



**The contribution of tourism in Mozambique
– present and future –**

by

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The intent of the discussion paper series is to stimulate ideas and exchange ideas on issues pertinent to the economic and social development of Mozambique. A multiplicity of views exists on how to best foment economic and social development. The discussion paper series aims to reflect this diversity.

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1. Introduction

This summary paper has two objectives. First, we aim to highlight the results of two studies recently undertaken on the tourism sector in Mozambique. These review the aggregate economic contribution and potential of the sector, based on a new social accounting matrix (Jones, 2007); and a case study of the local economic impacts of tourism for Praia de Bilene, a tourist resort in Gaza Province located in the south of the country (Jones et al., 2007). Secondly, and based on these findings, we seek to identify the principal policy challenges facing the sector over the medium-term and suggest some priorities for government action.

The key message is that tourism can be viewed as a promising growth sector for Mozambique, with significant potential to expand employment and stimulate other sectors. However, this does not mean that “business as usual” is in order. Due to a number of inter-related weaknesses, including a comparatively low average spend per tourist, any expansion of the tourism sector that leaves its underlying structure unchanged is not recommended. Taking a perspective encompassing the entire tourism value-chain, we argue that attention should be given to development of relatively immature tourism sub-sectors such as activities, tours and direct purchases in the local economy. For this reason an important policy recommendation is to prioritise the diversification and upgrading of core tourism assets (both cultural and natural). This requires a shift of policy focus away from purely quantitative achievements (e.g., new hotel investments, number of tourist arrivals) and towards more quality-based performance measures along the value-chain.

The structure of the rest of this paper is as follows: the next section briefly provides some context on the sector, followed in Section 3 by an overview of its more specific economic characteristics in Mozambique. Section 4 provides the interpretation of these results, covering the policy challenges and recommendations; Section 5 concludes. Note that this paper does not discuss the methodologies and analytical tools employed; further details can be found in the studies referenced above. Suffice to say that the aggregate results are based on a new social accounting matrix (hereafter, “SAM”) for 2003 disaggregated to include six categories of tourism activity (both domestic and foreign).¹ This not only allows measurement of the economic size of tourism as per

¹ These are domestic households, domestic businesses, domestic investment, overseas business visitors, overseas self-drive leisure tourists and other overseas leisure tourists. Note that data on the latter three categories derives from tourism expenditure surveys undertaken by the National Statistics Institute with the Ministry of Tourism in 2006/07.

tourism satellite accounting (see OECD, 2000), but also enables estimation of economic linkages (potential effects) via a simple fixed-price multiplier analysis. The case study of Bilene follows a value-chain analysis in the spirit of Ashley (2006), based on data collected in the field in June 2007.

2. Context

As a point of departure, a number of general features of tourism should be mentioned. First, from an accounting perspective tourism cannot be associated with a single industry or sector. Rather it refers to a broad set of goods and services principally distinguished by the nature or purpose of demand. The standard statistical definition, also employed here, delineates tourists as those who travel to and stay 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 (OECD, 2000). Economically tourism thus covers spending on a wide range of goods and services by both domestic and external visitors.² As a result, the economic contribution of tourism cannot be estimated directly from standard national accounts data but requires a separate analytical approach. Such an exercise has yet to be undertaken for Mozambique and this gap provides a straightforward motivation for the economic measurement dimension of the two studies.

Secondly, the complexity of tourism does not end with accounting statistics. From a policy perspective tourism is cross-cutting in the sense that it covers a wide range of policy domains and competencies. For example, environmental management, land-use planning, public infrastructure investment and taxation all frequently enter into debates surrounding tourism development but do not relate to tourism uniquely. Moreover, in most cases tourism is characterised by the provision of a mixture of private and public goods, the latter referring not only to essential services but also natural attractions such as beaches, nature reserves and the like. This ‘mixed’ production structure generates substantial challenges particularly with respect to finding effective financing and resource management mechanisms to promote the sustainability of the sector.

