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HEADQUARTERS
FOR THE CARIBBEAN

Industrial upgrading and diversification to address competitiveness challenges in the Caribbean

The case of tourism

Michael Hendrickson
Nyasha Skerrette



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Michael Hendrickson
Nyasha Skerrette



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Abstract

This study analyses the efforts that The Bahamas, Belize and Saint Kitts and Nevis are making to upgrade and diversify their tourism sectors to increase its contribution to inclusive growth. Generally, the study finds that the countries have been making efforts to upgrade and diversify the sector, but this has been affected by resource and institutional constraints.

Economic upgrading in tourism has focused on measures to improve productivity and to move up the value chain in the sector. These include product and process upgrading, which entail the modernization of the tourism plant in the countries, investment in certification and standards, including Caribbean Tourism Organisation's (CTO's) Hospitality Assured certification. Governments are also investing in improving the quality of their workforce by focusing on improved technical, behavioural and environmental training to enhance service delivery. Nevertheless, there is need for all-round improvements in these and other areas to lift average service quality in the sector.

Social upgrading has focused on measures to improve wages and working conditions in the sector. This could be facilitated by better arrangements for time-off from work for undertaking training and improved compensation to reward training and the acquisition of skills.

With respect to diversification, the three countries have focused on developing new product niches to reduce the dominance of mass tourism. Key initiatives include a thrust into eco-tourism, and greater investment in marketing to attract visitors from non-traditional markets such as Latin America and China.

The study proposes key recommendations for strengthening upgrading and diversification. These include: a clearer prioritization of niches for product development based on trends in consumer demand; strengthening and harmonizing standards and certification for hospitality institutions based on common standards in education and training. Improved leveraging of information and communications technology (ICT), including big data and artificial intelligence to improve organizational and management processes.

Introduction

This study analyses the efforts that three Caribbean countries - the Bahamas, Belize and Saint Kitts and Nevis - have been making to upgrade and diversify their tourism industries to strengthen the competitiveness of the sector global value chains. The main aim is to evaluate whether upgrading and diversification is positioning the sector in these countries to make a greater contribution to economic growth, foreign exchange earnings and good quality employment and environmental conservation. A key objective is to gauge whether economic upgrading in terms of growth in market share and average earnings is leading to social upgrading measured by growth in employment, wages and working conditions and also environmental upgrading, which is reflected in more efficient use and the conservation/restoration of natural and environmental resources. This is important as in reality these countries could face different combinations of economic and social (and environmental) upgrading or downgrading. Moreover, as a leading sector, the trajectory of upgrading in tourism is an essential determinant of the countries' ability to achieve sustainable development in the context of the 2030 Agenda and the Sustainable Development Goals (SDGs) and the Caribbean Small Islands Developing States, Accelerated Modalities of Actions (SAMOA) pathway.

Tourism is one of the largest and fastest growing sectors of the global economy. According to the UN World Tourism Organization, the direct and indirect impacts of tourism accounts for around 10 percent of world GDP. Moreover, the sector accounts for almost 10 percent of world employment and tourist arrivals have more than quadrupled from around 278 million in 1950 to 1,235 million in 2016. Tourism is the most important economic sector in a number of Caribbean economies, especially those that are driven by services. The World Travel and Tourism Council (2018) estimates the direct contribution of travel and tourism to the Caribbean economy at US\$17.9 billion and 4.8 percent of GDP in 2017. Meanwhile the total contribution (direct and indirect) was estimated at US\$57.1 billion (15.2 percent) of GDP making the sector an important driver of growth, employment and foreign exchange earnings for the region. Similarly, visitor exports or the total expenditure by visitors in the Caribbean economy amounted to over US\$31.8 billion (almost 20 percent of total exports), while investment in the sector was estimated at US\$7.1 billion (12.9 percent of total investment). The travel and tourism sectors

are also significant contributors to employment in the region. In total, the sector was estimated to contribute over 2.4 million jobs or 13.8 percent of total employment.

Similar to most other regions, Caribbean tourism is dominated by extra-regional visitors, which account for some 72.2 percent of total spending in the sector. Also, the leisure segment of the market accounted for over 89.1 percent of total spending, while the business segment accounted for the remainder.

The modern tourism sector in the three countries, as in the wider Caribbean was developed as an important driver of economic diversification. The loss of competitiveness and export potential in agriculture and minerals led a number of countries to turn to tourism as an alternative engine of economic development. This was especially the case in the Organization of Eastern Caribbean States (OECS) as they transitioned from agriculture, especially bananas in the wake of the loss of preferences in the European market. However, tourism was also an important contributor to diversification in countries such as the Bahamas, Barbados, Jamaica and Belize, among others.

In terms of structure, the Bahamas and St. Kitts and Nevis, like the rest of the region continue to specialize in mass tourism centered on 'sun, sea and sand', while eco and heritage tourism is also relatively important in Belize. Mass tourism has brought some benefits to the region, including bolstering foreign exchange earnings, employment especially of medium-level and lower skilled workers, tax revenues and earnings for farmers, taxi drivers and others. Nevertheless, in recent decades Caribbean mass tourism has been losing competitiveness to other markets, especially in Asia and Latin America that provide a similar and often newer product offering. Laframboise et. al, 2014, indicate that the Caribbean's share in world tourism declined from 2.5 percent in 2000 to 2.0 percent in 2013. This suggests that despite more countries in the region actively pursuing tourism as an axis of growth in the last two decades, the region's overall share of global tourism has still fallen. Laframboise et. al found that the average nominal cost of a beach holiday in the Caribbean is higher than for other beach holiday destinations. Out of 13 regions, the Caribbean ranks number 10 and 8, respectively in terms of the growth in tourism's projected contribution to total exports and total capital investment in 2018. Similarly, the Caribbean ranks number 8 and 9 in terms of growth in tourism's contribution to total employment and total GDP in 2018 (WTTC, 2018). It is estimated that since the global crisis in 2007, annual visitor spend in the Caribbean has fallen by US\$ 5 billion (Jessops, 2018). These indicators suggest that Caribbean tourism is not as competitive as it could be.

The reality is that the average tourist in today's information age is an informed and savvy customer, looking for a more authentic experience that is embedded in the local culture, but still offers value for money. Arguably, tourism in the three countries is still too commodity-based with limited value added beyond resource endowment and this is not enough to satisfy today's more discriminating consumer. The time is therefore ripe for a thorough review, assessment and restructuring of Caribbean tourism to add varied value and authenticity to meet the shifting patterns of consumer demand, environmental responsibility and social inclusiveness. This will also be supporting the elements of the SAMOA Pathway (see section 30 of the SAMOA Pathway on Sustainable tourism) also on the 2030 Agenda corresponding SDGs).

Nevertheless, restructuring efforts would have to take account of the fact that tourism is a complex, composite product that revolves around meeting the needs of the tourist (Fernandez-Stark and Bamber, 2018). It involves a number of different actors from drivers of demand such as tour operators and airlines in the outbound country to key suppliers including hotels and excursion businesses in the inbound country. Indeed, the industry has now developed into an integrated global value chain with different levels of value added, governance arrangements and monetary return along its segments. The extent to which tourism businesses and governments are strategic in positioning the product in these value chains will determine to a large extent their ability to benefit from them.

The study is organized as follows. Section I below reviews the literature on upgrading and diversification in tourism; section two outlines the methodology of the study; Section III provides an overview of the performance of the sector in the wider Caribbean and the selected countries; section IV assesses the rationale for economic upgrading and the country case studies; section V analyses social upgrading in the selected countries; section VI evaluates environmental upgrading; section VII discusses the strategies the three countries have employed to diversify their tourism product; section VIII discusses the results of the survey of tourism operators and policymakers; Section IX provides recommendations to advance the upgrading and diversification of the tourism product in the selected countries; finally section X concludes the study.

I. Literature review

Industrial upgrading and diversification are well recognized as two related strategies for boosting competitiveness in production and trade. In the past, the literature on upgrading was mainly focused on the manufacturing industry. Gereffi (1999) for instance, underscored the importance of upgrading industrial commodity chains for apparel and other industries. However, with the growing recognition of the importance of services in global value chains, there is increasing research on upgrading and diversification in services, in the context of these chains (Christian, 2011 and 2013 and Daly and Gereffi, 2017). A global value chain can be defined as the full range of activities that are required to bring a product from conception to design to production to marketing to distribution to the consumer and finally after sale services; which occurs across different countries (Heuser and Mattoo 2016).

Upgrading and diversification are two critical and complementary processes that are crucial for transforming the regional tourism sector. Upgrading has economic, social and environmental components. Economic upgrading can be defined as improving the productivity, value added, efficiency of production and the skill and technological intensity of products and services with the aim of increasing their competitiveness on local and international markets (Pietrobelli and Rabellotti, 2006). Upgrading according to Hausmann et.al, 2007, entails a country improving its export productivity or the productivity and sophistication of the products that it specializes in producing and trading.

There are four main types of economic upgrading: product upgrading, process upgrading, functional upgrading, channel upgrading and intersectoral upgrading (Mercato and Baltar, 2017). Product upgrading refers to actions taken by tourism businesses with government support to improve the quality of their product/service offering and value for money for their visitors. It centres on providing higher quality and value added products and services. An example of product upgrading is the case of a small hotel that adds new and better rooms and amenities such as lounge pools and spa treatments to move from a 3-star to a 4-star property.

Process upgrading stems from firms increasing their share of value added in existing GVCs through better organization and internal processes with the use of better technology and management systems. An example is a museum using virtual reality to provide virtual tours of its offering. Functional

upgrading occurs when tourism businesses move into new, higher value-added segments of the value chain, with higher skill-content. This is measured by the firm having a higher share in value added of the product or service. An example of this would be a Caribbean hotel acquiring an online travel agent that provides exclusive package deals to a very high-net-worth¹ clientele. Finally, intersectoral upgrading refers to a tourism business moving into a new value chain or industry using the knowledge it has acquired in the current chain. For instance, a locally-owned hotel in Belize whose owners have knowledge of agriculture might establish a large farm to produce fresh produce for its own use and for sale to other hotels.

The capacity of tourism businesses in the three countries to undertake these four types of economic upgrading vary across the countries. Large sophisticated hotels such as Atlantis in the Bahamas, the St. Kitts Marriott Resort and Coco Beach resort in Belize have been better able to undertake product, process and possibly chain upgrading by, for instance, adding updated rooms and improved hotel information systems; and providing new linkages with agriculture. Innovation that drives increases in value added is key to upgrading in tourism and other sectors. As Adam Stewart of the Sandals Group has noted, the Caribbean needs to nurture its entrepreneurial 'explorers' who are prepared to innovate and take the region's tourism sector in new directions that could increase its competitiveness and sustainability.

Economic upgrading does not refer to traditional economic restructuring by transitioning from agriculture to manufacturing and then to services, but capturing higher value added, more sophisticated, skill and technology-intensive² segments of the value chain in a given sector or industry (Salido and Bellhouse, 2016). It therefore highlights the segmentation of the global production and service delivery processes and the need for countries to determine what they must do in terms of human capital development, investment in physical capital, technology and innovation, improving their institutions, among other areas to capture greater value in global chains. In the case of tourism, economic upgrading in practice means increasing total factor productivity³ and increasing earnings per unit of investment in the sector.

Social upgrading on the other hand can be defined as the process of improving the wages and working conditions and wellbeing of workers in the sector by increasing their skills, technological knowledge and knowhow and organization of work (Milberg and Winkler, 2010). Social upgrading is linked to economic upgrading and relates to the proportion of the gains from economic upgrading that are captured by workers as distinct from capitalists. Social upgrading recognizes that inclusive growth is essential for all-round social progress. Indeed, it has become more important in recent times with the recognition that the bulk of the gains from technological change has been captured by the owners of capital, leading to stagnant growth in wages and growing inequality (Harvard Kennedy School, undated).

Environmental upgrading refers to measures to improve the producers' environmental performance by reducing the consumption of energy, water and other resources, and eliminating waste in production processes to reduce their overall environmental impact of the sector (Khattak, 2016). Although the impetus for environmental upgrading has come from the growing importance of environmental standards in developed countries, Caribbean countries are paying greater attention to these standards, owing to actual and potential harmful effects of tourism on the environment and the willingness of more tourists to pay a premium for certified products and services. Important impacts include the destruction

¹ These are persons whose net worth exceeds US\$5 million.

² Sophisticated segments refer to those that contribute to higher productivity growth, positive spillovers to other sectors and perform better in international trade (Anand et. al, 2012). Technological intensity refers to the level and quality of technology that is incorporated in the tourism sector's products and services (Zawislak et. al, 2018). This is reflected in the sector's capacity to buy and adapt technology from producers and R&D spending that enables firms to develop their own technology.

³ Total factor productivity refers to the part of output that is not explained by the amounts of inputs such as capital and labour that are used in production, but by how efficiently and intensely the inputs are used in production (Comin, 2006).

of coastal habitat, especially mangrove swamps, which leads to increased coastal erosion and damage to tourism properties, inadequate waste water management and diving operations that lead to damage to important coral reefs and the construction of groynes and sea defense structures that disrupt natural beach replenishment patterns. In addition, the fallout from climate change means that the environmental footprint of tourism is an important concern in the region.

