally the service and business segments are dominant. The distribution of tourists according to income level shows that Kerala attracts mostly higher-income tourists in both the domestic and the international categories. Kerala is predominantly visited by tourists interested in holidaying, sightseeing and relaxation. Eighty-three per cent of the foreign tourists are pleasure tourists.

**Revenue and income generation**

The revenue generated in Kerala's economy due to tourism is estimated to be nearly 100 million dollars, which represents 6.29 per cent of the state's GDP. A recent study conducted to assess the economic impact of tourism in the state shows that the output multiplier of tourists’ expenditure in Kerala is 2.07, considering the direct and indirect impact. When the induced effect is also taken into account, this figure is as high as 8.83.

Tourism has generated employment in Kerala to the tune of nearly 700,000 jobs. The employment multiplier (direct and indirect) for tourism in Kerala has been worked out as 4.62.

**The vision of Kerala tourism**

The vision of Kerala tourism is to turn the state into “God's Own Country”, an upmarket high-quality tourist destination, through a rational utilisation of resources with focus on integrated development of the infrastructure sector, conserving and preserving its heritage and environment, enhancing productivity and income, creating employment opportunities, and alleviating poverty, thereby making tourism the most important sector for the socio-economic development and environmental protection of the state.

The plan of Kerala tourism is to increase the earnings from tourism by not less than 10 per cent annually, and to achieve an annual growth rate of at least 7 per cent in foreign tourist arrivals and of 9 per cent in domestic tourists arrivals to create at least 10,000 employment opportunities every year.

**Development of tourism infrastructure**

Tourism infrastructure in the state has been developed mainly through private sector participation. The Government is taking the lead role in the development of basic amenities, information dissemination, quality regulation of tourism products, development controls and promotion and marketing of the destinations. The Government also acts as catalyst and facilitator for private sector investments.

There are about 20,000 hotel rooms in the state out of which about 5,000 are in the classified category. Major hotel chains in the country such as the Taj Groups, Oberoi Groups, Le Meridien, and Club Mahindra have established themselves in the state. The Casino Group and the Kerala Tourism Development Corporation, among others, also own chains of very high standard hotels in the state. Amusement parks, golf courses, water sports, ropeways, and other attractions add to the recreational facilities. The Government has developed many units of budget accommodation, wayside facilities, pay-and-use toilets, etc. at all tourist centres. The Government has also undertaken joint venture projects with major hotel chains.
Marketing

Kerala tourism has already established its brand name “God's Own Country” in the world tourism industry, which has been featured in focused marketing of the destination during the last few years. The strategy for marketing has been to position Kerala as a unique stand-alone destination targeting upmarket tourists seeking peace and diversity. In marketing, the state uses the latest developments in Information Technology. The website of the Department of Tourism, Government of Kerala www.keralatourism.org is the best tourism website in the country. The Department has also produced a number of CD-ROMS. The electronic media is effectively used for publicising the products. Kerala tourism has been participating in major international and domestic tourism trade fairs along with the private sector.

Tourism and culture

Tourism has played a major role in reviving and protecting the state's culture. Many traditional art forms would have fast disappeared from the scene but for the patronage of tourists and tourism agencies. It is also encouraging to note that more young people are rediscovering their heritage and culture due to the efforts in tourism development. Annual events such as “Tourism Week” celebrations, festivals and regular programmes in tourist resorts and hotels also sustain many cultural forms. Many traditional buildings, which were either neglected or discarded, are being rediscovered and put to alternate use thanks to the growth of tourism and the interest foreigners are showing in these products. The handicrafts industry and antique markets are also active because of tourism. Almost all the host communities are affected by tourism in one way or another, and there is general concern, often not unfounded, that tourism can adversely affect the cultural fabric of the host community. Kerala also is greatly concerned about this aspect of tourism; in fact many groups within the state are equally concerned about the impact of tourism on culture and are keeping a watchful eye on tourism development. Art forms, especially traditional art forms, are not meant to be commercialized. They are the collective expression of a society, its reflection on the day-to-day lives of the people and a social form of communication. The greatest concern of purists is that many of the art forms developed and preserved by the people of Kerala - because of their sheer love and affection for them - are being turned into gross commercialization. An example is Kathakali, the well-known stylized dance drama of Kerala, in which 14 to 16 years of rigorous training are required to become a Kathakali artist. It takes a whole night to present a Kathakali play. However, today young people are interested only in learning the basics of Kathakali and to perform in front of foreign tourists for 15 to 30 minutes for the purpose of making more money. Similarly, artisans in large numbers have started reproducing copies of handmade artifacts mechanically and are loosing their artistic talents.

Another area, traditionally well patronized in the state is “ayurveda”, the Indian system of medicine. Oil massage using ayurvedic herbs have become extremely popular among foreign tourists in Kerala. Along with that, complaints of misuse of the name of ayurveda for nefarious activities have been received in the state. The state Government has recently introduced a voluntary approval system for ayurveda centres to combat this misuse. Similarly, temples are places of worship in India, but the presence of large numbers of tourists visiting temples only as tourist attractions is resulting in the commercialization of these places of worship. The Government, understanding the changes taking place in society, is trying to restrict the number of visitors to quality tourists by not focusing on mass tourism. By educating tourists to respect the local customs and culture and by enforcing strict regulations the Government hopes to minimize the negative impact of tourism on the communities.

Unique tourism products

Kerala has developed a large number of unique tourism products based on its culture and traditions. The most important ones are the following:

(a) Backwaters. The backwaters of the state are promoted as a “Unique Selling Proposition” (USP). The houseboat, developed from the traditional kettuvalloms
used for transporting goods in earlier days through the backwaters and canals of Kerala, is an example. The kettuvalloms (rice boats) are made with large planks tied together using handmade coir ropes and beaten coconut fibres without utilizing nails. Fish oil and cashew nut oil are then applied to the boats for curing. Kettuvalloms had lost their usage due to the development of road networks and were lying unused for quite a few years. They have been now converted into houseboats used for tourist accommodation with modern facilities to suit the interest of high-quality tourists. There are more than 200 houseboats in the state, the majority of them with a capacity of 1 to 2 bedrooms. The process of development of this new product benefits the socio-economic development of the traditional craftsmen and the local people;

(b) Ayurveda. Ayurveda, the traditional health care system in Kerala is now very effectively used for tourism promotion. The treatments and rejuvenation therapies offered by this system have been widely accepted by the international and domestic tourists. A number of quality facilities have come up in this sector providing employment opportunities and livelihood to thousands of local people;

(c) Thekkady Tiger Trail. The Thekkady Tiger Trail, a prestigious tourism product of the state introduced during 1998-1999 in collaboration with the state's Forest Department envisages a 25-30 km trek through the Thekkady Wildlife Sanctuary enabling the tourists to have a close-range view of the tropical forest and its flora and fauna including the tiger and 34 other species of mammals. This project is a living example of the pro-active partnership of government bodies, local population and private enterprises to maintain sustainable development and heighten the awareness of the need to preserve nature for posterity. The two-nights/three-days trek programme takes tourists to any two of the six identified campsites in the Periyar Tiger Reservoir in one trek;

(d) Traditional art forms. Kerala is in the forefront as regards the use of its immensely rich unique culture in tourism promotion. The tradition of classical and folk arts in Kerala dates back over a thousand years. Koodiyattom (the oldest art form of Kerala recently selected by UNESCO for proclamation as an oral and intangible world heritage), Kathakali, Mohiniyattam, Thullal, Theyyam, Thira, among others, are revived because of tourism. Kalaripayattu, the traditional martial art, is now one of the most magical experience for the tourists. All of those involved in these art forms are now beneficiaries of tourism and only survive because of it.

Eco–tourism

Another area which is becoming popular in Kerala is eco-tourism. It contributes to the conservation of the natural areas by providing economic incentives and revenue for the Government to preserve and manage them. It utilizes the natural resources and provides employment to the local people. The built-in environment education programmes raise the awareness of the local population and help in the conservation of natural resources. Kerala has commissioned an exclusive eco-tourism project at Thenmala in the Western Ghat. Activities such as trekking through rain forests and wild life sanctuaries, and staying in tree-top huts are also gaining popularity. The United Nations has declared 2002 the Year of Eco-tourism, and Kerala has already geared up to meet the challenges of converting the entire tourism trade in the state to eco-friendly tourism. Generally, tourism is a fairly large consumer of power. However, the tourism trade in Kerala is motivated to promote power conservation by encouraging natural ventilation instead of artificial air conditioning. It aims to create the absolute minimum impact on forests, wild life sanctuaries, farms and other environmentally sensitive regions. An attempt is being made to reduce the number of motor boats in the backwaters of Kerala to minimize pollution. In
their place, traditional boats which use wind or human energy are encouraged. The indiscriminate use of chemicals, including chemical manure used as fertilizer in gardens, and chemicals for cleaning and washing, are discouraged. The Government is in the process of developing an eco-guide for all tourism products in the state, which could become a general handbook for all tourism products to follow.

**Local entrepreneurship**

Tourism becomes a people’s activity only if it benefits the local population. Kerala is well known for its physical quality of life. It is also known for its vibrant democracy and excellent law and order situation. But it is not well known for its efforts in promoting trade and commerce nor are Keralites known to be great entrepreneurs. One of the major problems the state is facing is a poor image as a not-so-friendly place for business. The state has been often identified as a place of militant trade unions. It also has limited raw materials. The state can be best described as a consumer state than as a manufacturing centre. However, in the field of tourism many local entrepreneurs are coming forward to invest in the state. Most of them are local and small start-up firms. In sectors such as hotels, resorts, tour operation, houseboat ownership and ayurveda centres, a large number of small enterprises are coming into the state. The Government is also making earnest efforts to promote investments in the field of tourism by offering many incentives. All these elements, in the long run, will result in a tourism boom in the state.

