

# Chapter 1

## Challenges and Contributions: Tourism Development in SIDS

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### 1.1 Introduction

Many small island developing states and small island states in the Caribbean and Pacific Ocean regions and in the Atlantic, Indian Ocean, Mediterranean and South China Seas (AIMS) region are Commonwealth member countries. Two-thirds of all Commonwealth countries are small states, and 23 of these are classified as SIDS.<sup>3</sup>

These nations share limitations and barriers associated with their geography, topography, demography, size and economy (Table 1.1), supporting the argument that they are both fragile and vulnerable to economic and environmental shocks. The impact of globalisation has created additional obstacles, so that there are fewer opportunities for economic growth through traditional industries (agriculture, fishing and manufacturing) in a globalised context where increasing competition and liberalised trade agreements further limit opportunities for trade (Encontre 1999; Bishop 2010; Seetanah 2011; Commonwealth Secretariat 2010).<sup>4</sup> Encontre (1999: 261) argues:

Whereas shocks, in the past, were often confined to natural disasters or sharp market-related influences, there is now, in most SIDS, a perception of vulnerability to globalisation forces which generally involves difficulties to remain competitive and retain market shares internationally.

From a tourism perspective, SIDS particularly are more notable for their unique characteristics such as remoteness, scenery and sense of place (their competitive advantage) than for their limitations and barriers. These characteristics can be used to transform the western fantasy of 'tropical paradise' into a successful holiday product. As a consequence, SIDS have been popular holiday destinations for many decades, initially serving those seeking a traditional '3S' (sun, sea and sand) holiday in an exotic location (Bishop 2010) during the 1960s, and diversifying into special interest packages (sports, adventure, culture) in the 1980s.

In the last three decades, tourism development has again responded to changing trends, largely influenced by an increasing demand for more luxurious, tailor-made holidays (spa tourism, 'wellness', honeymoons and weddings) on land, and accommodating the rapid growth of cruise tourism. This latter sector is becoming an important element within the product mix as a means of diversifying regional or national economic development through revenue generated from port fees and excursions (Bresson and Logossah 2008).

The main tourist generating markets have changed over time. Initially, some SIDS regions such as the Caribbean and Pacific had tourists mainly from the nearest large

**Table 1.1 Characteristics of small states**

Factors	Characteristics
Economic	<ul style="list-style-type: none"> <li>• High import dependence</li> <li>• Limited export opportunities</li> <li>• Vulnerable to global trade and finance markets</li> <li>• Inability to compete at global level</li> <li>• Limited opportunities to diversify economy and trade</li> <li>• Specialisation in too few sectors</li> </ul>
Social	<ul style="list-style-type: none"> <li>• Small population (&lt;1.5 million)</li> <li>• Limited human capital</li> <li>• Limited institutional capacity</li> <li>• Poverty</li> <li>• Low ranking in Human Development Index (HDI)</li> </ul>
Environmental	<ul style="list-style-type: none"> <li>• Small land mass</li> <li>• Remote location</li> <li>• Fragmented land mass (island chains and atolls)</li> <li>• High natural biodiversity (marine and terrestrial)</li> <li>• Low-lying land</li> <li>• Vulnerable to global climate change impacts</li> <li>• Susceptible to natural disasters</li> <li>• Limited exploitable natural resources (mineral, vegetable, animal)</li> </ul>

**Sources:** Briguglio 1995, Encontre 1999, Baldacchino 2005, Hampton and Christensen 2007, Bishop 2010, Lee and Smith 2010 and Seetanah 2011

generating markets (North America and Australasia, respectively).<sup>5</sup> In comparison, because of their remoter location, the Indian Ocean SIDS had long-haul tourism from the start. However, since the 1990s, the growth of long-haul air transport (and cheaper ticket prices) has meant that now tourism to SIDS is not necessarily from neighbouring regions, although North America remains a key market for the Caribbean despite a growing market share from Europe (Box 1.1).

