

DETECTING SEX SALES TO
INTERNATIONAL TOURISTS: A CASE
STUDY OF THAILAND, SOUTH KOREA,
AND THE PHILIPPINES

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Abstract

In developing areas, large-scale international tourism often offers a market for illegal goods and services. Unable to directly control sex sales, governments may decide to discourage prostitution by making the industry less profitable. Sex is sold to international tourists in Thailand, South Korea, and the Philippines through the oligopolistic hotel/travel agency and competitive streetwalker markets. Applying legal sanctions change prices and decrease sales in both markets. The per unit cost of law enforcement is borne more heavily by customers on the street and by firms in the hotel/agency market owing to the markets' respective inelastic and elastic demand segments. If enforcement against sellers in both markets represents a fixed cost, initially sales will not decline, but firms will experience diminishing profits. The optimum short- and long-run effects result from applying enforcement against firms in the hotel/agency market.

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I. Introduction

Large-scale tourism in developing areas offers a market for a host of informal businesses; some are illicit. Authorities such as Varley (1979) conclude that sex services industries are major economic beneficiaries of international tourism in developing areas.

Governments, weighing the social costs against economic benefits such as employment, income, and foreign exchange earnings, often hesitate to enforce laws against these enterprises. Even if law enforcement is chosen, the policy specifics are not clear.

Little has been written about the economics of prostitution in developing economies. As with most illegal business, research on the market structure and the size of the industry is scant.¹

Anthropologists and sociologists writing on this subject tend to evaluate the industry's impact on the host country's social fabric.² Most of the specific information for this analysis comes from feminist organizations and Christian groups whose objectives focus on women's liberation or moral turpitude. While recognizing these positions, this study looks at law enforcement alternatives from an economic standpoint.

Sex services offered international tourists in the Philippines, South Korea, and Thailand provide insights into the industry's operation in Southeast Asia.³ After describing the customers and suppliers in each of these countries in Part II, the industry's

general structure is constructed in Part III in order to examine the dichotomous nature of the producers--hotel/agency and streetwalkers--and their differing output and pricing structure. In Part IV, the economic impact of law enforcement policies directed toward prostitutes and customers is analyzed in terms of the dual nature of the market. Deterrence that lessens the firms' profitability will have the greatest destructive effect on the industry.

II. Thailand, South Korea, and the Philippines

"Thailand Anything goes in this exotic country--especially when it comes to girls. Yet visitors to Thailand cannot always find the exciting places where they can indulge in unknown pleasures."

Rosie Reisen Travel Agency has worked out a solution. "For the first time in history you can book a trip to Thailand with erotic pleasures included in the price" (Cottingham, 1981). Package holidays and chartered flights centering on Thai sexual services are arranged jointly by Japanese, German, and Dutch travel agencies and their Bangkok counterparts. In addition, pimps, taxi drivers, hotel employees, bar girls, and streetwalkers solicit independent foreign tourists.⁴

"Kisaeng tours," organized by eight large Japanese travel agencies in cooperation with their Korean counterparts, represent the heart of South Korea's tourist sex industry. A kisaeng historically was an official attendant, musician, and dancer for nobility. While today the term means prostitute, according to Kikue (1982), offering sex services was not originally part of her job description. Although

for some bookings the parties are optional, for most they are the highlights of the tour and part of the package price. Interviews with the agencies handling large Japanese tours to South Korea, cited by Kikue (1976), indicated "that much of the travel to Korea consisted of complimentary tours sponsored by middle and small scale enterprises, rest and recreation for company employees, neighborhood shopkeepers' associations, senior citizens' clubs, and the like." However, individual holiday packages also are available. The tours are clearly described by an article in Jitsuwa to Hiroku (1978), a Japanese magazine, that states: "Those advertisements you see in sports papers for a 'South Korean Cheap Tour' or 'Three Nights and Four Days in South Korea--With Single Room' actually mean 'women included.'"

