

*Електронний журнал «Ефективна економіка» включено до переліку наукових фахових видань України з питань економіки (Категорія «Б», Наказ Міністерства освіти і науки України № 975 від 11.07.2019). Спеціальності – 051, 071, 072, 073, 075, 076, 292.  
Ефективна економіка. 2023. № 3.*

**DOI: <http://doi.org/10.32702/2307-2105.2023.3.52>**

**УДК 338.48**

*S. Leshanych,*

*PhD in Economics, Senior Lecturer, Department of International, Constitutional and Administrative law, Ivano-Frankivsk Educational and Research Law Institute of National University "Odesa Law Academy"*

*ORCID ID: <https://orcid.org/0000-0003-2903-9737>*

*N. Kampov,*

*Senior Lecturer of the Department of Management, Management of Economic Processes and Tourism, Mukachevo State University*

*ORCID ID: <https://orcid.org/0000-0003-3661-3899>*

*O. Popovych,*

*Assistant of the Department of Management, Management of Economic Processes and Tourism, Mukachev State University*

*ORCID ID: <https://orcid.org/0000-0001-7563-8277>*

*V. Gorodnytskyi,*

*Postgraduate student of the Department of Economics and Finance, Mukachevo State University*

*ORCID ID: <https://orcid.org/0009-0002-5935-6530>*

**THE RELATIONSHIP BETWEEN TOURISM AND THE LOCAL ECONOMY:  
HOW THE DEVELOPMENT OF TOURISM CAN CONTRIBUTE TO THE  
ECONOMIC GROWTH OF REGIONS AND CITIES**

*С.Є. Лешанич,*

*к. е. н., ст. викладач кафедри міжнародного, конституційного та адміністративного права, Івано-Франківський навчально-науковий юридичний інститут національного університету "Одеська юридична академія"*

*Н. С. Кампов,*

*старший викладач кафедри менеджменту, управління економічними процесами та туризму, Мукачівський державний університет*

*О.П. Попович,*

*асистент кафедри менеджменту, управління економічними процесами та туризму Мукачівського державного університету*

*В.В. Городницький,*

*аспірант кафедри економіки та фінансів, Мукачівський державний університет*

## **ВЗАЄМОЗВ'ЯЗОК МІЖ ТУРИЗМОМ ТА МІСЦЕВОЮ ЕКОНОМІКОЮ: ЯК РОЗВИТОК ТУРИЗМУ МОЖЕ СПРИЯТИ ЕКОНОМІЧНОМУ ЗРОСТАННЮ РЕГІОНІВ ТА МІСТ**

*The local economy is the economy of a specific territory, such as a city, or region, that is based on local resources, local businesses, and residents. It includes basic types of economic activity that form the basis for the territory's existence. What makes it specific is that the creation of jobs for such types of activity is a lengthy and costly process, but the results of their functioning directly affect the economic and food security of the locality. At the same time, such types of economic activity develop in the local economy under the influence of related activities that act as triggers for their growth, as creating one job for them is cheaper than for basic types of activity. However, this process always stimulates the development of transportation, insurance, construction, agriculture, the food industry, and other basic types of economic activity. So, among the triggers capable of promoting the growth of the local economy from the perspective of the tourism effect, a locality with attractive tourist sites is one. Therefore, the research is aimed at studying the nature of the relationship between tourism and the*

*local economy, which will allow identifying how tourism development can contribute to the economic growth of regions and cities. The results of the study have shown that local economies of towns, villages, or regions in Ukraine that are tourist destinations can influence the development of the national economy through their contributions to increasing GDP, creating jobs that have lower costs compared to other sectors of the local economy, increasing tax revenues to the local budget, creating new opportunities for small and medium-sized enterprises, stimulating investors to invest in the construction of new hotels, restaurants, entertainment centers, and other facilities, improving transport infrastructure (such as roads, airports, public transport, etc.), increasing the popularity of a particular territory, attracting more visitors and promoting the development of other sectors of the economy, and increasing the level of local people's salaries. These effects produce local economic growth through several interconnected effects that contribute to increasing the contribution of the local economy by increasing GDP, creating jobs, raising the standard of living of the population, and ensuring economic security.*