**Tourism awareness campaigns**

Kerala tourism has launched statewide tourism awareness campaigns intended to impart awareness to the public, persons directly dealing with the tourists and others, on the impact of tourism on the economic, social and physical development of the local population, and on the need to welcome the tourists in a cordial manner.

A multidimensional project with people’s participation to ensure a cleaner, healthier and hygienic environment, with special emphasis on tourism, has also been initiated.

**Focus on sustainability**

Even though tourism is contributing much to the state in terms of economic, social and physical development, it is also having certain negative impacts, in addition to the problems already mentioned. The unbridled and indiscriminate growth of tourism leads to problems of pollution, environmental and ecological hazards, and cultural degradation. The developed tourist destinations are affected by widespread haphazard development by-products, including unauthorised constructions, solid and liquid waste problems, and traffic congestion. Developing tourism in a sustainable manner is the greatest concern of the Government and the actors in the tourism field. Unfortunately, Kerala experienced one bad example of development in the case of Kovalam Resort. This is a suburb of the capital city of Thiruvananthapuram, located about 13 km from the airport, which was known as one of the best beaches in the world and was developed as a beach resort in the 1970s. Though no comprehensive planning was done, this tourist centre was meant to cater to only a handful of luxury resorts. However, in practice, without any planning or control a large number of small and medium hotels and resorts totally lacking in aesthetics and quality were built there. Slowly Kovalam’s reputation suffered and tourists began patronizing the destination less and less. Having learned a lesson, the Government and the people are very keen to restore Kovalam to its pre-eminent position as a major tourist resort of India. At the same time, Kerala is extremely careful to see that the Kovalam experience is not repeated anywhere else, and is taking all necessary steps in promoting sustainable tourism development with a focus on the conservation and preservation of heritage. New legislation, known as the Tourism Conservation, Preservation and Trade Act has been formulated to control development in “Special Tourism Zones” with specific guidelines for developmental activities which include architectural controls. Whenever a new product is developed in the tourism industry the Government exercises great caution in ensuring the quality of that product. For example, to guarantee the quality of the facilities and services offered by the new products such as houseboats and ayurveda, the Department of Tourism has introduced a
classification system to grade the units based on their qualities. This classification was made voluntary to avoid compulsory licenses, which would be negatively received by the industry.

India has one of the toughest legislations concerning coastal zones, and the Government strictly controls all construction activities within 200 m of the high-tide line. Similarly, the planners do not want an unsustainably high growth rate. Considering the fragile environment in the state, Kerala intends to focus marketing efforts to attract the higher-end tourists in order to maximize the benefit with a minimum number of visitors. Kerala's “Tourism Vision 2025” envisages only 7 per cent increase in international visitors and 9 per cent increase in internal visitors to the state. These are very modest targets, easily achievable and sustainable.

CONCLUSION

As can be seen, Kerala is an example of how the benefits of tourism are percolating into the state economy and helping the local population. The challenge faced by the state now is to sustain these benefits by minimising the negative impacts on the destinations. The Government is taking all care to ensure the sustainable development of the region by learning from the mistakes of older destinations around the world. Kerala feels that its economy will continue to be tourism-driven, given the focussed and concerted efforts of the Government, with the participation of the private sector and the involvement of the local population, in the development process.

PART TWO

BACKGROUND

In India there are five tiers of government: national, state, district, block and village. All these tiers have their own revenue streams, functions and responsibilities. Tourism is an area where all these government tiers are concerned in some way or another. The Federal Government assists the states in infrastructure development, formulates national policies and undertakes international promotion and publicity. States carry out internal and external marketing and develop infrastructure. Kerala has embarked on a trajectory of rapid decentralization. This was made possible through the transfer of functions, powers and resources to the three-level local government system prevailing in the state: district level (district panchayat), block level (block panchayat) and village level (grama panchayat). The objective of decentralization has been to improve the quality of investment by allocating resources to priorities fixed by the local people, in order to facilitate the emergence of local solutions to developmental problems through improved planning and better implementation, and to enable people's participation in execution. To operationalize decentralization, Kerala chose the path of participatory local level planning as the entry point, i.e. the “People's Planning Campaign” The Campaign has succeeded in providing a concrete methodology for participatory planning for local level development. The identification of needs is done through a meeting of the grama sabha/ward sabha, which is the smallest electoral unit. Based on the demands emanating from the grama sabhas and the developmental data, including resources, exhaustive developmental reports are prepared at the local government level. These reports are discussed at a one-day seminar and the sectoral committees/task forces constituted at the local government level then translate the project ideas into projects. The projects thus finalized will then be submitted to the District Planning Committee (DPC) for approval. The Kerala Government transfers 40 per cent of its plan allocation to the local self-governments so that they can undertake developmental projects. Kerala's decentralization experience has recorded tremendous improvements in sectors such as housing, water supply, sanitation and connectivity.

Even though tourism was not one of the subjects transferred to local governments, there has been keen interest and people's participation in the development of local tourist destinations by improving basic infrastructure, conserving heritage areas, and facilitating private investments.
Another successful experiment in the decentralization of tourism is the formation of District Tourism Promotion Councils with the District Collector as the Chairperson. In these bodies, constituted to promote tourism at the local level, participate representatives from the tourism industry and the people, as well as tourism experts and government officials. Most of the Councils have been working actively in developing local attractions and broadening tourism awareness.

The following table illustrates the salient features of Kerala's development vis-à-vis India's.

<table>
<thead>
<tr>
<th></th>
<th>INDIA</th>
<th>KERALA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Area</td>
<td>3,287,263 sq km</td>
<td>38,863 sq km</td>
</tr>
<tr>
<td>2. Population</td>
<td>1027.02 Million</td>
<td>31.84 Million</td>
</tr>
<tr>
<td>(a) Male</td>
<td>531.28.2 Million</td>
<td>15.47 Million</td>
</tr>
<tr>
<td>(b) Female</td>
<td>495.74 Million</td>
<td>16.37 Million</td>
</tr>
<tr>
<td>3. Sex Ratio</td>
<td>933/1000</td>
<td>1058/1000</td>
</tr>
<tr>
<td>4. Density of population</td>
<td>324/ sq km</td>
<td>819/ sq km</td>
</tr>
<tr>
<td>5. Literacy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Male</td>
<td>75.85 %</td>
<td>94.20%</td>
</tr>
<tr>
<td>(b) Female</td>
<td>54.16 %</td>
<td>87.86 %</td>
</tr>
<tr>
<td>(c) Total</td>
<td>65.38 %</td>
<td>90.92 %</td>
</tr>
<tr>
<td>6. Life Expectancy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Male</td>
<td>62.4 years</td>
<td>70.7 years</td>
</tr>
<tr>
<td>(b) Female</td>
<td>63.4 years</td>
<td>75 years</td>
</tr>
<tr>
<td>7. Infant Mortality</td>
<td>72 (per 1,000)</td>
<td>16 (per 1,000)</td>
</tr>
<tr>
<td>8. Population below poverty line</td>
<td>36.3 %</td>
<td>28.4 %</td>
</tr>
<tr>
<td>9. Per capita income</td>
<td>Rs. 14,682</td>
<td>Rs. 17,756</td>
</tr>
</tbody>
</table>
Kerala's development achievements have been considered by many as a model of viable development through equitable distribution against the background of a relatively low economic growth. This has been attributed to the combination of public action and responsive governance, and has been mainly due to the twin engines of education and health.

The state has very good provisions for the coverage of basic needs. It has a universal public distribution system providing food security to the vulnerable groups in society. Similarly its welfare pensions and welfare funds have widespread coverage: 1.430,000 people within their net. Thus from the capabilities point of view as well as the entitlements point of view Kerala has performed very well.

A. THE EVOLUTION OF DECENTRALIZATION IN KERALA

Context of decentralization and objectives

By the 1990s the much-acclaimed Kerala model of development, aimed at achieving human development, began facing the sustainability crisis. It became difficult to maintain the level and quality of governmental services in the absence of rapid economic growth. These problems were further compounded by the sharply adversarial political relations in the state. It was felt that decentralization could shake up the system and help in a thorough overhaul. In this context, the objectives of the decentralization experiment in Kerala are listed as follows:

(a) To improve the quality of investment by allocating resources for priorities fixed by the local population;

(b) To facilitate the emergence of local solutions to developmental problems through, among other things, improved planning, better implementation, use of traditional knowledge and appropriate technology;

(c) To exploit local production possibilities;

(d) To enable people's participation leading to better oversight in the execution of schemes, followed by better upkeep of assets;

(e) To provide an enabling environment for people to make contributions in kind and cash for development programmes identified by them for priority action;

(f) To bring about a convergence of resources and services to tackle development problems with greater vigour;

(g) To launch action resulting in a demand-led improvement in the delivery of developmental and welfare services.

It was felt that the process of realizing these objectives would lead to a new politics of development emerging out of dialogue and consensus rather than conflict and collision, and help forge a realistic approach to development, based on a clearer understanding of problems and issues at the grassroots level.