Caribbean SIDS appear to offer a greater diversity in product development than SIDS in other regions. In comparison, the Indian Ocean SIDS (Mauritius, Seychelles<sup>6</sup> and Maldives) seem to be broadly selling the same product, namely high end, luxury tropical island tourism based in resorts. While Mauritius has developed some lower end mass tourism, all three SIDS appear to be aiming for the same market.<sup>7</sup> In comparison, the Pacific SIDS were initially short-haul destinations mainly for Australia and New Zealand. Some were also part of the round-the-world backpacker trail in the 1980s and 1990s that ran Asia–Australia/New Zealand–Fiji–USA. At present, tourism in Fiji is still buoyant and the country has the largest tourism economy in the region, but in the smaller islands, such as Vanuatu, tourism is struggling. This needs further research, but is probably the result of remoteness and difficulty of access, high costs (a structural aspect of SIDS economies) and increasing international competition among tropical island destinations.

**Box 1.1 Tourism development in the Caribbean region**

- The Caribbean had the earliest significant tourism, primarily from the USA and Canada in the pre-war period.
- This accelerated with the growth of mass tourism in the 1960s, with predominantly beach-based '3S' tourism on offer.
- With the growth of all-inclusive packages and highly capitalised enclave tourism owned by foreign firms (Weaver 2001), the region also saw the massification of the US-based cruise industry from the 1970s; this has become the fastest growing tourism sector (Wilkinson 2009).
- More recently, the tourism product has developed to include niche markets that focus on heritage and culture for both land-based tourists and cruise passengers.
- According to Nurse (2010: 27), 75 per cent of adult visitors to the Caribbean engage in cultural tourism that includes events, festivals and activities, while cruise passengers are the largest market for heritage tourism.
- The Caribbean has long been known for its culture and this is becoming an increasingly exploitable area for niche tourism opportunities that benefit the local economy and communities.

Fundamentally, sustained economic growth in long-haul luxury island destinations is closely tied to the wider global economy, especially in the main markets, such as Europe and North America (UNWTO 2012).

## 1.2 Tourism challenges

Four key challenges, that stem from the nature of the tourism industry, face tourism in SIDS and therefore impact upon whether inclusive growth policies can be deployed effectively. The challenges are:

1. Division between land-based and cruise tourism;
2. Issues of economic dependence on tourism;
3. Issues concerning accessibility; and
4. Competition between destinations.

These issues are discussed below. It should however be noted that some of these areas overlap or interact.

Some issues are associated with the division between land-based tourism and cruise ship tourism. Evidence suggests that these are compounded by multifarious challenges that relate to taxation, regulation, and research and data collection, as well as, perhaps more importantly, the distinct separation of the cruise sector from the rest of the travel and tourism industry. This report therefore includes a separate chapter that explores cruise ship tourism in SIDS and small state economies.

Issues associated with a high level of economic dependence on tourism, as well as vulnerability to external shocks, are characteristic of SIDS. In terms of inclusive growth and the tourism sector, much of this lies outside the control or influence of SIDS' governments. However, measures should be taken to maximise the opportunities for inclusive growth by stimulating new 'home-grown' enterprises that add value to the overall tourism product. This is discussed more fully below.

Other issues are associated with accessibility and the spatial location of SIDS. Affordable, regular access (usually by air transport) is fundamental to successful tourism development. Remoteness is a key factor in limiting tourist access (see Box 1.2).

There are also factors associated with the intense and growing competition between tourist destinations and the need for product innovation. The nature of the tourism industry means that it is very fast changing, with many new trends and destinations moving in and out of fashion. This has implications for the planning and management of SIDS tourism; for tourism to be part of inclusive growth policies, product innovation is key.<sup>8</sup> However, evidence from some SIDS shows that product innovation in tourism appears to be lacking (UNEP 1996; Nurse 2009). Given the dominant role of transnational corporations (TNCs) in many SIDS, especially in the accommodation, transport and cruise sectors, it appears that the possibilities

### **Box 1.2 The impact of reduced air access to remote SIDS: Seychelles**

Between 95 and 99 per cent of tourist arrivals enter Seychelles by air; the rest arrive by sea as cruise passengers. The dependence on air transport is not uncommon for SIDS, but it does carry risks. Air Seychelles now operates under Etihad, as a result of the government's sale of a 40 per cent stake to the airline. The last flight by the national carrier was in late April 2012.

In-depth interviews with hoteliers (international and local) and local travel agencies in May 2012 indicated that traditional markets, such as France, are less likely to book a holiday to a destination to which there are no direct flights. Measures have been taken to attract visitors from new markets, particularly the Chinese, with arrivals from mainland China increasing every week.

