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Abstract

Tourism is often talked about as though it were automatically good for local development — a clean, smokeless industry that creates jobs, brings in foreign money, and preserves culture rather than destroying it. The reality is more complicated than this. Tourism can genuinely support local economic development when it is well managed, but it can also create dependency, undermine local businesses through leakage, and distribute its benefits in deeply unequal ways. This report examines how tourism connects to local economic development, using case studies from the Maldives, Rwanda, Thailand, Bolivia, and rural Spain to test these claims against real evidence. I selected Option 1 — Tourism as a Tool for Local Economic Development — because it covers the most economically grounded dimensions of the tourism-development relationship and allows me to look at both the positive potential of tourism and its genuine risks. The conclusion is that tourism works best for local development when it is planned with local communities rather than for them, when governance structures ensure that revenues stay in the local economy, and when diversification strategies reduce the risks that come with depending too heavily on any single industry (UNWTO, 2020).

1. Introduction

I have been thinking about tourism as an economic development tool for this report, and one of the first things that struck me when I started reading the literature is how much optimism there is about it. International organisations like the UNWTO regularly publish data showing how many millions of jobs tourism supports, how much foreign exchange it generates, and how it can provide economic opportunities in places that have few alternatives. All of this is true, up to a point.

But when you look at specific cases — at what actually happens in communities that become dependent on tourism — a more mixed picture emerges. Some destinations have used tourism to generate genuine, sustained improvements in living standards and local economic capacity. Others have become trapped in a model where the revenue from tourism flows out to foreign-owned hotels and tour operators while local communities carry the costs — crowding, environmental pressure, rising prices — without getting proportionate benefits. Understanding what determines which outcome occurs seems to me to be the most important question in this area.

This report addresses three main questions. First, how does tourism contribute to local economic development through employment, income generation, and small business growth? Second, how does it support or undermine local infrastructure and regional competitiveness? Third, what are the risks — dependency, leakage, inequality — and what can destinations do to manage them? I work through these questions using both academic literature and five case studies chosen to illustrate different dimensions of the tourism-development relationship.

I should say at the outset that I am approaching this topic with some genuine scepticism about the more optimistic claims made for tourism as a development tool, while also recognising that the evidence for its positive effects in well-managed contexts is real. Trying to hold both of these views simultaneously — tourism can be genuinely beneficial and genuinely harmful, depending on how it is managed — seems to me to be the most honest and useful starting point.

2. Literature Review

2.1 Tourism and Local Economic Development

The academic literature on tourism and local development is large and somewhat divided. On one side, there is a body of work — much of it associated with international development organisations — that emphasises tourism's potential as a driver of economic growth, particularly in regions with limited industrial or agricultural alternatives. The UNWTO (2020) estimates that tourism directly and indirectly supports around 10 percent of global employment and contributes a similar share of global GDP. In small island developing states and remote rural areas, these shares are often much higher.

On the other side, a significant strand of critical development studies has questioned whether these aggregate figures translate into meaningful improvements in local living standards, or whether the economic benefits of tourism are captured primarily by transnational corporations, national elites, and foreign investors rather than by the communities in destination areas (Scheyvens, 2002). The truth, as is often the case, seems to be somewhere in between — and the factors that determine which side of this divide a given destination falls on have been the subject of a lot of research.

The concept of local development cooperation in tourism refers to the idea that effective tourism development requires active collaboration between multiple stakeholders — local communities, local government, national government, NGOs, and private sector operators — rather than being driven purely by market forces or top-down planning (Ashley & Roe, 2002). This collaborative approach is associated with better outcomes for local communities, partly because it ensures that local knowledge and priorities are incorporated into planning decisions, and partly because it creates governance structures that can hold external operators accountable for their local economic and social impacts.

2.2 Employment, Income, and Small Business Growth

One of the most frequently cited economic benefits of tourism is its employment-creating potential. Tourism is labour-intensive compared to most industries, and it creates jobs at

multiple skill levels — from unskilled work in housekeeping and food service to skilled work in guiding, management, and specialist services (UNWTO, 2020). This breadth of employment opportunity is particularly valuable in economies where formal sector employment is scarce and where many people lack the qualifications required for higher-skilled industrial work.

