INTERNATIONAL TOURISM AND ITS ROLE IN SINGAPORE'S ECONOMIC DEVELOPMENT

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I. INTRODUCTION & METHODOLOGY

The general goals of development are rapid economic growth; reduction in income disparities; increased employment opportunities within the national economy.

The main thesis of this study is that the recent development experience in Singapore can be at least partly explained by the growth in the tourism industry in Singapore. While several instruments of development may have been present, tourism industry can be seen to have responded remarkably well in Singapore. The industry's past, present and future growth rate and its effects are broadly outlined (although often using speculative estimations for the future). As will be apparent later, the nature of state intervention in the economic activity related to the tourism industry (both direct and indirect) and the response of investors or entrepreneurs (both local and foreign) to the economic incentives provided are undoubtedly among the main media affecting the course of Singapore's economic development in the last fifteen years. The government expenditure as a percentage of GDP has been kept between 10 and 12% consistently.[1]

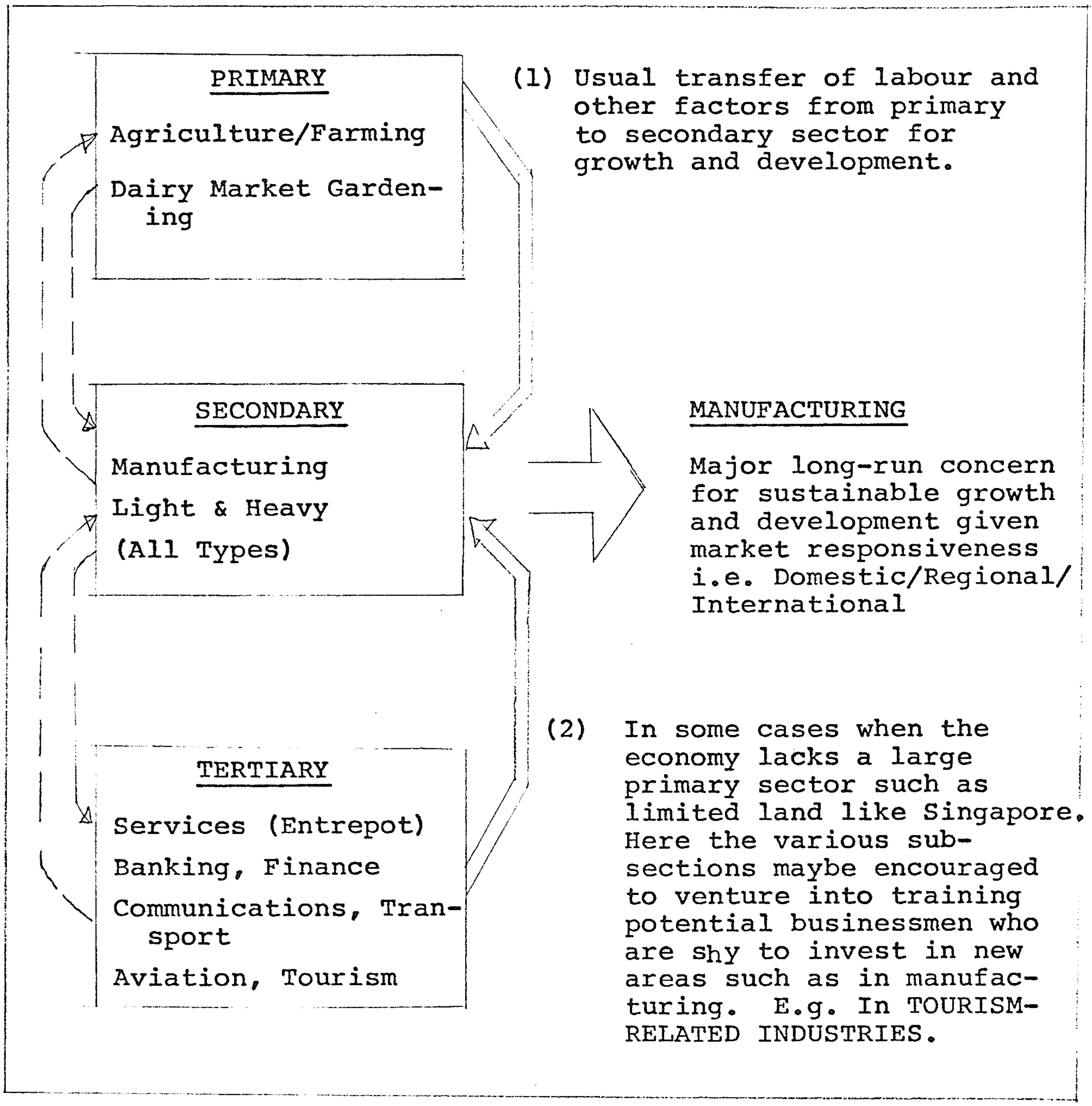
A study of Singapore's case is not intended as a model for LDCS development strategy. Among various reasons, Singapore has a relatively higher average per capita income when compared to other LDCS. In 1978 the average per capita income was S $5,989 (U.S. $2,852). Its strategic location, as both commercial and socio-cultural centre strengthened by its political stability and having no natural resources to exploit (except people) makes Singapore's situation unique as it has limited options opened to its development strategy.

Whilst most LDCS are often faced with the problem of pursuing either an inward looking or outward looking economic strategy, Singapore has been able to marry the two with reasonable success. Initially, in the early sixties, the authorities were emphasizing on industrialization through import substitution, characterized by heavy protection from international competition afforded to domestic industries and by extensive state regulation of economic activity. After 1966, however, the authorities were forced to concentrate on export expansion due to drastic political changes in the region. The state's role became confined to providing incentives for the promotion of exports. Private enterprise (both foreign and local) were liberally encouraged.

The tourist industry has played an important role in contributing to the smooth transition and economic growth of Singapore especially during the early seventies when the manufacturing sector didn't respond as expected. This will be analyzed later in this study.

Perhaps the thesis maybe explained by the following diagram 1. In the short run, the tourist industry could play

DIAGRAM 1



Source: Authors

(and has played in the case of Singapore) the facilitating role for the economy as a transitionary vehicle. In the long-run however, the tourist industry could only play a minor role in the economy i.e. to represent a small proportion of the GDP so as to avoid being overly dependent on this potentially volatile industry.

Following this introductory chapter, the study is divided into two major sections. The first section deals with international tourism. The various components and the factors affecting it are highlighted so as to see in detail the characteristics of this "global industry". The effects on DCS and especially on LDCS are shown which helps to distinguish the industry's role on the various differentiated economies of the world.

The second section deals with the case study of Singapore. The sectoral nature of the economy is outlined. The role of the tourist industry is analyzed to see whether it has been an important factor in the island republic's economic development. Finally, the potential for the industry to maintain an important position in the economy in the long-run is analyzed.

INTRODUCTORY COMMENTS

Potential benefits from the tourist industry may seem plentiful when looked at superficially. An example is the "obvious" foreign exchange receipts from tourist arrival. An offshoot of this is the influence the foreign exchange has on the GDP both directly and indirectly. The former may include the direct increase in the GDP as a result of tourist trade income and the latter may result from the tourist dollar multiplier effect.

Concentrating strictly from a pecuniary point of view, one may decide that the benefits far outweighs its costs. This may however conflict with other aspects of society. Social, cultural and religious aspects of the society maybe overlooked or placed among the "unimportant" list. In fact many of the effects due to tourism development are non-economic and difficult to quantify, e.g. cultural, social, religious, political and scientific aspects.

Disregard for other aspects of society may only encourage negative responses in later stages of tourism development. Yet many countries (especially the LDCS) have had the tendency to overlook the serious criticisms put forward by many social scientists and proposed explicitly their intention on pursuing tourism as a special income earner. This attitude results from their inability to comprehend the actual social opportunity costs and benefits that are involved. Though it is not easy to compute the social costs that maybe involved, to simply assume that they are negligible could prove to be quite destructive in the long-run.

Planners may contend that policies should be made alongside tourism development, such that the negative effects of tourist arrivals on the local society's social structure should be eliminated or reduced to the "minimum". This tends to restrict attention to the very short-run i.e. the contemporary socio-political situation. The major danger is that in the long-run the effects may be disastrous to the society's socio-cultural fabric. In fact even in the short-run not all effects could be identified. This is because there are many not-so-visible or undetectable effects that may elude the attention of the relevant authorities. Future benefits predicted may not materialize due to the possibility of planners being too optimistic and overlooking important details. The very existence of future uncertainty is perhaps one major element requiring an assignment of "multiple costs" when considering the costs of tourism development.

It is sometimes suggested that the tourist sector (especially its institutions) be isolated from the local inhabitants. This can be a dangerous recommendation. It is highly probable that the native may become contemptuous as they have the right to claim benefits from any development strategy considered by the state. Alternatively, this approach may simply cultivate a cultural inferiority complex in the natives mind into believing that tourist lifestyle as being superior to local lifestyle. If this is allowed to grow, it in itself may constitute an obstinate motivational obstacle for development in the long-run.

DIAGRAM 2

(1) FOREIGN DOMINATION

(2) INFERIORITY COMPLEX

(3) LOCAL CLASS-STRUCTURAL DEVELOPMENT RESULTING FROM INEQUALITY IN THE DISTRIBUTION OF INCOME

(4) A LATENT (AND GROWING) EXPLOSIVE ISSUE BEING PENT UP

Source: Authors

Assuming a country's industrial policy is geared towards producing tourist goods. This may necessitate the sacrifice of not producing goods for the needs of the local people because of the limited capital available in various LDCS i.e. producing only a limited number of goods foregoing others because of strict resource limitations. Affluent tourists would likely have needs contrary to the desires and necessities of poor local inhabitants causing envy in the long-run. However, if the local standard of living is not in complete contrast to the incoming tourist consumption pattern (i.e. wealth) then it is possible to foresee a complementary process shaping the consumption and other expenditure patterns of the tourist receiving country i.e. tourist goods may then simply be an additional demand created to boost the local economy. Obviously, the degree of contrast of the tourist generating and tourist receiving countries becomes an important element in this argument or suggestion.

Tourism development entails the requirement of infra-structural development such as adequate transportation and communication system, utilities (water supply, electricity) and sanitation facilities. The creation of a transportation system connecting markets and reducing transport costs results in an economic externality. In fact most other infra-structural projects serving the tourism industry indirectly benefit other industries indigenous to the country. There is the possibility that skills attained due to tourism related production could be spread over into the rest of the economy i.e. there maybe an increased mobility and their skills transferred to other occupations.

Tourism may provide forward linkages in the sense that the output of one sector becomes an input for another sector. Backward linkages are also important. When tourism trade grows, it could provide a strong stimulus for expansion in the input-supplying industries elsewhere. The backward linkage may be in agriculture or in other industries supplying inputs to the expanding export sector, or in social overhead capital. However, tourism like any other externally oriented approach to development often depends upon reliance on foreign aid and investment, imported technology, world market forces etc. As an economic policy, tourism automatically invites external influences upon the country's various aspects (economic, social, political, cultural, etc.) i.e. tourism as an institution isn't exclusive.

NOTE ON METHODOLOGY

WTO (World Tourism Organization - HQ at Madrid) in 1978 made a study of the methods used by its member countries in collecting travel statistics "methodological supplement to World Travel Statistics", 56 countries derived their data from reports on foreign currency transactions, 37 countries used survey methods and 12 countries used other "methods".

In 51 countries, the Central Bank was the source of statistics from receipts based on foreign currency transactions. Obviously figures reported from foreign currency transactions are liable to be in error due to several potential irregularities; incorrect declarations made by tourists of the amount of local currency carried by them; incorrect currency reports by foreign workers; foreign business visitors using money from their local branches; pre-paid tourism package and/or transport costs and illegal transactions (e.g. currency black market). These actions are often undetectable accurately by the respective Central

Banks. Consequently, gross travel receipts and expenditures published or quoted in Balance of Payment reports are likely to be considerably lower than the true figure.

The other approach used by many countries including Singapore is the survey method. Several of the above drawbacks are also applicable to this method. The approach is to distribute a questionnaire to foreign visitors on arrival. They are then requested to return them when they leave the country. From this returned survey, information is collected on expenditures, etc. The major problem is that, only a tiny fraction of the tourists ever bother to return these questionnaires. Often less than 5%. In Singapore it was estimated to be about 1.5%, in U.S. less than 1%. Big spenders can be expected to avoid using accurate figures for various psychological and/or legal reasons.

In addition, many of the present tourism statistics are misleading since they often conceal the fact that a small number of people are tending to make an increasing number of trips. For instance, a recent study of domestic travel in U.S. revealed that 20% of the travellers accounted for 80% of the trips.

These methodological deficiencies often result in serious underestimation (or overestimation) of tourist expenditures and other characteristics. Subsequently the true role of tourist industry is clouded with speculations with regards to employment, inflation, other economic and socio-cultural-political activities. These problems become more apparent when one attempts to evaluate the specific consequences of tourism. It is rather difficult to isolate specific effects resulting from tourist trade to the overall economy with much certainty.

The data used in this study are no exception to the main drawbacks mentioned above. Most of the data for the first section are derived from various international organizations and individual reports. Wherever possible, figures for comparable years are used for various countries and monetary values have been converted to constant U.S. dollars.

The section on Singapore had some major changes in statistic collection method. Prior to 1978 Malaysian visitors embarking direct from peninsula Malaysia (i.e. by road, rail, air and sea) were excluded from tourist statistics. From 1978 however, they were included which exaggerated the change in absolute number over the 1977-1978 period (or underestimated the previous years data). For instance in 1978, the total number of tourists including those embarking from peninsula Malaysia was 2,047,224. When they were excluded the figure dropped to 1,831,700 for the same year - a difference of 215,524. Both figures are given whenever possible to maintain consistency in our analysis.

II. INTERNATIONAL TOURISM

Definition

The tourism industry today is one of the biggest money makers and accounts for 6% of total world trade.[2] A U.N. report predicted that this trade could become the most important single economic activity in the world by 2000 A.D., Herman Kahn has this to say, "Tourism will be one of the largest industries in the world, if not the largest" and that it should "continue its current tendency to increase by 10 to 20 percent a year."[3] In the 1960s international tourism became the largest single item in international trade.[4] In the 1970s they were pushed to second place due to increases in oil prices though maintaining a consistent rapid growth rate with the exception of 1973-1974 year - Table 1 below.

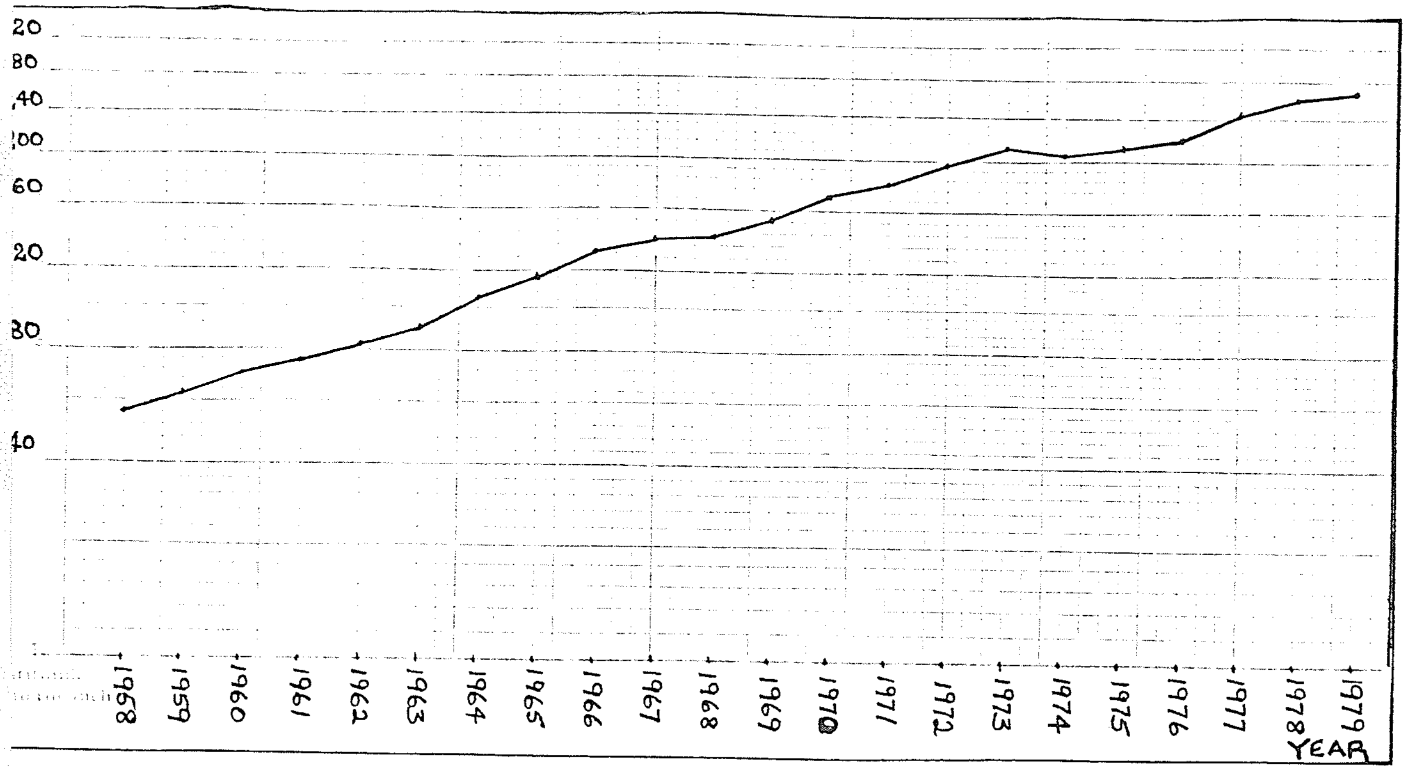
Table 1A. International Tourist Arrivals (Millions)

Year	Arrivals	Year	Arrivals	Year	Arrivals
1950	2.53	1965	115.5	1973	215.0
1958	55.3	1966	130.8	1974	209.0
1959	63.0	1967	139.5	1975	213.0
1960	71.2	1968	139.7	1976	225.5
1961	75.3	1969	154.1	1977	243.6
1962	81.4	1970	168.4	1978	259.1
1963	93.0	1971	181.5	1979	267.0
1964	108.0	1972	198.0		

Source: The Big Picture and IUOTO-Various Years & PATA.

The term tourists may be broadly defined as a "class" of travellers motivated to travel outside their usual area

GLOBAL ARRIVALS (MILLIONS)



for reasons which have at least a small component of pleasure or recreation. It need not necessarily be for pleasure exclusively. Movement within a nation may be termed domestic tourism and movement out of national boundaries international tourism. The IUOTO definition of an international tourist is a person visiting a country other than that of permanent residence for at least 24 hours, whatever his motive for travel (i.e. business, holidays, recreation and other travel.)

As for the definition of tourist (or travel) industry, a recent U.S. Senate review of National Tourism Policy Study had a rather appropriate definition as follows:

> An interrelated amalgamation of those businesses and agencies which totally or in part provide the means of transport, the goods, services, accommodations and other facilities for travel out of the home community for any purpose not related to local day-to-day activity.[5]

Typology of Tourist

Even though there is rapid development in recent years, the amount of travellers visiting strictly for pleasure is quite modest. A large part of the statistics for international travel do not relate to pleasure travel but travel for other purposes. The bulk of the tourist travel is limited largely to a few countries in W. Europe, N. America, Japan and other DCS. It is further concentrated among a relatively small proportion (though increasing) of the total population within these affluent countries.

Table 1B: International Tourist Arrivals By Regions (Millions)

Regions	1950	1960	1965	1970	1975	1976	1977	1978
Europe	16.8	50.4	87.6	126.2	151.5	154.2	178.3	189.0
N. America	6.2	15.2	19.4	27.3	29.4	31.1	45.1	47.5
L. America	1.3	2.7	2.7	5.1	17.6	17.8		
Africa	0.5	0.4	1.1	2.3	3.5	3.6	4.5	4.95
Mid. East	0.2	1.4	2.6	2.8	3.0	3.5	3.5	3.8
Asia-Aust.	0.2	0.9	2.1	5.3	8.0	8.8	12.2	13.9
TOTAL	25.2	71.0	115.5	169.0	213.0	219.0	243.6	259.15

Eric Cohen had broadly classified 4 types of international tourists in one of his studies.[6]

(1) Organized mass tourist

Groups of people brought from location to location by tourist guides and a particular time is associated with a particular location to be visited (package tours-holidays; charters). They depend upon the standard institutions of tourism i.e. airlines, ships, hotels, and other services primarily related to tourists mainly for pleasure and entertainment.

(2) Individual mass tourist

In this case, though individually planned, this type depends almost totally on the airline services, hotels, etc. during his planning.

(3) The explorer

Arranges his own trip and tries to get closer to the host culture but personally staying in comfortable (often luxurious) quarters.

(4) The drifter

In this case, tourism institutions are almost ignored and they attempt at immersing into the host culture, e.g. "hippies". Often cited as of less economic value.

The four could be ranked according to the above as being increasingly dependent upon tourism institutions from (4) to (1). Today's traveller comes from a wider social background (unlike earlier travellers who were almost exclusively from the minority affluent class). Two very general motivations may be attributed to tourism. The first group seeks relaxation (mainly on beaches) and sports who may be called "sunseekers". The second group travels in search of cultural and other exotic experiences who may be called "wonderseekers".

An area may fall into one of two categories as a tourist attraction, either destinations or stopovers. These two need not be exclusive. A place could well be both a stopover and a destination (e.g. Tahiti, Fiji, Singapore and even Hawaii). When a place falls in a busy route and if it has interesting places to visit (historical, cultural, commercial or architectural interests) then the probability of the dual role increases. Adequate and wide ranging attractions to keep tourists entertained for several days or weeks (beach resorts, casinos, nightlife) may be the best bet.

It is interesting to note that different types of travellers (related to their motivations) may be arbitrarily classified into age-groups and demographic status.

(i) Single tourists: are usually attracted to areas with beaches, sports activities and nightlife.

(ii) Leisurely travellers: are usually older groups and culturally oriented who are therefore directed to culturally oriented attractions.

(iii) Family travellers: their motivations or attractions are family related activities such as zoo, parks, wonderland, museum, science centres, etc. Several of these attractions also motivate students to travel.

A few elements may be attributed as being the key factors for developing a tourist destination. Generally, they are: geography; distance - between a tourism destination and its prospective markets; demography; taste; age; financial position; family status of prospective tourists. The distance between market and destination could be the prime determiner of the travel time and cost of vacations which could be seen as vital to any tourist industry.

Today's traveller comes from a wider social background (unlike earlier travellers who were almost exclusively from the minority affluent class). They have a restricted (specified) time within which he/she attempts to see and experience the maximum according to his varied tastes and desires. Consequently, many formerly exclusive events have attained a new dimension catering for people from many walks of life, (e.g. boating, water skiing, deep-sea diving, mountaineering, etc.).

Travel for pleasure and in search of new ideas unlike travel due to the exigencies of business, exploration or war were until fairly recently the preserve of the few who were wealthy and had adequate free time to indulge in travel. Presently tourism is a part of the lifestyle and consumption pattern of a majority in the industrialized countries. The emergence of tourism's importance and its recent development as an industry by itself may be seen partly in the context of the increasing importance of the tertiary (service) sector of economic activity. It is not unusual or exceptional in the developed countries for the service industry to account for up to 50% or over of total expenditures for consumption. Several factors have contributed to the growth of this service sector. For example, as the economy develops, the marginal utility of increased consumption of physical goods has a tendency to fall. Though the quality and variety of food, clothing, housing and other consumers durables may increase, the quantity that can be consumed is limited. Beyond a certain point, possession of additional goods may become less important. At the same time, non-physical goods (needs) and desires may become increasingly important.

Probably of greater influence for tourism development during the last 15 to 20 years is perhaps the growth of leisure. This encourages the purchase of services whose consumption is a function of time.

To consume sports, entertainments and travel, discretionary income and time is required. People in DCS have more time and money to spend on leisure activities. DCS are generally characterized by shorter working hours; longer paid holidays; higher income; higher standard of living and early retirement age. There can be no doubt that these have influenced the growth in travel activity. The surplus income (after necessities are catered for) motivates a change in the consumer expenditure pattern with a high potential of being directed towards holidays and travel activities. Partly because of improvements in transport and communications technology, there has been a tremendous growth in private automobile ownership. A high proportion of world's tourist travel in private automobiles. So greater availability of automobiles have consequently increased the opportunities for domestic travel especially.

Similarly, low-cost air transportation has helped increase long-distance international and intra-national travel.

Between 1967 (158 million) and 1977 (286 million) world's passenger car registrations increased at an average annual rate of 6.1%. During the same period the growth in international tourist arrivals was 5.8% and growth in airline passengers (both domestic and international) was 8.3%, refer to Table 2.

Table 2.

Year	World Intn'l Tourist Arrivals (Millions)	World Automobile Registrations (Millions)	World Airline Passengers (Millions)
1967	139	158	233
1968	140	170	265
1969	154	181	293
1970	168	193	311
1971	181	206	333
1972	198	220	368
1973	215	236	404
1974	209	249	424
1975	213	260	436
1976	225	270	475
1977	244	286	517

Source: Big Picture 1979-1980, P. 26.

Therefore the growth in income, leisure and cheap transportation could be seen as complementary elements resulting in the increase in demand for holidaying and travel.

Today's world is more urbanized than ever before and it is moving rapidly in that direction. There is no doubt that world population (DCS and LDCS gradually) is getting concentrated in suburbs and literacy is increasing rapidly. 36% of LDCS were urban dwellers in 1975. This contrasts with 15% in 1950 and 5% in 1900.[7]

Instant communications facilities and modern jets and proliferation of information and knowledge (higher literacy among young today) have created a truly international world with a broader horizon for the young particularly. It is true to say that no one country can independently solve its economic, commercial or human problems. Problems such as inflation, unemployment, energy supply, trade, exchange rates and environmental concerns, etc. have become major concerns of almost all countries in the world today given the nature of international interdependency.

In addition, changes in social conditions and better education have also contributed to the citizens today to engage in sightseeing and travelling (inquisitive minds often cultivate adventurous undertakings). Incidentally, modern tourism involves mass movement of people annually to new locations (temporarily) for a few days or weeks at most. It is interesting to note that expansion and development of leisure related activities have become normal expectation when subjects of economic growth and development are discussed today.

Evidently, tourist industry is one of the world's largest single industry today growing tremendously since the end of the Second World War. In 1950, about 25 million international tourist arrivals were recorded. Between 1955 and 1965, the number of tourist arrivals increased from 51 million to over 157 million.[8] In 1975, it grew to 213 million. By 1978 it had reached over 259 million tourist arrivals.[9] During the same period, receipts from international tourism have grown from about U.S. $2.1 billion (1950) to U.S. $65 billion (1978).[10]

In the sixties, tourism underwent tremendous growth. The rate of increase in international tourism before 1973 was approximately 12% per annum. From 1973 onwards, the growth rate had slackened due to various external factors such as increase in energy costs; international uncertainty resulting from U.S. withdrawal (defeat) in Vietnam, etc. In fact, the year 1973-1974 showed a decline in absolute number of tourist arrivals from 215 million to 209 million. Despite the energy crisis, the tourist sector resumed its growth rate (volume) at 6 to 7% a year in the mid and late seventies. Present predictions for the eighties are optimistic growth in the travel industry.

Though declines in several countries were recorded, looking at global average, tourist arrivals increased 3% in 1979 over 1978. An estimated 267 million tourist arrivals are tentatively recorded.[11]

1979/1980 is being regarded as a recession year. The tourist industry was no exception to its influence and had a relatively bad year. However, other causes are also cited for the drop in tourist trade in this period: bad weather, tourist change of taste, unfavourable currency rate shifts vis-a-vis U.S. $ forcing many Americans to stay home because of the drop in their dollar value. The same cheap dollar is also attracting foreign tourists into U.S.A from other countries especially Europeans.

The most affected countries in this year's recession are expected to be Spain, Greece, Yugoslavia, Britain, Austria, Switzerland and Portugal. In Spain many coastal hotels are reported to be half-full. An estimated 50% drop is expected in the usually busy French-Spanish border. A survey made by 10 European countries predict a 23% drop on reservations compared to 1978. Perhaps Spain's present image is an additional factor for the tourist decline, i.e. high inflation, worsening hotel services, political-militant extremists, bomb scares and explosions, etc. Greece and Britain are expecting 40% and 9% decline respectively. Among other LDCS, Yugoslavia, Malaysia and South Korea are expected to be hard hit.