An important concern in the literature, which is quite relevant for tourism in the Caribbean is the extent to which economic upgrading also leads to social and environment upgrading. This is critical, as social and environmental upgrading are not foregone results of economic upgrading. Indeed, economic upgrading can be accompanied by social downgrading- marked by lower wages and worsening working conditions, livelihoods and environmental downgrading that is reflected in lower environmental standards, increased pollution, which contributes to climate change; and habitat contamination. The extent to which workers can benefit from upgrading in the tourism value chain in the region depends on a confluence of factors, including the governance of the value chain, the role and actions of lead firms, the capacity of domestic supplier firms to benefit from technology transfer, the sophistication and technological intensity of the product or service, workers own skills, and technological know-how. Similarly, the extent to which upgrading in tourism benefits the environment depends on factors such as capacity of tourism business to adopt better environmental standards and practices, the implementation of environmental legislation and regulations and advocacy by tourists and pressure groups.

Diversification complements upgrading and entails providing new products and services and penetrating new tourist markets. There are four broad types of diversification: horizontal, vertical, concentric and conglomerate (Konstantinova, 2013, Babenko, 2014) (see table 1 below). Horizontal diversification involves the acquisition or development of new tourism product/service offerings geared to the industry's current customers e.g. tour operators providing new tours. Vertical diversification entails the use of backward and forward linkages/integration to provide a different service along the value chain e.g. a hotel providing diving services. Concentric diversification involves providing new, but related services to optimize the use of existing technologies, human capital and marketing systems for e.g. a travel agent providing insurance services. Finally, conglomerate diversification involves providing a new product for a new market and is usually the most challenging form of diversification. For instance, this could entail a country providing medical tourism procedures (e.g. dentistry) for visitors from a new market such as China. As shown in the table, diversification also relates to market penetration or development and product development based on whether it is an existing or new product or market.

Table 1
The different types of diversification that can be pursued in tourism and other sectors

		Products	
		Existing	New
		Vertical diversification (moving into the suppliers' or buyers' business)	
		Horizontal diversification (new product on an existing market)	
Markets	Existing	Concentric diversification (new product, closely related to the existing marketed product)	Conglomerate diversification (new product on a new market)
	New	Market penetration	Product development
		Market development	Diversification

Source: Konstantinova, 2013.

It is anticipated that in the short to medium-term, Caribbean tourism might need to adopt a mix of horizontal diversification and concentric diversification since these are the lower hanging fruits as they fall within areas that the industry already has some competitive advantage. Vertical and in particular conglomerate diversification is much more difficult, and success might require more intensive and calculated measures.

All in all, the right mix of upgrading of the established tourism product through the use of ICT, animation and virtual tours to attract visitors, the use of 'big data' by tourism marketing agencies to analyze market trends at the micro level and diversifying the range of the product service offering to provide a more central role for creative tourism, eco-tourism, heritage and community tourism and leveraging the share economy such as Airbnb, among other strategies, could provide a platform for a more modern and dynamic sector in the region.

II. Methodology

The study uses a mixed methods approach, which comprises an assessment of the quantitative data on the tourism sector to evaluate its performance and also qualitative information. The quantitative performance indicators could point to performance challenges in different segments of the sector thereby underscoring the need for more robust upgrading and diversification measures in these sub-sectors.

Given the shortage of secondary data that could clearly indicate the actions and strategies that the targeted countries and the wider Caribbean have taken to upgrade and diversify their tourism industries, two surveys were conducted to collect primary data and information. The first was a survey of operators or tourism businesses, including hotels, dive operations, marinas and tour operators. The other was a survey of policymakers to gauge the focus of policies and action plans to enhance upgrading and diversification in the sector. The survey suffers from certain limitations including the lack of a random sample frame that precludes generalizing the results and a relatively low response rate. Nevertheless, the findings provide some broad, tentative indications actions and strategies that facilitate upgrading and diversification in the sector. Moreover, with respect to the relatively low response rate, discussions with knowledgeable persons in the industry indicate that the response rate tends to be relatively low for most online surveys of the tourism industry.

The qualitative analysis was based on interviews of key stakeholders in the sector, including hoteliers, tour operators, tourism ministry officials and members of the tourism Authorities in member countries. The published literature on upgrading and diversification was reviewed to assess the major drivers of sectoral upgrading and diversification, and to determine possible opportunities and challenges to tourism upgrading in the Caribbean.

The study has attempted to replicate the results of the basic framework advanced by Bernhardt and Milberg (2011)⁴ on economic and social upgrading. The framework is a parsimonious one that measures economic upgrading as an increase in world export market share for a given product or service and an increase in the export unit value⁵, which indicates that a country is moving up the value chain in the production of the given good or service. Since tourism does not have a quantity measure like a typical commodity, its export unit value is measured by travel expenditure per visitor. Social upgrading is measured by an increase in, or at least no decrease in, employment and wages.

A. Limitations of the study

The study is constrained by limited data on the tourism sector in the region. This is especially the case for sub-sectors including hotels, tour operators and cultural and heritage sites. As a result, it is difficult to undertake microanalysis that could provide a deeper picture of what sub-sectors are doing to upgrade and diversify their service offerings and effectiveness of these strategies and actions. The response rate to the survey was also relatively low, which limits its effectiveness.

⁴ Bernhardt, Thomas and Milberg, William. (2011). 'Does Industrial Upgrading Generate Employment and Wage Gains', New School for Social Research.

⁵ The export unit value of a product is measured by its export value divided the quantity exported.

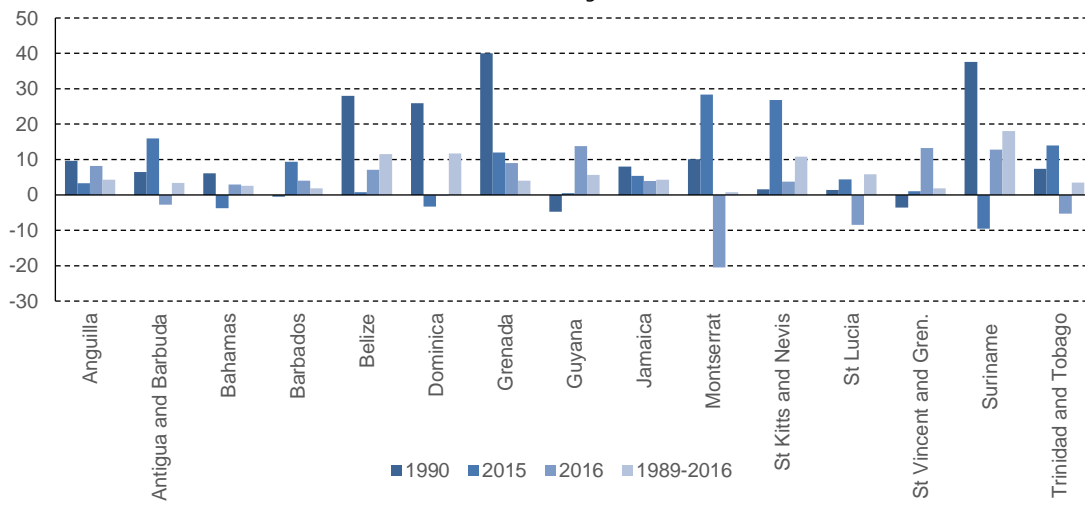
III. The performance of the tourism sector in the wider Caribbean and the selected countries

Caribbean tourism has performed relatively well over the last three decades. Total visitor arrivals to CARICOM, excluding Haiti, more than doubled from 6.9 million in 1989 to 17.5 million in 2016. This represented an annual average rate of growth of 3.6 percent (see figure 1 below). Seemingly, in line with the Butler Tourism Life Cycle model, the newer destinations in the region that are entering the growth phase had the highest average annual growth rate over the period. Suriname, for instance, which is a goods producing economy had the highest average growth rate at 18.1 percent over the period. Growth in visitor arrivals⁶ in Suriname increased rapidly from a very low base in 1989. Similarly, Dominica (11.8 percent), Belize 11.6 and Saint Kitts and Nevis 10.8 percent were all newer destinations that posted strong average annual growth rates from 1989-2016.

Meanwhile, visitor arrivals to more mature destinations including Jamaica, the Bahamas and Barbados grew on average by 4.3 percent, 2.3 percent and 1.8 percent, respectively.

⁶ Visitors comprise both stayovers or stopover visitors who spend more than 24 hours in the destination as they usually overnight there and cruise ship passengers who spend less than 24 hours in the destination.

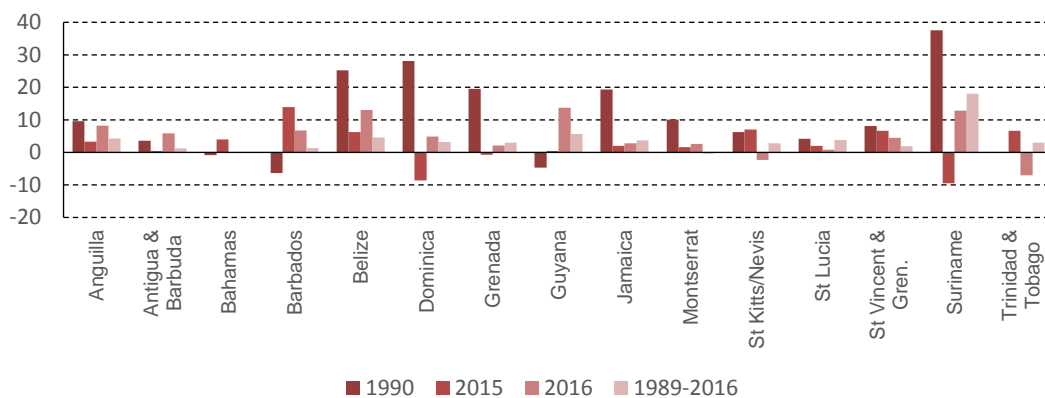
Figure 1
Annual change in visitor arrivals
(Percentage)



Source: CTO data.

Of the total visitors, high spending tourist arrivals (stayover or stopover visitors) posted annual average growth of 2.0 percent (see figure 2 below). Interestingly, this growth was headlined by three of the goods-producing newer destinations- Suriname at an annual rate of 18.1 percent, Guyana 5.6 percent and Belize 4.6 percent. Meanwhile, most of the mature destinations posted weak or even slightly negative growth. Barbados registered growth of 1.3 percent, however the Bahamas posted a marginal decline of 0.2 percent, while Jamaica’s performance was better at 3.7 percent. Following the major impact of Hurricanes Irma and Maria in 2017, the region recovered well in 2018. The average hotel occupancy rate declined only slightly by 1.1 percent to 65.2 percent, while the average daily room rate (ADR) was up by 1.7 percent to US\$208.0. The important revenue per available room (RevPAR) indicator rose by 0.6 percent to US\$136.0 (Comito, 2019)

Figure 2
Annual change in tourist arrivals
(Percentage)

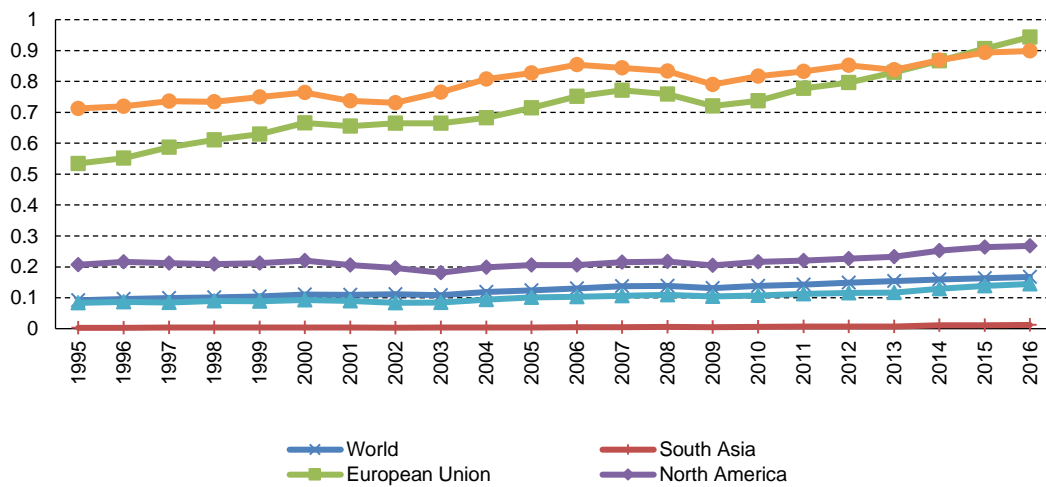


Source: CTO data.

In recent years, the regional tourism sector has recovered from the fall-out from the global crisis with arrivals increasing and visitor spending rising, but more slowly. Further, investment in the sector has picked up, with additions to the hotel stock, tour operations and other sub-sectors of the industry.

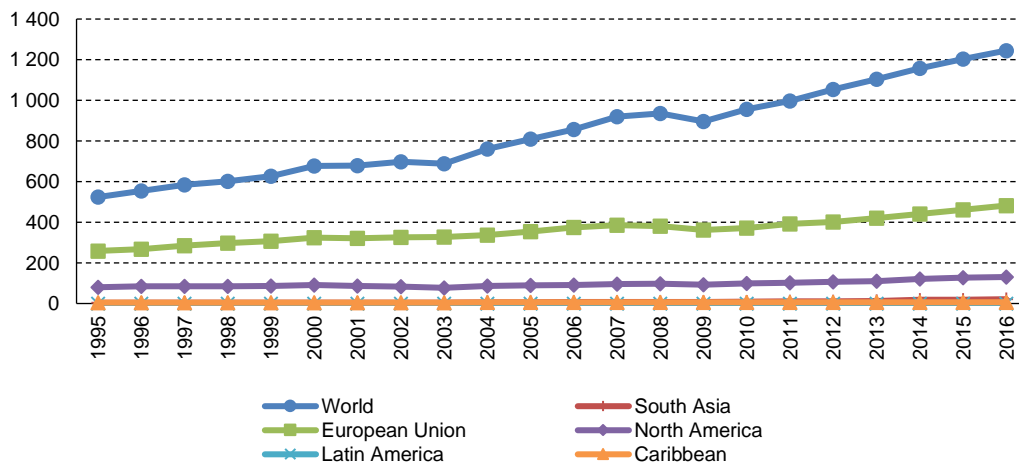
Figure 3 below shows that the region had the highest visitor arrivals per capita of all regions for most of the 1990s and 2000s and was only surpassed by the EU in the last few years. This again underscores the importance of the sector in the Caribbean. Given the significance of the sector, its modest performance suggests upgrading and diversification are necessary to improve its performance. The next section briefly examines the performance of the three case countries based on available data.