The international sex industry in the Philippines is centered in Manila and the Subic Bay area near the United States Naval Base. Tour agencies, hotel owners, government officials, as well as prostitutes, make up the industry. In Manila in 1979, an estimated 100,000 women worked in the hospitality industry as prostitutes, nightclubs and lounge hostesses, sauna attendants, waitresses and dancers. According to Newmann (1979), "'hospitality' is generally taken to be a loose euphemism for prostitution." In partnership with Manila operators, Japanese travel agencies sell package tours that include air fare, hotels, meals, shopping tours, night life and "ladies of pleasure." About 29 percent of the Philippine foreign visitors are Japanese men. Newmann explains that they select women from photograph albums in Japan or on the spot from the several hundred hostesses provided at the Philippine tour nightclubs. Since they are usually not part of a

tour, Australians, Europeans, and Americans generally do their own negotiating for sex services with Philippine streetwalkers, bar hostesses, taxi drivers or hotel employees.

Father Nishimoto, a Redemptorist priest knowledgeable about Philippine prostitutes, says that Manila suppliers vary from elite call girls at \$200 a night to streetwalkers priced at \$7 a night. Japanese visitors on tour between 1978 and 1979 probably paid from \$60 to \$75 a night. Of this charge, club owners and tour operators each got about one-fourth, and the local and Japanese guides claimed about one-third. The prostitute's share, said to come from the club owner's percentage, is estimated at 7 to 8 percent--\$4.25 to \$5.75. Bar girls, who are generally not associated with hotels or tour agencies, get about one-half of both "ladies drinks," priced at \$1.75, and the "bar fine" of \$14 to \$21 paid by a customer who leaves with a hostess (Newmann, 1979). A comparable street price was found in South Korea and Thailand. In Thailand they charged "25 guilders or so per night or--for day and night--100 guilders per week (one guilder = U.S. \$0.50)" ("Sex Tourism to Thailand," 1979).

For non-package tourists who prefer not to shop for prostitutes on their own in Seoul, Jitsuwa to Hiroku (1978) describes the hotels' services. Upon the guest's arrival the hotel room phone rings, "'Don't you need a girl?' says a man's voice. If you hesitate, he continues, 'You can look her over first.' Soon the man appears at the door with a good looking girl The man will try to get as much as he can for her, but he'll never demand more than 75 dollars. The

bellboys also approach you and say, 'You look very lonely' and bring up a girl."

Discussing the cost of tour/hotel prostitutes in South Korea, the Jitsuwa to Hiroku (1978) states: "These special tours cost a little more, but you can still buy a woman for only 75 dollars a night. If you were to buy a 'hostess' in Tokyo she would cost at least 250 dollars a night, so 75 dollars is rather cheap." The article describes the cost of other arrangements: "If you don't want a tour with 'women included', you can stay three nights and four days for 390 dollars. Then you can go out and get your own girl each night, bringing the total cost to 615 dollars." Then the per dollar value of alternative packages is discussed: "Divided by three this means 205 dollars a girl. This seems high, but remember that this includes your round-trip ticket, hotel room, and food, so it's actually a very good deal. Often your sightseeing costs will also be included in the tour."

III. Market Structure

The international sex market in the three countries is truncated: two types of customers with different demands that are both identifiable and separable allow for two-tiered pricing. On one hand, tourists on package tours have most of their sex services arranged by travel agencies and hotel managers and staffs; on the other hand, independent travellers arrange for their own services with pimps, bellboys, taxi-drivers, hostesses, waitresses, and streetwalkers.

Women working for international travel agencies and hotels are managed by a local agent or the hotel manager with the assistance of bellhops and hotel clerks. The streetwalker operates as a street solicitor and tavern pickup. She may walk up and down the halls of inexpensive hotels looking for a trick. Often she services her patrons in anything from taxicabs to cheap hotel rooms or a handy apartment. There are numerous variations such as taxi-dance hall girls, party girls and male homosexual prostitutes.⁵ The two markets are kept separate by the industry's organization. For example, the identification card used in Seoul prevented the street prostitutes from working in the hotels and the special charges for street ladies in Manila hotels discouraged the use of their services.⁶ And Bangkok tour hotels maintain tight security.