*Місцева економіка - це економіка конкретної території, такої як місто або регіон, яка базується на місцевих ресурсах, локальних підприємствах і мешканцях. Вона включає в себе базові види економічної діяльності, які є основою існування території. Специфічним є те, що створення робочих місць за такими видами діяльності тривале і високовартісне, але результат їх функціонування прямо впливає на економічну та продовольчу безпеку місцевості. Разом з тим, такі види економічної діяльності розвиваються у місцевій економіці під впливом супутніх діяльностей, які є тригерами їх зростання. Оскільки створення одного робочого місця за ними дешевше, ніж за базовими видами діяльності, цей процес завжди стимулює розвиток транспорту, страхування, будівництва, сільського господарства, харчової промисловості та інших видів економічної діяльності, які є базовими. Так, для місцевості, яка має привабливі туристичні об'єкти, серед тригерів, здатних забезпечити зростання місцевої економіки з позиції ефекту – туризм, дослідження спрямоване на вивчення характеру взаємозв'язку між*

туризмом та місцевою економікою, а саме ідентифікації алгоритму, користуючись яким розвиток туризму може сприяти економічному зростанню регіонів та міст. За результатами дослідження доведено, що місцеві економіки міст, сіл або регіонів України, які є туристичними, можуть впливати на розвиток національної економіки через свої внески у збільшення ВВП, створення робочих місць, що мають нижчу вартість порівняно з іншими галузями місцевої економіки, збільшення податкових надходжень у місцевий бюджет, створення нових можливостей для малих та середніх підприємств, стимулювання інвесторів вкладати кошти в будівництво нових готелів, ресторанів, розважальних центрів та інших об'єктів, покращення транспортної інфраструктури (такої як дороги, аеропорти, громадський транспорт та інші), збільшення популярності окремої території, яка привертає більше відвідувачів та сприяє розвитку інших галузей економіки, збільшення рівня заробітної плати місцевого населення. Окреслені впливи продукують зростання місцевої економіки через низку взаємопов'язаних ефектів, які сприяють збільшенню внеску місцевої економіки у збільшення ВВП, створення робочих місць, підвищення рівня життя населення та забезпечення економічної безпеки.

**Keywords:** *local economy; industry; agriculture; transport; local economy.*

**Ключові слова:** *місцева економіка; промисловість; сільське господарство; транспорт; місцева економіка.*

**Problem setting (description of the problem being analyzed in general and its connection with important academic or practical tasks).** The local economy is the economy of a specific area, such as a city or region, which is based on local resources, local businesses, and residents. It includes basic types of economic activity that are the foundation of the area's existence. What is specific is that the creation of jobs in these types of activities is long and expensive, but the results of their functioning directly affect the economic and food security of the locality. At the same time, these types of economic activity develop in the local economy, under the influence of related activities

that are triggers for their growth, since creating one job in them is cheaper than in basic types of activity, however, this process always stimulates the development of transportation, insurance, construction, agriculture, food industry, and other types of basic economic activity. So, an area that has attractive tourist attractions, is among the triggers capable of promoting economic growth from the perspective of the tourism effect, which can lead to increased income and stimulate the development of most types of activities that are part of the local economy (including agriculture, industry, and other tourism-related sectors). An important fact is that creating one job in tourism is 20 times cheaper than in industry and 15 times cheaper than in agriculture. In addition, the livelihoods of a significant number of types of activities in the local economy directly depend on the functioning of tourism. For example, tourists buy goods and services in local shops and restaurants and use local transportation, which supports the local economy. However, tourism can also have negative consequences. An increase in the flow of tourists can lead to environmental pollution, an overload of infrastructure, and increased prices for local goods and services. Also, if tourism becomes the main source of income for the local economy, this may lead to other sectors of the economy not receiving sufficient attention and development. Therefore, it is important to balance the development of tourism with other sectors of the local economy to ensure sustainable development and support the environment and the local community.

**The analysis of the last research and publications in which the solution to this problem is begun.** Currently, among the studies dedicated to the study of the relationship between tourism and the economy as a whole, the works of M.I. Kolosinska, S.V. Boyd, V. Vakulenko, I. Valentyuk, V. Gryban, S. Korotych, and others can be distinguished. These scientists play a key role in studying the nature of tourism development from the perspective of the multiplier effect and in substantiating the multiplier impact of the tourism industry on related activities. It is these works that the author relies on to identify previously unresolved aspects of the general problem of identifying the nature of the relationship between tourism and the economy. At the same time, although these works outline the basic features of such a relationship, they do not contain sufficient data to determine its nature at the local economy level, which has

characteristics that differ from the national economy. The national economy refers to the economy of the entire country, while the local economy refers to the economy of a specific locality, such as a city, region, or district. The main difference lies in the scale and scope of economic activity. The national economy encompasses the entire economic sector of the country, including all industries and services that take place within the country's borders. In turn, the local economy is typically limited to a specific geographical area and the scope of activity taking place within that locality. This has led to the choice of the research topic and direction, as well as its overall relevance, considering the pivotal role of the local economy in the economic security of the state.