Thirdly, tourism is increasingly being recognised as a valuable source of long-term growth for developing countries. Not only is tourism a robust growth sector in global terms (41% absolute growth in tourism receipts for 2000-05), but also less developed countries have seen the

² The definition embraces both inbound and outbound tourism; however, in this study we restrict ourselves to the former – i.e., tourism activities for which the intended “destination” is Mozambique.

highest growth in tourism on average (12% per year, 2000-05).³ In addition, there is a growing body of literature which affirms that tourism can be pro-poor and can generate strong backward linkages to the rest of the economy (see for example Mitchell et al., 2007). These features, however, are by no means guaranteed but rather are considered to be dependent both on government policies in general as well as actions at the local level. For this reason analysis of the tourism value-chain can be a valuable step towards identifying the most beneficial kinds of interventions to optimise the developmental returns from tourism growth. This is an additional source of motivation for the two studies.

With respect to Mozambique, tourism has been identified by the government as having a key role in its growth and development strategy. The vision for the sector states that by 2020 the country aims to be the “most vibrant, dynamic and exotic” destination in Africa, welcoming over 4 million visitors per year (República de Moçambique, 2004). The positive economic contribution of tourism is frequently emphasised, particularly as regards employment creation and inter-sectoral linkages (*ibid*; República de Moçambique, 2003). To a certain extent, it appears that investment in the sector has matched these high expectations. Since 1995, investment projects worth over \$1.8 billion US dollars have been approved by the Investment Promotion Centre, being equal in value terms to 14% of all approved investments (both foreign and domestic). Press reports suggest that over US\$200 million was invested in the sector in 2006 alone; the Ministry of Tourism (MITUR) also estimate that physical hotel capacity has risen by over 50% from 2000-05.

At the same time, some initial warning notes can be sounded. Data regarding trends in the sector is limited and often inconsistent between different sources. As a result there has been minimal analytical work that might contribute to moving from general policy objectives to more specific government targets and actions. A recent study by FIAS (the investment advisory arm of the World Bank) concludes that Mozambique needs to flesh out in more concrete terms the kind of tourism development that it desires over the longer-term (FIAS, 2006). It also identifies a host of policy interventions that could be implemented to enhance the attractiveness of Mozambique as an overseas tourism destination. It also is worth noting that a cross-country comparative exercise on tourism competitiveness undertaken by the World Economic Forum (WEF, 2007) places Mozambique in 119th out of 124 places, falling behind prospective peers such as Tanzania (80th) the

³ Data taken from UNWTO (2006)

Gambia (84th) and Zambia (94th). Among the reasons for Mozambique's low ranking are the prevalence of malaria, the poor quality of human resources and the low level of development of its underlying natural and cultural resources. These observations intensify the motivation for in-depth studies of the tourism sector in Mozambique.

3. Economic Characteristics of Tourism

Aggregate economic contribution

Turning to the findings of the two studies, Figure 1 extracts data directly from the disaggregated 2003 SAM to replicate some of the principal results associated with Tourism Satellite Accounts. The figure shows both gross demand and supply of tourism by its principal components. On the demand side we show the main institutional *sources* of gross demand, namely overseas visitors (exports), resident businesses (intermediate consumption), resident households (personal consumption) and investment. Note that total tourism demand is worth US\$330 million, equal to 2.9% of gross demand in the economy for 2003.

On the supply side we estimate the value added associated with tourism at factor cost, distinguished between 'direct' sectors that are predominantly driven by tourism (e.g., hotels and restaurants etc.) and other sectors. Based on national accounting identities, the remaining supply is composed of imports purchased directly by sectors selling to tourists, as well as intermediate supply, trading margins and taxes.⁴ From this we note that tourism contributes approximately 3.2% of total value added (GDP at factor cost), approximately double the value added of the restaurant and hotels sector alone. The direct import share of tourism is equal to 44% of its value added, which compares favourably with the ratio of 47% for the economy overall.