Street Market

The street market resembles the highly competitive economic models where a large number of buyers and sellers are involved, with none controlling a significant share of the total market; customers know the ongoing market price; the services offered are identical or at least very similar; suppliers and customers are not personally interrelated; and suppliers can easily enter or leave the market (Thompson, 1981, and Ferguson and Maurice, 1974). By using the standard competitive model, Fig. 1 allows a closer look at the street market.

[Fig. 1]

The quantity of services demanded (D_A) is affected by price. McKenzie and Tullock (1975) explain when the price of sex goes down,

more is purchased. On the street, buyers will bargain with suppliers who compete for customers. The quantity of sexual services offered by hookers (S_A) will depend on the going price. The higher the price per trick, the larger the supply for sale. Price and output are determined by the intersection of street demand and supply curves. In Fig. 1, a price of P_A and a Q_A quantity are established. The market price is the one to which individual hookers react. This price is in the inelastic range because it is determined after the marginal revenue curve crosses the baseline: MR_A crosses the baseline to the left of P_A/Q_A in Fig. 1.⁷ The women and their pimps know, given each of the supplier's unique talents and skills, the ongoing street price for their services. In Manila, Bangkok, and Seoul in the late seventies, the buyer's price hovered between \$10 to \$20 on the street. Sellers do not go above the general price since they would lose customers, but they do not go below it either, since they do not have to in order to sell their services.

Hotel/Agency Market

The hotel and travel agency market in the three countries resembles an oligopolistic situation. Each of a limited number of suppliers has a significant share of the market and some power to establish his/her own prices, but suppliers recognize that their actions affect the behavior of competitors. With oligopolies the market price and output are indefinite or depend on the expected reaction of suppliers. If the suppliers recognize both their interdependence and downward-sloping demand curve, they probably will follow a joint profit-maximization pricing policy. Individual

suppliers may try to undercut the market price to gain a larger share of the market. But other firms will immediately take steps to recapture their original shares. Both Thompson (1981) and Ferguson and Maurice (1974) conclude, where the services and costs are similar as in prostitution, the suppliers will re-establish uniform or at least comparable prices. Fig. 2 depicts the situation for the hotel/agency market.

[Fig. 2]

In the hotel/agency market, the quantity of services johns' demand is less sensitive to price than the street market. Agencies and international hotels are generally dealing with customers who are willing to pay higher prices for sex services. The price they pay includes an arrangement fee.

Travel agencies, tour operators, guides, and hoteliers realize they control the upper share of the market and establish a satisfactory market price among themselves (Newmann, 1979). The businesses probably agree on a price which maximizes their combined total revenue. In Fig. 2, this price and output is determined by the point of intersection of the oligopolists' marginal revenue (MR_B) and short-run supply curve or marginal costs of all suppliers (S_B). Extrapolating from this point to the demand curve (D_B) and the output axis determines the going price of P_B and quantity of Q_B for the market. The hotel/agency market is pricing at its optimum. In Fig. 2, MR_B crosses the baseline to the right of P_B/Q_B . Thus, they are presently pricing in the elastic range; that is to say, price is determined before the marginal revenue curve crossed the baseline. In

the late seventies the hotel/agency price in Bangkok, Manila and Seoul hovered around \$75.

IV. Industry Sanctions

Most countries have detailed laws against streetwalking, loitering in bars, and solicitation for acts of prostitution. In the Philippines, South Korea and Thailand, the laws against prostitution and its activities have been extended and refined. For example, in 1962 South Korea passed a "Law Prohibiting Decadent Acts" which carries legal penalties for both the buyer and seller.⁸ The industry can be stringently controlled by stopping "pleasure tours" and preventing "good time" travellers from entering the country. These steps usually are associated with a serious loss of revenue including dearly needed foreign exchange and employment. Consequently, strict law enforcement is fought by many government officials, travel agencies, airlines, hoteliers, and prostitutes. Stopping international prostitution directly may not be a workable alternative from a political and economic standpoint.

