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Reducing Tourism Leakage through Local Sourcing

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Abstract

Tourism leakage reduces the local economic benefits of tourist spending, particularly in developing regions, small islands, and heritage destinations. This study examines innovative local sourcing models community-based cooperatives, direct producer-to-tourist linkages, digital platforms, and circular supply chains to enhance economic retention. Policy measures, capacity-building, and strategic planning are essential for implementation. Findings indicate that local sourcing increases retained revenue, support sustainable tourism, preserves cultural heritage, and empowers communities. The study provides a practical framework for policymakers and stakeholders to reduce leakage and maximize regional development.

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1. Introduction

While the increasing importance of tourism as a source of income and job creation is widely acknowledged, mass tourism also brings negative effects that can undermine the long-term sustainability of tourism development. The most significant of these issues is tourism leakage, defined as the share of tourist expenditures that does not remain in the local economy but is instead diverted to external markets through the supply chain (José Garrigós Simón et al., 2015). The concept of economic retention extends beyond the tourism sector to encompass all sectors of the economy. Its primary objective is to maximize the share of local value added captured by local firms, irrespective of the origin of the money entering the economy. Tourism leakage should therefore be regarded as a specific case of economic retention.

While international tourism has grown significantly in recent decades, information and communications technology has also transformed societies in many developing economies. Despite the continued incidence of high tourism leakage in a substantial number of developing and transition economies, the implementation of local sourcing strategies has gained traction in several countries worldwide. These initiatives involve encouraging tourism firms to procure local goods and services from the regional economy instead of imported substitutes, thereby reducing tourism leakage and enhancing the broader economic development impacts of tourism. The aim of this scholarly work is to provide a comprehensive framework for analyzing tourism leakage and local sourcing as a determinant of tourism retention.

2. Conceptual Framework: Tourism Leakage and Local Sourcing

High import dependence and leakage substantially erode the economic benefits of tourism, particularly for small, resource-poor, and rural economies. Leakage represents the portion of tourism receipts that leaves the receiving economy (José Garrigós Simón et al., 2015). In their account of the relative pooling properties of different kinds of taxes, Bahl & Linn (1992, p. 397) referred to the term for the outflow of revenue from the carrying jurisdiction rebated to other levels of government by the states or provinces within the federation, notably, tax exportation or tax leakage. In an increasingly integrated and competitive economy, tourism is regarded as one of the main engine of growth for many economies, especially, small economies. High tourist arrival is a positive signals for the country image, attracting migration, foreign direct investment (FDI) and enhancing foreign currency balance everywhere. However, tourist arrival may not translate into high foreign exchange retention due to stimulation of goods and services that, rented, re-sold, or imported during the so-called stay. Those activities are more likely to be undertaken by foreign investors, therefore, leading to revenue tumbling and taxdraw on even more global scheme. In cash economy, local economy retention is encouraged whenever money is pumped in the region, consequently attract more suppliers to the region.

3. Measurement and Diagnostics: Quantifying Leakage

Quantifying tourism leakage, the share of tourist expenditure lost to the external economy, remains a significant challenge (José Garrigós Simón et al., 2015). A variety of indicators exist to approximate leakage in destination economies where local sourcing is anticipated to reduce service imports. Such indicators can therefore diagnose leakage levels, quantify

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improvement potential from enhanced local sourcing, and track progress over time when sourcing programs are implemented.

Crucial to the accuracy of measuring tourism leakage is delineating the precise economic domain under investigation. The definitions of location, ownership, purpose, and commodity class become pivotal. For example, contributions to, or revenue drawn from, a local government—irrespective of whether a local firm provides the service—are not visitor-related expenditures when modelling leakage at a destination. Clarifying which parameters are being examined ensures greater precision in estimation and hones understandings of underlying forces. (Yfantidou et al.2024)