Figure 3
International arrivals per capita by regions, 1995-2016
(Millions)



Source: World Bank, World Development Indicators.

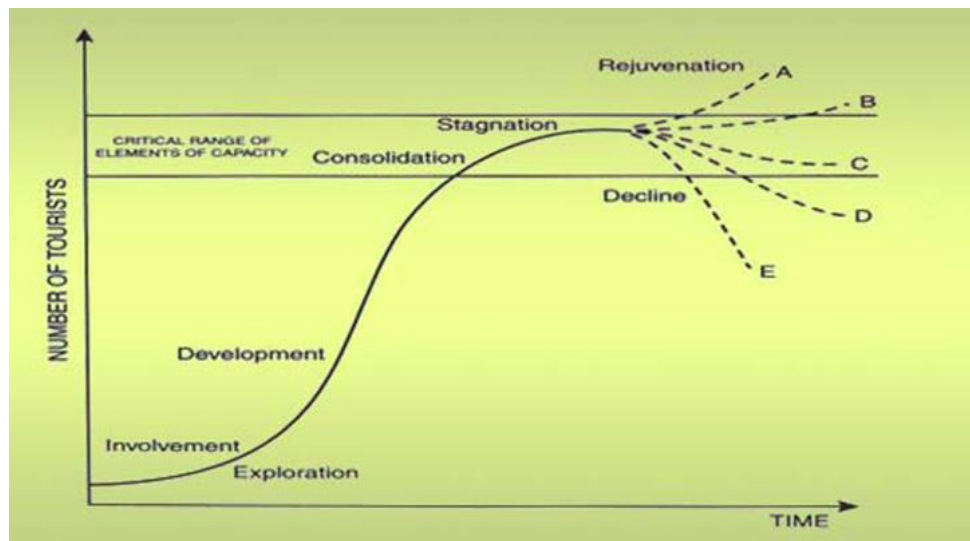
Figure 4
International arrivals by region, 1995-2016
(Millions)



Source: World Bank, World Development Indicators.

The Bahamas has a relatively mature tourism industry, which has been strongly influenced by growth cycles in the United States, its major source market, domestic hotel room capacity and the impact of natural disasters among other factors. As shown by the Butler⁷ model, below, the focus of the policymakers is on preventing stagnation in the more mature segments and boosting growth in new niches, such as eco-tourism.

Figure 5
Butler tourism life cycle model



Source: Butler, 2006.

The tourism sector in Belize has registered firm growth in recent years. As figure 6 below shows, high value-added stayover arrivals increased from 247,309 persons in 2006 to 427,109 persons in 2017, representing an absolute increase of almost 73 per cent between the two years. The country posted moderate average growth of 5.2 per cent over the twelve-year period.

The performance of the Bahamian tourism sector has fluctuated over the 16-year period from 2002 to 2017. Total visitor arrivals grew on average by 2.2 per cent. However, this stemmed from a 3.4 per cent average growth in cruise visitors. Of concern is the fact high-spending stopover arrivals declined by 0.3 per cent on average. This segment has recovered in the last year and the hope is that this would mark a long-term secular trend. Indeed, the mega Baha Mar resort has led to a significant increase in the room stock and is expected to boost airlift and arrivals to the Bahamas.

Meanwhile, visitor expenditure grew on average by 2.9 per cent on average from 2002 to 2016. Growth in expenditure in the stopover segment averaged 2.7 per cent, while cruise visitor expenditure expanded by 4.9 per cent on average.

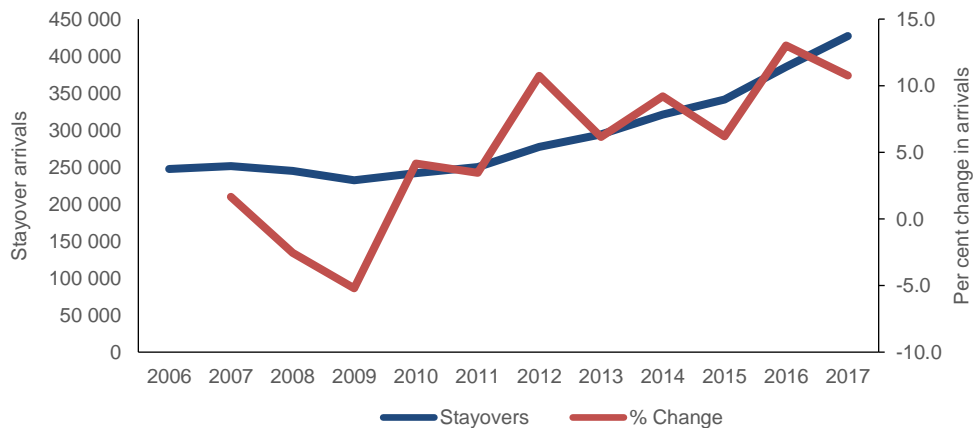
⁷ Butler notes the typical tourist destination passes through six evolutionary stages from exploration where a small number of visitors arrive, to involvement where arrivals start to pick-up and more facilities are constructed to cater to them, to development, where the industry is well developed and the number of tourists might be larger than the local population. Consolidation occurs when there is a deceleration in the rate of growth of arrivals, followed by stagnation and decline and the need to rejuvenate the destination through adding new attractions and amenities.

Figure 6
Stopover visitor arrivals
(Millions) and growth rate (Percentage)



Source: Central Bank of the Bahamas.

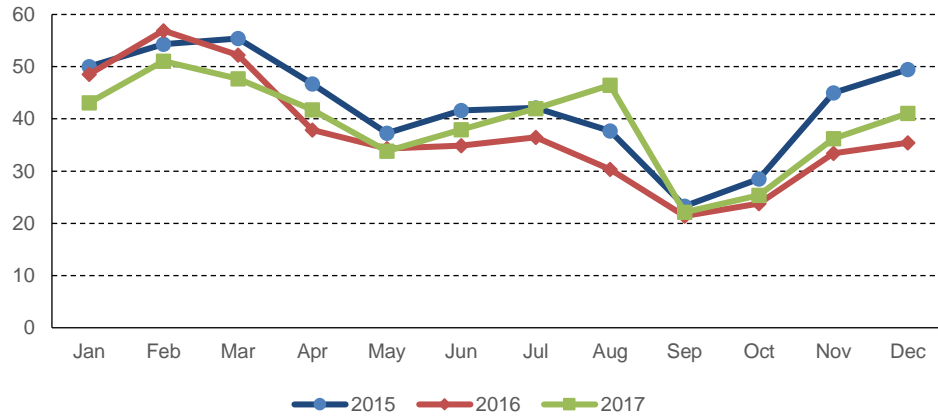
Figure 7
Belize-stayover arrivals, 2006-2017



Source: The Belize tourism board.

Figure 7 above indicates that hotel occupancy in Belize follows the usual seasonal pattern with highs in the peak tourist season from around November to mid-April and then tapers off. Although the series is short, this is the usual trend. One of the goals of strategies for upgrading and diversification in the sector in Belize and other countries of the region is to reduce seasonality during the year; and to smooth growth in arrivals, occupancy levels and visitor receipts over the longer-term. This would provide a platform for improving the consistency of the sectors contribution to economic growth and employment. Upgrading strategies that provide high quality, attractive activities and services during the down-season and diversification by markets and visitor groups that visit at different times of year are key to smoothing earnings from the sector.

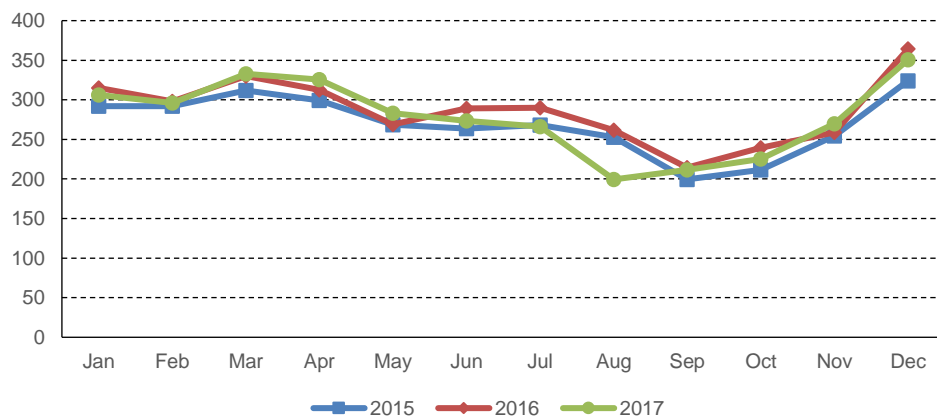
Figure 8
Belize hotel occupancy levels, 2015-17
(Percentage)



Source: The Belize tourism board.

Figure 8 above shows the average hotel room rates for Belize for the last three years. This is a short series, but is indicative. The average room rate rose from US\$269.8 in 2015 to US\$286.8 in 2016 before slipping to US\$278.3 in 2017, reflective of preponderance of small budget hotels and the limited number of high-end branded hotels that command higher average room rates (Gray and Conroy, 2011). Revenue per available room (RevPAR) is one of the most important metrics in the industry as it includes both room rates and occupancy and provides a convenient snapshot of how well a hotel is filling its rooms, as well as the price it can charge (Investinganswers.com). RevPAR fell from US\$152.8 in 2015 to US\$115.9 in 2016 then rose slightly to US\$117.9 in 2017.

Figure 9
Average hotel room rates in Belize
(US dollars)



Source: Belize Tourism Board.

As indicated earlier, Saint Kitts and Nevis has registered firm growth in visitor arrivals since its major thrust into the sector with the winding down and eventual closure of its sugar industry in 2005. Visitor arrivals have grown at an annual average rate of 10.8 per cent from 1989 to 2016, increasing ten-fold from 104,800 in 1989 to 1,060,600 in 2016. Growth has been driven mainly by the much lower spending cruise passenger arrivals, as growth in stayover arrivals was much more muted, although higher than the region as a whole. Cruise passenger arrivals expanded by 16.3 per cent jumping from 36,600 in 1989 to 951,000 in 2016. Saint Kitts and Nevis has been able to attract the Symphony of the Seas, the largest cruise ship in the world.

Stayover arrivals grew by 2.4 per cent from 1989 to 2016, which was below the Caribbean average of 3.7 per cent. The stayover market posted decent average annual growth of 4.3 per cent between 1989 and 2007. However, the market has not recovered from the fall-out from the global crisis, registering a decline of 1.4 per cent between 2008 and 2016.

IV. Economic upgrading: rationale and country cases

A. The rationale for economic upgrading in tourism

A key question to be answered is why the selected countries and the wider region need to prioritise economic upgrading and diversification of their tourism sector. The rationale for upgrading and diversification is based on developments both in the global tourism industry and domestic industry in countries in the region. These involve slower, more evolutionary changes and major disruptive/tectonic shifts which make it imperative that the region makes timely adjustments to grow its market share or it will lose out to the competition.

At the global level, more and more countries are targeting tourism as an engine of growth and economic renewal; and employment, owing to the labor-intensive nature and relative resilience even in the face of economic shocks. As Dragičević et. al, 2012, notes, the number of tourism destinations worldwide is increasing all the time, intensifying competition as each destination seeks to capture a greater global market share. In fact, the axis of the industry is shifting from the west to the east, and China has been the number one tourist source market since 2012 (UNWTO, 2013).

For the Caribbean, a number of these new destinations are head-to-head competitors, as they offer similar sun, sea and sand, cultural and heritage tourism products and are more competitive both in terms of cost and quality. These include other newer destinations in Latin America, the Pacific region and the Mediterranean. This implies that the Caribbean cannot continue to do business as usual, but must change course to grow its market share.

Indeed, there are a few key factors that point to the need for urgent upgrading in the sector. Firstly, the sector was already losing competitiveness before the global crisis, owing to declines in the quality of the product/service offering in some destinations in the region, which led to perceptions of reduced value for money among visitors (Laframboise et. al, 2014). Secondly, higher relative wages and price inflation than some of the region's competitors such as Latin America and some Asia/Pacific destinations, simultaneously led to lower comparative price competitiveness. A third factor is that the Caribbean continues to be challenged in securing sufficient affordable airlift to transport visitors to the

region. A number of governments have been forced to subsidize the major carriers in order to keep them servicing their countries. However, as a leading tourism official has indicated, airlift is a function of demand for the destination. Therefore, the region's challenge with airlift might be a reflection of its loss of competitiveness and therefore demand for its product by travelers from already mature source markets.