It is too early to predict whether or not the loss of Air Seychelles will have a significant impact on Seychelles' tourism economy, and whether the growth of the Chinese market will continue.

for product innovation are affected by the power and dominance of the tourism TNCs. While the industry may at first glance appear innovative (with features such as infinity pools and wi-fi in guest bedrooms), global decisions about overall financial performance tend to crowd out the possibilities for local innovation. There is considerable 'copycat' behaviour in SIDS tourism products. This suggests that the TNCs exert significant influence on how SIDS tourism products are presented and promoted to a global audience.

### 1.3 Direct tourism contributions

The importance of tourism to SIDS is unquestionable. However, the evidence to support this is frequently inconclusive or partial, thus limiting opportunities to track year-on-year tourism growth, observe tourist expenditure in the wider economy or measure value-added over significant time periods.<sup>9</sup>

This combines with the lack of data about SIDS from which case study material can be drawn. Specifically, few SIDS have comprehensive financial accounting and tourism-related research data. Based on data available for direct and indirect expenditures and contributions, and employment and cruise versus land-based tourists, only three SIDS meet this requirement: Jamaica, Maldives and Mauritius. All three are well-researched destinations, where the tourism industry is monitored regularly by government ministries. Data are available from the national statistics office or tourism department; this is used here to emphasise examples of good practice.

#### 1.3.1 Tourist spend and contribution to GDP

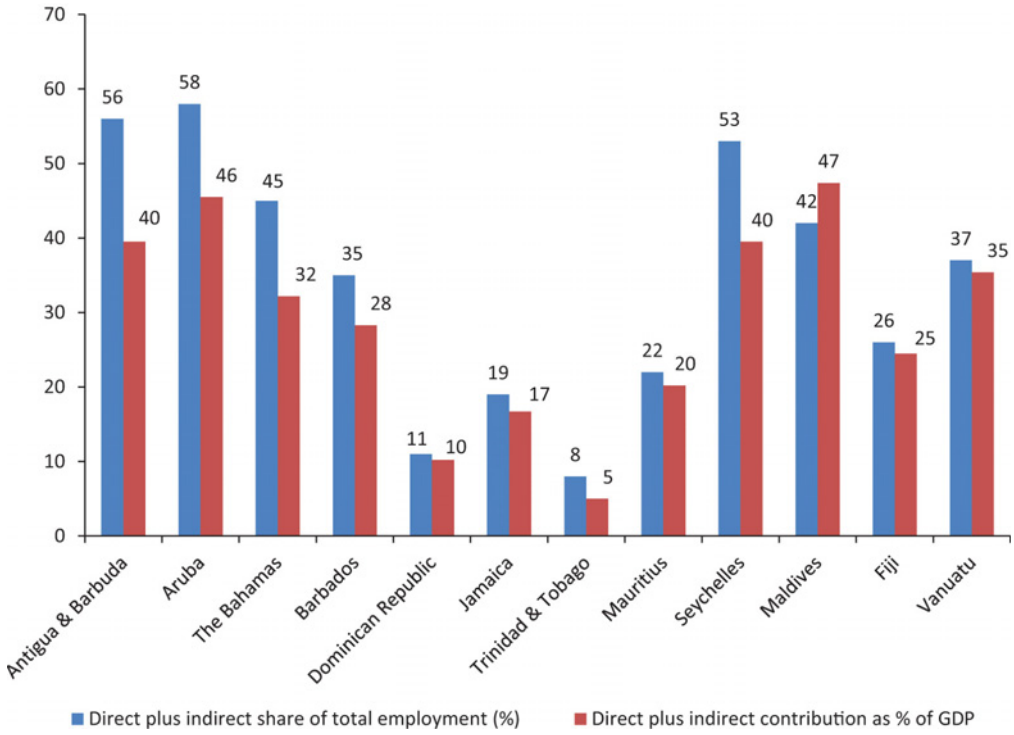
The World Travel and Tourism Council (WTTC) defines the direct contribution to GDP as the 'equivalent to total internal travel and tourism spending within a country less the purchases made by those industries (including imports)'.<sup>10</sup> In terms of SIDS, where imports of travel and tourism goods and services are high, as is the level of economic leakage, data for internal spending on locally-sourced and produced goods are essential, and that is shown where possible.