**Formulating of article purposes (the purpose of the study).** The purpose of this article is to investigate the nature of the relationship between tourism and the local economy, which will help identify how tourism development can contribute to the economic growth of regions and cities.

**The paper's main body with full reasoning of academic results.** The development of local economies is extremely important as they collectively determine the development of the national economy through their contributions to increasing GDP, job creation, improving the standard of living, and ensuring economic security. This is particularly relevant for several cities or regions in Ukraine that are tourist destinations (especially in Odesa, Zakarpattia, Lviv, and Kyiv regions) as their role in ensuring the development of the national economy is more significant in this case. The general characteristics of the local economy of classical and tourist regions are roughly the same (Table 1), namely the dependence on local resources, development of small businesses, infrastructure development, and cooperation and partnership between different sectors of the local economy. Additionally, while the national economy includes various economic sectors such as industry, agriculture, trade, and services, the local economy may be focused on a particular sector that dominates in the area. Therefore, the potential for the development of local economies is different, particularly in areas that are tourist destinations.

**Table 1.****Common features of the local economy of classical and tourist regions**

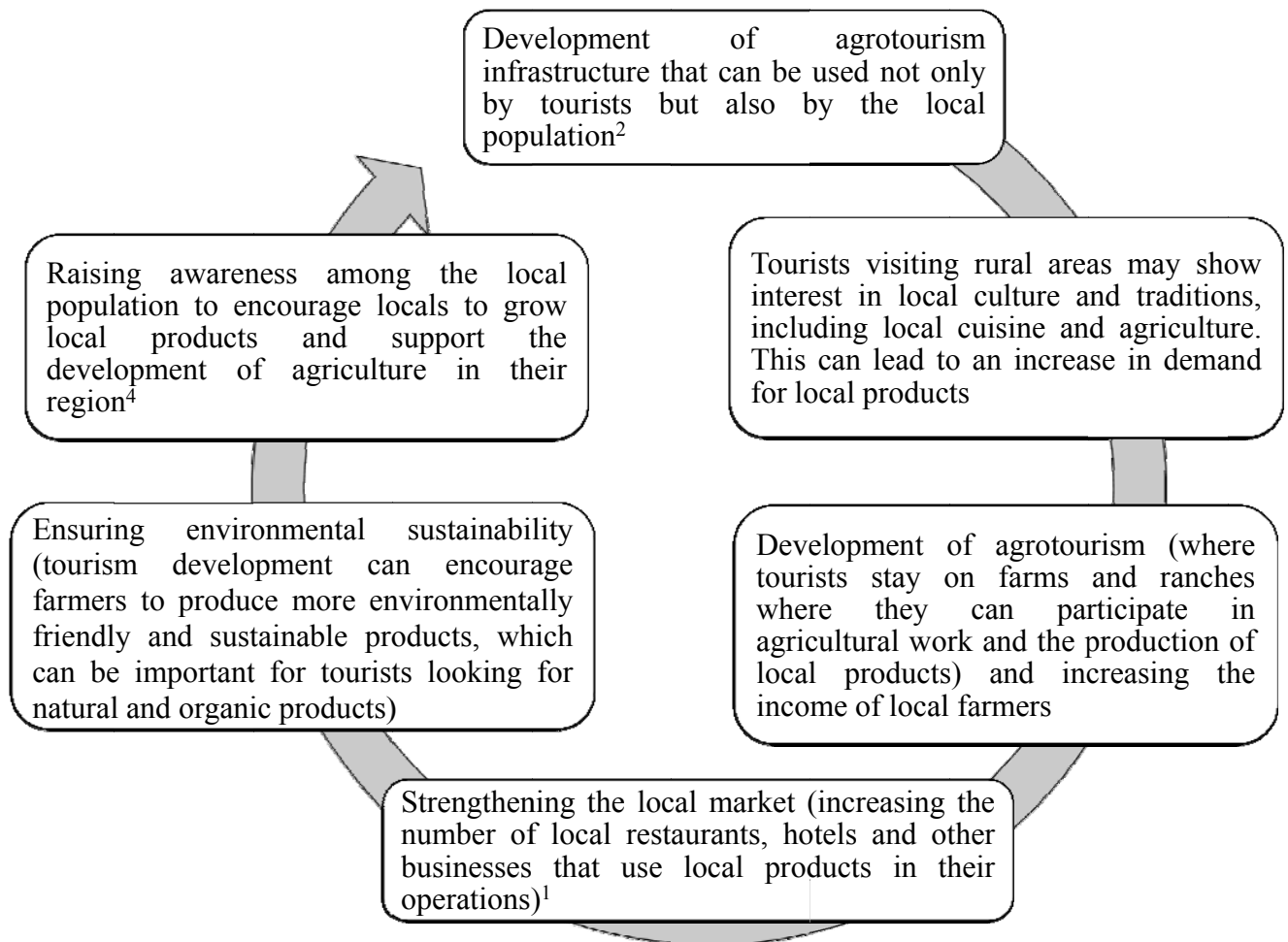
Territories	Local economy *					Specificity of the local economy, which determines the potential of its development
	1	2	3	4	5	
Classic (the area does not have attractive tourist sites)	+	+	-	+	+	can be directed to a specific industry that dominates in the area
Which is tourist (the area has attractive tourist sites)	+	+	+	+	+	

