Tourism for Economic Development: The Invisible Hands that Hold the Pandora's Box

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Abstract

This paper discusses the importance of tourism as an economic development strategy to developing countries. It argues that despite its importance to their economies, they are helplessly kept under control by developed countries and/ or large tourism service companies that dominate the industry and suck tourism dollars out of the lifeblood of poor host countries. Being under domination can expose these countries to a host of other additional negative repercussions of tourism. This has been made possible by the fact that developing countries are plagued by unfavorable institutions that are the result of a historical process; colonization being the most influential. Effective community participation towards strengthening informal institutions is one strategy that can redirect leaking revenue into the local community and vest people with decision-making power. This type of empowerment of the informal institutions can ensure the smooth functioning of formal tourism institutions as well.

I. Introduction

Travelling is no longer a privilege enjoyed by the rich and elite. It is neither a

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luxury offered to and by the developed nations of the world. Instead, tourism has become one of the leading and fastest growing economic sectors in all parts of the world. Data for 2014 indicate that tourism generates 10 percent of the world Gross National Product (GDP) and one in every eleven jobs is directly linked to tourism. In the year 2014, tourism earned 1.5 trillion US $ by tourism, which accounted for 6 percent of world's exports and 30 percent of world's service exports (UNWTO, 2015: 14). Its implications to development are pronounced with every passing year as annual world tourist traffic grows rapidly. There was a 4.3 percent growth in tourist movement which totaled up to 1.133 billion tourists travelling across the globe in 2014 (UNWTO, 2015: 14).

Recent statistics and studies have shown that emerging nations, less developed countries and small island developing states (SIDS) are more likely to benefit from tourism than developed countries due its capacity to contribute to a country's GDP and employment generation (UNWTO, 2015: 11-14; Holden, 2008: 58-64; Telfer and Sharpley, 2010: 15-25), and the steady rise of trips made to such destinations.

While positive effects of tourism are promising especially to developing countries, destinations are becoming more sensitive to the negative effects of tourism in the long run. Academics and activists are calling attention to the hidden costs and damaging impacts of tourism that are buried under power imbalances that developing nations can hardly circumvent. It is not that institutional arrangements to exploit positive effects and buffer negative effects of tourism are absent in these countries. It is rather a matter of distorted institutional arrangements in developing countries that have led to a one-horse-race for developed countries. This is true for stakeholders within a developing country destination as well. Thus it is questionable whether their institutions are really effective in bringing about the desired effects. In such a light, using tourism as a vehicle for development could be as risky as prying open Pandora's Box to let all the evil free. The aim of this paper is to analyze the positive and negative impacts of using tourism as a mode of economic development by developing countries. It also aims to rationalize that institutional factors are the main causes of an unbalanced distribution of tourism benefits. The paper was entirely based on theories, concepts and facts drawn from secondary sources.

II. Institutions and Economic Development: Definitions, Theories and Concepts

① Institutions

Despite the frequent usage of the term, defining 'institutions' is still the bone of contention among different disciplines, various schools of thought and academics. There is much disagreement on what institutions are, their scope, content, function and their relationship with agency. This disagreement is irrational and uncalled for to the extent that Lionel Robbins (Quoted in Hodgson, 2004: 3) once wrote that institutionalism "served as a war-cry congenial to quite a number of muddled and slightly disturbed spirits".

For the purpose of this paper, institutions are defined as all socially constructed arrangements and channels to fulfill human needs. It maintains that there are two types of institutions: formal and informal institutions. Formal institutions are defined as all government and private organizations related to the tourism sector and their laws, rules, regulations, policies and their enforcement practices. Informal institutions are defined as all implicit codes of conduct that govern human behavior such as norms, folkways, taboos, beliefs, values, customs and traditions.

② Institutions and Economic Development

Disagreement on matters pertaining to institutions should not lead to its relinquishment as a mode of analysis because of its undeniable importance in understanding economic development. Mainstream economics attempts to understand development in terms of a narrow minded approach that involves basically income and price that has left an unexplained gap in academic literature. Wolfgang Sachs boldly attacks this approach under the premise that "…[the] economic view point is notoriously color blind" (Sachs, 1999: 17) and "…not everything that looks like an economic activity is necessarily a part of economics" (*ibid*: 17-18). Justifiably, not only has this kind of theory failed to grasp a holistic view of the term *development*, it has also failed to assist in overcoming any of the multitude of issues plaguing the world such as poverty, discrimination, widening gap between rich and poor, gender issues and the like. In its worst form, mainstream economic theory can misguide entire nations to follow a distorted path towards development (*ibid*: 3-23) and as a result, leave them with burning and unresolved issues if not new issues due to forcibly changed systems (Hodgson, 2004: 5; North, 1990: 45; Sachs, 1999: 16).

