

# The Effects of Tourism on the Cusco Region of Peru

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## ABSTRACT

Over the last decade tourism has become increasingly important in domestic and international economics. Unfortunately just like every other sector of an economy, it can't grow unrestricted or there is the very real possibility of economic consequences. To prevent negative externalities the subject must be thoroughly explored just like anything else that is potentially powerful. There is a rather uniform consensus on the subject of how tourism must grow, but the effects haven't really been explored in developing countries where tourism can have an exponential impact on the economy. There have been a number of ideas as to how tourism should be handled in developing countries, hopefully this research can provide a bit of unanimity to the topic.

## INTRODUCTION

In 1987, Peru was just another South American country trying to sustain a democratic government and prevent another political revolution. In 1985, Peru's GDP was only \$3,370 per capita, its unemployment rate was around 8.2 percent, and its inflation rate was through the roof at 114% (INEI, 2008). Mining, agriculture, fisheries, and a small industrial sector were the only things driving the economy and keeping hopes for expansion alive. In the late 1980's and early 1990's there was a significant amount of investment into the infrastructure of Peru. This eventually paved the way for future economic development.

As of 2007, the Peruvian economy has achieved a GDP of \$202.8 billion, has maintained a growth rate just over 8% over the last couple of years, and has a predicted five year outlook with a growth rate of the same. Because of this, Peru has reached a GDP per capital of an estimated \$7,300. Arguably the largest economic improvement is that the Peruvian inflation rate as of 2007 reached 1.14%, which is among the best in the western hemisphere (Globalis). Although mining, agriculture, fisheries, and industry continue to be the cornerstones of the Peruvian economy, tourism has become increasingly important. In the late 1980's and early 1990's, tourism wasn't even mentioned or considered as a viable avenue for economic growth and stability. However, in the last decade tourism in Peru has expanded faster than all other sectors. Between 1993 and 1996, Peru experienced annual growth in tourist arrivals of 29%, and in 2005 the World Tourism Organization stated that Peru had the second largest tourism growth in Latin America with 28.6%. Peru, along with other Latin American countries, has proven that tourism is a valuable underlying portion of the economy (News from Peru, 2005).

Evidence of the positive effects of tourism on aspects of a society beyond economic growth includes Cartagena, Columbia, where rapidly declining tourist arrivals motivated the government to take strong action against rebel forces involved in the drug trade (Moffett, 2006); and in Madagascar, Fiji, and the Galapagos Islands where tourists interested in sustainable travel provide incentives for the preservation of historic and environmental areas (Tsui, 2006). However, although tourism can bring economic growth, it can bring harm as well. This was addressed by Wong, 1996, in his research that showed that tourism isn't "free". It requires significant investment into infrastructure, such as government administration, and police and fire protection. Further, he showed that tourism doesn't always generate positive tax consequences. Tourism can have negative effects on taxes; an example would be placing the tax burden that is needed to finance tourism on local taxpayers.

The purpose of my research is to study the effects of tourism on a local economy of a developing nation by focusing on Cuzco, Peru. This area in South America lays claim to being the oldest continually inhabited city in the western hemisphere. This, along with its famous outdoor market, historic ruins of the Incas, and environmental attractions, offers insight on how tourism has affected the economy of a relatively small city nestled in the depths of the Andes Mountains.

## METHODS

This microstudy of Cuzco, Peru, involved two stages. First, I examined secondary data on changes in the Peru economy with a focus on the tourism industry. These sources included: Mundi, INEI, Globalis, Wikipedia, and News from Peru monthly bulletin. I also examined data on standards of living gained from the *United Nations Human Development Index*. Besides providing a backdrop for my paper, it also allowed me to develop specifics for the second stage of my research. This second stage consisted of travel to Peru in August 2007 to interview a non-representative sample of Peruvians who are important stakeholders in the Cusco tourist sector. They were:

