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## CONSTRAINTS TO THE GROWTH AND DEVELOPMENT OF TOURISM IN THE ECCB MEMBER TERRITORIES \*

by  
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### Introduction

The tourism industry has developed to respond to consumer demands. The industry closes the gap between the tourist - *the consumer*- and the international destination - *the producer* of the goods and services sought by the consumers. Tourism comprises a wide range of individual enterprises supporting the movement of people across international borders, including a dispersed system of wholesale and retail trade, travel agents, airline companies, hotels, tour operators, advertising agencies and other related enterprises.

The product offered by international tourism destinations is different from those of other economic sectors. It is an export item and is made up of a variety of services. Unlike other exports, international tourism is produced and consumed within the destination although it is sold in the external market place. Tourism is thus an invisible export where few individual goods leave the area of production, as the product is consumed locally by the foreign visitors.

With the renewed emphasis on outward-oriented growth strategies, which have characterised the development strategies in many of the Caribbean islands, increasing attention has been focused on international tourism as a leading sector. However, there is widespread misunderstanding of the tourism industry as people are unaware of its full contribution to the economy. Within the National Accounts framework, the hotel and restaurant sector has been used as a proxy for the level of activity in the industry. This has proven to be

insufficient given the pervasiveness of the sector and the difficulty in determining the tourism component of the other sectors within the economy such as agriculture, construction, manufacturing and services. The System of National Accounts (SNA) divides the economy into a series of sectors, the elements of which are closely related to production technology or product output. Such an approach is insufficient in defining it as a sector. This arises as tourism involves multiple goods and services normally associated with other sectors, from simple hairdressing to sophisticated cuisine and even real estate services. As a result, inadequate criteria have been specified for determining the industry's full potential for development.

The purpose of this paper is to highlight the constraints towards the development of tourism within the ECCB member countries. The paper will also look at the importance of the industry to the region to draw attention to the need to address the issues outlined.

### Contribution of the Tourism Industry

In the past the description of tourism focused on the characteristics of visitors, the mode of travel, the type of accommodation and the purpose of visit. Success was measured by the volume of visitors, rather than on the impact of these on the economy. There is currently an increasing awareness of the role that tourism plays and its potential to contribute directly, indirectly or in an induced manner to economic growth via the generation of value added, personal income, government revenue, foreign exchange earnings and employment.

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\* *The views expressed are those of the author and not necessarily those of the Eastern Caribbean Central Bank.*



To fully appreciate the implications of the constraining factors it is necessary to gain a perspective of the significance of the industry to the regional economies. Tourism includes the traditionally associated areas of accommodation establishments, restaurants, transportation services, sites and attractions, shopping and entertainment. In addition, there are the other non-traditional areas which must be taken into account. These include, but are not limited to, public utilities, banking, insurance, real estate, agriculture, construction, the distributive trades and government services.

A study conducted in 1993 by Panell Kerr Foster (PKF) estimated that the value added contribution of the hotel and restaurant sector in the average Caribbean destination represented only 47.0 percent of the total GDP contribution of the tourism industry. This statistic gives an indication of the extent to which the contribution of the industry is normally under estimated.

Tourism impacts on the economy in three fundamental ways - the direct, indirect and induced. The direct impact is felt by those who deal directly with the needs and demands of the tourism sector. The indirect effect is felt by those who supply tourist establishments with goods and services. The induced effect is concerned with further rounds of economic activity created by residents when the incomes accrued during the direct and indirect effects are re-spent in the national economy.

Some of the direct impacts (first round effects) relate to the effects of the industry on employment, government revenue and foreign exchange. According to recent studies conducted by the Caribbean Tourism Organisation, tourism directly accounts for 1 in every 4 jobs (25.0 per cent of the number of persons employed) in the ECCB sub-region. With respect to government revenues there is an extensive range of taxes that are collected directly from establishments and operators within the sector. These constitute on average more than 20.0 per cent of total government revenue annually and include hotel occupancy taxes, airport departure

taxes, cruise passenger taxes, entertainment taxes, income taxes, alien landholding licences, liquor licences, import duties, excise duties, stamp duties and consumption duties. In addition, tourism provides strong balance of payments support to sub-regional economies, as the industry is a net contributor to the foreign exchange pool. The level of foreign exchange generated by the industry far exceeds even the amounts earned by any of the other sectors within the region.

Estimates of the indirect and induced contributions of the industry require detailed study to determine the linkage coefficients with the other economic sectors. These coefficients are expected to vary significantly among the countries. However it is sufficient to conclude that the indirect and induced impacts would only add to the significance of the sector in the respective economies.

Other useful indicators of the magnitude of the industry in the ECCB member territories relate to comparisons between estimates of gross visitor expenditure and other key economic variables. These include the ratio of visitor expenditure to merchandise exports, visitor expenditure to GDP, visitor expenditure to external debt and visitor expenditure per capita. (See Table 1).

The forecast is that travel and tourism will enjoy robust growth for years to come. But for the region to realise the promise of growth and sustainability there must be a strategic and proactive approach towards the development of the industry in preparation for the accompanying challenges.

