

# State - Private Cooperation and Investment In Tourism and Hospitality Industry

Mohammad Zahedi  
University of Payam-e- Noor



There is no doubt about the positive effects of tourism  
But we know that it must be sustainable:  
Environmentally, socio-cultural, economically and  
Financially

Sustainability from the financial point of view consider  
the possibility to act in a profitable manner. So the  
investors should invest in the right way: Who, where ,  
when and how?



Look at the following phrases:

- Most of National Air lines around the world are bankrupted without state subsidies -
- State is not a successful Hotelier
- Private sector is not enthusiast in infrastructures investment



The key question here is :

Who must invest in Tourism & Hospitality industry?

In Developing countries there is a quest for state intervention in Tourism and Hospitality industry development. What should they do?



The Classical school of thought suggests that State should try to minimize its role in the economy.

The public sector economics , today, presents more obvious answers:

State should intervene in the economy to provide Public goods and to manage the externalities, Those called Market Failures.

# Public and Private products

	Allocate	Non allocate
Competitive	Pure private good	Private good
Non competitive	Public good	Pure public good



	Allocate	Non allocate
Competitive	Flight seat, Hotel beds, Theme Parks	Highways with pay tools
Non competitive	Public gardens	Public Security



The conclusion seems to be obvious:

Governments should invest in infrastructures and private sector should focus on preparing the tourism and hospitality products

But is this the full story?



Externalities or side effects are also a great part of market failures.

Tourism have negative side effects on the host communities, pollution, congestion, and some socio-cultural effects may occur when tourism did not planned in a sustainable manner.



When we encounter negative side effects usually the amount of market supply is over the optimal level so the role of state is to manage the tourism development through policy making and government regulations to minimize these side effects.

In example we expect the government to distribute the holidays through the year to manage the travel demand during the high seasons such as Nourooz.



From the other point of view, Tourism have positive side effects on the economy and host community:

- Spread of human values
- Conservation of environment
- Spread of global peace
- Improvement of cultural interactions and tolerance
- Supporting poor people
- Creating more jobs and more income for local community



Existence of positive side effects may lead to market supply less than the optimal level and make government to intervene in the economy through subsidize and regulations to improve the level of supply.

## Due to the public sector economics government should:

- Produce pure public goods such as security
- Let the private sector to produce private goods such as hotel beds or flight seats. When tourism is at the beginning steps of development may we accept the intervention of state but as soon as possible the state should leave the market through privatization
- Invest in production of private goods if needed, such as highways, and let the private sector to manage them.
- Use the private sector as contractor to produce public goods through auction

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- Pay more attention to privatization and deregulation as these have been stressed by Iran's macro policies
  - Act as a referrer for fair competition among public and private firms and among privates either domestic or foreign, that is the case mentioned by the managers of international chain hotels as their expectations from the host states to an UNCTAD study.
  - Eliminate the overlap activities of some state bodies such as ministry of education in tourism and hospitality industry through the idea of supporting their stuff

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- Manage demand side via distribution of holidays
  - Eliminate the barriers of entry to the industry by the SMEs
  - Prepare micro finance to support SMEs



Thank so much for your  
attention