

TOURISM AS AN ELEMENT OF ECONOMIC DIVERSIFICATION IN HONG KONG

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1. TOURISM AS A PASSPORT TO DEVELOPMENT

Everybody knows that tourism is often called 'smokeless-industry' - although from the social point of view it has produced a lot of smoke because among others it may destroy traditional values, pollute cultural heritage, entail undesirable demonstration effect and promote prostitution. These social problems call for careful study by social scientists. The scope of this paper will be confined to the economic impact of tourism only, leaving its social impact untouched.

The LDCs usually attach great importance to the development of tourist industry, because it is, wrongly or rightly, often times regarded as a passport to economic development in the LDCs. Even in today's Hong Kong, which is highly industrialised and commercialised, tourism still plays an important role in the economy as a whole. Hong Kong is presently one of the major exporters in the world of textiles, clothing, electronics, watches and toys. However, the local demand for imported consumer goods and production goods is so strong that the visible trade account is constantly in deficit. Tourism is an important foreign exchange earner and as such it covers a significant part of the visible trade deficit. In absolute terms at current prices, tourism is now the third largest export industry in Hong Kong, after clothing and electronics.

The government of Hong Kong realized the significance of tourism to the economy and established the HKTA (Hong Kong Tourist Association) in 1957 to promote Hong Kong as a tourist centre in the region. More than 60 % of the revenue of the HKTA in recent years was spent on publicity and advertisement. Besides promoting tourism abroad, the HKTA is also involved in market research and provides information to tourists, hotels and tour operators. But unlike many tourist organizations in the LDCs, the HKTA does not have the power to regulate tourist enterprises, and there is no imperative development plan for tourism either. This is consistent with the economic background and philosophy of Hong Kong.

2. THE GROWTH OF THE INDUSTRY

The development of tourism can be roughly divided into 3 stages. In the first stage of the late fifties, Hong Kong was not a tourist resort of world renown, and most of the tourists were Americans and British. The HKTA tried very hard to put Hong Kong on the world tourist map. The second stage was the prosperous sixties and early seventies. Tourist arrivals grew rapidly and Japan overtook the USA as the foremost tourist generating country in 1971. The third stage began with the energy crisis of 1973 which was bad for tourism in general and the Japanese market in particular. However, the Asian-Pacific region still enjoyed rapid economic growth in the uncertain seventies, and finally the S.E. Asian market overtook the Japanese market in 1978.

From 1961-83, tourist arrivals have increased more than 12 times, from 220 884 to 2.8 millions, but the real per capita tourist expenditure has declined by two-thirds from \$ 3 820 in 1961 to \$ 1 451 in 1983. Thus, real tourist expenditure in 1983 was only four times that of 1961. Since tourism is a luxury good, it is sensitive to income changes. Therefore, the growth rates of tourist arrivals and expenditure have varied widely. The nearly zero growth rates of 1974-75 were caused by the world recession. For the same reason, 1980 was a bad year for tourism. Real tourist expenditure fell appreciably. However, a comparison of the coefficients of variation of the growth rates of major exports shows that the growth of tourist expenditure is in effect more stable than many major commodity exports of Hong Kong, including 'textiles', 'machinery', 'non-electric', 'footwear', and 'watches and clocks'.

3. THE SIGNIFICANCE OF TOURISM IN THE ECONOMY

In the last two decades, world tourist expenditure grew at a compound rate of some 13 % per year whereas tourist expenditure in Hong Kong grew at the faster annual rate of c.a. 16 %. Thus the share of Hong Kong in the world tourist receipts rose from 1 % to 1.4 %. However, the Hong Kong economy has expanded even faster than her tourist industry. As a result, the ratio of tourist expenditure to GDP decreased slightly, and the corresponding ratio to domestic exports nearly halved.