4. Policy Instruments for Reducing Leakage

The selection of policy instruments to reduce leakage directly influences tourism development, level of local participation, and growth of highly productive suppliers and local enterprises (José Garrigós Simón et al., 2015). Policy-makers can implement local sourcing mandates that make locally procured goods and services compulsory or a preferential procurement rule that benefits suppliers offering a minimum quantity of local products in selected categories. Special attention must be given to the design and enforcement of such policies in order to maximize their effectiveness. Local suppliers can be assisted in overcoming barriers to entering or scaling in tourism markets through specific capacity-development initiatives. Supplier capacity rarely matches tourism requirements in terms of reliability, quality, and scale, hindering access to procurement opportunities. Capacity-development measures typically include technical skills training, assistance in obtaining finance, establishment of quality standards, mentorship, and supplier platforms that facilitate communication between industry players. Financial mechanisms that share risks associated with entering new markets or investing in new capabilities may also be deployed. Grant schemes, credit guarantees, blended finance, and insurance products have all been used to help local suppliers in a variety of sectors. Tourism plans define the overarching development vision, priorities, and desired outcomes for the sector. They specify geographical areas that need careful coordination and where collective processes are undertaken to align complementary activities. Effective zoning and clustering approaches also delineate spaces dedicated to tourism so that standardized procurement and capacity-development measures can be deployed.

4.1. Local Sourcing Mandates and Preferential Procurement

Local sourcing policies obligate tourism establishments to procure a minimum share of goods and services from local suppliers. Such policies can take the form of explicit mandates stated in concession contracts or permits complemented by monitoring and enforcement mechanisms. Alternatively, they can be of a preferential nature, whereby the standard procurement requirement is waived in favour of offers from local suppliers if they lie within a specified percentage of non-local bids. (Chung & Day, 2024)

Explicit local sourcing requirements or a preference for local suppliers are common in tourism markets characterised by high import leakage, limited formal supplier networks, and undeveloped supplier capabilities. Destinations with low initial formal or informal tourism

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benefit leakage have fewer incentives to implement these measures. Potentially adverse effects, including increased procurement costs, limited competition, and capacity-constraining policies are concerns in tourism destinations where general incentives for local sourcing are weak or even counterproductive.

Local procurement mandates entail specifying in advance, in contractual tender documents or other publicly available guidelines, which goods, services, and construction activities qualify for (or formally require) the local procurement, plus the applicable definition of local (such as municipality, province). Explicit criteria for local procurement are routinely monitored under the concession agreement or permit requirements, with appropriate penalties foreseen for non-compliance and public announcements consequent upon supplier proposals indicating excessive import content. (José Garrigós Simón et al., 2015)

4.2. Supplier Development and Capacity Building

Tourism activities support diverse sectors such as agriculture, construction, trade, hotels, restaurants, transport, electricity, telecommunications, and social services. However, cavity growth diminishes economic retention and performance if leakage remains unaddressed. Leakage signifies the degree to which tourism expenditures do not translate into locally captured revenue. Three primary causes underlie the consumption displacement of tourism expenditure in natural regions: foreign ownership of capital, imports of producing and consuming goods, and fees paid outside domestic economic territories (José Garrigós Simón et al., 2015).

Globally, leakage connected to tourism remains remarkably high. Import expenditures predominate over expenditure on local services. The majority of tourist expenditure on accommodation migrates toward non-residents who either invest abroad or repatriate that revenue to their home country. High leakage levels hinder the realisation of tourism economic potential and threaten the sustainability of regional tourism development. Similar dynamics affect tourism within mountainous territory, coastal zones, and island economics. (Jönsson, 2023)

4.3. Financial Mechanisms and Risk Sharing

Tourism expenditure is typically thought to benefit local or regional economies, yet much of it leaks out. This paradox — coined the tourism leakage paradox — resonates across many developing economies and most regions of post-socialist transition economies, where failure to retain local expenditure constrains tourism's contribution to sustainable broader regional development (José Garrigós Simón et al., 2015). Estimations suggest that regions in the former Soviet Union are losing from 49% to 87% of gross tourism supply channels as leakage, and local expenditure instead serves high-level decision-making positions under central planning, yielding obstacles for absorption of tourism expenditure by region and often a declining share over time. While locally sourced products are less prevalent than other travel-related expenses, such as accommodation and transportation, strengthening such linkages can increase the portion of local tourism income and negative effects on the leakage ratio — the leakage paradox itself.