B. Economic upgrading in the tourism sector in The Bahamas, Belize and Saint Kitts and Nevis

1. The tourism value chain

The value chain construct is a useful framework for analyzing upgrading and diversification in tourism in the three countries. This is the case because Caribbean tourism is a part of the global tourism value chain and depends on the interface between foreign and local actors for its success. A value chain is the full range of activities that firms, and workers undertake to bring a product or service from conception to end use and beyond (WBCSD, 2011). It includes design, production, marketing and promotion, distribution, consumption and aftersales services. Importantly, the activities in a value chain, as is the case with tourism, are often spread across different countries and regions (diagram 1 below).

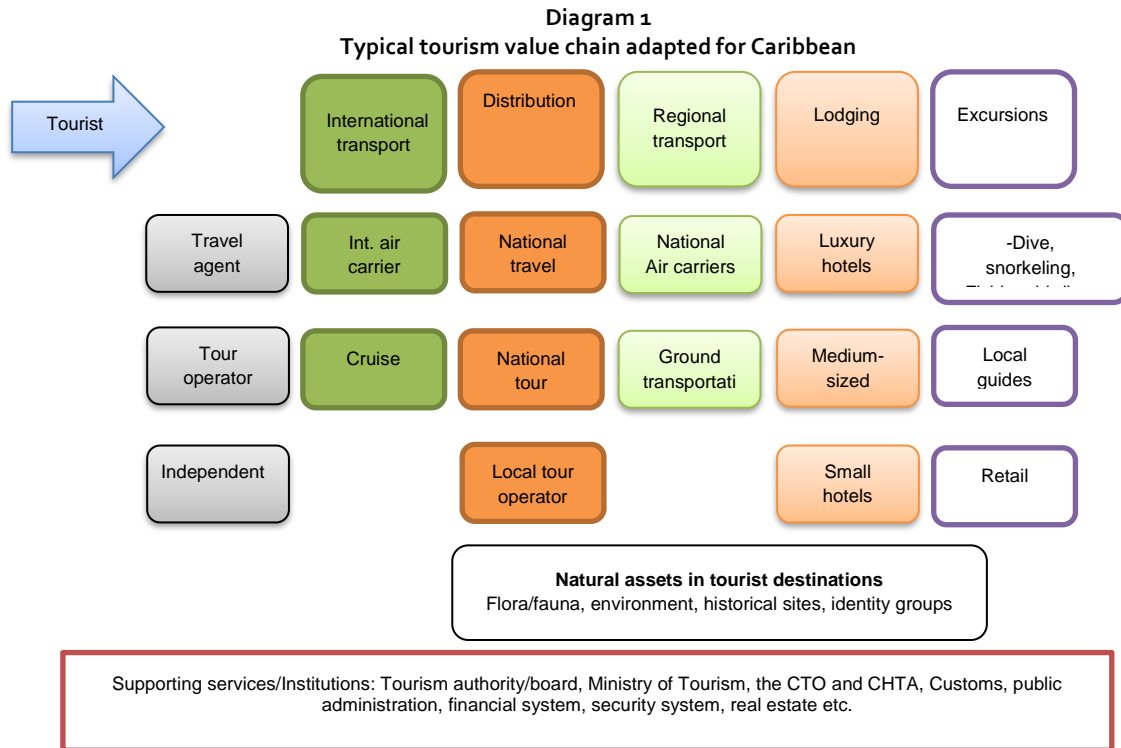
The tourist is central to the value chain. The first stage of the chain begins with distribution in the outbound country. This is carried out by travel agents, operators or independent agents. Given the importance of digital platforms, online travel agents (OTAs) such as Expedia, Priceline and Orbitz are lead firms in the distribution of tourism products. Tour operators, including market leaders such as TUI Deutschland, Thomas Cook, FTI and Alltours are important distributors of services which are bundled into packages to meet the demand of a variety of tourists. International transport is the next link in the chain and consists of both air transport and cruise and yachting transport. This has long been an area of challenge for the case countries and the wider Caribbean in their upgrading and diversification efforts. Relatively low volumes on these routes have meant that countries such as the Bahamas, Saint Kitts and Nevis and Jamaica have often had to subsidize US aircrafts to maintain visitor arrivals. Regional air transport consisting of airlines such as Caribbean Airlines, Leeward Islands Air Transport (LIAT), Winward Islands Airway International (Winair) and Bahamas Air are also important. Nevertheless, inefficiencies and high operational and ticket costs in regional transport are major constraints to multi-destination international tourism and inter-regional tourism in the Caribbean (CTO, 2007). Efficient ground transportation systems at the destination are also vital to the overall tourist experience.

Two critical components of the tourism product are lodging/accommodation and excursions at the destination. According to Koutoulas (2015), these are 'integral' products in the tourism value chain in that they satisfy two important characteristics: they directly satisfy the needs of tourists and the enterprises that provide them come in direct contact with the visitor in trading these products. Lodging establishments in the Bahamas, Belize and Saint Kitts and Nevis and the wider Caribbean span the range from exclusive luxury resorts to mid-range hotels and other properties to budget properties. A crucial factor with respect to the accommodation sector is branding and certification to enable the visitor to determine what quality of service to expect at what cost. This is vital because of the asymmetry⁸ in information between the service provider and the visitor, which could lead to problems of adverse selection. This occurs because the hotel knows the precise quality of its rooms, but the guest who is booking abroad does not. As a result, the room might not meet the expectation of the guest on arrival based on the cost that he paid. This could lead to bad publicity, especially on digital platforms such as

⁸ Information asymmetry arise when one party to a transaction has more information about it than the other, such that the party with less information could be adversely affected by the transaction. For example, a used car seller has more information on the quality of the car than the buyer.

TripAdvisor, which could reach millions of readers. As CARIFORUM (2018) notes, nothing kills a bad product like good marketing.

Excursion products are part of what are deemed the 'primary' tourist product in that they are key motivating factors for the tourist making the trip in the first place. As such they are very important to the overall tourist experience. In the selected countries, excursions centre around natural, cultural and heritage assets, including sun, sea and sand, cultural and heritage tours and adventure trails among others.



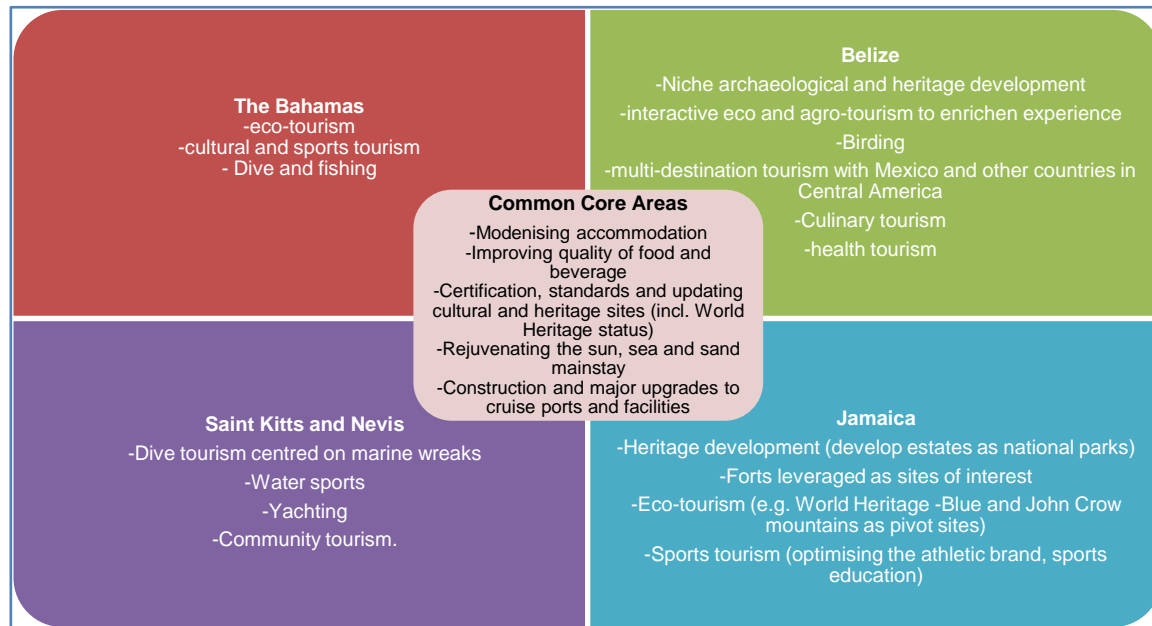
Source: Adapted from Christian, 2011.

At the destination the industry is also supported by a range of public and private institutions, including the Ministries of Tourism which develop tourism policy and the Tourism Authorities that often undertake marketing and promotion. Regional institutions including the Caribbean Tourism Organization (CTO) and the Caribbean Hotel and Tourism Association (CHTA) provide assistance in areas, including advocacy, training, networking and skills development.

2. Product upgrading in the tourism sector in the three countries

The countries which are the main focus of this study, the Bahamas, Belize and Saint Kitts and Nevis recognize the need for upgrading and diversifying their tourism products. For all these countries, upgrading has been tacitly or explicitly assigned as a key part of their competitiveness strategy for the sector. Across the three countries, the framework for upgrading and diversification can be divided into common core areas of focus and country-specific areas based on the particular areas in which countries strive to differentiate their tourism product (see diagram 2 below). Product/service upgrading in the countries is based on a range of strategies and actions that are taken to improve the quality and uniqueness of the tourism product and experience along the value chain from source market to the particular destination country in the Caribbean.

Diagram 2
Core and other aspects of tourism product development in selected countries



Source: Author based on strategy documents and interviews.

With respect to the three countries, the Bahamas' tourism product, like Jamaica's, is relatively mature. Tourism in the Bahamas goes back over 100 years. However, the modern tourism industry in the country really began in earnest after the end of World War II in 1945. The major upsurge came after Internal Self Government in 1964, with the Promotion of Tourism Act (ch.13, 1964). This act gave the government the power to appoint a Minister responsible for promoting tourism. Moreover, in recognition of the growing importance of the sector to the economy, the Ministry of Tourism was given flexibility to make decisions, including product/service development, marketing and promotion.

Goal 14a of the Draft National Development Plan 2016, focused on developing a sustainable tourism sector that contributes positively and significantly to growth and development, stable job creation and entrepreneurial opportunities. A few key constraints and challenges provide the rationale for upgrading and diversifying the tourism product in the Bahamas. These include:

- (i) The relatively sluggish performance of the sector in recent years marked by stagnant world market share and slow growth in stopover arrivals and visitor expenditure;
- (ii) A decline in the quality of the resource endowment on which the sector is built, including physical infrastructure and the natural environment; and also an inadequate pool of skilled labour (Draft National Development Plan 2016);
- (iii) Weak domestic linkages with other sectors including agriculture and fisheries and inadequate development of tourism clusters that could boost economies of agglomeration and networking;
- (iv) Insufficient financial capital and inadequate human resource for marketing and promotion.

The Bahamas is tackling these challenges to the quality and sustainability of its tourism product by a core and periphery strategy. The core strategy is based on moving up the value chain in terms of quality, uniqueness and value for money (price competitiveness) of the tourism product. A major plank

of the upgrading thrust has been the focus on creating a more balanced accommodation sector that better caters to high-end and medium-end of the stayover market. This strategy has centred on attracting key large high-end, branded, signature hotel chains such as the Baha Mar and the Pointe to complement the Atlantis and others. The Baha Mar for instance has added some 2000 rooms to the stock an increase of some 25 per cent. This is consistent with the upgrading strategy, which is partly focused on increasing the room stock to attract more high-spending stopover visitors.

Meanwhile, the complementary strategy of developing the medium-end hotels and facilities is aimed at growing the tourism market in the rest of Latin America and the Caribbean, where the average visitor might not be prepared to pay the high cost of high-end accommodation and other facilities. Indeed, this latter strategy dovetails well with government's plan to increase the participation of local entrepreneurs, who are likely to enter into the medium or even lower-end of the market.

Meanwhile, the periphery strategy entails strengthening the linkages between the core tourism product and supporting sectors and activities, including agriculture, handicraft, sports, and culture and entertainment, among others.

The strategy for upgrading the core tourism product in the Bahamas centres on enhancing quality, attractiveness and price competitiveness of its tourism product by paying careful attention to minimum standards, branding and certification for different subcomponents of tourism supply. Another important part of the strategy is a focus on integrating the different parts of the composite tourism product as far as possible to improve synergies and reduce inefficiencies. The study now analyses upgrading in the main components of the product.

Accommodation is a critical component of the tourism product in the Bahamas, as in other Caribbean countries. This stems in part from the strategy of growing the high value-added stopover segment of the tourism market, which contributes over 87 per cent of total domestic visitor expenditure from the sector. There are 315 hotels, with around 17,000 rooms in the Bahamas and over 430 restaurants in New Providence and Grand Bahama, the two main tourist destinations in the Bahamas (USDA Foreign Agricultural Service, 2017). Further, the average visitor to the Bahamas has an annual income of over US\$70,000, providing a relatively high ability to pay for the upmarket segments of the tourism product (USDA Foreign Agricultural Service, 2017).

The tourism product in the Bahamas is relatively mature, based on the Butler Model. As a result, some hotels and other accommodations are in need of major upgrading and modernization to meet the demands of today's savvy customer. Therefore, a number of older hotels undertaken significant investment in upgrading and modernization of their plant to increase their appeal to tourists.

The government has recognized the need for modern up-to-date legislation for facilitating the upgrading of the hotel subsector in the Bahamas. As a result, the Hotel Encouragement Act (Chapter 263), 1954 has been revamped by Chapter 289 of the Hotels Encouragement Act 1999. It provides for low rate of duty of 10 per cent on materials for the purpose of rehabilitating, refurbishing, remodeling or re-equipping an existing hotel to improve the quality of accommodation and amenities.