To gauge the importance of tourism as a foreign exchange earner, we also compare (i) tourist expenditure, and (ii) the tourist surplus (export minus import of tourist services) with the visible trade deficit from 1961-83. Both tourist expenditure and the tourist surplus covered a greater and greater portion of the visible trade deficit, until they exceeded the visible trade deficit in 1976. However, since then, the visible trade deficit widened dramatically, and the import of tourist services rose nearly 3.5 times. Thus, the ratios of tourist expenditure and tourist surplus to the visible trade deficit

fell to 44.73 % and 13.98 % respectively in 1980. For 1983, the former ratio had risen to 73.65 % again. It should however be noted that the tourist surplus ignores the fact that the import of tourist services does not include passenger fares which are often captured by foreign aviation corporations and shipping companies. For this reason, the tourist surplus overstates the importance of tourism as a foreign exchange earner.

4. SOME SALIENT FEATURES OF THE TOURISM IN HONG KONG

a) High geographical concentration:

Hong Kong receives tourists from more than 200 countries. But the sources of tourists are highly concentrated. In the last two decades, about 60 % of all tourists originated in Japan, U.S.A., Australia, and S.E. Asia. But gauged by the Hirschman-Gini coefficient, the degree of concentration has been decreasing over the time, from 0.4325 in 1973 to 0.3154 in 1979.

b) Low seasonality:

This is mainly due to subtropical climates. The low seasonality is a very favorable factor for the hotel industry. Its exceptionally high occupancy rate does not subject to seasonal fluctuation mainly because of the moderate climatological conditions.

c) Heterogeneous expenditure patterns:

Tourists from different sources have different characteristics. Japan was not only the biggest tourist generator, but also the greatest revenue contributor. While the per capita expenditure of Japanese tourists was well above the average, their length of stay was inproportionately short, being the second lowest after the S.Korea, so that their per diem expenditure was the highest of all.

d) 'Shopping paradise':

Hong Kong and Singapore are 'shopping paradise' for tourists in the Far East. Tourists travelling in these two areas spent around 60 % of their budget on shopping while the corresponding proportion in other countries is generally about 20 %. In other countries, tourists usually spent most of their money on accommodation and food.

5. PROBLEMS AND RECENT TRENDS IN THE TOURIST INDUSTRY

Since 1980 Hong Kong tourism has been experiencing difficulties. There was a general economic downturn in the major markets of Hong Kong and Taiwan tightened her restrictions on outgoing tourists. Though tourist arrivals continued to increase, the growth of nominal tourist expenditure has slackened. In 1980, per capita tourist expenditure (nominal) fell by 1.6 %. Moreover, the 23.9 % increase in the tourist price index implies that real tourist expenditure has fallen by 17.4 % for that year.

Meanwhile, the expenditure of Hong Kong residents abroad more than doubled since 1978, largely due to economic prosperity in Hong Kong and the opening up of China as a new tourist horizon. In 1983, tourist expenditure in Hong Kong totalled \$ 10 858 mn. and the expenditure of Hong Kong residents abroad totalled c.a. \$ 7 999 mn. However, since a substantial portion of the tourist expenditure in Hong Kong would leak out of the small and open economy of Hong Kong, and very little of the expenditure of Hong Kong residents abroad would accrue back to Hong Kong, the ultimate 'tourist account' of Hong Kong is probably in deficit. Moreover, the expenditure of Hong Kong residents abroad does not include passenger fares which are often captured by foreign airlines.

The tremendous increase in outgoing tourists, the slowdown of incoming tourists, and the dramatic widening of the visible trade deficit after 1975 have put tremendous pressure on the Hong Kong dollar. The effective exchange rate index of the Hong Kong dollar depreciated from a record high of 115.4 in January 1977 to the current low level of c.a. 68.

However, depreciation of the Hong Kong dollar may be a symptom of long run structural problems and above all the political uncertainty, and these problems may call for some degree of government intervention. These problems include adverse developments on the demand side and bottlenecks on the supply side, and they will be discussed below.