Tourism in most SIDS is a major contributor to GDP, government revenue, foreign exchange and employment (Royle 2001). In some cases, tourism contributes more than 40 per cent of GDP, rising to 45.5 per cent in Aruba and 47.4 per cent in Maldives. These figures relate to total contribution to GDP and include direct and indirect contributions (Figure 1.1). Induced contributions are not included.

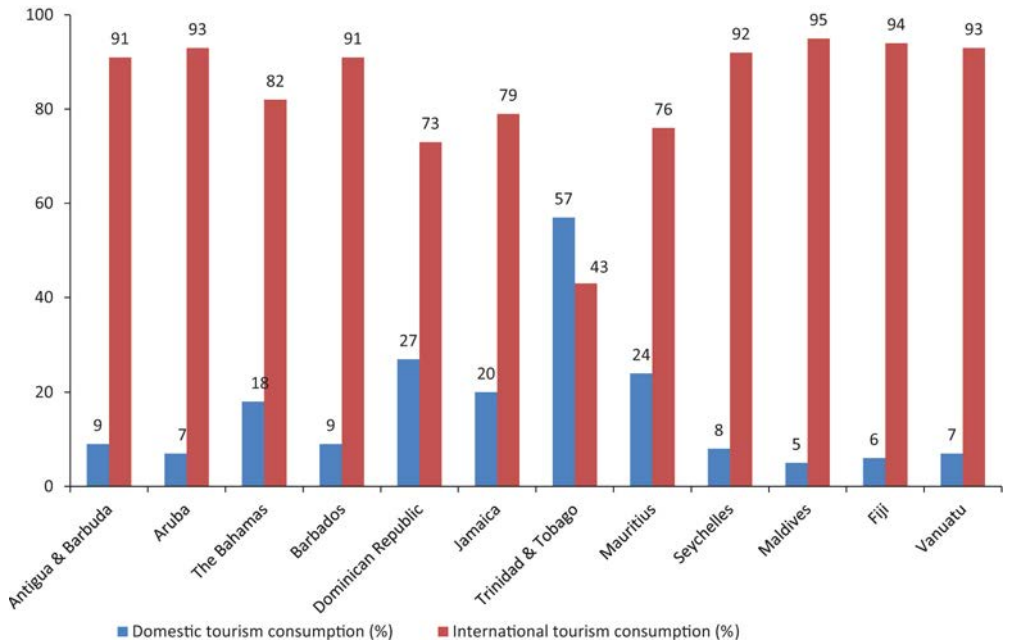
A breakdown of leisure and business spending (Figure 1.2) shows that the majority of SIDS tourist expenditure is from leisure spending and that this exceeds 90 per cent of tourism consumption in 9 of the 12 SIDS selected for this report. Where business tourism spending exceeds 10 per cent of the total, the difference is quite considerable, for example ranging from 40 per cent in Mauritius to 98 per cent in Vanuatu.

Domestic tourism spending is less likely to make a significant contribution to GDP in SIDS. There are a number of reasons for this. First, the industry has been generally