A number of hotels have taken advantage of the incentives provided under the Act to upgrade their plant. This includes adding other amenities such as swimming pools, spas and gyms and new rooms and improving the quality of existing rooms, dining and other areas. All of these combined helped to enhance the quality of the onsite experience for tourists and have enabled hotels to raise room rates, which contribute to profitability in the medium to longer term.

A critical contributor to the upgrading of the accommodation subsector has been the adoption of recognized standards and certification. As a mature destination, hotel operators in the Bahamas have become increasing aware of the importance of standards as a signature of the type and quality of service that they offer their visitors. Standards and certification create minimum service expectations for

tourists and are important drivers of demand for particular hotels and other services, especially for the high-end, more discriminating visitor.

Following regional and international trends, the Bahamas has adopted key certification and standards programmes for its hotel sector. With the facilitation of the Bahamas Hotel and Tourism Association (BHTA), a number of medium and smaller-sized hotels have acquired the Hospitality Assured (HA) certification that was developed by the Institute of Hospitality (UK). The license for the HA in the Caribbean is owned by the CTO. The HA process encourages businesses to see their operations through the eyes of the customer at all levels of the organization (Hospitality Assured, 2016). In the Caribbean, HA aims to promote a culture of quality, service excellence and continuous improvement, which is driven by international standards and certification, in order to strengthen business performance and overall competitiveness of the region's tourism enterprises (Hospitality Assured Caribbean, 2013).

The HA framework consists of a 9-step process aimed at improving service quality. Key steps are:

- (i) Customer research that is focused on matching target customers with their needs and determining competitor activity and market demands;
- (ii) The customer service promise, which is the benchmark that the business sets for customer experience and against which it is to be judged;
- (iii) Operational planning & standards of performance that seeks to upgrade planning processes to ensure that all critical stages of the business have been identified and can be implemented to meet the promise to the customer.
- (iv) Resources (people, equipment, facilities) which focus on ensuring that these could deliver customer service standards.

The Bahamas has also focused on upgrading its domestic transport systems and international airline connectivity. Major road infrastructure upgrades have been undertaken partly in preparation for the mega Baha Mar resort in New Providence. Tour operators have been striving to put together better packaged deals with a more appealing mix of adventure, heritage and cultural tours. The main focus is on customizing the package to particular groups to provide a more authentic and memorable experience for visitors.

Unlike the Bahamas, which is relatively mature, Belize is a newer destination. Nevertheless, product upgrading is necessary for the industry to achieve its competitive potential. The National Sustainable Tourism Master Plan 2030 (NSTMP) has earmarked six main types of tourism for targeted development in Belize. These are nature-based tourism, cultural tourism, sun & beach tourism, cruise tourism, nautical tourism and leisure and entertainment tourism. Belize has a comparative advantage in nature-based tourism, including eco-tourism and adventure tourism and also cultural tourism. Therefore, a key plank of the upgrading strategy is taking advantage of the country's natural and cultural advantage in these areas. In this regard, as a late entrant into the segment, Belize has the opportunity to learn from the successes and mistakes of other countries such as Costa Rica and so to develop a high quality and sustainable eco-tourism and cultural tourism sub-product (Beletsky, 1999).

Diagram 3
Hospitality assured quality map



Source: <https://www.hospitalityassuredcaribbean.com/getting-certified/steps/>.

The policy authorities in Belize have acknowledged that the country's eco, nature and cultural assets remain relatively underdeveloped. Therefore, the BTB, the Ministry of Tourism, BELTRAIDE working with private sector operators in the sector have embarked on a programme to upgrade the quality, level of value added services, and sustainability of this area of comparative advantage. As a first step, they have undertaken an audit of nature trails and historical sites to provide a record of available sites. This audit is being used to prioritize trails and sites for development based on their ability to attract tourists. Following the audit, Belize is now developing a variety of nature trails and routes, including the National Nature Tourism Trail System and the National Caving Trail System. These include signature assets such as the barrier reef, blue hole and the Actun Tunichil Muknal cave system. Cultural tourism seeks to leverage Belize's cultural heritage, with the centerpiece being its National Museum of Anthropology. Strong emphasis has been placed on the development of Mayan Heritage sites and leveraging Belize's unique value as the only English-speaking country in Central America.

Despite its natural and cultural capital, the sector has a long way to go to reach its full development frontier. The NSTMP and other studies point to a range of constraints and gaps that need to be tackled for Belize to maximize the sustainable development potential of its tourism sector. These factors span the full scope of the tourism's value chain from factors that prompt demand, to transport, to supply at the destination, to price/quality issues and also supporting services. Key constraints include:

- (i) Inadequate air access, as international flight connections remain insufficient, although they have increased in recent years;
- (ii) Limited access by land, owing to an underdeveloped road network. This prevents Belize from maximizing its potential for multi-destination tourism that piggy-backs on visitors to neighbouring countries, with more developed sectors such as Mexico and Guatemala;

- (iii) Inadequate product development is also a constraint, with this applying to the hotels, some of which are in need of major renovations and modernization. There are also only a few international hotel brands, and this limits the diffusion of international service standards. Tourism is also hampered by the inadequate management and maintenance of heritage sites;
- (iv) Gaps in human capital development, including specialized training and skills development for the sector;
- (v) Challenges in the areas of technology, innovation and creativity, including insufficient leveraging of ICT to improve efficiency and speed of operations, and innovation to provide a better blend of natural and manmade attractions to build an industry for the future.

Moreover, a key challenge confronting Belize's tourism industry is its competitiveness based on cost and quality or value for money (Harrison, 2014). The NSTMP acknowledges the productivity gaps in the industry and has proposed a variety of measures to raise productivity and efficiency along the value chain. The programme is focused on improving quality and value added in the different segments of the product offering including accommodation, food and beverage, entertainment, transportation, recreation and tours.

Accommodation is one of the main subsectors in need of upgrading. The hotel sector in Belize evolved to cater to a small niche market of visitors demanding sun, sea and sand, adventure and heritage tourism primarily. Further, unlike the traditional Caribbean markets in countries such as Jamaica and Barbados, Belize has attracted very few of the large international hotel chains that bring in tow international standards and certification for service delivery and amenities. For instance, it is estimated that 95 per cent of the hotels are independently owned and operated, with 73 per cent of them consisting of 1 to 10 rooms and only 2 per cent having 50 rooms or more. This has led to a gap in standards, certification, benchmarks and indicators of performance. Nevertheless, this is changing as large chains such as the Wyndham Resort, the Hilton, Marriott and Four Seasons are scheduled to open hotels in Belize. The 242 room Wyndham Grand five- star resort is set to open in December 2018 in Ambergris Caye. This would be a welcome addition to the luxury room stock in Belize.

The Belize Tourism Board (BTB) in concert with BELTRAIDE, the Ministry of Tourism, the Belize Hotel Association and hoteliers has developed a programme to upgrade the quality of hotels through certification, standards and modernization of the hotel plant and service delivery. In the first place, the Hotels and Tourist Accommodation Act, Chapter 285 of the Laws of Belize Revised Edition 2011 and the Hotels and Tourist Accommodation Act, Chapter 285S of The Laws of Belize Revised Edition 2003 make it mandatory for accommodation facilities to be licensed to operate. Nevertheless, the basic requirements under the license are not enough to ensure that hotels and guest houses can meet the standards for quality of service demanded by international visitors. Therefore, the BTB has partnered with accredited trainers to provide appropriate training and skills development programmes for workers in the hotel industry to enable them to provide better quality service to their guests. The Ministry of Tourism also collaborates with large hotels to provide practical, on-the-job training to hotel trainees. This programme has been instrumental in improving the match between the worker training and the actual skills required to provide higher quality service on the job.

Furthermore, in line with the drive to move closer to the international standards frontier, older and inadequately maintained hotels and guest houses are encouraged to invest in updating their plant and amenities to attract more demanding customers and possibly to fetch higher average room rates and prices for other services. A number of hotels have taken on this challenge and are upgrading their plant and services. In 2014, for instance, the Belize City Princess Hotel rebranded as the Ramada Princess Hotel. By this rebranding, the hotel joins the Wyndham Group, the third largest hotel company in the world. It would therefore mean an upgrading of the standard of its amenities and service through

increased investment in the plant, and training and professionalization of its staff. Further, the Ministry of Tourism and Civil Aviation has been undergoing a rebranding exercise to improve the quality of its policy and programmes. A Business Development Unit was created in 2017 to support planning and implementation of business and investment development plans and to help in evaluating the socio-economic impact of capital investment in the sector. Also, in collaboration with the Belize Bureau of Standards, has adopted the ISO 9001 certification, which would enable it to better execute projects (Ministry of Tourism and Civil Aviation, 2018). To facilitate this, a Design and Development Procedure has been put in place to guide the design, planning and development of projects within the ministry. The Ministry of Tourism is also using geographical information systems (GIS) to monitor tourism baseline indicators, trends and capital investment to guide policy, particularly under the National Sustainable Tourism Master Plan 2030. ICT, including office 365 and google platforms are also being leveraged to streamline the work and connectivity of the ministry with its clients.

The government has also embarked on an initiative to strengthen the linkages between tourism and agriculture. A 'tourism consumption study' was done in 2018 to estimate the existing and potential demand for agricultural products by the tourism industry. The results would guide the Ministry of Agriculture in investing to better match supply with demand.

Given the importance of nature and cultural exchange to Belize's tourism product the BTB and the Ministry of Tourism have developed a training programme for tour guides. The programme includes training in communication skills and knowledge of the history, natural and cultural sites and wildlife to enable guides to relay this information confidently and accurately to tourists. It also includes training in safety practices, search and rescue and customer service and storytelling. Crucially, tour guides are now required to be certified to operate. Over time this is expected to lead to minimum standards of service, which could contribute to more satisfied and repeat visitors.

Given the importance of its cultural and heritage sites and tours to its product, Belize is investing in rehabilitating, maintaining and improving access roads to archaeological and cultural sites. For instance, under the EU-funded Making Tourism Benefit Communities Adjacent to Archaeological Sites (M-T-B-CAAS) project, infrastructure upgrades have been undertaken at three of the country's nine archaeological sites. These include the addition of bathroom facilities, an audio-visual visitor centre and improved health and safety standards. To increase benefits to the communities, vendors have also been allowed to sell their products at the sites (Ctv News, 2016).

Other activities, including dive operations have also been focusing on upgrading of business offerings. Upgrading has centred on offering a wider range and more scenic dives and achieving international benchmark certification, which ensures dive safety and comfort. Indeed, all the major dive operations in Belize have the international gold standard Professional Association of Diving Instructors (PADI) certification.

Saint Kitts and Nevis is one of the newer tourism destinations in the region. Therefore, to some extent the country is still in the discovery phase of the tourism life cycle. With the full thrust into tourism coming later than some of the more mature destinations in the Caribbean, Saint Kitts and Nevis has the opportunity to create a more integrated and sustainable tourism product. This would not only match the preference of visitors but boost foreign exchange earnings and employment in the islands.

As the country becomes better known to visitors, policymakers are paying greater attention to product/service development to improve the all-round tourist experience and value for money.

Diagram 4
Basis of Saint Kitts and Nevis' pro-people, pro-planet tourism strategy



Source: Author based on Saint Kitts and Nevis' tourism strategy document.

The Saint Kitts Tourism Sector Strategy & Action Plan 2014-2019 has outlined a strategy for product development that is based on the unique selling points of the island. These selling points are its people, culture and rich heritage and the natural environment (see diagram 4 above). Based on this overarching platform, a number of niche products are being developed to provide the tourist with a varied and interesting experience. The base of the product is the traditional sun, sea and sand niche, but the country is diversifying into other segments, including education tourism, yachting, medical tourism and eco-tourism to strengthen its position in the sector.

Given its small market size, Saint Kitts and Nevis has focused on attracting high-end hotels. The upgrading of the accommodation subsector has centred on attracting new high-end hotels and condominium properties to improve the quality of the destination and renovating and modernizing older properties to improve their appeal. New upmarket properties have been added to the hotel stock in recent years. These include Kittitian Hill a US\$600 million sustainable luxury resort, which includes 84 guesthouses and 7 four-bedroom farmhouses, an 18-hole Championship golf course and onsite farm that produces fresh produce for consumption at the property (Wikipedia 2018).

Figure 10
Picture of Kittitian Hill Hotel Saint Kitts



Source: <http://theaposition.com/robertfagan/wp-content/uploads/sites/33/2015/03/KittitianHill1.jpg>.

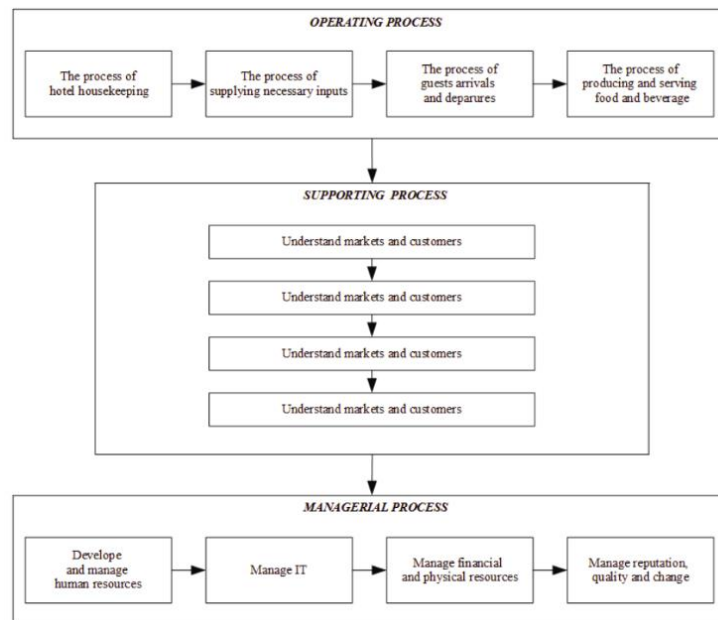
Other hotels that have contributed to an improved stock include the Park Hyatt, a 126-room luxury hotel also built on a sustainable model. In recognition of the growth in demand for spa treatments, the resort includes a luxury spa, alongside 5-star dining and a first-class fitness centre.