6. ADVERSE DEVELOPMENTS ON THE DEMAND SIDE

Aside from demand promotion and market diversification, Hong Kong can do very little about the adverse developments on the demand side. Hong Kong can do nothing about the economic downturns in her major tourist markets, nor can she change the restrictions on overseas travel imposed by other countries. Since tourism is a luxury good, it is bound to be sensitive to income changes and the tourist trade in Hong Kong is doubly vulnerable due to high concentration. However, it must be emphasized that tourism is less subject to import protectionism so easily erected by developed economies on merchandise imports, and this appears to be an important factor behind the

finding that the growth of the export of Hong Kong tourism is more stable than many major commodity exports of Hong Kong.

Another adverse development is the fall in per capita tourist expenditure. Before the energy crisis of 1973, the market composition of tourists shifted towards the high-spending Japanese, and this was fortunate for Hong Kong. After 1973, the market composition shifted towards low-spending South East Asian tourists. The world-wide inflation also depressed real per capita tourist expenditure. The HKTA has tried to counteract the fall in per capita tourist expenditure by establishing a department to promote the high-spending segments of the tourist market, namely free independent travellers, special interest tours, incentive travel groups and conference delegates and in the meantime achieved reasonably good results.

7. SUPPLY SIDE BOTTLENECKS

Supply side bottlenecks of the tourist industry include: (i) inadequate infrastructure, (ii) shortage of hotel rooms, (iii) high rents of tourist shops, (iv) short supply of skilled manpower, and (v) disappearance of cultural attractions due to modernization. Let me elaborate these problems in some detail.

a) Hong Kong possesses excellent infrastructural facilities of international and internal transportation. However, it has been estimated that the present Kai Tak Airport will not be able to handle the traffic volume after 1990. The idea of constructing a new airport was abandoned for political reason. As 90% of all incoming and outgoing tourists travel by air, an extensive expansion of the existing airport is obviously vital to the future tourist industry in Hong Kong.

As for internal transportation, some of the best beaches and islets of Hong Kong are in outlying areas where there are no roads suitable for coaches. The lack of roads in these areas have held up the development of new towns. There is also a lack of modern recreation facilities for water sports to attract the 'sunlust' tourists. This is partly responsible for the relatively short length of tourist stay in Hong Kong.

b) From 1958-79, the rate of expansion of the hotel industry had lagged behind the increase in tourist arrivals. Tourist arrivals increased 21 times, whereas the number of hotel rooms only 7.4 times in the same period. Thus, the number of rooms per 1000 tourists had decreased from 34 in 1957 to 6.5 in 1979. Confidence in the hotel industry was particularly low after the 1974-75 recession, and investment in hotels was almost at a standstill. From 1976-79, the supply of hotel rooms increased by only 7% as against a 70% increase in tourists. This resulted in a high occupancy rate. The world occupancy rate was around 70% in the late seventies whereas that in Hong Kong was much higher, reaching a record of 91% in 1979, exceeding the previous record of

90 % in 1970 as a result of the Expo' 70 held in Japan.

The tight supply has worked against groups tours and the shortage of rooms was also partly responsible for the shortening length of stay of tourists because visitors sometimes could not extend their stay. Shortage of hotel space would also imply a faster rate of hotel price increase which discouraged tourists in general.

Currently, the situation regarding hotel room is reversed. The situation of hotel room shortage has eased by the closing months of 1980, when a number of large hotels were completed. The occupancy rate declined to 87 % in 1980. Presently the occupancy rate is still low, which has led some hotels to cut its room rates considerably in an attempt to maintain their business. The total number of rooms in 1983 was 19 000, which represented an increase of 32 % over the 1980 stock of 14 989 rooms. Short of a miraculous upsurge in tourists, the current situations of oversupply of hotel room will prevail for some time to come. This vividly reflects the fact that long-term forecasts of tourist arrivals in Hong Kong are not good enough, and more in-depth research in this field is called for.

