



Finding New Tourism Opportunities Finally Looking South?

Chrystol Thomas

**Inter-American
Development Bank**

Country Department
Caribbean Group

POLICY BRIEF

No. IDB-PB-218

March 2014

Finding New Tourism Opportunities

Finally Looking South?

Chrystol Thomas



Inter-American Development Bank

2014

Cataloging-in-Publication data provided by the
Inter-American Development Bank
Felipe Herrera Library

Thomas, Chrystol.

Finding new tourism opportunities: Finally looking south? / Chrystol Thomas.

p. cm. – (IDB Policy Brief ; 218)

Includes bibliographic references.

1. Tourism —Economic aspects —Caribbean Area. I. Inter-American Development Bank. Country
Department Caribbean. II. Title. III. Series

IDB-PB-218

<http://www.iadb.org>

The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of the Inter-American Development Bank, its Board of Directors, or the countries they represent.

The unauthorized commercial use of Bank documents is prohibited and may be punishable under the Bank's policies and/or applicable laws.

Copyright © 2014 Inter-American Development Bank. All rights reserved; may be freely reproduced for any non-commercial purpose.

Chrystol Thomas: chrystolt@iadb.org

Abstract

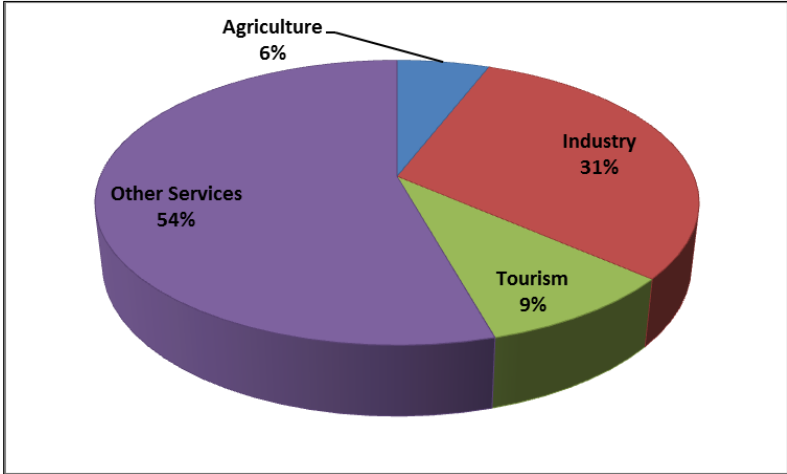
In this policy brief, we examine the current tourism product in the CARICOM member states with a particular focus on the economies that rely most on the industry. The analysis shows that the tourism industry has steadily declined since the 2008 financial crisis and the introduction of the Air Passenger Duty by a main source market, the United Kingdom. Expanding the tourism source markets to emerging economies could reduce the vulnerability of the sector and create greater potential for value chains and increased trade with new commercial partners.

JEL Codes: F43, L83

Keywords: Caribbean, emerging economies, tourism

The tourism industry is a major economic contributor in many countries. It adds value to international reserves and investment through other sectors such as agriculture, construction, security, and export industries. Countries have also achieved returns through job creation, promotion of culture and environment, and overall rise in economic activity. In 2012, tourism added about US\$6.6 trillion to the world’s GDP, equivalent to 9.2 percent of global GDP (see Figure 1). Moreover, it generated US\$0.8 trillion in capital investment and was responsible for 8.7 percent of total employment worldwide (World Travel and Tourism Council). The sector is projected to grow in the future and is likely to be driven by higher purchasing power and an expanding middle class from developing and emerging economies.

Figure 1. Composition of World GDP, by Sector (%)



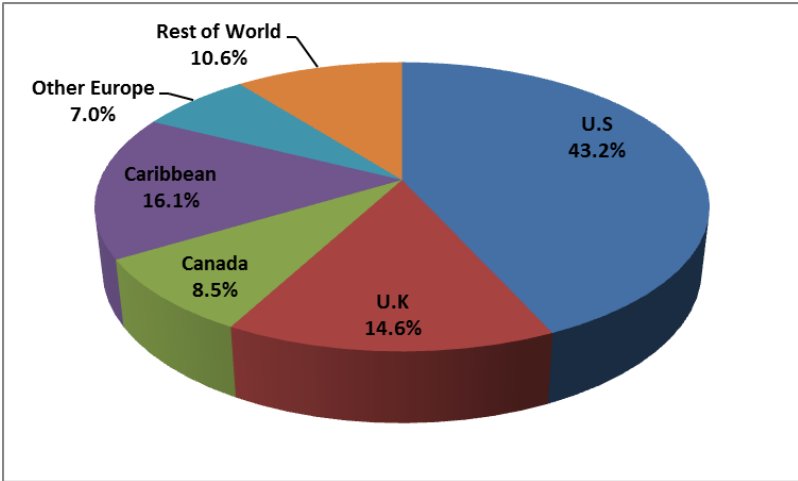
Source: CIA World Factbook.