Development of tourism in Kerala

Almost simultaneously Kerala discovered its tourism potential and through proper positioning (e.g. Back Water Tourism, Beach Tourism) and strategic marketing it was able to achieve remarkable growth since mid-1980s showing an average rate of 27 per cent for foreign tourists and 94 per cent for domestic tourists. The Government has been rightly playing a facilitating role encouraging private entrepreneurs, providing the required infrastructure and guiding the preparation of proper spatial planning of tourism sites. Tourism with an employment generation of 700,000 jobs and a revenue contribution of nearly 100 million dollars, which is equivalent to 6.29 per cent of the state's GDP, now has the potential to become the new engine of growth. “Sunrise” areas such as health, tourism and eco tourism are being tapped. However, as already mentioned, this sector has not been decentralized.
Strategy of decentralization in Kerala

Traditional wisdom calls for capacity building of local governments followed giving them powers gradually to match the improvements in capacity. But real and effective decentralization probably calls for a “big bang” approach: functions, powers and resources are transferred at once. If decentralization is effected all at once the suddenness of it would stun potential dissenters into silent acceptance; before people realize what they have lost, decentralization would have become a fait accompli. The “reversals” - of giving responsibility and then building capacity, of giving powers and then creating procedures and systems, of giving funds and then setting up umpiring systems – help in another way. If the Government transfers many responsibilities and funds considerable pressure would build on it from various sides to ensure that the responsibilities are carried out effectively and the funds are utilized properly. It would then become the Government's responsibility to ensure that decentralization works. Kerala followed this approach and hindsight shows that strategically it was a sound decision, as it would have been impossible to transfer power in small doses.

To operationalize decentralization, Kerala chose the path of participatory local level planning as the entry point. This succeeded to a considerable extent in harnessing public action in favour of decentralization. In order to give impetus to the system and launch the process a campaign approach was followed for decentralised planning: the “People's Planning Campaign”. This campaign was a powerful factor in creating demand for decentralization to be guided along the right path. To a large degree the campaign succeeded in setting the agenda for decentralization.

B. THE PROCESS OF DECENTRALIZATION

Steps in decentralization

Defining the functional domain

This is a very complex activity and it is totally dependent on the political vision of decentralization. The size of the local government, particularly that of the village, is a critical factor in assigning its functions. Most of the state legislations approximately the same functions to all the three tiers of local government (district, block and village). It would be healthy practice if a legislative definition of the functional domain is formulated with as much precision as possible. But this is a rather difficult task. In Kerala, functions in practically every development sector such as agriculture and allied sectors, village industries, rural development, health, education, social welfare and poverty reduction have been devolved almost fully to the local governments.

Kerala found that it is easier to define the functions in the management of institutions, creation of infrastructure and provision of services. However, when it comes to the question of defining the functional areas in sectors like agriculture and industries there is bound to be certain overlaps, and only based on several years of experience can the comparative advantage of each tier in performing various functions would be known clearly. Thus a process approach is called for in demarcating the functions of different tiers of local government as well as the role of the state Government in such development areas.

Freedom and its limits

For each function and each kind of activity the freedom of local governments as well as the limits to that freedom need to be indicated. This is best done through a process of experimentation followed by consultation with local governments to reach a consensus. Such an exercise was undertaken by Kerala when it was found that local governments were giving abnormally high subsidies to individual beneficiaries of various schemes.

Need for appropriate administrative operating systems

Development programmes and development administration run essentially on the basis of executive instructions which constitute the flesh and blood of administration, with the legislative acts providing only the skeletal framework and form. Therefore any number of legal provisions and rules would remain on paper if they are not followed up with clear-cut administrative
instructions in the form of, for example, government orders, circulars and manuals.

It would not be appropriate if the existing administrative systems and executive orders are just transplanted to local governments. The deep structure of such instructions is oriented towards centralised governance and is tailored to hierarchy (e.g., procurement instructions, accountability systems, and reporting systems); these need to be harmonized with local government conditions without sacrificing accountability or efficiency.

Transfer of resources

(a) **Human resources.** One often comes across vague conceptualizations of local governments, particularly the village level, as “doers”, but actually they should be the “deciders” and the “doers” should be the personnel under their control. Expecting local governments to perform functions without at least assigning for this purpose the staff who were hitherto performing those functions would be futile. Kerala acted on the principle of work and worker going together. As a compromise the cadres and service conditions were not disturbed and the Government continues to pay the salaries.

(b) **Financial resources.** Kerala's experience in fiscal decentralization is worth noting. Its salient features are the following:

(i) The cutting-edge local governments at the village and municipal levels have been given the right to collect certain of their “own” taxes (e.g. property, professional, entertainment, and advertisement taxes). In addition the state Government fully or partly shares its land, motor vehicle, and registration of property taxes. The local governments are given the freedom to fix tariffs and levy user charges without reference to the state Government;

(ii) The remarkable feature of fiscal decentralization in the state is the transfer to local governments of what is called plan grants. In India, “plan” signifies new investment, both capital and revenue, and “non-plan” means maintenance and operating costs. One-third of the plan resources, which is mostly borrowings, is earmarked for local governments with the urban and rural areas receiving shares equivalent to their population; among the rural local governments, the village local government receives 70 per cent. The grant has practically no strings attached, and gives freedom to the local governments to plan and prepare their own development programmes. The entire grant can be invested, and “local government-wise” allocations are passed along with the state budget and every single rupee is devolved according to a formula without any political or executive discretion whatsoever.

**Setting up accountability systems**

Since substantial funds have been given to the local governments, accountability systems acquire special importance. In addition to the traditional systems, new checks and balances need to be evolved. To a large extent, accountability can be ensured through open government. In a sense, transparency is the best form of audit.

Corruption in local governments is to be addressed right at the beginning. It is felt that decentralised corruption is more harmful than centralised corruption for it permeates every part of the society and causes widespread moral degradation.

In addition to traditional accountability mechanisms such as audit and inspection, Kerala has attempted two innovations: (a) setting up performance audits to conduct regular auxiliary audit with a view to correcting mistakes as and when they occur and guiding local governments in maintaining the proper systems; and (b) setting up of a technical audit team consisting of senior engineers selected for their integrity to investigate complaints of malfeasance in public works.
An Ombudsman for Local Governments has been created. More significantly, new accountability mechanisms have also been introduced. Public campaigns; participatory structures, from planning to monitoring; transparency provisions and scheme formulation frameworks; and spelled-out due process in various kinds of decision-making, which fix the rational boundaries to autonomy – are the most important examples of these mechanisms.

Reforms in preparation relate to semi structured social audit, insistence on compulsory provision of information, publication of citizens’ entitlements and charters, and use of information technology.

**Operationalizing decentralized participatory planning**

The People’s Planning Campaign has succeeded in providing a concrete methodology for participatory planning for local level development. The salient features of this methodology include participatory priority determination through assemblies of electorates at the village/municipal ward level; preparation of a development status report using primary and secondary data; determination of broad strategies through interaction with selected members of the public, experts – both official and non-official – and political leaders; preparation of project profiles by joint teams of elected leaders, government officials and non-government experts; vetting of projects by similar teams; and, finally, implementation in a transparent manner.

**The role of government**

Paradoxical though it may seem, the role of the Government increases considerably in the early years of decentralization; it has to play the role of an activist facilitator. Decentralization is a process which raises several unexpected challenges during its course. The Government should have the readiness and flexibility needed for quick response.

Capacity building for managing change is a tremendous administrative responsibility of the Government; there are so many persons to be trained, both officials and non-officials. Capacity building has two components: training, and provision of professional support. In Kerala the institutional framework of the State Planning Board and the Kerala Institute of Local Administration is being used for training. Sufficient funds are earmarked for this activity. There is a pool of master trainers identified from among government officials, retired officials and NGOs who provide a kind of “cascading” training to the staff and elected representatives of local governments. “How-to-do” handbooks and case studies of best practice enrich the training process. Professional support is being provided by tapping “barefoot” expertise, non-government sources, and academic institutions especially for fresh graduates who could serve the local governments as apprentices.

Genuine decentralization demands that there should be a gradual withdrawal of direct executive control over local governments. This has to be balanced with the need for accountability. The best option is to create independent regulatory institutions or strengthen existing ones. Kerala has gone considerably ahead in this process as may be seen from the following list of institutions:

1. The state’s Election Commission, fully in charge of the conduct of local government elections right from delimitation of constituencies up to election of representatives;
2. The state’s Finance Commission, set up once every five years to determine the resources to be devolved from the state Government to the local governments;
3. An Ombudsman for local governments to investigate complaints of maladministration and corruption, and to issue binding directions;
4. The state’s Development Councils consisting of the state Cabinet, district level local government heads, mayors of cities and representatives of other local governments to decide on policy and sort out issues between local
governments and the state Government, and among local governments.

As decentralization progresses, the attitude of the Government towards the local governments has to go through appropriate phases, which have administrative implications. In the initial days patience and tolerance are highly essential, as several mistakes could be made – some of them bona fide and a good number of them mala fide. The Government should have all eyes and ears to grasp the complexities of the process. This should be followed quickly by a corrective phase where the focus is on helping local governments to set their house in order. This would mark the period of stabilization and institutionalization. Thereafter the regulatory institutions should take over and have both preventive as well as punitive systems in place to avoid maladministration and malfeasance.