Note

\*(1) Dependence on local resources (the local economy is dependent on various local resources such as land, water, forests, minerals, etc. Economic development can be linked to the development of these resources); (2) Development of small business (the local economy can rely on small businesses, which can be important sources of employment and income for local residents); (3) development of tourism (tourism can be an important source of income for the local economy, stimulate the development of the hotel business, restaurants and other services related to tourism, can contribute to the growth of other spheres of the local economy); (4) development of infrastructure (if the locality has good infrastructure, it can attract more business and investors); (5) cooperation and partnership (a successful local economy can rely on cooperation and partnership between different sectors and sectors of the economy).

*Source: formed on the basis of [4; 2-3, 5-6]*

As we can see, this happens as a result of the specific characteristics of territories where the livelihoods of basic types of economic activity of the local economy (which form its sectors and subsectors depending on the nature of the production and consumption of goods and services) take place. Thus, the economic security of the territory can be significantly strengthened and dependent on the functioning of tourism. For example, in agriculture, tourists usually increase the demand for local food products (such as vegetables, fruits, meat, cheese, etc.) and can give impetus to local farms and ranches to develop agro-tourism. As a result, there is an enhancement of the local agricultural market, ensuring ecological sustainability, increasing awareness of the local population, and developing agro-tourism infrastructure. The diagram of the relationship between the development of tourism and agriculture in regions and cities within regions and cities can be seen in Figure 1.



**Fig. 1. The relationship between the development of tourism and agriculture in the local economy**

Note.