- Bartender
- Mountain guide who would have a perspective directly related to tourism brought in by the ancient Inca ruins high in the mountains
- British consulate that undertook the task of developing the first guided jungle tours
- Taxi Driver
- Restaurant Owner
- Hotel Bell Boy
- College Student
- Vender in the famous Cuzco market

## TOURISM IN PERU

Within the past decade it has been debated as to whether or not tourism should be a viable cornerstone of a nation's economy. There have been concerns because of the fact that international tourism depends on the success of foreign economies. For example, if the U.S. falls into a recession, the number of tourists leaving the U.S. would fall. For this reason tourism has been seen as an industry that naturally fluctuates more than most. Recently Peru has become one of Latin America's foremost areas of ecotourism. This form of environmentally conscious tourism doesn't maintain large amounts of revenue compared to regular tourism, but it helps pave the way for advancements that enable Peru to continue to use its environment as an attraction. This is something that Peru should be proud of, but as previously said, there still is a certain amount of risk involved when a large portion of an economy is based upon tourism.

According to Nick Wells, owner of the Cusco restaurant Sumaq Misky and British native, 10 yrs ago the only people who traveled to Peru were researchers and "us backpackers who were all hippies" (Wells, 2007). Even now the current popularity of tourism would not be possible if not for Alberto Fujimori, the Peruvian president from 1990 to 2000. Though convicted of several political and human rights charges, he single handedly reversed the direction of the economy and showed Latin America that if the economy is stable and there is an absence of any form of violence, tourism can flourish and not only present an adequate form of economic expansion, but reveal a new level of foreign investment as well.

Since the early 1990s Peru has risen in such areas as standard of living and its Human Development Index (HDI) rating. This was mainly possible because of the vast investment into the nation's infrastructure and crack down on narcotics trafficking and production within the country. Once this was established, tourism skyrocketed. Since the mid 1990s tourism has increased 20-25% every year (News from Peru, 2005). That is an increase in tourism that is unmatched by almost any other country in the world. The new numbers of temporary consumers arriving in the country has created a number of diverse problems, of them being seasonal unemployment, a rise in both sexual abuse and sexually transmitted diseases, poor urban planning, a lack of residential regulations, and destruction of the environment.

The largest problem that has been created by tourism, which is also the one that has been dealt with the quickest, is the destruction of the environment. The Peruvian government realized quite quickly that its tourism depends upon the quality of its nation's rain forests and historic monuments, and has taken strict precautionary measures to ensure that its history and environment are preserved. The government has set restrictions upon not only how many people per day can be on the historic Inca Trail, which winds through the Andes Mountains connecting ancient Inca cities, but also who can guide on the trail. To ensure a quality reputation, all guides must have a permit and a post-secondary degree to obtain a job. Their education would be equivalent to a technical school degree in the U.S. Further, Peru has also created one of the largest nature reserves in South America that protects 3.7 million acres of natural rain forest, and is referred to as the best part of the Amazon. This nature reserve has close to the same restrictions as the Inca Trail and many U.S. national parks, but is watched much closer by the international community for fear of losing endangered species.

## TOURISM IN CUSCO

Cusco claims the stake as the oldest continually inhabited city in the western hemisphere. This city, roughly half the size of Milwaukee, WI, is deep in the Andes Mountain range and is rather secluded from the rest of Peru. The social agendas of most of the Cuzco population are very interesting. It is as if they haven't been corrupted by capitalism. Everyone is always happy to be better off, but they are thankful for everything they have, and would rather continue their simple lifestyle than sacrifice the earth for wealth and prosperity. Every citizen of Cusco interviewed responded in a similar way when confronted on the topic of economic growth. They knew that tourism seemed to be an unsteady stream of business, but they did not want to increase economic profit at the expense of the environment and pollution that is related to large industries such as manufacturing. Peggy Arrubias, a bartender at the Miski bar, related that prosperity was not worth the destruction of the earth that had supported the city for centuries (Arrubias, 2007). Their approach towards life reminded me a lot of the Quaker lifestyle in the sense that it is better to remain simple and humble. If there was a chance that prosperity was a zero sum gain, then the chance that they would actively pursue it was very small.