Good governance features

The Government has to play a conscious role in the improvement of governance in local governments. Experience shows that it is relatively easier to introduce good governance features at the level of the local government. To recapitulate, some of the good governance features in the Kerala experiment are:

- Transparency and right to information
- Public campaigns
- Insistence on due process
- Participation in all stages
- De-bureaucratization, especially in technical matters
- Accreditation of NGOs to act as support agencies for local governments
- Opportunities for young professionals to serve as apprentices in local governments, eg. civil and agricultural engineers and IT professionals.
- Recognition of best practices by selecting beacon panchayats
- Strengthening of independent umpiring institutions
- Introduction of code of conduct for elected representatives and officials
- Making Citizen’s Charter compulsory
- Revision of office management systems to make them people-friendly
- Simplification and modernization using information technology

C. IMPLICATIONS OF DECENTRALIZATION FOR LOCAL LEVEL DEVELOPMENT: INITIAL EVIDENCE FROM THE FIELD

The achievements

The experience of the first few years of decentralization has proved that, in providing basic minimum needs and infrastructure such as housing, water supply, sanitation and connectivity, local governments have performed creditably. The speed and extent of coverage as well as the efficiency in providing minimum needs, has been superior to that of other government levels.

Next to minimum needs, the local governments have done reasonably well in natural resource management, particularly in the utilisation of water resources for productive purposes. As regards the productive sector, there have only been isolated successes where agricultural production and productivity have been increased manifold.

However, in providing services like health and education, success stories have been relatively few. The outreach of health services as well as remedial coaching for laggard students has definitely improved and the infrastructure for health and education has rapidly been upgraded. But management of professionals and other staff to provide better quality services requires further effort.

On the whole, an encouraging feature is the fact that in most of the sectors there have been viable models evolved by individual local governments. A major challenge would be to upgrade and replicate them. It is pertinent to note that funds spent on poverty reduction programmes by local governments significantly exceeds earlier investments. This is suggestive of the higher priority given to anti-poverty programmes by local governments. The spread of this investment is also much wider and generally more equitable.
Another significant area relating to poverty reduction where the local governments have performed well is the implementation of social security schemes such as pensions. The coverage has improved and the targeting has been fairly satisfactory.

The good governance aspects of decentralization, particularly transparency as well as the opportunities for participation, have improved the quality of the programmes formulated and implemented by local governments. There is considerably less leakage and the identification of beneficiaries is definitely better.

The potential

In terms of local level development, decentralization has certain definite advantages which are evidenced by the experience:

(a) Resources have flowed into every nook and cranny and, if the formula of devolution and distribution is a progressive one with earmarking of funds for the disadvantaged groups, greater equity can be achieved;

(b) The outreach of developmental services has improved greatly;

(c) There is less sectoralism in decentralised programmes. Greater convergence has contributed to reducing the “ratchet” effect of poverty. Local governments, particularly village panchayats, tend to view problems holistically and come up with a solution first, and only then decide on the agency of implementation;

(d) In view of the financial constraints and skill limitations, there is greater emphasis on locally appropriate, affordable solutions;

(e) There is great realism in tackling problems of poverty. There are no “tall” promises. The problem of poverty is perceived in its stark reality. It cannot be submerged in academic debates or hidden in statistical sophistry;

(f) The innumerable opportunities for participation which have been structured into Kerala's decentralization process have helped the poor in gaining confidence and in moving from lower levels of participation into higher forms of direct social action, like management of facilities and creation of demand for services;

(g) The participation of people has definitely improved accountability.

The limitations

There have also been certain problems, which are enumerated below:

(a) The “outliers” such as “scheduled” tribes, are still to gain from decentralization. In scenarios where one group of the poor lives off another group, decentralization has certain built-in limitations;

(b) The poorest among the poor need social safety nets, particularly for food and health emergencies. This cannot be provided by local governments;

(c) The management of services, particularly health and education, have not been more efficient than before and these services have direct implications for local development, especially poverty reduction;

(d) The flow of bank credit into local schemes has been rather limited resulting more from the reluctance of bankers to deal with local governments than from inadequacies of project formulation. This has resulted in higher subsidies;

(e) In a state like Kerala where the number of educated poor is very high there is an inherent limitation in local government action in job creation. The
role of local governments in bringing about economic development and creating employment opportunities on a large scale needs further study;

(f) There is a tendency to spread resources thinly with preference being given to every electoral constituency whenever a development scheme is taken up;

(g) The participatory aspect of planning is often limited to the airing of needs and sharing of benefits. The quality of participatory planning should be enhanced to enable a healthy discussion by all population groups based on data and norms, generating a prioritized list of developmental needs.

The role of local governments in tourism development: potential and possibilities

Before the local governments were created, decentralized tourism development activities were carried out at the district level through District Tourism Promotion Councils. These Councils took up activities such as promoting back-water tourism, eco-tourism, maintaining scenic spots and parks, providing tourism information, and developing tourism infrastructure related to sanitation and hygiene.

Though the subject of tourism has not been transferred to the local governments, they have started to show keen interest. Some of the areas where a number of initiatives have been taken are:

(a) Local governments, especially near the sea coast or back-waters or in the hills, have taken several steps to develop the infrastructure needed for tourists like electricity, water supply and roads, and to maintain environmental sanitation;

(b) Local governments have started identifying heritage spots and nature tourism spots for protection, promotion and proper upkeep;

(c) In some cases group entrepreneurship by the relatively poor groups have been directly supported by local governments through skill development training and financial assistance to start tourism-related enterprises. This area is turning out to be of tremendous potential. Families below the poverty line comprising about a third of the population are networked into Neighbourhood Groups at the local levels, Area Development Societies at the intermediate level, and Community Development Societies at the local government level with each family being represented only by women. These self-help organizations of women have taken up several activities like revival of traditional cuisine, development of local handicrafts, carrying out environmental sanitation activities as a group effort, and providing IT services. Since women below the poverty line are properly organized they can be trained to reap the direct down-stream benefits of tourism. It is a good example of making tourism development pro-poor. More linkages are expected in the coming years;

(d) Development of local cultural activities and preservation of traditional art forms are two activities in which local governments have done quite well. Without much investment they are able to stimulate local level action in these areas;

(e) Eco-tourism is an area where partnership with local governments shows much potential. Local governments can train tourism guides as a means of self-employment. They can also provide minimum required infrastructure like drinking water and toilets in tourism spots;

(f) The state Government is now in the process of building a long-term perspective on tourism development in partnership with local governments. Learning from experience, the state is now bringing about proper spatial planning in tourism sites to prevent
overcrowding and inappropriate architecture. This joint planning exercise with local governments is expected to improve destination tourism in the selected local governments.

As local governments are starting to find avenues to promote local economic development, tourism development would be given natural preference.

CONCLUSION

Towards institutionalisation of the decentralization initiative

The decentralization process in Kerala has moved from the experimental phase through a corrective phase and has now entered the critical institutionalization phase. In the first stage, which was based on trial and error, several mistakes were made and several new areas were discovered. At this stage, ad hoc systems were designed to facilitate operational flexibility at the local level. From the campaign mode decentralization is now entering the systems mode. This is the time for weeding out worn out procedures and systems and for planning modern systems which are simple, transparent, fair – providing easy upkeep while at the same time ensuring accountability of the highest degree. The Peoples' Planning Campaign has been sustained through a host of activist volunteers. Soon these volunteers would move out of direct leadership and play the role of facilitators. Regular support systems appropriate to local government functioning would be in place.

The local governments which are by now reasonably adept in preparing plans are expected to further improve their capacity to implement them efficiently and economically. A major challenge ahead would be to build capacity in the local governments to manage provision of various services to the people. Participation of the people needs to be further institutionalized and the question of integration of plans among the tiers needs to be dealt with. From incremental annual planning, the local governments are expected to switch over to five year planning from the year 2002 onwards. For this purpose they have to be conditioned to develop a strategic vision. In this phase they have to graduate from creation of infrastructure to promotion of local economic development, including tourism. While doing so they have to increasingly rely on local resource mobilization as well as innovative methods for financing projects.
CASE STUDIES

SPAIN: SUSTAINABLE DEVELOPMENT AND MATURE TOURIST MUNICIPALITIES: INTEGRATED REHABILITATION IN THE CALVIÀ MUNICIPALITY

Margarita Nájera Aranzabal
Mayor of Calvià
Calvià Municipality, Balearic Island
Spain

BACKGROUND

Calvià, with its 145 sq km and 60 kms of coastline, is situated on the western coast of the Island of Mallorca, in the South West of the Mediterranean. Eighty per cent of Calvià are natural areas. Its coastline, with 56 km of sandy beaches and numerous cliffs, has an important environmental value. Calvià has 45,000 inhabitants and more than 1.6 million visitors each year. It is a privileged area in terms of facilities and infrastructure with many sport resorts, five marines, maritime promenades, four golf courses, and several leisure centres. (For further information, visit: http://www.calvia.com.)

The resident population's integration, co-existence and quality of life

Calvià's social and quality of life present the best possible balance in the analyses that have been carried out. This is a reflection of the endeavors undertaken by institutions in recent years as well as of the community's relatively good living and environmental standards. However, the analyses also reveal significant lapses in other qualities: social and cultural integration, diversity of social skills, entrepreneurial spirit - which are essential in facing the future.

The human pressure on the environment

In just over 30 years the human pressure on Calvià's territory has multiplied thirty times, from 17 to 1,050 inhabitants per sq km during the high season. Also, the pressure has been distributed very unevenly: the coast line of over 2,000 hectares has heavily populated areas where the density soars to almost 3,000 inhabitants per sq km in the high season. Yet, in the remaining two thirds of its island territory which lies on the other side of the Palma-Andratx motorway and it has marvelous town centres, pretty countryside, valleys and mountains, the population density barely reaches 110 inhabitants per sq km.

As to Calvià's environment, accelerated building development over recent decades has exceeded the carrying capacity of the coastal ecosystems and dynamics, producing impacts on the island natural environment, as well as excessive use of basic imported resources, such as water, energy and materials.