**Figure 1.1** Direct tourism contribution to GDP and employment in selected SIDS, 2011



**Figure 1.2** Business and leisure tourism expenditure, 2011

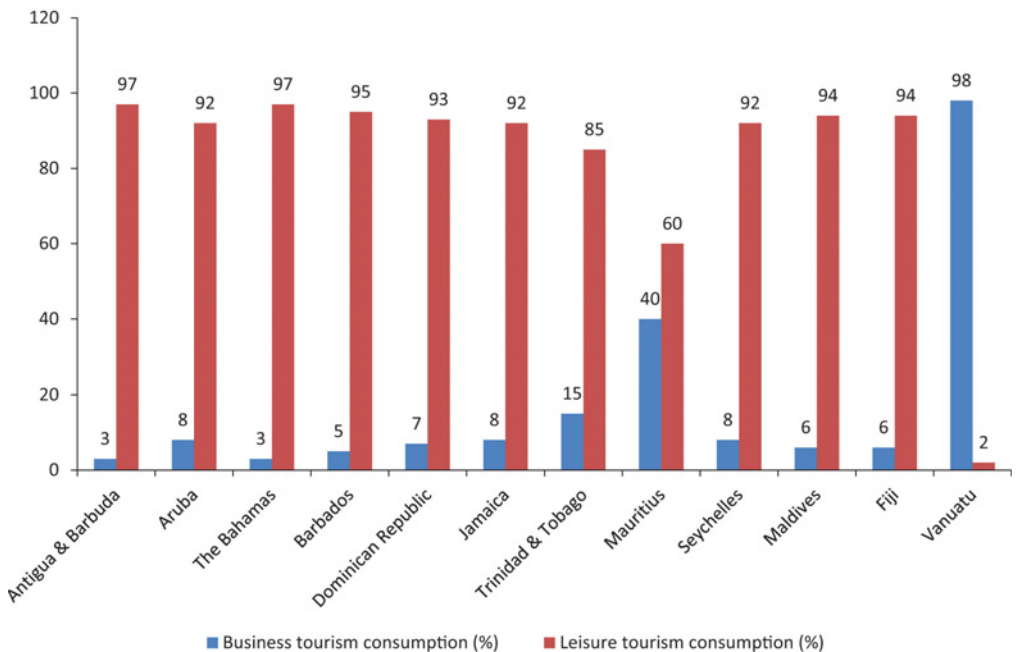


developed for international tourists and all-inclusive holidays. Second, the small populations generally found in SIDS make this a reasonably small sector (though it may be an option for larger SIDS). Third, infrastructure that serves niche tourists or even domestic tourists may not be available. And finally, domestic tourism is often perceived as the ‘poor relation’ of international tourism, as the average tourist spend is less (Figure 1.3 and Box 1.3).

Figure 1.3 provides some evidence to support this notion, with foreign visitor spending contributing between 73 and 95 per cent of GDP in most of the SIDS selected for this report. The exception is Trinidad and Tobago, with less direct spending from foreign visitors (43%) and more from domestic spending (57%). The fluctuations in total tourist arrivals and cruise passengers over the ten-year period 2000–2010 (Appendix 1, Table A1.5) could be due to any number of reasons, for example global financial instability, regional competition or policy change. However, it does not explain why domestic tourist spending has increased.

Tourism in Trinidad and Tobago developed more recently than in many of its Caribbean neighbours. In early 2000, cruise tourism was growing alongside a predominantly eco-tourist land-based tourism market. Traditionally, eco-tourism attracts high value, low volume development options. It is more likely to develop infrastructure that is accessible to both local and international tourists<sup>11</sup> and is sensitive to the natural environment.<sup>12</sup> Certainly, the guiding principles of the 2010 Tourism Master Plan clearly indicates a long-term intention to continue developing the tourism industry

**Figure 1.3 International and domestic tourism in SIDS, 2011**



### **Box 1.3 Leisure and business tourism in Vanuatu**

Vanuatu is the only country where business tourism spending is higher than leisure tourism spending in the SIDS under review. One reason for this, apart from distance and cost, is the nature of tourism development on Vanuatu.

Total tourist arrivals and cruise passenger numbers were almost the same in 2000 (58,000 and 52,758, respectively). However, the growth in cruise passengers in ten years has been almost threefold (rising to 140,000). This rapid growth could have overshadowed land-based tourism development, especially if air access had not significantly improved over the same period.

Higher business spending in Vanuatu has been associated with an economy which has 'characteristics often associated with EPZs', that encourage foreign investors through incentives and tax breaks (Haywood 2003: 1).

for the domestic, as well as the international, market by focusing on a people-centred approach to tourism development (Box 1.4).

### **1.3.2 Tourism contributions to government revenue**

Direct revenue from tourism to government revenue is accounted for in national accounting (supply and use tables [SUT] or input–output [I–O] models are typically used); however, this level of detail is not always readily available. Maldives is used as a best practice case study of detailed analysis of this direct contribution. Figure 1.4 gives statistical data for government revenue from direct tourism services. It includes tax and non-tax revenue, and values are given both in US dollars and Maldives Rufiyaa (MVR) (Appendix 2, Table A2.2).

