

Regional Economic Analysis for Tourism Development

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Good afternoon. I am very pleased to have this opportunity to talk with you today about "Regional Economic Analysis for Tourism Development."

My comments will cover three aspects of tourism destination development. They are, one, the attributes necessary for tourism destination development; two, determining regional land use requirements; and, three, selected issues that should be addressed by local public policy decision-makers.

These remarks presuppose that the region desires economic growth and development. Most regions seek to expand their primary economic activities to bring additional income into the region and to create additional wealth within the region.

Although tourism is just one potential component in a region's portfolio of economic activities, in Hawaii, it happens to be a relatively large component, comprising about one-third of the State's economy. Moreover, it is a growing industry not only in Hawaii, but worldwide.

Much of my work with planners and government agencies has been to provide them with projections of land use demands which form the underlying market support and, consequently, the basis of their plans. In my experience, projects that meet the *harsh* test of responding to economic and market conditions, and are well-planned and well-engineered, have the greatest prospects of being successfully implemented.

My area of expertise is demand analysis. Destinations which merely provide

supply without stimulating sufficient amounts of corresponding *demand*, usually have difficulty.

Tourism Destination Development

Before discussing the characteristics usually required for tourism destinations, I want to point out that *tourism* is actually a component of the much broader *travel industry*. Thus, it would be useful at this point to talk about why people travel.

A number of years ago, Mr. Richard J. Ferris, then Chairman and Chief Executive Officer of United Airlines, offered 10 reasons that I think synthesize the travel experience.

1. Travel enriches us by opening our eyes and minds to the great natural and man-made wonders of the world and by allowing us to experience firsthand such things as the Grand Canyon, Himalaya Mountains, Pyramids and China's Great Wall.
2. Travel educates us about other peoples' customs, culture and history.
3. Travel adds variety to our lives as it takes us from work to play, from the routine to the varied, from the usual to the unusual and from the boring to the exciting.
4. Travel restores our sense of individuality by providing us with experiences that make us realize that each person is a unique individual.
5. Travel makes dreams come true by transforming us from armchair readers and viewers, to on-site adventurers.
6. Travel rejuvenates and motivates us by giving us a change of pace to recharge us and release creativity, energy and vigor.
7. Travel helps us know ourselves better by giving us temporary freedom from

worries and cares to clear our sensibilities and to put things into perspective, or even to take us to our roots and show us where we come from to remind us who we are.

8. Travel evokes memories and creates the experiences from which future memories are made.
9. Travel satisfies our wonderlust and our curiosity by giving us a chance to explore, and then to discover.
10. Travel makes home even homier as we return to familiar surroundings with a greater appreciation of our place in the world.

I would add one more reason to Mr. Ferris' list. It is that travel allows us to meet and interact face-to-face with other people, just as we are doing today, not so much to display our differences but to realize how many things we actually have in common!

Although tourism industry usually deals with travel for recreational and cultural purposes, notice that the broad general reasons to travel, just given, apply to tourism as well.

Travel and tourism have many similarities with traditional industries. Conceptually, each have to deal with products, markets, distribution systems, sales and marketing techniques, competition, and customer satisfaction.

But, there also are major differences. Traditional industries extract resources or manufacture goods within a region and then transport and sell them to markets outside the region. Net proceeds from such sales return to the region and add to its wealth. With the travel and tourism industries, destination areas are developed which attract visitors from outside the region. Rather than producing products to take to the market, travel and tourism attracts the market to the product.

To do so, destination areas must have certain attributes which will attract visitors. These can be summarized generally as follows:

- a. Climate — must be appropriate for associated activities or events.