Tourism in CARICOM States

The tourism sector in the region is similar in many aspects. Most of the tourists originate from the United States (43.2 percent), the Caribbean (16.1 percent), and the United Kingdom (14.6 percent) (see Figure 2). From November to April (the winter season), most visitors tend to visit the islands to enjoy the sand, sea, and sun. Other peak seasons correspond to the individual country’s cultural events (e.g., July to August in Barbados for Crop Over, February and March in Trinidad and Tobago for Carnival).

For most CARICOM member countries,¹ hereafter referred to as the Region, tourism is the mainstay of economic growth and development. On average, travel and tourism accounts for 28 percent of total GDP for these member states,² with Antigua and Barbuda, The Bahamas, and Barbados relying heavily on the sector, while Suriname, Haiti, Trinidad and Tobago, and Guyana are least dependent given their more commodity-structured type economies and high dependence on the agricultural sector as in the case of Haiti (see Figure 3). For the tourism-oriented countries—Barbados, The Bahamas, the OECS member countries, Belize, and Jamaica—tourism adds 36 percent of GDP after considering all expenditure for tourism-related businesses.

Figure 2. Tourism Source Market for the Region (%)



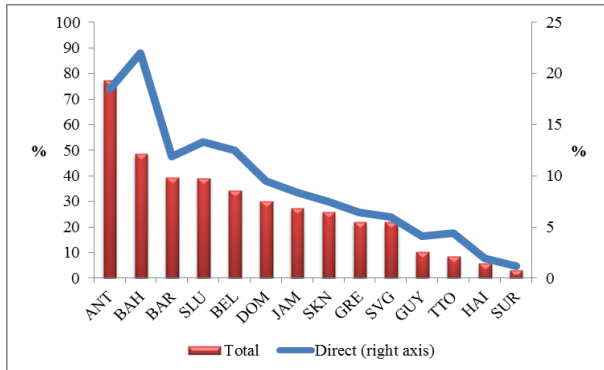
Source: Caribbean Tourism Organization.

Total tourism contribution to GDP for the tourist-based countries remained relatively flat over the years. Since the 2008 financial crisis, visitor arrivals waned which contributed to protracted low economic growth (see Figure 4). This is not surprising, given that Thacker, Acevedo, and Perrelli (2012) found that a 10 percent falloff in tourist arrivals per capita in the Caribbean lowers economic growth by about 0.2 percentage points. Moreover, the authors discovered that small size and island nature of the countries adversely affect growth through productivity and capital accumulation, causing the annual GDP growth rate to fall by 2.8 percentage points on average per year.

¹ There are 15 CARICOM member countries: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

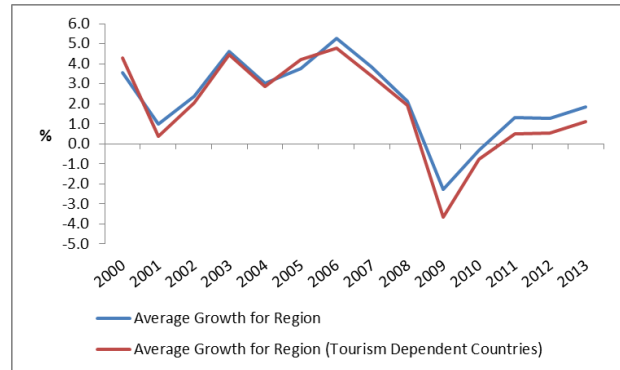
² Data do not include Montserrat.

Figure 3. Tourism Contribution to GDP (%)



Source: World Travel and Tourism Council.

Figure 4. GDP Growth for the Region (%)



Source: Caribbean Tourism Organization.

Compared with other destinations, the tourism market share for the Region is small, accounting for only 0.7 percent of global international visitor arrivals and about 4.2 percent of persons visiting the Americas. The small size of these economies prevents mass tourism and highlights the need for the Region to focus on tourists with higher value added that spend more than the average visitor. The tourist arrivals per resident in The Bahamas (3.95), Antigua and Barbuda (2.85), and St. Kitts and Nevis (2.01) were the highest in the Region (see Figure 5). These ratios are comparable to other countries in Latin America and the world. However, the Caribbean’s visitor per capita ratios have not returned to the levels attained prior to the 2008 international crisis (see Figure 6). This shows the potential for the tourism sector and implores for greater tourism options.