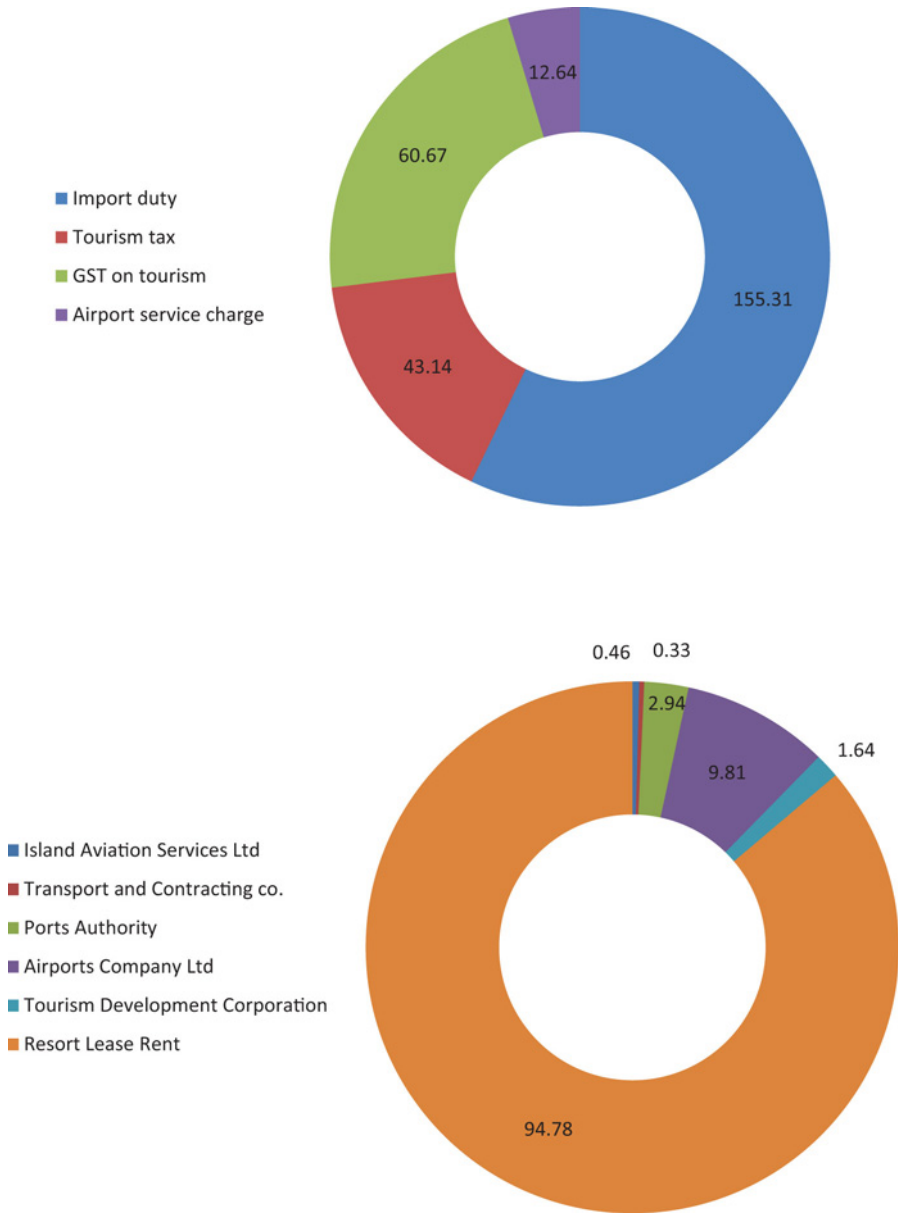
From the data presented, it is clear that resort land leasing is the single most important direct contributor to government revenue, with general sales tax (GST) on tourism services and tourism tax as the second and third largest contributors. Transport services make up a relatively small proportion of total government revenue. This suggests that either economic leakage is high or that the government has made a strategic decision to encourage new links, and maintain existing ones, with international airlines and cruise operators.<sup>13</sup> These suggestions are equally plausible.

### **1.3.3 Direct contribution to employment**

Forecasts from WTTC Country Reports show that the Indian Ocean islands will experience a fall in employment of 3–5 per cent in 2012, while the Caribbean islands are likely to see a rise of 0.6–2.4 per cent in the same year. This may be attributed to many factors, such as the location of the islands relative to the key markets (notably North America and Europe), the frequency of scheduled flights, and cost and journey time.