There are a few exceptions such as France, Italy and U.S. who seem headed for recording increased tourist arrivals in 1979. Italy expects an increase in German tourist arrivals plus more Italians are expected to stay home. France expects more French to stay home. An increase in English and Dutch tourist into France is also predicted. U.S.A. expects to keep more Americans at home (will travel more within the country) and as a result of a drop in the U.S. $ value plus a drop in the fare (Atlantic routes) structure, more foreigners are also expected to come into U.S.A.[12]

World total receipts for domestic and international travel in 1979 was estimated to be about $504 billion. This is 18% higher than the 1978 figure ($405 billion). An unofficial Child and Waters estimate suggests that in 1979, travellers expenditure for foreign trips (including transportation) were equal to about 12% of the value of world international merchandise trade. In 1979, international merchandise trade was almost U.S. $1,460 billion. Therefore, at 12%, it is approximately U.S. $180 billion. It is further predicted that the future growth in travel trade would rise at a faster rate than present and assume a greater proportion in world trade.[13]

It is interesting to note that the $504 billion quoted above is higher than most single country's GNP in the world. The only countries with higher GNP are U.S.A., U.S.S.R., West Germany and Japan. It is only logical to state that such a large element will undoubtedly have a strong influence on global employment, trade (both domestic and international) and international financial and commercial transactions in the coming years assuming no sudden world catastrophe.

In the early seventies, travel intensity in most industrialized countries had reached the level of 50%. This is to say that about half the population took at least one vacation trip per year within the country or abroad. It has been estimated that expenditures for foreign and domestic travel in industrialized countries are between 3 and 5% of

GNP. Total expenditures for vacation travel in West Germany in 1973 were estimated at 20 billion Deutsche Mark.[14]

In fact, in many countries, tourism has become a major factor in their respective economy. Revenue from international tourism covers up to 80% of Switzerlands structural balance of payment deficit. With gross receipts in 1974 exceeding 5.3 billion francs, it was one of the country's largest export industries. Other comparable export industries were: chemicals and pharmaceuticals 0 4.9 billion francs; watches and other precision products - 2.6 billion francs; textiles - 2.1 billion francs.[15]

Some of the other countries with substantial tourist trade are: Spain, Greece, Yugoslavia, Italy, France, Britain, Portugal, etc.

Even though travellers have witnessed rapid increases in prices for accommodation, food, entertainment, transportation (gasoline) and shopping, yet in the 1970s the world air travel, hotel arrivals and sales from travel agencies have continued to rise. Inflation is not affecting tourism as negatively as it is doing to other industries.

In addition, for a significant number of developing countries in other parts of the world, international tourism has evolved into a major (in some cases the largest) source of foreign exchange earning besides being an important source of employment and income. For example, several small islands in the Caribbean have highly developed tourism industries, being mainly visited by Americans and British. In Barbados, tourism is its most important industry (until 1973, sugarcane was its predominant industry). Over 230,000 foreign tourists visited Barbados in 1974. Out of which 70% came from U.S., Canada and U.K. Barbados today depends almost entirely upon the tourist trade.

South Korea in 1965 received 341,000 tourists. In 1978 it received 1,079,396 tourists, an increase of 129,730 or 13.7% over 1977 figure. During the decade (1969-1978), the annual average growth rate of visitors reached 27.5%. Foreign tourist receipts in 1978 recorded U.S. $408,106,000 (1977- U.S. $370,030,000) which was 10.3% increase over 1977. By 1983, the tourist arrival is expected to reach 2.6 million.[16]

In Hong Kong (1979) over 2.2 million tourists visited the colony, and its revenue was estimated at U.S. $1.2 billion. Out of which shopping alone accounted for over U.S. $765 million. Hong Kong expects to draw more tourists in the 1979-1980 year partly assisted by cuts in airfares between London and Hong Kong (Cathay Pacific, British Caledonian, Laker).[17]

However, the expansion of tourism has occurred primarily in the industrialized countries which are the main tourist generating and tourist receiving areas. Over 90% of total international tourist traffic originates in Europe

(75%) and North America (16%) and over 80% of all arrivals are received by them.[18] As a result, the rest of the world generates only a very small part of tourist traffic and obtains a very small share of total world's tourism revenue.

The rapid growth of demand for tourism in the industrialized countries since the end of the Second World War, had several causes which may be broadly classified as technological, social and economic.

The impact of modern transport technology, particularly in aviation has brought about a new scope with respect to distance, time and cost of travel. Travel time has been substantially reduced and when considered in terms of real cost (i.e. adjusted for inflation), it is cheaper today to many distant locations. Between 1962 and 1972, scheduled international and domestic air travel had almost quadrupled (from 135 million passengers to 462 million) with tourist accounting for about 70%.[19]

Initially in the 1950s air travel market was homogeneous but it had gradually branched into two segments, namely charter and scheduled air travel. In 1954 scheduled airlines accounted for over 94% of North Atlantic travel, but by 1975, its percentage dropped to less than 72%, even though the development of charter traffic was restricted by international air traffic agreements and IATA regulations over the North Atlantic routes. By 1977, it dipped to 68.4%.

In 1978 however, there was an increase in scheduled trips and it reached 74.7% with a 6.3% increase over 1977.[20]

Rapid increase in per capita incomes, higher purchasing power and an increase in discretionary incomes have made tourism accessible to most income groups in the developed countries. Though prices for most other goods and services have tended to increase in the last 2 decades, the cost of travelling has not (in fact it has shown a relative decrease in real terms). In the U.S., the real cost of travel measured against the cost of living index 'til 1973 showed a decreasing tendency.[21] This plus longer vacation time reduces the average daily fixed cost of holiday because transportation costs assume a large portion of total fixed cost for travel.

Although air transportation (travel) has become the principal means of tourist conveyance, ocean traffic which is still important for some countries shouldn't be ignored, (e.g. The Netherlands, Norway, Italy and Greece).

Rapid urbanization and concentration of population has necessitated a serious need for recreation and organized leisure activities. This need has been partly accommodated by increased mobility, i.e. less tourist restrictions among countries. The new attitude towards travel (formerly considered an expensive luxury) is the acceptance of it by many as being normal. It is often regarded as an indispensible part of the lifestyle and consumption pattern in DCS and even by a considerable number in LDCS.

Increased tourism promotion efforts by tourist service enterprises and by official organizations at the national, regional and international level with new methods of marketing the "product" certainly aided its rapid growth. For example, the familiar "package tour" is perhaps one of the major contributing factors to the growth of modern tourism. By preparing organized holiday trips complete with transport arrangements by charter aircrafts, hotel accommodations, sightseeing tours, etc. and selling them on large scale to the public, the average price per tour has greatly been reduced below the cost of individual arrangements. This undoubtedly has expanded the market for tourist services. New travel destinations particularly in developing countries and the creation of new facilities to receive larger tourists flow have also contributed to the increase in the travel phenomenon both domestic and international.

It is interesting to note that there is a high correlation between tourism demand (domestic and international) and economic indicators such as: per capita GNP, energy usage per capita, ownership of consumer durables, e.g. automobiles, savings accounts, etc.[22]

Demand for Tourism Services

The demand for tourism is not only governed by income levels of potential tourists, but also by other factors such as prices of all other goods and services including alternative types of tourism, taste and preference changes, etc. The price of tourism is also an important factor in the determination of tourism demand. The normal relationship between price and demand is inverse, i.e. the higher the price, the lower is the demand. The prices of other goods and services affect the demand for tourism mainly through their effect on general expenditure. For example, potential tourist may decide to choose a less (or more) expensive form of tourism so as to have a greater (or lesser) amount of money available to spend on other items. In the case of complementary and substitute goods and services, this tendency is particularly strong. In the case of complementary goods/services, the demand for tourism of a specific type may rise if this form of tourism is offered in conjunction with cheaper airfares. If the airfare falls, the demand for this tourism can be expected to rise *ceteris paribus*.

In the case of substitute goods, a fall in the price of tourism of a specific type will cause a drop in the demand for an alternative tourism *ceteris paribus*. For example, an Indonesian (Bali) tourist organization lowered its tourist fare (package deal) and this affected the rate of increase in Singapore's tourist arrival by an estimated 0.8% in the 1975-1976 period. Though this may not have been the sole reason, its influence was highly probable.[23]

Similar to other consumption patterns, tourist demand for goods and services is affected by changes in the personal disposable income (especially the discretionary income). Generally the demand for tourism (travel) rises as personal disposable income rise through time. However, tourism of a particular type perhaps of "low quality" may react differently. Beyond a certain point further increases in income may motivate the tourist to switch their demand to an alternative "higher quality" form of tourism. Therefore, as income rises beyond a certain point, the demand for the particular type of tourism may level off without creating any additional demand. It is conceivable for some tourism type to be regarded as an inferior good, in which case, as the personal income of tourists rises above a certain level, the demand for this type of tourism may even decline. Here, it would show that the substitution effect is stronger than the income effect hence offsetting the latter.

For any particular form of tourism, changes in the tastes and preferences of tourists will also affect their demand. It is possible to conceive that even when prices and incomes are not directly related, changes in fashion (trend) may motivate tourists to express a greater preference than before for a specific form of tourism which would cause the demand for that type of tourism to increase.

Stated generally then, the levels of personal disposable income, the price of the service (tourism), the price of competing services (other types of tourism) and also the personal tastes and preferences of the tourists are the main determinants of tourism demand. Any element or factor influencing them would inevitably affect the demand for tourist services accordingly.

It has been calculated that there is a high degree of income and price elasticity of demand for tourism. However, a series of interesting interacting forces also contributes to a high degree of demand instability in the tourist trade. The presence of these suggests caution to be used when authorities contemplate investment in tourism development.

Evidence shows that demand for tourism is very responsive to changes in prices of tourist services (e.g. hotel rates, transportation costs, entertainments) and to income increases. Tourism has also been observed to be quite sensitive to the general economic conditions prevailing, given the fact that tourist spending is mainly non-essential and discretionary. Potential customers enjoy a wide choice between travel and other forms of consumption and once the decision to travel is made, they have a choice of various destinations, types of travel arrangements and prices, etc.

In a recent article, it was noted that the tourist trade has "its own cycle, which anticipates downturns in the economy but needs a year of upswing before it really booms again."[24] For example in 1974, while the growth in the developed countries slowed to a near halt, their tourist receipts fell by 3.5% in real terms (in 1975, GDP in some countries declined). In 1976 the economy recovered (5.2%) which revived the tourists receipts and by 1977 it grew by 12.5%.[25]

Price and income elasticity of demand for tourism are not uniform and depend upon the category of demand being considered. For example, price elasticity under certain conditions can even be negative, i.e. price changes within certain categories do not lead to changes in demand e.g. changes in taxi-fares. Secondly, the degree of price elasticity varies with the travel motivations and purpose. Business travel is relatively unresponsive to price changes compared to holiday travel. However, subjective travel motivations, special destination attractions or special services may override considerations of price elasticity. Thirdly, price elasticity is not the same across all range of prices. It tends to be highest in the low price ranges and decreases on the high price range, sometimes reaching zero. In other words, sales of popular priced packages to well-known destinations will increase significantly if prices are only marginally reduced whereas demand for expensive travel will not behave in similar vein, if its prices are reduced. It may even be inelastic. Furthermore, price elasticity need not always be uniform throughout the process of travel preparation and actual travel. Perhaps, the greater the effort, time and expenditure needed to reach a given distination, the less the tourist will react to changes in prices at the destination by reducing or altogether foregoing certain expenditures - assuming of course that the price changes are not ridiculously high.

The seasonal variation often found in tourism is almost exclusively demand related, often caused by institutional factors (such as school vacation schedules) or habit and tradition or climatic variations. Sometimes they are also related to specific events like carnivals, wonderland or festivals. A study by IUOTO attempted to quantify seasonal variations of demand by determing "seasonality factors" - dividing arrivals in the month with the highest number of arrivals by arrivals in the month with the lowest arrivals.[26] The study shows that seasonality is particularly high in Europe with a factor 9, but considerably lower in all other tourist regions. A seasonality factor of 9 indicates that arrivals are 9 times higher in the highest month than in the lowest month. In Europe, seasonality is highest in Yugoslavia - 21.8, Romania - 13.7, Bulgaria - 11.8, and Greece - 9.3.

The factor is lower than 5 in all other countries.[27] Singapore has a factor of about 1.4 which implies relative stability throughout the year, thanks to the absence of any major climatic changes.

Tourism demand is also strongly influenced by external factors. Neither political unrest, strikes, devaluations or revaluations of foreign exchange rates be predicted nor is it usually possible to eliminate or even control their effects on demand. Similarly, unusual climatic conditions or other events like flood, storm, heatwave, etc. can reduce demand or shift demand to other areas which are not affected by such calamities. For example, the heatwave in Texas (U.S.A.) and bad summer weather in Austria and Switzerland in 1980 is predicted to have caused a drop in tourist arrivals in their respective places.[28]

Though these events may be of very short duration or temporary, their after-effects may be felt for long periods well after the original event which caused the change in demand (extremist activities, strikes, etc.) to occur subsided.

Generally, the determinants of demand for tourist services may be outlined as follows: The overall size of the market for tourism in a given market (catchment) area is determined and limited broadly by the purchasing power especially the disposable income. This can be seen by the presence of a high correlation between standard of living and travel intensity. Changes in age structure is also important because as the age median increases more people tend to move into income levels permitting them (or encouraging them) to travel. Secondly, social and cultural factors influence demand in the sense that industrialization doesn't only produce income structures and income distributions favourable to tourism but it also directly and indirectly (through urbanization for instance) creates pressures and stresses which in turn contribute to demand for tourism as a means for recreation, rest and other compensatory activities. Closely related to social and cultural factors are the basic motivations, desires and expectations connected with travel. As the benefits and satisfactions derived from tourism are largely abstract and subjective, a given tourist service or a given tourist product can appeal to customers with heterogeneous and perhaps contradictory needs and motivations.

Demand is a function not only of need, desire and purchasing power, but also of available and accessible supply. Demand for overall tourism expands when the number and variety of travel destinations, of price ranges and of types of arrangements increases, permitting the tourists to choose from a wider range of possibilities. Competition between tourist service enterprises and within the travel trade, innovations such as package tours and promotional activities have expanded demand by creating increased travel awareness among almost all population groups in many countries.

If we consider what determines the demand for specific destinations or the market share of a tourist country, price seems to be a major factor as decisions about travel destinations, modes of travel, timing and length of stay are all strongly determined by price considerations. This is to say that price sensitivity of demand for travel is high. Travel decisions centre around destination choices which are determined by their assessment of various attractions (sites, events, etc.) offered by alternative destinations. Facilities and services do indirectly influence tourism, though seldom do they in isolation (by itself) attract tourism. When deficiencies in the quality or quantity exist in tourist facilities such as accommodations, restaurants, banks, local transportation, there will be a tendency for tourists to reconsider carefully before they decide to visit such a destination.

The relative accessibility will also have its influence. This relates to the modes of transportation available to the tourist for travelling to the destination chosen plus their cost (both absolute and relative to the total cost of a vacation.)

Other elements which may be included are the formalities which are related to travel e.g. visa-policy, customs restrictions, etc. In India (1977-1978), it was suggested that easier customs regulations and better quality artifacts and gifts production was considerably responsible for the 16.8% increase over 1976-1977 in foreign tourist arrivals (1978-1979 - 20% increase).[29]

As tourist experiences are subjective, the ideas and expectations of a place they plan to visit may be appreciated (or be disappointed if reality is contrary to what they had expected) and they may influence other potential tourists through the various "contact" methods leading to dissemination of information - "unpaid advertising".

Travel demand embraces a number of distinct motivations though they need not be mutually contradictory or exclusive. It includes holiday and pleasure travellers, religious, study, sporting, official, commercial and perhaps familial (kindred). Financial aspect affects this considerably. It involves spending money on transportation, food, lodging, entertainment, etc.

Future growth of international (and domestic) tourism may well depend upon population structure, development and upon increasing levels of real income in the main tourist generating countries which are basically DCS.

It is apparent that emphasis has been placed on total volume of tourist expenditure often neglecting the direction of tourist flows. Though not clearly studied or understood, the propensity to travel may be higher among certain age (or social) groups. Young unmarried segment or retired older groups who have greater choice with regards to when they could travel and having the finances may have an edge over others. They could avoid making demands on peak periods. In DCS where population birth rate has dropped greatly and they are expected to have a larger older (retired) proportion in their demographic structure, future travel demand is likely to be positively influenced. Assuming paid holidays to be increasing hence giving the individuals the financial means together with the leisure time, it is also likely to increase future travel demand.

There are several other possible factors which may affect future travel demand. The strength of Trade Union demands for higher wages and/or for more leisure time i.e. shorter working week together with longer main holiday period. Assisted perhaps by increasing use of automation reducing the number of working hours. Employees may decide to choose 4 day work week and 3 day weekend with greater weekly leisure time at their disposal.

Changes in retirement age which may encourage post retirement tourism. The likely consensus of governments and employers as to the role of tourism as a vehicle to promote the health and welfare of the population and employees respectively. This may take the form of subsidy of leisure activities (travel included) as a social service, e.g. employee incentive holidays.

Countries with relatively high direct taxes on incomes (i.e. having higher marginal rates of taxation beyond a range) may discourage people from working longer hours and force them into leisure and travel activities.

As for negative influence, managers (and other higher income personnel who have high potentials to become tourists and travellers) may work longer hours and sacrifice travel activities.

Supply of Tourism Services

Tourism is a service industry. It is a special kind of an export. The sale of goods and services to foreigners occurs within the host country. The experience of the local culture and environment (among others) is one of the most unique quality of international tourism. Unlike other industries where production (or supply) could be manipulated as close as possible to match demand, its capacity has to be built first. If there is a growth in demand, any increase in capacity will have to be prepared well ahead of time if the demand is ever to be adequately satisfied. To avoid unnecessary repercussions, proper research has to be undertaken before investing on transportation, hotel, food, recreational and sightseeing facilities, etc.

Transportation is an important element of tourism (e.g. aircrafts, ships, trains, buses, private automobiles, etc.). Innovations in these have created the reduction in travelling time which attracts more and more people with restricted time at their disposal.

Accommodations at destination and while travelling are necessary elements (e.g. hotels, motels, inns, etc.). Several facilities are automatically expected such as bathing (swimming pools, sauna, turkish baths, etc.), boating, dancing, pubs, night life. Scenic beauty, warm weather, socio-cultural events in combination with the above mentioned amenities would make a rather tempting package for today's economic man.

Many activities evolve in the process of catering for the tourist trade. Tourism creates a market demand for various industries in an economy. In a few countries tourism may be the main sector. In many other countries, tourism has become a profitable complementary activity. Tourist trade creates demand for accommodation, food services, transportation and entertainment services. Administration of the tourist industry is variable in any one country depending upon various structural and ideological reality. In some countries, this sector is strictly regulated (or controlled) by the governments and in others the private sector controls it quite independently. Expectedly, many governments in

LDCS have tried to play a greater role in controlling the tourist industry. Regardless of who controls, the main aim of the tourist industry is to bring tourists to the activities which attract them as quickly and directly as possible.

Most tourist enterprises cannot readily react to changes in demand by adapting the quality or the quantity of the services provided. This inelasticity of supply is particularly significant as demand for tourist services are subject to strong seasonal variations, to external (often unforeseen) influences and strongly determined by subjective factors.

There are several reasons for the tourist industry to face difficulty in attempting to respond to changes especially in terms of capacity adaptations and service modifications. Usually tourism related plant and equipment are capital intensive e.g. hotel, aeroplanes (jets), ships, tourist buses, etc. Their operation is dependent on the availability of trained (and experienced) staff. Naturally this requires recruitment, training and managerial control. As noted above, tourist services cannot be produced ahead of demand and kept as inventory until demand occurs. This necessitates many tourist services (hotels, centres) to be underutilized during slack periods after full or over-utilization during peak months. Furthermore, high capital investment per production unit (e.g. initial per aeroplane seat or per hotel room) leads the cost structures to have a high proportion of fixed cost.

As personnel cost has to be considered fixed in the short-run (just as capital cost in this case), it becomes virtually impossible to make any considerable modifications in total expenditures. Consequently, any small changes in capacity utilization (volume) lead to disproportionate effect on profitability by circumstances entirely beyond their (i.e. airline or hoteliers) control.

In addition, fixed location and limited potential for conversion to alternative uses makes the tourist facilities a further aggravating element in its supply inelasticity. For example, when a hotel in a tourist region becomes unfashionable, it is very difficult (if at all possible) to convert it into any other profitable enterprise.

Just as substitutions are common between competing products or services whose characteristics and customers benefits are similar to one another, many tourist services are similarly vulnerable to substitution effect, although they may not be altogether identical. There is also a high degree of substitution amongst travel destinations. A potential tourist has at his discretion a wide variety of destinations, travel modes, and services which may be equally well-suited to his desires. One notable characteristic of this trade is the low level of "customer loyalty" to a destination. Seldom do tourists visit the same destination regularly or use the same travel agent yearly or the same type of transportation or accommodation for their vacations. With increasing mobility, especially air charters, the range of travel opportunities widens. Destinations and services previously not in direct competition with one another are inclined to be considered alternative choices increasingly. This uncertainty is seen all the more clearly when we consider the various tourist agencies who spend huge amounts on promotional expenses, using it as a measure to maintain (or increase) demand in accordance with the supply of tourist services. New sales methods have often been advanced accordingly e.g. recent development in the tourist trade is the advanced and deferred payment travel which is becoming popular. This development does not generally affect the bilateral and final nature of the tourist transactions e.g. the tourist pays the total cost for an all-inclusive trip to a destination booking 6 months in advance, or he may be allowed to pay on monthly instalments over a period of time.

Tourism can develop under three different types or sets of conditions: (a) The region already has a thriving tourism industry and a new state or country attempts to acquire a share of the market; (b) A nearby market exists. Building a tourism destination under this condition would involve extending that market (e.g. Fiji or Tahiti may try to

attract visitors who travel in the same Pacific region;
(c) Creation of a tourism destination which would mean building entirely new market, travel patterns and so on. Different categories of tourists or travellers are lured to different areas and attractions.

Limitations due to the inflexibility of the supply and the strong seasonal and other variations in demand makes the tourist industry a high risk sector to concentrate upon. Nevertheless tourism has now evolved into one of the fastest growing and popular industry mainly because of its pecuniary benefit, though other "less convincing" reasons are often attributed to the growth of the tourist trade e.g. better international understanding. Many countries have concentrated on developing their nations (cities) into a tourist destination so as to increase their share of this recent "export commodity". As many nations are involved in this international travel phenomenon, competition among nations (or among states/provinces if domestic) is also increasing which inevitably increases the cost element especially in the form of subsidies (obtained by the respective tourist authorities from government) and promotional expenses.

The tourist industry has gained greater support from governments especially after the OPEC price increase i.e. energy crisis. In fact the tourist sector has been re-evaluated and supported by many countries (both developed and developing) because of its potential economic returns. In many countries, governments support the tourist industry at various levels in the form of grants, loans and public development of remote potential tourist areas in the hope of increasing the country's respective share of tourist arrivals.

The major problem of this industry in the future will not only be the one of tourism consumption and of stimulating demand, but of organizing supply and marketing. Yet, creating the conditions in one's own country for foreign nationals is by no means an easy task for it does not only involve investment expertise and experience but also a proper environment conducive for them. A foreigner, when travelling, intends to fulfill some of his fantasies, fancies and ambitions. There is no room to take a trial and error approach in the tourist industry because it involves a one-and-final sale to each incoming tourist.

There are several approaches toward tourism development. One is by attempting to raise the gross tourism receipts by attracting a larger number of visitors. The second is by extending the period of stay and inducing higher tourist expenditure. Some countries may seek to attract a large number of tourists in transit by the facilities offered by their airports, travel agencies, banks and other ancillary travel organizations. E.g. in U.K., numerous travellers arriving in London make it the staging point for their travel since they find every kind of air and sea transport facility information offices, travel agencies and insurance companies. The second case, that of lengthening the tourist stay to be of any use would depend very much on what local products are purchased by tourists. Otherwise their extended stay would only entail greater imports which is an economic leakage.

Economic Importance of Tourism

The direct economic effects of tourism relate to the actual expenditure involved in tourism. For instance, expenditure on transport, accommodation, food and drink, shopping services, etc. The income received by the citizens providing such goods and services from tourists forms the direct impact on the economy.

For any country, there are 3 different elements in tourist expenditure. The first is the money spent by nationals on holiday-making within their own country which may be called the domestic expenditure. The second element is the expenditure incurred by foreigners who travel into a country (spending of foreign tourist locally). The third element is the expenditure incurred by nationals who travel abroad. The first two elements constitute credit and is shown in the National Income accounts. In the case of the third element, as the citizens are removing money out of the country, it is to be considered a leakage from the economy. In the balance of payments account, the second element has to be set against the third element mentioned above to derive at the net result (gain or loss).

On the domestic scene, the expenditure on tourism by nationals in their country will be influenced by two factors generally. The amount spent by a family on holiday-making is related to the amount of income i.e. the greater the income, the higher is their likelihood to spend on consumer expenditure including holidays and travel. The marginal propensity to save is the other aspect determining expenditure which if increases would cause less expenditure on consumption including travel expenditure.

Expenditure by foreign tourists within a country is an external source of additional income and forms an invisible export which adds to the circular flow of income. As they affect the balance of payments for many countries since the 1960s, expenditure by foreign tourists in one's country and expenditure by its nationals on tourism abroad is significant and has become increasingly important. This is because net income from foreign tourism adds to the national income and as an invisible export could offset a loss on visible trading account. Similarly, expenditure on tourism by local citizens abroad would amount to leakage from the national income and in some cases some governments have had to fix a ceiling on the amount of money legally permissible for foreign tourism. For example in U.K. it was set at 50 pounds per head during the 1969-1972 period.[30]

The indirect effects of the expenditure on tourism arises due to the fact that the trades directly involved in tourism (as mentioned above) have to purchase from other trades and industries those goods and services catering for the demands of the tourists. For example, the facilities for tourists, furnishings, food stuffs, sporting equipment, souvenirs are all demanded by the respective suppliers of tourism services. This could be described as the potential backward linkage resulting from the tourist industry (trade).

George Young lists 5 reasons for countries promoting tourism: (1) tourism is a source of foreign exchange, (2) it is a growth industry, (3) tourism can exploit some competitive advantages - such as beaches, sunshine, (4) tourism can strengthen one's image abroad, and (5) employment.[31]

The full impact of tourism on the economy therefore, includes not only those directly involved with the tourist trade, but also other industries which have been influenced at various stages to supply goods and services for the tourist sector. In fact the tourist expenditure initiates the growth of other related industries to a considerable extent.

Because many countries have serious problems with the balance of international payments, much attention has been focused on tourism because of its potentially important contribution and its effects upon their balance of payment account.

However, simple comparison of balance of payments (minus tourism) statistics for individual countries with their tourism balance at face value would only give a distorted result. Studies may claim that if the tourism balance is positive, the tourism sector improves the balance of payments position of the country. This ignores the fact that tourism may have necessitated many of the imports which appear in the balance of payment figures. It is important to consider the presence of direct and indirect effects of tourism on both the balance of payments and the general economic development of any one country.

In the case of a net surplus in the tourist trade, the direct effect is to improve the recipient country's capacity to import (regardless of whether DCS or LDCS). In the case of a net deficit, the direct effect is the drain of one's currency (or foreign exchange), therefore reducing the capacity to import (almost all countries having net deficits in the tourist trade are DCS). Perhaps, beyond a certain level of development especially among the advanced economies, a net deficit in tourist account should not lead the authorities to be overly concerned as long as the overall balance of payments equilibrium is not undermined.

Tourist balance may show greater stability than trade account. It would be misleading, however, to imply that tourist balance and trade balance are mutually exclusive. Several items of the trade balance have a significant function in the global tourist balance.