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Four types of financial assistance are proposed through external financing sources to diminish the risks imposed on a new supply venture. Grant schemes enable the allocation of resources without any later reimbursement requirement, significantly decreasing the exigency of risk-sharing mechanisms. Credit guarantees ameliorate the insurance of repayment of loans extended by another financial donor with required reimbursement during a specified timeframe. Blended finance utilizes specific grant funds primarily for catalytic purposes or to cover the revitalization or investment of tourism links prior supply guarantee, whilst the scheme is currently advancing. Insurance options comprise upfront security on diverse facets of the operation under an additional premium, thereby lowering the uncertainty of tourism capacity in new supply development. (Kokot-Stępień, 2022)

4.4. Tourism Planning and Destination Management

Tourism operates under fundamentally different conceptual frames—externalities and linkages—at different scales. Externalities dominate analysis at the aggregate level whereby inputs and outputs of firms are sourced and consumed outside the boundaries of a region. For tourism, the central issue is leakage as valuable currency flows out of a destination area without reinvestment. Linkages dominate economically smaller new ventures aimed at sub-sectors of convenient farm-to-table or craft-beer supply chain to tourists. As with the externality concern of leakage, tourism planning and destination management as a key objective to maximize regional and local retention aspects are affected at various spatial scales depending upon the geographical dimension of the tourist economy.

Planning at the solicited multi-jurisdictional scale of destinations like the Five Interconnected Canyon Lands (FICL) upholds that tourism acts as both a sector in its own right and a cluster of inter-related economic activities that act as an industry. The large geography can be said to embody a functional region. Within a key watershed for 70 per cent of all visitor attraction lies a number of culturally significant arts and crafts retailing. Through coordination of planning at the watershed level, FICL community stakeholder intent is to promote economies of circularity, upcycling and re-styling thereby improving local self championing (José Garrigós Simón et al., 2015).

5. Innovative Local Sourcing Models

Tourism, as an economic sector, is widely recognized as a vital economic development and poverty alleviation lever, particularly for rural areas and developing countries. Tourism development is expected to generate increased income, jobs, and investments, positively impacting the quality of life and employment of local communities. However, in many developing countries, a significant proportion of revenues generated from the tourism sector do not remain in the local economy, thereby resulting in “leakage” of income, jobs, and, investments into the national, regional, and destination economy. To magnify the local economic growth potential of the tourism sector, it is of utmost importance to help local businesses retain a larger percentage of the revenue generated from tourists and to maximize the leakages of the tourism sector (José Garrigós Simón et al., 2015). The global growth of tourism can be attributed to improved accessibility and affordability of travel for a greater number of people across the world, better protection of environmental, cultural, and heritage

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assets, and new technologies that allow businesses to reach new customer segments and deliver their goods and services in more effective and profitable ways. Nevertheless, international and national tourism can contribute to the growth of the international economy without stimulating the economic base of the global center of gravity. Sourcing models can facilitate value retention and thus support the local community in gaining access to larger shares of the generated value from tourism.

5.1. Community-Based Cooperatives

Tourism leakage occurs when expenditure by visitors does not lead to equivalent income for the host economy. It typically arises due to the import of goods and services catering to tourists' needs and outside ownership of businesses developing the tourist infrastructure. Loss of income from tourism translates into lower economic growth, fewer jobs, and regional stagnation—problems that are particularly acute in less developed economies. Various strategies and policies aim to reduce tourism leakage, yet there is insufficient empirical evidence, standards, and implementation guidance. To fill these gaps, a conceptual framework delineates linkages between tourism leakage and local sourcing of goods and services. Desired retention outcomes, agents involved, procurement practices, support systems, and both direct and indirect effects are identified.

Local sourcing of goods and services is a promising strategy for enhancing economic retention because it is likely to reduce import leakage and capture a larger share of value-added. By purchasing from local suppliers, firms increase domestic production and corresponding local employment. The extent of local sourcing is subject to voluntary choice, but it can be influenced by various policy measures. Promoting locally produced goods and services is particularly pertinent for tourism, since many suppliers are often micro, small, and medium-sized enterprises ((José Garrigós Simón et al., 2015)). Tourism directly affects local economies when it relies on locally sourced supplies, which are mostly obtained from small producers. Nevertheless, the demand for local sourcing remains unmet due to inconsistent quality, insufficient quantities, limited product varieties, and lack of suppliers' awareness regarding hospitality standards ((S Ferreira, 2018)).