It is under such circumstances that an institutional approach was proposed to analyze development from a different and a more wholesome point of view. Institutionalists have drawn attention to the fact that the magnitude of differences in development between countries that otherwise have similar settings can be attributable to differences in their institutional setup. This theory has been exemplified through a number of comparative examples between countries/ societies (North, 1990:107-117; Furubotn & Ritcher, 2000: 1; Keating, Loughlin & Deschouwer, 2003: 72-74; Acemoglu, 2013: 1-69).

Even though institutions were created to make human life more efficient, it is questionable if they always produce this effect. Existence of inefficient institutions and compliance to these inefficient systems by actors can affect development adversely, and therefore has been discussed vastly by scholars. A sizeable number of scholars argue that path dependence is the reason for the persistence of inefficient institutions. They stipulate that institutions are a product of culture and they constantly change and evolve over time in a never ending process. In considering the role of historical processes, colonization is critically important in determining the institutional path that a country might take in its future. The influence of different Colonial Masters speaks for the differences in development between Latin America (mostly under Spanish rule), South Asia (mostly under British rule) and Africa (mostly under French rule) (Acemoglu & Robinson, 2013: 7-44) in comparison with the rest of the world. Colonial Masters snuffed out and changed existing institutions or introduced new institutions that promised the best economic returns to themselves with absolutely no empathy shown to existing local institutions. In other words, they violated the entire institutional setup of their 'subjects' by either forcing alien formal institutions without considering if they would ever agree with native informal institutions or trying to replace local informal institutions with their own norms. The revamp took long to take foothold under considerable resistance by natives but it nevertheless did, and subsequently left behind many issues including the rise of inefficient institutions in developing countries.

A careful examination of the histories of developing countries reveal the fact that they have been colonies of powerful European countries. The hatching of inefficient institutions as a result of colonization has hampered their development since their subjugation, and these inefficient institutions have persisted to the present despite the havoc they have caused. This calls for an explanation for the persistence of inefficient institutions. According to Acemoglu & Robinson, the endurance of extractive institutions[3] is chiefly due to prevailing political conditions of the post independent society. For example, those wielding power may choose not to change the status quo (Mills, 1956: 246-247) that supports institutions either created by the society or more likely forced on the society by colonial masters, because the status quo is beneficial to them even at the cost of those 'ruled' by them. This is the main reason why inefficient institutions persist (Acemoglu & Robinson, 2013: 79-87), and as long as politicization prevails in the backdrop of poor or selfish leadership, inefficient institutions cannot be done away with, because it paves the way to nepotism, and this process repeats itself in a vicious cycle (Seelagama, 2014: 199-200). Countries with such extractive institutions are known to be lagging far behind others in terms of economic development. On the opposite end, "economic institutions that create incentives for economic progress may simultaneously redistribute income and power in such a way that a predatory dictator and others with political power may become worse off" (Acemoglu & Robinson, 2013: 84).

Despite the fact that some scholars recognize the importance of institutions, some others may not agree totally. For example, Aggarwal and Koo support the fact that regional institutions are a key ingredient to transfer power politics and economic competition into cooperative internationalism in Asia (Agarwal & Koo, 2008: 31), whereas Ravenhill argues that institutions in Asia have made little difference to boost economic development in the region (Ravenhill, 2008: 56). The latter could be correct due to the reason that constructs the main argument of this paper: the importance of informal institutions is so pervasive that the establishment of formal institutions alone cannot have the desired impact on development. Formal institutions will

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[3] Extractive institutions, as opposed to inclusive institutions are those that do not encourage inception of public services, secure property rights and economic opportunities for every citizen. Societies that have extractive institutions are plagued by poverty, poor or no education for children and practically no incentives for educating themselves (Acemoglu & Robinson, 2013: 73-76).

have to be coupled with a common binding force i.e. conducive informal institutions, if development is to take place as expected. No matter how conducive the formal institutional setup can be, it will not be effective or accepted by the people if it is not complemented with informal institutions which is the common language that speaks to the people.