Tourism also creates significant opportunities for small and micro enterprises — street vendors, craft producers, local restaurants, guesthouses, taxi operators, and tour guides who are too small to access most formal employment markets but who can build viable livelihoods by serving tourists (Scheyvens, 2002). The multiplier effect of tourism spending is important here: money spent by tourists does not just create jobs in hotels and attractions, it ripples through the local economy as those workers and businesses spend their incomes on local goods and services. The size of this multiplier effect depends heavily on how much of tourism spending stays in the local economy — which is where the problem of leakage becomes relevant.

Small business development in tourism is not automatic, however. It requires a business environment that allows small operators to participate — accessible licensing, affordable premises, fair access to tourist markets — and governance structures that prevent larger, better-connected operators from monopolising the most profitable parts of the tourism value chain (Ashley & Roe, 2002). Without these enabling conditions, the employment and income benefits of tourism can be concentrated in a relatively small segment of the local economy.

2.3 Infrastructure and Regional Competitiveness

One of the ways that tourism can benefit local development beyond direct employment and income is through infrastructure investment. Destinations that develop significant tourism sectors often see investment in roads, airports, water and sanitation systems,

telecommunications, and public spaces that benefit the broader local population, not just tourists (UNWTO, 2020). In remote or rural areas, tourism can sometimes attract infrastructure investment that would not otherwise be prioritised by national governments focused on urban development.

Regional competitiveness — the ability of a destination to attract tourists and tourism investment in competition with alternative destinations — is closely linked to infrastructure quality, skills levels, governance effectiveness, and the distinctiveness of the local product (Scheyvens, 2002). Destinations that invest in developing distinctive, high-quality tourism experiences, supported by reliable infrastructure and effective destination management, tend to attract higher-spending visitors who contribute more to the local economy per visit. This is generally a better development model than competing on price alone, which tends to attract high volumes of lower-spending visitors whose aggregate economic contribution may be disappointing relative to the environmental and social costs they impose.

There is a risk, however, that infrastructure developed primarily for tourism does not serve broader local development needs. An airport built to serve an international resort may connect that resort to global markets while doing nothing to improve connectivity between local communities. A water system upgraded for a luxury hotel may divert resources from basic water access for local households. These conflicts between tourism infrastructure needs and broader development priorities are real and have been documented in multiple destination contexts (Ashley & Roe, 2002).

2.4 The Problem of Tourism Dependency

Tourism dependency — the condition where a local or national economy is so reliant on tourism revenues that it becomes vulnerable to any shock that reduces tourist arrivals — is one of the most significant risks associated with using tourism as a development tool. The COVID-19 pandemic provided the most dramatic demonstration of this vulnerability in

living memory: when international travel collapsed in 2020, tourism-dependent economies experienced some of the sharpest GDP contractions and employment losses ever recorded (UNWTO, 2020).

The Maldives, where tourism typically accounts for around 40 percent of GDP and a much higher share of government revenue, saw its economy contract by nearly 30 percent in 2020. Small island states in the Caribbean saw similar collapses. Even destinations that are not primarily reliant on tourism but have developed significant seasonal tourism sectors — parts of coastal Spain, Greece, and Southeast Asia — experienced severe localised economic disruption.

The dependency problem is not just about vulnerability to external shocks. It is also about the structural effects of tourism specialisation on local economies over time. When tourism becomes the primary economic driver of an area, prices tend to rise — particularly for land and accommodation — which can crowd out other economic activities and make it harder for local residents who are not in tourism to afford to live in the area (Scheyvens, 2002). This is the dynamic that has driven resident displacement in Venice and parts of Barcelona, but it plays out in less visible ways in many smaller destinations too.

2.5 Income Leakage and Unequal Distribution

Income leakage refers to the proportion of tourism revenues that flow out of the destination economy rather than circulating locally. In many developing country destinations, leakage rates are very high — research has estimated leakage rates of 40 to 80 percent in some contexts, meaning that for every dollar spent by tourists, only 20 to 60 cents actually contributes to the local economy (Ashley & Roe, 2002). The sources of leakage include foreign-owned hotels and tour operators that repatriate profits, imported food and goods consumed by tourists that is sourced externally, foreign management and skilled staff whose salaries are remitted abroad, and marketing and distribution costs paid to

intermediaries in tourist-origin countries.