- b. **Physical Characteristics** — natural features such as mountains, water, beaches and natural spectacles.
- c. **Personal Well-Being** — considering circumstances, there must be reasonable provisions for personal safety, health and sanitation.
- d. **Location and Accessibility** — should be relatively close to major markets with safe and frequent transportation available.
- e. **Man-made Attractions** — attractions can be man-made such as modern or ancient cities, grand structures or Disneyland.
- f. **Activities and Events** — these may be social, cultural, historical, athletic or governmental.
- g. **Facilities** — they should be safe, sanitary, adequate in number and properly located relative to attractions, activities and events.
- h. **Market Relationship** — attractions and activities must bear some proximate relationship to potential travelers who seek them.
- i. **Local Attitude** — visitors must be appreciated and treated well.
- j. **Price Structure** — visitors must feel that they receive value for their travel experience, particularly in comparison with competitive destinations.
- k. **Image** — tourism destinations must be perceived by prospective visitors as having attributes desired of a destination, and the prior expectations of visitors must be reasonably satisfied by their experiences while at the destination.
- l. **Promotion** — extensive promotion is usually necessary to create in the minds of potential visitors a sufficiently desirable image of a destination so that such potential visitors are motivated to visit.
- m. **Government Attitude** — governmental agencies must be receptive to tourism and adopt supportive public policies which include sustaining the attributes that attract visitors, facilitating the crossing of borders and enhancing the visitors experiences.
- n. **Investment Climate** — investors must have reasonable assurances that fair returns can be achieved on invested capital and that invested capital can be recovered.

A review of these criteria shows that Hawaii's attributes compare favorably with those necessary for successful tourism destination development.

Potential demand for prospective tourism destinations can be estimated by applying these criteria to evaluating the area's attributes, in the light of likely markets and competitive destinations. Often, potential demand is modified by conscious decisions and actions to arrive at a "target" demand. The "target" may be higher or lower than the potential demand depending upon the desires and policies of the host community, or responses of industry operators.

As an aside, potential demand and "target" demand may differ greatly from the *actual* number of visitor arrivals, since actual arrivals will depend upon the effective performance of industry operators.

Regional Land Use Requirements

Once regional tourism demand has been projected, it can be delineated into a number of related land use and space use demands.

To do so, however, requires a great deal of *tourism research* data. We are very fortunate in Hawaii to have extensive amounts of exceptionally high-quality tourism industry research data. Visitor research activities of the Hawaii Visitors Bureau (HVB) are world-renown and are as extensive as any in the world. Hong Kong also has a very good visitor industry research program. Thus, it is not just coincidental that the two destinations areas in the world that have the most effective tourism development programs, *also* have the two most comprehensive and effective tourism industry research programs.

Some of our data series provide comparable information for over 60 years. The HVB's basic data program began over 35 years ago when the State of Hawaii materially increased its financial support of the HVB. Many more data series have been added in the meantime. They allow not only industry decision-makers, but also community, government and business leaders throughout the State to make more effective decisions.

For example, we have counts of visitors arriving and those in-transit, estimates

of where they reside, the seasonality of travel, whether they are traveling as part of a group or on an individually arranged basis, the average number of persons in each party, their age and sex, how long they intend to stay, where they will be staying, what islands they intend to visit, the purpose of their trip, the type of accommodations they will be using, their occupations, the number of visits they have made to Hawaii and how much they spent by category of expenditure. The visitor reaction survey obtains visitors' opinions and relative ratings about various components of the industry including trans-Pacific and local carriers, the overall level of satisfaction from their stay, household income, educational level, magazine readership, other destinations that were considered and their use of travel agents. The HVB research program also provides information on the number of transient accommodations, the type of units (for example, hotel unit or condominium, apartment units), their geographic locations, their occupancies, published room rates and the number of units in various stages of planning or development.

Again, most of these data series go back for many years, so that even minor trends or changes in the characteristics of visitors or performance of industry activities can be examined closely to aid in decision-making.

With this information, we can then delineate gross demand projections into the demands for accommodations by type and quality, retail space, eating and drinking places, transportation, entertainment, and recreation facilities.

Through additional research, the unit and space needs can be converted into land use demands and employment requirements.

I would like to repeat at this point that merely providing facilities based upon projections of a "target" demand does not assure that the projections will be achieved, nor that the facilities will operate profitably. The results will depend more on effective performance of industry operators in marketing their product, and how well the industry and host community are able to satisfy visitors reasons for having traveled there.