While this exercise provides useful data to benchmark the aggregate size of the sector, a number of further results can be highlighted. First, the overall economic contribution of tourism is moderate but not insignificant in comparative terms. Similar-sized industries from a value added perspective include fisheries, the construction sector and education (INE, 2007). The segmentation of tourism between the different sources of demand also should be taken seriously. The largest share of gross tourism demand (42%) derives from resident households and only 28% refers to overseas visitors. However, the overseas visitors market is far from homogenous. Despite the vision

⁴ Gross demand = (Intermediate consumption + C + I + G + X) = Gross supply = (Y + M + Intermediate consumption)

of Mozambique as a tropical holiday destination (see above), overseas business visitors represent over 40% of tourism demand and self-drive visitors, who are largely residents of neighbouring countries (especially South Africa), account for a further 28%. It is reasonable to conclude, therefore, that leisure tourists from the more lucrative markets of Europe and North America (as well as East Asia) make-up only a small share of tourism exports and an even smaller share (8%) of total tourism demand.

As shown in Figure 2, a similar exercise can be followed to apportion value added to the different tourism categories. Once again the dominance of resident households is confirmed, with the two categories of overseas leisure tourism representing 17% of total tourism value added or approximately half a percentage point of total GDP. Notably, value added *per overseas tourist* varies dramatically between the three categories. This is demonstrated in Figure 3 which compares each category's share of the total volume of overseas visitors with their share of value added. Self-drive leisure tourists generate the lowest return not only in absolute terms (Figure 2) but most clearly in per tourist terms. Taking the ratio of these two shares, the figures suggest that the value added of 'other' leisure tourists is over twice the value added of their self-drive counterparts and slightly higher than that of business tourists.

Local economic contribution

From both a sustainable development and a poverty perspective the local economic impacts of tourism are essential (e.g., see Mitchell et al., 2007). The case study of the Praia de Bilene serves as a useful example as it is one of the most established tourism destinations in Mozambique and has a relatively high concentration of tourism operations.⁵ Data gathered in the field suggest that total tourism spending in Bilene is equal to around US\$2.8 million (per year). Although this is small in aggregate and regional economic terms, the tourism industry in Bilene is locally significant when one considers the low population density as well as the general absence of other formal sector employment possibilities. Total sales in Bilene, for example, correspond to approximately US\$420 per resident of the relevant administrative area (*o posto administrativo da Praia de Bilene*) in which approximately 60% of the population live below the poverty line.

From an employment angle the sector directly constitutes over half of all formal employment in the locality and, obviously, supports numerous other jobs in the formal and informal

⁵ For further background on the area see Jones et al. (2007: 11-13)

sectors. The estimates suggest that tourism directly contributes to around 400 jobs in Bilene, of which the majority of employees (60%) have only a basic education. Given that these employees are locally recruited, this indicates that at least 13.3% of total sales stay in the locality in the form of salaries and informal sector profits. However, there is little evidence of significant sourcing of intermediate supplies in the immediate locality. Thus, it is the wider region, as well as the capital city, that benefit not only from these expenditures (worth around 40% of total sales) but also from the formal sector profits and high-skilled wages generated by tourism in Bilene.

Economic Linkages

The economic linkages of tourism indicate the extent to which demand growth in tourism is likely to stimulate expansion of other domestic economic sectors. The inverse is a leakage which refers to outflows in the form of imports. Given its general equilibrium and comprehensive properties, the disaggregated SAM provides a robust vehicle for measuring linkages via fixed-price economic multipliers.⁶ These show the final increment across the economy that can be associated with an exogenous unit increase in demand for a specific good (in this case a unit is equal to 10⁹ Meticaïs or US\$42,500). Thus, sectors with comparatively higher multipliers may be considered priority candidates for policy attention and/or investment promotion.

A comparison of multipliers across the commodity categories in the SAM indicates relatively strong multiplier effects arising from tourism in general, but particularly from overseas tourism. For example, a unit increase in demand for overseas tourism is associated with a 2.47 unit increase in value added, against 2.16 for domestic tourism categories and 1.96 for the economy overall. The employment multiplier is also relatively strong at 1.54 for tourism (weighted average) versus 1.30 for the economy. In terms of the total number of jobs expected to be created throughout the economy, we estimate that a unit increase in tourism commodity demand generates 137 new jobs compared to 131 for the average commodity or 105 for industrial commodities. The positive linkage from tourism to employment is certainly seen in the case of Bilene (see above), thus together this supports the government's high expectations surrounding the economic contribution of tourism.