The government along with hotels and other operators is promoting certification in the sector. This is seen as critical for assuring visitors of the standards that they can expect for different service segments. According to Hospitality Assured Caribbean, three hotels in Saint Kitts and Nevis — the Nisbet Plantation Beach Club, Oualie Beach Resort and Nelson Spring Beach Resort— have been recently certified. The government has also developed a programme to provide better training for taxi operators and tour guides. In January 2018, 39 new persons were trained to become Certified Taxi Operators and in July a further 194 participants received a refresher training. However, greater investment is needed to provide widely recognized certification in other areas to meet industry standards.

3. Process upgrading in tourism

Process upgrading is an important complement to product upgrading, especially in a diverse composite service such as tourism. According to McCormack and Johnson (2001, quoted in Krstic et. al, 2015, see diagram 5 below), a process entails a specific group of activities and subordinate tasks which result in the performance of a service that is of value. The reality is that a significant driver of competitiveness is the ability of businesses and other operators in the tourism sector to undertake process innovations and quality upgrades to enhance the efficiency and effectiveness of their operations. In tourism, better organization and management of the service delivery chain is key to process upgrading. This is facilitated by improved technology, guidelines and monitoring and evaluation, which are major drivers of competitiveness in the sector.

Diagram 5
Process classification in the hospitality industry



Source: Krstic, 2015.

Generally, hotels and guest houses in the three countries have been upgrading their online platforms to encourage increased direct bookings. This has included contracting ICT professionals to provide more user-friendly attractive and informative websites with discounts and loyalty bonuses in some cases to entice potential guests to book directly with the hotels. Nevertheless, they face stiff competition from the large or even mega online booking platforms such as Hotels.com, Orbitz and Expedia. Big data and artificial intelligence are important disruptive technologies that are impacting tourism worldwide. Big data refers to large complex structured and unstructured data sets, especially from new sources that can be used to analyze and solve business problems (Oracle, 2019). Artificial intelligence entails the use of systems or machines that imitate human intelligence to perform a range of tasks and can iteratively improve the task based on information input (Oracle, 2019). These online platforms have a significant head start in using big data analytics and artificial intelligence (AI) to sort and classify significant amounts of tourists and suppliers' information to provide customized packages that match tourist preferences.

As table 2 below indicates, major online booking sites offer a range of information and services that make them very attractive to tourists from major markets. These include customer-based rankings, rewards and membership benefits, low price specials, mobile app conveniences for ease and efficiency of booking and lumped services with accommodation, car rental and sometimes tours integrated in one package deal. This presents a serious challenge for hotels in the region, especially smaller properties that do not have the capital base to compete in online services. Moreover, it has implications for power relations in the governance of global hotel value chains and the extent to which Caribbean-owned hotels and guest houses can earn revenue along different segments of the chain.

Table 2
Rating indicators on the top ten hotel booking services

	Price	Overall Rating	Booking & Fees	Reservations	Rewards & membership	Lowest Price Found	Price Match	Mobile App	Cars	Free Nights	Member Only Rates	Earn Points
Hotels.com	Check price	9	10	8.3	6.8	\$50	✓	✓	...	✓	✓	...
Orbitz	Check price	8.9	7.8	10	10	\$54	✓	✓	✓	✓	✓	✓
Expedia.com	Check price	8.5	7	10	10	\$57	Members only	✓	✓	✓	✓	✓
Booking.com	Check price	6.7	6.8	7.5	3.3	\$64	✓	✓	✓	✓	✓	...
Travelocity.com	Check price	7.8	7.8	9.8	...	\$53	✓	✓	✓	...	...	...
Agoda.com	Check price	6.6	9.5	4.5	...	\$56	✓	✓	...	...	...	...
GetCheapHotels	Check price	6	6	7.5	...	\$61	...	...	✓	...	...	...
Hotwire	Check price	7.1	9.3	6.3	...	\$49	...	✓	✓	...	...	...
Priceline.com	Check price	6.6	7.8	6	3.3	\$53	✓	✓	✓	...	✓	...
OneTravel.com	Check price	6.5	7.8	5.8	3.3	\$44	...	✓	✓	...	✓	...

Source: <https://www.toptenreviews.com/services/home/best-hotel-booking-services>.

In the Bahamas, the government has embarked on a digital transformation initiative to strengthen the competitiveness of the economy. The primary aim is to reduce the costs of doing business with the government. This will be facilitated by streamlining government procedures and moving them online and increasing the use of ICT in the public sector. These changes are expected to benefit tourism operators by reducing the cost and time taken to process transactions with the government.

Process upgrading will also be facilitated by leveraging ICT and organizational systems to improve the marketing and promotion of the tourism product (see diagram 6 below). With regard to organizational systems, the Bahamas has opened marketing offices throughout the United States. This has been supported by a US-based sales and promotion team which is focused on boosting tourism demand from as many states in the US as possible. Indeed, the Bahamas now has physical offices in states including New York, Washington DC, Los Angeles, Houston, Atlanta and Florida.

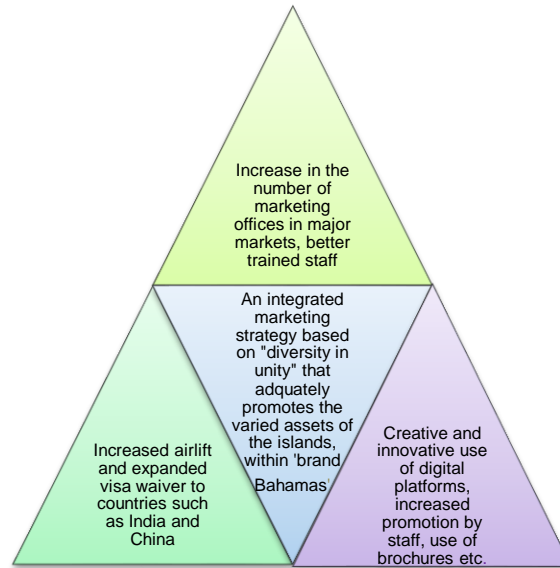
A key plank of the Ministry of Tourism's process upgrade strategy in marketing and promotion is the use of targeted digital content to promote the country in the North American market. This entails partnerships with foreign travel journalists and digital companies to produce strategic, amplified digital content that provides virtual tours of key tourist landmarks and products in the Bahamas (Looptt.com, 2018). Further, the country is using tracking tools to assess and monitor the demand from different segments of the market in order to facilitate more strategic and targeted marketing, and to increase the efficiency of marketing spending.

The leveraging of digital media, especially different video platforms is an effective approach as it is estimated that 54% of customers worldwide across all sectors want to see more video content from marketers (Kolowich, 2018). Also, 73% of consumers indicated that "entertaining" videos on social media are important in determining their choice of destination.

Moreover, in 2017, the Ministry of Tourism contracted Weber Shandwick a world leading global communications and engagement firm to provide communications support in the US and Canadian markets. The company will also assist with market development work in the U.K. and Latin America. The focus of the strategy is "diversity in unity", which is built on promoting 16 of the 700 islands in the Bahamas as tourist destinations. This demands creativity in marketing that leverages the unique offering of each island, while providing a picture of an overall Bahamian tourist brand that is driven by standards, quality and a captivating experience that could drive word-of-mouth promotion by visitors. The promotion programme for the Bahamas will be led by Weber Shandwick's award-winning Travel & Lifestyle practice and will focus on creative marketing, including digital programmes to attract millennials and new sources of demand (Weber Sandwick, 2017).

However, to be successful in the medium to longer-term, this programme will need to be sustained. This requires long-term budgeting of resources, which could prove challenging in the context relatively high debt and debt servicing costs. Additionally, it is critical that the actual tourism product and experience once the visitor arrives matches the standards and expectations of the promotion campaigns to prevent adverse publicity. Diagram 6 below outlines the key mechanisms being used to drive product/process upgrading in the Bahamas.

Diagram 6
Mechanisms to facilitate product/process upgrading in the Bahamas



Source: Author, based on documentary research and personal communication with officials in the Bahamas.

Despite the obvious differences between the tourism product of Belize and the Bahamas, there are some similarities in their efforts at process upgrading aimed at improving their position in the global tourism value chain. Indeed, the similarities reflect the common demand for standards, tighter governance of value chain segments to prevent quality problems; and changes in preferences driven by ICT.

A key area of process upgrading that overlaps with product development is the streamlining of internal processes in hotels and guest houses to improve the efficiency of service delivery. As Krstic et al have noted, hotels have to respond to the imperatives of a globalized business environment, rapid technological change and demanding customers with an increased focus on customers, competition and processes. With a number of hotels and guest houses in Belize falling below global standards in operational efficiency investment in technical and managerial systems is needed to bring them up to benchmark standards. The Belize Tourism Board has also provided easier access to training for tour operators and tour guides to improve their standard of service.

Operators in the tourism sector in Saint Kitts and Nevis have adopted a number of changes in processes to modernize and upgrade their product. Similar to the Bahamas and Belize, some of these measures include actions to streamline business and operational procedures in hotels, guest houses, tour operators and other service providers. However, other measures reflect the peculiar challenges that the islands face relating to their size and scale of operations and the available skills pool required in the sector. Nevertheless, properties have focused on key areas of upgrading, including bookings, front desk efficiency, food and beverage service systems, housekeeping and the management and organization of tours. The majority of hotels, even smaller ones, now have online reservation platforms to facilitate direct booking. The hotel's front office provides the first onsite interaction with the guests. Therefore, to improve their hospitality and overall image, hotels in Saint Kitts and Nevis have been providing better training, including documented guidelines to help front office staff. This is aimed at enabling staff to provide information required by guests and to facilitate smooth reservations, settlement of accounts and departures. To support human resource upgrade, hotel managers have also been updating their guest information and accounting systems to improve process efficiency.

The challenge for the industry as a whole, however, is the wide disparity between the top-tier and the lower ranked hotels and other operators. This pulls down the overall standard of service and tourism experience in the destination and is drag on overall productivity in the sector. This challenge needs to be addressed, as the tourist judges his overall experience based on the total tourism product (including processes), not just part of it. If part of the product is bad, the tourist often deems the product bad, but if only part is good, the tourist is not likely to deem the product good.

4. Human capital upgrading

The tourism development strategies of the three countries in the study all champion human capital upgrading as a key pillar in developing a high quality, service-oriented tourism sector. The countries recognize that tourism is a composite product where the quality of personal service and human interaction at all levels is key to the satisfaction of the visitor. At the regional level there is a drive to improve the quality and range of education and training in hospitality services and management. The universities and other institutions offering education and training in the region, have recognized that strengthened partnerships with operators in the industry, foreign universities and other training institutions are required to provide an updated and relevant curriculum that keeps pace with dynamism in the industry.

Nevertheless, tourism education and training in the region are affected by a number of challenges. These include: the lack of a harmonized system of training, certification and standards across the region. This could act as a barrier to free movement of tourism workers in the region. Further, there remains a mismatch between education and training provided and the skills and abilities that are required for persons to perform well on the job. The Government of the Bahamas is focused on supporting the tourism industry by providing high quality training in key areas including hospitality, leadership, professionalism, service excellence and product development. The flagship training institution in the country is the School of Hospitality and Tourism Studies (SHTS) of the University of the Bahamas. The School provides education and training in a range of hospitality occupations and management. Key areas of training include a Bachelor's degree in tourism studies.

The Institute also provides on-demand training in specialized areas and facilitates internships and immersion programmes with hotels, restaurants and other industry operators to provide trainees with valuable on-the-job experience. Additionally, The Bahamas Ministry of Tourism facilitates industry directed training that certifies and recertifies thousands of locals in mainstream tourism and hospitality. The signature training program- BahamaHost has for 40 years been mandated to prepare and equip professionals serving the sector. The overarching goal is to cover the islands of The Bahamas with relevant training solutions that will ultimately impact the visitor's experience. Licensed service professionals renew their certificates every three years as the program undergoes a consistent rebranding to remain relevant and impactful. The most recent revamped product focuses on content that lifts national consciousness, quality service levels, tourism competitive awareness and empowerment for the Tourism professional.

Belize faces major challenges in upgrading its human resources to facilitate effective service delivery in tourism. Hospitality education and training is not as well developed as in the Bahamas. However, the University of Belize offers a Bachelor of Science degree in Tourism Management that helps to prepare students for jobs in the tourism industry such as lodging services, events and conventions, food and beverage handling and destination services management (University of Belize, 2017). The programmes aim to provide trainees with knowledge, skills, values, attitudes and behaviours for effective functioning in the tourism industry. However, the programme needs to be strengthened to provide more hands-on skills and to meet international standards.

In recognition of the importance of practical on-the-job training in the industry where skills are diffused by interaction with experienced persons, the Belize Tourism Board facilitates internships with

leading hotels such as the Radisson Fort George Hotel to enable persons in the field to upgrade their skills and professionalism. In a welcomed development, earlier this year, the Radisson Hotel provided training and certification from the American Hotel and Lodging Educational Institute (AHLEI) in areas including 'certified guest service professional', 'certified guest room attendant' and 'certified front desk representative'.