Community-based cooperatives represent a viable model for local sourcing of goods and services, especially in locations with limited market access. Such cooperatives rely on grassroots initiatives and are governed by local stakeholders. They accumulate local assets, thereby developing territorial capital, and provide members with welfare services that enhance their quality of life and encourage them to stay in the area after tourism peaks. Community-based cooperatives operate at a manageable scale, principally supply local markets, and utilize revenue to develop local assets; these characteristics align with the financing requirements of tourism development. (Giampiccoli et al., 2022)

5.2. Producer-to-Tourist Linkages and Direct Marketing

Tourists are attracted to the landscapes, cultures, and lifestyle of the places they visit, but tourists are not the only ones who appreciate these resources. Local producers also recognize their value and are eager to develop offerings that speak to them. To stimulate new product development, local suppliers need both access to tourists and confidence in their buyer's

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credibility. Aggregation, branding, transparent pricing, and trust-building are key marketing elements that can encourage producers to offer creative proposals. Aggregation unites complementary products into multi-activity packages, elevating them above commodity status; branding associates packages with a reputable, place-based identity. Local suppliers seldom pay marketing expenses. Instead, aggregators—whether cooperatives, tour operators, or destinations—typically assume promotional costs. The goal is to enhance the status of local offerings and establish a new informal economic sector that provides livelihood options (José Garrigós Simón et al., 2015).

5.3. Digital Platforms and Transparent Value Chains

Extending beyond physical agrifood markets, digital services forge transparent linkages that enable efficient local procurement and domestic value creation. Finance and logistics constraints often hinder local supplier access (Ammirato et al., 2014). Digital platforms allowing hoteliers to procure tourism-related goods and services from local suppliers counter such restrictions through enhanced transparency, aggregated demand, and lowered transaction costs. Platform ecosystems enable value-chain automation, connecting suppliers to consumers, buyers to providers, businesses to tourists, and, relevant to sourcing, hoteliers to suppliers (Schaffer et al., 2020). Offering complementary functionalities like fulfillment and distribution, they accommodate disparate supplier capacities and firm sizes.

Digital platforms also promote business-to-business collaboration. Similar to consumer-to-consumer or producer-to-consumer paradigms facilitating direct transactions, business-to-business models concentrate on inter-firm processes and value co-creation between suppliers and buyers. Horizontal linkages, such as collective marketing, joint innovation, and co-branded service bundles, support transaction volumetrics and foster horizontal co-innovation among participating firms. Inter-firm network systems encompass both transactional and collaborative relationships, easing local procurement. Digital-platform-driven eco-systems assume diverse formats—particularly task-oriented, knowledge- or commodity-focused, or service-based—and can sustain the required transversal governance. (Adomako & Nguyen, 2024)

5.4. Circular Economy and Local Circular Supply Chains

The circular economy promotes sustainable resource use and waste reduction, which hold considerable relevance for tourism. Adopting circular principles necessitates fostering pro-environmental behaviors, enhancing public awareness, and encouraging innovative sustainable practices. Developing local circular supply chains can further enhance resource efficiency and sustainability (Rodríguez et al., 2020). The circular economy addresses the depletion of resources and the significant environmental damage caused by linear production and consumption patterns through the redesign of production systems to avoid excessive consumption of inputs, early obsolescence, and production of waste (Arauzo-Carod et al., 2022).

Formal circular arrangements within local circular supply chains could involve the recycling and repurposing of components, local remanufacturing, exchanges of materials or components with other sectors and industries, and waste-to-value linkages with agricultural

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activities and community infrastructures. Accordingly, tourism purchasing patterns that facilitate further circular opportunities in the associated value chain can increase resource efficiency and sustainability. (Ma et al., 2024)

6. Case Studies: Global and Local Applications

Tailored solutions for local procurement in tourism: detailed specifications, contextualization, benefits, and the potential for wider adoption.

Small island economies with high dependence on tourism face particular vulnerabilities to global economic volatility, geo-political tensions, and climate-change challenges such as sea level rise and extreme weather events (José Garrigós Simón et al., 2015). The small size and market isolation of many tourism-dependent islands limit the range of locally produced goods and services available for procurement by the tourism sector; yet, even modest local-sourcing gains can have significant effects on local income and employment.