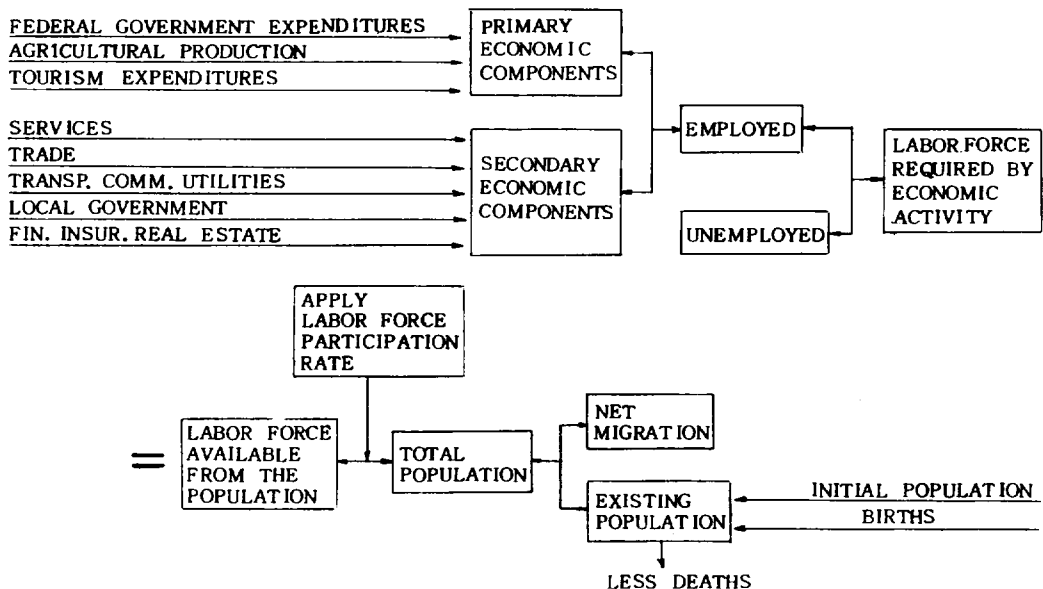
At the regional level, our analysis shifts to projecting broader impacts and land use demands. In general, we utilize some of the relationships shown in the simplified regional economic model that we have conceptualized for the State of Hawaii. This simplified model shows how the major components of economic activ-

ity in Hawaii relate to its resident population. As shown in the model, tourism expenditures constitute part of the States "primary" economic activity. Adding estimates of indirect or "secondary" economic activity yields the total activity from which we can estimate the total number of jobs required to carry out economic activity in the State. From this we can estimate the number of persons employed. Combining this with estimates of unemployed persons allows us to approximate the amount of labor force required in the region. Since the labor force comes from the regional population, we can determine the level of population that is needed to supply the labor force required by the region's economic activity.

Knowing population, we can estimate demands for housing and population-support activities such as retailing, education, recreation and other government services. Based upon such demands, corresponding regional land use needs can also be estimated.

These results then must be combined with the land use demands estimated for the tourism industry in order to obtain the total amount of direct activities, the total amount of direct and indirect land uses and the total amount of indirect activities and services that will be needed to support tourism development in the region.

ILLUSTRATION 1: REGIONAL ECONOMIC MODEL, STATE OF HAWAII



Local Policy Implications

It is, of course, difficult to generalize about policy implications for all local areas. Many locales have unique local conditions that just do not lend themselves to generalization. Further, less or more significance may be attached to specific policy issues in some locales versus others.

At the regional level, if an area decides to pursue tourism development as part of its economic development strategy, it should do an evaluation of its attributes to determine what it can offer to prospective visitors. If this evaluation is favorable, its attributes should be compared to those of other destination areas that are considered to be potentially the most competitive. Then decisions should be made as to the level of resources that the area is willing to commit to assure that its competitive position is as strong as possible.

The desired objectives for the local tourism industry should be determined to aid in allocating resources.

