




Tourism: the industry of those that could not industrialize

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Discussions about the magnificent possibilities of the Philippine tourism sector are not new. Yet, the constraints the sector faces continue without being addressed. I also often hear references, like the one above, to the sector as one that will contribute significantly to the Philippines eventually attaining high income per capita. In this Brief, I offer some considerations on both issues.

Let's first understand the sector's constraints if we want to address them adequately. We have been talking about tourism as a sector with great potential for quite some time already. Yet, this does not seem to fully materialize. Perhaps several reasons make the Philippines a difficult tourist destination. For one, the geography of the country, many small islands, makes it challenging to build a significant number of sizeable hotels. This has led to the construction of small, very expensive, and isolated resorts: once you check-in, you are trapped there till you depart. This is a serious handicap.

Second, I have checked with quite a few of them and confirmed that a significant share of the construction and operating costs is accounted for by imports. The country hardly manufactures anything. This means that there must be significant import leakages. This is a great opportunity to start manufacturing something at home and creating a domestic industry: table napkins and tablecloths, cutlery of all sorts, wine and water glasses, industrial stoves, ovens and exhaust fans, bedsheets and pillows, and a high-quality and sophisticated food industry. Most of the necessary components needed to build and operate a hotel should be made in the Philippines.

Third, the poor-infrastructure problem (both at the city and national levels) is well known. There is no point in repeating it. Fourth, cities like Tokyo, Bangkok, Madrid, London, Paris, or New York, for example, are tourist destinations, entry points into the country. Manila is not a tourist destination. We must make it so. Foreigners with significant purchasing power will not come to Manila to visit our malls. This is a great excuse to think about redesigning Manila to make it an attractive city.

Finally, there seems to be no understanding among many people of what a sophisticated tourist wants. Tourism today is much more than sun, beaches, and warm hospitality. Competition in the segment the Philippines wants to have a niche (sun, beaches, diving), is already strong. I am truly proud that the Philippines has earned the distinction of being "Asia's Leading Dive Destination" for the fifth year in a row, according to the World Travel Awards (WTA) Asia and Oceania Gala Ceremony 2023. This is something to treasure and maintain. Yet, this alone is insufficient to bring millions of (foreign) tourists. Today's international traveler looks for a complete experience, a package that includes amenities such as museums, opera, ballet, concerts, historical sites, superb food (the Philippines does not have yet a single Michelin-star restaurant), etc. The widely-used Lonely Planet guide just released a list of the 10 most sustainable destinations (those that put emphasis on promoting the quality of the environment) in the world for 2024. These are: several regions in Spain; Chilean Patagonia; Greenland; Southwest of Wales; route from Santiago de Compostela (Spain) to Lisbon (Portugal); Palau island; Hokkaido (Japan); Galapagos island (Ecuador); the coasts of Latvia, Lithuania, and Estonia; and South Africa.

These are the experiences we all look for when we go to another country. They signify the sophistication of the place visited. Nobody believes that a European is willing to spend almost a day in a plane to see jeepneys in action. Manila and Cebu need to improve on the sophistication scorecard. Certainly, the nation's warm hospitality is a plus, but if this was the key factor attracting tourists, some European cities would not receive a single one. Instead, millions of them choose to queue to climb up some famous towers or visit Roman ruins (not to dive) despite the locals' unwelcoming faces and manners.

I will address now the other issue I mentioned above, namely the extent to which the tourism sector can be an economic springboard. I will argue that this is true but we also need to understand how far it can take a country. Let me remind the readers that the Philippines failed to industrialize in the 1970s. Hence, by default, it had to get into services. Tourism is a relatively simple activity. It is the desired sector of most developing countries today. Just check several websites at random. Today's *developing* countries are labeled as such because they could not industrialize when industrialization was the springboard to high income in the 20th century. This is the case of the Philippines. Today, that route is next to impossible, hence the only option is services, and tourism is easy. It does not require the same level of complexity and investment as

the typical manufacturing project in the chemical or automobile industries. The problem is that, unlike manufacturing, tourism is not the escalator to high income.

To elaborate upon this point, let me refer to the experience of Spain, a high-income country with a significant tourism sector (it hit about 80 million tourists before COVID-19). Spain suffered a balance-of-payments crisis in 1959. The government asked for IMF's assistance and the economy was forced to undergo significant reforms. Spain needed a sector that provided foreign income and that created employment. It was not difficult to see that tourism could be that springboard. The result was that Spain registered one of the highest growth rates in Europe during the 1960s. Several factors contributed to the success of tourism. One was climate: Spain became the perfect summer destination for the working class of the Northern European neighbors. Second, Spain was a cheap country and had little competition in its price segment. Third, the government provided all the necessary basic infrastructure for the sector to take off: roads, electricity, water, airports. Today, Spain has one of the best transport infrastructure networks in the world. To this, one has to add world-class health facilities in case someone gets sick. Spain had at the time a state-owned hotel chain (Paradores) but private sector hotel chains emerged to supply the increasing demand. Geographically, Spain is a peninsula with about 3,500 beaches that spread over 8,000 kms. of coastline. It has a lot to offer: culture, gastronomy, and diversity. Tourism was definitely a magnificent springboard. Note also that during these years, Spain managed to industrialize, although not at the level of its northern neighbors, especially Germany.

This situation lasted for a few decades. The tourism sector generated significant employment and brought in foreign income, but it paid low wages so as to maintain its competitiveness. By the time Spain joined the now-called European Union (EU) in 1986, it had progressed but was it was still significantly poorer than its northern neighbors. Thanks to EU's assistance, Spain managed to close somewhat the income gap. But this gap remains: Germany, France, Netherlands, and Denmark, are still richer than Spain.

Today, the sector employs about 2.6 million workers, or about 13% of the total employment. The sector continues paying one the lowest salaries in Spain (for European standards). The reason is simple. Spain has not been able to create a tradable advanced manufacturing sector that pulls the wages of workers in sectors such as tourism. Waiters in Switzerland, the same as taxi drivers, or barbers, make much higher salaries than their counterparts in Spain. Do not search for the answer in higher productivity or more educated barbers. It is the size of the tradable advanced

manufacturing and services activities that determines the wages of the non-tradable activities.

One of the greatest policy and political dilemmas in Spain today is what to do with this large sector, "how to add value." It is a chimera. Hotels are significant investments that cannot be easily transformed into something else. Wages will not increase as a result of productivity increases within the sector. Why? The only way for a waiter to become more productive is if he/she serves more tables, but this will be achieved at the expense of providing a service of lower quality (which has already happened). The other option, as mentioned above, is to have advanced tradable manufacturing and service activities that pull the tourism sector's wages. Spain does not have these advanced activities to the same extent that Switzerland, Germany, or Denmark, do.

In conclusion, tourism can be a great spur for the Philippine economy, and the country has the raw material but the sector has limitations given the constraints it faces. These have to be addressed. Second, we need to develop parallel sectors that pay much higher wages (in advanced manufacturing and services) so that the tourism sector wages can increase in tandem.