Tourism is a useful means of earning foreign exchange and in some countries (Spain, Ireland, Panama, some Caribbean countries, etc.) they are crucial as their foreign exchange receipts from international tourism are major earners of foreign currency and often exceed the receipts from any other individual industry. For example, between 1972 and 1977 tourism contributed on the average 26% of Spain's export earnings. In 1970 Mexico and Jordan received from this industry 39% and 28% of their export earnings respectively. Other notable countries are Italy, Greece, Yugoslavia, several Caribbean islands (Bermuda, Barbados, Bahamas), etc.[32]

It is, however, important to note that the receipts from international tourism involves a cost element which has to be deducted to obtain the net receipt. M. Peters has written that "certain imports associated with tourist expenditures must be deducted . . . the importation of materials and equipment for constructing hotels and other amenities, and necessary supplies to run them, foreign currency costs of imports for consumption by international tourists, remittances of interest and profit on overseas investment in tourism enterprises mainly hotel construction, foreign currency costs of conducting a tourism development programme including marketing expenditures overseas."[33]

These elements complicate the process of calculation and very seldom is it possible to evaluate precisely the net receipts from international tourism. Though in some countries the tourist industry had grown dramatically in the last two decades, the countries themselves have not fully benefitted as much as they could have otherwise, mainly because of the many leakages from the tourist income flow. For example in the West Indies, much of the investments were foreign, requiring interest payments and hotel furnishings, plus other tourist related equipments were imported which further caused an exchange drainage. Even though the many foodstuffs which could have been grown locally were imported from the U.S.[34]

However, for many small countries who are mainly dependent upon primary production, tourism may constitute a reliable source of "cash" income. In a few European countries, especially in Spain, Portugal, Austria, Yugoslavia, Greece and Ireland, the earnings from tourism are significant as a source of income and have strong positive effects on their balance of payments account. In other countries such as U.S.A. and West Germany (who are incidentally the two important tourist generating countries) the invisible earnings from tourism are quite negligible in their balance of payments account because their citizens' expenditure on travel abroad are far in excess compared to the expenditure by foreign tourists in their respective countries.[35]

The currency exchange rate will have significant consequences on tourism as they make holidays cheaper or more expensive. Hence changes in currency exchange rates become crucial (i.e. we noted earlier, the price elasticity of demand for tourism is quite high). When a currency is devalued, it implies that the currency becomes cheaper within the devaluating country, but at the same time foreigners would get higher value for their respective currency which in turn would likely influence the tourist arrival to increase into the currency depreciating country. In the case of a revaluation, the effect is the opposite and the probable result would be a fall in tourist inflow.

Another effect upon tourist inflow is affected through the inflation rate. If the country's inflation rate is high, then there would likely be a drop in tourist inflow in the long-run if the tourists generating country's inflation rate were to be comparatively lower.

Tourism is economically attractive because it provides not only a source of income (often a much needed foreign exchange for some LDCS), it also provides employment and may bring about infrastructural development within a country. It may also contribute to regional development. These influences are often interrelated.

Some local goods may not have much value in local areas, but may have high value abroad for tourists (to a certain extent this may be considered similar to raw materials). Consequently, this becomes a valuable item for foreigners. By using local capital, foreign exchange and labour for exploiting, the item concerned would receive foreign exchange in return for its use by tourists. Subsequently this foreign exchange could then be used to import essential goods required by the nation.

Unfortunately, it is not easy to measure tourism as a source of income with any substantial degree of accuracy. One important reason is the so-called tourism multiplier effect. Tourist expenditure supports the tourist industry directly but it also indirectly contributes to several other industries related to it which supply goods and services (including repair and maintenance services) to the tourist industry as noted earlier.

Hence money spent by tourists spreads into various sectors of the economy. When money changes hands it provides income to the respective recipients of the income. This multiplier effect obviously could not continue indefinitely as there are leakages from this flow. Examples of leakages affecting the multiplier alluded to before are: imported foreign goods, interest paid on foreign investment, extradited profits and savings together withdraw money from the flow. Consequently, these leakages depending on their proportion would limit the multiplier effect accordingly.

The structure of the economy for any one country influences the multiplier effect substantially inevitably influencing the GDP. Therefore higher multiplier effects would be found in more advanced economies which are more self-sufficient and require less imports to cater for their tourist industry. The multiplier would be lower for countries which are less self-sufficient and requiring considerable imports to cater for and maintain the tourist industry. It is possible for GDP growth to be unsustainable with regards to the tourist sector. Initially, high growth rates may be witnessed due to inflow of foreign investment. If we assume foreign ownership to be dominant, then the ill-effects would appear when the foreign investors begin repatriating profits, preventing the locals from reaping much benefits. Hence the initial positive economic growth would not contribute to subsequent economic development of the country concerned in any predictable or substantial form.

For developing countries to reap the maximum economic benefits from their tourist industries, it becomes important for them to control wherever possible those imported items for tourists' consumption and to keep the proportion of foreign investment expenditure (for the purpose of the tourist industry) to a minimum level. Otherwise, these leakages may offset any possible benefits arising from the tourist trade. Any local substitution for imports would increase the tourism multiplier enabling the host country to absorb the maximum economic benefits from its tourist trade - this suggestion assumes that local products are of substitutible quality so as not to endanger losing tourists because of using poor quality local products!

When analyzing the tourist trade, we are in effect referring to three separate multipliers:

(a) the tourist expenditure multiplier,

(b) the investment multiplier, and

(c) the foreign trade multiplier.

Partially due to the difficulty in calculating the tourism multiplier, estimates on several economies shows considerable variations. For example the following are estimated tourism multipliers taken from M. Peters.

Table 3: Tourism Multipliers

Pacific & Far East	3.2-4.3	Pakistan	3.3
Hawaii	0.9-1.3	Ireland	2.7
Greece	1.2-1.4	Lebanon	1.2-1.4

Source: M. Peters "International Tourism." P. 240.

It should be noted that Peters does recognize that some of the above estimates may be over-estimated as in the case of Pacific and the Far East and Pakistan. On the other hand it may have been underestimated in the case of Hawaii, Greece and Lebanon. Certainly the accuracy of these estimates are dependent upon the availability of efficient and reliable data.

Given the complexities and statistical inaccuracy involved in the concept of tourism multiplier, it should therefore be used cautiously. One must not ignore the fact that other kinds of expenditure (such as other exports, government expenditure, private investment), if increased would also lead to a multiple increase in income. As the multiplier effect of visitor expenditure is only one element among several having similar effects on national income, its not logical to place undue importance on this element alone.

In addition, the size of any multiplier is independent of the initial injection of income and depends on the proportion that the income recipients spend on domestically produced goods and services so as to allow respending by people engaged in the domestic sectors producing them. This proportion spent on local goods by income recipients from tourist sector need not be very different from the expenditures experienced in other sectors of the economy. The later developments (or stages) in the multiplier may not be as significant, therefore the main focus should be on the visitor's initial expenditure and its impact on income generation. This should then be compared with the revenue obtained from supplying the needs for other final demand (i.e. other sectors) to arrive at an accurate estimation of tourism expenditure benefits.

A closer look at the tourist multiplier would probably clarify some of the elements involved. The tourist multiplier may be broadly described by the following equation;

$$K = \frac{1}{1-c+m} = \frac{1}{s+m}$$

where,

m = marginal propensity to import

c = marginal propensity to consume

s = marginal propensity to save

M. Peters formula is,

$$K_t = \frac{1}{s-Ca}$$

where,

k_t = tourist multiplier

s = the marginal propensity to save

Ca = the marginal propensity to spend on tourism abroad by nationals.[36]

Obviously this is not an expression of the multiplier effects of tourist expenditure but is rather an aggregate multiplier in a tourist economy. They fail to account for the different input structures in different tourist industries and as a result they imply that any increase in autonomous demand will have the same multiplier effects throughout the economy. A disaggregated approach is important for the tourist industry given the fact that the industry is not a uniformly structured industry even within the economy. Since tourist receipts accrue to a number of sectors, the aggregate multiplier for the whole economy has to be the weighted average of the individual sector multipliers to have any proper economic significance.

A relatively better approach on the tourist multiplier could be found in J.M. Brydens book, where he employs the inter-industry transactions matrix.[37]

$$k_t = \frac{\Delta y}{\Delta T}$$

where,

ΔT = the change in tourist receipts (exports)

Δy = the resultant change in domestic incomes due to the change in tourist receipts given fixed coefficients within the transaction matrix and a fixed pattern of tourist receipts accruing to the different sectors.

If $(1-A)^{-1}$ is the Leontief inverse, where

1 is the identity matrix

A is the matrix of technical coefficients,

then,

$$\Delta y = \Delta T(1-A)^{-1}$$

Therefore, the aggregate multiplier for the economy as a whole will be the average of the individual sector multipliers weighted by the distribution of tourist receipts among the various sectors.[38]

However, it is still not very clear just what the multiplier does even if it is calculated by an inter-industry transaction matrix cited above. To be more accurate, substantial additional information on the utilization of the relevant portions of the capital stock, the labour force etc. are necessary to calculate the proper effects. Ignoring such complex influences will only lead to distorted conclusions about the real benefits accruing to the country due to the tourist trade.

In fact, it is possible to state that the multiplier resulting from calculation on income exclusively to local nationals (which is truly the real relevant aggregate for many LDCS) will be substantially lower than the normal GDP multiplier. The GDP calculation is likely to be quite different (higher) in many LDCS than the incomes accruing to local nationals because of foreign ownership of factors of production and also of employment of non-nationals in the economy.

In the short-run, if we assume capital and especially labour to be underutilized, then in a closed economy any autonomous increase in any of the final demand and the amount of the increase in real incomes would be determined by the size of the multiplier. On the other hand in an open economy, the income generation flow is constrained by the size of the marginal propensity to import but as long as MPS plus MPM are less than one, the multiplier will be greater than unity. But these assumptions need not be true for many LDCS if we consider the following leakages:

(i) the purchased goods and services from foreign countries needed in the operations of shops, hotels, transportation, etc.

(ii) profits returned (repatriated) on invested capital annually.

(iii) repatriation of capital to the degree it is undertaken in later years.

(iv) the interest on loans from foreign investors.

Therefore the net foreign exchange is a better approximation of real benefits.

In the long-run it is often assumed that the inflow of exchange can be expected to be in excess of the outflow. This assumption need not always be true!

Continuing the discussion on the potential economic benefits of the tourist industry, it has been noted how this trade influences indirectly other non-tourist sectors of the economy. Hotels and catering services require furniture, other equipment and accessories (including meat, dairy products, fruits and vegetables from horticulture). This leads to the creation of demand in these industries. Improvements in the transport and communications industry may be influenced by the tourist trade. Often to attract tourists, other infra-structural improvements follow, such as better roads, airports (terminals), sanitation control, etc. To an extent these developments may be attributed to the tourist industry which enables the local population to enjoy these improvements which otherwise may or may not have occurred.

In several cases, the tourist expenditure may indirectly be responsible for stimulating other economic activities as a result of improvements in infrastructure. This may encourage greater economic diversifications - such as various secondary industries related or unrelated to the tourist industry. As a source of income, tourism may be quite congenial especially when the country involved has inadequate alternative resources.

It must however be remembered that the tourist industry is no exception to the usual problems encountered by LDCS when attempting to create an "international business confidence" for foreign investment. For tourist to arrive consistently, a country has to qualify as a place (area) where it is stable, friendly (and often ignorant), etc. Any attempts at changing the status-quo locally would only cause a disproportionate drop in tourist arrivals resulting in possible economic disasters depending upon the proportion of this sector involved in the economy.

It is possible for the tourist trade to be more volatile than other sectors as any local riots or disruptions may cause a drop in the country's image abroad leading to a drop in tourist arrivals. Consequently when local governments are convinced of "tourism's benefits", they may apply severe measures to punish any popular actions by local population at the expense of local freedom or rights.

A developed country with international reserves (gold, foreign exchange) may utilize them in part to finance its tourism infrastructure without resorting to foreign capital. Alternatively, a country running consistently a large payments surplus e.g. U.S. from 1945-1960, West Germany, Japan could decide to invest all or part of their surplus in developing the tourism balance, making foreign capital unnecessary.

These cases are only exceptions. Most countries in Africa, Latin America and Asia who are only recently developing their tourist industry, neither have reserves nor are they running a continuous payments surplus making recourse to foreign capital almost the rule.

The recourse to foreign capital per se during the initial "take-off" period is not totally objectionable. Many industrial firms have started in this way and repaid the original loan from the earnings of later years. Many of today's leading industrialized countries were importers of capital over a long period, and thanks to that inflow, they were able to create an infrastructure and settle part of their deficit on current account. The nineteenth century offers many examples e.g. U.S.A., Canada and Russia.

Likewise developing countries today may accept some indebtedness to ensure (at least anticipate) future growth. Vulnerability due to fluctuations in national incomes in developed countries arises because of the higher income elasticity of demand for foreign tourism. But such fluctuations have been less severe in the post-war period. The effect is felt mainly in the rate of growth of tourism rather than in absolute declines in international tourist receipts. However, the danger of dependency is always present i.e. the unpredictability, which could make a possible economic argument for avoiding the development of tourism at any large scale.

In theory, tourism seem to be quite productive for LDCS but in practice however, there are several realities negating its benefits. International mass-tourism is often operated by extending the metropolitan comforts of DCS even though the tourists are in foreign land. This is one of the main reasons for the industry to be import-prone in LDCS. Many international tourists expect certain "high standard quality" of service, accommodation and goods which may be quite foreign to local culture/habit. Imported chefs, souvenirs, drinks, etc. are often standard requirements "demanded" by incoming tourists.

The rich DCS of the world often compete to be tourist generators as well as tourist receivers. Employment and other economic activities results from travel abroad, e.g. travel agency, air transportation (or sea), insurance and banking facilities, etc. As for being the host country the obvious benefits are the profit (foreign exchange and additions to GDP - income through the various means).

It is important to realize that a substantial part of the tourism phenomenon (its formation) is worked out in DCS quite exclusively, i.e. almost all travel arrangements are made at the place of departure or originating country. DCS would logically attempt to narrow the gap between their outgoing and incoming tourist trade. This may not be the case, partly because many of them are able to recoup (recover) substantial amounts back through their multinationals (hotel chains, airlines, banks, travel agencies, etc.). What this amounts to is the deprivation of the potential benefits to the many LDC tourist receiving countries of their net gains, particularly the vital foreign exchange. Certainly, the LDCS individually are not exempt from fault. The major problem is their inability to produce efficient local substitutes for the above mentioned DC's extensions.

Perhaps a few examples in practice in several LDCS may help to explain the intricate elements of tourism. Many tourist (pleasure cum business) visit developing countries and create business dealing by which in the long-run DCS tend to gain inevitably.

In Fiji (Pacific) for example, nearly all items the tourist purchase is imported. One of the largest components of tourist expenditure was in the tax-free shop. In fact, if traced properly, the real benefits would be accruing to the Japanese electronics industry. It was noted that usually the money from such duty free shops goes straight out of the country (Fiji) and in fact almost nothing enters the Fijian economy.[39]

In Tanzania, it was noted that many of the luxury hotels' equipments were imported instead of utilizing local products (hence not creating demand for local products). Even the toilet paper at the Africana Vacation Village (outside Dar-es-Salaam) has been imported from Israel. Special light fittings (screw-in-type which was unusual in Tanzania) imported from Israel were also installed in the hotel making it necessary for all future usage of bulbs in the hotel to be inevitably imported from Israel. African bulb manufacturers were therefore systematically neglected or deprived of a potential benefit. In addition all the crockery in the hotel were also imported from Israel.[40]

Barbados which depends almost entirely upon the tourist industry had problems with the big corporations with regards to the government's taxation policy.

In 1970, the Barbados government imposed a 4% tax on the gross receipts of hotels, a levy which could not be passed on to the tourist. The action was resisted by industry managers and one major foreign firm threatened to sue the government for breach of contract under general principles of "international law". Subsequently, the gross receipts tax was replaced with a room tax which could be borne by the consumer.[41]

Many problems (legal, commercial, social, etc.) are liable to emerge when the tourism industry is managed mainly by foreigners who would attempt to minimize any tax incurred by the tourists and therefore reduce the gain by the local government.

For example in 1971, hoteliers in Barbados were reported to overcome the currency controls and taxation by issuing coupons abroad. These coupons were used by the tourists to purchase goods and services in Barbados. The local government was unable to tax the sale. The hoteliers and tour operators (foreign-owned) were benefitting at their home economy i.e. place of origin where the coupons were redeemed eventually.[42]

Many developing countries, being inexperienced, introduce tourism often desperately. This results in international tourism institutions gaining entry on very lucrative terms initially. As time passes, these terms undergo criticism as some "mistakes" are attempted to be corrected with new policy changes in accordance to local socio-economic requirements. Depending upon the ratio of foreign ownership and management personnel present, more and more policies and laws to enhance local participation and control would be gradually introduced out of economic necessity. What happens then is that these policies often create conflicts with foreign owners (investors) of hotels, etc. New investors (potential) are discouraged and at times even the established foreign hotel chains may withdraw from these countries leaving them economically crippled. Therefore most LDCS end up being in a dilemma.

Effects on Employment and Wages

Tourism is basically a service industry with a high tertiary sector employment ratio - transportation, catering services, hotels and entertainments.

The effect of tourism on employment and income would depend on the size of the market, the geographical dispersion of the industry, backward and forward linkages and the external economies created. Employment on global scale is expanding and is predicted to expand further given the positive tourist demand forecast. The geographical dispersion depends upon what parts of the country are appropriate as tourist areas. If the industry were limited to isolated regions, such as seacoast resorts the direct employment effects would be limited in contrast to a situation where tourist areas were widely spread across the country.

Visitor expenditure and government investment (or private investment may substitute government investment) in tourism related industries create jobs. The tourist industry is basically a labour-intensive service industry. It provides a wide variety of employment ranging from highly specialized to unskilled, employing large number of workers. Besides Management/Executives, there are other specialist personnel like accountants, cooks, entertainers who are necessary. It requires large numbers of semi-skilled (and unskilled) workers, such as kitchen staff, waiters, chambermaids, housekeepers, porters and gardeners. There are also other induced employment out of the industry as in the case of those who supply goods and services to those directly involved in tourism. Examples of such are those involved in construction industry, food supply industry, farm products industry (farming and agriculture), furnishing and equipment industries.

For many non-industrial countries with inadequate natural resources, tourism could become an important source of employment especially when alternative sources of employment are few or absent. Employment in this industry often requires relatively short training period for most jobs. Employment can be created with relatively low investment in fixed assets per employee. Many of the developing countries without exploitable natural resources (including Singapore dealt with in Section 2) or with a high dependence on a limited range of exportable products and if coupled with large underutilized labour force, tourism could then become a viable industry to create employment.

It is important that the tourist destination country embarks on policies to produce a sufficient number of workers or employees along tourism development programs. If this is ignored, potential employment opportunities would be unnecessarily overlooked and dependence on foreigners may become more deeply rooted in the industry.

In developed countries the tourist industry provides employment and incomes similar to any other export industry. For example in France, about 0.6 million people were employed directly in its tourist trade (about 2.7% of its labour force). About 2% of all construction work in W. Germany (1977) was generated by the tourist industry. In Britain, the British Tourist Authority claimed that 6% of British workers were somehow related to its tourist industry.[43]

It is estimated in U.S.A. that tourism sector involves a U.S. $60 billion business employing 4 million workers. Receipts from international tourism in 1974 amounted to $4.6 billion and generated about 310,000 jobs.[44]

The task of tourism is to create jobs where none exist. If it succeeds then it is a sound economic investment. But if the hotel industry (or other tourist-related industry) gets its employees from other industries (assuming there is no underemployment or high unemployment) then problems will creep into the labour market. Though there are controversial debates on the economic benefits of investment in tourism and its role in creating jobs, they are often limited to cost-benefit analysis where basically the costs of investment are set against the benefits of tourism. But as G. Richards had argued,

> these discussions often miss an important variable in the situation, namely the amount of employment extra to the direct jobs - which is supported in other industries and activities connected with the tourist trade. . . . For every 100 jobs held in direct tourist trades, approximately 60 jobs in other industries are indirectly dependent on tourism business. In economic jargon, this is an employment multiplier of 1.6. . . . £1 million of tourist expenditure attracted to Britain or generated within the country (domestic tourism also supports jobs) probably supports 860 jobs in the tourist trades, but in total terms supports about 1255 jobs throughout the economy.[45]

In many areas however, tourism is seasonal which also promotes seasonal employment. This seasonality may become adverse to the economy. During the off-season period, there may result a very high unemployment figure when compared to the tourist season. This situation is unhealthy because unsteady employment often results in dissatisfaction among workers and would cause social disruptions sooner or later unless the job situation is remedied. As a result many countries suffering from high seasonality in tourist inflow are forced to make efforts for the promotion of other attractions during the off-season - these incur additional costs inevitably. Some examples of such attractions are reduced prices for out of season holiday trips; staging of carnivals, festivals or science or cultural shows.

Yet in many developing countries where there are often chronic unemployment the promotion of tourism could be a good source of creating employment especially unskilled, at least for the short-run! If the tourist trade absorbs workers from other industries, then the level of contribution of the tourist job has to be weighted against the opportunity costs.

The tourist industry is less prone to be automated and/or mechanized. Human labour is likely to be indispensable and would be a predominant feature in this industry. Countries with excess labour may use this avenue to absorb workers into hotels, catering and other tourist services which are labour intensive. The tourist industry often offers a wide variety of jobs for women requiring little skill. If a country faces an increasing ratio of female participation in the work force, the tourist industry could be an ideal outlet. M. Peters stated that in many European countries e.g. U.K., Switzerland and U.S.A., the tourist industry employed a high percentage of female workers.[46]

It should be emphasized that for every new job created in the accommodation industry, there are other jobs often created indirectly in related agricultural, handicraft, construction, maintenance and manufacturing industries. IUOTO estimated this to be at 1 for 1.[47]

However, when one considers the capital cost of creating a "luxury tourism" related job it's usually estimated to be higher than in manufacturing or even agriculture.[48] Direct employment in hotel industry would likely have a high cost per employment. For example, in Fiji, it was estimated at F $25,250 per job. But indirect employment generated by the industry was expected to have brought down this figure considerably.[49] It has been found in LDCS that the largest hotels (most luxurious) with over 200 room category tend to generate the highest level of employment per room. The 50-100 room category often generates more jobs per room than the 100-200 room category.[50]

The major problem with luxury hotels in LDCS is that they often employ local workers only for menial work and hire foreigners for high-paying skilled maintenance, accounting and executive/managerial posts.

The result is that a large share of the wage bill of this industry is absorbed by foreign nationals working in these hotels. This leads to the foreign exchange leakage

the same way as imported goods used in the tourist trade noted earlier. Only a small portion of the wage bill is distributed to the locals. It should be mentioned that, it is very difficult to estimate the exact number of foreigners accurately as several loopholes escapes detection e.g. foreigners holding dual citizenship conveniently, foreign advisors holding part-time status, etc. Any sincere statistical study is usually clouded with several corporate irregularities. There have been several attempts at estimating foreign wage bills in various LDCS.

For example IUOTO estimates that 15 to 20% of the total wage and salary bill for hotel chains in many LDCS are absorbed by foreigners.[51] Higher figures have been reported however. In Fiji for instance, foreign managerial and executive salaries are reported to be about 25-27% of total wage bill.[52]

Even IUOTO has suggested that in some cases the percentage could be much higher (as high as 40% or over of the total wage bill) being absorbed and often repatriated by foreigners depending upon the backwardness of the country. In some Caribbean countries at some time this was reported to have been over 35% of total wage bill.[53]

Generally, hotel employment tends to be less urban biased than other formal employment. It also requires mainly unskilled labour which is relatively abundant in many LDCS. The rate of female participation in the hotel industry is often higher than for employment in general in most countries i.e. it often has a higher female ratio. However, they tend to be employed in the least skilled and lowest paid jobs along with unskilled male workers, e.g. room-maids, cleaners, waitresses, gardeners, etc.

It is however important to realize that even though the wages may not be very high when compared to DCS wages, many of the tourist related jobs (e.g. hotels) offer higher wages than most alternative available jobs in LDCS. Hence the wage rates are often higher than those which would be paid in the LDCS competitive labour market.

Recession in the tourist trade affects the employment level often disproportionately. In 1975 for example, a mild recession in Fiji was estimated to have reduced over 12% of this sectors work force and a further 30% were reported to have been underemployed by being asked to work 4 day week or 7 day work and 7 day off schedule.[54]

Effects on Investment

Tourism requires substantial investments. Investors in this field usually hesitate and are cautious with regards to the potential returns. Investments generally occur in ventures where the return is high, quick and assured. Therefore, the concept of opportunity costs will prompt the potential investors to know the probable return from any investment he would make in this industry (tourism) compared to the returns from investments in other sectors of the economy.

The nature of investment in the tourist sector is such that a high proportion of the capital outlay is spent on fixed assets i.e. in land purchases, accommodation units, buildings and interior facilities such as kitchen equipment furniture, carpeting, etc. For instance, S. Medlik estimated that 90% of capital invested in hotel developments came into this fixed asset category.[55] Only a small proportion of the capital outlay accounts for the variable element (asset). One of the main variable assets is the stock of food and drink. Assuming there is demand, food and drink often have a high turnover rate. Hence the fixed cost of operation constitutes a large proportion of the total costs and these fixed costs have to be met regardless of whether the hotel is open to tourists. Many hotels often remain open in off-peak periods hoping that these sunk costs could be recovered and during the peak period they endeavour to promote a high bed occupancy rate to average out the resulting profits (or losses).

Generally stating, the rates of return from investment in tourist related industry compared to other industries are not significantly different. S. Medlik states that after allowing for overhead costs such as depreciation and interest or capital employed, profits amount on the average to about 10% of sales revenue.[56] He also adds that there are differences in profitability depending on the sales-mix of an establishment. Usually the accommodation services yields higher profits followed by food and liquor respectively. Therefore the overall profit of the establishment would depend on the proportional weights placed on the various components of total revenue.

From the point of view of high returns on capital and security, tourism enterprises are not particularly regarded as attractive investment avenue. In most types of tourism investments high profits or quick capital gains are quite unlikely because they require large-scale investment in fixed assets and only (small) or normal profits are extractible.

However, in some countries profitability is not the only or main criterion of investment. Many developing countries (including Singapore) are concerned more with the acquisition of foreign exchange earnings. Even if the rate of return in this field may be lower than in other sectors, the "foreign exchange" element may often overshadow that disincentive. It is also possible that the employment generating effects of an investment in tourism may outweigh the rates of return criterion if the nation concerned suffers from high unemployment (or possible high unemployment is otherwise foreseen).

In developing countries when they wish to promote the tourist industry, most of the initial investment is necessarily undertaken by the government. The government provides the essential infrastructure for the industry and attempt to create a favourable investment climate to attract and encourage private investors. Special financial incentives must often be offered to make investment in tourism attractive so as to mobilize capital. This is in line with the earlier finding that private investors usually require quick and high returns for their capital outlay. Some examples of financial incentives could be, preferential rates of interest, credits, subsidies, pioneer status, etc. for potential investors in the tourist industry.

Due to a shortage of capital resources, foreign investment is normally welcomed by many developing countries. Foreign investments may supply some benefits, besides the vital capital which is absent locally, such as expertise in sales promotion, high level hotel management skills and marketing.

It should be stressed that the actual capital accumulation and foreign exchange gain is reduced by the presence of foreign monopoly capitalists such as: airline proprietors, hotel owners, suppliers of imported tourist requirement including building and construction materials, banks, travel agencies wherever they are present. The big hotel chains typically invests directly and set up to operate tourist enterprises themselves. But they may also finance medium and long term loans at fixed interest rates redeemable over a number of years. Sometimes foreign capitalist may participate in the construction of infrastructure such as airports, hotels, roads, resorts, etc.

There is a recent phenomenon which shows that international hotel companies are avoiding ownership of hotels, etc. Instead they favour management contracts or leases of properties from others. They are increasingly making their profits from operation rather than constructing facilities.[57] This has serious economic implications as they become less important as investors. By expanding its operation without involving heavy capital investments and concentrating on management and operation only, it may result in diverting large amounts of income for foreign capitalist executives.

Nevertheless, joint ventures for accommodation investments should be encouraged whereby substantial part of the capital for accommodation facilities may come from local investors both private and public. This may present a business opportunity for persons with limited capital funds (technical problems may emerge when attempts are made by locals to obtain finance for large investments in tourism industry - this is most often noticeable on investment in hotels and catering because of the structure of the industry and the nature of investment).

This industry may also be supported by a whole series of smaller establishments (e.g. small hotels, lodges, dining restaurants, handicrafts industry, etc.) which may prove to be the outlets for small time businessmen or entrepreneurs of a developing country without large capital to invest.

The new trend mentioned above i.e. management contracts (usually a percentage of gross revenue) are economically attractive for the multi-national corporations (MNCS) because they entail linkages with tour operation and reservation system internationally.

What this really amounts to is that the local investors (private or government) are given the majority ownership of the hotel building which is expensive and not easily convertible (immobile) but in accordance with local governmental stipulations requiring such an investment ratio, i.e. as noted earlier, many LDC governments attempted to emphasize on "local majority ownership". The ever manoeuvring MNCS strategically settled for management contracts. In the 1970s many international hotel chains were trading large proportions of their hotel properties yet consolidating and concentrating on maximizing returns from management contracts.[58]

A critical examination of this trend exposes the intricate business deception i.e. the area that is vital where technical expertise or secrets are present such as management are retained and kept intact by the foreign monopoly capitalists (MNCS) leaving the burdensome construction of hotels at the hands of the inexperienced locals thus avoiding risk.