The distribution of tourism benefits within destination communities is also often unequal. Tourism tends to create better economic opportunities for people who are already relatively advantaged — those who own land in prime tourist areas, those with education and language skills to work in formal tourism employment, and those with capital to invest in tourism businesses (Scheyvens, 2002). Marginalised groups — women, indigenous communities, people in rural areas without direct access to tourist flows — often receive limited benefits while bearing significant costs in terms of environmental degradation and cultural disruption.

Pro-poor tourism is a concept developed specifically to address these distributional concerns, focusing on governance and business model changes that direct more of the economic benefits of tourism toward those who are currently excluded (Ashley & Roe, 2002). Community-based tourism, local procurement requirements, and inclusive hiring practices are among the practical tools associated with pro-poor approaches.

2.6 What the Literature Gets Wrong

Having read a significant amount of the tourism development literature for this report, I want to flag something that seems like a genuine weakness. A lot of the academic writing on this topic — and especially the institutional publications from organisations like the UNWTO — is quite optimistic about tourism's development potential and relatively quick to move past the negative evidence. The case studies that get cited are often the successful ones, which makes it hard to get a clear picture of the baseline failure rate of tourism-as-development strategies.

There is also a tendency to treat governance improvements — better local participation, reduced leakage, more equitable distribution — as relatively straightforward technical fixes, when in reality they involve redistributing power and income in ways that face significant

political resistance from those who currently benefit from the status quo. Acknowledging this political economy dimension seems important for anyone trying to use tourism genuinely as a development tool rather than just using development rhetoric to justify tourism expansion (Scheyvens, 2002).

3. Methodology

This report is based on a desk-based literature review. I searched for academic articles, textbooks, and institutional reports using terms including tourism and local development, pro-poor tourism, tourism income leakage, community-based tourism, tourism dependency, and sustainable tourism economics. I tried to use a range of sources — peer-reviewed academic research, UNWTO institutional publications, and development organisation reports — and to read critically rather than accepting optimistic framings at face value.

The five case studies — the Maldives, Rwanda, Thailand, Bolivia, and rural Spain — were chosen to provide geographic diversity and to illustrate different aspects of the tourism-development relationship. The Maldives illustrates the risks of extreme tourism dependency. Rwanda shows how tourism can be built around conservation with positive local outcomes. Thailand illustrates the leakage and inequality problems in a mass-tourism context. Bolivia provides an example of community-based tourism as an alternative model. Rural Spain illustrates how tourism can support regional competitiveness and infrastructure in an advanced economy context. Cases were selected based on the availability of published evidence and their relevance to the research questions.

4. Findings

4.1 The Maldives — When Tourism Dominates

The Maldives is an extreme case of tourism dependency, but it is worth examining precisely because the extremity makes the underlying dynamics very visible. Tourism has been the dominant economic sector in the Maldives for decades, typically contributing around 40 percent of GDP directly and a much higher share when indirect effects are included. The country has invested heavily in tourism infrastructure — international airports, resort islands, underwater hotels — and has built a premium tourism brand that commands high prices and attracts wealthy visitors from around the world (UNWTO, 2020).

The development benefits have been real. GDP per capita in the Maldives is high by regional standards, and the country has achieved significant improvements in health, education, and living standards that are at least partly attributable to tourism revenues. But the dependency risks have also been dramatically demonstrated. When COVID-19 effectively halted international travel in 2020, the Maldives economy contracted by nearly 30 percent in a single year — one of the worst economic contractions recorded anywhere in the world. This kind of vulnerability is the inevitable consequence of building an economy around a single industry that is sensitive to global shocks (Scheyvens, 2002).

There is also a leakage problem in the Maldives that is structural rather than incidental. The dominant resort model is based on isolated island resorts — the 'one island, one resort' concept — that are almost entirely self-contained. Tourists fly directly to their resort, eat and drink there, use resort-operated water sports and excursions, and fly out without ever interacting significantly with local communities on inhabited islands. The revenues from these resorts flow primarily to resort-owning companies, many of which are foreign-owned, and to the government through licensing and taxation. Local communities on inhabited islands see relatively little direct economic benefit despite living in one of the world's most tourism-dependent economies.