III. Tourism: Definitions and Concepts

Tourism is a debatable concept in itself. The debate is largely attributable to the narrow traditional definition of tourism which was confined to traveling for leisure. Disagreement intensifies with regard to who should be considered as a tourist and more complex concepts such as ecotourism, alternative tourism, slow tourism, sustainable tourism etc that have made their way into the tourism glossary in the recent times. The result of this confusion has been a proliferation of operational definitions that differ vastly from each other. In order to avoid misconceptions and measurement errors that arise from such confusion, the United Nations Word Tourism Organization (UNWTO), World Travel and Tourism Council (WTTC), The Organization of Economic Cooperation and Development (OECD) and the Pacific Asia Travel Association (PATA) have attempted to define tourism in a more encompassing manner. Today, the most widely accepted definition was given by the UNWTO (2012) as "a social, cultural and economic phenomenon which entails the movement of people to countries or places outside their usual environment for personal or business/professional purposes". Accessed on 12th Dec 2012). This definition includes a range of travel purposes such as holidays, leisure and recreation, business, health, education or other purposes, which throws open the scope of tourism, breaking free from the former 'leisure restricted' definition. The UNWTO distinguishes travel from tourism. Travel refers to the activity of travelers, in which a traveler is defined as "someone who moves between different geographic locations for any purpose and any duration" (UNWTO, 2010: 9). Such travelers could be domestic or otherwise. Yet trips made by all types of travelers do not qualify to be included in tourism. Tourism thus refers to the activities of only one special subsect of travelers known as visitors. Visitors are those who take "a trip to a main destination outside is/her usual environment, for less than a year, for any main purpose (business, leisure or other personal purpose)" (UNWTO, 2010: 10). Visitors are twofold: tourists and excursionists. Excursionists or same day visitors are those who spend less than 24 hours in a given destination, while tourists are those who spend at least one night but no more than one year in the place they visited (Goeldner & Ritchie, 2012: 6). Further, even if a traveler abides by the duration that qualifies him/ herself to be a tourist, he/ she is not considered a tourist if the person arrives in a destination to engage in a remunerative activity, reside permanently in the country, intends to stay over one year as a student, arrives on a diplomatic/ some government mission or arrives in a country on transit for less than 24 hours (Swain & Mishra, 2012: 6).

IV. Tourism and Economic Development: Polarization of Theories

The emergence of a host of developing countries as middle income countries, and improvements in global transport and information communication technology in the post Second World War era saw a rapid increase in tourists trotting around the globe. In such a backdrop, its importance as a source of economic development was realized by countries and international agencies. As mentioned earlier, tourism eventually has become a tool for economic development used mostly by developing countries. Despite the fact that Europe still receives the highest number of inbound visitors and Americas has recorded the highest growth rate of tourists for several consecutive years, the number of trips made to developing nations are by no means insignificant. That is to say that of all the destinations in 2008, 40 percent were developing countries (UNCTAD, 2010:3). Given this situation, developing nations and SIDS depend more on tourism for economic growth because a lion's share of their GDP is earned through tourism. This share is usually a much larger share in terms of their GDP than that recorded by developed countries with their massive GDPs. For example in developing countries in general, 7% of earnings from export of goods and services and 45% of earnings from exports in commercial services come from tourism. These figures are even higher for least developed countries (Fletcher. 2009: 170). For example, while the direct contribution of tourism to GDP was 2.9% for the USA, 2.1% for Japan, 3.7% for France and 5.1% for Spain, it was 31.1% for Maldives, 24.8% for Seychelles, 18.5% for Bahamas and 20% for Aruba in 2011 (WTTC. 2012). Thus seemingly, tourism is a bandwagon that every country aspiring for growth should hop on to. However the academia is divided in their opinion about the role of tourism in economic development. One school of thought applauds tourism as a vehicle for development while the other school focuses more on the negative effects of tourism. Thus Sharpley opines that tourism figures and statistics should be treated with caution (Sharpley, 2004: 12).