⁶ For a general discussion of SAMs see Thorbecke (2000) or Round (2003). Note that the multipliers analysed here are 'unrestricted' in the sense they ignore potential supply-side constraints or price effects.

Taking these various multipliers as a whole, a single measure of overall backward linkages can be calculated. Focussing on the commodity multipliers only, Figure 4 provides a ranking of the sectors included in the 2003 SAM. Sectors with a score above one are estimated to have backward multipliers that are higher on average than the economy overall. The exercise endorses a relatively upbeat assessment of tourism's economic potential, with the categories of overseas tourism showing the strongest overall backward linkages for the same increase in demand. Notably, this result is driven by the scores for restaurants and hotels (sectors 'n' and 'm' in the figure) which are placed among the five highest ranked sectors according to this measure.

Emerging weaknesses

The positive findings regarding tourism's moderate size but significant potential are tempered by four specific weaknesses.⁷ The first of these refers to low average utilization rates of existing hotel capacity, intimately linked to estimates that put the length of stay for overseas tourists at around 3 nights per trip, versus 10 nights in Tanzania for example (CHL Consulting Group, 2002). Although subject to some uncertainty, the official government statistics suggest that the average stay per tourist has fallen since 1997 from approximately 2.8 nights per tourist to 2.2 nights in 2004. This is confirmed by both the visitor spending survey data, giving a median stay of 3.8 nights for the peak holiday season, and an estimate of 2.6 nights from the Bilene case study. Correspondingly, occupancy rates appear to be around 25% on aggregate. This is found in the case of Bilene where the annual average occupancy rate of 20% is driven by a seasonal disparity between 70% occupancy during the high season and under 10% in the (longer) low season.

Second and connectedly, the average spend per overseas tourist to Mozambique (per trip) is particularly low by comparative standards. Based on data compiled for the World Economic Forum (2007), Figure 5 shows that among a range of plausible comparators from sub-Saharan Africa and elsewhere, Mozambique has the lowest average spend at under US\$250 per tourist. Once again, this estimate is confirmed from alternative sources – the average spend per visitor (domestic and overseas) in Bilene is around US\$150 excluding local transport costs; the visitor survey gives

⁷ There are also a number of important general concerns facing the tourism industry such as the legal status of tourism operators, allocation of land, and competitiveness of the airline industry. The first of these is discussed in the Bilene case study; however, these issues have already been brought to the government's attention (e.g., FIAS, 2006) and are much wider in nature than can be treated adequately within the scope of this paper.

an average spend of US\$260 per overseas visitor.⁸ While there are numerous causative factors here, (including the origin of tourists, the purpose of their visit and length of stay), these results give a strong indication of the average kind of tourism that Mozambique is able to attract – namely higher volume, peak season, lower-spend visitors.

Thirdly, deeper insight into *why* this may be the case comes from the structure of tourism spending. On the one hand, tourism undertaken by domestic (resident) households can be characterised as informal in the sense that spending is mostly on local (road) transport and basic direct purchases rather than on hotels and restaurants. This suggests a pre-dominance of visits to friends and family rather than integration in formal holiday destinations. On the other hand, data from the 2003 SAM and the Bilene case study show that overseas tourism spending is heavily concentrated in (formal sector) hotels and restaurants. Thus, only a small proportion (under 25%) goes towards domestic transport or miscellaneous purposes such as activities or direct purchases. In Bilene, for example, 90% of all spending is received by ‘formal’ providers of accommodation and restaurant services, leaving 10% to the informal sector. Most striking is the complete absence of independent activity- or tour-operators in Bilene, which typically constitute a central element of the tourism value-chain and a prime means to generate pro-poor local economic impacts (see the example of the Gambia in Mitchell & Faal, 2006; also Ashley, 2006). This is despite the fact that the resort receives well over 15,000 visitors per year, attracted primarily by its natural beach and marine assets.⁹ While Bilene may be an extreme example, the aggregate data certainly suggest that tourism sub-sectors outside of hotels and restaurants are as yet under-developed, corresponding to a limited capture of tourist’s spending and, plausibly, their low average length of stay in the country and low spend per visit.