1 This can increase the demand for local products and create new markets for local farmers.

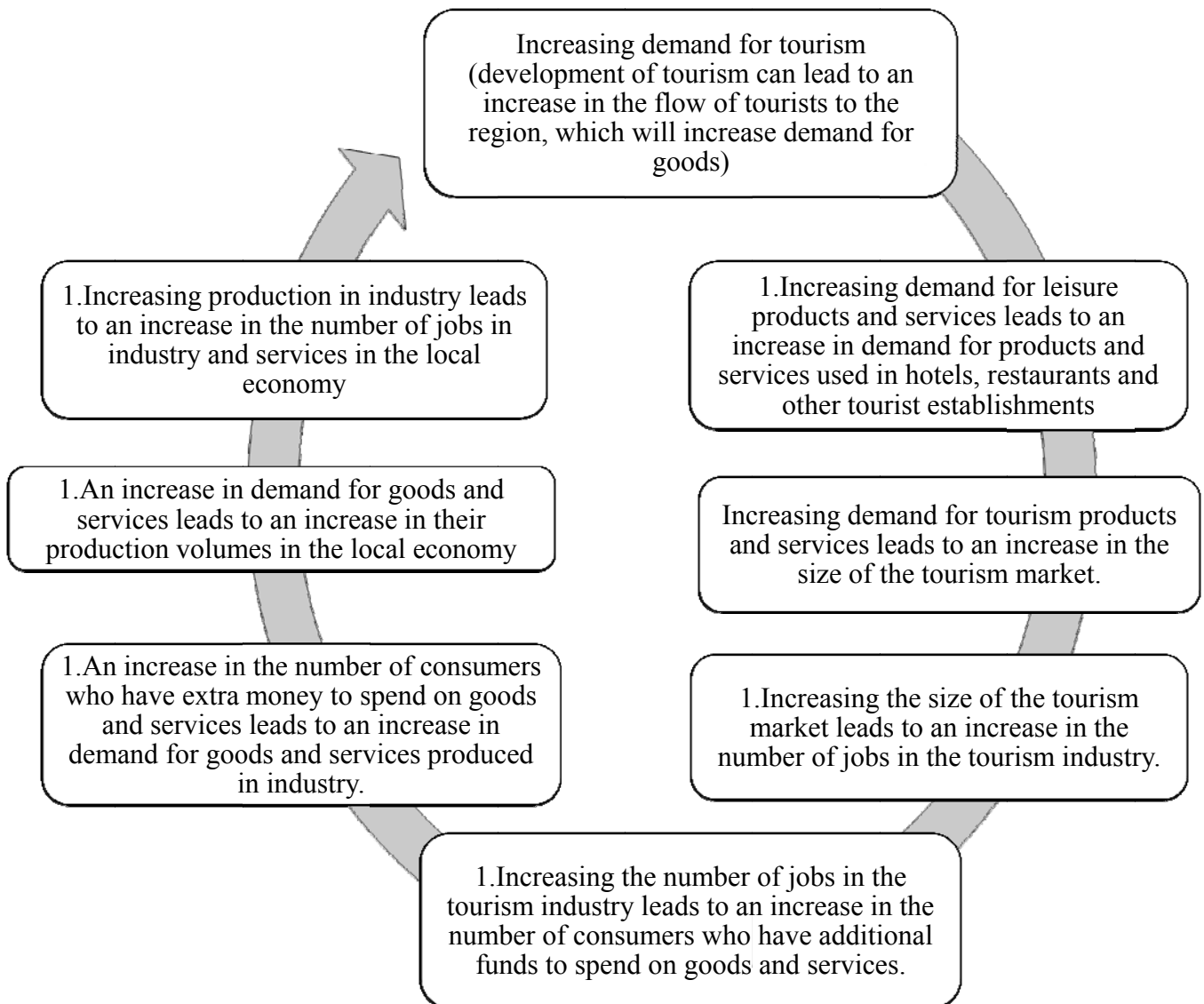
2 This may involve the development of roads, communications, electrification, and other important infrastructure elements that can improve the lives of local residents and stimulate agricultural development.

*Source: formed on the basis of [4; 2-3, 6].*

According to the presented diagram, in general, the development of tourism can have a positive impact on the development of agriculture (through its role as a trigger for the creation of new markets, increasing demand for local products, promoting agrotourism, improving ecological sustainability and raising awareness among local populations about the importance of supporting local producers).

Regarding industry and services, their development at the local level can also depend on or be directed by the development of tourism (namely, increasing demand for

tourism within certain regions and cities), according to the interdependence shown in Figure 2.



**Fig. 2. Scheme of the interrelation of tourism development, industry, and service sector of the local economy.**

*Source: formed on the basis of [4; 2-3].*

It's evident that depending on the location of tourist attractions, industrial enterprises may experience increased demand for their products, which are used in tourism services.

For example, if there are many hotels in an area, demand for building materials and furniture may increase. Additionally, industry can be dependent on tourism as a supplier of goods and services for tourists. This may include the production of transportation

vehicles, cosmetics, souvenirs, and other goods that tourists may purchase during their travels. Developing tourism always requires expanding or improving infrastructure (such as roads, airports, ports, railway stations, sewage and water supply systems).