The governments, nonetheless, may decide to discourage international prostitution by making the industry less financially attractive. The choice of alternative legal sanctions can be analyzed in terms of their impact on industry sales and firms' profitability. The economic impact of enforcement aimed at prostitutes gives different results than when directed at customers. For the seller, increases in the probability of sanctions are added to other costs which include items such as makeup, clothes, transportation, and

exposure to venereal diseases. For the customers, the anticipated pleasures are lessened by the risk of apprehension, embarrassment, legal fees, fines, and detainment. Enforcement changes either the industry demand or supply curves. Effective price becomes the stated or actual price adjusted by the imputed costs to both sellers and buyers of the probability of law enforcement apprehension, conviction, and penalties. The larger the share of enforcement costs borne by the firms relative to customers, the greater the impact on returns.

Looking at the street market developed in Fig. 1 first, prostitutes are pricing in the inelastic range of their demand curve owing to keen competition. This steeply sloped portion of D_A is shown in Fig. 3. It dictates the result of changes in the effective curves. When increased surveillance, apprehension, prosecution, and sentences are levied against prostitutes, their business costs increase. Assuming a per unit cost, the left hand graph in Fig. 3 depicts this supply cost increase by shifting S_A to the left and upward to S_A' . With the cost of services rising, the price goes up from P_A to P_A' and the quantity sold falls from Q_A to Q_A' .

In the right-hand graph in Fig. 3, the same per unit cost is applied against the customers. As a result, the effective demand curve segment shifts downward to the left, from D_A to D_A' . Both quantity sold and effective price decrease from P_A to P_A' and Q_A to Q_A' . The quantity of sex services sold decreases by the same amount in both markets.⁹ And, in both cases, the relative price change is greater than the change in sales.

The burden of the cost of street sanctions is also shown in Fig. 3. In both situations the costs are more heavily borne by customers (2/3) than firms (1/3). In the left-hand graph the added cost is $(S_A' - S_A)$. The share borne by customers is the difference between the new and original price, $(P_A' - P_A)$. In this case it represents about two-thirds of the cost. In the right-hand graph, the same total cost is depicted by the difference between D_A and D_A' . The share of the added costs paid by firms, close to one-third, is the difference between the original and new price, $(P_A - P_A')$. Thus, in both cases the costs are distributed in the same manner: two-thirds to the customers and one-third to the firms.

[Fig. 3]

Applying sanctions to the hotel/agency market gives somewhat different results. Using the oligopolistic market developed in Fig. 2, the price presently charged by travel agencies and hotels for providing sexual services maximizes market revenue. Suppliers are facing the elastic segment of the demand curve, D_B in Fig. 4. When per unit seller sanctions are employed, as in the left-hand graph in Fig. 4, the increasing cost of production slips the supply curve from S_B to S_B' . While the effective selling price only rises from P_B to P_B' , the services sold decrease from Q_B to Q_B' . When the customer is harassed, depicted in the right-hand graph in Fig. 4, the effective demand curve falls to D_B' from D_B and the corresponding marginal revenue curve to M_B' from M_B . The new marginal revenue curve (M_B') and supply curve (S_B) intersect at both a lower quantity of services,

Q_B' instead of Q_B , and price, P_B' instead of P_B . For both markets the proportional increase in price is smaller than the fall in sales.

In the hotel/agency market, two-thirds of the cost of sanctions must be borne by the firms, and one-third by the customers. In the left-hand graph in Fig. 4, the added per unit cost is the difference between S_B' and S_B . The share paid by customers is the difference between the new and original price, $(P_B' - P_B)$; the larger residual is the firm's share. When customers are sanctioned, shown in the right-hand graph, the cost is represented by the difference between the original and the new effective demand curve, $(D_B - D_B')$. The fall in price from P_B to P_B' represents the firms' share of the costs; the rest are borne by the customers.