Besides these, there are other economic implications as well. Physical space must be made available for tourism development which demands land use and may conflict with a country's local tradition such as agriculture, farming, market gardening, etc. Generally the tourist industry may avoid central places and instead demand peripheral areas which may conflict with traditional (agricultural) demands. An example of this conflict is seen in Provence, in southern France, where inland villages have been transformed into tourist centres, at the same time market gardening and the cultivation of flowers for the perfume industry have been pushed further inland.[59]

An expansion of tourism in an area often requires increasing acreage which must be opened up for tourists.

There may also arise conflict of interests between local population and tourists i.e. opening up of an area to tourism may provide new amenities for the tourist which may involve loss of amenities (or reduced availability) for the local residents. Consequently the local residents may justifiably resist recreational developments.

Inflation of land prices and real estate is sometimes associated with tourism development. M. Peters stated that,

> If a small country such as Lebanon, with much urban development and considerable speculative appeal for outside capital, needed land for tourism development purposes, there could be inflation in land prices. The development of comprehensive projects will . . . require land currently being used for other purposes and inflated prices could threaten the viability of many projects.[60]

Often speculators move in and aggravate the inflationary trends in land values once they are convinced of a location's potential for tourism development. In such cases, governments may have to take steps in order to control these sometimes dangerous inflationary trends which may follow if unrestricted.

It is inevitable when tourism is encouraged,for the land values to appreciate consistently. Other tourism investments also show strong patterns of appreciation in inflationary times e.g. hotel. In the initial stage the investment requirement for hotel construction is high.

Property may be obtained by large mortgage to be repaid from income (revenue). However, the interest rate and monetary values of this mortgage are fixed at the time of investment.

In the next stage, accommodation rates charged by hotels will often be responsive to inflationary trends. It is usual for management to set aside a fixed proportion of profit (percentage normally). With fixed debt servicing, any inflationary trends that leads to increases in cash flow (e.g. rise in rent, etc.) would lead to greater profit levels as the service costs become negatively related to total revenue. It is not unusual for hotel investors to end up getting higher profit level in their operation as well as having a highly appreciated value for their initial investment.

Socio-Cultural Significance of Tourism

The sociological and cultural impact of tourism have not been studied extensively. Sir George Young in his book "Tourism: Blessing or Blight", had stressed urgently on its need. This area is far from being dealt with seriously even today.

In general, travel experiences can have a profound effect upon the life of an individual traveller as well as upon a society he/she visits. A visitor may be influenced by encountering different cultures and the presence of visitors in a country also may affect the living patterns of the host population. Obviously these interactions need not always be desirable. For example, the resentment by local people toward tourists can be generated by the obvious difference in economic circumstances, behaviour patterns, appearances and other attributes. This resentment of visitors will usually occur in areas where there are pronounced conflict of interests between the tourist and the local populace.

Some of the social impact of tourism are quite apparent on settlement, cultural exchange (perhaps enrichment) and social changes. Due to a lack of a cohesive set of studies, no clear-cut conclusions may be advanced without reserve.

In the area of settlement, tourism has been responsible (directly and indirectly) for the creation of many settlements which never existed earlier. For example, P. Pinchemel states in his book that "tourism has given rise to more new urban developments than industry has done."[61] Small coastal settlements have also grown into flourishing resorts in many other Mediterranean regions. Extensive growth of buildings have also followed tourism growth. Sometimes uncontrolled building of permanent and second homes develop markedly. As a result of the growth of second homes, significant social repercussions in rural areas may emerge. This growth may have both detrimental and beneficial effects. For example, the demand for rural properties may lead to an escalation in the price of cottages and farm workers may be pushed off the land as they become unable to compete in the property market influenced by the urban dwellers seeking "second homes". However, not all rural cottages are flourishing and some "decaying villages" (perhaps because of the migration from the rural areas) may be renovated and improved by this process of incoming urban dwellers. This benefit can be expected to be limited because of the strictly holiday oriented nature of the urban dwellers i.e. it is likely to be occupied only during weekends and holidays otherwise remaining deserted.

As alluded to earlier, facilities and amenities to the local (or permanent) residents may be reduced or limited as a result of greater influx of tourists to a region, town or village. This risk of local inconvenience may lead to conflict between the interests of the local population and the needs of the tourists. Examples are, traffic congestion, crowded public transport (perhaps throughout the day). The streets may become tensely crowded with people and may lead to littering, etc. But careful planning on the part of the tourism authorities may help eliminate potential social tensions. For example, the loss of amenities suffered by those living in the region involved may be compensated (balanced) for by being offered alternative incentives.

Contacts between tourists and the local population may have both beneficial and detrimental cultural effects. Such contacts with people of different races, nationalities and backgrounds are bound to have important cultural significance. S. Medlik stressed that there may occur "cultural exchanges and the enrichment both of those who travel and of those who are at the receiving end."[62] This contact need not always be beneficial to local population as native cultures and traditions may be altered, weakened or destroyed resulting in displaced values and socio-cultural disturbances. This may become crucial when foreign cultural features are "imported" to the detriment of local cultures.

The development of "luxury" tourism in poor countries with low standards of living is likely to create tensions due to the stark economic contrast between the tourist lifestyle and the local inhabitants. Open-abuse on tourists by local residents have been reported occasionally.

Some critics go to the extent of stating that tourism creates a threat to national identity with the imposition of foreign tastes and values upon the tourist receiving countries. Though wages and benefits are not similar to DCS employees, foreign managers often develop (or encourage indirectly) work habits prevalent in DCS into their respective LDCS tourist institutions. The affluent tourists are conspicuously seen as the haves which magnifies the disparity, creating envy and perhaps hatred in the long-run.

Harry G. Mathews notes that in the Caribbean,

> "white visitors are conspicuous even if they try not to be. They often pursue the four "s"s of tourism - sun, sea, sand and sex - with an aggressiveness which seems grossly out of place in a casual Caribbean setting. They wear swimsuits to the supermarket and they make love on the beach. They demand loud rock music and rare steaks. Their local shopping is characterized by a single question: How much is that? even when prices are ridiculously low, some tourists feel compelled to argue."[63]

Most social inhibitions are left at home and tourists may seek exotic and erotic vacations often disregarding morals and etiquette (mannerisms). In some cases, tourists expect the host citizens to be servile and expect material comfort such as air conditioned rooms, familiar luxury food and entertainment at extremely low prices.

Instead of attempting to learn about the new culture and experiencing it, tourists often may expect the host culture to adapt itself to the fancies of their expectations. Depending upon the serious cultural differences, this frictional development may lead to open hostilities between tourists and local population.

It is known that socio-cultural conflict emerges only very gradually depending upon the rate of tourist inflow (thanks to the tolerance of the local populace). Authorities are often able to "convince" the socio-cultural groups by over-emphasizing the gains in economic benefits. When this happens and gradually the tourist sector assumes a major role in the GDP (hence greater dependence) then any major issues between tourists and host population becomes highly delicate and the authorities may be in a dilemma, unable to give up or support one or the other.

Tourism may also create social, psychological and moral problems for the host countries. Tourist generally travel to have a "good time" which may bring in questions on its pervasiveness on moral and social aspects of the host population. Several tourist countries have been reputed to contain sexual paradise having well developed prostitution industries. For example, the Caribbean has earned a reputation in the region as having a well organized and developed male prostitution industry. The industry has racial dimension in that it thrives on the alleged desires of white female tourists to have sex with black males. It is suggested that male prostitution proliferates as a consequence.

> Without exaggerating the situation, an amazingly large number of Canadian and American women, married and single, do travel to the Caribbean with black sex more their goal than a suntan. They get both. The women frequently arrive with introductions to specific beach boys from satisfied customers.[64]

Though no complete studies have been undertaken, there are suggestions that homosexuality has also increased. Nigel Barrow (in Barbados) states that homosexual contacts are discussed openly between white male tourists and "black Caribbean talent".[65]

Obviously with prostitution and homosexuality proliferating, related ills can be expected to accompany their growth e.g. pimps, theft and robbery, gangsterism, drug abuse, gambling and venereal disease, etc. Hong Kong, Bangkok, etc. have been quoted to have similar growth in vices.

Other impacts of tourism on local populace may occur in numerous ways. For example, the tourist-style food consumption pattern may pervade the local residents taste. This would become a crucial problem if those "food" are imported which causes outflow of local income (in the form of foreign exchange which incidentally might have been the main reason for the development of tourism industry itself) and will affect the balance of payment figures if the impact were substantial. However, this need not be one-sided exclusively It is possible for incoming tourists to bring back with them habits and tastes of the visited countries as Medlik states,

> "when the tourist comes in contact with the place he visits and its population, a social exchange takes place. His social background affects the social structure and the mode of life of his destination: he is in turn affected by it and sometimes

> carries back home with him new
> habits and ways of life."[66]

There is no doubt that the rapid growth of international tourism is inevitably going to have important cultural implications wherever tourism industry is booming. This will be more so if the local populace is culturally divided and tourists are attracted to these cultural differences. But one should not be ignorant and treat culture as a unitary reality. Tourism should not be automatically condemned and seen as an intrusion into a culture. Studies should include larger social units of a society and its changes. Exclusive small scale studies (e.g. particular villages) shouldn't be extended to generalize unnecessarily if the society at large is more than unitary in structure and function.

III. THE TOURIST TRADE AND SINGAPORE

With the general discussion of the nature, determinants and structure of international tourist industy, this section intends to focus on the recent development of Singapore's tourist industry and the response of investors to an apparent boom in tourist trade particularly after 1965. It is divided into 2 subsections. The first deals with Singapore's general economic structure and its changes. The second analyses the tourist industry in Singapore.

Economic Historical Comment

In Singapore, the local capital movement was generally confined to the tertiary sector (i.e. trade and services), the reason being the island's historic dependence and specialization in this sector since colonial days. Singapore became independent from Britain in 1959 and became a republic in 1965 after withdrawing from the Malaysian federation.

Historically, Singapore has been developed as a commercial, financial and shipping centre, initially to support British mercantile interests in this region assuming the major role as port and trading centre of S.E. Asia. Particularly before 1965, its hinterland (i.e. neighbouring countries) specialized in agrarian and extraction (tin mining, rubber) activities. Singapore also served strategically as the main logistic and operational base for British military operations in the Far East. Consequently the economy developed a structure with a skewed sectoral distribution of activities concentrating on the provision of services for exports (entrepot) with the labour force diverted to this sector.

An important aspect of tertiary capital investment in Singapore has been in real estate land speculation, buying houses for rent or resale, building of private homes, construction of private middle class housing estates and large scale construction of office blocks and hotels. About 35% of the local private capital is invested in real estate which is generally regarded as safe and profitable. Basically this investment performs a dual role. First, it acts as an outlet for speculative capital. Secondly, it is a means of maintaining fixed capital which would appreciate in value in the long-run. Such speculative investment in land and building however, has been an unstable affair swaying to extremes and often resulting in wastage of capital and personal loss for investors.

When transportation and communication are included (Table 1), the tertiary sector (service industry) of the economy accounted for about 70% of the labour force employed during the forties and fifties. In this period, though the manufacturing sector was the third major industrial group growing in the fifties, its rate of increase was inadequate to induce any dramatic change in the economic structure.

Table 1: Labour Force Estimates in Singapore by Sector 1947 & 1957

	Thousand Persons		Shares in Total Labour Force (%)		Percent of Change
	1947	1957	1947	1957	
Agriculture	25.5	29.3	7.1	6.2	-0.9
Mining & Quarrying	1.2	1.6	0.4	0.4	.0
Manufacturing	58.9	76.8	16.5	16.3	-0.2
Construction	9.4	22.0	2.6	4.7	+2.1
Utilities	0.8	4.0	0.2	0.8	+0.6
Tpt & Comm	52.9	49.4	14.8	10.5	-4.3
Commerce	83.0	135.2	23.2	28.6	+5.4
Services	110.4	148.3	30.9	31.4	+0.5
Other	15.4	5.3	4.3	1.1	+3.2
TOTAL	357.5	471.9	100.0	100.0	

Source: Census of Population 1947 & 1957, Singapore

Besides, manufacturing in the fifties was characterized by small establishments mainly household units and backyard repair and service units utilizing little capital and with low productivity. As a result and in terms of value added, the increase between 1947 and 1957 shown above, was likely smaller in real terms. Most of the manufacturing units were also related to the entrepot trade e.g. rubber processing (i.e. initial conversion to sheets) which has low value added, consumer industries protected from foreign competition such as food canning and preserving, wood, rattan and cork, small scale printing and publishing.

The period between 1945 and 1957 showed little structural changes in the economy particularly in the percentage distribution of the various sectors. Entrepot trade was expanding rapidly forcing the service industry to respond to its growth. It is apparent that during this period the services provided by Singapore to foreigners in transport, financial, trading and as military base generated the incomes and provided the necessary foreign exchange to cater to the state's high import requirement.

By 1959/1960, about 1/3 of the aggregate output of the economy was accounted for by the traditional export sectors. The traditional entrepot trade included: trading function of buying and selling, storage and bulk-breaking, also slightly sophisticated services as grading, financing shipping, ship bunkering, processing and refining of crude raw materials and the servicing of British military operations.

Table 2: 1959 Gross Domestic Product - Singapore

Sector	GDP	
	$Million	% of Total
Agriculture & Fishing	121.0	6.2
Manufacturing	170.2	8.7
Construction	40.3	2.0
Utilities (electricity, water, gas)	45.5	2.3
Entrepot Trade	370.0	18.8
Domestic Trade	254.0	12.9
Ownership of Dwelling	84.6	4.3
Gov't Services	110.4	5.6
British Military Services	271.0	13.8
Tourism	24.0	1.2
Other Services*	477.0	24.2
GDP AT FACTOR COST	1968.0	100.0

*Other Services Include: Transportation, Storage, Communication, Finance and Insurance, Professional Personal and Business Services.

Source: Dept. of Statistics, S'pore 1960.

Singapore's position as a trading and commercial centre depended heavily on the economic primitiveness of its hinterland countries (present day Thailand, Malaysia and

Indonesia). From 1957 however, many of Singapore's protected and "guaranteed" hinterland began gradually developing local trade facilities and other entrepot services substituting Singapore's facilities. Consequently, Singapore's role as trading and entrepot centre in S.E. Asia was gradually undermined and headed for the inevitable decline. The process was negatively correlated with any rapid economic transition of the neighbouring countries (i.e. industrialization and self-sufficiency in tertiary sector).

This inevitable decline was fortunately made more gradual as the S.E. Asian countries did not achieve rapid transition during the 1960s which made it possible for Singapore to maintain itself as a vital trading and entrepot centre. Heavy military expenditure committed by Vietnam and Thailand helped to prolong Singapore's traditional role. However, it became apparent that these immediate "temporary aids" could not be depended upon for providing the necessary stimulus to a sustainable economic growth in the future (i.e. late sixties and after).

By the early sixties, four sectors contributed to over 75% of the GDP. They were (a) Trade sector - entrepot trade and domestic trade including restaurants, hotels, hawker stalls, sale of agricultural livestock and manufactured goods, (b) Manufacturing (light manufacturing and low value added), (c) transportation and communication and, (d) financial and business services. During the fifties, the trade sector was the most important, accounting for over 40% of GDP.

Among these main areas of economic activities in Singapore, local or domestic capital was channeled into the trade sector (retail, wholesale, entrepot, real estate, etc.). Whereas foreign capital gradually became concentrated on manufacturing and services industries such as banking, communications network, etc.

Unfortunately unemployment increased rapidly up to 1966. Between 1946 and 1957, Singapore's economic growth was sufficient to absorb the rising labour supply. Rapid growth in labour supply after 1957 made the unemployed figure to increase rapidly to 9.2% (53,000) by 1966. In 1957 the unemployed figure was 4.9% (24,000). The main group to be affected by unemployment were the newcomers to the labour market. In 1957, this group represented 1/3 or 8,000 of the unemployed. By 1966, the newcomers represented 54% (29,000) of the total unemployed. The implication obviously, was that the economic growth experienced by Singapore during the 1957-1966 period was inadequate to absorb the fresh entrants to its labour force making unemployment a serious problem. Between 1957 and 1966, annual growth rate in real product was 6.7%, yet this was only able to induce 1.7% growth in employment. It became evident that to induce 1% growth in employment, it required a 4% growth in income with the given economic structure. The labour force was growing at about 3.6% per annum in the sixties. To absorb the labour force, the economy had to grow at over 14% if it were to reduce unemployment significantly.[67]

The major economic problem in the mid-sixties for Singapore was to increase the productivity and employment simultaneously so as to change the slow economic growth rate and reduce unemployment. The entrepot economy was gradually losing its importance making it an unlikely contender as a sector to help absorb the then existing backlog of unemployed plus future annual labour increments in the economy.

The situation was accentuated by the declaration of Britain to terminate the operation of its military base in Singapore by 1971. This entailed a further supply of labour to the existing labour problem plus a potential reduction in GDP by this sector. Structural transformation became an urgent necessity by the mid and late sixties. With the decline in the entrepot trade and the planned British withdrawal, alternative sources of crucial foreign exchange earnings were desperately sought for.

Unfortunately, its limited domestic market and narrow resource base made Singapore's economy heavily dependent on the foreign sector. In September 1963, Singapore attempted to gain a larger economic domestic market through political merger with The Federation of Malaysia. The federation initially consisted of West Malaysia (Peninsula Malaya), East Malaysia (Sabah and Sarawak from Borneo Island) and Singapore. But in August 1965, Singapore was forced to leave the federation (political reasons) and became an independent sovereign nation republic with its basic economic problems still intact.

The authorities without other practical alternatives geared their development strategy towards industrialization catering to the export (foreign) market. This attempt to diversify the economy which depended heavily on the traditional entrepot trade and service sector would not alter the dependence on the foreign sector. However, entrepot-manufacturing (light industries) activities entails a reduction in the fluctuations that would otherwise be present in an exclusively entrepot re-export trade.

Even during the fifties, Singapore's per capita export was much higher than other S.E. Asian countries. As a relatively urban state, Singapore possessed the advantage of not inheriting from colonialism a large agricultural sector which usually has low productivity, high population pressure and backward technology which together prove to be the main obstacles for general economic development. The advantage of having a high level of per capita exports was maintained and expanded over the years.

Entrepot-manufacturing involves the importation of raw materials for industrial fabrication whereas entrepot-trading involves mainly the transhipment role and/or processing of raw materials for re-export without much value added. The former invariably creates greater economic gains and would provide a firmer base for future economic growth. It is also somewhat less vulnerable to economic fluctuations when compared to a sheer entrepot-re-export-trade sector.

The transition necessitated the authorities to provide suitable socio-economic infra-structure. The development strategy was "forced" to turn towards a concerted industrialization program. A wide range of industrial incentives were introduced for investors (for both foreigners and locals) and simultaneously various schemes to develop technical and managerial skills together with facilities for training and disciplining the labour force were instituted.

The result was the rapid rise in real output in the late sixties which increased the average growth rate for the decade (1960-1970) to 10%. The GDP grew from $2,050 million in 1960 to $5,805 million by 1970 and to $19,590 million by 1979. The real per capita income grew rapidly doubling between 1960 (S $1200) and 1970 (S $2,600) and reaching an estimated S $6,515 by 1979.[68]

Population growth (natural increase) declined from 3.3% in 1960 to 1.7% in 1970, dropping to 1.2% by 1979.

Throughout the 1950s, population growth rate was high with an average of 4.8% per year but after 1957/58, the rate started to show a decline. The official policy of population control began effectively in 1967 and birth rate has declined from 37 per thousand in 1960 to 17 per thousand by 1979. The infant mortality rate at 35 per thousand live births in 1960 dropped to 13 per thousand live births by 1979.[69]

Unemployment declined from 9.2% in 1966 (4.9% in 1957) to 6.1% by 1970 and reached 3.6% by 1978. Labour absorption increased from an average 1.6% between 1957-1966 to 5.6% from 1967-1970 and to over 8.4% between 1970-1978. It is apparent that there was dislocation in the labour market because of the structural transformation i.e. though active unemployed (those looking for job and able) were present, the authorities were forced to increase immigrant labour to sustain economic growth.

Gross capital formation particularly in manufacturing and construction were undoubtedly the main stimulus to the rapid economic growth achieved. As far back as 1961, the official policy was to raise as quickly as possible the ratio of Gross Domestic Fixed Capital Formation to GDP from a low 14% in the early sixties to 30% by 1970 in real terms. This ratio has been maintained around 30% in real terms in the seventies.[70]

Table 3: Labour Force and Employment Estimates, Singapore

	1947	1957	1966	1970	1978
Labour Force ('000 persons)	358	472	577	693	991
Employed Persons ('000 persons)	na	456	524	651	955.3
Unemployed Persons ('000 persons)	na	23	53	42	35.7
Unemployed as % of labour force	na	4.9	9.2	6.1	3.6
Average Annual Rate of Increase in Labour Force (%)		2.8	2.3	4.7	6.3
Average Annual Rate of Increase in Employment		2.8	1.6	5.6	8.4

Source: Census Reports 1947 & 1957; Sample Household Survey Report No. 1, 1966. S'pore Pop. Census - 1970 & 1978.

Capital formation rates are often regarded as an important general index of the development stage of economies especially those in transition. Capital formation plays a crucial role in the growth and diversification of industry as well as in the modernization of the agricultural sector (when present) during the transitional stage. Exports and foreign capital inflow provide foreign exchange and enhances savings potential. But if the labour force is to be equipped with modern producer goods, they must be converted into capital formation.

A very high level of capital inflow throughout the late sixties and seventies enabled Singapore to raise its domestic capital formation rate. The large gain in her gross fixed capital formation is consistent with Singapore's economic growth performance.

Inflation rate has been generally low except for the 2 years 1973 and 1974, when the world oil price increase had its immediate effect in Singapore's economy. The consumer price index increased on an average annual rate of about 1.2% between 1960 and 1970. Between 1971 and 1979, it was approximately 2.4% with the exception of 1973/74 period when price increase averaged over 20% over the 2 year period. The price increase was highest in manufacturing and construction industry although the overall (inter-sectoral total) price increase was less than 5 percentage points over the entire 10 year period 1961-1970 and 10 percentage points during the 1970-1979 period.[71]

The price stability may be attributed to several factors. The government was able to restrain wage and salary increases by introducing extremely restrictive legislations to control wage increases and strike activities. In fact, the government penetrated into the trade union movement which enabled it to apply its policies effectively. In addition, the Monetary Authority of Singapore (MAS) which controls the money supply of currency tied its supply to international reserves which drastically reduced fiduciary issues. Another restrictive influence on domestic money supply is the conservative policy of banking system of public financing to balance annually the receipts and expenditures. Actually, total money supply increased at a slower rate (8.1% per annum) than expenditure on gross domestic product during the period 1961-1970. As for the period 1971-1979, the total money supply increased slightly more than the expenditure on gross domestic product i.e. 15.7% and 14.8% respectively.

Though Singapore has not caught up with Japan, its economic growth rate has overtaken other fast growing economies such as those of Hong Kong, Taiwan and S. Korea. Together with the population growth rate decline, Singapore's economic growth assisted by manufacturing and the tertiary industries (including the travel/aviation industries) have led the republic to achieve two digit growth rates in the seventies.

<u>Structural Change 1960-1970; 1971-1979</u>

All sectors grew on 1960-1970 and 1970-1979 periods with the exception of the military sector (related to British military withdrawal) Tables 4 & 5. The largest contribution to output growth was made by the manufacturing sector in both periods. By 1970, this sector was second only to the Trade Sector in the overall sectoral distribution in the GDP.

Table 4: GDP By Industry, Selected Years Sectoral Shares in Total Output Million Dollars

	1959		1966		1968		1970		1972		1974		1976		1978		1979	
		%		%		%		%		%		%		%		%		%
Agri & Fishing	121.0	6.2	101.5	3.0	121.3	2.8	134.6	2.3	160.6	2.0	229.3	1.8	256.8	1.8	273.7	1.6	294.0	1.3
Quarrying			11.0	.3	14.7	.3	19.8	.3	28.5	.3	33.6	.27	56.2	.4	38.4	.2	44.3	.2
Manufacturing	170.2	8.7	521.6	16.0	769.7	17.8	1186.5	20.4	1853.5	22.7	3084.6	24.6	3611.5	24.8	4620,9	26.3	5438.1	27.8
Utilities: Gas, electricity, water	45.5	2.3	78.4	2.3	117.2	2.7	149.1	2.6	185.0	2.3	231.6	1.8	273.7	1.9	339.5	1.9	402.7	2.0
Construction	40.3		187.0	5.9	397.0	6.8	692.0	8.5	929.3	7.4	929.3	7.4	1205.1	8.3	1122.2	6.4	1225.4	6.2
Trade: wholesale retail Rest. Hotels	624.0	31.7	961.7	29.0	1286.4	29.8	1639.2	28.2	2067.2	25.3	3588.3	28.6	3815.2	26.2	4631.0	26.4	5070.7	26.0
Entrepot Trade	370.0	18.8																
Domestic Trade	254.0	12.9																
Transport & Commn.			359.8	10.8	475.1	11.0	629.8	10.8	924.8	11.3	1338.0	10.7	1795.5	12.3	2456.4	14.0	2643.4	13.5
Services Financial and Business			275.6		366.4		815.8	14.1	1232.3	15.1	1833.8	14.6	2088.8	14.3	2423.8	13.8	2743.4	14.0
				13.4		13.4												
Ownership of Dwelling	84.6		169,7		211.8													
Public Adminstration	110.4	5.6	89.2	2.7	137.0	3.2												
							519.9	9.0	624.1	7.6	758,5	6.0	929.9	6.4	957.2	5.4	1048.1	5.3
British Military Service	271.0	13.8																
Other Services	477.0	24.2	480.6	14.4	509.4	11.8												
Tourism (Net)	24.0	1.2	71.9	2.2	128,1	3.0	248.0	4.3	347.2	4.3	633.7	5.0	749.5	5.1	961.7	5.4	1096.2	5.6
Less: Imputed Bank Service Charge			51.7		71.3		110.2		155.1		341.2		467.4		600.7		77.9	
Add: Import Duties			146.3		121.1		175.4		195.7		223.1		260.4		340.2		355.3	
TOTAL	1968.0		3330.7		4315.0		5804.9		8155.8		12543.2		14575.2		17569,3		19589.7	

Source: Yearbook of Statistics S'pore - Various Years 1960 . . . 1979.
W.I. Abraham and Peter C.K. Tan, Pp. 42-48.

Table 5: Main Sectoral Contribution to Economic Growth (1968 Prices)

	Change 1960/70 10 years		Change 1960/67 7 years		Change 1967/70 3 years		1970/74 4 yrs.	1975/79 5 yrs.	1977/79 2 yrs.	1970/79 9 yrs.
	% Age Contri-bution	Average Annual Growth Rate	% Age Contri-bution	Average Annual Growth Rate	%Age Contri-bution	Average Annual Growth Rate	Average Annual Growth Rate	Average Annual Growth Rate	Average Annual Growth Rate	Average Annual Growth Rate
Agri & Fishing	0.7	1.7	1.5	2.4	1.0	3.6	1.35	3.5	1.1	2.5
Construction	6.6	19.5	7.0	19.5	6.2	19.6	7.2	5.0	.05	6.0
Manufacturing	24.9	17.9	25.0	17.0	24.6	20.1	14.3	10.7	12.4	13.5
Trade	30.7	9.5	21.0	5.7	39.8	18.7	10.6	6.5	7.1	7.7
Transport & Communication*		11.9		7.8		16.0	16.5	14.9	14.2	13.1
Financial & Business Services*		13.0		9.2		16.9	13.8	8.1	9.3	12.4
Tourism	7.4	24.5	5.9	21.6	8.8	30.8	26.8	13.1	17.7	20.0
Entrepot trade	7.2	4.8	1.5	0.3	13.0	15.9	14.9	18.3	22.8	18.9
All Economic Sectors	100.0	9.8	100.0	8.0	100.0	13.9	11.2	8.3	8.9	8.4

* For both sectors, years computed are as follows: 1964-67; 1967-70, 1964-70.

Source: Yearbook of Statistics - S'pore - Various Years & W.I. Abraham and Peter C.K. Tan, Pp. 42-48.

Since then, it has maintained its position (or improved its relative position) as the second most important sector in the economy.

Above average growth rates were observed in the 1960-1970 period in the following sectors: tourism, construction, manufacturing, financial and business services, transportation and communication in that order. The trade sector grew at an above average growth rate between 1967-1973. Though all sectors grew during the seventies, only manufacturing, tourism, transportation and communications and financial and business services sectors were growing consistently at an above average growth rate. In fact, even the financial and business services sector grew slightly below the average rate between 1975-1979 period (Table 5).

Singapore pursued an aggressive industrialization strategy during the second half of the sixties and seventies. As a result, the high consistent growth rate in this sector made it the leading growth sector in the economy which enabled the authorities to achieve the dual objectives of rapid economic growth and full employment.