This may include the construction of new industrial facilities to support local construction work and supply materials for local infrastructure projects. Therefore, tourism development can contribute to industrial development by increasing demand for products and services produced by the industry, and increasing the number of jobs in the industry. The share of tourist income in the total income [4; 1]:

1) of industrial enterprises belonging to the local economies of tourist regions of Ukraine reaches 30-40%, including 80-90% in the production of souvenirs;

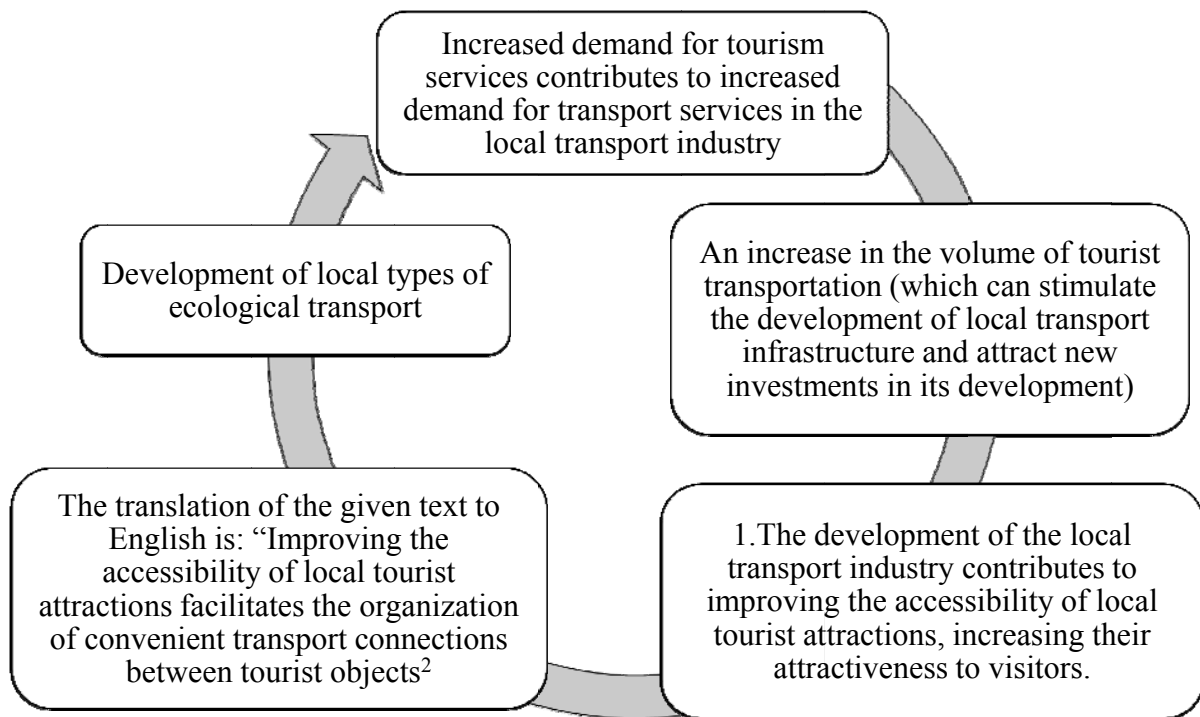
2) of hotel businesses in the local economies of tourist regions of Ukraine reaches 60-70%;

3) of food service and rental points, culture and sports establishments operating within the local economies of tourist regions of Ukraine reaches 30-40%.

Tourism can have a significant impact on the development of the local transport industry, particularly on the nature of satisfying the needs of the population and social production in transportation, as illustrated by the data in Figure 3.

The main pattern is that the growth in the number of tourists visiting different regions requires a greater volume of transportation for people and goods, as well as better local transportation infrastructure (such as airports, railways, local bus stations, ports, and highways), which must be developed and expanded to ensure more convenient and faster movement between various tourist attractions and recreational areas.

The relative share of tourist revenue in the total revenue of tourism enterprises can vary from 50 to 80%, depending on the distance of local tourist attractions.



**Fig. 3. Scheme of the interconnection between the development of tourism and the transport sector of the local economy**