**Figure 1.4** Maldives: Tax and non-tax revenue from direct tourism services (US\$), 2011



The direct contribution to employment in SIDS suggests that the tourism industry is an important route to employment for the islands' workforce (see Appendix 1, Table A1.3).

However, in many SIDS the nature of tourism employment (type of job, role and salary) is not necessarily equitable. As discussed above, tourism in SIDS is dominated by international resorts and hotels; typically expatriate workers make up a high

**Box 1.4 Trinidad and Tobago Tourism Master Plan, 2010:  
Eleven Guiding Principles**

1. Tourism development shall benefit all of the people of Trinidad and Tobago both as visitors (customers) as well as participants (suppliers) of the industry;
2. Effective local community involvement shall form the basis of tourism growth;
3. A participatory integrative approach shall be adopted where local communities, the private sector, NGOs, the general public and other interest groups and stakeholders are given the opportunities to take part in the planning and decision making process, and ownership of the tourism industry;
4. Tourism shall be used as a tool for the social development and transformation of the country;
5. Central Government shall work collaboratively with the Tobago House of Assembly and the tourism sector in Tobago to ensure that tourism is sustainably developed in Tobago;
6. Tourism development shall be people-centred and innovation and investment-driven;
7. Government shall provide the enabling framework and impetus for development;
8. Sustainable usage of the environment shall be practised;
9. Cultural authenticity shall be maintained and the culture further supported and promoted;
10. The talent of the people of Trinidad and Tobago shall be developed and nurtured to provide the innovation and creativity that will fuel the competitiveness of the sector; and
11. Tourism development shall take place in the context of strong cooperation with other States within the Caribbean.

**Source:** Trinidad and Tobago Tourism Master Plan, 2010

proportion of those employed in key positions, compared with local workers. On this basis, and with inclusive growth in mind, further case study evidence is now given.

*Employment in restaurants and hotels*

Accessing data that differentiates between foreign and local workers in tourism services is generally difficult. This level of detail is either not published or it is not

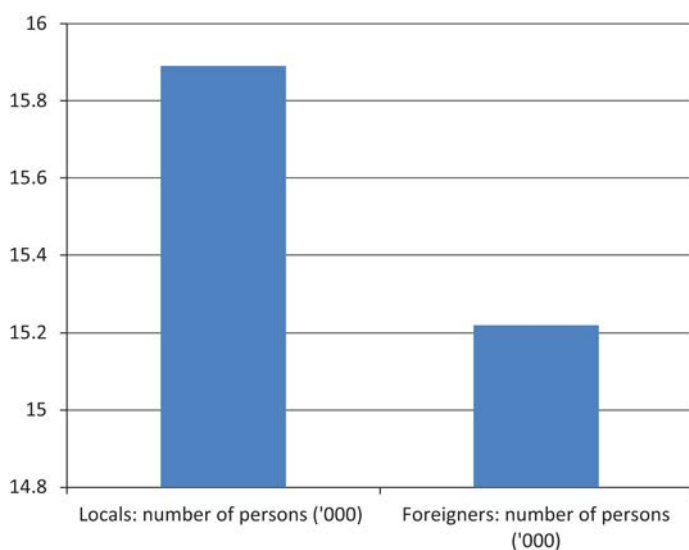
disaggregated at the point of data collection.<sup>14</sup> Nonetheless, Maldives' Financial Yearbook for 2011 includes this level of granularity (see Figure 1.5). For every local worker employed in restaurants and hotels there is approximately one foreign worker. This ratio is indicative of an industry dominated by international hotels and resorts, where high economic leakage can be partly attributed to high numbers of foreign workers.

Maldives is a special case as it is highly dependent on tourism. In SIDS with more diverse economies that are less dependent on tourism, the proportion of foreign workers may not be so high. As data from other SIDS are very limited, the assumption is that most SIDS employ more foreign workers when mass tourism and the all-inclusive market dominates the sector, rather than other forms of tourism.