The construction industry grew in size and relative share in the 1960-1970 period which enabled the government to expand employment opportunities through short-term policies such as: large-scale land reclamation, urban renewal, building of satellite towns, etc. This also assisted the economy to increase rapidly its ratio of Gross Domestic Fixed

Capital Formation to GDP to about 30% in real terms by 1970 and after.

Although the earnings from the provision of entrepot services were stagnant until 1967, the economy benefitted from several transitional forces which contributed to the increase in foreign trade. E.g. end of the Indonesian Trade boycott era, disruption of diplomatic relations between Indonesia and China, greater American involvement in Vietnam and the tremendous expansion in world trade from the late sixties. Fortunately, these external events had strengthened the weakening entrepot trade sector during this period. Furthermore, the domestic demand for goods and services have been increasing continuously throughout the two decades, although the relative share of private consumption expenditure has declined. The relative share had dropped from a high of 85% in the early sixties to about 64% by 1979 (Table 6). This increase in absolute demand for goods and services can be explained by the increase in the per capita income and the rapid increase in population (Table 7). Growth in both aspects encouraged demand for goods and also such services as health, education, public utilities, etc.

When the contributions of the various industrial groupings are analyzed, a few major structural changes are apparent. Manufacturing and tourism sectors increased their contributions in the sixties together with construction,

Table 6: Private and Government Expenditure on Gross Domestic Product (1968 Prices)

Year	1964	1966	1968	1970	1972	1974	1976	1978	1979
Total expenditure on GDP	2836	3388	4315	5580	7120	8445	9447	11074	12090
Private Consumption Expenditure	2382 84%	2650 78.2%	3180 73.6%	3873 69.4%	4815 67.6%	5533 65.5%	6115 64.7%	7112 64.2%	7668 63.4%
Government Consumption Expenditure	284 10%	353 10.4%	449 10.4%	672 12.0%	891 12.5%	941 11.1%	1015 10.7%	1252 11.3%	1263 10.4%

Source: W.I. Abraham and Peter C.K. Tan, Malayan . . . ., Pg. 42-48.

Table 7: Population & Per Capita Income, Singapore (Current Dollars)

Year	1964	'65	'66	'67	'68	'69	'70	'71	'72	'73	'74	'75	'76	'77	'78	'79
Pop. of Singapore ('000)	1842	1887	1935	1978	2013	2043	2075	2110	2147	2185	2219	2250	2278	2308	2334	2363
Per Capita Indigenous GNP (S$)						2189	2405	2761	3206	3849	4491	4798	5148	5574	5989	6515

Source: Yearbook of Statistics. Dept. of Statistics. Singapore. Various Years and Population Census 1970.

government services, financial and business services, transport and communications. The trade sector however, maintained its prime position. Contributions from agriculture, entrepot trade (besides the termination of British military services by 1971) declined through the late sixties and seventies. By 1979, the manufacturing sector almost equalled the proportion of the trade sector and predictably it can be expected to be the major sector in the eighties. By mid-seventies, the major growth vehicles in the economy were manufacturing, tourism, financial and business services and transportation and communications sectors. Although other sectors grew as well, they were less dynamic.

When combined with the aviation industry, tourism has overtaken all the other sectors, including manufacturing as the most dynamic growth sector in Singapore's economy.

As noted earlier, Singapore's economy has been traditionally strongly influenced by external trade. As a result, Singapore's foreign trade ratio has been high. It was close to 3 in the early fifties, reflecting a heavy dependence of the economy on external trade.* However, by 1970 it had dropped to 0.98. This is still quite high when

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*Foreign Trade Ratio = $\frac{(x + m)}{(GNP+ m)}$[72] i.e. The ratio of Aggregate exports (x) plus imports (M) to national income or Product GNP plus Imports.

compared to other countries e.g. West Malaysia 0.6; Hong Kong 0.8; Japan 0.3 and U.S.A. 0.1. In 1979, the foreign trade ratio rose to 1.2 due to various economic and political changes in the world and regional economies. The fact is that the foreign trade has been an important determinant of economic growth and fluctuation in the island's economy.

Until 1971, re-exports (transhipment trade) was the major component of the export trade in Singapore's economy. Since 1972, domestic exports have become the major proportion of total export trade, while the re-export sector have not grown as rapidly (Table 8).

Table 8. Exports (Million $) Singapore

Year	Total Exports	Domestic Exports	Per cent(%)	Re-Exports	Per cent(%)
1969	4,740.7	1,675.5	35.3	3,065.2	64.7
1970	4,755.8	1,832.2	38.5	2,923.6	61.5
1971	5,371.3	2,373.4	44.2	2,997.9	55.8
1973	8,906.8	4,412.2	49.5	4,494.6	50.5
1975	12,757.9	7,540.4	59.1	5,217.5	40.9
1977	20,090.3	11,651.8	58.0	8,438.5	42.0
1978	22,985.5	13,226.2	58.0	9,759.3	42.0
1979	30,940.1	18,200.4	58.8	12,739.7	41.2

Source: Yearbook of Trade Statistics Singapore, various years.

(a) Manufacturing

The growth in manufacturing can be said to have had the most dynamic influence on Singapore's economic history during the last two decades. During the industrialization period, two characteristics are apparent. Firstly, the value added rose at a faster rate than employment resulting in increased productivity i.e. gain in output per worker. In a study by Foong Yin Koh, it was noted that output per worker increased in every industrial group except textiles, apparel and leather between 1960 and 1970. A follow-up study showed that in the seventies, these groups also joined other manufacturing sectors in productivity growth. The obvious reason for these specific industries to have had a lower productivity increase earlier was because the textile, apparel and leather industries were established in the late sixties which meant that during this period, they were at the initial low point of the earners curve.

The second characteristic shows that the gains in productivity were not matched by wage increases. This implies that profits or returns to capital increased more rapidly than labour share. Allowing a 1.5% annual increase in living cost in 1960-1970 period and a 3% increase in 1970-1979 period (with the exception of 1973-1974, when inflation averaged almost 21%) real wages rose less rapidly than value added in every industrial group except in the beverage

Table 9: Growth in Singapore's Manufacturing Industries (Average Percent Growth)

Manufacturing Industries	Output	Value Added	Direct Exports	Employ -ment	Wages
All Manufacturing (1960-1970)	23.6	22.6	24.9	16.0	19.5
All Manufacturing (1970-1979)	25.9	25.0	29.2	18.6	21.3

Source: Dept. of Statistics. Census of Industrial Production, 1960, 1970, 1975, 1978 and 1979.

category where wages rose higher than value added. Incidentally, this is also the only category to show a decline in export sales.

As Singapore's economy is dominated by foreign capital in the manufacturing sector, what this implies is that a larger share of the increasing output has been siphoned off to the foreign sector. In the early sixties, industrial growth was dependent on the expansion of the domestic market. Import-substitution industries grew with the aid of government tariffs and quotas. In fact total domestic sales of industrial product made up 64% and 70% of gross sales in 1960 and 1967 respectively. Despite generous fiscal incentives, attempts to attract foreign capital was limited during this early period. When various experiments of political mergers with Malaysia, etc. failed, the limited growth potential in production for the domestic market became clear. Major difficulties were encountered when attempts were made at entering into the international market.

By 1967, the authorities were "forced" to concentrate on export-promotion. Extra incentives were provided through the "Economic Incentives Expansion Act" to attract export-oriented industries.

A few examples include:

(i) tax exemption on increased income resulting from the expansion of productive capacity,

(ii) double reduction of allowances on overseas sales promotion expenses, and

(iii) tax concessions on interest liabilities arising from foreign loans utilized for the purchase of productive equipment as well as on payments for foreign royalties, technical assistance, research and development.

Consequently, firms which had relevant know-how and established marketing channels from DCS were attracted. Since 1967 and particularly among new industries, a larger proportion of production were meant for foreign markets. Between 1960 and 1966, industrial exports had an average growth rate of about 18% per annum. Between 1967 and 1970 industrial exports increased at an unprecedented annual rate of 44%. Between 1970-1974, the average annual growth rate was over 36% which then dropped to 25% during the 1975-1979 period. In fact, in 1975 a negative growth rate was observed for the first time since the early sixties. Development of overseas markets (DCS especially) were crucial for maintaining the rapid growth rate of the manufacturing sector in the seventies. During this decade the developed countries (as well as others) became more protectionist in their trade policies making it all the more difficult for Singapore to penetrate effectively.

Capital per worker employed in manufacturing industries rose from $6,700 in 1960 to $8,900 in 1967 and to 11,200 by 1972. This implies that most of the new manufacturing industries required less labour and used production methods which were capital intensive. (Between 1960 and 1972, a study shows that there was an increase in the capital-employment coefficient in every industry except in the beverage and paper categories).

The net increase in employment between 1960 and 1967 in the manufacturing sector was less than 31,000. This was only slightly more than the net addition of labour supply per year during the period.

In 1968, a strict labour legislation was introduced which curtailed wage increases and increased industrial work hours. Despite high unemployment in 1967, rising wages and industrial disruptions (strikes and slowdowns) proved to be a strong disincentive to potential private investment (both local and foreign) which necessitated some government intervention.

The Employment Act of 1968 stipulated a standard 44 hour workweek, reduction of annual paid public holidays to 11 days from 16, reduction of sick leave provisions from 28 to 14 days, strict control of overtime work. Amendments to the Industrial Relation Act effectively reduced the power of labour unions, brought collective bargaining under supervision and made industrial arbitration compulsory.

Perhaps at the expense of labour's discontent with wage-freeze, extended work hours, etc., the rate of expansion in industrial exports rose rapidly from 17.5% in 1966-67 to over 57% in 1968 and remained relatively high throughout the seventies. Employment in manufacturing industries increased by 68,000 from 1968 to 1970 (3 year period). This was over twice the number of total jobs created by this sector during the 1960-1967 (7 years) period which was 31,000.

Total foreign investment in manufacturing industries increased at an annual rate of 46% from 1968 to 1970 (3 year period). Foreign capital outflow from Hong Kong and Indonesia flowed into Singapore and contributed to the expansion in industrial activity in 1968 and 1969. The major foreign capital came from U.S., Western Europe (U.K., Netherlands, Switzerland and West Germany) and Japan enabling rapid growth in manufacturing industries. From 1970-1979, foreign investment into Singapore has been growing at an annual growth rate of 20.4% in real terms (at 27.2% in nominal terms).[73]

Between 1965-1978, Singapore attempted (and succeeded) to overcome the unemployment problem by attracting manufacturing and other investments of almost any kind. Transnational (MNCS) were encouraged to invest extensively. Wages were deliberately kept down to allow low-value added industries using lots of cheap labour to operate at large profit levels, obviously at the expense of potential labour share.

Unlike many other S.E. Asian countries who insisted on some local participation in new ventures, Singapore allowed foreign subsidiaries to be established freely in almost all areas of economic activity. Today transnationals are expanding at a much slower pace as their optimism is tempered by protectionist sentiments in the old industrialized countries. In the last decade the transnationals (MNCS) in fact dominated Singapore's two-digit growth experience. This foreign source could no longer continue as the DCS from where the transnationals originate, have been plagued by long-term economic problems of their own.

Between 1973 and 1976, evidently there was a decline in real terms of investment commitments particularly foreign investments in Singapore. This prompted the government to reconsider the economic strategy. The main channel through which the thrust of future economic growth for Singapore cannot be depended solely upon the manufacturing sector. Transportation and communication, financial and business services and travel sectors seem to be other contenders in the future as can be seen in their growth during the last decade. However, this is not to say that manufacturing is less important. It is undoubtedly the major component of

Singapore's GDP both at present and will be in the future. This argument also applies to its contribution to employment opportunities.

But due to the rising labour costs and growing protectionism in overseas markets, the manufacturing sector is finding itself in a tight situation even to maintain an annual growth rate in output of 6 to 8 percent. This is the range the planners have suggested for the whole economy in the next few years. In the four years 1974-1977, value added in manufacturing increased by 25%, or less than 6% annual compound growth. On the other hand, the transportation, storage and travel sectors which accounted for 16.6% of GDP in 1977 had its value added grown by 46% during the same 4 year period. Its importance becomes greater, if account is taken of the value added by restaurants and hotels which are included separately under "wholesale and retail trade, restaurants and hotel" category.

According to GDP figures, "the wholesale and retail trade, restaurants" sector had declined since 1974 from 29.5% of GDP to 26.4% in 1978. However, movements of goods, vessels, aircrafts and tourists have been continuously on the increase implying that the transportation and travel sectors are assuming greater role in the economy. These sectors together have grown from 13.7% of GDP in 1974 to 17.5% in 1978.[74]

(b) Agriculture

Agriculture sector assumes a minor role in the economy. It is basically due to the scarcity of land hence the nation lacks a rural agricultural base.

Natural resources are very limited given the limitation in land area - 226 square miles. The greatest impact of commercial and urban growth has been on agricultural land. The limited land has to compete increasingly with the 3 different sectors of the economy. Generally the 3 sectors also divide the total land area i.e. commercial, industrial and agricultural sectors. Evidently the agricultural sector is gradually losing ground in as far as land area is concerned. Various areas formerly in agricultural use are giving way to industrial and commercial developments. Only a small proportion of the land area is under farming.

Table 10. Proportion of Fishing & Agriculture in Singapore's GDP.

Year	Percent of GDP	Year	Percent of GDP
1959	6.1	1972	2.0
1964	3.0	1973	2.1
1965	2.9	1974	1.8
1966	3.0	1975	1.9
1967	2.8	1976	1.8
1968	2.8	1977	1.8
1969	2.6	1978	1.6
1970	2.3	1979	1.5
1971	2.3		

Source: Yearbook of Statistics S'pore, Dept. of Statistics - various years.

Singapore has little resources that may be used as inputs into its manufacturing industry. Though tin-ore is commercially exploited, it is far from plenty. Most of the quantities located are not commercially viable for further exploitation. Even rubber plantations and forestry resources are very limited and with the encroachment of commercial and manufacturing sectors into the forest areas, more and more forest lands are being transformed for these purposes. There has been public concern over the issue of deforestation and its possible ecological effects.

The very few farms that exist are mainly small in size, seldom exceeding 5 to 10 acres. These small farmers (often part-timers) produce mainly cash crops such as vegetables, root crops, beans, etc.

Consequently, the agricultural sector has been small and employment in this sector has been quite insignificant. In fact, both the relative size of the agricultural sector and employment in this sector have declined in proportion and in importance. In the early sixties over 150 km (1/4 of the land area) was under cultivation and farming. Today, total cultivated land is about 90 km (less than 1/6 of total land area of 586 sq. km.). More than 50% of which are planted with rubber and coconuts. The output and prices of both rubber and coconut have been declining in the last decade. As the pace of industrialization and urbanization continues to increase rapidly, it is pushing the limited cultivated land to marginal areas.

Today, intensive vegetable cultivation, pig and poultry farming are other major agricultural produce. Although the total proportion of land area under agriculture and its percentage labour force has declined, agricultural output has been increasing quite consistently though moderately. Apparently, this implies a gain in productivity in this sector. This has been achieved by the increasing use of sophisticated techniques (e.g. hydroponics) and by emphasis on more land-intensive agricultural pursuits. Greater emphasis on hydroponic farming (particularly vertical hydroponic system) wherever possible has proved to increase yield per unit area. Cauliflower, broccoli, soybean, cantelope, leafy vegetables, lettuce, cabbage, etc. are some examples of produce in this farming method.

Singapore is self-sufficient in pork, poultry meat and eggs. Fresh vegetables and fish were produced at 36.6% and 26.5% of local consumption need respectively. Recently some of these products have been exported e.g. in 1978/1979 over 8 million eggs were exported (total production was 405 million eggs).[75]

The farm population is about 150,000 or about 7% of the total population. It is estimated that 26,300 full time and 13,600 part-time jobs are provided by the farming sector in the economy in 1978.

Rural poverty does not exist due strongly to the fact that members of the small family farms are employed in other industries. Most are only engaged in agricultural production on a part-time basis. There is no apparent rural-urban income disparity as such because in the farming areas, modern infrastructures and social amenities (e.g. public utilities, transport and communications, markets, health and education) are provided extensively often by governmental or quasi-governmental organizations.

Emphasis on industrial development and rapid urbanization, by the government have partly encroached upon the rural sectors resulting in an overlap of the rural areas i.e. rural areas have been transformed for urban renewal purposes leaving only a part of the former land area for any rural activities.

Designated intensive pig and poultry farming estates and other types of agricultural production have been encouraged so as to remove hogs (pigs) from catchment areas, i.e. reservoirs supplying water for consumption. The government's strategy is to replace part-time farmers by encouraging large-scale intensive agricultural enterprise dealing in poultry and hog farming and market gardening.

Nevertheless, a large proportion of the foodstuff consumed in Singapore is imported. Import requirements have been historically high given Singapore's narrow resource base. An estimate in 1960 based on retained imports and gross domestic consumption showed that the import content in private consumption was as high as 60%. Gradually, though slowly, this proportion has declined being assisted by an increasing domestic contribution in food and light manufactures.

Private wholesalers and retailers (working under free market conditions) play the important role of importing, storing and distributing the food imports with the help of government sponsored development of centralized infra-structural facilities. Manpower training on agricultural production and distribution especially its technical aspects with specialized equipment are sponsored by local government and to a lesser extent by external assistance.

Investment Structure in Singapore

Foreign investment in Singapore has always been an important (and often predominant) aspect of total investment in the economy. There is little doubt that fiscal incentives such as tax-holidays, played a significant role in attracting foreign investors into Singapore and enhancing their contribution specifically in the industrial (manufacturing) sector. This includes the tourist industry though relatively to a lesser extent. There were other factors which encouraged the foreign investors to invest in Singapore, i.e. political stability, ideal geographic location, cheap but relatively skilled labour force and until 1975, the trade opportunities opened up by the Vietnam War.

The U.S. has been the largest foreign investor with a total of S $1.45 billion committed, followed by Japan S $653 million, Netherlands S $588 million and Britain S $576 million in 1978. The total foreign gross fixed investment was over S $4.2 billion in 1978. The annual growth rate of investments between 1972 and 1979 was growing at the following rates. Total (real) investments was growing at 16.1% and foreign contribution (in real terms) to investment was growing at 20.4% per annum. In nominal terms, they were 22.6% and 27.2% respectively. Though foreign commitment grew at a rate of 27% a year, local commitments were growing only at a meagre 2.5% per year between the period 1972-1979.[76]

Locally generated investment in manufacturing sector for example has declined substantially. With a high dependency on foreign investment, it is difficult to transform this status by concentrating exclusively on promoting the development of local investment as a priority. Besides, it is also unrealistic to envision a probability of local investment acting as an economic buffer against a possible large drop in foreign investment in the short-run or at least not in the near future. It is also quite realistic to suggest that the large-scale high technology industries are going to be predominantly foreign owned (or invested). Perhaps the only area where local investment could assume leadership in the near future is in the smaller supportive industries which could constitute the core of local investment efforts.

While the foreign investment into Singapore has been growing rapidly with occasional slowdown (e.g. 1973-1975 period) in its growth, domestic investment has been declining despite a series of government inspired measures to encourage it. According to official figures, local investment commitments amounted to S $133 million in 1975 (manufacturing). In 1976 it dropped to S $69 million and by 1977 it reached S $40 million. In fact local commitments has been declining since 1973.[77]

The main problem in attempts at encouraging local investors into manufacturing or other sectors is their "trader mentality". Singaporeans have been successful as traders which "prohibits" them from venturing into other untried areas or sectors where the rewards or returns may be quite unpredictable. In addition, local businessmen lack technological expertise i.e. among potential local entrepreneurs. Consequently, it is difficult for individuals with only trading experience (wholesale and retail) to move into other "risky" sectors of the economy. It is also difficult to overcome this problem especially in the case of managerial and technological aspects. The problem is compounded by the availability of many well-paid jobs with foreign owned companies which lure potential young local entrepreneurs into the security of a position with an established organization perhaps unconsciously prolonging the nation's dependency.

Hopefully this latter problem would in the long-run provide the experience necessary for the emergence of a local entrepreneurial class. Given the fact that local investment levels in the manufacturing and other sectors will not rise very appreciably in the short-run, the opportunities for potential local entrepreneurs to acquire needed experience will increase as foreign investment continues to grow. As the supply of fully trained Singaporeans increases, the conditions on which foreign firms can get work permits for foreign managers, technicians and other senior posts could be officially tightened accordingly.

If this materializes, than it will clear one major obstacle from the path of potential future local investments into the various sectors including manufacturing and service sectors. It should be stressed that foreign investment and ownership has brought benefits to Singapore. Particularly the capital Singaporeans were not prepared to and able to put up for new economic projects as well as for some research and development purposes even though many decisions are made outside Singapore.

Next to foreign investment, direct or indirect, public investment (state) has been the most decisive factor in Singapore's economic growth. In fact, the extensive government participation in the private sector not only made a direct contribution to growth but also created favourable conditions for private ventures (especially foreign) into untried activities. Such as in manufacturing which had been the fastest growing sector and more recently transport-travel sector and financial and business sectors.

Public sector investment increased more than six times from S $59 million in 1960 to over $373 million by 1970. It has played an important role throughout the seventies often increasing its proportion when private (both foreign and local) investments were declining (e.g. during the 1973-1975 period). Public investment, however, has been kept within the limits of the government's financial resources. Singapore's foreign exchange and gold reserves valued at $11,473.8 million in 1978[78] provide a firm base for the authorities to spend the accumulated overseas assets (and/or proceeds of foreign loans raised on the collateral of these assets) to finance budget deficits.

Between 1960-1978, rapid GDP growth (especially between 1960-1970) was accompanied by rapid increase in the rate of capital accumulation (particularly foreign capital) which rose on an average of 25.6% per year during 1960-1970 and at 22.6% (16.1% in real terms) per year during 1971-1979 period. Foreign capital alone accounted for 27.2% (20.4% in real terms) annual growth during the 1971-1979 period. Rapid rise in capital formation which rose from a low level of 13.8% of GDP in 1961-62 to over 30% of GDP in 1970 (in real terms). The main force behind the consistent high economic growth rate over the two decades was undoubtedly influenced by the high rate of capital formation achieved.

Until 1967, the growing public expenditures induced private investment (mainly those domestically generated) to increase at a similar rate. But from 1968, greater contributions have come from foreign capital. By 1970, foreign capital inflow into manufacturing industries formed about half of gross domestic capital formation by the private sector which was 1/3 of total GDCF (Table 11).

Private sector investment in total fixed capital formation rose from 49% in 1966 to over 70% by 1970 thanks to the foreign capital inflow. Old investors increased their proportion and new foreign investors entered the lucrative Singapore market. By 1978 almost 80% of total private sector investment were the result of foreign commitments.[79]

The public sector gradually increased its role by directly participating in manufacturing and service activities such as tourism and commercial aviation, through equity participation with foreign pioneer manufacturing firms and hotel construction, banking and trade, etc. In the sixties, the role of the public sector was to enhance the productive capacity of the economy directed at infrastructure construction, providing the social and economic overheads for rapid economic expansion and diversification. This entailed high capital costs and induced less growth of output during this transitional period. From 1971 onwards, the productive capacity of the economy increased rapidly with the concentration of investment on directly productive activities.

Perhaps, one reason why public investment has been quite successful in promoting industrialization in Singapore is that unlike the situation in many other countries (especially DCS), it did not provide a "crowding out" effect. The economy was working below its full capacity and infrastructural investment stimulated rather than discouraged private enterprise. However, as noted earlier, public investment has encouraged private foreign investors but has not helped effectively to motivate local entrepreneurs to increase their investment commitments significantly.

The major drawback for Singapore in the long-run is obviously the result of foreign ownership. At present Singapore's industrial development has become largely an "offshore manufacturing operation" of the multinational companies. This branch plant corporations are more effectively

Table 11. Gross Domestic Fixed Capital Formation (Million Dollars)

	1964	1966	1968	1970	1972	1974	1976	1978	1979
GDP (Nominal)	2714.6	3330.7	4315.0	5804.9	8155.8	12543	14575	17569	19590
GDP at '68 Prices	2835.6	3387.8	4315.0	5579.3	7119.7	8445.2	9447.4	11074	12098
Total GDFCF (Nom)	547.1	655.0	996.8	1888.5	3054.3	4694.8	5149.1	5940.5	6826.7
At 1968 Prices	567.0	658.7	996.8	1712.0	2411.3	2884.1	2908.6	3270.5	3586.9
GDFCF as % of GDP	20.1	19.7	23.1	32.5	37.4	37.4	35.3	33.8	34.8
At 1968 Prices	20.0	19.4	23.1	39.7	34.0	34.2	30.1	30.0	30.0
Construction & Works	299.5	354.7	492.5	777.9	1380.7	1951.3	2375.5	2307.0	2597.9
- Residential Building	168.4	211.3	273.5	363.6	659.8	1043.6	1180.1	1046.7	1030.7
- Non Residential Building	59.5	60.8	116.7	244.1	483.9	602.9	679.1	782.7	1066.8
- Other Construction Works	71.6	82.6	102.3	170.2	237.0	304.8	516.3	477.6	500.4
Transport Equipment	49.3	57.0	148.7	208.4	444.2	894.4	1034.7	1539.7	2004.5
Machinery & Equipment*	198.9	243.6	355.6	902.2	1229.4	1849.1	1738.9	2093.8	2224.3

*-includes machinery other than electric
-electric machinery
-miscellaneous

Source: Yearbook of Statistics, 1974/75 and 1978/79. Economic Development Board Annual Report-Various Years

Table 12. (Investment) Finance of Gross Domestic Capital Formation

	1968	1970	1972	1974	1975	1976	1977	1978	1979
Gross Domestic Capital Formation	1075.2	2244.5	3354.4	5592.0	5034.6	5492.2	5338.5	6257.5	7580.8
-Gross National Savings	865.3	1129.7	1916.1	2892.5	3601.8	3747.3	4177.1	4542.8	5019.2
-Net Borrowing from Abroad	209.9	1114.8	1438.3	2699.5	1432.8	1744.9	1161.4	1714.7	2561.6

Source: Same as for Table 11.

a means to drain surplus from rather than create it for Singapore. This therefore, has prompted (at least in the long-run strategy) the need to direct public finance and investment toward areas which would motivate local entrepreneurship and encourage locally invested industries or enterprises.

In the short-run however, attention may be focused on ways in which branch plants can gain some independence without chasing the MNCS out or buying them back. If a company is assured some control in product development and full export potential, the impact of branch plants gaining responsibility for a product (i.e. exporting, to Research and Development as well) may be substantially beneficial because these offshore firms in Singapore become relatively free to cultivate local resources of supplies and services enabling the nation to benefit.

Singapore Labour Force Participation

The principal sources of employment opportunities in Singapore has been commerce (trade - both domestic and external), manufacturing, construction, transport and communication and Finance and Business Services sectors. Agriculture and Fishing and Mining and Quarrying have declined in importance when employment aspect is considered.

In Table 13A, it can be seen that female participation ratio in employment has increased through time. From a mere 11.8% in 1961 to almost 34% by 1978. The sources of employment for women seem to be in manufacturing, commerce, transport and communication and finance and business services sector (Table 13B). The highest and fastest increase in female employment has been in the manufacturing sector.

Among the various components of the service sector, it is evident that tourism related services had attracted female participation which have grown from a small 10.7% in 1961 to over 45% by 1978 (See Table 20). Restaurants, hotel industry and other entertainment sectors are often associated with creating demand for female workers. Consequently, the increase in this sector's growth, partly due to the growth in tourist trade may be attributed to a partial absorption of female labour supply. But it is not possible to say that the growth in this sector may have caused increased female participation because other sectors have also experienced a growth in female participation rate as can be seen in Table 12A. Male workers in this sector have declined in proportion throughout the period studied and in fact a drop in absolute number is observed in the last two years - 1977 and 1978.

Generally, the unemployment level has been kept low reaching 3.6% by 1978. Perhaps the vulnerability of the economy (for higher unemployment) has increased slightly because of the increased concentration of employment in the construction sector which may only be temporary in nature in the long-run, as this sector depends heavily on the nature of capital inflow.

Table 13A. Labour Force and Employment (Singaporeans Only).

Year	Total Number Employed	Males Employed	Females Employed	Percent Females
1961	109,286	95,109	14,177	13.0
1963	116,966	101,432	15,534	13.3
1965	123,140	105,121	18,019	14.6
1967	134,707	111,664	23,043	17.1
1969	399,480	298,664	100,816	25.2
1970	443,785	319,500	124,285	28.0
1971	467,031	333,007	134,024	28.7
1973				
1974	767,479	517,561	249,918	32.6
1975	781,951	545,834	236,117	30.2
1976	816,902	558,592	258,310	31.6
1977	837,472	566,559	270,913	32.4
1978	877,609	583,055	294,554	33.6

Source: Ministry of Labour Annual Reports 1961-1978 various years.