c) The rapid increase in rents in 1977-80, especially for prime commercial space, have caused concern over the competitiveness of tourist shops. Hong Kong's reputation as a shoppers' paradise may have been partly impaired: the price index of tourist shopping went up by 21.8 % and shopping expenditure declined by 8.6 % in 1980. According to a survey conducted by the HKTA in 1980, the survey revealed that on average, 37 % of the total expenses of the tourist shops was spent on rentals and some 12 % of the tourists shops surveyed were spending more than 60 % of their total expenses on them. In the last two years, thanks to oversupply of commercial space and the so-called "1997" political uncertainty, the situation has greatly improved.

d) Technical education in the tourist industry in Hong Kong is being provided by both public and subsidized private institutions, such as Hong Kong Polytechnic, Haking Wong Technical Institute, Kwun Tong Vocational Training Centre and Bishop Bianchi College of Careers. Every year, a total of 600-700 students complete the courses in these private institutes and Haking Wong Technical Institute.

The HKTA is not concerned with training in general, though it has conducted some training courses and refreshing programmes for guides and occasional training courses are also provided by the HKTA and airline companies, hotels and tour operators.

According to a 1976 survey conducted by a working party of the Hong Kong Training Council, the level of training in the hotel industry was described as inadequate and the quality of training was low. There was a lack of local facilities for training managerial staff and teachers were hard to find. The supply of manpower in the hotel industry fell short of the demand.

To rectify the situation, the Hong Kong Training Council set up the hotel, catering and tourism training board. However, the board is still working with legislation and internal matters and has produced no report yet.

e) Hong Kong is too small and too overcrowded to provide many outdoor recreational facilities for 'sunlust' tourists. However, Hong Kong offers the fascinating contrast between the thrills of a modern metropolis and the myth of oriental culture. Unfortunately, modernization is threatening the survival of the traditional culture just at a time when special interest tours (instead of inclusive sight-seeing tours) are becoming increasingly popular. To enrich Hong Kong's cultural milieu, the HKTA has been developing the Yen Siu (Lantern) Festival, the Tuen Ng (Dragon Boat) Festival, the Mid-Autumn Festival and other important Chinese festivals as regular attractions. The HKTA is also pushing for a Chinese arts and crafts village complex with facilities for cultural shows and demonstrations. In times of inflation and sluggish economic growth, it is essential to provide alternative attractions to shopping so as to encourage tourists to stay longer.

8. TOURISM AS AN ELEMENT OF ECONOMIC DIVERSIFICATION

In a recent study carried out jointly by myself and Dr. Y. W. Sung, we have found that tourist industry in Hong Kong possesses the following desirable attributes: (i) lower leakage and higher value-added content as compared with manufacturing, (ii) high labour productivity, (iii) very low energy requirements, and (iv) the capital and skill requirements of tourism are consistent with factor endowment of Hong Kong.

Moreover, due to lower leakage, the value-added content of tourism is higher than domestic manufacturing. This, combined with a lower than average employment impact, results in a high labour productivity (or value-added per worker) in the tourist industry. The high labour productivity is partly due to the high skill intensity of tourism. Since the shortage of land limits the scope for developing capital-intensive industries in Hong Kong, skill-intensive industries like tourism are the prime choices for economic diversification, and the inadequacy of industrial training in the tourist industry is an urgent problem.

We have not analysed the requirements of natural resources of tourism despite their importance in the development of tourism. Though natural resource intensities are difficult to quantify, a qualitative assessment would indicate that the danger of exhaustion or overcrowding of such natural resource endowments is remote. The attractive cultural milieu of Hong Kong is a 'public good' that is not subject to overcrowding. Unlike clean beaches, the location and moderate climate of Hong Kong are immutable. The foremost attraction of Hong Kong is shopping, and shopping facilities in Hong Kong are abundant and their supply can easily be increased in case of overcrowding.

In the age of rocketing energy costs, and rising wages, all these characteristics, combined with its high skill-intensity and forecasted steady growth of

demand, imply that tourism is a prime choice in the diversification of Hong Kong trade.