Figure 5. Long-Stay Visitor Per Capita, 2012

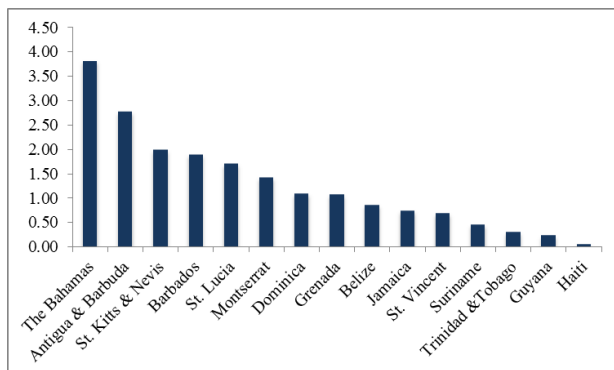
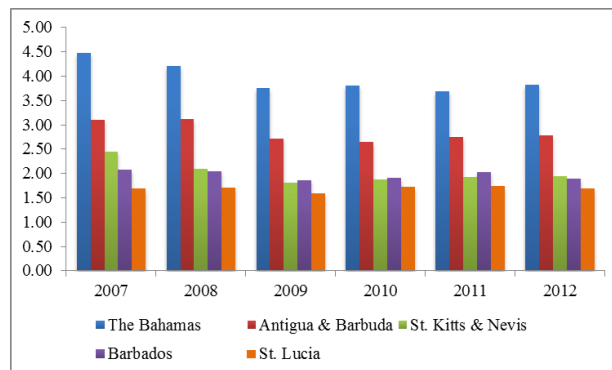


Figure 6. Selected Long-Stay Visitor Per Capita, Comparison



Source: Caribbean Tourism Organization, World Development Indicator, and author's calculation.

The tourism product provided by the region has the potential to compete with other tourism destinations in the world. The Travel and Tourism Competitiveness Index for 2013 ranks Barbados as the top Caribbean country, the third in the Americas, and the only Caribbean country listed among the top 30 countries. In general, the competitiveness of the Caribbean countries worsened over 2011. However, Barbados was able to move up one position despite a poor rating in the environmental sustainability and natural environment subindexes. Price competitiveness is also an issue for Barbados. For the remaining Caribbean countries, the main areas of weaknesses were in safety and security, and environmental sustainability, which suggest the need for greater work in these areas. High energy costs and strong real exchange rates are also factors that would need to be addressed in the region.

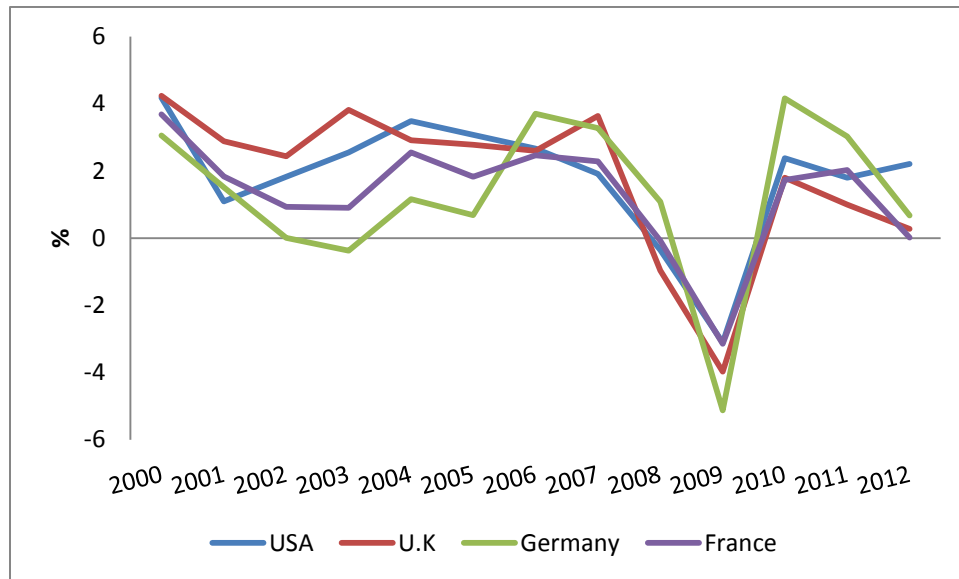
What Changed, and How Did It Affect the Tourism Sector in the Region?