Community-owned cooperatives have been established by tourism businesses in several island economies to aggregate tourism demand for local goods and services and to facilitate community access to these markets. The cooperatives provide local producers with training, business development support, start-up financing, networking opportunities, quality-assurance systems, and sales channels. Interest in such solutions is growing, given the increasing demand from many tourism businesses for community-based supply chains, local ownership models, and corporate social responsibility initiatives focused on community benefits. (Jackson, 2025)

Historic towns and rural destinations that actively promote and conserve their cultural heritage frequently find it challenging to capture a significant fraction of tourism revenue to finance ongoing conservation efforts. Cultural heritage is nevertheless frequently one of the principal motivations for travel to such destinations. Local agricultural products and traditional crafts constitute two prominent examples of cultural-experience elements that can be effectively valorized and marketed to visitors.

In several urban locales, local governments have adopted tourism development strategies that focus on promoting specific historic districts, waterfront areas, or other tourist corridors; similar policies have emerged globally in response to the challenges posed by the COVID-19 pandemic. While most supply-side collaborations in these environments remain relatively informal, ecosystem approaches to supplier development are viable. These contextual elements can generate substantial supply-side synergies, enabling relatively modest-scale suppliers of natural, cultural, and social tourism offerings to satisfy substantially larger pools of local and non-local tourism demand. (Liang et al., 2022)

6.1. Small Island Economies

Small Island Developing States (SIDS) are characterised by geographical distance from larger markets, limited access to economies of scale, relatively high consumer prices, and a narrow range of exportable goods. These attributes not only stimulate import dependence, but also heighten vulnerabilities to exogenous shocks (José Garrigós Simón et al., 2015). Supply constraints—a much more pronounced problem in SIDS than in other developing countries—rate among the top five obstacles to business growth. SIDS suffer from rigid supplier

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ecosystems: the frequency at which firms link with new suppliers is lower than in all but the least developed economies in the world; and only about half of establishments report being able to switch suppliers without incurring excessive effort, yet industry-wide capacity for development and innovation is near the bottom of the global milieu (Sealy, 2018). Dropping economic retention below this low benchmark would have dire consequences for local communities.

Tourism marked one of the first sectors for which import leakage, and accompanying efforts to boost local procurement, was quantified. Tourism supply chains represent two principal avenues through which this occurs: on the one hand, imported food and beverages are among the most significant expenditure categories for tourists, while visitor counts propel the number of hotels catering to foreign clientele; on the other hand, prescribed services to hotel suppliers rarely require intermediaries, except for the basic functions of providing accommodation, excursion, or transportation.

6.2. Heritage and Rural Destinations

Cultural heritage is a major driver of tourism, especially in rural areas exhibiting a magnificent natural environment and traditional cultures. Heritage tourism is defined as travel to experience the places, artifacts, and activities that authentically represent the stories and people of the past. Heritage tourism can improve the economy but it can also harm the local economy if locally sourced inputs are not used. Because of the official action plans launched by the government to preserve and conserve the heritage, there is an unprecedented inflow of funds to the heritage sector in a variety of forms, thus the interest in the local economy cannot be overemphasized (José Garrigós Simón et al., 2015).

6.3. Urban Tourist Corridors

Urban tourist corridors are government-designated preferred tourism areas that concentrate tourist-related businesses and encourage localized tourism sourcing. They aim at increasing local retention through collaboration and synergies among suppliers while maintaining a singular tourist-centric location. As tourist-oriented suppliers tend to cluster close to hotels, retaining and increasing spending becomes progressively urgent. Corridors facilitate the identification of suitable suppliers and promote retention through operator initiatives, blending clearly defined tourism retention policies with broader localized recipient programs that differ according to the specific clientelicity of different hotel types (e.g., single-room versus all-inclusive) and enable broader efforts to reshape supplier areas around tourist needs (José Garrigós Simón et al., 2015).

Corridors that succeed in matching government efforts to stimulate initial dual-client sourcing with the more extensive reorientation of traditional suppliers to broaden tourism clientele in conformity with existing linkages give rise to urban-service centers able to capture sizeable additional double-client expenditures from a second-round hotel cycle while encouraging broader regional and interregional migrant influxes, allowing progressive upgrade of incumbent resident profiles.