9. POLICY IMPLICATIONS

In our study, two radically different approaches, namely the input-output technique (supply side) and the econometric model (demand side), were employed. They have produced surprisingly consistent results. Two of them are particularly noteworthy. Firstly, the income effect (or impact multiplier) of tourism is around 0.8 and secondly the contribution of tourism to the growth of GDP is about 6 %. Considering the fact that the manufacturing industries as a whole contribute only c.a. 25 % to the GDP in Hong Kong, the 6 % contribution of the tourism is substantial indeed.

In addition, our econometric model of the tourist industry also produced some forecasts for the next few years in respect of tourist arrivals and tourist expenditure. Despite the gloomy global economic outlook at present the state of the Hong Kong tourist industry is comparatively bright. Our model forecasts a steady growth in the next few years.

However, the small, open economy of Hong Kong cannot escape from the impact of the global economic malaise. World recession and inflation have decreased real tourist expenditure, though the effect on tourist arrivals is less severe. Since the Hong Kong Government cannot effectively control the money supply under the present institutional set-up, imported inflation is inevitable.

The rate of inflation as measured by the consumer price index reached 15 % in 1980, and tourist price rose by an alarming 23.9 %. The current rates remain at around 10 %. These unfavourable developments and the growing competition from low cost destinations call for an imaginative response from policy makers.

Hong Kong has to counteract the fall in per capita tourist expenditure by promoting the high-spending segment of the tourist market, namely free independent travellers, special interest tours, conference delegates, etc. In order to capitalize on the beaches, islets and the attractive cultural environment of Hong Kong, more sporting and recreation facilities should be provided, a flexible multi-purpose exhibition facility be constructed, a Chinese arts and crafts village complex with facilities for cultural shows and demonstrations be built and finally traditional festivals and special interest tours (instead of inclusive sight-seeing tours) which become increasingly popular be promoted.

As the gestation period for the provision of some of these facilities is quite long, Hong Kong should act swiftly and step up her effort before it is too late.

Without resorting to cost-benefit analysis of the abovementioned projects, common sense suggests that Hong Kong must redouble her endeavor to promote the high-spending segments of the tourist market, and provide other attractions alternative to shopping so as to encourage tourists to stay longer and increase their per capita expenditure. According to our estimates, the income elasticity of tourist expenditure is much higher than that of tourist arrivals. This implies that the fall in real per capita tourist expenditure is structural and not incidental. Our forecasts also indicate that, despite the substantial forecasted increase in tourist arrivals, there will only be limited or even negative growth in real tourist expenditure as a result of inflation and the projected fall in per capita tourist expenditure.

It has been widely accepted that manpower development is crucial to economic diversification in Hong Kong. Given the inadequate level of training in the tourist industry, our findings provide a powerful argument for giving a higher priority to training in the tourist industry.

We have cleared the misconception that the leakage of tourism is exceptionally high due to tourists' shopping of imported goods. Despite a declining ratio of tourist expenditure to GDP, we found that the total value-added of tourism as a percentage of GDP, has been increasing. In a time of global recession, inflation, economic uncertainty, and slowdown of the tourist trade the importance of tourism to the Hong Kong economy should be recognised and its potential as an element in economic diversification be explored.

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Table 1: Tourist Arrivals and Tourist Expenditure, 1958-83