Finally, adjustment of the multiplier analysis to take into account the extent to which the estimated multiplier processes may be dependent on scarce factors of production leads to a modified view of the potential for expansion of the tourism sector *given its current structure*. Figure 6 repeats the previous overall backward linkages scoring exercise, however the multipliers are now adjusted for the extent of their dependence on returns to physical capital and highly skilled human capital (for details see Jones, 2007: 43). On this basis, tourism commodities no longer feature

⁸ For tourism sub-categories the average ranges from US\$162 per self-drive leisure tourist to US\$421 for other leisure tourists.

⁹ A small number of hotel complexes in Bilene support watersports activities, but these are extremely limited in scope and are not revenue-generators.

among the most attractive candidates for demand stimulation; in fact only tourism undertaken by domestic households has a score greater than one (superior to the average commodity). This finding is directly linked to the fact that both hotels and restaurants have switched from having the highest unrestricted multipliers to being among the least attractive on a modified basis. In other words, the expansion of hotels and restaurants is comparatively intensive in physical capital and (particularly) in highly skilled human capital. Thus, growth of these industries and, by extension tourism according to its current structure, may be constrained where these factors are scarce.

4. Policy implications

We have found that tourism is a relatively moderate sector in economic terms. Tourism demand is segmented between different categories but, overall, the sector has a promising potential to contribute to the country's long-term development. However, the weaknesses identified above warn against any complacency, particularly from a policy standpoint. Until now the government's main form of intervention in the sector has been restricted largely to the provision of fiscal benefits to investors in hotels and restaurants. Aside from limited rehabilitation of certain national parks (often funded and undertaken by external donors), public investment in tourism infrastructure has been minimal and adequate financing mechanisms to support the management and development of local tourism products simply do not exist. Moreover, it is vital to recognise that the provision of fiscal incentives bear a substantial shadow cost on the government in the form of lost revenues. As a result, it is useful to consider whether such incentives are likely to be optimal policy instruments to promote sustainable and pro-poor tourism development in Mozambique over the long-term.

It is precisely in this light the results should be interpreted. The observed expansion of hotels and restaurants has not been accompanied by the development of other tourism sub-sectors such as domestic tours, social and cultural tourism activities or direct spending (shopping). This helps explain the low average spend per visitor as well as the short duration of visits. Moreover, one interpretation of the adjusted multiplier analysis is that the particularly high dependency of tourism on skilled human capital reflects the high fixed costs of this factor relative to total sales in the context of low capacity utilization rates. In other words it is the economic structure of tourism, characterised by low occupancy rates and a high concentration of spending in hotels/restaurants, which is behind these 'adjusted' results. At stake, therefore, is the *form* of future tourism

development – growth that simply reproduces the sector’s current structure (i.e., business as usual) is not advisable, but this does not mean that all tourism development should be rejected *per se*.

Three main **policy challenges** follow from this interpretation. In general terms these call for a shift of focus away from purely quantitative aspects of tourism that appears to have dominated in the past (e.g., number of new hotels, number of tourists), towards an appreciation of the entire tourism value chain and the economics of the sector. Specifically, the challenges are:

- to promote a more balanced economic structure for the tourism sector in which hotels and restaurants constitute only one part of a more comprehensive and vigorous value chain;
- to focus on increasing the total value (spend) per visitor; and
- to support an increase in the local ‘capture’ of tourism spending at the destination level.¹⁰

To face these challenges it is likely to be helpful to study the specific policies and institutional mechanisms adopted by (successful) low-income countries in support of tourism development.¹¹ Notwithstanding the lessons that can be learned from such an exercise, our analysis points to four distinct **policy priorities** for the medium-term:

- developing a comprehensive monitoring and evaluation system based on clear targets and measurable outcomes for the sector – this would help provide a framework for identifying and implementing more concrete interventions, focus limited resources on priority activities and give a more substantial voice to the sector in central budget negotiations;
- diversify and upgrade the underlying tourism product (attractions) base via public investments in infrastructure and resource management initiatives;
- develop and finance capacity at a local level oriented to the implementation of destination-based tourism plans; and

¹⁰ This challenge not only follows directly from the previous two but also addresses the point, noted in Section 3, that only a small proportion of tourism spending remains in the destination. In addition, increasing the local capture of tourism spending may assist in improving the overall perception of the tourism in Mozambique which, as evident in discussions surrounding the background studies, is often criticised as being socially and economically costly.