Concerning the very important question of the community's social and cultural integration, perhaps it should first be emphasized that the profound social transformation caused by the arrival of more than 30,000 new residents has been resolved quite successfully up to now and without any great difficulties.

In fact, Calvià's diversity and social and cultural complexity are counted among its advantages, but also among its major vulnerabilities. Calvià's population is characterized by its youth; its diversity of origin, language and culture (of the 35,000 registered residents only 25 per cent were born in Calvià and over 13 per cent are foreigners); its fluctuating nature, which causes the floating population to vary between 57,000 and 150,000 de facto residents and tourists; its dispersion over 11 residential and tourist population centers (less than 30 per cent identify themselves with Calvià); or its large gross domestic product increase of 54.2 per cent between 1991 and 1995.
The average family income level of Calvià's population had reached 12,000 euros per person per year - 130 per cent of the national and 105 per cent of the European levels - and an unemployment rate of 4.0 per cent, much lower than the national average.

Nevertheless, these relatively successful statistics have to be placed in a framework dominated by three critical factors. A high number of young men and women (approximately 500) are joining the labor market and looking for employment every year; employment in a tourist “monoculture” is specialized, with a peak seasonal pattern, low salary system, pressure of work during the high season, and the tendency of its workers towards early retirement; and the target set by this sector in Calvià as regards modernizing and adapting to an increasingly demanding international market.

Although financial and social well-being is generally quite widespread, Calvià has certain groups with serious specific problems: young people with employment and integration difficulties; certain sectors of women with self-fulfillment and social integration problems; and the ever-growing group of long-term unemployed with a doubtful future.

Furthermore, given the characteristics of a society shaped and improvised in only 25 years, the typical challenges of all immature societies remain. These relates to questions such as the population's technical training to extend and diversify the development of human resources, social skills, and, in particular, the enterprising spirit of the young. Facilities and open spaces should be also provided to improve the residents' quality of life, e.g. housing, transport, meeting places, personal fulfillment, and leisure. All of these things are of vital importance in establishing social interaction and integration.

In the area of social services, the Municipality is responsible for the programme known as “Near to You”. A team of social workers, relatives and volunteer counselors is available to citizens. It offers services advice and information concerning the social problems in each of the district's areas. The programme includes a home-help and telephone-link service for senior, disabled and sick citizens. Accommodation arrangements are made for those who do not have a suitable family environment.

Social and educational support is given to children and young people. Assistance is also given to include those groups at risk and prevent their marginalization in society. The programme has become a powerful instrument to tackle social problems in an economically developed municipality.

The weaknesses of an economy based on continuous tourism and real estate development

Calvià's problems as a tourist destination with over 1,600,000 visitors a year is not unique. They reflect the crisis of the tourist model applied in our country since the 1960s. In the short term, it has been an economic success. However, from the beginning it was based on uncontrolled tourism development of the coastline and unsustainable exploitation of its extraordinarily valuable natural and scenic resources.

This model will soon be unable to fulfill the emerging needs of a maturing and increasingly demanding tourism sector. Faced with the necessity to overcome the dangers of continuous degradation and the collapse of the economic system that it created, Calvià began to reshape itself at the beginning of the 1990s.

There are three outstanding assets among the many that Calvià possesses as a tourist destination: its human, natural and cultural resources; the valuable experience of its institutions, entrepreneurs and workers; and its privileged location in the Mediterranean area, which will continue to be one of the world's most important tourist attractions for a very long time.

However, Calvià must overcome a series of problems that seriously threaten its future: the gradual degradation of its coastal area with ever increasing building development; the concentration of traditional sun and beach tourism with little attention being paid to the new, emerging market demands; aging tourist centres and facilities (more than 120,000 units built over 20 years ago); the marked seasonal pattern of its tourism business; and insufficient initiative on the part of the entrepreneurial sector, which is still reticent to undertake the restoration and revitalization of Calvià as a tourist destination.
Calvià's economy is strong, but it is based almost exclusively on tourism. Entrepreneurial statistics show that most local businesses heavily depend - directly or indirectly - on traditional tourism. This is a risk and a drawback for the future. At the same time, business enterprises and entrepreneurs are not yet resolved to innovate tourism trade, as well as the building and commerce sectors, which is essential. This also applies to diversifying activities and establishing new sectors, which although of minor potential, could lead to an improvement in the quality of local skills and opportunities, thus strengthening the entire economic structure.

Another aspect, which deserves specific mention, is the declining situation of a rural world that has contributed so much to Calvià's land and biodiversity. Without a viable economic solution, rural life is in serious recession and its future survival is threatened.

It cannot be denied that for years Calvià has been making extraordinary efforts to extend, coordinate and address properly the investments made by the public administrations in the Municipality. From 1993 to 1996 investment amounted to over 4,600 million pesetas, 30 per cent related to supra-municipal resources.

However, private investment indicators do not match public efforts, and certainly not due to lack of investment capacity. The improvements introduced in recent years promoted the growth of tourist expenditures per visitor, which has had a favorable repercussion on private incomes. The reluctance to invest could be related to the important hotel chain's expansion strategies in other countries, or be a result of indecision and insufficient confidence in the future of the small and medium-sized businesses in the area.

Tourism development activities before Local Agenda 21

The tourist development of Calvià, the most important carried out in the Balearic Islands, began with the first boom of international tourism in Spain in the 1960s. From then on, especially during the 1960s and 1970s, the model of tourist development was based on short-term objectives, unlimited building inconsistent with local conditions, and an unsustainable exploitation of exceptional natural resources.

In the late 1980s, the effects of this inharmonious development became evident. Calvià grew from 3,000 to 45,000 inhabitants. Therefore, the natural world of sun and beach, keystone of an activity that helped finance the development of the Island, degraded. Tourist demand decreased and, more significantly, it is declining in terms of tourist spending.

In the 1980s, the Council of Calvià adopted a two-pronged policy. On the one hand, it made a great investment in order to reduce the debt from the earlier years. On the other, it implemented a planning policy to support new tourist operations in the hope of modernizing, improving and diversifying the local tourism industry.

At the same time, the effect of tourism development became evident: the deterioration of the environment and of the landscape; gross overcrowding of the tourist zone; difficulties in the modernization of facilities; a steady decline of the allure of the region; and the threat to local development which depended greatly on the tourism sector.

In the early 1990s, the Municipality of Calvià launched a series of programmes to improve the environment; reorganize the flow of visitors; regain the coastal area; and clear out the centre of the town where structures, even hotels, that threatened the environment were demolished. This plan was called “Calvià towards Excellence”.

CALVIÀ: LOCAL AGENDA 21 - A SUSTAINABLE STRATEGY FOR A TOURIST DESTINATION

In the mid 1990s, the Municipal Council, in cooperation with the Ministry of Commerce and Tourism, decided to unify efforts and froze the approval of new urban plans. Then “Calvià: Local Agenda 21” was introduced. The Agenda - based on the Rio Summit of 1992 - aimed at defining a new integral long-term policy to reorganize tourism and local development on a sustainable basis. The environment became the base for future projects.

One of the priorities of Calvia's Local Agenda 21 is to bring together the points of view of different
sectors with interests in the zone. For this purpose, several channels of participation have been established: the Forum of Citizens, for general matters; Special Commissions, for thematic affairs; and the public at large, for polls and consultations on subjects of general interest. The most important aspect for the final strategy of Local Agenda 21 is its reliance on the support of the population.

The method used by the experts is known in the planning sphere as “methodology of alternative scenarios”. It is widely used in long-term planning due to its descriptive capacity and the possibilities to compare possible future alternative situations, which can be reached through the application of different policies.

Therefore, three alternative scenarios emerge from each of the key topic areas: the current and two future scenarios. One of these is known as the integral rehabilitation scenario, which results from the correction of inadequate tendencies by the introduction of suitable decisions. In order to achieve similar results, the same methodology has been applied to each one of the areas.

By using more than 1,000 indicators, this methodology has enabled the identification of sectors in a “steady” and an “irregular” situation.

**A project to improve Calvià in a decade: 10 Strategic Lines of action and 40 initiatives**

It is possible to revitalise Calvià, to conserve and improve its residential and tourist attractions, and to overcome the risks of local decline detected at the beginning of the 1990s. However, this demands intensifying and extending the course of action already taken, and giving full support to innovative and more sustainable local development.

Local Agenda 21 has defined this project as the “Complete Restoration Scenario”, with the conviction that Calvià's best opportunities for the future lie in concentrating efforts on conserving its natural heritage, modernizing its tourism sector, restoring and valuing the heritage of existing buildings, and giving full support to enriching its human and knowledge resources. Local Agenda 21 has translated these objectives into 10 Strategic Lines of action and 40 Initiatives. These Initiatives, with the population's approval, will make it possible to achieve significant targets in the different fields of reference in the next decade.

The 10 Strategic Lines of action represent the “overriding ideas” with which to advance towards the scenario proposed by Local Agenda 21. They summarize the key concepts, which are easily understandable, facilitating extensive social assimilation and collaboration. At the same time, these strategic lines of action are being implemented through 40 specific Initiatives, known as the definition of achievable projects.

All of them, Lines and Initiatives, have emerged from the Citizens Forum Thematic Commissions after discussions by municipal representatives, experts, economic agents and citizens at large. They have also been approved by the Town Council and by the Plenary Forum, and are sufficiently well defined to be translated into Municipal Action Programs by the Legislature, following the completion of the people survey.