4.2 Rwanda — Tourism Built Around Conservation

Rwanda offers a very different story — one of tourism deliberately designed to serve both conservation and community development goals, with measurable success on both fronts. Following the 1994 genocide, Rwanda's government made a strategic decision to develop high-value, low-volume tourism centred on mountain gorilla trekking in Volcanoes National Park. The logic was that by making gorillas worth more alive to local communities than dead — through the revenues that tourists pay to see them — it could create local incentives for conservation rather than poaching (Ashley & Roe, 2002).

The gorilla trekking permits cost up to US\$1,500 per person per visit, and the government set up a revenue-sharing scheme that channels a portion of park revenues directly to communities surrounding the national parks. This model has generated significant conservation outcomes — gorilla populations have recovered substantially since the programme began — and has created real economic benefits for local communities through both the revenue-sharing scheme and the secondary tourism economy that has grown around it (UNWTO, 2020).

What makes the Rwanda case particularly interesting from a development cooperation perspective is the deliberate governance design. The revenue-sharing mechanism was not just an economic tool — it was a mechanism for creating community stakeholders in conservation, giving local people a financial reason to protect rather than exploit the natural resources that tourism depends on. This is a much more sophisticated approach to tourism-development integration than simply hoping that tourism spending will trickle down to local communities through market mechanisms.

There are limitations to the Rwanda model. The very high permit prices mean that gorilla trekking is accessible only to wealthy tourists, which limits the volume of tourism and the breadth of the local economy that benefits. And the model is quite specific to the context — it works because Rwanda has a genuinely unique and globally significant natural asset in its

mountain gorillas, which commands premium prices that can fund both conservation and community development. Not every destination has an equivalent asset to build around.

4.3 Thailand — Mass Tourism and the Leakage Problem

Thailand is one of the world's most visited destinations and provides a useful illustration of how leakage and inequality operate in a large, mature mass-tourism economy. Thailand's tourism sector generates enormous gross revenues — the country typically receives around 40 million international visitors per year in normal times — but research on the distribution of these revenues tells a complicated story (Scheyvens, 2002).

Leakage from Thailand's tourism sector has been estimated in various studies at between 40 and 70 percent of gross receipts, driven by imported food and beverages favoured by international tourists, foreign-owned hotel and resort chains that repatriate profits, and international tour packages that are priced and sold in origin countries with limited revenue flowing to Thai businesses. The communities closest to major tourist sites — particularly in areas dominated by large international resorts — often see limited economic benefit relative to the volume of visitors passing through.

At the same time, Thailand has been more successful than many developing country tourism destinations in building a substantial local small business sector around tourism. The Thai street food economy, local guesthouse culture, independent tour operators, and craft production sectors represent real examples of local enterprise capturing tourism benefits — though these are concentrated in certain areas and accessible primarily to people with some capital and enterprise capacity (UNWTO, 2020).

The inequality dimension is significant. Tourism in Thailand has contributed to substantial economic development in Bangkok and major resort areas like Phuket and Chiang Mai, but has done relatively little for communities in poorer rural provinces who are not on tourist circuits. The geography of tourism benefit in Thailand closely tracks existing patterns of

economic inequality, which raises questions about whether tourism as currently structured is genuinely a tool for development or primarily a mechanism for enriching those who are already advantaged.

4.4 Bolivia — Community-Based Tourism as an Alternative Model

Bolivia provides an interesting alternative to the standard large-resort tourism model, through a number of community-based tourism initiatives in indigenous communities in the Altiplano and Amazonian regions. These initiatives — typically operated by indigenous cooperatives with support from NGOs and development organisations — offer tourists cultural experiences, homestays, and guided access to natural areas that are managed collectively by the communities themselves (Ashley & Roe, 2002).