The training was provided under the auspices of Hospitality Training Services (HTS), a tourism training company in Belize that has the only license to offer AHLEI training (Breakingbelizenews.com, 2018). The AHLEI is a leader in hospitality training which provides standardized training to international luxury hotel brands such as the Four Seasons, Hilton and Marriott. This type of professional training and certification is increasingly important to indicate to tourists the standard of service that could be expected from a modern tourism establishment.

Similarly, in Saint Kitts and Nevis, some steps have been made to improve education and training, with students being encouraged to take the CAPE Tourism course. Also, the Clarence Fitzroy Bryant College (CFBC) offers a Certificate programme and Associate Degree in Hospitality Studies. The programmes offer courses in key areas such as food preparation, food and beverage service and hospitality accounting. The Ministry of Tourism is strengthening its tourism education in schools programme to teach the principles and requirements for a successful tourism industry to children. The initial pilot programme has now been extended to over 360 students in six schools (Grant, 2018).

5. Economic upgrading: Market share and unit value analysis

Table 3 below replicates Bernhardt and Milberg's basic framework for assessing economic upgrading in tourism in the three countries, a few other Caribbean economies and comparator small economies outside the Caribbean. Economic upgrading is measured by the growth in tourism market share and unit values on the world market. Market share is measured by the country's tourist expenditure divided by the total for the world. This has its limitations as for most countries in the region, their small economic size means that their market share is very small. A better comparison would have been among small economies, but the World Development Indicators did not have data on other small economies. Unit value is measured by real travel expenditure per visitor and gives an indication of export prices for tourism exports.

In this framework, unambiguous economic upgrading is achieved when countries have positive growth in both market share and unit values, which technically implies improved market presence and prices for tourism exports. From the table 3 it can be seen that two of the three countries that are the focus of the study - Belize and Saint Kitts and Nevis - had unambiguous upgrading by this parsimonious measure. Meanwhile, in the Bahamas the situation was somewhat ambiguous. Saint Kitts and Nevis had relatively strong growth of 8.1% and 9.2% in market share and unit values, suggesting that it was not only able to expand its market share but to grow earnings per visitor. This might be linked to improvement in the quality of the tourism product with the addition of high-quality resorts such as the Four Seasons and the Marriott.

Though more muted, Belize also upgraded with growth in market share that was more than double the increase in unit values, suggesting that its growth in market share might have been linked to a lower priced tourism product. Meanwhile, the Bahamas had a mixed performance with 1.6% average decline in market share matched by a 2.0% increase in the average visitor spending. Therefore, it seems that the decline in market share has been offset somewhat by the unit value of the tourism product. Nevertheless, the loss of market needs to be addressed to boost the competitiveness of the product in the Bahamas.

Table 3
Growth in market share and unit values in tourism for selected countries (1997-2016)
(Percentage growth)

Countries	Growth in market share (%)	Growth in unit value (%)
Antigua and Barbuda	2.2	5.0
Bahamas (The)	-1.6	2.0
Barbados	-2.2	-2.0
Belize	2.7	1.1
Costa Rica	3.4	-6.0
Jamaica	-1.3	-7.9
Fiji	1.1	-1.2
Mauritius	0.5	-3.7
Saint Kitts and Nevis	8.1	9.2
Saint Lucia	3.3	3.9

Source: Author's calculations based on World Bank, CTO and IMF data.

Among the other countries, there was a notable downgrading in Jamaica and Barbados, both of which faced declines in both market share and unit values. The fairly large (-7.9%) fall in unit value in Jamaica is concerning as it points to lower average spending by visitors and possibly a cheapening of the tourism product. This might be linked to the dominance of All-inclusive, which might have adversely affected average visitor spending, as the enclave nature of these operations tend to reduce spending outside the hotel property (Kondo, 2015). Among the other relatively small comparator economies, both Costa Rica and Mauritius have displayed a mix picture with their growth in market share being offset by a decline in unit values.

V. Social upgrading in tourism in the selected countries

Economic growth is important, but not enough for improving living standards especially in the Caribbean, where high levels of unemployment and low wages remain intractable development challenges. Therefore, although economic upgrading in tourism is key to increasing and sustaining the contribution of the sector to economic growth, an important concern is the extent to which economic upgrading also leads to social upgrading. SDG 8 calls for policies and actions to promote sustained, inclusive and sustainable economic growth alongside full productive employment and decent work for all. As a major economic sector in the three countries and the wider Caribbean, tourism has a key role to play in ensuring the fulfillment of this goal. Social upgrading entails moving up the value chain in terms of the quality of employment, higher wages, improved conditions of work and improved equity in the distribution of the gains from the sector between international and local actors. The way the tourism sector has developed in the Caribbean has led to some key challenges to social upgrading in the sector. Important constraints include:

- (i) Dominance by large international hotel chains and tour operators with a strong focus on maximizing profit and shareholder value, which sometimes leads to the payment of relatively low wages;
- (ii) The rapid growth in All-inclusive properties, which tend to limit spending by tourists in local communities since a full range services and amenities are provided onsite;
- (iii) The part-time nature of much of the work in the sector due to seasonal demand, which leave workers out of work for a portion of the year;
- (iv) Limited workers' rights and protections in the sector.

Despite these challenges, policymakers in the Bahamas, Belize and Saint Kitts and Nevis has been promoting policies to improve workers' benefits from the sector. A major area of focus has been improved worker training and professionalization to increase worker productivity, which could lead to higher wages, fringe benefits and improved working conditions for locals.

The study attempted to reproduce parsimonious indicators of social upgrading developed by Milberg and Bernhardt (2011). According to this approach, social upgrading occurs in a sector when two conditions are met: i) there is an increase or at least no decrease in employment; ii) there is an increase in real wages. The requirement that wages increase puts the accent on improved distribution of the gains from production and trade between labour and capital. The percentage change in these two variables provides a simple, framework for assessing the dynamics of social upgrading in sectors. The shortage of data precludes a robust replication of Milberg and Bernhardt's approach. In addition, the framework is limited in that it only treats with ex-post indicators of social upgrading. The key measure of labour productivity is not included, owing to the lack of data in the countries. However, a basic assessment is undertaken using the limited information available.

Successive governments in the **Bahamas** have recognized the importance of the tourism sector for job growth. There is also a focus on decent work in the sector including better wages and working conditions. Data are only available for the hotel subsector, which is the major component of the industry in the Bahamas in terms of value added and employment. The data in table 4 indicate there has been only modest social upgrading in the sector in the last decade and a half. Employment in the hotel sector declined by 0.2% from 2000 to 2016. After posting growth of 3.8% from 2000 to 2007, employment in the hotel subsector contracted by 2.8% from 2008 to 2016, reflecting a shedding of jobs in the industry. This partly reflected restructuring and adjustment in the industry in response to the global crisis, which led to a collapse of visitor arrivals and expenditure. Female employment fell by 0.2%, while male employment declined by 0.1%. Growth in wages (1.9%) per year, was stronger than employment, underscoring marginal gains for workers in the sector. Between 2000 and 2016, wage growth for female workers (2.3%) was higher than that for males at 1.5%, probably reflecting differential skill levels between the two groups.

Table 4
Growth in employment and wages in the tourism sector in the Bahamas
(Percentage growth)

	Employed persons in Hotel Industry in Bahamas			Wages in Hotel Industry in Bahamas		
	Male	Female	Total	Male	Female	Total
2001-04	3.9	4.4	4.1	1.5	1.2	1.3
2005-08	1.3	2.0	1.7	-0.5	1.2	0.4
2009-12	0.04	-0.2	-0.1	1.7	1.4	1.6
2013-16	-2.1	-3.4	-2.8	8.0	5.7	6.9
Avg. 2000-07	3.2	4.4	3.8	1.6	2.9	2.1
Avg. 2008-16	-2.2	-3.3	-2.8	1.8	2.1	2.0

Source: Author based on data from the Department of Statistics of the Bahamas.

Belize has a short data series, which limits the assessment. Table 5 below shows that average employment and real wages in accommodation and food service activities, a proxy for the tourism sector, grew by 7.1% and 1.2%, respectively between 2013 and 2017. On the face of it, the series seems to indicate tentatively that there has been some social upgrading in the tourism sector in Belize over the last five years. However, the more muted growth in wages suggests, especially if this has been the longer-term trend, that despite decent gains in employment, workers are not able to achieve near commensurate gains in wages. This might be related to the relatively low skills base and productivity of workers in the sector, which is still in the nascent stage of development.

Table 5
Average growth in real wages by sector in Belize, 2013- 2017
(Percentage growth)

Industry	Average Growth Employment	Average Growth Real Wages
Total Average (All sectors)	1.1	0.9
Agriculture, forestry and fishing	-4.2	0.7
Manufacturing	-2.0	12.4
Construction	1.9	0.4
Wholesale and retail trade; repair of motor vehicles and motorcycles	-2.2	2.5
Transportation and storage	8.4	0.5
Accommodation and food service activities	7.1	1.2
Information and communication	32.3	16.1
Financial and insurance activities	14.2	0.3
Real estate activities	72.6	17.3
Education	2.8	2.3

Source: Author's calculation based on data from the Statistical Institute of Belize and the IMF.

The data for **Saint Kitts and Nevis** suggest limited social upgrading in tourism. This stemmed from modest growth of 1.8% and 1.2% in employment and real wages for the period 2003-2016 (see table 6 below). Similar to the Bahamas and Belize, growth in employment was better than that for wages. Interestingly, by comparison, agriculture displayed a mixed picture, with employment falling by 0.6%, but real wages growing by 4.3%. It seems that the shift in labour from agriculture to tourism and other sectors has led to lower employment and higher wages in agriculture. This might have stemmed from a 'winnowing effect' with the most productive workers, who can command higher wages remaining in the sector.

Table 6
Average growth in employment and real wages in Saint Kitts and Nevis, 2003-2016
(Percentage growth)

Industry	Average growth in employment	Average growth in wages
Agriculture, Hunting, Fishing & Forestry	-0.6	4.3
Manufacturing including Mining & Quarrying	-3.6	1.9
Construction	3.9	3.8
Wholesale & Retail trade; Repair etc.	3.3	0.7
Hotel & Restaurant	1.8	1.2
Transport, Storage & Communications	5.9	-2.4
Education, Health & Social Work	5.8	4.2
Total average (all sectors)	1.6	1.8

Source: Author's calculation based on data from the Statistical Institute of Belize and the IMF.

VI. Environmental upgrading

This is the age of the environmentally aware tourist. According to a study done by Geo-tourism for the Travel Industry Association of America there are eight profiles of travelers based on an examination of tourist attitudes and behaviours, and actual travel habits (Travel Industry of America, 2002). In the study the majority of respondents (71%) recognized the importance of having minimal impact on the environment of the destination. Further, a whole 58% agreed that their travel experience is optimal when there is a strong educational element- that is a culture integration in the tourism product. Increased knowledge of the impact of tourism development on natural ecosystems and cultural heritage sites, has meant that environmental protection and management are important considerations in the preference function of many tourists. This has grown in importance with the indisputable knowledge of the fall-out from climate change on tourist destinations such as those in the Caribbean. According to the IPCC, climate change is expected to lead to rising sea levels, increased sea surface temperatures and increased coastal flooding in the Caribbean (IPCC, 2014). Sea level rise is particularly impactful on Caribbean states because an estimated 70% of the Caribbean population live in coastal cities, towns and villages (UNEP, 2008, p. 7). Many of the major tourism developments are in coastal zones, and are exponentially threatened by the impacts of climate change. In particular, tourist businesses might be impacted as a result of the operation of a country's airports, road network and sea ports coming to an abrupt stop. Therefore the three countries are increasingly prioritizing environmental considerations in their efforts to upgrade their tourism product.

In 1992, **The Bahamas** Government expressed its commitment to eco-tourism as a powerful instrument for sustainable development in the small island communities of The Bahamas. In 1994, a 'Sustainable Tourism Policy, Guidelines for Implementation Strategy for the Family Islands of The Bahamas' was developed. The policy addressed the following areas: green marketing and management, monitoring of environmental impacts, natural and cultural resource protection and enhancement, waste management and water conservation and environmental training and education.

Immediately following these developments, the Government organized a series of workshops in 1997 focused on ecotourism planning and product development. To stay committed to the policy the Ministry of Tourism established a Sustainable Tourism Unit. The Bahamas' definition of sustainable tourism is 'development that responds to the present needs of visitors to The Bahamas and the travel industry without compromising the ability of future participants in the Bahamian travel industry and guests to meet respective business and vacation requirements.' The Government of The Bahamas continues to implement measures to develop an ecological, economic and socially sustainable tourism product. A number of these initiatives, strategies and policies that refer to sustainable tourism are outlined below. In 2014, the Bahamas embarked upon a 25-year National Development Plan (NDP): Vision 2014. According to the 2018 Voluntary National Review, the NDP has integrated the 2030 Agenda and provided a roadmap for the implementation of the Sustainable Development Goals (SDGs).

The Government of The **Bahamas** has recognized the need to diversify into more sustainable tourism niches. This has led to the promotion of nature-based tourism activities. Eco-tourism, adventure and heritage tourism are some of the niche markets that The Bahamas has begun to attract. Especially in the 'Family islands', there is increased focus on preserving coastal wetlands, including mangrove swamps, which are important areas for wetland birds and serve as a nursery for many marine species.