Table 13B. Persons Employed in Various Industries & Sex - Singaporeans Only

	1961				1971				1975				1978			
	Total	Male	Female	% Female	Total	Male	Female	% Female	Total	Male	Female	% Female	Total	Male	Female	% Female
Agriculture Fishing, Forestry Hunting	1174	834	340	29.0	2405	1741	644	27.6	16885	12014	4871	28.8	16516	12191	4325	26.2
Mining & Quarrying	511	452	59	11.5	1768	1515	253	14.3	2435	2165	271	11.1	933	784	148	15.9
Manufacturing	43708	34263	9445	21.6	142456	84259	58197	40.9	203213	120954	82259	40.5	238582	129499	109082	45.7
Utilities	6296	6258	38	.55	14223	13617	606	4.3	8551	7847	704	8.2	9392	8226	1166	12.4
Construction	10335	9377	958	10.2	23512	21344	2168	9.2	35285	32417	2868	8.1	37347	32449	4898	13.1
Commerce	8304	7170	1134	13.6	107237	80693	26544	24.7	180808	126961	53847	29.8	211020	139358	71661	34.0
Transportation Communication & Storage	21302	20958	344	1.6	44910	40814	4096	9.1	93516	82313	11202	12.0	103591	87902	15689	15.1
Financial Services, Real Estate and Business Services					26886	20376	6510	24.2	48219	31064	17155	35.6	61485	36446	25039	40.7
Community Social and Personal Services and Other Services	13358	12387	971	7.3	103634	68648	34986	33.8	193039	130101	62939	32.6	198744	136199	62544	31.5
TOTAL	104984	91699	13285	12.6	467031	333007	134024	28.7	781951	545834	236117	30.2	877609	583055	294554	33.6

Source: Calculated for various selected years from Ministry of Labour Annual Reports, 1961, 1971, 1975 & 1978.

Tourism in Singapore

Throughout the early sixties, visitor arrivals were increasing consistently. But the tourist industry gained importance rapidly by its high growth rate only since 1966. It was noted that the economy was undergoing basic structural changes during the second half of the sixties. Although the authorities were emphasizing on entre-manufacturing industries (light manufacturing industries), this sector did not respond as expected. Insufficient demand and growing competition from Japanese, Chinese (Taiwan and Hong Kong) and Korean manufacturers made the transition difficult. Investors were beginning to feel the economic recession. At this time the tourist industry appeared as an interesting and tempting outlet for the local frustrated capital.

Business visitors, military visitors (rest and recreation) and ordinary tourists from the U.S. were travelling in increasing numbers to Taiwan, Hong Kong, Bangkok and Singapore. This expansion of tourism throughout S.E. Asia coincided with growing American interest in the region (Vietnam War years).

Similarly, Japanese tourists followed the growing Japanese economic interest in S.E. Asia. In addition, with the ending of the confrontation years (i.e. between Indonesia and Malaysia) the door was opened for travel between Indonesia and its neighbour Singapore. This was perhaps the beginning of the new era because from then on, tourism assumed an increasingly important role in the economy of Singapore. Except for a few international recession years, there has been consistently rising number of tourist arrivals into Singapore ever since. However, the proportional composition of the various foreign nationals has changed through time.

Tourism's contribution to GDP was insignificant in the early sixties. By 1970 however, it had overtaken several other sectors in the economy. There is also some evidence to show that this industry had absorbed a large supply of labour in the economy. The industry's contribution to GDP is proportionally less than at least 4 other sectors which together contributed to almost 84% of GDP in 1979. These were manufacturing, trade, financial and business services, transportation and communication. Nevertheless, the tourist industry's phenomenal consistent growth rate has caused several analysts to suggest that it has potentials in the future to play a major role as a leading sector in the economy of Singapore.

According to official statistics, the incoming tourist figure increased from about 65,000 in 1960 to 129,000 in 1966. Although the average annual growth rate was over 10% per annum, it was contributing less than 1.5% to GDP. From 1966 however, the trend in this industry picked momentum and annual visitor arrivals increased rapidly and reached over 2 million a year by 1978.

Table 14. Visitor Arrivals to Singapore

Year	Number of Arrivals	Change in Number	% Annual Average Change
1960	65,000	64,000	16.4
1966	129,000	279,700	54.2
1969	408,700	113,000	27.6
1970	521,700	110,400	21.2
1971	632,100	150,900	23.9
1972	783,000	201,700	25.8
1973	984,700	102,700	10.4
1974	1,087,400	122,600	7.5
1975	1,210,000	111,000	12.9
1976	1,321,000	186,000	14.1
1977	1,507,000	540,224	35.8
1978	2,047,224	211,300	
1979	2,258,524		
	Figures excluding peninsula Malysians*		
1978	1,831,700	324,700	21.6
1979	2,003,000	171,300	9.4

Source: Annual Visitor Arrivals 1970, 1973, 1975, 1977 and 1979. For 1960 J.A. Wilcock (ed). Reading in Malayan Economics. Eastern University Press. S'pore 1961, Pg. 73.

*Malaysians embarking from peninsula Malaysia (road, rail, sea, air) were considered domestic tourists until 1978. The change in figure from 1977 to 1978 of 540224 is thus exaggerated by change in statistical approach.

Table 15. Visitor Percentage Distribution - Major Countries

<table>
<tr><th>Year</th><th>1966</th><th>1969</th><th>1972</th><th>1973</th><th>1974</th><th>1975</th><th>1976</th><th>1977</th><th>1978</th></tr>
<tr><td>Australia</td><td rowspan="2">17.3</td><td rowspan="2">14.2</td><td rowspan="2">14.0</td><td rowspan="2">13.8</td><td>16.9</td><td>16.6</td><td>16.4</td><td>14.3</td><td>11.2</td></tr>
<tr><td>New Zealand</td><td>2.5</td><td>2.5</td><td>2.6</td><td>2.9</td><td>2.5</td></tr>
<tr><td>Malaysia</td><td>2.9</td><td>3.1</td><td>4.0</td><td>4.1</td><td>10.5</td><td>9.4</td><td>8.7</td><td>8.5</td><td>17.4</td></tr>
<tr><td>Thailand</td><td>n/a</td><td>0.3</td><td>0.7</td><td>1.1</td><td>1.9</td><td>2.3</td><td>2.4</td><td>2.4</td><td>3.1</td></tr>
<tr><td>Indonesia</td><td>0.4</td><td>12.1</td><td>13.0</td><td>14.2</td><td>15.8</td><td>17.7</td><td>18.6</td><td>19.9</td><td>18.0</td></tr>
<tr><td>Japan</td><td>6.6</td><td>7.0</td><td>8.6</td><td>9.3</td><td>10.0</td><td>10.1</td><td>10.6</td><td>12.5</td><td>10.2</td></tr>
<tr><td>U.S.A./Can.</td><td>27.7</td><td>26.1</td><td>18.3</td><td>11.0</td><td>10.6</td><td>10.2</td><td>10.4</td><td>8.9</td><td>7.1</td></tr>
<tr><td>U.K.</td><td>18.5</td><td>13.4</td><td>11.2</td><td>9.8</td><td>7.7</td><td>6.4</td><td>5.5</td><td>5.2</td><td>4.9</td></tr>
<tr><td>W. Germany</td><td>0.8</td><td>1.5</td><td>1.9</td><td>2.0</td><td>2.3</td><td>2.7</td><td>2.7</td><td>2.6</td><td>2.7</td></tr>
</table>

Source: PATA 1972, 1976, 1978.

Table 16. Visitor Arrivals From Major World Regions.

Year	1972	%	1973	%	1974	%	1975	%	1976	%	1977	%	1978	%
TOTAL	783015	100	984732	100	1087443	100	1209270	100	1320625	100	1507688	100	2047224	100
N. America	95000	12.1	108073	11.0	115226	9.6	118913	10.2	136922	10.4	134459	8.9	144311	8.1
Europe	136769	17.5	171898	17.5	191884	17.6	200212	17.1	222042	16.8	250047	16.6	318835	15.6
S. America	2700	.3	3329	.3	3761	.3	-		-		-		-	
Africa	1487	.2	2021	.2	-		4404	.4	3246	.2	2416	.2	7261	.4
Middle East	-		-		-		903	.1	1038	.1	2326	.2	29133	1.4
Pacific	540762	69.1	691770	70.0	764786	70.3	831981	71.2	941352	71.3	1098246	72.9	1527827	74.6
Other	6297	.8	7641	.8	11826	1.1	12857	1.1	16025	1.2	19192	1.2	19497	1.0

Source: PATA 1972, 1976, 1978.

There was rapid increase in visitor arrivals in the late sixties. From 1970 to 1979 there was an average annual increase of 16.3%, passing the 2 million mark in 1978. The only major drop in the rate of increase was in the 1973 and 1974 recession years. 1979 had been another international recession year and Singapore's tourist industry also experienced a drop in the rate of annual increase (Table 14). On the average, the rate of increase has been 14.5% during the late seventies (1975-1978 - 4 years). It is predicted that by 1982, tourist arrival would exceed 2.4 million per year.[80]

As for the percentage share, only Indonesia and Japan have shown an increase in annual arrivals consistently throughout the period noted. In fact during 1978/1979, the number of arrivals from all major regions increased. However, the share of market represented by U.S./Canada continued to decline falling to 7.1% of total tourist arrival from 11.0% in 1973. In the late sixties, the Americans were the main national tourists accounting for more than 25% of total annual tourist arrivals. Malaysia, Indonesia and Japan achieved the highest growth rates in 1977/1978 period, i.e. 44%, 23% and 10.8% respectively. In absolute figures, 184,931 (356,752 in new statistics), 369,215 and 209,271 respectively. Besides the three, Austrialia/New Zealand is the fourth major tourist generator with 280,546 (13.7%) of total tourist arrival into Singapore.

These changes occurred although Indonesia devalued her rupiah which certainly had an adverse effect on that market as it made it more expensive for Indonesians to travel to Singapore. In addition Australia changed its commercial aviation policy which discouraged tourists from U.K. (and Europe generally) or Australia from stopping over at Singapore by introducing special exclusive flights. Such steps would entail serious economic consequences as these nations are also Singapore's important tourist generating countries. (Discussed later under section Air Transportation.)

An interesting characteristic is that the four major tourist generating countries are all in the Pacific region. New large tourist inflow have also been observed from Middle East, Africa and India. Although Britain had showed a negative growth rate in the 1975-1976 period (together with Malaysia), from 1976/1977 onwards, it has increased her absolute tourist contribution. Germany is another growing European market.

Pleasure and vacation visitors to Singapore accounted for 68.4% of all visitors in the 1978/1979 period. 13.1% were on business visits. 9.7% of the visitors combined business with pleasure. Of the main markets, Australia generated the highest percentage of pleasure and vacation visitors (78.1%) followed by Japan (76.7%) and the U.S. (68.2%).[81]

In 1966, the tourism sector was Singapore's fourth major foreign exchange earner. By 1970, it had assumed third place. In 1966, tourist spent $91 million in the republic and business generated by it accounted for about 10% of total government tax revenue. Tourist expenditure rose to $250 million in 1969 and by 1978 it reached $961.7 million.[82]

The main past-time of the tourists in Singapore was apparently shopping. This comprised approximately 62% of their money spent. Most of the remaining expenditure was accounted for hotels (15.6%), food (15%), local transportation and sightseeing (5.2%) and entertainment (2.5%). One of Singapore's main attraction is its sale of duty-free imported merchandise.[83]

In 1978, tourism's contribution to GDP was estimated at 6.8% (6.3% in 1977) i.e. $1,190.4 million minus $8.04 million (tourism related promotional, administration and research expenses) = $1182.4 million. It was also indirectly responsible for a probable 10.2% increase in the trade, restaurants and hotel sectors.[84]

The greatest impact from the tourist boom was felt in the hotel industry. Occupancy rates in the leading hotels ranged from 85% to over 90%, and in the medium-sized hotels, it was even higher during the 1977/1978 period. It must be noted however that a boom in hotel construction occurred in the 1972-1973 period in response to an earlier hotel room shortage (i.e. hotel room shortage experienced in 1970-1971 period). Apparently too many were constructed which led to excess capacity in the 1973-1974 period. Many hotels were forced to operate at a low uneconomic occupancy rate. Hotel managers even began undercutting one another. The government however stepped in and controlled the expansion rate in the hotel industry. By late 1974, the occupancy rate rose sufficiently high to stimulate further development in the hotel industry. By 1978 the total number of hotel rooms available increased to 11,505 - this includes new hotels constructed as well as expansions on the existing hotels. The pace of new construction and expansion are carefully planned by the government authorities who have assumed the role of monitering and controlling its growth in line with the expected demand increase in the future years. An estimate suggests that by the end of 1980, hotel rooms would increase to a total of 13,500. This move by the authorities has in fact led to a staggered hotel development program from 1976 so as to avoid another possible glut of hotel rooms as experienced earlier in the decade.

Actually, the dramatic change in the tourist sector occurred in the latter half of 1968 after considerable debate among the relevant authorities. It was then decided to favour the tourist trade and the government began laying the foundations for the necessary tourist-trade infra-structure and subsequently the tourist industry was mildly promoted. From

1969 onwards, there emerged lavish night clubs, cabarets, exclusive restaurants and other entertainment features. Travel agencies and social escort services mushroomed with over 250 registered nightclubs and over 75 social escort service organizations by 1974. In 1978 there were 308 licensed travel agents and 137 social escort services.[85]

Private entrepreneurs and the government body STPB established many tourist attractions such as: "cottage-industry" complexes at the city's periphery to manufacture souvenirs; renovation of historical and/or cultural buildings, "floating" restaurants, cable-car connecting the mainland to an island "tourist paradise". Over 400 specially organized 'courteous' taxi-drivers equipped with air-conditioned automobiles were gradually mobilized.

In addition, a Singapore-U.S. joint venture to develop Bali (in Indonesia) as part of a regional tourist network was initiated. This was located in the U.S. to allow Singapore investors to enjoy the protection of the U.S. Investment Guarantee Act against any political hazards. Subsequently, a regional tourist management training institute was established in 1969 which gradually expanded and by 1978 it had developed into a major commercial (catering) institute employing over 160 full-time staff.[86]

The tourist industry as a whole motivated particularly the private entrepreneur who invested in profitable cabarets, novelty restaurants, small and medium size hotels, etc. It has been estimated that between 1966 and 1970 alone, almost S $600 million was invested in the hotel construction sector - this includes the private capital invested in nightclubs, cabarets, restaurants and other tourist attractions.[87]

One of the main attractions to such investments undoubtedly is the high profit-rate expected assuming a reasonably high rate of occupancy (hotels) and turnover. For instance, it was estimated that in general the range of profits expected on issued capital was between 18% to 26% (before tax) if the occupancy rate stayed between 70% to 90%.[88]

These high profit rates in Singapore were partially the result of 3 factors. Firstly, as a government incentive to the tourist sector, property taxes for new hotels were in 1970 reduced from 36% to 12%. Secondly, Singapore hotels often charge high prices (relative to other S.E. Asian countries) for food, accommodation and services (higher quality assumed with higher import content). Thirdly, the hotel industry in Singapore has a relatively low-wage structure. In most hotels the average wage range from 8% to 13% of total sales - this contrasts with U.S. where the wage range between 38% to 42% of total sales.[89]

(i) Tourism Industry and Balance of Payments

There is evidence to show that a growing tourism industry has tended to help offset the unfavourable balance of trade. From 1967 to 1978, the excess of current account imports over exports (trade deficit) was increasing significantly. During these same years, tourism receipts were also rising rapidly. Ceteris paribus, this obviously should have had a favourable effect on the balance of payments. It is likely that this in fact gave more flexibility to the use of foreign exchange even though this may have reinforced the increase in low-wage employment.

Singapore's invisible earning from tourism have been quite impressive. In 1978, the total earning from foreign tourism were S $952.6 million (net of promotional expenses). This amount would naturally be higher when transport-fare payments were to be included (i.e. in Singapore Airlines). Tourism accounted for 26% of total net invisible earnings of $3.7 billion. In fact, receipts from the tourist industry and the provision of other transportation and services contributed the largest share to the net service earnings in 1978.[90]

Given the fact that the income-elasticity coefficient is high for tourism (and relatively lower for other primary or semi-manufactured export goods in Singapore), it is reasonable to expect the authorities to emphasize the development of tourism and its related industry which may contribute to more favourable terms of trade as this industry assumes a greater role (proportion) in Singapore's export trade. In addition, there is also the possibility of

Table 17. Singapore - Balance of Payments (Million Dollars)

Year	1966	1968	1970	1972	1974	1976	1978	Estimated 1979
(A) Goods & (Net) Services	48.2	-367.3	-1727.2	-1497.9	-2604.1	-1623.8	-1625.7	-2487.5
-Trade Balance	-656.8	-1170.4	-2619.4	-3099.8	-5520.1	-5467.7	-5813.1	-6569.7
-Balance of Services	705.0	803.1	892.2	1601.9	2915.7	3843.9	4187.4	4082.2
(B) Transfer (Net) Payments	-44.9	-40.9	-23.6	6.4	-95.1	-121.1	-89.0	-74.1
Current Account Balance	3.3	-408.2	-1750.8	-1491.5	-2699.5	-1744.9	-1714.7	-2561.6
(C) Capital Account (Net)	17.0	463.7	532.6	1107.5	1217.6	2097.7	1801.8	2082.3
(D) Balancing Item	132.6	608.0	1783.0	1329.0	2200.3	384.6	1424.4	1602.1
(A+B+C+D) Overall Balance	152.9	663.5	564.8	945.0	718.4	737.4	1511.5	1137.1
Official Reserves[1]	-152.9	-663.5	-564.8	-945.0	-718.4	-737.4	-1511.5	-1137.1

Source: Yearbook of Statistics Singapore. Various Years and 1974/75 and 1979/80.

[1]Increase in assets is indicated by a minus (-) sign.

indirectly encouraging the local entrepreneurs to venture into investing in tourism related subsidiary industries thereby realizing twin objectives. As noted earlier, the tourist sector has the advantage of earning foreign exchange directly (compared to other exports) which is necessary to finance the process of modernization and importation of goods, services and scarce resources in addition to repaying foreign debt. Tourism may therefore complement the modernization process in Singapore assuming it entails relatively lesser import-requirements per dollar of foreign exchange generated than in other sectors of the economy.

The manufacturing sector for export in Singapore is characterized by a large percentage of foreign ownership. In the case of tourism, although foreign ownership of some services such as luxury hotels and recreational facilities are inevitable, there is the possibility of gaining or encouraging domestically owned services or facilities for tourism related purposes.

In the specific case of Singapore, if we introduce the usual 3 sector model, the growth relationship is quite different from the usual LDCS strategy. In many LDCS, the fundamental growth relationship is seen between the traditional sector and the modern sector. The foreign sector could be seen as performing a facilitating role for this modified relation.[91] In this case, the foreign sector by its exports and capital flow would provide a source of foreign exchange which may be utilized for purchasing capital goods and necessary inputs. The foreign sector could also contribute by creating an opportunity to absorb labour and profits, which may subsequently lead to capital formation through direct or indirect reinvestment.

In Singapore, however, the normally usual traditional sector (i.e. agriculture or farming) is quite unlikely to be the main vehicle for development. In fact, as far as Singapore is concerned, its "traditional sector" has been the entrepot trade sector. This traditional sector has been under tremendous pressure as noted earlier.

It has been found that in several manufacturing industries, the foreign ownership component may be up to 90% and the top executives and managing personnel are often foreigners earning high salaries. In the case of tourist industry there is greater local participation. For example in the hotel industry, it is estimated that about 72% of the investment is local even though some large hotels have a far greater foreign share. On the average, the distribution fares better than many manufacturing concern. In small hotels and lodges, the percentage share of local capital is over 78%.

Assuming that the marginal value product for labour sectorally is equal to the average value product, it is quite likely that the transfer of labour from other non-manufacturing sector (such as trading) into the tourist sector would increase the national output. This could then be indirectly transferred to the manufacturing sector later, where it is also likely that the output gained from labour transfer would be higher. It is not feasible in the short-run to attract labour into the manufacturing sector due to the several constraints mentioned above. Regulated low-wages and strict control of labour unions are perhaps the major disincentives among others. The tourist sector seems to be an attractive link to the eventual transfer of labour and resources to the manufacturing sector.

According to a survey made in 1977/1978, 57% of the respondents (tourists) were in the 30-39 age group. The overall median age was 37.8. This is a relatively young age when compared to some other tourist destinations. The visitors apparently required adult entertainment as there has been a dramatic increase in the number of casinos and nightclubs. The visitors spent on the average S$471 per person in Singapore and average expenditure per day per person was S $130.2. The largest spenders were Indonesians, Australians, Japanese, U.S./Canadians and British in that order for both 1974 and 1978. Visitors on business spent $683 per person, those on business and vacation, $636; those on pleasure/vacation spent S $434 and visitors on transit spent S $185 per person.

Distribution of Tourist Expenditure in Singapore*

Table 18A. General Visitor (Tourist) 1974 & 1978

Type of Expenditure	Amount S$ Million		Percentage of Total	
	1974	1978	1974	1978
Accommodation	104.1	155.8	16.0	16.2
Food & Beverage	98.7	144.3	15.2	15.0
Shopping	382.3	572.2	58.9	59.5
Local Transport	28.4	40.4	4.4	4.2
Sightseeing Tours	4.6	6.7	0.7	0.7
Entertainment/ Recreation	25.4	38.5	3.9	4.0
Miscellaneous	5.8	3.8	0.9	0.4
TOTAL	649.3	961.7	100.0	100.0

Table 18B. Convention Delegate Expenditure (1974 & 1978)

Type of Accommodation	Amount S$ Million		Percentage of Total	
	1974	1978	1974	1978
Accommodation	1782.1	3287.6	19.9	20.2
Food & Beverage	1137.3	2034.4	12.7	12.5
Shopping	5238.9	9504.7	58.5	58.4
Local Transport	206.0	358.1	2.3	2.2
Sightseeing & Tours	143.3	325.5	1.6	2.0
Entertainment/ Recreation	241.8	406.9	2.7	2.7
Miscellaneous	206.0	358.1	2.3	2.0
TOTAL	8955.4	16275.2	100.0	100.0

*All Tables derived from: Survey of Overseas Visitor Expenditures in Singapore. Research Department STPB 1972, 1974, & 1978. Collies Intn'l Printers - Ideal Printing & Paper Products 1972, 1974 & 1978.

Table 18C. Per Capita Expenditures on Major Items (1978)*

Type of Expenditure	General Visitors (S$)	Convention Delegates (S$)
Accommodation	160.0	320.1
Food & Beverage	112.1	182.2
Shopping	449.8	833.1
Local Transport	32.0	37.1
Sightseeing Tours	33.1	43.2
Entertainment/ Recreation	70.6	93.0
Miscellaneous	59.2	123.3
Total	916.8	1632.0

*Estimates made from a survey conducted on 8572 and 10,683 visitors from various countries respectively.

Table 18D. Visitor Expenditure (1978)

Total	Daily Expenditure	Average Amount Spent Per Visit
S$ 961.7 million	S$ 130.2	S$ 470.8
(US$ 443.2 million)	(US$ 60)	(US$ 217)

Table 18E. Total Visitor Expenditure by Country of Residents 1974 & 1978

Country of Residence	1974 S$ Million	1978 S$ Million	1974 % Age Distribution	1978 % Age Distribution
Australia	100.0	142.3	15.4	14.8
New Zealand	12.0	16.3	1.9	1.7
U.S.A.	53.0	53.9	8.2	5.6
CANADA	5.0	5.8	0.8	0.6
U.K.	39.1	48.1	6.0	5.0
West Germany	12.5	17.3	1.9	1.8
France	9.2	14.4	1.4	1.5
Other European Countries	39.9	67.3	6.1	7.0
Japan	60.7	91.4	9.3	9.5
Indonesia	108.9	172.1	16.8	17.9
Malaysia	94.1	155.8	14.5	16.2
Other Countries in Asia	87.1	131.8	13.4	13.7
Other N.E.C.	9.2	19.2	1.4	2.0
Thro' Sea Passengers	18.6	26.0	2.9	2.7
TOTAL	649.3	961.7	100.0	100.0

About 80% of the visitors stayed in hotels (79.2%) and about 19% stayed with relatives and friends (18.6%). It was observed that visitors who came individually spent about S $471 per person and those who came in organized groups spent S $243 per person. It is noteworthy that 90% of organized group's expenditure was on shopping, spending about S $228 per person. As for the cruise visitors, they spent about S $160 per person and S $123 per person per day. Out of which 83.8% or about S $134 was spent on shopping.[93]

Among the various categories of expenditures, shopping is apparently the main attraction in Singapore. This is in line with the republic's free-port status ensuring collection and distribution of truly international items. Almost 60% of total tourist expenditures are concentrated on shopping. Although various tourists from different countries are attracted to different items and articles, there is a common demand for few goods and articles.

The following items seem to be the most popular in order of demand. Wearing apparel (tailored and ready made) constituting over 45% of total shopping expenditure, transistors, cassette-tape recorders, stereo sets and other audio-visual items, cameras, lenses, films (photographic-movie equipments), watches (and other sophisticated time pieces), textiles, jewellery, toys, household goods - furniture, footwear, cosmetics, handbags/wallets, handicrafts, etc.[94]

Apparently several backward linkages may be gained by the economy due to tourist inflow resulting from the various items demanded by visitors. Tables 18A, 18B and 18C above shows approximately the nature of these linkages. The backward linkage to the agricultural and construction industries should be strong because there is a large proportion of tourist expenditure spent on food and accommodation (hotels). The demand for handicrafts (assuming locally produced) creates linkages to small factories, assembly plants and cottage industries.

The public authorities attempted to centralize handicraft manufacturing industry by constructing a centre at a cost of over a million dollars which began operation in 1977 (called the Singapore Handicraft Centre). Other public enterprises related to the tourist industry are: electronic and electrical products (an assembly-line industry), food and beverage industry catering for hotels, cabarets and restaurants. Due to the rapid increase in tourist arrivals there has been an increase in demand for government services such as customs officers (and other officials), streetcleaners, policemen, etc. Between 1974-1978, an average annual increase of approximately 13% is observable in the labour force in "police and other security employment" (from 47,691 to 83,598). Although how many of these jobs were directly the result of the increase in visitor arrivals isn't very clear, its influence is certain.[95]

Three basic features are discernable from the growth of these tourism-supportive industries quoted above. Firstly, these subsidiary industries are readily adaptable to labour-intensive technology which therefore would be capital saving and employment creating. Secondly, they lend themselves to small-scale production which does not restrict them because of low levels of aggregate demand. Thirdly, many of the production resulting from the backward linkages requires lesser import (than manufacturing for instance) which would enable the conservation of foreign exchange.

The first feature is quite crucial for Singapore as foreign investment is its main source of investment in other sectors. The tourism industry with low capital-labour ratio (in its employment structure) requires labour of low skill. In the late sixties and early seventies large numbers of workers had been readily absorbed from the unemployed ranks and also from other sectors with little training e.g. tour guides, porters, watchmen, waiters, kitchen help, gardeners, etc. The problem which has been gradually growing in the mid-seventies is the drastic drop in the unemployment rate which required an increased inflow of foreign workers into the various sectors including the tourism related industrial sector. At present there is no statistical evidence to show that the tourist industry is depriving the manufacturing or other thriving industries of their labour. But it is not impossible to forecast such a phenomenon becoming a major problem in the long-run. Perhaps proper planning on the part of the relevant authorities could overcome such a potential disadvantage.

Table 19. Foreign Workers in Singapore

Year	Total Employed	Total Foreigners		Malaysians	
		Numbers	%	Numbers	%
1974	824,349	58,870	6.9	30,062	3.6
1975	833,525	51,574	6.2	28,195	3.4
1976	870,442	53,540	6.2	34,491	4.0
1977	903,935	66,463	7.4	42,915	4.7
1978	955,620	78,011	8.2	58,099	6.1

Source: Ministry of Labour. Labour Force Survey of Singapore, 1974-1978.

Foreign workers are concentrated on manufacturing, construction, commerce, transportation and communication sector, with the former two assuming over 35% of total foreign workers.

(ii) Employment and the Hotel Industry

In 1969, the presence of an acute shortage of hotel rooms was felt by the tourist industry as tourist inflow increased rapidly. In 1969 there were only 2800 hotel rooms catering for almost 400,000 visitors. The government encouraged the construction of new hotels and introduced various incentives and by 1973 there were 9,400 rooms. However, in 1974, an oversupply of rooms caused hotel room rates to drop sharply and the occupancy rate dropped to 65% when the break-even point in this initial period of hotel operation required at least a 70% occupancy rate. Once again, the authorities intervened and began spending on various tourist related development programs. Resort and recreational complexes were constructed and extensive promotional campaigns were encouraged and a new convention bureau was also established to attract potential international conventions into the republic. Since then, the Singapore Tourist Promotion Board (STPB) has made various attempts at attracting international organizations to hold conventions in Singapore with substantial positive results.