Apart from the domestic constraints that hinder the Region's tourism competitiveness, the tourism industry is highly vulnerable and has been severely affected by exogenous shocks. Part of the downward trend in tourist arrivals and travel receipts is the 2008 global financial crisis. The great level of uncertainty and loss of confidence in the world's economy suppressed economic activity worldwide. The world's leading economies—the United States, the United Kingdom, and other European countries—experienced a sharp decline in GDP and a slow recovery, with some European countries yet to achieve pre-crisis GDP levels (see Figure 7).

The introduction of the Air Passenger Duty in the United Kingdom is another factor noted to negatively impact tourist arrivals to the Region (Caribbean Tourism Organization 2011). Since 2007, stopover arrivals from the United Kingdom have declined from 19.9 percent of total arrivals to 14.8 percent in 2012 (see Figure 8). The excise tax was implemented in 2007 and is

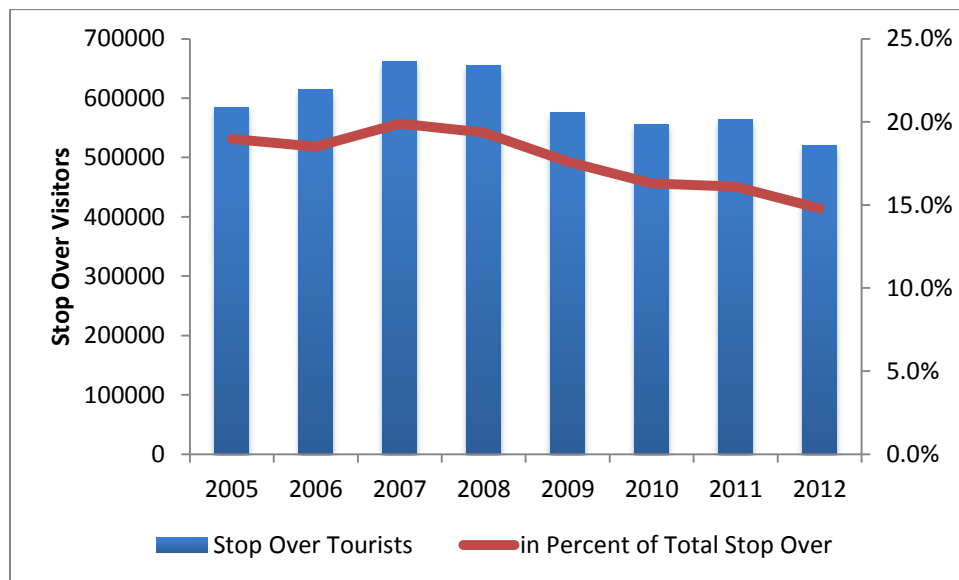
levied on distance. The duty increases transportation cost to the Region and represents more than 10 percent of total airfare. This makes traveling to CARICOM destinations more expensive and puts the region at a disadvantage in terms of price competitiveness. This, in turn, leads to lower demand for the Caribbean product.

Figure 7. GDP Growth for Major Source Markets



Source: World Development Indicators, World Bank.

Figure 8. Evolution of UK Stopover Arrivals



Source: Eastern Caribbean Central Bank, Central Bank of Barbados, Jamaica Tourist Board, Caribbean Tourism Organization, and author's calculation.

These developments highlight the vulnerability of the tourist industry to changes in economic climate, adjustments of policy in main source markets, and domestic factors affecting the country's reputation (e.g., crime, social unrest). They also stress the need for the Region to protect itself from such high concentration levels. Some governments have presented policy options for diversification through the agricultural and manufacturing sectors as a way to reduce economic instability. However, with the absence of scale economies in these small and micro countries, it is important that these strategies target niche markets. Another possibility is for governments to widen the tourism industry's source markets to more emerging countries. This is important given that faster growth is expected from these economies compared to the traditional source markets which should drive higher travel demand.

Opportunities: Looking South?

The Caribbean has a strategic location between the Americas—North, Central, and South. Combined, the Americas comprise nearly 950 million persons, representing about 15 percent of the world's population. Given the Caribbean's central location, there is much opportunity for securing tourists to the islands. Capitalizing on a small fraction of consumer expenditure from these countries can significantly add to growth in the Region.