- 1) Should it be used to bring national or international attention to its physical attributes such as Hawaii's pleasant climate, white sand beaches, aquamarine waters and lovely green mountains and fields?
- 2) Or, should it be used to bring attention to its people, or history, or culture?
- 3) Should it be to bring commercial viability to man-made attractions, recreational facilities or events.
- 4) Or, should it *merely* be to create job opportunities, generate receipts for local businesses and increase foreign exchange for the Nation?
- 5) Should it be used for domestic education to inform residents about their State or Nation's geography, history, political institutions, cultural resources, environment, or just about each other?
- 6) Or, should it be used to provide, or at least subsidize, residents with facilities for recreation and relaxation?
- 7) Should it be used to engender appreciation for an area's endeavors and achievements in culture, education, science, technology or industry?

- 8) Or, should it be a vehicle to accommodate increments of the labor force that have been retrained because of declines in other economic sectors.
- 9) Should it be all, or part of the above?

Once these questions have been answered, and after the benefits and costs of tourism development have been evaluated and are understood, and after the area, region, State or Nation decide to pursue tourism development as a means of augmenting its economic portfolio, then, a number of other issues must be addressed. Some of these would include the following:

- a) What will be required to provide the direct and indirect supporting facilities to achieve a viable tourism destination?
- b) Are the labor force skills necessary for constructing and operating the tourism facilities available, or are the necessary training programs available?
- c) Can the area distinguish itself in the marketplace by means of its physical attributes, man-made facilities, historical or cultural features, unique characteristics of its residents, special services or exceptional quality services?
- d) Are the resources necessary to effectively promote and market the destination area available?
- e) Is the host community, due to the cross-cultural nature of travel, willing to share its culture and attributes with visitors, and willing in turn to have its residents influenced by the values of the visitors?
- f) What can be done to assure that the visitors are respected and treated hospitably, and what can be done to assure that the visitors reciprocate such respect to the host community and its residents?
- g) How can the health and physical safety of the visitor be assured, as well as the security of their belongings and the protection of their consumer rights?
- h) How might visitors be informed so that they understand and respect the religious beliefs, customs and ethnic traditions of the host community, as well as aid in preserving indigenous wildlife and natural resources, and geological, archaeological and cultural treasures in tourist areas?

- i) How should the host community, region, State or Nation organize and coordinate its efforts to achieve its desired tourism-related goals ?

And, there may be many more.

Summary and Conclusion

Summarizing, I have talked about three major items dealing with tourism development. First, I have listed the criteria for successful tourism destination development. Second, I have discussed some of the regional economic and land use aspects of tourism development. And third, I have raised a number of questions which address the policy issues involved that must be dealt with by the host community.

From my presentation, it should be clear that tourism development is a *complex* matter.

While the good news is that *everyone* in the entire world represents the potential market for a tourism destination area, the bad news is that *every place* in the entire world represents its potential competition. However, there's still worse news ! That is, since tourism travel is a discretionary use of discretionary funds, the competition for tourism travel also includes such things as in-home recreation such as watching television, hobbies, reading, localized travel and recreation, investments, and so forth.

To be successful, a destination area must take advantage of people's inclination to travel beyond their usual borders. This requires creating such a desirable image of the destination in the minds of prospective travelers that they are motivated to visit that destination. An area's attributes, facilities, activities and host community must be able to validate the prior expectations of visitors in order to reinforce the preconceived image of the area.

But, like most economic development activities, tourism destination development requires a great deal of effort, endeavor, industry and creative vision.

As a matter of perspective, it seems so much easier to produce a product locally that is shipped out of the region to markets, than to create the extensive infrastructure and communications networks necessary to entice visitors to a destination.

Nonetheless, as an economic activity, tourism development does create net income and wealth for a community. Tourism brings people of perhaps vastly different backgrounds, cultures, colors and religions together face-to-face, so that they may also see very directly, their commonalities.

So, at the very least, tourism development enhances the economic well-being of local residents. Tourism creates an awareness of different cultures and values around the world, and allows them to be shared. At a more lofty level, tourism could aid in dismantling a number of cross-cultural, transnational and international barriers. In doing so, tourism could *kindle world peace*. Notwithstanding my very strong bias toward economic benefits, in my opinion, this last reason alone is justification for tourism development.

This last notion is synthesized in a word that we in Hawaii use a lot, and with which I will now close.

That word is, Aloha.

Thank you for letting me share these thoughts with you.