However, despite the pleasant atmosphere and the seemingly pleasant life of most Peruvians in Cusco, there are still large problems. Despite government intervention in tourist affairs there are still areas that have been overlooked. While in Cusco, I had an opportunity to converse with Barry Walker, the British Consulate within Cusco and owner of Manu Expeditions, a well known guide service for the Manu nature preserve. I asked Barry if he thought that the overall affects of tourism on the Cusco region were positive or negative. He responded with "In general, negatively without a shadow of a doubt" (Walker, 2007). Before the tourism boom of the last decade, Cusco supplied a vast majority of the agricultural products for Peru. Since the late 1990's those numbers have steadily fallen off and has been replaced by tourism. Since the increasing reliance on tourism, the region has begun to suffer harsh effects of the tourist down season. Nick Wells reported that during January and February it is a fight to survive. A good amount of the population starves and rations food to stay alive. Nick himself takes this time to return to England and visit friends (Wells, 2007).

1,171,503 people inhabit the Cusco region that suffers a poverty rate just over 75%. This small population represents 4% of the Peruvian population and 2.18% of the Peruvian GDP (Wikipedia, 2008). Barry Walker insists that poverty and unemployment will constantly be a problem until the region once again moves away from tourism and towards a much steadier economic base which could be furthered with an increase in foreign investment into something besides the tourist industry. This doesn't mean that tourism has to stop, but it has created a large number of street vendors and entrepreneurs that solely rely on tourists.

Unfortunately, the growth of tourism in Cusco and the resulting higher tax base has not resulted in significantly higher local government spending on education or action to regulate or control the growth. Barry Walker reported to me "that houses and buildings are built haphazardly with no esthetic planning, producing half-finished towns that look as if they have just been bombed and detract from the initial picturesque reason why tourism came to Cusco in the first place" (Walker, 2007). This lack of urban planning and quality regulations in an area known around the world for frequent earthquakes leads to building on shaky ground to say the least.

Despite these new problems the Peruvian government is going to have to deal with, there have been a number of positive results of Cusco tourism. Though there still may need to be a vast improvement in the region's education, it has improved since the late 1980's. Further, the Peruvian government has issued new regulations in order to maintain the integrity of the tourism sector. For example, there are regulations as to who may take an active part in tourism. Those who wish to actively partake in the industry by securing a job as a tour guide, entrepreneur, or any other paid job such as these must obtain either degree to perform these duties or permit at the very least to be something such as a street vendor.

Another thing that was pointed out by Nick Wells was that despite the atmosphere of beggars and sellers in Cusco the number of roaming street vendors and salesman has actually decreased the more popular tourism gets (Wells, 2007). Because of the expansion of tourism, there has actually been an increase in jobs, particularly those filled by unskilled labor that is needed by tourist businesses such as restaurants, hotels and hostels, and tour guide firms. Unfortunately, given the lack of labor regulations, work for children has risen, which is a double-edged sword. Although children should be in school, the work provided by the children offer extra money that low income families need.

Capital flight is another problem in a developing area that was evidenced in Cusco. As pointed out by Wong (1996), international firms owning tourism organizations cause tourism profits to flow out of country while placing the burden of the taxes on the local population. There are two possible solutions to this. The first is high barriers to international investment that I pointed out earlier. The second is that tourism in Peru is comparatively young and investors haven't had an opportunity to enter this market that they may have deemed too unstable for a significant

investment. I did speak with two business owners who were not native to Peru – Wells and Walker (2007) – although region-wide data on the extent of this issue was not available.

## CONCLUSION

Tourism has helped drive Peru to an annual average growth rate of 8% over the last few years. However, based on my research, without strong support from the local government in the areas of education, urban planning, and environmental regulations, an economy based primarily on tourism is unstable. Future research should focus on following up with the state of the Peruvian economy and the Cusco region in particular.

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