[Fig. 4]

Summing up, per unit cost sanctions have a greater impact on sales in the hotel/agency market. In addition, enforcement costs are more heavily borne by firms in the hotel/agency market than comparable sanctions applied to street operations. But the result of suppliers regarding law enforcement as a fixed cost warrants investigation before the analysis is complete.

Sellers regard money spend on warning systems, bribes and protection payments, attorneys' fees and fines, and jail time as costs of carrying on their nightly business. The costs are spread over many customers. Since johns are involved with prostitution for a brief time during their holidays, they are at a disadvantage in handling legal actions. The risk of embarrassment, arrest, legal fees, and jail time are costs a customer assigns to only one or two nights.

If firms regard the costs of law enforcement as fixed, the impact on sales and profits differ from the previous per unit cost situations. Costs per customer decrease as sales increase. The costs do not affect the street price. As shown in the left-hand graph in Fig. 5, neither the street demand or supply curves are altered. The prostitutes pay all the costs. The right-hand graph shows the situation faced by a street firm. Only AD_f , the firm's average cost curve shown in the right-hand graph, is shifted upward to AC_f' . Consequently, firm sales remain the same, but now the prostitutes are operating at a loss with price, P_A , below the new average cost curve, AC_f' . The crosshatched area shows the loss. Over time some street suppliers will react to this loss by leaving the profession.

[Fig. 5]

Assigning a fixed cost to sanctions against hotels and agencies has an affect comparable to that of the street market. As shown in the left-hand graph in Fig. 6, neither the price or sales will change immediately. However, the firm's average cost curve, pictured in the right-hand graph, increases by the amount of the tax, from AC_f to AC_f' . The new level of operation yields a lower profit owing to the increased cost. The crosshatched area depicts the decline in firms' profits. Although operations may remain profitable, this loss will make the industry less attractive to both old and new firms.

[Fig. 6]

V. Summary and Conclusions

The Philippines, Thailand, and South Korea generate significant income and employment by selling illegal sex services to international tourist. Industry operations in these three countries depict a dual structure comprised of the street and hotel/agency markets. Price and quantity of services offered on the street are determined by the competitive model; while the other market closely follows the oligopolistic model. Thus, the going prices probably fall in the inelastic range of the street's demand curve and the elastic range of the hotel/agency curve.

Analysis of the implications of legal sanctions against the two markets points to a clear-cut strategy if governments' policies are to discourage the industry by decreasing sales and profits. When police surveillance, bookings, and punishment are increased, the effective supply curves increase and the effective demand curves decrease. In both markets sanctions against customers lower prices and decrease sales and legal enforcement applied to firms raise prices and decrease sales. However, the larger the relative share of increased costs borne by firms, the greater the decline in net returns and sales. The cost of street sanctions are borne more heavily by the customers, while a larger share of hotel/agency enforcement costs are carried by the suppliers.

The policy of applying legal sanctions against the hotel/agency market is given added support if enforcement is handled as a fixed cost by firms. In this case, sex sales do not immediately decline; rather, over time firms in both markets will find the industry less

profitable or face losses. Thus, the optimum short- and long-run effects come from applying enforcement against the hotel/agency customers and suppliers. Harassing the johns provides the largest possible reduction in sales while enforcement against the hotels/agencies, whether handled as a per unit or fixed cost, gives an optimum decline in sales or profits.

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Footnotes

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¹Mathieson and Wall (1982) present a short summary on tourism prostitution.

²For example, consider the international charter tourists to The Gambia brilliantly described as normless by Wagner (1977).

³Cottingham (1981) points out that these three countries have the largest sex industries in Southeast Asia.