¹¹ For example see Christie (2006).

- continue to invest in education and training so as to ensure a sufficient supply of high quality human capital to the industry.

5. Conclusions

The message from this summary paper is that “business as usual” is unlikely to be a recipe for success in the tourism sector in Mozambique. The sector is at a crucial stage in its development – it remains relatively moderate in size but does show the potential to contribute significantly to the development of the country over the long-term through both employment effects and backward linkages to other sectors. However, weaknesses identified in the current economic structure of tourism, including both low occupancy rates and a comparatively low average spend per tourist, suggest that the present challenge is to make better use of existing hotel capacity and promote the development of a more balanced and vigorous tourism value chain. This is in contrast to replicating the sector’s existing structure through further expansion of physical hotel and restaurant capacity. Effectively facing these challenges will not be possible by quick fixes. Rather, developing a comprehensive monitoring and evaluation framework for the sector, investing in the diversification and upgrading of the core tourism products and implementing local tourism plans would be positive steps. Such measures depend on finding appropriate financing mechanisms and building institutional capacity in the sector. In turn this entails a shift from the relatively passive but costly interventions that have predominated in the past (fiscal incentives), to a more activist public stance for the future.

Background studies

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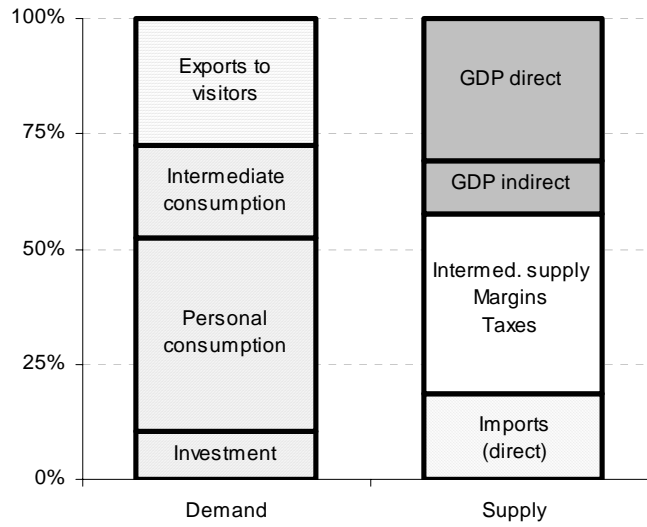
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Figures

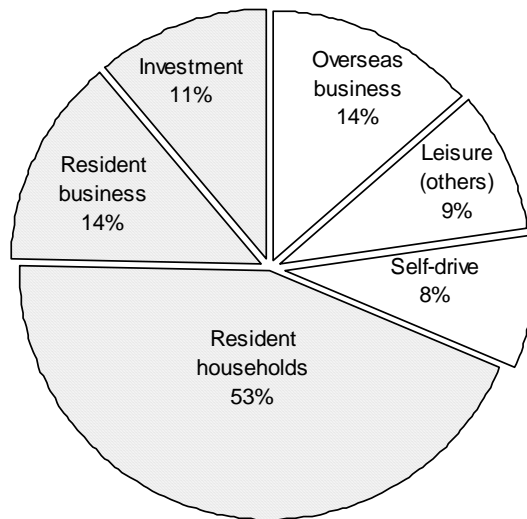
Figure 1: Gross tourism demand and supply



Source: Jones (2007: 21)