According to the first school of thinkers, tourism is seen as a 'safe and cheap development option because it can address balance of payment problems, bring foreign exchange and revenue to the government while increasing employment opportunities for thousands of locals. For example, the direct contribution of tourism to employment in Maldives was 44.4 percent in 2014 while its total contribution (direct and indirect) was as high as 86.7 percent (WTTC, 2014: 1). At the same time, it also contributes to protection of natural, historical, cultural destinations, stimulates infrastructure development in the country, induces investment, and can act as a catalyst for development as it involves several sectors such as agriculture, transport, and communications. For some other countries, the reason to opt for tourism is simply because there is no other viable choice due to their poor stock of resources. One example is Gambia, one of the smallest and poorest countries in the world, that has no resources but some fine Atlantic beaches that could attract many tourists around the year. The major factors which encourage developing countries to use tourism as a major development strategy in their development policy can be summarized as follows. Tourism is a growth industry with a relatively stable growth of tourist arrivals over the years; its ability to redistribute wealth from wealthier nations to emerging destinations and create backward linkages; ability to use necessary resources (natural and other facilities) with a relatively lower initial cost; lack of trade barriers; being a labor intensive industry; ability to increase foreign exchange within a short period; dependency on low and affordable technology; and the existence of multiplier effect. Thus “in over 150 countries, tourism is one of top five export earners, and in 60 it is the number one export. It is the main source of foreign exchange for one third of developing countries and one half of LCDs, where it accounts for up to 40 percent of GDP” (UNCTAD, 2010:2).

Adherents of the second school of thought reiterate that tourism is no panacea for poverty reduction or economic development. It has been shown that no matter how successful a destination could be in terms of tourist arrivals or receipts, they all face the oft-quoted negative impacts of tourism such as environmental pollution, economic leakages, commodification and culture change, negative impact on women’s roles and young generation (prostitution, drugs, alcoholism, pedophilia, etc). Moreover, disillusionment has dawned upon many pro-poor tourism experts as many mass tourist destinations in the developing world is still suffering from undying poverty and poor living standards. Siem Reap in Cambodia receives more than half of visitors to Cambodia, yet more than half of its residents still lived below the poverty line by 2006 (Dara, 2012). This is the point where tourism is considered a pried open Pandora’s Box. Belize, which is recognized as one of the first countries to implement ecotourism, is today one of the worst-hit (Telfer & Sharpley, 2008: 165) in terms of impact of eco-tourism lite. Very few tourists actually understand what eco-tourism is, and the image of Belize as a tourist destination leads to hedonistic behavior and Caribbean-type experiences that is environmentally destructive (Telfer and Sharpley, 2008: 165). In other words, the social cost of tourism that has usually been turned a blind eye to, sometimes overrides the economic benefits, desperately calling for proper tourism management in some destinations. In fact academics have warned about the disadvantages or risks of depending on tourism for general economic development. They include: poor countries' inability to provide necessary infrastructure required by tourists; economic leakage; insufficient training and education on tourism due to lack of financial and human resources; unexpected urbanization and environmental pollution; negative impact on cultural values and local environment; distraction of labor and capital away from other economic activities; diverting income from the local areas as a result of the involvement of Multinational Corporations (MNCs); seasonality of tourism that can cause uncertainty of income and employment and the negative impact of the international socioeconomic and political atmosphere on local tourism.

V. Tourism as a Mode for Economic Development: A David and Goliath Battle between Small and Large Scale Industries

As per the foregoing section, leakage perhaps is the biggest economical damage that can incur to a destination. Leakage occurs when foreign exchange earnings generated through tourism leave the country through a number of channels such as payments made for imports; repatriation of income or profits made by foreigners; interest paid for loans and expenses for marketing and promotion (Lange, 2011: 18). Ironically, the developing countries that are most dependent on tourism are the ones that find their foreign exchange earnings systematically making their way out of the economy into the more prosperous economies whose lifeblood is not tourism. This is mainly due to how formal institutions in the global tourism sector is structured to allow very little power to developing countries and the small and medium enterprises in such destinations. Martha Honey explains that there is an overwhelming number of players in both the host and guest countries vying for tourist dollars. Usually dominated by powerful formal institutions in the developed countries[4] much of the said money is spent even before the tourist arrives in the host country, which means that a considerable share of tourist expenditure does not even reach the destination. In 1990, it was estimated that half of every dollar that was spent on trips to Costa Rica never left the USA. By 2001, the situation had changed very little: only 20 percent of foreign exchanged earned through tourism reached the community in Costa Rica. Honey elucidates how developing nations end up worse off in this leakage issue. While developed nations suffer only a 10 to 20 percent loss of revenue earned through tourism to leakage, developing countries lose up to 40 to 50 percent. Much of the leakage factor is due to the interference of large scale tourism enterprises and MNCs. Andrey Shelkov, an official with the WTO is quoted saying that "Just four global distribution systems dominate electronic reservations, while five global air alliances control 60 percent of international air traffic" (Quoted in Honey, 2008: 39). This boils down to the premise that it is a David and Goliath battle in which poor countries and small players are not on equal footing due to their inferior bargaining power (*ibid*: 37-48).