⁴See "Sex Tourism to Thailand" (1979). A special twist of the Thai industry is the marriage agencies for Thai brides located in Bangkok, Singapore, Hong Kong, and Germany. The brides are selected by foreign grooms from a catalogue of pictures provided by the agencies. According to the director of the Social Welfare Department of Bangkok, a number of the brides are forced by their husbands to work as prostitutes. Quoting the director, the Bangkok Post (17.9.77) states that about 1,000 Thai women are working both voluntarily and involuntarily as prostitutes in Germany. Lenze (1978) provides this information.

⁵Women in developing countries work as prostitutes because the income is better than in other jobs or there are no other jobs available. Prostitutes are generally regarded as victims of their

environment. The literature portrays the prostitute as a young girl who has been forced to leave her rural home for the city in order to support her poverty-stricken parents and many little brothers and sisters. Presenting the plight of prostitutes in the third world, Lenze (1978) states: "When the daughters of these peasants left for the cities, they had the 'choice' of unemployment, some occasional badly paid and petty jobs in factories or in families, or else a good source of income in the bars." Constantino-David, a sociologist at the University of the Philippines, quoted by Newmann (1978), contends: "'For the majority of the prostitutes it is a case of being denied access to the goods of society. They have nowhere else to go.' This is true for all but the most highly paid call girls, who are often well educated, from wealthy families, and enter the business for excitement or to support a luxury life-style."

⁶Seoul has an industry nuance in the city's identification card issued by the Restaurant Subcommittee of the city's Tourist Association (formally housed in the Seoul Y.M.C.A.). The cards originally were issued to tour girls in order that they could enter government-approved tourist restaurants. In addition, the cards allowed the women to be out during the midnight to 4:00 a.m. curfew. According to Kikue (1976), it has become a license to frequent the international tourist hotels. She relates the following: "One incident we watched was a clerk at the front desk of the Suhlin Hotel turning away two young Korean girls in the company of Japanese men, saying, 'At this hotel women are not allowed to accompany guests to

their rooms--unless they have the proper ID card' Shortly afterward a bellboy began to admonish a young woman who had entered the hotel alone, but when she showed him her ID card he quickly drew himself up and respectfully escorted here to the elevator."

Manila hoteliers collect a unique fee from Japanese travelers who buy sex services independently. "Joiner passes," based on Newmann's (1979), sources account for 40 percent of the gross income of Manila's Midtown Ramada. An instruction sheet printed in Japanese and addressed "'To our Japanese guests with ladies'" is placed in the rooms. It says the "hotel charges a 'joiner's fee' of \$10 for right to take the women into the room," and adds that women are only admitted after 5:00 p.m. through the employees' entrance and must leave by 8:00 a.m., "are not to be taken to any of the public areas of the hotel, and all food and drink orders must be by room service."

⁷For a standard discussion see Thompson (1981) and Ferguson and Maurice (1974). Should marginal revenue be negative as in the street market, an increase in price increases total revenue. However, should marginal revenue be positive as in the hotel/agency market, an increase in price decreases total revenue.

⁸See "Sex Tourism to Thailand" (1979), Newmann (1979), and "South Korea: Women's Groups Oppose Kisaing Tourism" (1978).

⁹Given the elasticity of demand and supply, the impact of law enforcement on equilibrium quantity is the same whether deterrence is directed toward the customers or suppliers. The distribution of added

costs also are identical. Luksetich and White (1982), Eatherly (1974), and Moore (1973) measure the effect of deterrence with elastic and inelastic demands and supplies.

Microeconomics
Principles of Economics
Chapter 4: Market Equilibrium

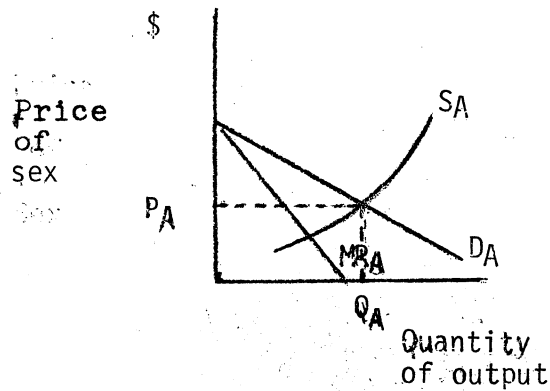


Fig. 1. Price and output in street market.