Note

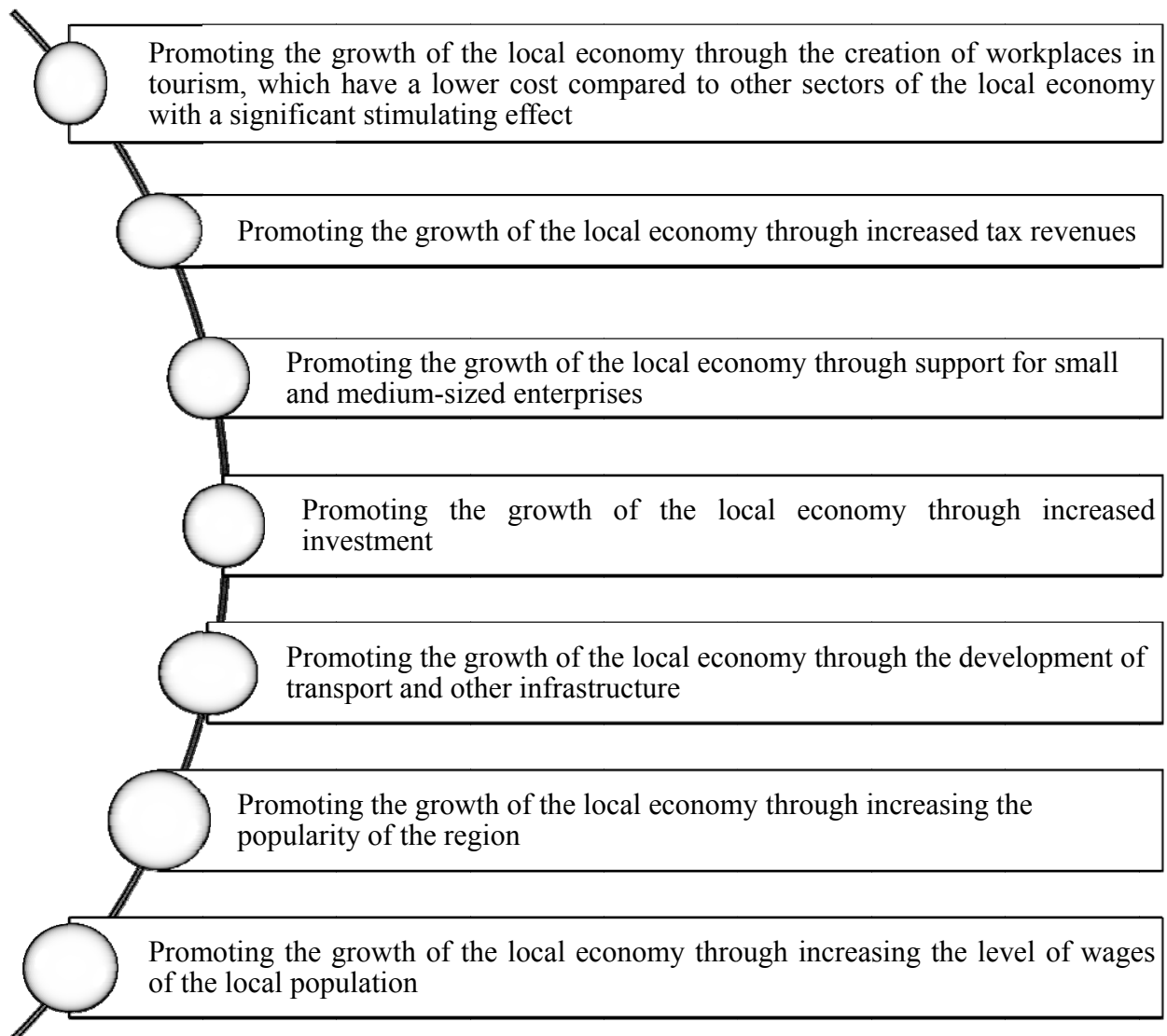
<sup>1</sup> The increase in the number of tourists visiting different regions, cities or villages requires a larger volume of transport for the transportation of people and goods.

<sup>2</sup> This reduces the possibility of traffic jams and other problems with transport logistics, ensuring a smooth and comfortable journey for tourists and positively affecting the perception of the local tourist product

*Source: formed on the basis of [4; 2-3].*

According to the provided provisions, it's necessary to agree with the statements of M. I. Kolosinski and C. V. Boyd that the specificity of tourism, as a related type of local economic activity, not only satisfies the demand of consumers in rest, cultural exploration and health improvement, but also has a significant impact on the basic sectors of the local economy through various links, which also ensures the appearance of a multiplier effect [4]. The internal content of such an indirect influence is provided through the multiplier effect, which manifests itself through an indirect impact on the social and economic spheres of the local economy. According to the recommendations of the statistical commission of the World Tourism Organization, the tourism multiplier of the local economy is considered as a measure of local economic benefits from tourism in terms of its impact on local GDP through tourism expenditures [7, p. 39].