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7. Economic Impacts and Distributional Effects

Even significant investments that are entirely paid out-of-pocket often still stay limited and transient in nature. In sizeable tourist-heavy urban corridors, net economic benefits become increasingly diluted. All these criteria have driven the examination of tourism leakage levels worldwide (La Lopa, 1989). Several quantitative insights broadly outline indications linked to tourism leakage worldwide. The first published calculations concentrated on a few islands and transitioned to broader studies encompassing the more encompassing provinces in the analysis (José Garrigós Simón et al., 2015). Most locations examined showed some progressive, localized, recoverable, and significant improvement. In isolated, critical areas, much more substantial upside still seems available, with remarkable local developments accomplished despite minimal resources.

Even successful tourism-centered regions, indeed, exhibit some chronic patterns of progressive degradation. To a considerable extent, the key economic corridors maintain insignificant formal outlays on critical tourism-oriented public-procurement items, culturally aligned with the local environment and artisanal producers, either imported or intrinsically centered on the imports—hotels, restaurants, etc. These underlying aspects also provide prospects on how to further alleviate leakage and reverse the relative progression of degradation. Strong cases already show significant, still localized returns concentrated on the very dependence and constraint-reduction closely associated with tourism yet extending beyond those very margins and liberties. These rather simple and direct experiences already successfully propagated beyond the original setting and item are expected to convey applicable lessons. (Zhang et al., 2025)

8. Barriers, Risks, and Mitigation Strategies

The tourism sector faces three significant challenges: government ineffectiveness, lack of accountability, and lack of financial transparency; creating a significant barrier for suppliers and services located within the local economy but curtailing the tourism impact. The most affected locations are developing countries and isolated regions. Where local government struggles to introduce regulations and are far from suppliers, there is a complete disconnect within the tourism economic sector. This jeopardizes the economic benefits tourism could bring to the region, creating a negative cycle. Local government cannot support the tourism economy as there is no funding to employ anyone(José Garrigós Simón et al., 2015).

Barriers to a transparent and reliable tourism economy tend to exist within developing countries and isolated regions. This leads to a circular crisis, where lack of effective tourism severely limits governmental and private income from which to reinvest into improving the tourism sector. Local government cannot engage in foundational economic supplier development, coordination, and financing assistance crucial to helping a tourism economy. (Hussain et al.2024)

9. Policy Recommendations and Implementation Pathways

Many developing countries aspire to an economic strategy that takes advantage of their leisure resources through tourism because of its potential for rapid growth. If this strategy is to be pursued, and tourism is to counter the otherwise-stable economic strategy instituted since the

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1970s promoting fiscal austerity and a substantial alteration of the social contract, the extent of economic leakages associated with tourism must be known. The findings in this case study concerning the economic contribution of tourism in Jalisco are likely to be relevant to other parts of Mexico and to similar tourism destinations in developing countries. Given the highly-concentrated leisure activities in Jalisco, the limited linkages associated with tourism, and the presence of a significant recent tourism injection, this tourism strategy is likely on the edge of feasibility for countries relying on mass tourism to spur economic development (José Garrigós Simón et al., 2015).

10. Conclusion

Tourism leakage occurs when a portion of tourist spending is diverted outside the local economy, undermining the viability of tourism as a developmental strategy. The sources of leakage may vary depending on the destination and the tourism segments; it may arise from capital goods and inputs purchased before the arrival of tourists when the fixed assets needed to develop the tourism facilities are acquired; when imported food and beverages are purchased by tourists from hotels, and when tourists travel within the country on domestic flights or on public transportation; or when tourist activities involve materials that are produced outside local areas. Reducing leakages can be achieved by involving locals more directly in ownership and control of tourism businesses, promoting community-based and pro-poor tourism initiatives. Creating a long-term vision that includes community development alongside tourism growth is essential for success. Planning should empower local communities with decision-making authority. Economic sustainable growth requires balancing interests among stakeholders and implementing suitable policies (José Garrigós Simón et al., 2015). Industry participation, including investing in innovative sustainable products and creating incentives for sustainable behavior, is crucial. Despite challenges, the tourism industry's inventiveness can help address problems and reinvent markets. Leakage is not always negative; its impact depends on its composition. Tourism earnings that finance imports of capital goods or basic inputs can significantly contribute to economic development. Research into leakage composition is vital for understanding tourism's economic sustainability, though current studies are limited to the hotel sector in specific destinations.

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