Supply
and Demand
Curves

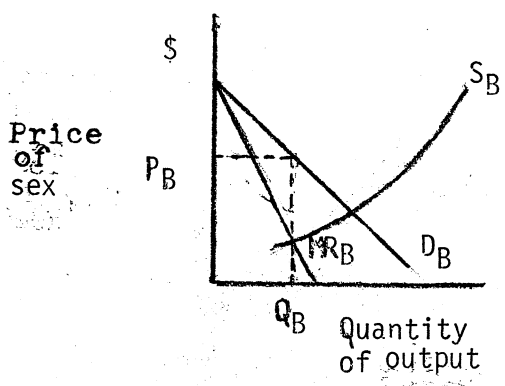


Fig. 2. Price and output in hotel agency market.

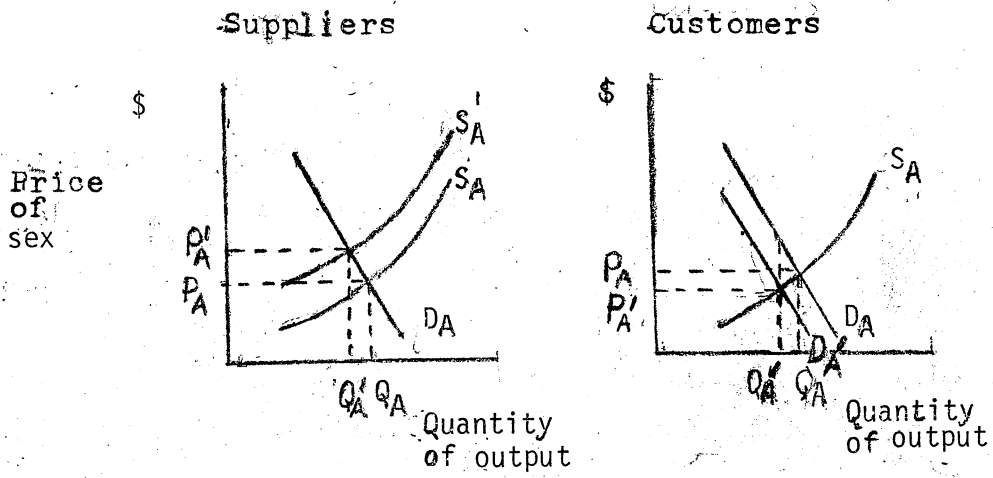


Fig. 3. Impact of street market sanctions.

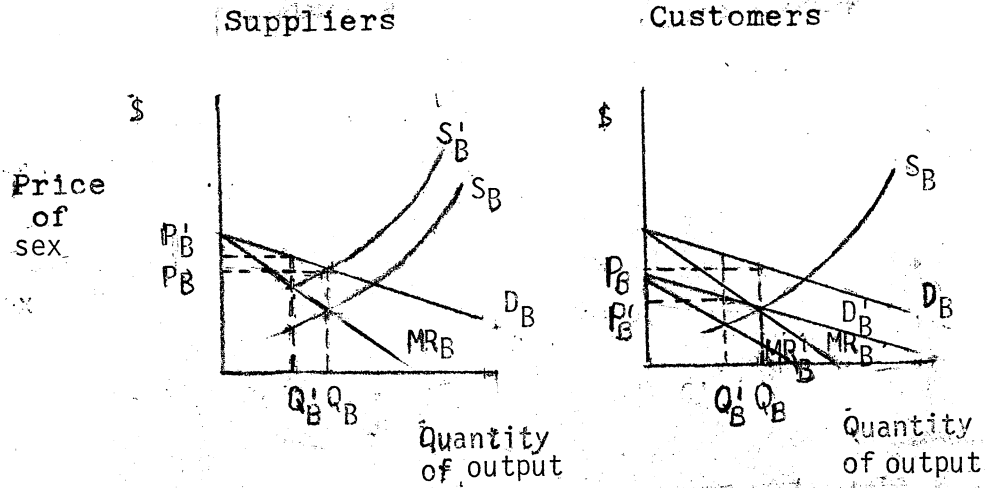


Fig. 4. Impact of hotel/agency sanctions.