The 10 Strategic Lines of action are:

1. To control population growth, and to limit said growth and help integral rehabilitation of the territory and its coastline;
2. To support integration and to improve the quality of life of the population;
3. To preserve the natural and marine heritage;
4. To recover the cultural and historic heritage;
5. To rehabilitate urban areas in an integral fashion;
6. To improve Calvià as a tourist destination, to replace growth with sustainable development, and to seek the increase of tourist expenditure;
7. To enhance the quality of public transportation, and to promote cycling and walking;

By using more than 1,000 indicators, this methodology has enabled the identification of sectors in a “steady” and an “irregular” situation.
8. To manage environmental elements: water, energy and waste in a sustainable way;

9. To invest in sources of knowledge, and to diversify the economic system;

10. To modernize the municipal government, and to widen joint public/private investment capacity.

From the 40 Initiatives, the Board of Citizens agreed to start with the 15 they deemed most urgent:

1. To ensure sustainability of the Municipality through the main Urban Plan;

2. To reduce the consumption of drinking water in 10 years to the level reached in 1997;

3. To elaborate a local plan in order to save energy;

4. To encourage recycling and reusing of solid waste in the short, medium and long terms by overhauling machinery to separate waste;

5. To set up a pilot project for the rehabilitation of quarries during the closing of the dumping site for rubble and separation, recuperation, and recycling of material;

6. To start actions to improve public transport;

7. To impose a five-year moratorium of important works on the coastline as well as high-impact road infrastructures;

8. To complete “Calvià Walk Way” in five years;

9. To implement “Living in Calvià”, a Housing Plan for construction and/or funding of 150 homes a year;

10. To implement a pilot program to preserve the beaches in a natural state;

11. To create a help-line [before 31 December 1998], and to increase support to small and medium-sized enterprises;

12. To initiate a working plan to activate rural areas, and to organize bids/awards for proposals on “Rural Initiatives in Calvià”;

13. To set up an environmental audit of the Municipality [before 31 December], and to establish “eco-responsible” facilities for the future;

14. To create an archaeological site under the name of “Puig de Sa Morisca”;

15. To set up an office within “Calvià: Local Agenda 21” structure to assess the citizens' promotion and awareness in the preservation of resources.

Local Agenda 21 proposes to collect and offer summarized, periodic and easy-to-understand information on the evolution of Calvià at the social, economic and environmental levels, using development and local quality of life as a reference.

Compared to 1997, when the indicators and the initiatives were measured for the last time, in 2000 the results indicate that Calvià has improved in the areas of cultural heritage, economy and tourism, as well as of local town-planning. However, the areas of natural and rural land and marine systems, and other key environmental sectors (transportation, water, energy, and waste), still need improvement. In general terms, the overall situation has improved.

As a major tourist resort in the Mediterranean, the project's methodology and decisions could be applied elsewhere in the Mediterranean region. We believe Calvià's case could serve as an example for emerging tourist municipalities, as well as for mature ones, on how not to repeat unsustainable practices, and on how to integrate the local population in the process.

*****
The following is a list of prizes conferred to Calvià in the last five years:

**“Sustainable European Cities Award 97”.**
Brussels, November 1997. Awarded by the European Commission (DG of Environment) and the “Sustainable Cities and Towns Campaigns”.

**“Good practice for improving the quality of town life”.**

**“Green Globe Award”.**

**“Award for the best initiative, work and municipal effort in support of the environment”.**

**“World project, Expo 2000 Hanover”.**
Hanover, March 2000.

**“World Summit Business Award for Sustainable Development Partnership”** for the Local partnership to minimize and recycle waste project. Johannesburg, 26 August – 4 September 2002.
ANNEX I

Agenda

Tuesday, 19 February 2002

10:00 – 18:00  Registration

20:00 – 21:30  Welcoming cocktail offered by the organizers

Wednesday, 20 February 2002

8:00 – 09:00  Registration (Registration Desk)

Opening Ceremony (Mezanine Conference Hall)

09:00 – 10:00  Introduction of the guests – Mr. Iván Hernández Pacheco, Technical Secretary, Secretariat of Interior, Government of the state of Quintana Roo, Mexico

Official Ceremony to honour the Mexican Flag

Welcome address – Ms. Magali Achach de Ayuso, President of the Benito Juárez Municipality (Cancun), Mexico

Opening address – Mr. Carlos Flores Alcocer, Head of the Executive Office for Strategic Planning and Regional Development, Presidency of the Federal Government of Mexico

Opening address – Mr. Guido Bertucci, Director of the Division for Public Economics and Public Administration, Department of Economic and Social Affairs, United Nations

Opening Address – Mr. Joaquín Ernesto Hendricks Díaz, Governor of the state of Quintana Roo

10:00 – 10:30  Recess

First session  (Yucatán Conference Hall)

10:30 – 13:15  Keynote address: Fiscal decentralization: implications for tourism – Ms. Marilyn Rubin, Professor, City University of New York, USA

Keynote address: Entrepreneurship and development – Mr. Paul Reynolds, Professor, London Business School, United Kingdom, and Babson College, USA

Keynote address: Sustainable tourism, environmental protection and natural resources management – Mr. Frederico Neto, Economist, Department of Economic and Social Affairs, United Nations
Keynote address: Management of cultural interaction – Mr. Peter Keller, Professor, School of Economics and Management, University of Lausanne, Switzerland; President of the Commission for Europe of the World Tourism Organization (WTO)

13:15 – 15:30 Recess

Second session (Yucatán and Guadalajara Conference Halls)

15:30 – 17:00 Two simultaneous workshops:

Workshop 1. Nurturing the entrepreneurial spirit: entrepreneurship development training – Presenter, Ms. Marina Fanning, Executive Vice-President, Management Systems International, Washington D.C., USA

Workshop 2. Intercultural management training – Presenter, Mr. Huib Wursten, Managing Partner, ITIM International, The Netherlands

17:00 – 19:30 Recess

19:30 – 21:00 Special Dinner offered by the Organizers

Thursday, 21 February 2002

Third session (Yucatán Conference Hall)

09:00 – 10:30 Mexico: the case of Cancún – Mr. Jose Luis Pech Várguez, Secretary of the Interior, Government of the state of Quintana Roo, Mexico

South Africa: Decentralized government and their role in tourism development – Ms. Gugu Moloi, Chief Executive Officer, Municipal Infrastructure and Investment Unit, Government of South Africa

Philippines: The case of the Subic Naval Base conversion in the Zambales Province – Mr. Richard Gordon, Minister of Tourism, Government of the Philippines

10:30 – 11:00 Recess

11:00 – 13:15 India: Decentralization and the experience of Kerala, with special reference to tourism development – Mr. Justice Sukhdev Singh Kang, Governor of Kerala State, India

Regional development policies in Mexico – Mr. Carlos Flores, Head of the Executive Office for Strategic Planning and Regional Development, Presidency of the Federal Government of Mexico; Chairman of the Local Economic and Employment Committee of the Organization for Economic Cooperation and Development (LEED/OECD)

Spain: Sustainable development and mature tourism-driven municipalities: integrated rehabilitation in the Calvia Municipality (Mallorca) – Ms. Margarita Nájera Aranzabal, Mayor, Municipality of Calvià, Balearic Islands, Spain
Chile: The case of the Isla de Pascua (Rapa Nui) – Mr. Enrique Pakarati Ika, Governor, Isla de Pascua (Rapa Nui), Valparaiso Region, Chile

Sustainable Development and Small Island Developing States (SIDS) – Ms. Kenza Kaouakib-Robinson, Division for Sustainable Development, Department of Economic and Social Affairs, United Nations

13:15 – 15:30

Recess

**Fourth session (Yucatán and San Luis Conference Halls)**

15:30 – 17:00

Two simultaneous activities:

Ad-hoc Committee meeting to draft preliminary conclusions and recommendations.

Bilateral meetings

17:00 – 19:30

Recess

19:30-21:30

Special Dinner offered by the Organizers

**Friday, 22 February 2002**

08:30 – 10:00

Forum of Governors (by invitation)

**Fifth session (Yucatán Conference Hall)**

10:00 – 10:30

India: Sustainable cultural tourism, the Rajasthan experience – Mr. Justice Ashuman Singh, Governor, state of Rajasthan, India

10:30 – 12:30

Adoption of conclusions and recommendations

12:30 – 13:00

Recess

**Closing session (Conference Hall Mezanine)**

13:00 – 13:30

Introductions – Mr. Ivan Hernández Pacheco, Technical Secretary of the Government of the state of Quintana Roo

Presentation of conclusions and recommendations – Mr. Guido Bertucci, Director of the Division for Public Economics and Public Administration, Department of Economic and Social Affairs, United Nations

Concluding remarks – Mr. Joaquin Ernesto Hendricks Diaz, Governor of the state of Quintana Roo

Closing message – Ms. Leticia Navarro, Minister of Tourism, Federal Government of Mexico

13:30

Closure of Colloquium
ANNEX II

List of participants
(in alphabetical order)

Ms. Magali Achach de Ayuso
Mayor
Municipality Benito Juárez (Cancún)
State of Quintana Roo
Mexico

Mr. Manuel Andrade
Governor
State of Tabasco
Mexico

Mr. Ibraheem Kayode B. Anibaba
Commissioner for Environment and Physical Planning
State of Lagos
Nigeria

Mr. Claudio Aponte
Consultant
Division for Public Economics and Public Administration
Department of Economic and Social Affairs
United Nations

Ms. Céline Auclair
Vice President
Forum of Federations
Ottawa (Ontario)
Canada

Mr. Pierre Baillargeon
Delegate General in Mexico
Province of Quebec
Canada

Mr. Guido Bertucci
Director
Division for Public Economics and Public Administration
Department of Economic and Social Affairs
United Nations