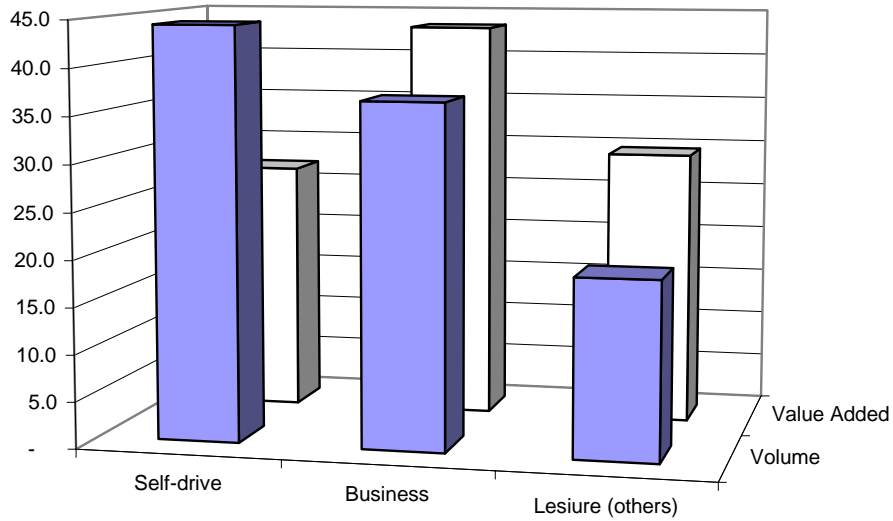
Note: Total = Mt 7,735 billion (US\$ 330 million)

Figure 2: Breakdown of total tourism value added by tourism categories



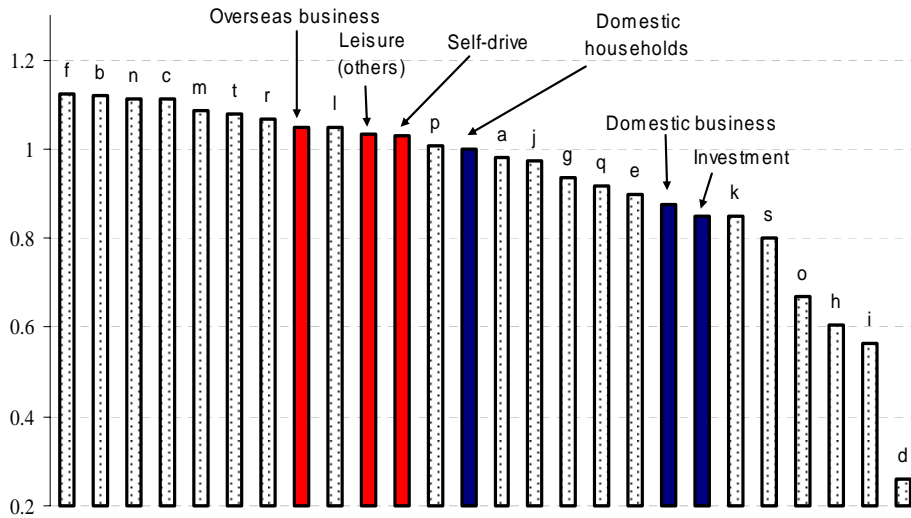
Source: authors' calculations

Figure 3: Shares of tourist numbers (volume) and value added by categories of overseas tourism