To understand the direct contribution of international hotels and resorts to employment, a comparison with locally-owned and smaller accommodation is useful. Figure 1.6 shows the number of people employed across all accommodation types in Jamaica (2009 and 2010). The role of international hotels and resorts as a principal employer is very clear; this is not surprising, given the average size of these establishments (usually over 400 rooms). However, in terms of mitigating seasonal unemployment, the international hotels and resorts appear to maintain employment levels throughout the year.

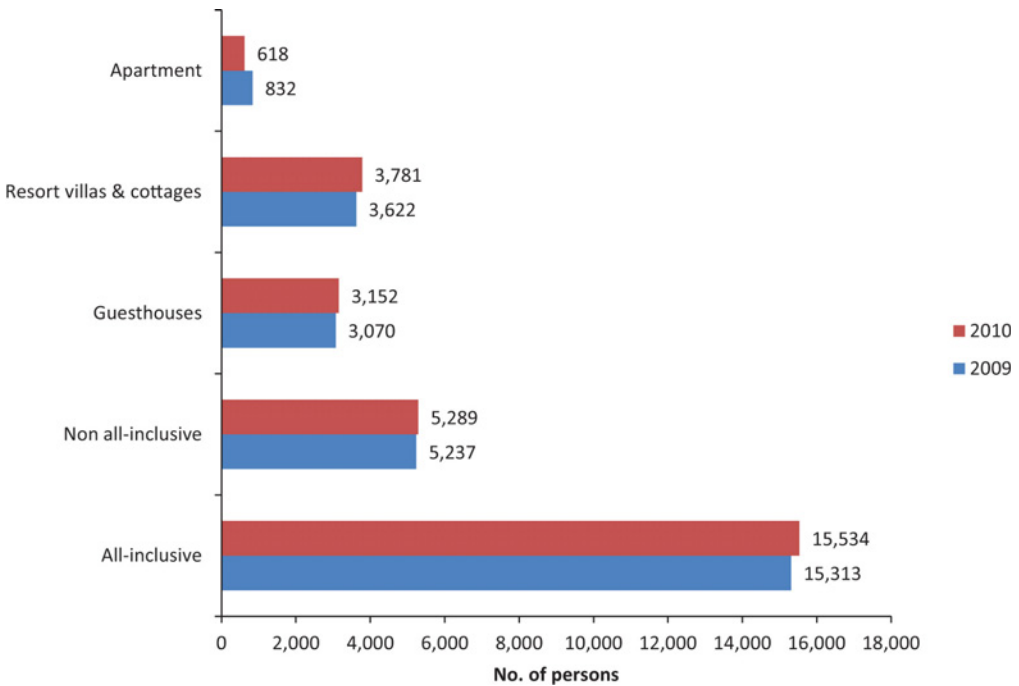
Seasonal occupancy rates for each accommodation type in Jamaica are considered in Chapter 2 (see Table 2.3). All-inclusive resorts maintain higher occupancy rates in both the winter and summer seasons<sup>15</sup> than island resorts and resorts that are not all-inclusive. Furthermore, the larger accommodation units (more than 101 rooms)

**Figure 1.5** Number of local and foreign workers ('000) employed in restaurants and hotels in Maldives, 2011



**Source:** International Migration Paper No. 112, International Labour Office, Geneva: 25.

**Figure 1.6 Number of people employed in all accommodation types, Jamaica (2009 and 2010)**



**Source:** Jamaica Tourist Board, Annual Travel Statistics 2010

typically hold occupancy rates above 80 per cent in peak season and 60 per cent during summer. Occupancy rates for smaller units are very low during summer. This trend is indicative of SIDS where tourism development depends on international hotels and resorts to support their mass tourism markets. There is little opportunity for smaller and local accommodation providers to compete with global accommodation brands for the same tourist market.

The evidence presented in this chapter shows that tourism does contribute directly to employment and the economy in SIDS. It is equally clear, however, that certain sectors, such as enclave tourism development (land-based or cruise), offer only restricted opportunities to benefit from tourism or no opportunities at all. Given the dominance of these sectors in SIDS, and the vulnerability of SIDS to global economic trends, there is a clear need for a shift in policies to favour and support local businesses and local people in tourism activities. Chapter 2 considers alternative tourism markets, more specifically niche tourism markets that consume more than just '3S'. They have characteristics favouring inclusive growth strategies that show levels of economic leakage can be minimised by promoting local products and services. (The issue of economic leakage is examined further below).