Mr. Javier Bustamante
Director
Strategic Development Office
Municipality of Calvià, Balearic Islands
Spain
Mr. Carlos Ivan Campos Arana  
Deputy Technical Secretary of the Government Secretariat  
Government of the state of Quintana Roo  
Mexico

Ms. Angela Capati-Caruso  
Economic Affairs Officer  
Division for Public Economics and Public Administration  
Department of Economic and Social Affairs  
United Nations

Ms. Carolina Cárdenas  
Secretary of Tourism  
State of Yucatan  
Mexico

Mr. Rokael Cardona  
 Presidential Commissioner for the Modernization and Decentralization of the State  
Government of Guatemala  
Guatemala

Mr. Olayemi Cardoso  
Commissioner of Economic Planning and Budget  
State of Lagos  
Nigeria

Ms. Francoise Carner  
Representative  
Economic Commission for Latin America and the Caribbean (ECLAC)

Ms. Alejandra Chávez  
Coordinator of Public Relations,  
State of Quintana Roo

Mr. Mauricio Costa Romão  
Secretary of Administration and Reform of the State  
State of Pernambuco  
Brazil

Ms. Ariane de Lipkowski  
Junior Professional Officer  
Division for Public Economics and Public Administration  
Department of Economic and Social Affairs  
United Nations

Mr. Francisco Javier Edmunds Paoa  
Head of Tourism  
Isla de Pascua (Rapa Nui)  
Valparaiso Region  
Chile
Ms. Marina Fanning  
Executive Vice-President  
Management Systems International  
Washington, D.C.  
USA

Mr. Oscar Jorge Fink Serra  
Notary Public  
Cancún  
Mexico

Mr. Carlos Flores  
Head, Executive Office for Strategic Planning and Regional Development  
Presidency of the Mexican Republic  
Chairman of OECD/LEED Committee in Mexico  
Mexico

Mr. Carlos H. Gadsden Carrasco  
Executive Member  
National Centre of Municipal Development  
Secretariat of the Interior of the Federal Government of Mexico  
Mexico

Mr. Valery Golubev  
Minister of Tourism  
State of St. Petersburg  
Russia

Mr. Richard J. Gordon  
Minister of Tourism  
Philippines

Mr. Joaquín Ernesto Hendricks Díaz  
Governor  
State of Quintana Roo  
Mexico

Mr. Iván Alejandro Hernández Pacheco  
Technical Secretary  
Secretariat of the Interior  
Government of the state of Quintana Roo  
Mexico

Mr. Jean Holder  
Secretary General  
Caribbean Tourism Organization (CTO)
Ms. Kira Iris
Partner
Iris & Iris
Playa del Carmen
State of Quintana Roo
Mexico

Ms. Kenza Kaouakib-Robinson
Economic Affairs Officer
Division for Sustainable Development
Department of Economic and Social Affairs
United Nations

Mr. Peter Keller
Professor, School of Economics and Management
University of Lausanne
Switzerland, and
President of the Regional Commission for Europe of the
World Tourism Organization (WTO)

Mr. Geraldo Machado
General Director
International Centre of Innovation and Exchange
in Public Administration (ICIEPA)
State of Bahia
Brazil

Mr. Jorge Machuca
FONATOR
Mexico

Mr. Guillermo Martínez Flores
Secretary of Tourism
Government of the state of Quintana Roo
Mexico

Mr. Armen Martirosian
Deputy Minister of Foreign Affairs
Ministry of Foreign Affairs
Armenia

Mr. Diego Masera
Regional Coordinator
Industry Programme in Mexico
United Nations Environment Programme (UNEP)

Ms. Gugu Moloi
Chief Executive Officer
Municipal Infrastructure and Investment Unit (MIIU)
South Africa
Ms. Margarita Nájera Aranzabal
Mayor
Calvià Municipality
Balearic Islands
Spain

Ms. Leticia Navarro
Minister of Tourism
Mexico

Mr. Frederico Neto
Economic Affairs Officer
Development Policy Analysis Division
Department of Economic and Social Affairs
United Nations

Mr. Enrique Pakarati Ika
Governor
Isla de Pascua (Rapa Nui)
Valparaiso Region
Chile

Mr. José Luis Pech Várguez
Secretary of the Interior
State of Quintana Roo
Mexico

Mr. Luis Pedrero
Secretary of Tourism
State of Chiapas
Mexico

Mr. Paul D. Reynolds
Professor of Entrepreneurship
London Business School
London, United Kingdom, and
Babson College, USA

Ms. Marilyn Rubin
Professor of Public Administration
The City University of New York
USA

Ms. Ada Samuelsson
Programme Officer
Development Policy Analysis Division
Department of Economic and Social Affairs
United Nations
Mr. Artemio **Santos Santos**  
Secretary of Economic Development  
Government of the state of Quintana Roo  
Mexico

Mr. Justice Anshuman **Singh**  
Governor  
State of Rajasthan  
India

Mr. Justice Sukhdev **Singh Kang**  
Governor  
State of Kerala  
India

Mr. Ivan **Stoicow**  
Private Secretary of the Governor  
State of Nueva Esparta  
Venezuela

Mr. Huib **Wursten**  
Managing Partner  
ITIM International  
The Netherlands
ANNEX III

Web links of interest

Governments

Government of Armenia

Government of Bahia state, Brazil
http://www.bahia.ba.gov.br/

Government of Pernambuco state, Brazil
http://www.pernambuco.gov.br/principal2.html

Government of Quebec Province, Canada
http://www.premier.gouv.qc.ca/premier_ministre/english/index.html

Government of Valparaiso Region, Chile

Government of Guatemala
http://mars.cropsoil.uga.edu/trop-ag/gov.htm

Government of Kerala state, India
http://www.keralagov.com/

Government of Rajasthan state, India
http://goidirectory.nic.in/rajasthan.htm

Government of Mexico
Government of Quintana Roo state, Mexico
http://www.quintanaroo.gob.mx/

Government of Chiapas state, Mexico
http://www.chiapas.gob.mx/

Government of Tabasco state, Mexico
http://www.tabasco.gob.mx/

Government of Yucatan state, Mexico
http://www.yucatan.gob.mx/

Government of Lagos state, Nigeria
http://www.nigeria.gov.ng/states/lagos.htm

Government of River state, Nigeria
Subic Bay, Government of Zambales province, the Philippines
http://www.sbma.com/demo/demo.html

Government of St. Petersburg state, Russia
http://www.municip.nw.ru/

Government of South Africa
http://www.gov.za/

Government of Calvia Municipality, Balearic Islands, Spain
http://www.calvia.com/

Government of Nueva Esparta state, Venezuela
http://www.1uptravel.com/international/southamerica/venezuela/government.html

International Organizations

United Nations, Division for Public Economics and Public Administration (DESA)
http://www.unpan.org/dpepa.asp

United Nations, Economic Commission for Latin America and the Caribbean (ECLAC)
http://www.eclac.org/

United Nations Environment Programme (UNEP)
http://www.unep.org/

Caribbean Tourism Organization (CTO)
http://www.doitcaribbean.com/

Convention on Biological Diversity (CBD)

Forum of Federations (FoF)
http://www.forumfed.org/

International Council for Local Environmental Initiatives (ICLEI)
http://www.iclei.org/

Organization for Economic Co-operation and Development (OECD)
http://www1.oecd.org/centres/

World Tourism Organization (WTO)
http://www.world-tourism.org/

World Travel and Tourism Organisation (WTTO)
http://www.wttc.org/

Research and management Organizations
Global Entrepreneurship Monitor (GEM)
http://www.gemconsortium.org/

ITIM – Business Culture and International Management
http://www.itim.org/

Management Systems International (MSI)
http://www.msiworldwide.com/

Conferences and events

UNDESA/WSSD Conference - 1999 Tourism Segment
http://www.un.org/esa/sustdev/tour2.htm#rel

Biological Diversity and Tourism

International Forum on Federalism
http://www.federalismo.gob.mx/

World Ecotourism Summit
http://www.ecotourisme2002.org/

World Summit on Sustainable Development (WSSD): Local Government Session
(http://www.iclei.org/lgs/)

Documents

Agenda 21 for the Travel and Tourism Industry. An Action Plan of the World Travel & Tourism Council, the World Tourism Organization and the Earth Council

Report of the Secretary-General on Sustainable development of tourism. (E/CN.17/2001/PC21) PDF

Report of the Secretary-General on Tourism and Sustainable Development (E/CN.17/1999/5)

Addendum 1 to the Report on Tourism and Economic Development (E/CN.17/1999/5/Add.1)

Addendum 2 to the Report on Tourism and Social Development (E/CN.17/1999/5/Add.2)

Addendum 3 to the Report on Tourism and Environmental Protection (E/CN.17/1999/5/Add.3)

UNDP Capacity 21 http://www.undp.org/capacity21/


WTO http://www.world-tourism.org/step/menu.html


Calvià Declaration on Tourism and Sustainable Development in the Mediterranean http://www3.iclei.org/egpis/calv-eng.html

Calvià on Mallorca, Spain, Calvià Local Agenda 21: Sustainable development in ageing resort areas - http://www.iclei.org/egpis/egpe-067.html

Coastal impact of tourism - http://www.iclei.org/la21/csd7_mjh.htm


Tourism focus newsletter http://www.uneptie.org/pc/tourism/library/newsletter.htm

Tourism and Poverty Alleviation http://www.world-tourism.org/cgi-bin/infoshop.storefront/EN/product/1267-1


Towards Local Sustainability in Central and Eastern Europe: The Sofia Statement http://www.iclei.org/europe/sofiafin.htm
ANNEX IV

International Colloquium secretariat

The International Colloquium was co-organized under the leadership of Mr. Guido Bertucci – Director of the Division for Public Economics and Public Administration, United Nations Department of Economic and Social Affairs – and of Mr. Joaquín Ernesto Hendriks Díaz – Governor of the state of Quintana Roo, Mexico.