The exact number of employment in the tourist industry is difficult to obtain as most employment are related to various sectors and sections of the economy. Until 1970, a report suggests that for the amount of capital invested, the industry had been a relatively poor contributor to employment creation. About 35,000 jobs are said to have been created by 1970. According to the estimate, it took S$23,000 to create one job in the hotel industry - this is partially due to the characteristic of the hotel industry of having a relatively low-wage structure and a high level of capital intensity per worker when compared to the manufacturing sector which required only an estimated S $10,000 to create a job. It must however be noted that at this early period, the initial infrastructural development costs assumed quite a high proportion when costs per job were calculated.

A preliminary estimate has suggested that about 50,150 jobs were related to the tourist trade in 1978 (both direct and indirect). Using this approximation, the tourist trade employment was 5.7% of total employment. Even though tourism is not a major contributor to employment, its composition of about 5.7% of the labour force in 1978 fares quite favourably when compared to its GDP contribution of 5.6%. In 1978, commerce (26.4% of GDP), transportation and communication (14.0% of GDP) and financial and business services (13.8% of GDP) contributed to a disproportionate contribution to employment of 23.4%, 11.8% and 7.0% respectively. Similarly, construction (6.4% of GDP) and utilities (1.9% of GDP) accounted for 4.3% and 1.1% respectively.

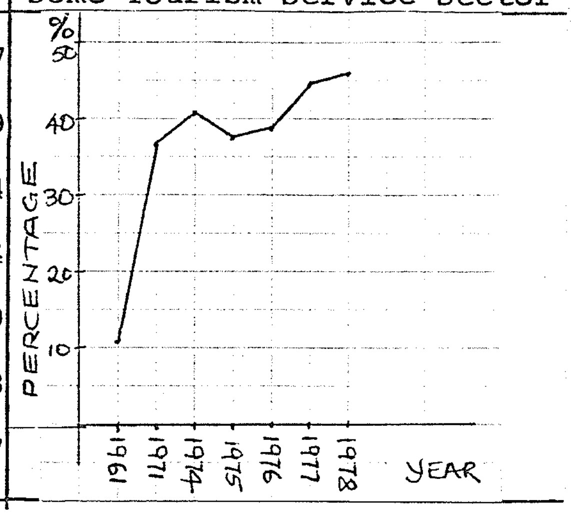
Only manufacturing and the less important agriculture and fishing sectors were more conducive to employment than the tourist sector. Manufacturing which accounted for 26.3% of GDP showed an employment level 28.2% of total employment. The agriculture/fishing sectors at 1.6% of GDP contributed to 1.9% of total employment.

In fact the actual contribution of tourism to employment is likely to be more than 5.7% because there are several areas where the tourist trade indirectly influences employment in other sectors. As far as employment creation is concerned, the tourist industry fares quite favourably in general.

Table 20. Some Tourism Related Service Workers*

Year	Total	Male	%	Female	%
1961	2624	2343	89.3	281	10.7
1971	15146	9557	63.1	5589	36.9
1974	19961	11899	59.6	8062	40.4
1975	26356	16506	62.6	9851	37.4
1976	28071	17139	61.1	10931	38.9
1977	27231	15167	55.7	12064	44.3
1978	31251	16961	54.3	14290	45.7

Female Participation Rate Some Tourism-Service Sector



Source: Ministry of Labour Annual Labour Force Survey - Various Years.

*Service workers included are:

(1) Managers and working proprietors catering and lodging services.
(2) Housekeeping and related services supervisors.
(3) Cooks, waiters, bartenders and related workers.
(4) Maids and related housekeeping service workers (except domestic service).
(5) Tourist guides and social escort services.

One major problem emerges when the foreign component of this industry is analyzed. The hotel industry shows a concentration of foreigners in the higher level of administration and management. In 1971, among the number of work permits applied for and issued by the manpower authorities, almost 35% were for applicants as administrators and managers, chief chefs, technical experts, etc.

Table 21. Degree of Labour Specialization - Singapore hotel of 100-150 rooms.

Class	Percentage of Total
Top Level Administration	2.5
Supervision and Management	6.5
Specialized	40.0
Non-specialized	51.0
TOTAL	100.0

Source: STPB Research Dept. 1976 Chapter 3, Pg. 49-55.

Out of the total number of higher level administrators, approximately 80% were foreigners in 1971/72 period. It is encouraging to note that by 1977/78 period, this figure has dropped to under 45% (43.8%). Nevertheless the percentage is higher in many luxury hotels where it could still be as high as 65% or over.[96] This implies that substantial benefits that accrue are removed by foreigners leading to a drop in net benefits gained by the local population. A high proportion of Singaporeans (and to a lesser extent Malaysians) are engaged in the lower level or medium level employments in the hotel industry, e.g. supervisors, superintendents, technicians, general maintenance, etc. However, the percentage of top level employment engaged by Singaporeans are increasing though at a slow rate. The relevant authorities have hastened the local administrative substitution process by introducing hotel management school which has grown in size and quality. In the long-run this can be expected to remedy the situation partially particularly in the medium-sized hotels in the republic.

Similar to the other industries, due to labour shortage in Singapore, the hotel and catering industry has been attracting substantial foreign labour especially Malaysians. Whilst foreigners from DCS are attracted to management and administrative posts (often sponsored by the huge hotel chains) foreigners from other S.E. Asian countries and even as far away as Sri Lanka are attracted to the lower-level menial jobs. Singaporeans generally work on intermediate jobs. This suggests that a considerable amount of income in the form of remuneration are removed from the economy by foreigners, through the higher and lower echelons in the industry.

Table 22 shows the various statistics for the hotel, lodging, boarding houses and restaurants. Among the hotels, 45 luxury hotels are included in a total of 110, i.e. with rooms of 100 and over. Out of which, 25 hotels have rooms of 201 or more. These are the main foreign hotels owned by foreign multinationals. 65 hotels with less than 100 rooms per hotel have a higher percentage of local ownership being

Table 22.

Percent

	Establishments	Employment	Operation Cost				Operation Surplus	Value Added
	(Number)	(Average)	Total Cost	Cost of Purchases Sold	Remuneration	Others	(%)	(%)
Restaurants & Hotels (Total)	2885	12.7 36,639	91.3	40.5	19.6	31.1	8.7	38.7
Hotels/Lodging & Boarding Houses	168	81.4 13,675	55.4	16.7	27.7	51.6	4.0	48.0
Hotels	110	116.0 12,760	96.2	16.8	26.7	51.7	3.8	47.8
Lodging and Boarding Houses	58	7.1 (915)	83.7	7.8	33.4	42.4	16.3	57.5

Source: Report on the Census of Wholesale and Retail Trades, Restaurants and Hotels 1978 (By Photo Plates Pte Ltd. S'pore) - June 1979.

negatively related to the size of the hotel. 10 hotels with rooms between 50-100 have an average local ownership of 65% and 35% foreign. Smaller lodging and boarding houses have over 90% of local ownership. Though complete details are not available, the total operating costs for larger hotels constitutes over 96% of turnover with less than 4% operating surplus compared to 83.7% and 16.3% for the smaller lodging and boarding houses respectively.

The cost of materials used and remuneration, accounted for 16.8% and 26.7% whilst in the smaller hotels, it was 7.8% and 33.4% respectively. In the category "others" where the profit rate is possibly hidden, there is also a noticeable difference between the two groups. The larger hotels have almost 52% in this cost sub-section whereas the smaller hotels have slightly less than 43%. Perhaps the implication could be that a higher percentage of profit in the large foreign hotels with over 201 rooms each are probably removed out of Singapore. Statistically it is certain that they associate higher costs to their cost details. However, as specific data is not available, the suggestion that foreign hotels may extract profits (large) from Singapore is only a speculation.

When we consider the value added in the two groups, the smaller hotels and inns group fares far better than the larger hotels with 58% and 48% respectively.

According to a study made by the wholesale and retail trades, restaurants and hotels department, it was estimated that for every dollar (foreign exchange) worth of food sold to the tourist, 50 cents is gross profit, 35 cents the cost of local material (preparation included) leaving 15 cents to leak out of the economy in foreign exchange. Hence 85 cents is retailed in foreign exchange. This, however, is an average, the percentage leaving the economy increases rapidly with the size of the hotel concerned, i.e. luxury hotels import more delicacies involving a higher foreign exchange leakage often over 40% in some cases.

Beer is brewed locally (with head office in Malaysia). The import content is restricted to ingredients for the beer production which had been estimated at 30 cents per dollar. As for liquor, for every dollar worth of liquor sold, 45 cents is gross profit leaving 35 cents to flow out as foreign exchange leakage and 20 cents as domestic tax. In the late sixties and early seventies when American tourists were an important component of visitor arrivals, it was unfortunate that their demand for liquor or even beer were for imported brands leaving the economy with less foreign exchange than otherwise could have been possible. But by 1977/1978 period, Indonesians, Malaysians and Japanese seem to be demanding locally brewed beer for their consumption which is a beneficial change for Singapore. European liquor is still the main drink demanded in the major hotels. No comparative local or regional substitution in this area is present, making it an almost permanent feature now and perhaps in the future.

[The World Tourist Organization (WTO) estimates that a minimum of 40% of gross hotel revenue goes to pay for imports, interests and profits if the hotel is foreign-owned, and that the figure can run as high as 75% or more.] [97]

Besides the contents used in the tourist industry, foreign exchange leakage is further accentuated by the government's various incentives for luring potential investors. For example in Singapore, the government offers subsidies and long term loans at low interest rates and some duty-free import of equipment. In addition, it is difficult to quantify the exact proportion of infrastructural development cost that is directly associated with the tourist industry by Singapore.

(iii) Government Revenue

Introduction of tourism creates a new relationship within the national economy and also with the world economy. The state's role increases simply due to the nature of the tourist industry. It has to play an important part in opening up new areas to mass tourism as only governments or international agencies can lay out vast amounts for the provision of infrastructure and other tourist facilities. The government has to cooperate with visa-policy, import regulation (customs) and foreign exchange requirements. In fact the state becomes gradually the arbiter of culture and may decide on what is to be preserved (or removed) and shown to the tourist. International tourism is a highly competitive industry. Respective governments often engage in aggressive promotional campaigns.

The tourist industry creates value rather than quantities of goods which would be the case in manufacturing. Through tourist expenditure on accommodation and travel, payments for labour services are generated which are subject to income tax. Where tourist expenditure on goods reach high levels, physical volume is affected significantly and the yield from physical specific taxes may be high. Tourist expenditure on food, drink and tobacco leads to significant revenue from import duties through taxes on liquor, taxes on fuel (e.g. used in power generation for cooking, air-conditioning and lighting) and taxes on tobacco. For some expenditures (i.e. by tourists) such as food or souvenirs, not only is value created but a physical product changes hand which attracts a tax e.g. an excise duty may be imposed on locally manufactured goods and an import duty on those from abroad.

In Singapore, the types of revenue that reaches the government both directly and indirectly are by the following means. Firstly, personal income tax from wages and other labour income related to the tourist industry. Secondly, profit tax especially from rental income, unincorporated business income of small operators providing services and accommodation. Thirdly, property taxes resulting from property values. Fourthly, capital gains tax. Fifthly, through retail sales tax (i.e. for selected commodities only) both direct and indirect or tourist tax (this tax is applied where it is confined to strictly tourist establishments). Sixthly from import duties. In Singapore where all energy is thermal generated, tourist expenditure on food, accommodation and travel creates energy requirements indirectly through the consumption of electricity in kitchens, or air-conditioning and directly through tourist coaches, buses, taxis and limousines.

As for direct revenue from tourists sources, it was estimated at nearly 46 million (i.e. $45,483,836) in 1978 by the Singapore Tourist Promotion Board (STPB).

One estimate in 1975 stated that the government was earning an income from the tourist industry through both direct and indirect means an approximate 9% of its total revenue. Using this 1975 approximation, tourism would have contributed to about S $391.6 million (total government revenue was S $4351.0 million) to the government as revenue in 1978.[98]

Apparently the government must have been convinced of the tax gains to be made as it has consistently played an increasing role in leading the tourism promotion campaign both locally and overseas. As the tax-base in the tourist industry is much more in value terms, it is capable of generating large tax revenues rapidly. Furthermore, the concentration of provision of services in the tourist industry (the hotels can easily be identified and so also the tour operators, restaurants and transport modes) means that the problems of tax evasion can be more readily identified and corrected than in other types of newly established industry.

Under the governments approval, the tourist board has emphasized in its advertisement, the promotion of Singapore as a convention and exhibition centre which has been quite successful. For example, in 1978 Singapore hosted 150 conventions and 30 exhibitions an increase of 32 and 13 over 1976 respectively.

It was noted earlier[99] that convention delegates spent more on all items in comparison to general tourist. But it is also true that the convention delegates almost always stay in luxury hotels where the import content was found to be much larger.

(iv) Tourism Multiplier

The calculation of the tourist expenditure multiplier is rather complex and often quite inaccurate as it was noted in the first section. Hence it is difficult to state conclusively anything about the multiplier effect in Singapore.

In general however, a more self-sufficient an economy is, the greater the multiplier effect. Obviously any country advocating tourism development should attempt to interconnect other sectors of the economy to the tourist industry so as to achieve maximum benefit from this industry.

There has been various studies on the Pacific and other regions where attempts have been made to derive at the multiplier effect. One study puts the multiplier effect to be between 2.5 and 3.3 for Singapore. Another study estimated it to be between 3.2 to 4.3.[100] The former estimate was made by the Pacific Area Travel Association (PATA) and the latter by Checchi and Company in 1961. The Checchi estimate has been criticized on its methodology by several authorities and tourist trade experts. It has been suggested that a multiplier of between 2.5 to 3.3 is possible in Singapore. The items purchased by the majority of incoming tourist comprises a good proportion of locally produced or locally processed commodities and locally assembled items. Perhaps tourist coming into Singapore purchase goods to stock up,especially the Malaysians, Indonesians and Australians as can be seen in Tables 18A, 18B, 18C and 18E, that nearly 60% of tourists expenditure is on shopping. The Indonesians, Japanese, Malaysians and Australians being four of the highest spenders among the tourists in Singapore purchase items such as apparel, handbags/wallets, locally assembled electronic and audio-visual equipments, cameras/accessories and precision equipment.

Many of these are either locally manufactured or assembled. Their food consumption has a high local variety as Malaysians, Indonesians, Thais and Japanese are expected to favour Asian dishes of different varieties. According to a restaurant trades survey, it was found that local food consumption had increased rapidly with great demand for local sea-food, pork, poultry and vegetables, etc. There is however an increase in beef and mutton imports to cater for the Australian, European and American tourists staying in luxury hotels.[101]

(v) Demonstration Effect

No clear statistical evidence is available to show that the tourist trade has caused any dramatic increase in the consumption pattern (especially luxury) on the part of the local citizens of Singapore as a result of the "international tourist" demonstration of a higher consumption standard. The proportion of private consumption to GDP has been continuously declining with capital formation (and government expenditure) increasing throughout - Tables 23 and 24.

Any increase in the desire to consume in Singapore to a large extent could be attributed to the higher per capital income which Singapore has attained through the years.

Table 23. Private Consumption Expenditure and Percent of GDP

Year	S$Million	% of GDP	Year	S$Million	% of GDP
1964	2382.5	84.0	1972	4815.5	67.6
1966	2650.2	78.2	1974	5533.5	65.5
1968	3179.7	73.7	1976	6115.2	64.7
1970	3872.7	69.4	1978	7111.9	64.2

Source: Yearbook of Statistics Singapore 1974/1975 and 1978/1979 - & various years.

Perhaps it was also due to the increased role the government played in restricting unnecessary imports or consumption by constantly categorizing items into heavily taxable grades. One such example is the constantly increasing tax rate on automobiles - others include liquor, entertainment tax, etc. With the governments effort at improving the transportation network into an efficient system and as a result of increasing traffic congestion (partly the result of increased number of tourists into the republic) the tax on automobiles has been raised several times. This has acted as a deterrent to potential automobile purchasers especially those with the aspiration of having two or three cars per household.

As for the savings rate, all evidence shows that it has been increasing throughout the last 15 years. Here again the government is partially responsible for this development. It had introduced a Post-Office Savings Bank Account (POSB) which was made rather attractive compared to other private banks. This was further added with the concession that interest received from this POSB account were non-taxable. An example of its effect may be seen in its growth. Deposits in POSB grew from S $91 million in 1971 to S $1.7 billion by 1978. Private banks savings grew for the same period from S $480 million to S $1.15 billion.[102]

Another important development in the savings component is the compulsory savings for employees. The authorities had gradually increased the amount to be contributed in this compulsory savings scheme called Central Provident Fund (CPF) which was initiated in 1955 and by 1978, the contribution was increased to 33% of gross salary on those employees earning more than S $363 a month or a maximum of S $990 per month. The system works in such a way that the employer and employee contribute 50% each to this compulsory saving onto the employee's CPF account. Interest is paid annually. The annual contribution to the fund is substantial. In fact they have risen from S $55.8 million (from 465,029 contributors) in 1967 to S $1.2 billion (from over 1.4 million contributors) in 1978. This has become a major source for government to fianance domestic debt indirectly i.e. this contributors fund have been invested in government stocks carrying yields which are tax-free. Since 1969-1970, the CPF account holders (above the age of 21 and whose family nucleus income does not exceed S $1500 per month) have been permitted to use their

Table 24. Expenditure on Gross Domestic Product - Million Dollars (Constant 1968 Prices)

Year	1964	1966	1968	1970	1972	1974	1976	1978	Est. 1979
Total	2836	3388	4315	5579	7120	8445	9447	11074	12098
Private Consumption Expenditure	2383	2650	3180	3873	4815	5533	6115	7112	7668
Government Consumption Expenditure	281	351	449	692	990	1298	1541	1989	2102
(%) at Market Price	10.4%	10.6	10.4	12.0	12.1	10.4	10.6	11.3	10.7
Gross Domestic Fixed Capital Formation	567	659	997	1712	2411	2884	2909	3270	3587
Increase in Stocks	-20	65	78	335	191	484	190	175	396
Less: Net Imports of Goods & Services	319	274	284	1179	1375	2171	1295	1479	2349
(%) at Market Price	10.2	7.7	6.6	19.4	18.0	16.3	8.3	7.3	7.3
Statistical Discrepancy	-89	-79	-105	67	49	-18	2.6	77	68

Source: Yearbook of Statistics S'pore 1974/75 and 1978/79 and various years.

CPF funds to purchase flats built by the two public housing authorities in Singapore - Housing Development Board (HDB) and Jurong Town Corporation (JTC). This apparently increased the demand for public housing sharply. Its effect can be seen in the expansion in the sector for residential construction. Note: This savings (CPF) could officially be withdrawn on reaching the age of 55 which is the official retirement age or when emigrating permanently.

It is therefore not possible to conclude that the "demonstration effect" has caused the savings rate to decline. Perhaps the various government inspired reforms and legislations have checked the otherwise pervasive probable spontaneous increase in luxury consumption which are often associated with foreign tourist consumption pattern. Statistical evidence shows that the Gross Domestic Savings has risen throughout the late sixties and seventies. Apparently, the official government role in this area is undoubtedly one of the strong determining factor in this development by its various means noted above.

In addition, wage increment in Singapore is strictly controlled by the relevant authority - The National Trades Union Congress (NTUC). The inflow of foreign workers have helped to sustain low skill, low productivity and labour intensive low-wage industries in the late seventies after local unemployment had decreased sharply by the mid

Table 25. Gross National Savings

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Generation of Gross National Saving												
Gross Nat. Savings	865	973	1130	1253	1916	2595	2892	3602	3747	4177	4543	5019
-Gross Domestic Saving	792	905	1065	1260	1980	2974	3421	3851	4197	4511	4778	5232
-GDP at Market Price	4315	5020	5805	6823	8156	10205	12543	13737	14575	15958	17569	19600
-Less: Private & Gov't Consumption Expend.	3628	4000	4612	5463	6164	7619	9094	9661	10339	11425	12771	14144
-Statistical Discrepancy	105	-115	-127	-101	-12	388	-27	139	-39	-21	-21	-213
-Net Factor Income From Abroad	87	85	56	-10	-70	-368	-434	-157	-329	-226	-146	-139
-Net Transfers From Abroad	-13	-16.8	8.1	2.8	6.4	-10	-95	-92	-121	-108	-89	-74
GNP (Output) At Market Price												
GNP												
GNP at MKt. Price	4402	5105	5861	6813	8086	9837	12109	13216	14246	15732	17423	19451
-GDP at Factor Cost	3971	4609	5320	6279	7524	9438	11738	12507	13586	14836	16294	18141
-Indirect Taxes	344	410	485	544	632	767	805	866	989	1122	1276	1449
-Net Factor Income From Abroad	87	85	56	-10	-70	-368	-434	-157	-329	-226	-146	-139

Source: Yearbook of Statistics S'pore 1968 . . . 1978/79.

seventies. The average annual wage increase have been relatively low at approximately 6.5% during the 1970-1978 period.

The inflation rate has not been a serious problem as yet. The consumer price index shows moderate increases throughout the period analyzed except for the 1973-1974 period when the increase averaged 21%, primarily due to OPEC price increases as can be seen in Table 26.

Table 26. Consumer Price Index - Singapore (%)

Year	(%)	Year	(%)	Year	(%)	Year	(%)
1964	1.6	1968	0.7	1972	2.1	1976	-1.9
1965	0.3	1969	-0.3	1973	19.6	1977	3.2
1966	1.9	1970	0.4	1974	22.3	1978	4.8
1967	3.3	1971	1.9	1975	2.6	1979 (Est.)	5.2

Source: Yearbook of Statistics. Various Years & 1974/75 and 1978/79.

(vi) Social and Cultural Effects

On the social aspect, the government was able to control to a certain degree the possible harmful effects often associated to a society because of an increased inflow of foreign tourists. This was more important in the sixties when the so called "tourists" then were more of the "hippie" category who did in fact do little to generate the foreign exchange which was certainly one of the main (if not the main) contribution expected of this industry. The government passed several laws prohibiting the sporting of long hair and penalties were imposed on drug users particularly the drug pedlars who were severely punished. Perhaps it facilitated the objective all the more for the government when it introduced the compulsory national service of two (or 2½) years for male citizens reaching the age of 18. The government was therefore able to concentrate on them as it was usually that age group (e.g. between 16-23) who were extremely vulnerable to "undesirable" influences.

The kind of tourism developed by any country affects the influence it may have upon the local group. Singaporean lifestyle is not overly disrupted by the millions of visitors as the standard of living is relatively high. The services available to tourists are within the reach of the locals (except a few strictly "luxury" services).

It is possible for the tourist industry to have other influences besides profit motive, such as moral or ideological impact which may not be easily controlled. Racial tensions and frustrations may result when the tourists and hosts are strikingly different in looks and wealth. Unfortunately, it is only possible for small countries such as Singapore without other natural resources to opt for tourism development at the expense of their cultural heritage and tradition for the sole purpose of increasing income and perhaps "modernize". This dilemma does not arise in DCS even when they have a large tourism sector. For instance, many European tourist destinations thrive on the strong traditional American and Canadian markets which are influenced by cultural ties and the propensity for them to travel to their lands of origin.

Almost all changes would affect culture and life-styles of the locals but severe shocks to culture or life-style should be avoided or at least be diluted with the introduction of countermeasures. It is important to realize that change is absolutely necessary although it may involve disturbance to some or few groups.

Perhaps it is useful to differentiate between culture and custom. Culture is a dynamic process whereas custom could be static. That all cultural forms should be preserved at all costs and no change of any sort are to be permitted is nothing more than a biased value filled subjective approach. Culture is often able to outmanouvre many external influences if they are truly undermining cultural development. Culture is internally differentiated (not unitary or enclosed), active and modifiable. Various influences including tourism may be elements that may help to reshape the cultural meaning of the various aspects of culture. Singapore being composed of 3 major Asian cultures (Chinese, Malay and Indian) has seen recently the emergence of cultural revival among the three cultures. Cultural shows from all sections are provided for tourists' entertainment. The extent to which these are beneficial or detrimental is not clear as yet.

However, it is notable that some local residents gain more than others (perhaps at the expense of others) as a result of the thriving tourist trade. The demand for professional services has increased i.e. lawyers, doctors, real estate brokers, insurance agencies, casino owners, etc. In fact real estate values has spiralled tremendously because of excess demand in the republic. Tourist oriented retailers are occasionally reported to be gaining rapidly even though they cater for local demands as well. Tourism generally has concentrated on the urban areas of the country. Although the income distribution across the population is relatively less skewed than in many LDCS, there is a potential for increasing the gap between urban and rural sections of the country particularly the factory and farm workers.

Traffic congestion became a problem in the early seventies. By 1973-74, the peak hour phenomenon became a feature almost throughout the day. The authorities then introduced a scheme limiting the number of cars entering the central business district (CBD) during the day (i.e. office hours). It was only partially successful. But with the construction of several flyovers many areas have overcome traffic congestion. Yet the problem is still an unresolved issue in Singapore. It is safe to state that the increasing tourist arrivals into Singapore has certainly added on to the problem of traffic congestion but to what actual extent it is unclear or debatable.

Singapore has been a center for various western social experiments. Singaporeans have been historically influenced by westernized behaviour. Western fashion, music, education, etc. have always been welcome in Singapore. The tourist inflow in the sixties and after cannot be accused of being responsible for various "westernized behaviour". For instance it is common for the newly married to hold two weddiag receptions - one traditional and the other "western-style". This was already present during the British times. Perhaps tourism is perpetuating the already existing behaviour which some social extremists have labelled as a new form of colonialism.

Homosexuality and female and male prostitution have been increasing quite rapidly in Singapore since the late sixties. Although no official figures are available, one of the main nightlife attraction in Singapore is the "Bugis Street" connection, which is a centre for homosexual and transvestite dealings or encounters. There has been a proliferation of "red-light" areas which has prompted several communities to send formal protests petitions to the anti-vice branch of the police and immigration authorities. Young girls from Indonesia, Thailand, Malaysia and as far away as from Hong Kong and Taiwan are reported to have been arriving in increasing numbers acting as "virgin" prostitutes to satisfy generous rich customers. Illegal brothels have also increased as can be seen by the increase in the number of raids into brothels by anti-vice officers. In 1970, there were 27 major raids. By 1978, the number had increased to 59 raids which had exposed over 150 illegal residents or overstayed visitors in Singapore. These have been suspected of being prostitutes or having engaged in "shady dealings".[103]

There are some social issues which have not been thoroughly investigated but are liable to be an issue in the future. For example, the nature of the actual feelings of the citizens with regards to the increased inflow of tourists. There were various complaints in the early seventies by the local population that they were being treated as "human zoo" for tourists to look at. The feeling was that it removed the pride in human dignity. However, this complaint was not localized to Singapore exclusively. Similar complaints were raised in other S.E. Asian and Far Eastern countries as well. For a detailed discussion for this specific aspect an article by Ban It Chu for the World Council of Churches is recommended.[104]

(vii) Air Transportation (Aviation)

International Tourism is heavily dependent on efficient and economic airline services. Airline service and tourist destination usually become an inevitable partnership. In fact, airline fares and its service form an integral part of the sales package quoted by destination areas to the tourist world. Costs of operation of travel facilities and services are often included into the airline's ticket price. If the price is too high it becomes uncompetitive which may then require other concessions and rebates to remain attractive. Airfare structures including landing and terminal costs are subject to change in short notice.

It is predicted that the world airline passenger revenue would show an estimated 10% growth rate in the eighties. This is higher than the expected 7.5% annual increase predicted for total international tourism expenditures. Less regulated aviation environment and greater competition among airlines are expected to influence this predicted rapid growth in airline revenue.

It should be emphasized however, that air travel is an excellent example of competition among services. Although it may be advocated that any country which experiences large tourist inflow annually, like Singapore, should introduce and maintain a national carrier efficiently, it is important that the net gain accrues to the respective nations represented. It is quite often the case that the benefits are drained off from the economy by foreign nationals through various means such as foreign ownership, foreign employees;

pilots, engineers and other aviation experts, etc. Although foreign nationals may be necessary in the initial period, it is important that these foreign employees who often receive high salaries be gradually substituted by efficient local citizens.

Employment in the air-transportation industry is likely to be small relative to the amount of capital invested. The proliferation in the number of airlines and to a lesser extent passenger ships, due to various reasons - economic, political or nationalistic, have been rather conducive to the rapid expansion in international travel including tourism.

The presence of strong tourism potentials have attracted many countries to venture into the airline business. Over 110 scheduled air carriers are presently operated by the various nations of the world. Strong intra-government and inter-government lobbying exist in the airline industry and often high level political manoeuvres are involved dealing with the various aspects such as routes, fares, landing rights, etc.