The economic model is deliberately designed to minimise leakage and maximise local benefit. Accommodation, food, guiding, and cultural activities are all provided by community members. Revenue is managed collectively by the cooperative and distributed according to community-determined allocation decisions. External intermediaries — tour operators who package and sell the experiences to tourists — are involved but under contractual arrangements that set minimum community revenue shares.

The development outcomes from well-functioning Bolivian community tourism initiatives are generally positive in the communities involved — significant income supplements for participating households, investment in community infrastructure like schools and health facilities from collective revenues, and strengthened cultural confidence from the recognition and economic value that tourism assigns to indigenous traditions (UNWTO, 2020). There is also evidence of cultural preservation benefits: when traditional practices have economic value, communities have more incentive to maintain and transmit them.

The limitations of the community tourism model are also worth acknowledging honestly. Scale is one: community-based tourism by its nature operates at relatively small volumes,

which limits the total economic impact it can have. Quality control is another: without professional management, the quality of tourist experiences can be inconsistent, which affects reputation and repeat visits. And the model requires significant ongoing support — from NGOs, development organisations, and government — to maintain the governance structures and market connections that make it viable.

4.5 Spain (Rural Areas) — Tourism and Regional Competitiveness

Spain provides a useful example of how tourism can support regional competitiveness and infrastructure development in a more advanced economy context, particularly through rural tourism initiatives in regions like Extremadura, Asturias, and the interior of Andalusia that were economically marginalised relative to Spain's urban and coastal centres (Scheyvens, 2002).

Rural tourism development in Spain has been supported by EU regional development funds, national government programmes, and local tourism strategies, and has contributed to infrastructure improvements — road upgrades, heritage restoration, broadband connectivity — that benefit resident populations as well as tourists. The development of rural accommodation networks, gastronomy tourism, walking and cycling routes, and cultural tourism products has created economic opportunities for small rural enterprises in areas where agricultural employment has declined sharply (UNWTO, 2020).

One particularly interesting aspect of the Spanish rural tourism case is the way it illustrates tourism's role in regional competitiveness beyond just attracting visitors. Successful rural tourism destinations attract not just tourists but also second-home buyers, remote workers, and small businesses relocating from urban areas, all of whom contribute to the economic and demographic vitality of areas that might otherwise face continued decline. This broader effect on place attractiveness is harder to measure than direct tourism revenues but may be at least as significant for long-term local development.

5. Discussion

Looking at the five cases together, a few things stand out to me. The first is that the relationship between tourism and local development is not determined by tourism itself, but by the governance structures around it. Rwanda and the Maldives both have tourism-dominated economies, but their local development outcomes are quite different — partly because Rwanda made deliberate governance choices about revenue sharing and community inclusion that the Maldives' resort model did not. Bolivia's community tourism and Thailand's mass tourism both involve international visitors spending money in developing country destinations, but the distribution of that money is completely different because the business models and governance structures are designed differently.

This leads me to think that the most useful question is not 'is tourism good or bad for local development?' but 'what governance structures and business models make tourism work better for local communities?' The Rwanda revenue-sharing mechanism, the Bolivian cooperative model, the pro-poor tourism approaches documented in the literature, and the regional development frameworks used in rural Spain all represent different answers to this question in different contexts. None of them is universally applicable, but all of them offer lessons.

The dependency risk deserves particular emphasis because it is often underweighted in tourism development planning. The COVID-19 experience should have made clear to any remaining doubters that relying heavily on a single industry — especially one as sensitive to global events as international tourism — is economically dangerous (UNWTO, 2020). Yet tourism dependency has actually increased in many destinations over recent decades, driven by the scale of the economic opportunities that tourism presents and the difficulty of developing alternative sectors. Addressing dependency requires deliberate diversification strategies, which means investing in other sectors alongside tourism rather than allowing

tourism to crowd out everything else.

The leakage problem is in some ways the most tractable of the challenges identified, because it is largely a question of business model design and procurement practice. Destinations that require hotels to source food locally, that encourage the development of locally-owned accommodation and services, and that design tourism products that involve interaction with local communities rather than isolating tourists in all-inclusive resorts will retain more of the economic value that tourism generates. This requires policy intervention — market forces alone tend to push toward the imported, international standards that transnational hotel brands and their guests are most comfortable with (Ashley & Roe, 2002).

