Tourism industries and tourism foreign direct investment in Wales

Chen Xu, Cardiff Business School
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Introduction

Wales has some of the best landscapes in Europe, including three national parks which host activities that include hill walking, canoeing, mountain biking, kayaking and climbing. Wales is also becoming more and more popular for 'extreme' sports, including surfing, hang gliding and downhill cycling. In addition, cultural, historical and industrial heritage sites in Wales attract significant numbers of tourists. (BBC, 2010; Bolter 2013; Welsh Government 2016).

Developing tourism is a way of 'exporting' such assets to earn revenue and potentially spur economic growth. Tourism is therefore important to the Welsh economy, and still has significant potential for growth, but, as in other parts of the world, its economic impact is difficult to measure.

Since 2000, the Welsh Economy Research Unit (WERU) at Cardiff Business School has sought to estimate the economic contribution (and some environmental implications) of tourism to the region through the framework of Tourism Satellite Accounts (TSA). Indeed the developed TSA framework for Wales has made an important contribution to how such tourism accounting issues are examined globally by the United Nations World Tourism Organization (Jones and Munday 2007; Jones et al. 2010). This paper summarises recent research which has sought to extend the TSA framework, to include additional data which can further aid the understanding of the nature, scale and characteristics of tourism industries in Wales.

Tourism Industries in Wales

The Wales TSA for 2013 estimates total tourism spending at £5.1bn and tourism gross value-added (GVA) at £2.2bn, representing about 3.4% of total direct Welsh GVA. In 2013, 86,500 full-time equivalent (FTE) jobs in Wales were estimated to be in tourism industries.

Tourism occurs in all parts of Wales, and this geographical spread of economic activity and employment generated by tourism is one of its key benefits. Tourism in economically marginal areas of Wales may be related to an improvement in the services industry base. For example, where the resident economic demand is weak, the extra demand created by tourism may enable the provision of services such as retail, hospitality and other commercial services, at a higher level (Jones and Munday, 2001). Tourism supply chains also bring critical benefits to many small, indigenous businesses in Wales (not least agriculture).

Table 1 shows selected tourism-related products and activities which are separately identified within the Wales TSA. For illustrative purposes, Table 1 focuses on two of the largest activities, in terms of absolute direct GVA supported and tourism ratios.

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Table 1: Total GVA and Tourism GVA (TGVA) of selected tourism related activities and TGVA as a percentage of total GVA in Wales, 2013.

Products	GVA (£million)			Tourism Ratio	TGVA (£million)		
	Total Wales	Regional	Non Regional		Total Wales	Regional	Non Regional
Accommodation services for visitors	588	341	247	70.8%	416	242	175
Food and beverage serving activities	1,181	772	409	29.3%	346	226	120

Note: Totals may not sum due to rounding
Source: Author's estimates

The second, third and fourth columns of Table 1 show total Welsh GVA for these two activities, and how this separates into GVA generated by regional (domestic) businesses, and that generated by non-regionally based companies (see next section for further discussion). The middle column of Table 1 provides the 'tourism ratio' for each activity, which shows the extent to which tourism contributes to total Welsh GVA in different tourism-related activities. This ratio ranges from over 70% in accommodation services, and just under 30% in food and beverage serving activities. Although not shown in Table 1 this ratio falls to less than 2% in exhibitions and conferences and other consumption products..

Tourism foreign direct investment in Wales

Uniquely the recent improvements in the Welsh TSA provide for a separation of the tourism 'supply side' into domestic and foreign-owned firms. In the Welsh regional context, 'foreign' direct investment (FDI) is defined here as all non-regional ownership, hence including all branches of rest-of-UK firms as well as overseas direct investment. This separation is useful because (1) Wales has a strong reliance on non-regional capital in general, (2) multinational and multiregional firms are likely to be different in scope, scale and activity from 'local' firms and (3) the influence of 'foreign' capital on development, in tourism and other industries more generally, is uncertain and a live debate.

While foreign capital confers advantages on a regional economy (connected to its relatively high productivity), it can also be associated with problems resulting from the increasing dependency on external capital. In the Welsh case dependence has also resulted in greater exposure to global events (e.g. the ongoing issues with Tata Steel in Port Talbot, and see Roberts, 1996; Gripaios and Munday 2000; Munday, 2000; BBC, 2016; Bowler, 2016; Jones, 2017). Foreign ownership in tourism industries may have similar sets of costs and benefits. In tourism industries in some less developed areas, foreign domination and external dependency can seriously reduce tourism's potential to generate broad-based growth. Less developed tourism sectors may be monopolistically controlled by transnational corporations, and with problems of dependency, internal disarticulation, and foreign exchange leakage (Brohman, 1996).