### **Policy Considerations**

There are already several factors constraining the maximisation of the benefits to be derived by the respective territories. One of these factors relates to the flow of investments. Fortunately the region is starting from a strong base with natural advantages which augur well for the creation of a good investment climate. These advantages include an abundance of natural



environmental beauty, political stability, an ample supply of workers and close proximity to major markets. However to hold its position, the Caribbean must be prepared to compete aggressively for the investment capital needed to provide a competitive product. There is an urgent need to increase the flow of capital for investment in tourism infrastructure and its related facilities. A number of the accommodation plant is more than 15 years old and requires substantial funds for renovations and refurbishment to meet marketable standards. In addition, there is a need to increase the room capacity to improve the load factor of airlines which would allow them to attain a reasonable level of profitability and hence provide sustained and reliable service.

The prospects for attracting much needed investment in the industry are becoming increasingly difficult in the emerging new economic order, where the world appetite for investment is tremendous and resources are dwindling. Capital is swiftly becoming globally mobile in a highly competitive environment on the one hand, with profits being the sole motivation for involvement. On the other hand, the Caribbean is being viewed as a region with high cost of operations which is a disincentive for attracting investment.

To attract the type of investments needed in tourism, governments must focus attention on the issues that would facilitate the flow of investment in the industry. These include:

- reviewing the existing incentive regime to promote investment in the industry. The current system is best suited for the manufacturing sector after which it was modeled, but needs to be modified to address the special needs of the tourism sector.
- re-examining the current respective tax structures within the sub-region with the aim of providing an incentive rather than serving to dampen the returns on investments.
- facilitating the development of a well-educated, well-

trained and technology-literate workforce. In addition, awareness programmes, aimed at enhancing attitudes, improving productivity and reducing visitor harassment could serve to improve the attractiveness of the region's tourism industry to investors.

- investing in environmental conservation schemes as the world becomes increasingly environmentally conscious.
- improving the basic infrastructure - roads, water and telecommunications. With respect to telecommunications, in particular travelers want and expect access to reliable, inexpensive telephones and the ability to send and receive e-mail and faxes. Internet access will inevitably become an important amenity as we approach a new century; therefore destinations without a world class telecommunication system will be at a distinct disadvantage.
- establishing automated immigration procedures for the processing of arrivals at ports of entry to facilitate improved time efficiency.
- improve air traffic control systems. Land based systems should be replaced with the more efficient and safety enhanced satellite based operations.

In addition to the above mentioned major structural improvements, governments need to pay attention to such ancillary infrastructure issues as ensuring that taxi-cabs that connect airports and hotels are always safe, clean, licensed and in ample supply.

Tourism in the region has developed without a structured approach and in the absence of clearly enunciated and transparent policy guidelines. It would be necessary to prepare strategic and sustainable development plans that would form the basis for advancement of the industry. The need for such an approach is critical in view of the supply-side constraints of the territories. The limited resources have to be



utilised efficiently for maximum benefit. Tourism is a very intrusive activity. Its mechanisms are different from those of other economic sectors. It often involves competition for other services between hosts and visitors; sensitive and thorny questions like the right of non-nationals to own land; access to beaches and to all-inclusive hotel properties. Strategic development plans can provide a measure of assistance in this regard by informing policy decisions in serving as the basis for:

- developing appropriate marketing plans with achievable and sustainable targets;
- allocating an adequate level of funding for marketing programmes and the efficient use of those funds;
- pursuing the desired type of investments for the industry as opposed to accepting only what is offered;
- attaining the ideal product mix;
- providing guidelines for achieving, maintaining and regulating standards throughout the industry;
- employing sustainable environmental practices;
- strengthening sectoral linkages; and
- setting clear guidelines for the management of the industry.

Regional airlines are a vital part of the Caribbean's tourism industry, but they continue to run unprofitably and appear disinterested in serious exploration of the benefits to be accrued from merging their operations. This stance is in sharp contrast with global trends and has implications for their continued existence. Increasingly large-scale alliances are being forged between international airlines aimed at streamlining operations and improving profitability. The ongoing mergers and alliance negotiations between British

Airways and American Airlines, Northwest Airlines and Continental, Qantas and Japan Airways, Air France and KLM and numerous other European ventures are notable examples. If these negotiations are successful they will result in excess global capacity, capacity dumping and lowering of airfares, all of which inevitably will result in financial strains on unadjusted operations. These pose a direct threat in the medium term to the viability of regional air transportation and all dependent operations.

On a further note with regards to airline operations, it is clear that more needs to be invested in the area of maintenance. Recent low ratings given to some of the regional airports and airlines maintenance operations by United States aviation authorities, may result in the loss of access to major markets like the United States.