The case of Bolivia presents the ideal solution to this situation: since leakage

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[4] Eighty percent of world's tourists originate from just twenty countries: all of which could be categorized as developed. They include, USA, Canada, Japan, and 17 others in Europe (http://www.responsibletravelreport.com/component/content/article/2642-mass-tourism-effects).

is larger in larger hotels and smaller in smaller hotels in the country, small tourism enterprises are perceived as the best option to allow tourism benefits to trickle down to the local community and curb leakage. This could be relevant to other developing countries as well. In other words, rucksack tourism is the healthiest to small local economies. Rodenburg presents a similar view through his study in Bali, in which he concludes that small scale enterprises best suit the tourism industry of a developing country, and that large scale enterprises do not meet the economic development objectives of such countries (Rodenburg, 1980: 177). Unfortunately, this is only wishful thinking: an ideal situation which is hardly in practice. The institutional structure of the tourist receiving countries is such that they neither ensure the survival of, nor give incentives to the inception of small and medium enterprises. Small hotels and accommodation facilities go bankrupt against MNCs and small souvenir shops, cottage industries and vendors are kept 'at bay' by large and powerful players. With regard to the accommodation subsector, Honey claims that while only about 2 percent of the hotels in Western Europe are linked to Multinational corporations, the proportion is exorbitant in developing countries. It is 75 percent in the Middle East, 72 percent in Africa, 60 percent in Asia and 47 percent in Latin America (Honey, 2008:45). Not only are these chains covering more territory on the map with their mushrooming branches, they are growing into enormous conglomerates, driving small and medium enterprises out of business simply because, according to Tanh-dam Troung, the latter are late-comers to the industry with few opportunities, little know-how, and negligible market information for mass production and global quality standards (Quoted in Honey, 2008: 39). A similar idea was put forth with regard to Cambodia in which, lack of skills/education and lack of capital were quoted as the top two barriers against tourism development in Siem Reap (CDRI, 2007: 68). Other qualitative studies have shown where local institutions have failed to create the necessary skilled labor and facilities, regional powers and MNCs have taken matters into their hands and made profit at the cost of the poor destination. As a country with inferior infrastructure, Cambodia was in a debilitating competition with the powerful institutions of Thailand until the year 2000 for not just their air space, but also Thailand's interference with the tourist attractions that belonged to Cambodia (Winter, 2007: 86-87).

Britton gives a very succinct institutional explanation as to how and why there exist power imbalances in the tourism sector where small and medium enterprises are ousted by large scale and foreign enterprises in the developing world. He draws powerful examples of how tourism in developing countries has become an 'enclave industry[5]' which is controlled by former colonial masters and powerful local elites. Britton theorizes that their institutions have been reduced by Colonial Rulers to one that is 'dependent' on their Masters. This feature of dependency has persisted to the present day which manifests in all economic sectors[6]. He elucidates how the tourism industry is structured in a three-tiered hierarchy in which control is exerted from the top (with their superior bargaining and mercantile power) to the bottom and revenue flushes upstream to the top, leaving the bottom-most players enjoying negligible economic benefits of tourism. According to him, the three tiers are:

1. Metropolitan market countries – This is where the headquarters of hotel, transport and other tourism supplying companies are located. They dominate the lower levels of the hierarchy.
2. Developing countries – This is where the branch offices and other commercial partners of the first tier operate.

[5] As mentioned in the foregoing section, most of the developing nations have been Colonies of European powers for decades if not for centuries.

[6] The repeated use of the phrase 'periphery tourism' in countless sources, academic and otherwise, has gloomy connotations of a persisting form of neo-colonialism. This is a highly debated matter, which will not be taken into consideration in this paper.

3. Small scale tourism enterprises of the destination that are dependent on the intermediate level operations. They get to bear the brunt of repercussions for a meager amount that makes their living (Britton, 1982: 341-346).

In sum, what Britton suggests is that developing countries cannot reap expected benefits from tourism because they are simply enmeshed in an industry that is controlled and dominated by the institutions of developed countries and/or large companies.