Exploring opportunities for greater air traffic from South America provides more incentives for international travelers. The Caribbean is connected to urban agglomerations around the world via 297 routes and has about 1.2 outbound flights per day along these routes (The Oxford Economics 2011). Most of these flights are concentrated in North America and Europe, with few options available for international travelers originating from South America (see Figure 9). The current air connectivity to the majority of the islands provides better travel through Miami International Airport or JFK International Airport in New York. The higher cost and longer travel time can deter many potential visitors from going to the Caribbean.

Figure 9. Air Connectivity, 2010



Source: International Air Transportation Association through Oxford Economics (2011).

To determine the potential demand for CARICOM destinations in South America, the IDB conducted a marketing study on outbound tourism from Brazil³. The study found that CARICOM countries can benefit from the more than 8 million Brazilians that have expressed interest in international travel. This presents a good opportunity for the region as Brazilians were noted to be high spenders with great interest in the beach, shopping, casinos, and sightseeing. Brazilians are also an attractive source market because they stay longer and are willing to engage in activities beyond the confines of the hotel, which can generate income to other tourism-related services. The challenges for CARICOM, however, are to improve the awareness of its destinations and to expand the airline routes to South American countries. Marketing efforts would be essential to drive awareness. Also, greater seating capacity from South and Central America and more flexibility through partnerships with different airlines could bring about greater tourism value added for the Caribbean.

Conclusion

Tourism is the mainstay of economic growth for many CARICOM countries. The sector's vulnerability to external shocks is compounded by the highly concentrated source markets (the United Kingdom and the United States). Creating niche markets with new commercial partners could serve as a good option to limit the impact of exogenous shocks. Also, diversification of the region's source markets would be beneficial for increasing the awareness of CARICOM destinations and improving or creating new relations with non-traditional trading partners.

³ The IDB executed a Technical Cooperation with the objective of promoting tourism, trade, and transport between Brazil and the Caribbean in 2012.

Furthermore, an enhanced tourism sector promotes better opportunities for linkages, through value chains for example, with other sectors of the economy.

References

- Caribbean Tourism Organization. <http://www.onecaribbean.org/statistics/latest-tourism-statistics-tables>.
- Caribbean Tourism Organization. 2011. "Caribbean Response to the UK Government's Consultation Reform of Air Passenger Duty."
<http://www.onecaribbean.org/content/files/CaribbeanResponseAPDBriefingDocJune2011.pdf>
- CIA World Factbook. <https://www.cia.gov/library/publications/the-world-factbook>
- Oxford Economics. 2011. "Economic Benefits From Air Transport in the Caribbean Islands."
<http://www.benefitsofaviation.aero/Documents/Benefits-of-Aviation-Caribbean%20Islands-2011.pdf>
- Thacker, Nita, Sebastian Acevedo, and Roberto Perrelli. 2012. "Caribbean Growth in an International Perspective: The Role of Tourism and Size." IMF Working Paper WP/12/235, International Monetary Fund, Washington, DC.
<http://www.imf.org/external/pubs/ft/wp/2012/wp12235.pdf>.
- World Bank. "World Development Indicators."
<http://databank.worldbank.org/data/views/reports/tableview.aspx>
- World Economic Forum. 2013. "The Travel and Tourism Competitiveness Report 2013: Reducing Barriers to Economic Growth and Job Creation." Jennifer Blanke and Thea Chiesa, editors.
http://www3.weforum.org/docs/WEF_TT_Competitiveness_Report_2013.pdf
- World Travel and Tourism Council. <http://www.wttc.org>

Previous Policy Briefs on the Caribbean

[Does Size Matter? Yes, If You are Caribbean!](#) (IDB-PB-201)

[Don't Talk to Me about Debt. Talk to Me about Growth](#) (IDB-PB202)

[The Question is Not Whether "To Devalue or Not to Devalue?" But Rather "What to Devalue?"](#)
(IDB-PB-204)

[Laments of the Caribbean Businessperson are Based on Facts?](#) (IDB-PB-205)

[Spillovers of Global Shocks Over Caribbean Countries: So Large That There Is Little Room to Maneuver. An Impulse Response Analysis](#) (IDB-PB-206)

[Okun and Jamaica at 50: How Does Unemployment React to Growth?](#) (IDB-PB-208)

[The Business Climate in Jamaica: What Does the Enterprise Survey Have to Say?](#) (IDB-PB-211)

[Fiscal Unruliness: Checking the Usual Suspects for Jamaica's Debt Buildup](#) (IDB-PB-213)

[To Cut or Not To Cut: Does the Caribbean Follow the Advice of Multilaterals?](#) (IDB-PB-214)