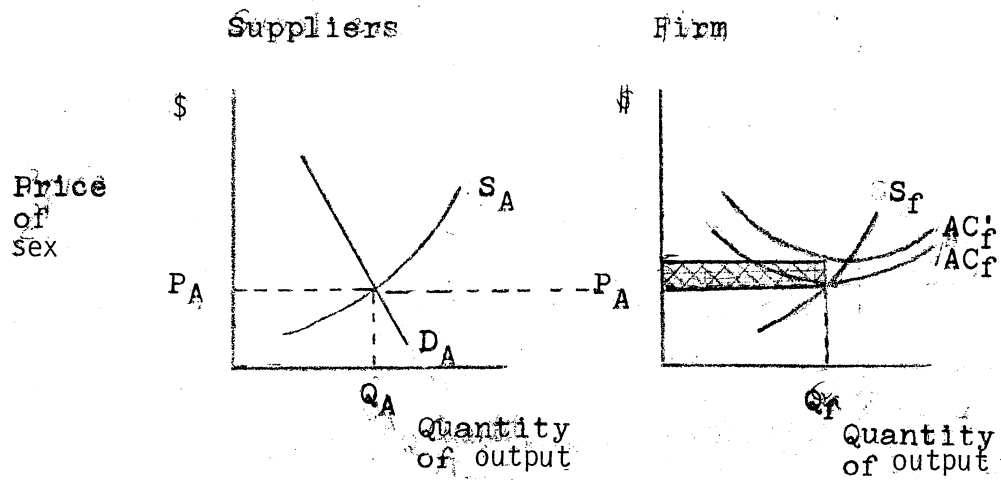


Fig. 5. Impact of street market fixed cost sanctions.

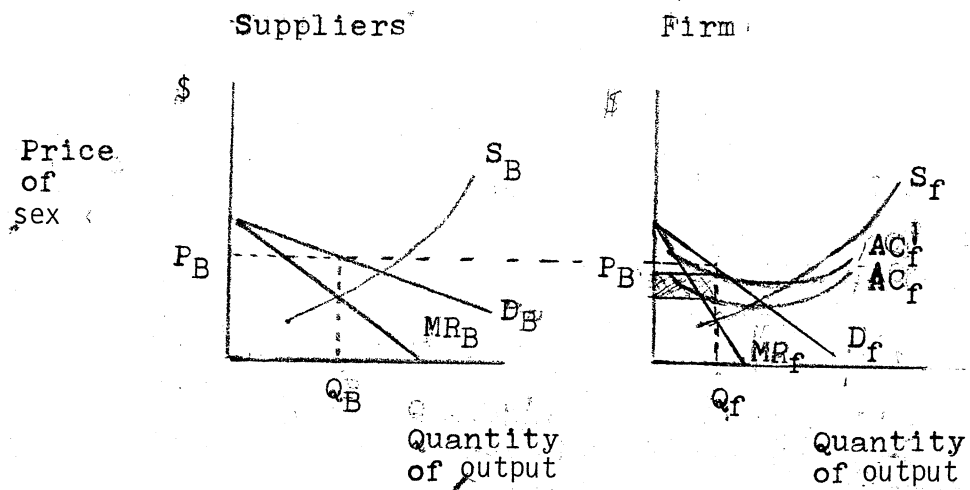


Fig. 6. Impact of hotel agency fixed cost sanctions.