These FDI-related problems are usually due to the foreign-owned export enclaves dominating less developed countries or limiting supply chain benefits. For example, in Punta Cana in the Dominican Republic transnational corporations have constructed small enclaves with their own essential services including power, waste and water management and access modes (UNCTAD, 2007). Data collected from different countries indicate that these types of leakages can be substantial, and with the situation exacerbated in the small countries where tourism sectors are dominated by foreign controlled resort enclaves (UNCTAD, 2007). For example, in Thailand it is estimated that 70% of all tourists' expenditure ended up leaving Thailand because of the leakages to the foreign-owned tour operators, airlines, hotels, imported drinks and food, etc. Similar estimates for other less developed countries range from 80% in the Caribbean to 40% in India (Boz, 2011). The relatively high levels of non-regional ownership in the accommodation sector in Wales may result in a similar leakage problem (Jones et al. 2003).

According to the Welsh TSA for 2013, non-regionally owned tourism businesses supplied just over half of all tourism characterised services and products. However, non-regionally owned tourism businesses are much more efficient in terms of GVA per FTE (Table 2). Foreign-owned tourism businesses have an overall productivity level which is 2.6 times higher than the regionally owned businesses[1].

Sectoral representation and scale differences explain some productivity gaps between the regional the non-regional tourism businesses in Wales. Generally the foreign-owned sector is focused in certain areas, but multinationals have advantages that allow them to overcome competition from domestic firms. These 'ownership' advantages in foreign owned tourism industries include: economies of scale; brand name and reputation; greater finance availability; better knowledge and access to international tourism markets; better trained personnel, management and reservation systems; better organizational and IT capability to integrate value-adding activities (Dwyer et al. 2010). The productivity differences in hotels and restaurants in Wales are expected to be due to such ownership advantages. Non-Welsh owned accommodation is characterized by large chain hotels, Welsh-owned by smaller hotels and B&Bs (although there are some exceptions). Again, productivity differences in the Transport equipment rental industries link to the nature of equipment for rent; internationally-owned car leasing, included in this category, is likely much more productive (per employee) than regionally-owned rental of surfboards or boats. A similar 'production form' argument can be made for road transport, where local ownership includes many taxicabs with low passenger-to-worker ratios, whereas long distance buses, tourist coaches and scheduled coaches that connect Wales with England and Scotland are operated by non-regionally owned operators with much higher passenger-driver ratios, thus leading to higher productivity.

Another recent innovation in the Wales TSA relates to the inclusion of information which shows characteristics of employment in tourism industries. Data for 2013

Table 2: Comparison of GVA shares and productivity by regionally owned and non-regionally owned tourism businesses in Wales in 2013

All products	GVA Percentage		GVA/FTE (£/FTE)		
	Regional (%)	Non regional (%)	Regional	Non regional	Productivity difference[a]
Total Output	47%	53%	506,876	1,310,585	2.586

[a]Productivity difference is the non-regional GVA/FTE divided by regional GVA/FTE
Source: Author's estimates

shows that many tourism industries employ people with lower qualifications (on average) than non-tourism industries, and that all the tourism industries employ proportionally more people who are on low incomes and/or who are claiming state benefits. While tourism may be regarded as 'low value' activity, it may provide important income and career development opportunities for those with fewer qualifications and skills – important in a region like Wales.

Foreign owned businesses are characterized by higher wages across all the tourism industries. Additionally the wages in other (non-tourism) industries are higher than most of the tourism industries, which again shows that in general, tourism industries are lower paid, especially the domestically-owned tourism industries. Finally, information gathered as part of an experimental purchasing account within the TSA shows that, at least for a small indicative sample, the foreign-owned tourism businesses have a much higher tendency to import their materials and services, with 48% of purchases made outside of Wales, compared to domestic tourism businesses who sourced 21% of their purchases outside of Wales.

Conclusions

The Wales TSA reveals important characteristics of tourism industries, well beyond expenditure and employment – although tourism's continuing role as an important driver of employment should not be ignored. It shows that the characteristics of regional and non-regional business is very different, with non-Welsh businesses higher paying and more productive, but with this driven in large part by the size of establishments, and 'selective' investment in higher value sub-sectors from outside the region. The work summarized in this paper, progressed in collaboration with the United Nations World Tourism Organization, is potentially replicable across all countries and regions which have TSAs, including many developing economies where the interactions between tourism, FDI, and growth are not well understood but of great importance.

Endnote

1. In some sectors, such as Water passenger transport, transport equipment rental services, and Exhibitions and conferences industries, the productivity differences between two ownerships are much larger but the 'Welsh-owned' supply base can be almost non-existent, leading to measurement difficulties.

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