Source: authors' calculations

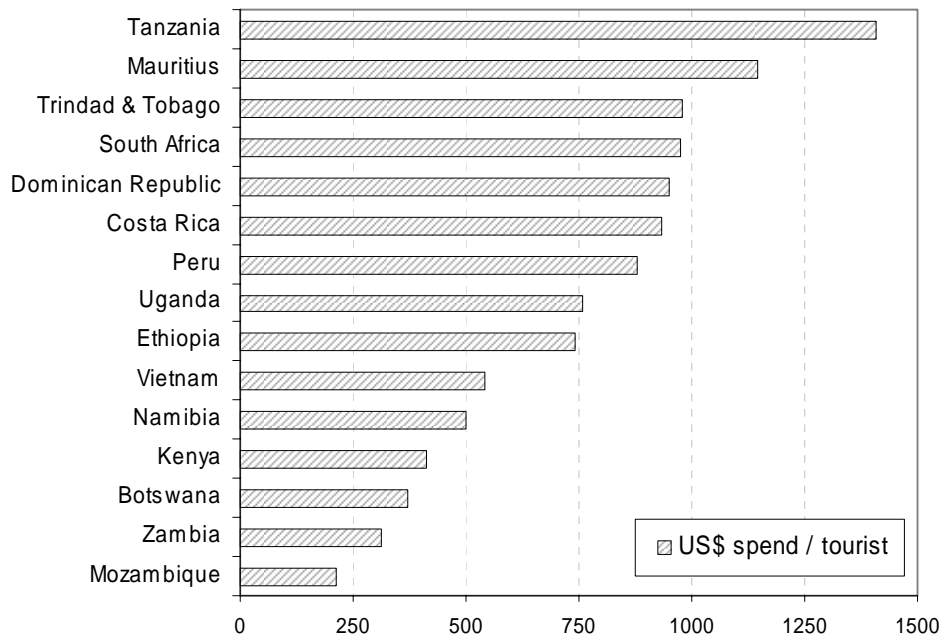
Figure 4: Backward linkages (unrestricted) score for commodity categories



Source: Jones (2007: 28)

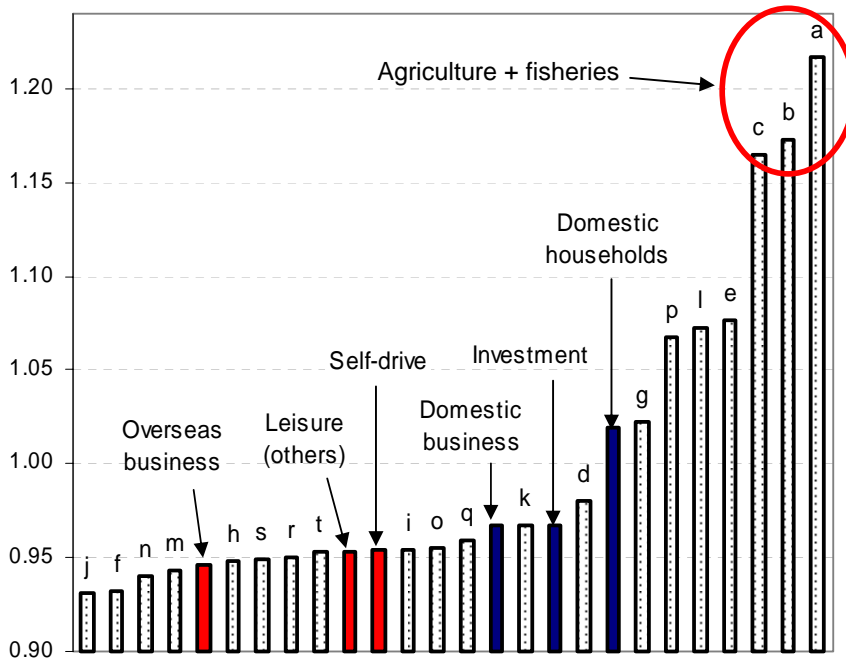
Note: see Annex A for a list of product codes a - t.

Figure 5: Average spend per overseas tourist per country



Source: WEF, 2007

Figure 6: Backward linkages score adjusted for dependency on physical capital and highly skilled human capital across commodity categories



Source: Jones (2007: 30)

Note: Tourism categories indicated, see Annex A for product codes a - t.

Annex A

List of product codes used for Figures 4 and 6 taken from the 2003 SAM:

Code	Description
Characteristic tourism products:	
m	Hotels
n	Restaurants
p	Road transport
q	Air transport
r	Tourism agencies
Uncharacteristic tourism products:	
a	Agriculture and livestock
b	Export agriculture
c	Fisheries
d	Mining
e	Food processing
f	Drinks manufacture
g	Manufacturing
h	Heavy Industry
i	Fuels
j	Energy
k	Construction
l	Commerce
o	Transport
s	Services (private)
t	Public services + administration