	Tourist Arrivals	Nominal Tourist Expenditure \$ Mn	Nominal per capita Tourist Expenditure \$	Real Tourist Expenditure ^a \$ Mn	Real per capita Tourist Expenditure ^a \$
1958	103 058				
1959	138 461				
1960	163 661				
1961	220 884	454	2 055	844	3 820
1962	253 016	521	2 059	947	3 744
1963	295 229	604	2 046	1 073	3 634
1964	364 065	702	1 928	1 219	3 347
1965	406 508	726	1 786	1 233	3 032
1966	458 238	702	1 532	1 160	2 532
1967	527 365	787	1 492	1 259	2 387
1968	618 410	1 001	1 619	1 503	2 431
1969	765 213	1 354	1 769	1 907	2 492
1970	927 256	1 820	1 963	2 443	2 625
1972	907 295	1 650	1 819	2 094	2 308
1972	1 082 253	2 106	1 946	2 510	2 319
1973	1 291 950	2 203	1 705	2 203	1 705
1974	1 295 462	2 387	1 843	2 098	1 620
1975	1 300 836	2 575	1 979	2 220	1 706
1976	1 559 977	3 463	2 220	2 930	1 878
1977	1 755 669	3 640	2 073	2 933	1 670
1978	2 054 739	4 644	2 260	3 400	1 654
1979	2 213 209	5 924	2 677	3 655	1 651
1980	2 301 473	6 060	2 633	3 018	1 311
1981	2 535 203	7 662	3 022	3 476	1 371
1982	2 609 100	8 186	3 137	3 439	1 318
1983	2 775 014	10 858	3 913	4 027	1 451

^a At constant 1973 price. Raw data Source: Hong Kong Tourist Association.

Table 2: Stability of Growth Rates of Tourism and Major Commodity Exports, 1962-79 C of V^a

Tourist Arrivals	0.5458	Machinery, Non-electric	0.7728
Tourist Expenditure	0.8200	Travel Goods	0.6673
Domestic Export	0.5509	Clothing	0.4982
Fish and Fish Preparation	1.2900	Footwear	1.4119
Textile	1.5269	Watches and Clocks	0.9138
Electrical Machinery	0.5762		

^a C of V: Coefficient of variation.

Raw data Source: Census and Statistics Department, Hong Kong Trade Statistics.

Table 3: Significance of Tourism in Hong Kong, 1961-83

	Tourist Expenditure (export) (\$ Mn)	Import of Tourist Service (\$ Mn)		Tourist Surplus (\$ Mn)	World Tourist Receipts (%)	Tourist Expenditure Relative to GDP (%)		Tourist Expenditure Relative to Visible Trade (%)	
		Tourist Service	Tourist			Domestic	Export	Visible	Deficit
1961	454	186		268	1.08	7.50	15.45	22.23	13.12
1962	521	196		325	1.17	7.57	15.71	22.93	14.30
1963	604	206		398	1.27	7.56	15.77	24.87	16.39
1964	701	216		486	1.27	7.89	15.86	25.37	17.56
1965	726	227		499	1.15	6.90	14.44	29.68	20.40
1966	702	238		464	0.97	5.15	12.25	27.55	18.21
1967	787	195		592	1.01	5.35	11.75	46.62	35.07
1968	1 001	224		777	1.20	6.39	11.88	51.92	40.30
1969	1 354	256		1 098	1.44	7.37	12.87	77.86	63.14
1970	1 820	297		1 523	1.68	8.32	14.74	75.93	63.54
1971	1 650	357		1 293	1.38	6.55	12.00	52.83	41.40
1972	2 106	480		1 626	1.52	6.93	13.81	88.19	68.09
1973	2 203	666		1 537	1.57	5.63	11.31	72.23	50.39
1974	2 387	912		1 475	1.42	5.35	10.42	58.13	35.92
1975	2 575	1 018		1 557	1.32	5.54	11.26	69.61	42.09
1976	3 463	1 205		2 258	1.69	5.84	10.61	176.41	115.03
1977	3 640	1 563		2 077	1.50	5.28	10.40	91.85	52.41
1978	4 644	1 960		2 684	1.48	5.72	11.41	49.64	28.69
1979	5 924	3 164		2 760	1.59	5.53	10.60	56.93	26.52
1980	6 060	4 195		1 865	1.28	4.42	8.89	44.73	13.98
1981	7 662	5 557		2 105	1.29	4.63	9.53	47.26	12.98
1982	8 186	6 428		1 758	1.35	4.44	9.86	52.79	11.34
1983	10 858	NA		NA	NA	5.25	10.40	73.65	NA

Raw data Sources: Census and Statistics Department, Estimates of Gross Domestic Product, various issues.
World Tourism Organization.