VI. Community Participation in Tourism for Economic Development: Is it an Oxymoron?

Macro figures for tourism could be misleading because they reflect only what has been gained at the national level, and they rarely represent micro level ramifications, social and other hidden costs or qualitative aspects of the matters in discussion. Up to this point, this paper has set forth a fact that cannot be established with only macro level country statistics or indices: the fact that developing countries, despite very lucrative potentials, are engaged in a losing battle to garner benefits from international tourism. This is mainly because these stakeholders are vested with little or no decision-making powers. In this section, it is suggested that effective institutional interference can bring about effective community participation in tourism activities, which is one powerful strategy to delegate decision making powers to the grassroots level and empower them. Some scholars view this as an oxymoron. For example, Dobson and Snelgrove are of the opinion that decentralized, community led sustainable tourism is in direct contradiction with the national goal of rapid economic growth (Dobson & Snelgrove, 2006). This argument cannot be entirely refuted. Scholars such as Tosun have shown that community participation is in fact an outcome; not a strategy, and therefore in order to bring about effective community participation, developing country destinations will have to defend themselves against unfavorable institutional arrangements first (Tosun, 2000: 618-626). Yet this study argues that effective community participation that lays the foundations for sustainable tourism is not a total Chimera. Neither is it an oxymoron.

Bottom-up approach to development has been noted for its success in paving the way towards achieving national goals. However, as scholars have suggested, an institutional approach is vital to break-in to an ailing system. This means doctoring either or both formal and informal institutions that are working against the participation of the common people. With the right formal institutional interventions, a country can blend in the informal institutions to increase the number of stakeholders through community participation. It could work vice-versa: i.e. informal institutions could be strengthened through a break-through Community Based Tourism Project (CBT Project) that can empower people to exercise considerable power over formal institutions such as government and private sector tourism organizations. A number of community tourism projects in developing countries such as Cuba, Africa and Nepal are evidence to this fact (Telfer & Sharpley, 2010: 126; Honey, 2008: 81,89; Karki, 2011: 68). Further, the more economic gain people will have from tourism, the more concerned they will be of protecting their resources or improving the industry (Breugel, 2013: 20-49; Seelagama, 2014: 202). It is a sure way of inculcating a sense of ownership. However, the most important point in initiating community tourism projects is that projects should incorporate people's participation in all four phases of Planning, Designing, Implementing and Monitoring. Such community involvement could turn projects into People's Projects. Honey has shown how effective community participation has increased the economic stakes of the local community, which in return will make people start viewing their own resources in a different light. The CAMPFIRE community wildlife tourism project in Zimbabwe has thus turned poachers into protectors of the environment (Honey, 2008: 465).

This is by no means to say that community participation can completely counter macro level institutional pressures mentioned in previous sections. It is far from being so. And institutions are far from being fool proof (Furubotn & Ritcher, 2000: 7). Yet it is also a great fallacy to underestimate the power of informal institutions i.e. power of the community in tourism activities. Ritchards and Hall have shown that communities are not simply victims of the globalization process and commodification, but they can also become centers of resistance" (Quoted in Telfer & Sharpley, 2010: 131).

VII. Concluding Remarks

Tourism is a growth industry that offers lucrative avenues for economic development for both developed and developing countries. In terms of macro indices such as foreign exchange earnings as a share of GDP, and direct/indirect employment, its importance is felt significantly more in developing countries. This is boosted by the fact that unlike many other industries, tourism offers a labor intensive, cheap economic development bandwagon with next to zero trade barriers that many developing countries with their low skilled labor force and poor mercantile power can hop onto.

The danger is that dependence on tourism as the top economic development strategy in a country would be like opening up a Pandora's Box letting out (or letting in) a host of negative effects that can threaten the sustainability of the industry in the destination. They include leakage of revenue earned through tourism, environmental pollution, cultural and moral deterioration, commodification, and unintended urbanization. This paper argues that institutional arrangements have produced a power imbalance between developed and developing countries. These institutional arrangements are reminiscent of (and a recurrence of) the historical incidence of colonization that kept developing countries under control by their Colonial Masters. This has resulted in developed countries, MNCs and other large tour operators occupying a dominating position in the global tourism industry. Developing countries as well as their small and medium enterprises command very little bargaining power in this setting. Thus control is exercised by the developed countries and the lion's share of revenue flows into the developed countries. In this sense, tourism can be seen as a modern form of Colonization.

However, studies have shown that effective institutional intervention can initiate community participation that can increase the number of stakeholders in tourism, which will in return strengthen the institutional setup (particularly the people's power or the strength of informal institutions). Community tourism projects may not be able to topple the influence of powerful global actors, but it is a strategy to divert at least some portion of the leaking revenue back into the host country, and most importantly, to the grassroots level. Community participation is the channel through which local people can be vested with decision making power, which is the main ingredient for community empowerment. Strengthening informal institutions is also the key to the successful functioning of formal institutions.

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