I want to be honest about some limitations of this analysis. My case studies are fairly well-documented destinations that have attracted academic and practitioner attention. The experiences of the many smaller, less internationally prominent destinations that have experimented with tourism as a development tool — and often struggled — are less visible in the literature and are not captured in my analysis. There is a real risk that the cases that get studied and written about are the more successful or at least the more interesting ones, which could make the overall track record of tourism as a development tool look better than it actually is.

6. Conclusion

Tourism can genuinely support local economic development — through employment creation, income generation, small business growth, infrastructure investment, and regional competitiveness. The evidence for this from cases like Rwanda and rural Spain is real and should not be dismissed. But tourism can also create dependency, generate significant leakage, distribute its benefits unequally, and displace the very communities it was

supposed to benefit. The evidence for this from cases like the Maldives and parts of Thailand is equally real and should not be ignored.

What determines which outcome occurs is not tourism itself, but the governance structures, business models, and planning decisions that shape how tourism develops. Destinations that invest in community participation, local procurement, revenue-sharing mechanisms, and diversification strategies tend to achieve better development outcomes than those that simply open their doors to tourism investment and hope for the best (Ashley & Roe, 2002).

For policymakers and development practitioners, the practical recommendations from this analysis are: design tourism development with communities rather than for them; use governance mechanisms that reduce leakage and improve benefit distribution; invest in diversification alongside tourism development to reduce dependency risk; set clear environmental and social standards for tourism operators and enforce them; and measure success not just by tourist numbers and gross revenue but by how much of that revenue actually reaches local communities and contributes to improvements in their living standards.

Tourism is not a development strategy by itself. It is a tool that can contribute to development when it is used carefully and governed well. Using it well requires taking seriously both its genuine potential and its genuine risks — which means being more honest about the limitations and failure cases than much of the official literature currently is (UNWTO, 2020).

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8. Appendices

Appendix A: Case Study Comparison — Tourism and Local Development Outcomes

Destination	Tourism Model	Main Strength	Main Risk/Problem	Development Outcome
Maldives	High-end resort; one island one resort	Premium revenues; high GDP per capita	Extreme dependency; high leakage; isolated from local communities	Good on average indicators; very vulnerable to external shocks
Rwanda	Conservation-based; high value, low volume	Revenue-sharing with communities; gorilla conservation	Accessible only to wealthy tourists; limited scale	Positive — community benefit + conservation outcomes achieved
Thailand	Mass tourism; mix of foreign and local business	Local SME sector; gastronomy economy	High leakage; unequal distribution; geographic concentration	Mixed — strong in urban/resort areas; limited rural impact
Bolivia	Community-based tourism cooperatives	Maximum local benefit; cultural preservation	Small scale; consistency challenges; needs NGO support	Positive within communities involved; limited overall scale
Rural Spain	Rural tourism; heritage and gastronomy	EU-supported infrastructure; regional diversification	Dependent on public subsidy; seasonal concentration	Positive — regional revitalisation and infrastructure gains

Appendix B: Key Concepts in Tourism and Local Development

Concept	Definition	Why It Matters
Tourism Dependency	Condition where local/national economy relies heavily on tourism as primary revenue source	Creates vulnerability to shocks — as shown dramatically by COVID-19 in Maldives, Caribbean, etc.
Income Leakage	Proportion of tourism revenues that leave the destination economy through foreign ownership, imports, etc.	High leakage means gross tourism revenues overstate actual local economic benefit
Pro-Poor Tourism	Tourism development approaches designed to direct more benefits toward the economically disadvantaged	Addresses distributional failures of standard tourism models; requires deliberate governance
Tourism Multiplier	The additional economic activity generated as tourism spending circulates through the local economy	Higher when leakage is low and local supply chains are developed; lower in enclave models
Community-Based Tourism (CBT)	Tourism managed and owned collectively by local communities, usually indigenous or rural	Maximises local benefit and cultural preservation; limited scale without external support
Carrying Capacity	Maximum visitor numbers a destination can absorb without physical or social degradation	Critical for sustainable tourism planning; often exceeded when economic pressure overrides conservation concerns