In addition, the airline industry as well as passenger ships often depend heavily upon financial institutions such as banks, finance companies, etc. for their management. Large banks often own aircrafts who then lease these to newly emerging airlines. More often than not, these are the same large banks and other financial institutions that provide finance for various tourism-related projects such as hotels, tour companies, credit card companies, etc. For example, Hilton International Corporation - an American multinational company whose owners are TWA also own the Hilton hotels around the world, Intercontinental hotels are owned by Pan Am, Sheraton hotels are owned by International Telephone and Telegraph (ITT).[106] Therefore, the competition originates from large business corporations, particularly from U.S. and Western Europe, who have vast economic resources to support their competitive actions.

Consequently, strong competition among airlines serving the same routes with almost identical equipment with the fares and on-board services officially dictated to members by IATA regulations and with little differences in schedules make one airline easily substitutible to another.

One of the biggest problems in participating in international aviation is its unpredictability. Unfortunately Singapore is too small to introduce or cater for domestic flights. In fact the rights for domestic flights within Malaysia was transferred to Malaysian Airline System (MAS) when the two split in 1971. Until then, Malaysia and Singapore had a joint airline system called Malaysian Singapore Airlines (MSA) which was acquired by both governments in 1966.

The development of the national commercial airline of Singapore - Singapore Airlines (SIA) coincided with the rapid development of the tourist trade in the economy. According to a survey made by SIS, an increasing proportion of the incoming tourists were recorded to be using SIA services.[107] Singapore Airlines has rapidly evolved to become an integral part of Singapore's economy and it is also one of the largest single contributors to the GDP. Although the actual contribution of SIA to the growth of Singapore's economy is not clearly established, its current contribution to the republic's GDP at 4% (1978) has made the airline a major contributor to the island's economic growth. This proportion is expected to rise to over 6% during the next few years, which would then make the airline the top single contributor to the GDP.

Singapore Airlines has been operating independently only since 1971. It is a wholly owned independent national airline of Singapore.[108] Its revenue doubled between 1972-1973 and 1975-1976. For the year 1977-1978 (over $45 million in profit), it received S $876 million in total revenue. This was 23.8% more than the previous years level. The average annual growth rate for the seven years from 1971 to 1978 has been an impressive 20%. SIA's budgeted capital outlay for the 1978-1979 year was over S $600 million. This represents 12% of the gross domestic fixed capital formation expected to be invested by the industrial and commercial sectors combined in the economy. In 1978, SIA enjoyed both the highest passenger load factor (72.5%) and the highest weight load factor - freight (76.3%) among the world's scheduled airlines.[109]

The rapid expansion in international travel as well as the growth in the demand for SIA's services encouraged the authorities to increase their operation. The airline ordered U.S. $1 billion worth of Boeing aircrafts in 1978, under the firm conviction of SIA's ability to generate reasonable profits on invested capital.[110] The first acquisition under this purchase of 6 Boeing 707s and 13 Boeing 747s (Jumbos) coincides with the planned opening of Singapore's new airport at Changi scheduled to be operational in early 1982.

The purchase of new Boeing jets is to coincide with the appropriate phasing out of SIA's existing relatively old 707s and 747s. This is intended to cover both the expansion and modernization needs of the airline and the deliveries are scheduled to spread over several years.

As a result of this gigantic step, the airlines operating profit is expected to decline. It has been predicted that the gross revenue would increase less than 20% during the next few years compared to an average 26% reaped during the previous four years - 1975-1978.

The main expectations for SIA's future profitability is certainly dependent upon the new routes opened up to the Middle East and across the Pacific to the U.S. (started since

April 1979) and also through a possible increase in the share of the traffic flow to the Orient and Europe.[111]

To keep up with the expansion program of its operation SIA has recruited additional operation personnel and expects to increase the number of employees during the next five years. Its cabin crew division had 1,354 members in 1978. The planned expansion would require an additional annual intake of 50 personnel during the next few years. An increase of 250 aircraft maintenance engineers and 150 flight engineers would also be required. Fortunately, SIA maintains the in-house apprenticeship and cadet officer schemes. The airline is expected to recruit an additional 150 captains and 100 co-pilots by 1984. At present SIA employs 155 flight commanders, including 97 foreigners and 153 local co-pilots.[112]

Singapore Airlines' bold step in increasing its fleet of Boeings and other jets is strongly motivated by its firm belief in the prediction that the future air-travel phenomenon would be expanding rapidly. Especially relevant is the positive forecast with regards to tourist arrivals into Singapore in the next few years. In Singapore, it is apparent that there has been a strong positive co-relationship between the development of the air transportation industry (SIA) and the tourism industry in the seventies.

However, Singapore Airlines would be facing a tougher and more competitive market in the eighties, which inevitably would affect the economic returns particularly when the price of energy is expected to increase rapidly in the future.

Besides, the future is not always predictable and there could be some irregularities which would prove to be detrimental to the respective investors in the air-transportation industry.

The first trial of such uncertainty was experienced by SIA in 1979 when Australia introduced a new cheaper direct flight from Britain to Australia and vice-versa. The Australian authorities limited this deal to Qantas (Australia) and BA (British Airways) exclusively. It was further suggested that similar agreements would be signed between Australia (Qantas) and other European countries such as Holland, Greece, Italy and Germany with their respective national airlines.

There was no doubt that such protectionist policies would affect the travel traffic to Singapore. This move placed SIA in an impossible dilemma as it had too much to lose. SIA would have ten 747s by 1981. These modern jets cannot be economically utilized for short-distances. With too many aircrafts for too small a domestic base, SIA got itself into a frustrating situation. The issue was critical for SIA because its "passenger catchment" area included Australia, U.K. and Germany. Australia is one of Singapore's major tourist generators and Australians are also among the heavy spenders in Singapore. The deal involved an inevitable decline in the number of tourist arrivals into Singapore. Therefore the resulting negative effects would be felt directly by SIA and indirectly by the tourist industry. The latter had been expanding rapidly with heavy investments (both private and public) on tourism related projects.

Hence, the damage would be experienced by both the aviation and tourism authorities of Singapore who when combined would soon be accounting for over 10% of the economy's GDP. Just as any increase of tourist expenditure would have a multiplier effect in Singapore's economy, a reduction in tourist spending would also result in a sharp decline in the income flow.

This incident shows that the growth in the airline and tourist industries have only increased the dependency of Singapore to international uncertainty and fluctuations.

Perhaps the result from a recent study could bolster the positive aspect of the air-transportation industry in Singapore. The report shows that airline profits in the region have been increasing rapidly due to an increasing number of tourists travelling in Asia. The study exposes that the intra-regional transport and regional passengers paid for most of the airline tickets which differs from the earlier trend when U.S. and European travellers were the most significant contributors.[113] This development coincides with our earlier finding when it was noted that there was a decline in per-capita spending by American tourists i.e. they spent less than the Indonesians, Japanese, Malaysians, Australians, etc.

Apparently the Australians, Japanese, Indonesians and other Asian travellers have become sufficiently "affluent" to afford the region its own domestic market.

Nevertheless, the joint development of Singapore's air-transportation industry and the tourist industry does not make them any less vulnerable to the international political or economic fluctuations that may occur in the future. In the seventies, the two related industries have achieved favourable returns in revenue and experienced high growth rates. Whether this trend will continue into the eighties with the same vigour is less than certain. They are both exposed to the uncertainties of the future in international travel and air-transportation industries' unpredictable tendencies.

CONCLUSION

General

When analyzing the tourist industry, it is important to examine the relationship between growth and structural changes in the economy generally and relating it to the growth of the tourist sector. It is important to consider not only the monetary gain of tourism industry but other aspects as well. Though the amount of foreign exchange the sector earns (both public and private - local) is important, it is not a sufficient consideration to substantiate its selection as a development strategy.

International tourism as an industry generally does not exist independently. It is often a part of a development strategy. Its importance is often correlated to the country's economic openness, reliance on foreign investment and aid, imported technology and materials, etc.

The basic assumption for tourism development (as in other foreign aided investments) is the belief that foreign exchange is not only a crucial but a bottleneck variable for economic development (alternative strategy for instance could be bilateral trade). This assumption creates the necessity of choosing among several dependent development industries. Independent industries (if there are any for LDCS) are almost always excluded when considerations are made on development strategies.

Tourism industry, given the possible foreign exchange leakage potentials need not be a good competitor even among the several alternative dependent industries.

If the leakages are ignored or overlooked, the economic benefits claimed would be highly exaggerated. Besides, inter or intra-class influences or struggle within the local economy may also be ignored or misrepresented.

One of the main attractions of tourism as a growth industry is that it often represents lucrative returns quite immediately. Often cash is the normal transaction mode realized by local businesses which are partly distributed into salaries to local residents. The turnover tends to be relatively quick (e.g. food, which may often be a major tourist industry's inventory, ordered on day to day or weekly basis) resulting in less inventory problems and better co-ordination between operating expenses and cash flow.

This may be compared with other manufacturing industries where raw materials etc. are ordered and obtained well in advance for future expected demand. When products are manufactured, their sales revenue may take months before they are realized.

Assuming the industry's foreign exchange leakage is limited, tourism may be used as a link by earning foreign exchange and profits to be used later into other sectors of the economy. This often discards the effects on socio-cultural-economic structure of a country. It may become difficult (if not impossible) to stop the dynamic process of society's cumulative cultural evolution which may be misdirected by the tourist industry's rapid expansion e.g. society's etiquette, social outlook, etc.

Though the transfer of surplus through the export sector (tourism) to the DCS (who are the basic owners and controllers) is an important element to be considered, it is also crucial to study the relationship of the export-sector to the national economy i.e. the tourist industry may consolidate existing (or create new) class structural relationships of dependency within the country. It is not unusual for one social class to benefit (often a minority) mainly from the income generated by the tourist trade. This may even be at the expense of other classes within the economy.

Any changes in the structure of the economy is most likely to entail an opportunity cost when growth in one sector supercedes the others because of the competition for scarce resources. Any growth in the tourism sector is likely to have occurred at the expense of other sectors. This does not automatically mean that the change is unwarranted or totally detrimental to the economy. Perhaps tourism can help to develop regional economies more rapidly than other industries. It tends to favour the peripheral regions requiring economic capital for tourist facilities, infrastructure, etc. This helps in the development of the national economy. Tourism facilities and attractions should not be misused or abused resulting in environmental decay. Tourism development should be associated with maximum benefits to local inhabitants wherever possible.

The tourism phenomenon in the sixties and seventies has become highly competitive and institutionalized. Demand for resorts are strongly influenced by travel agencies, multinational hotel chains, airlines, etc. Government policies ("politics") also play a role in directing the citizens destinations by segmentizing the international tourist trade.

In many LDCS including Singapore, international tourism is an economic reality. Receipts from tourism has become a major source of foreign exchange in comparison to other forms of internal transactions. On the global scale however, developing countries have not obtained a substantial portion of revenue derived from international tourism. The bulk of the arrivals and revenues are centered in OECD countries and in particular Western Europe. For example in 1978, 89% of total tourism earnings was absorbed by the OECD member countries i.e. $52.2 billion out of a total of $58.4 billion.[114] Though the proportion is still small, the amount of revenue derived from international tourism by LDCS is rising slowly. At one time the cultural and economic gap between tourists and the poor host countries led to the optimism that wealth would flow from rich countries to poor ones if tourism was supported. But facts show that wealth is not flowing in that direction. In fact wealth is being channeled back to DCS with an increase in profit (i.e. surplus extracted from LDCS operations) by the dominating corporate-biased economic concerns. Extremists may suggest that tourism may be one of the elements depriving LDCS from achieving independence in the real sense.

Multinational penetration into international tourism is almost inevitable given the present oligopolistic nature of the industry which encourages a strong relationship of economic dependency. Often international tourism is not the type of development (or growth) catering for the demand and needs of the local population. Indigenous science and technology are often avoided ignoring the development of local resources, especially for the benefit of local demand and need of the local population. It is important to assure that tourism industry does not force resources to be diverted to the production of tourist goods at the expense of not providing goods for local citizen's needs. If this occurs, than social conflicts may become inevitable as the tourist goods are generally consumed within a country often conspicuously unlike other luxury goods, where they are exported and consumed elsewhere (e.g. gold, diamonds, delicacies which are exported, etc.). Obviously, such conspicuous consumption may encourage some local residents (especially the elite) to emulate the lifestyles of the expensive-living tourists creating interclass conflicts among the different sections of the population.

Tourism in its broadest general sense can do more to develop understanding among people, provide jobs, create foreign exchange and raise living standards than any other known economic force. Unlike many other industries which depend upon raw materials (such as petroleum industry) tourism does not depend upon non-renewable resources. In fact any spoilt natural or artificial "attractions" are often a deterrent to tourism development making tourism an industry with the potential of having positive externalities.

Income distributional effects of tourism is not exclusively unique to this industry. Any new industry which increases the value of its products will undoubtedly widen the inequality of income distribution. This is because any new industry will benefit only a very small section of the local populace.

A large proportion of the net gain from tourism receipts covers indirect tax revenues which is not usual for most other industries. Assuming the local government is efficient and not easily corruptible and as long as these revenues are channelled to benefit the lower strata of society's welfare, then the income distributional effect of tourism may in fact be far superior when compared to other industries where tariff revenues may evaporate as a result of import-substitution policies requiring subsidies to certain groups in the population.

The arrival of tourists in a country tends to raise the prices (or reduces the quality of items purchased if the same price is maintained) for the local elite class (e.g. luxury foods - steaks, seafood, hotel rooms, handicrafts, etc.). If there are no corresponding increase in prices of items bought by the lower strata of society, tourism may be seen as a tool to ensure a greater equality of income distribution (real). However, this may create tensions between local rich and tourists which may erupt into open hostilities.

By influencing the distribution of income, tourism could as a result pattern the local demand leading to influences on local employment. This is because the relative shares of profits, wages, interest and rent will vary according to the various different factor combinations.

If the internal distribution of tourism income goes to groups with a higher propensity to consume domestic goods than to imports, that type of distribution of income will be more effective in raising the demand for locally produced items. Naturally such demand would have a greater impact on domestic employment if those goods demanded are labour-intensive.

If the tourist income is distributed to those who have a higher propensity to import, it will create leakages out of the economy through import payments. When the income accrues to those with high propensity to save then tourism would also indirectly contribute to investments in other sectors.

Given todays unstable nature of most primary commodities (raw materials excluding oil), tourism demand seem to be more stable and predictable than most raw materials in the international market. It is however important not to assume that the sole goal of any industry (including tourism) is to maximize profit or surplus. The various constraints when present should be identified e.g. physical resources, socio-cultural, etc. If these obstacles are not surmountable than growth in tourism should not be overly encouraged for severe repercussions are otherwise inevitable.

International tourism has an inherent drawback (contradiction) in DCS which may prove detrimental to many non-OECD tourist destinations. Private sectors such as hotels, airlines, banks, etc. in DCS usually attempt to convince governments to permit them to offer "international tourism" to their city dwellers who are incidentally the main tourism consumers. This entails an outflow of foreign exchange from the country concerned. The contradiction becomes apparent when the respective governments attempt to gain a favourable balance in travel accounts when the other accounts show unfavourable results. This necessitates competition for the tourism market. Undoubtedly, there would be some gainers in the tourist trade which follows that there would be some net losers. This process may continue without causing much damage for a period of time but when the other sectors of the economy suffers consistently due perhaps to international uncertainty, it is only logical to assume that the respective governments would squeeze their citizen tourists from spending too much abroad or even stopping them through various means. Restriction of international travel by any nation could be seen as admitting that foreign travel is proving to be detrimental to the economy of even the world's richest nations. Given the reality of the energy crisis, inflation and world economic recession affecting the DCS especially, it is reasonable to assume that DCS would attempt to restrict tourist generation from their countries to go overseas and instead domestic tourism may be encouraged.

One current example is the transition experienced in the U.S. tourist trade. U.S. had for a long time been the main international tourist generator in the world. It consistently had a deficit account in the travel balance. But the recent recession and other international developments and policies have changed the trend to the benefit of U.S. travel industry.

In the past few years inflation in other DCS has increased at a faster rate than in the U.S. The U.S. $ has also declined in value (as the result of the floating exchange rate system adopted by the authorities) compared to Yen, Mark, Swiss, Franc and Pound etc. The lower value of the U.S. $ is expected to bring the U.S. travel account into balance. The U.S. travel authority expects in the 1979-1980 period a sharp increase in travel by foreigners from overseas countries as well as from Canada and Mexico.

In a recent article, the "Time" magazine predicts a 19% increase of overseas visitors to a record 8.2 million in the U.S. in 1980. 1980 is also predicted to be the first year when foreign visitors outnumber the Americans going abroad. A drop of 3% over the 1979's figure is expected, reducing to about 8 million Americans going abroad. The main visitors expected are: British, Japanese, Germans, Venezuelans, and French. In 1979 Americans spent almost $1 billion more overseas than foreigners spent in U.S. 1980 is predicted to reduce the deficit travel account to $200 million. Rising unemployment and inflation has also restricted American family budgets forcing more Americans to go on cheaper overseas holidays or travelling within U.S. boundaries or staying home.

On the other hand, Europe's tourist industry is having a tough year in 1980. Besides bad weather, terrorists activities in Spain, Italy, Corsica, etc. has acted to reduce incoming travellers. Europeans are finding that in America the food and other costs of travel are cheaper than in Europe where inflation is consistently high. This has been aided by the drop in the value of U.S. dollar. Consequently, some of the traditional tourist centres of Europe are expected to register a drop in tourist arrivals.[115]

When the majority of countries attempt to join the race,as tourist destination, than a few (especially vulnerable are LDCS) will inevitably be losers. This becomes worse if and when DCS start restricting their nationals from going abroad when they have their own deficit problems to face in the long-run.

This is in addition to what some studies have shown that tourism development need not be good for LDCS. John M. Bryden concluded that for the LDCS as a whole, outgoing tourist expenditure were greater than tourist receipts resulting in a deficit on the travel account leading to "a net flow of resources from the developing countries to the developed through the tourism market."[116]

Singapore

Basically Singapore is an open economy where the export of goods and services generate the income. The levels of activity in the economy (especially the construction, manufacturing and related industries) is substantially influenced by capital inflows both directly and indirectly. The main domestic economic sectors are (i) trade, (ii) manufacturing, (iii) transport and communication, (iv) financial and business services, and (v) government sector and a small agricultural sector. The foreign sector is undoubtedly the main focus for achieving future economic growth. Tourism being a component of this sector may help or obstruct future economic development of the country.

It was found that foreign investment was an important contribution to the economy's total investment level. One cannot say that in Singapore, if there had been no foreign investment (or entrepreneurs) in the tourist trade, there would have emerged domestic investment (entrepreneurs) independently. Foreign investment was not competing with home investment and the utilization of resources in the tourist trade (an export-sector) coincided with other related development strategy. For example, the local national airline was able to expand and match the increased traffic flow into the republic. To a certain extent, it is true to say that the development of the tourist industry utilized surplus resources which otherwise would have remained idle or may have gotten into the "dynamic" hands of the frustrated speculators.

There is no statistical evidence to show that tourism industry's growth had been an obstacle to Singapore's economic development strategy. Perhaps it is because of the minor role tourism plays in the economy (5.6 percent of GDP in 1978) that it has not caused any effective instability in the economy. In fact, the development of the tourist trade infrastructure has been a pervading force through the rest of the economy in an integrated process. The stimulus from this industry provided the appropriate stimulus to other sectors of the economy such as handicraft manufacturing, textile industries, improvement in the transportation sector. It provided the demand for the emergence of several local food industries and restaurants. Though statistical evidence is not obvious as yet it is possible to suggest that the tourist industry has the potential to act as an intermediary to attract local investors particularly into the tourism support industries where there have been emerging an increasing number of local investors. Perhaps this relationship may spread the technical knowledge, specifically the acquisition of organizational and supervisory skills to the local citizens who have tended to avoid getting involved in other sectors except their traditional trade sector of wholesale and retail.

As the local entrepreneurs often avoid committing capital on big industries, they can be initially attracted to take risks in small supportive industries having high returns. Though the tourism support industries may be highly fragmented (consisting of many small sections), on the whole these small enterprises may often constitute a major proportion of the tourist trade. These small industries by their very nature often prohibit corporate management or state management. They are also labour intensive often requiring relatively little investment. Local entrepreneurs may therefore be encouraged to invest in these profitable support industries. It may however become necessary for some groups (or government) to plan and deal with creating facilities and leasing them to small businesses so as to direct them and assuring the compatibility of the tourist industry with the local environment.

Although tourist industry could create employment relatively cheaper than in a few other industries, it is pertinent to consider the long-run effects of developing the tourist industry extensively. Small scale industries (cottage and other supportive industries) may be useful in the transitional stage of industrialization. But most of the tourism related industries e.g. souvenirs, pottery, basketry, etc. do not constitute the strong foundation for industrial development which are found in the case of weavers, mechanics, precision tool workers, printing, engineers and technicians, computer personnel, etc.

A closer study on the possibility of the tourist industry to restructure the economy and to sustain the necessary growth rate for Singapore in the long-run becomes important. Here the development strategy of the authorities (government) would have to be considered. Unlike 1970, when the economy faced high unemployment and slow growth rate and when labour-intensive industries were encouraged, the late seventies and eighties would see a Singapore with low unemployment and high growth rate. The strategy to attract low-value-added, high labour content industries succeeded in leading the economy out of the economic dilemma in the seventies.

Since 1979, Singapore's economic objective for the decade is to achieve growth through higher-value-added industries and economic activities i.e. to attract higher-value-added industries into the republic. Tourism is a labour-intensive industry which would inevitably conflict with the national economic strategy. Further growth of tourism would only divert more labour into this industry where the wages have to be increased simultaneously so as to attract the labour from other sectors. Unless the authorities are prepared to continue permitting cheap foreign workers into this industry, the profit rate in this industry is likely to fall.

It must be added however, that despite Singapore's strategy to attract higher value-aded, high technology manufacturing industries, the response from the international community has not been outstanding. No substantial increase in output from the various manufacturing industries have been experienced throughout 1979. If the strategy works then it would involve skill-intensive and less export-sensitive industries to expand in Singapore. Though Singapore is a substantial manufacturer of components yet it produces very few complete systems. For example all computers are imported (82% from U.S.A.) though it produces several parts.

Singapore's new policy inevitably aims at driving out the low-skill labour intensive industries out of the republic in favour of more capital and skill intensive industries e.g. automotive components industry, machine tools and machinery, medical and surgical instruments, computers and related equipment, optical instruments, precision engineering, electronic instruments and components, hydraulic and pneumatic control systems together with the key support industries for all these enterprises.

One way this strategy could be complemented by the future growth in tourist industry is by the possibility of achieving greater foreign exchange in the industry because shopping was seen to be one of the main expenditures incurred by tourists in Singapore. By producing the various high-technology products, the manufacturing industry may help substitute imported products for tourist hence enabling the economy to retain a higher ratio of foreign exchange.

Evidently the development of the tourist industry in the seventies has achieved the objective of diversifying Singapore's economy so as to avoid being caught in a frustrating economic situation. By being dependent on one (or limited) export commodity any nation would become vulnerable to international economic fluctuations causing disruption in any developmental strategy.

Tourism has provided considerable forward linkages in the economy, but its backward linkages are more significant. As the tourist trade grew, it provided a strong stimulus for expansion in the input-supplying industries in other areas of the economy particularly to the food and beverage industry, accommodation industry (hotels, lodges, inns) and other light manufacturing industries catering for the demand of the incoming tourists.

Parallel to the development of the tourist industry, there has been considerable infrastructural development in Singapore which has made several "remote" areas accessible with modern transport system. A Pan Island Expressway (PIE) has been constructed which links the north and southern part of the island to the eastern part reducing the travel time by half or more. This reduces the travel time for tourists from the airport to the various attractions found in the island's central region. Simultaneously several formerly remote areas have been opened up for industrial development especially light manufacturing and cottage industries. It is not possible to isolate tourism as being responsible or cause for these developments. However, the tourist trade did grow along with these changes. Several of the smaller manufacturing and gardening sectors did benefit from the growth in the tourist industry's demand for goods and services.

Employment in the tourist sector has not increased dramatically though its proportional contribution is commendable. Fortunately Singapore's tourist industry is not affected by any serious seasonal fluctuations which is common in many other major tourist receiving countries. The tourism authorities (STPB) have taken steps to reduce the small seasonal fluctuations by using several promotional techniques such as emphasizing Singapore as a "convention centre" during the slack period. Consequently there is no off-season unemployment problem in the industry.

The capital cost of creating a luxury tourism related job is usually much higher than in manufacturing or some other service industries or even agriculture. But often the immediate cost need not be the only reason for supporting any development.

It is also observable that the share of foreigners income in the GNP calculation has been increasing consistently throughout the late sixties and the seventies from less than 15% of total GDP to almost 25% of GDP in 1978. Apparently tourism has not been an important influence in reducing the foreign component of the economy (see Table 27). It cannot however be singled out as the sole sector responsible for this undesirable trend. However, the net factor payments abroad is relatively small. E.g. in 1977, it was S $248 million. There is therefore substantial amount of reinvestment.[117]

Perhaps the most important contribution of the tourist industry in Singapore was its timely role in generating the foreign exchange which was desperately needed for the republic's development in the late sixties and early seventies. As Singapores other major foreign exchange earner - the entrepot trade sector was declining due to pressures from other countries in S.E. Asia, the tourist sector appeared as an appropriate alternative which served the purpose well. The discovery of tourism industry as an income earner became a major incentive to investors from the important tertiary sector in Singapore's economy.

As for the future, it would be dependent upon the nature of international fluctuations in tourist industry. Any disruptions in this trade would cause a decline in the inflow of foreign exchange receipts inevitably causing disruption in the development process.

Tourism could be used as a minor vehicle of growth and development. It is however important to encourage in-

Table 27. Indigenous GNP & Share of Resident Foreigners and Resident Foreign Companies in GNP. (Current Market Prices) (Million Dollars)

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	Estimate 1979
(1) Total GDP	5020	5805	6823	8156	10205	12543	13373	14575	15958	17569	19590
(2) Share of Resident Foreigners & resident Foreign Companies in GDP*	800	1071	1234	1516	2090	2990	3059	3289	3645	4282	4965
(%)	16	18.5	18.1	18.6	20.5	23.8	22.9	22.6	22.8	24.4	25.3
(3) Indignous GDP (1)-(2)	4220	4734	5589	6640	8115	9553	10314	11286	12313	13287	14625
(4) Net Factor Receipts of Singaporeans from rest of the world	252	256	237	244	294	413	481	442	552	692	769
(5) Indignous GNP(3)+(4)	4472	4990	5826	6884	8409	9966	10795	11728	12865	13979	15394

Source: Yearbook of Statistics Various Years 1969-1978

*includes: Permanent residence, stateless, foreign nationals.

restaurants, etc. assuming greater local participation as a result. These would probably utilize local materials (unlike large hotels with high import content) encouraging a spreading effect and also increase the earnings of this sector as the price elasticity of demand in tourism is reputed to be quite high.

Singapore has reached what some would call the critical point as far as the number of tourist arrivals are concerned. With a population of 2.3 million, it is already receiving over 2.1 million tourists by 1979 (estimated). It should not emphasize on the number of tourist arrivals but should attempt to increase the retaining ratio of tourist expenditure. Its strategy should be to attract more affluent travellers and getting them to stay longer. The new target should be more visitor days instead of more visitors.

Though there are no statistical evidence to show conclusively in the case of Singapore, uncontrolled growth in tourism would inevitably increase the inflation rate for the citizens. Everyone has to pay higher prices when tourists increase the demand for certain goods and services. If this continues the economy would suffer in the long-run.

In summary, the tourist industry cannot be considered a very reliable sector for the economy in the long-run. In the long-run, the size of the tourism industry should become relatively stable and small compared to other industries in the economy. At present, the tourist sector in Singapore accounts for about 6% of the GDP. Perhaps an arbitrary 7 to 10% of GDP would likely be the limit for this industry in Singapore. This may be combined with the aviation industry to comprise between 15 to 20% of the GDP. If the proportion becomes too large than any international irregularities would affect Singapore disproportionately.

It is true that in the early stages of development, tourism can (and has played in Singapore) play a major role in the growth process. In later stages, tourism could be counted on as a source of foreign exchange and capital formation. Employment could not be concentrated predominantly in this industry but a permanent labour force may be maintained. In Singapore it has been successfully used as an alternative to diversify the economy. The main sector which would play the leading role in the island economy is likely to be the manufacturing sector. The tourist industry to a certain extent has been playing a facilitating role in transforming Singapore's economy into the manufacturing sphere.

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