Therefore, the development of tourism can contribute to the economic growth of regions and cities through its characteristic direct and indirect impacts on the local economy of cities, villages, or tourist regions of Ukraine, as systematized in Figure 4.



**Fig. 4. Direct and indirect impacts of tourism development on the local economy**

Source: formed on the basis of [2-3; 1].

This is because these identified impacts generate local economic growth through a series of interconnected effects that contribute to increasing the local economy's contribution to GDP, job creation, raising the standard of living for the population and ensuring economic security. Specifically:

1. The creation of jobs with lower costs compared to other sectors of the local economy produces the following effects:

- Increased accessibility of jobs (tourism-related jobs should be accessible to a wide range of people, including students and others seeking additional income);
- Creation of favorable conditions for self-employment, job creation in small businesses and local entrepreneurs;
- Creation of favorable conditions for increasing the number of jobs in other sectors of the economy, including restaurants, hotels, stores, and other services that can also create new jobs.

2. Increasing tax revenues to the local budget (as tourists spend money on various goods and services) produces the following effects:

- Allows local authorities to make more investments in the development of public infrastructure such as parks, playgrounds, sports facilities, etc.;
- Enables local authorities to develop infrastructure development programs for other sectors of the local economy;
- Promotes the development of the social sphere, for example by financing education, healthcare, and cultural institutions;
- Helps ensure the stable functioning of municipal services and improve the quality of life for the population.

3. Creating new opportunities for small and medium-sized businesses (such as shops, restaurants, and others) produces the following effects:

- reducing unemployment and increasing income for the local population;
- preserving and developing cultural traditions and ways of life;
- improving infrastructure and services for residents and tourists;
- preserving natural resources and improving the ecological situation.

4. Stimulating investors to invest in the construction of new hotels, restaurants, entertainment centers, and other facilities produces the following effects:

- increasing investments in the local economy;
- increasing investments in the quality of services and improving the competitiveness of local products;
- increasing investments in the development of other sectors of the economy.

5. Improving transportation infrastructure (such as roads, airports, public transportation, etc.) produces the following effects:

- Increased convenience for tourists traveling between tourist attractions;
- Increased number of visitors to tourist attractions;
- Even development of cities, towns, and tourist regions by improving their accessibility for residents and businesses.

6. Increasing the popularity of a particular area attracts more visitors and contributes to the development of other industries, producing the following effects:

- The area becomes known as a popular tourist destination, which can attract investor attention, and increasing demand for real estate, restaurants, and other services;
- Preservation and development of cultural heritage and natural landscapes.

7. Increasing the level of local residents' wages, especially those working in the tourism industry, produces the following effects:

- Stimulates the development of other industries and increases wages in those industries;
- Improves social welfare and quality of life for residents.

The systematic combination of the effects outlined above in local economies of cities, villages, or regions of Ukraine that are tourist destinations, helps to enhance the economic security of the country as a whole, by ensuring high and sustainable growth in the use of various limited local resources, local production and sales systems for effective distribution and consumption of goods and services.

### **Conclusions from this study and prospects for further exploration in this area.**

Based on research, it has been proven that the development of local economies is extremely important, as they contribute to the overall development of the national economy through their contributions to increasing GDP, creating jobs, improving the standard of living, and ensuring economic security.

In particular, local economies of cities, villages, or regions in Ukraine that are tourism-oriented can impact the development of the national economy through their contributions to increasing GDP and creating jobs that have lower costs compared to

other sectors of the local economy, increasing tax revenue to the local budget, creating new opportunities for small and medium-sized enterprises, attracting investors to invest in building new hotels, restaurants, entertainment centers, and other facilities, improving transportation infrastructure (such as roads, airports, public transportation, etc.), increasing the popularity of a particular area, which attracts more visitors and promotes the development of other sectors of the economy, and increasing the level of local population's wages.

These impacts produce growth in the local economy through a range of interconnected effects that contribute to the increase of the local economy's contributions to increasing GDP, creating jobs, improving the standard of living, and ensuring economic security.

**The prospects for further research** in this direction lie in the fact that local economies of cities and regions in Ukraine, which are tourist-oriented, can also contribute to enhancing the economic security of the state. Therefore, the obtained results can be used to develop a plan to enhance the economic security of the country by ensuring high and sustained growth in the use of various limited local resources, local production systems, and sales for efficient distribution and consumption of goods and services.

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*Стаття надійшла до редакції 20.03.2023 р.*