United Nations:

Mr. Jerzy Szeremeta, Chief, Public Policy Analysis and Development Branch
Ms. Angela Capati-Caruso, Economic Affairs Officer
Ms. Gracia de León-Dizengoff, Technical Cooperation Assistant
Ms. Neena Koshy, Secretary
Ms. Ariane de Lipkowski, Junior Professional Officer
Mr. Claudio Aponte, Consultant

State of Quintana Roo, Mexico:

Mr. José Luis Pech Várguez, Secretary of the Interior
Mr. Iván Hernández Pacheco, Technical Secretary of the Cabinet
Mr. Guillermo Martínez Flores, Secretary of Tourism
Mr. Artemio Santos Santos, Secretary of Economic Development
Mr. Carlos Ivan Campos Arana, Deputy Technical Secretary of the Cabinet
Ms. Alejandra Chávez, Coordinator of Public Relations

Specific queries should be directed to:

United Nations:

Mr. Jerzy Szeremeta
Chief, Public Policy Analysis and Development Branch
Division for Public Economics and Public Administration
Department of Economic and Social Affairs
United Nations
Phone: (212) 963-3924; fax (212) 963-0522
E-mail: szeremeta@un.org
Website: http://www.unpan.org
Ms. Angela **Capati-Caruso**  
Economic Affairs Officer, Public Policy Analysis and Development Branch  
Division for Public Economics and Public Administration  
Department of Economic and Social Affairs  
United Nations  
Phone: (212) 963-5318; fax (212) 963-0522  
E-mail: capati-caruso@un.org  
Website: [http://www.unpan.org](http://www.unpan.org)

**State of Quintana Roo:**

Mr. Ivan Hernández **Pacheco**  
Technical Secretary of the Cabinet  
Palacio de Gobierno, Chetumal  
Quintana Roo, Mexico  
Phone: (52-983) 833 0214 (direct)  
Phone: (52-983) 835-0500, ext 1249 (central)  
E-mail: iherdez@prodigy.net.mx  
Website: [http://www.quintanaroo.gob.mx](http://www.quintanaroo.gob.mx)

Ms. Alejandra **Chávez**  
Coordinator of Public Relations  
Palacio de Gobierno, Chetumal  
Quintana Roo, Mexico  
Phone: (52-983) 835-0500, ext. 1249 (central)  
E-mail: achavezcas@73hotmail.com  
Website: [http://www.quintanaroo.gob.mx](http://www.quintanaroo.gob.mx)
NOTES

1 Tourism-related job and revenue estimates were made by the South Pacific Project Facility (SPPF) funded by the International Finance Corporation (IFC). The estimates include jobs and revenues directly generated by tourism as well as jobs and revenues indirectly generated through the multiplier effects from tourism.

2 Ecotourism is a segment of the tourism industry in which “the main motivation of the tourists is the observation and appreciation of nature as well as the traditional cultures prevailing in natural areas” (WTO, 1998).

3 Decentralization sometimes results in increasing the role of the private sector in service delivery and financing. This topic is beyond the scope of this paper, but is suggested for further research.

4 The IMF has not published data on intergovernmental transfers by function since 1994.

5 The terms public goods and quasi-public goods encompass services as well as goods.

6 Nonappropriability refers to a category of goods/services that are characterized by two properties: (i) they are nonexhaustive, which means that one person’s use of the service does not preclude full concurrent use of that service by others; and (ii) they provide services that make it practically impossible to exclude nonpayers from participating in the benefits.

7 Other major components of a country’s infrastructure include water and sewerage systems, electricity and telecommunications networks.

8 The 23 nations listed here were Australia, Belgium, Canada, Denmark, Finland, France, Germany, Hungary, India, Ireland, Italy, Japan, Korea, New Zealand, the Netherlands, Norway, Poland, Portugal, South Africa, Spain, Sweden, the United Kingdom and the United States. Venture capital data for Argentina, Brazil, Mexico, Russia and Singapore were not available for 2000 when this report was written.


13 See “Sustainable development of tourism,” Report of the Secretary-General (E/CN.17/2001/PC/21), United Nations, New York, 2 March 2001. According to the WTO, tourism is defined as “the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes not related to the exercise of an activity remunerated from within the place visited” (see Basic References on Tourism Statistics, WTO, Madrid, 2000). See also World Economic and Social Survey 1997 (Sales No. E.97.II.C.1), chapter X, United Nations, New York, 1997.


16 Even the Gulf War year of 1991 recorded a small increase of 1.2 per cent in international arrivals. Annual international arrivals include different visits to the same country by the same international visitor during a single year. International tourists include both overnight and same-day visitors. See Compendium of Tourism Statistics - 2001 Edition, World Tourism Organization, Madrid, 2001.


18 Idem.


20 Idem. The estimated drop in the number of international arrivals by region are: 30 per cent in the Middle East, 24 per cent in both the Americas and South Asia, 10 per cent in East Asia and the Pacific, 6 per cent in Europe, and 3.5 per cent in Africa, respectively.


24 See “Sustainable development of tourism,” Report of the Secretary-General (E/CN.17/2001/C/21), op. cit. The broad definition of tourism includes a complex range of economic activities accounted for in several other sectors (such as agriculture and transport) by means of a “tourism satellite account”. According to a set of methodological references to a tourism satellite account recently adopted by the United Nations Statistical Commission (see Tourism Satellite Account: Recommended Methodological Framework (ST/ESA/STAT/SER.F.80), United Nations/WTO/OECD/Eurostat, New York, 2001), tourism is measured from a demand side perspective as opposed to the supply side approach used for more homogenous sectors.


29 According to the International Labour Office (see Hotels, Catering and Tourism, electronically available at http://www.ilo.org/public/english/dialogue/sector/sectors/tourism.htm), women account for about 60 per cent of employees in the hotel and restaurant sector in most countries.

30 Ibid. According to the same document, one job in the direct tourism industry worldwide induces around one and a half additional indirect jobs in the tourism-related economy: the ratio varies from 1.2 in North and Latin America, to around 2.0 in the Caribbean and Europe.


32 Ibid. The high proportion of unpaid employment in many developed and developing countries – in many cases almost or more than half of the total number of employees in this sub-sector – reflects a large number of non-remunerated family members of small entrepreneurs.


37 "Tourism and environmental protection, "Addendum to the Report of the Secretary-General (E/CN.17/1999/5/Add.3), op. cit.

38 "Sustainable tourism development in small island developing States," Addendum to the Report of the Secretary-General (E/CN.17/1999/6/Add.11), op.cit.

39 See Tourism and Sustainable Mountain Development, Swiss Centre for Development and
Environment (CDE) and Swiss Agency for Development of Cooperation (SDC), Berne, 1999. Sustainable mountain development issues will be prominent in various activities in celebration of the International Year of Mountains throughout 2002.


44 Conflicts of interest within local communities may, however, make it difficult to fully incorporate such sustainability principles in regional tourism planning and development. For example, a recent survey of regional attitudes to tourism development shows that communities differed widely in their approaches and responses to such development. See B.Y. Ahn et al., “Operationalizing sustainability in regional tourism planning: An application of the limits of acceptable change framework,” *Tourism Management*, Vol. 23, No. 1, pp. 1-15.

45 An interesting empirical analysis of economic incentives for ecotourism in a developing country shows, however, that local income generation depends primarily on the level of local organization, as well as on the importance of the tourist attraction and the degree of tourism specialization available. See S. Wunder, "Ecotourism and economic incentives - An empirical approach," *Ecological Economics*, Vol. 32, No. 3, pp. 465-479.


47 Economic pricing of relatively scarce resources, such as water, is also important because they encourage more efficient allocation among different uses. It can be argued that efficient pricing of water should basically be determined in relation to its opportunity cost, that is, its value in the best alternative use. However, political and social considerations allow only a gradual move towards the adoption of a water price that equals its opportunity cost. For a detailed examination of these issues, see *World Economic and Social Survey 1996*, chapter XI (Sales No. E.96.II.C.1), United Nations, New York, 1996.


50 Another way is to restrict environmentally harmful activities, which can also be done at the global level, as the Montreal Protocol on phasing-out the production of ozone-damaging CFCs has shown.

51 See “Tourism and environmental protection,” *Addendum to the Report of the Secretary-General* (E/CN.17/1999/5/Add.3), op. cit.


53 There are also plans to extend the award to selected non-European countries, in cooperation with the United Nations Environment Programme (UNEP) and the World Tourism Organization.

54 *Earth Summit - Agenda 21: The United Nations Programme of Action from Rio* (Sales No.E.93.I.111), United Nations, New York, 1993. Agenda 21, however, addresses tourism-related issues, such as, sustainable mountain
development and the protection of coastal ecosystems.


58 See Actions in assisting developing countries to implement Agenda 21 undertaken by the World Tourism Organization since 1992, op. cit., appendix 1.

59 Adopted on 21 December 2001 without a vote (see General Assembly resolution A/RES/56/212).


61 The 2002 United Nations International Year of Ecotourism was officially proclaimed by General Assembly resolution 53/200 of 15 December 1998. The World Tourism Organization and the United Nations Environment Programme have taken the lead in organizing activities at international level, the highlight of which will be the World Ecotourism Summit, to be held in Québec City, Canada, in May 2002.