The high cost of airfares for interregional travel is another major impediment to exploiting the potential for the Caribbean as a major source of visitors to ECCB member territories. In recent years regional tourist arrivals to respective territories have accounted for as much as 25.0 per cent of total stay-over visitors. Given that airfares are a function of operational costs, to effectively capitalise on this market cost reduction is necessary. For instance there are wide disparities in the cost of fuel at various airports within the region. Fuel in St Lucia, for example, is three times its comparative cost in Barbados, which is only 30 minutes away. Significant cost savings can be attained with the bulk purchasing of fuel as well as cooperation in ground handling services. In a study commissioned by the CTO, it was determined that as much as US\$65m can be added to the profitability of Caribbean based airlines annually in the form of revenue enhancements and costs reduction if they collaborate.

Another aspect which needs addressing relates to airport landing fees in the respective territories. Like fuel costs, aircraft landing fees vary widely across countries and bear little relation to the level and quality of service available, while adding significantly to the cost



of operations. A uniform structure is recommended, in which landing fees should be reduced to effect a lowering in the cost of operations.

The region, which imports most of what it consumes and has grown accustomed to levels of consumption unknown in much of the developing world, is critically dependent on tourism for foreign exchange to purchase goods and services and for the creation of employment. However, a disproportionate amount of resources and energies have been deployed in sectors where at best gains can only be marginal, rather than allocating these resources towards seeking to create a sustainable tourism industry - an area in which there is a comparative advantage and proven expertise.

The openness of the ECCB territories on the one hand and insufficient activity on the part of policy makers on the other have precluded the development of strong linkages between tourism and the other sectors of the economy. As a consequence, food and most finished goods purchased by tourists or required by hotels to satisfy tourist demand must be imported, with considerable loss of foreign currency. At present the agricultural sector in most of the countries, although capable of providing fruits, vegetables, meats, poultry, and fish lacks the reliability, quality, consistency and distribution channels to satisfy demand by hotels. Deliberate steps have to be taken to quicken the pace of forging and strengthening the linkages between the output sectors and tourism.

The level of coordination among regional governments with regard to some policy issues have implications for the entire region. The recent impasse between the Florida Caribbean Cruise Association and the OECS member states with regard to the imposition of the new cruise passenger head tax, highlights this difficulty. With more than half of the world's cruise business coming to the region one would expect that the governments would present a unified front on major external issues confronting the industry. The negotiations

on the cruise passenger head tax as well as other matters related to airline negotiations have proven differently, reflecting the possible negative implications of disunity on policy matters.

The transition from foreign to local management and control in tourism, cannot take place without investment in the development of human resources at every level. The Caribbean is the most tourism dependent region in the world and tourism education has not traditionally been a priority for the education authorities. Further it is not reflected in the current scholarship programmes offered. At present more persons are trained in areas that our systems can hardly sustain, while there is a tendency to import top management to run our more important industry. Some development agencies reinforce this trend by importing their priorities, either from their experience of other developing regions whose dependence on tourism is far less than that of the ECCB member countries, or relying on their own insights into what is best for the developing world. Providing training opportunities only will not guarantee the necessary transition towards control and ownership. Governments would need to continue to invest directly in the physical plant, and/or facilitate joint private and public sector arrangements for establishing new large scale hotel properties.

With respect to product quality, consumer legislation, particularly in Europe, is establishing criteria for product quality, and is appending penalties enforceable in courts to be paid by suppliers found guilty of failing to deliver on what they promised the consumer. This legislation is being framed and implemented without any consultation with the destinations. This is an example of a non-tariff barrier that works against the development of the industry within the region. It is being accompanied in some instances with "watch dog" television programmes that encourage returning tourists to report on negative experiences, without the immediate right to respond by the accused party. This is certainly an area that needs



to be addressed within the framework of the conventions between European Union and the African, Caribbean and Pacific states.

### Summary/Concluding Remarks

The forecast for tourism is that visitor arrivals to the region will improve at slightly better rates than the increase in arrivals globally. New changes in tourism demand will focus on increased awareness of the environment, in terms of consumer concerns regarding

tourism development and its negative impact on the environment. A second change is a growing interest in cultural products. These factors augur well for the region. However, markets are becoming increasingly competitive as more and more countries look to tourism to create employment and income and diversify the economic structure. Success for the region will depend critically on the willingness and ability of policy makers to address the major issues identified above, which currently impede the development of the industry.

**Table 1**  
**Gross Visitor Expenditure In ECCB Member Countries**  
**(1997)**

	Visitor Expenditure as a Percentage of Merchandise Exports	Visitor Expenditure as a Percentage of GDP	Visitor Expenditure as a Percentage of External Debt	Visitor Expenditure Per Capita US\$
Anguilla	3356.52	64.41	612.70	5551.96
Antigua & Barbuda	2140.89	44.59	117.76	4076.35
Dominica	80.73	16.18	44.52	529.48
Grenada	313.29	25.01	87.41	820.32
Montserrat	821.16	192.52	669.86	20698.41
St Kitts & Nevis	144.35	26.52	69.48	1778.21
St Lucia	413.49	43.68	182.67	1721.03
St Vincent & The Grenadines	153.25	24.06	80.68	639.69

Source: ECCB



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