In 2015, The Bahamas launched the first phase of a major sustainable tourism initiative in partnership with the Sustainable Destination Alliance for the Americas (SDAA), in collaboration with Royal Caribbean Cruises Ltd (Tourism Today, 2018). The initiative is aimed at developing a more sustainable tourism sector that integrates and balances economic returns with the protection and preservation of the country's rich natural and cultural assets, thereby reducing risks to the viability of the sector and appealing to the savvy visitor who is particularly interested in authentic experiences and good environmental practices.

The certification process entailed three stages. The first stage was a Rapid Destination Diagnostic analysis of the sustainability of the country's tourism product, which involved site visits and focus group meetings, workshops and interviews with key stakeholder organizations. The second stage was an Action Planning Workshop which involved engaging various stakeholders in an action planning forum focused on identifying 'quick wins' and longer-term projects. Finally, and most crucial, a destination monitoring, and evaluation framework will be established through a digital Destination Management System (DMS). Data would be inputted into this system to facilitate monitoring, reporting and policy adjustments. This new framework is a forward-looking initiative that could make for a more sustainable sector in The Bahamas and should be considered by other countries in the Caribbean.

The Bahamas has several Non-Governmental Organizations (NGOs) focused on environmental conservation that have assisted with sustainable and environmental initiatives for the country. These organizations include The Bahamas National Trust (BNT), Bahamas Reef Environment Educational Foundation (BREEF) and The Nature Conservancy (TNC). These organizations are strategic partners for the protection of several marine species and the creation of Marine Protected Areas (MPAs). As a result of the lobbying by these local NGOs, a number of sustainable initiatives have been implemented.

Sustainable initiatives lobbied by these NGOs include the 2011 banning of shark harvesting. The Bahamas is one of the few locations in the world with healthy populations of sharks. By establishing protection for all sharks from harvesting, The Bahamas has safeguarded the health of the marine environment and the economy of The Bahamas (BNT, 2011). The Bahamas National Trust in conjunction with the PEW Environment Group noted that shark related tourism has contributed approximately \$800 million dollars to the Bahamian economy (BNT, 2011). It further stated that a single reef shark is estimated to be worth \$250,000 from tourism revenues over its lifetime, if it is kept alive on the reef.

If harvested, the same shark was estimated to worth between \$50-\$60. Therefore, the banning of shark fishing was an excellent initiative to protect this valuable resource for the environment and the Bahamian economy. Additionally, the environmental NGO network located in The Bahamas have also lobbied for the closed season for a number of marine species such as the Nassau Grouper, a critically endangered species in 2015. There is also a movement to protect the commercially important Conch species with a closed season.

As with marine species, the health of the marine environment is very important to the Bahamian tourism industry supporting tourism business' focused on snorkeling expeditions around the coral reefs, shark diving experiences, fly fishing and boating. However, this environment may become impacted by marine pollution especially plastic pollution. The Bahamas Plastic Movement estimated that The Bahamas can potentially lose up to 8.5 million dollars in tourism revenue annually based on the current rate of plastic pollution. One initiative to assist to eliminate the amount of plastics and styrofoam seeping into to the marine environment is through the complete ban of these items. The Ministry of Environment and Housing has announced the initiative to ban single-use plastics and styrofoam in The Bahamas by January 1, 2020. As a result of this announcement, a task force was created to advance a national campaign to phase out single use plastic bags, straws, food ware and styrofoam containers. This task force formed includes private and government agencies of which The Bahamas Ministry of Tourism is a member.

Since this announcement, a number of businesses in The Bahamas have moved to eliminate plastic and styrofoam at their establishments. One such tourism business is the Sandals Resorts International. On January 4, 2019, the Nassau Guardian published an article entitled "Sandals eliminating use of styrofoam products by Feb. 1" which noted that Sandals Resorts International has begun its pursuit of eliminating plastics and styrofoam by eliminating plastic straws, stirrers, laundry bags, gift shop bags and styrofoam products on their property (Nassau Guardian, 2019).

Conserving the wetlands has become of prime importance to the government. These wetlands are the source of potential for an expanded ecotourism industry and are of vital importance to birds, animals, and fish. In 1997, The Bahamas signed the Ramsar Convention⁹ for the protection of wetlands, and designated Lake Rosa, in the Inagua National Park as Ramsar site. The Convention management concept look at the 'wise-use' of wetland areas in order to protect them (Bahamas Wetland Policy). Lake Rosa is the home to the largest remaining breeding colony of endangered West Indian Flamingos (Bahamas National Trust, 2016). Furthermore, The Bahamas has developed a Wetland Policy to create a framework for the management of wetlands throughout The Bahamas.

Fishing is the third largest industry in The Bahamas, generating millions of dollars in exports because the vast coastal wetlands serve as marine nurseries. Coastal wetlands such as mangroves and near shore patches of reefs serve as prolific breeding grounds for several economically important species such as groupers, snappers, spiny lobster and conch. Mangroves increase the survival rates of reef fish by providing an intermediary home for juvenile species.

The Bahamas has an extensive Marine Protected Area (MPA) Network, in fact one of the largest in the region. In 1945, The Bahamas established the first MPA as the Exuma Land and Sea Park. The government of that time recognized the social, economic and environmental importance of protecting marine eco-systems. According to an analysis by the Natural Capital Project, MPA's provide \$67.6 million annually in tourism expenditures, 2.6% of overall expenditures in 2015 (BREEF 2017).

⁹ The Ramsar Convention is the intergovernmental treaty that establishes the framework for the conservation and wise use of wetlands.

Similarly, Belize's ecosystem is fragile and vulnerable to degradation from both human and natural causes. However, coastal ecosystems are quite valuable, and average annual ecosystems services from coral reefs and mangroves in Belize are estimated to be worth 15 and 22% of GDP respectively in 2007 (Nuenninghoff et. al, 2015).

The government recognizes the importance of the reefs and other ecosystems to the tourism product and overall biodiversity in the country. Therefore, the National Sustainable Tourism Master Plan (NSTMP) seeks to strike a balance between tourism development and environmental preservation. Sustainability in the plan is built on three pillars: the use of product clusters, focused and controlled development, and phased implementation of the plan. The cluster programme seeks to develop products based on similar aspects of comparative advantage to facilitate knowledge exchange and learning among businesses. There will be a strong focus on ensuring that development is in harmony with the carrying capacity and vulnerability of cultural and ecosystem resources.

The focused and controlled development approach is meant to contain tourism development to specific sites based on their value added to the tourism experience, while controlling tourist densities in sensitive areas to reduce damage. This acknowledges the reality that mass tourism based on maximizing visitor numbers is not appropriate to the country. The focus, instead, needs to be on maximizing average visitor spend over the long-term by maintaining an upgraded, high quality product based on the country's varied assets.

Box 1

Hamanasi environmental resort

Hamanasi, an adventure and dive resort in Belize is an eco-resort that is located between the Maya Mountains and the Caribbean Sea, giving it an ideal location. It is a secluded, intimate boutique resort of 30 rooms, complemented by lush tropical vegetation. The resort provides a range of amenities, including relaxing tree houses, beachfront rooms, a full-service restaurant and a Gold Palm 5-star PADI dive facility. The resort offers inland and marine tours.

Importantly, the resort is built on a vision of sustainability that seeks to balance a rich tourist experience, with sustainable use of resources, especially green operations and community development, while being profitable.

Therefore, in recognition of its efforts, the resort received the CTO's Sustainable Accommodation Award 2014 for embedding sustainability in its core practices.



Source: Hamanasi website and CTO.

Sustainability is critical to tourism development in **Saint Kitts and Nevis**, owing to its small size and fragile ecological systems and vulnerability of its cultural and heritage capital. Past tourism development paid insufficient attention to environmental and heritage protection as the focus was on maximizing visitor numbers in the context of the need to find alternative sources of employment with the steady decline in the agriculture sector.

The Saint Kitts Tourism Sector Strategy & Action Plan 2014-2019, proposes aims to optimize benefits for citizens, especially marginalized groups in their communities, while protecting the natural and historical environment, which is much of the basis for the islands' appeal. This is in recognition of key challenges that could affect the quality of the tourism product, including marine pollution, coastal development without adequate environmental impact assessments in some cases and the degradation of coral reef systems in some areas (Sustainable Travel International, 2018). Improved water management is especially important to tourism in Saint Kitts and Nevis, as the country is one of seven water-scarce¹⁰ countries in the Caribbean (McCarthy, 2016).

A key objective is to establish and enforce environmental standards in the industry to limit damage to environmental assets. A target has been set to establish systems for the management of waste water, solid waste, energy (including energy efficiency), water resources, air quality and other aspects of the environment by 2019. This is to ensure a clean, aesthetic environment for both nationals and tourists. As part of its environmental upgrading effort, Saint Kitts and Nevis established an Inter-Agency Sustainable Destination Management Council (IASDMC) in 2013, which seeks to ensure that tourism development is in harmony with and benefits environment, culture, heritage and community livelihoods (Sustainable Travel International, 2018). The Council is targeting three key areas:

- (i) Improving public awareness of the water shortage problem on the islands and promoting water conservation through its "Water is Life" campaign
- (ii) Facilitating waste management activities that tackle the root causes of littering and illegal dumping
- (iii) Securing greater buy-in from the public sector and tourism businesses on its sustainability initiatives.

In April of this year St. Kitts won the WTTC's prestigious 'Destination Stewardship Award' recognizing the island as a global leader in sustainable tourism. This reflects sustained effort, as the island won the CTO's TravelMole Sustainable Tourism Award for Destination Stewardship in 2014.

Nevertheless, St. Kitts and Nevis will need to maintain its efforts at mainstreaming sustainability into all aspects of tourism sector through school and community programmes, government and private investment in environmental conservation, culture and heritage and monitoring and evaluation programmes and projects in these areas.

¹⁰ According to FAO a country is classified as water-scarce if it has less than 1,000 m³ of freshwater resources per person.

VII. Diversification in the tourism sector in the selected countries

The three countries have pursued broadly similar strategies for diversifying their tourism product. Moreover, these strategies are related to, and serve to reinforce in many cases the policies and actions that have been implemented to upgrade the tourism sector. The two broad strategies are: product line diversification, which entails developing additional products within an existing line or completely new products; and market diversification based on either market penetration or market development.

The appropriate diversification strategy for The Bahamas, Belize and Saint Kitts and Nevis depends on the level of maturity of their tourism product and the specific product and market development strategy that policymakers deem necessary to improve the competitiveness of their destination.

In The **Bahamas**, eco-tourism development is focused on leveraging key related assets. In diversifying The Bahamas' product offering, the Government of The Bahamas is bolstering a multi-island destination with a heavy focus on its nature-based tourism attributes. The Bahama Islands have unique geological features that attract people from around world. Most notable are Dean's Blue Hole in Long Island, which is the second deepest in the world and the great Andros Barrier Reef, which is the third largest fringing barrier reef in the world. In line with its commitment to The Nature Conservancy 2020 Caribbean Challenge Initiative, and the recognition of the economic and environmental importance of national parks inclusive of land and sea; The Bahamas has developed effective conservation strategies to protect its natural environment, while sharing its beauty. Some of the other notable parks located in The Bahamas are The Andros Westside National Park, Abaco National Park, and the Blue Holes National Park.

The government has provided incentives for the development of eco-tours and the provision of ancillary services, including food and beverage provision for these tours. The Bahamas Hotel Encouragement Act facilitates the incentive program for the development of tourism throughout The Bahamas. The legislations provide duty free entry of approved items as well as exemptions/concessions from real property taxes for the first twenty years of operations of a hotel resort. Incentive legislations such as the Hotel Encouragement Act has promoted the development of small lodges throughout the 'Family Islands'. Most of the small lodges in The Bahamas are owned by the Bahamians. This has improved the socio-economic status of owners in many small coastal communities in The Bahamas.

The **Bahamas** has developed a diversification strategy that is aimed at moving away from its primary mass product offering based on sun, sea and sand. Although its primary offering built mainly on the physical environment and climate has served the country well, as a maturing destination it recognizes the need to provide wider variety and to integrate its combined product offering into more holistic packages. The government plans to develop a Tourism Development Corporation to bolster diversification and to facilitate linkages that could benefit local businesses.

The Bahamas is now targeting sports tourism, eco-tourism and culture and heritage as areas for diversification. The thrust into sports tourism is focused on attracting world class sporting teams and events both to increase visitor arrivals and spending, especially during the slow season, and to promote the total tourism product of the country in major markets, particularly among prospective new visitors such as millennials. The country hosted the IAAF World Relays in 2014, 2015 and 2017, which placed it in the international sporting spotlight. However, the country has opted out of the 2019 relays due to cost considerations. Nevertheless, the country branched into other aspects of sports tourism. The country is now partnering with over five major sporting organisations, including the US National Basketball Association (NBA), the National Football League (NFL), the International Federation of Association Football (FIFA), Major League Baseball and the IAAF. The strategy is to get these organizations to host key events on their calendar in the Bahamas and also to visit for off-season bonding and relaxation. For instance, the country has entered into co-branding and co-promotion efforts with Miami Heat basketball team and the Miami Dolphins NFL team and the Miami Panthers in major promotion drives for the country at major games in the United States.

The Bahamas is also leveraging its multi-island advantage to develop thematic tourism based on the comparative advantage of particular islands. Eco-tourism development is focused on leveraging key related assets. These include the world's second deepest blue hole on Long Island, and the third-largest fringing barrier reef in the world. A major eco-tourism product is the fly fishing tourism sector. The sector is economically viable and provides high economic gains for local lodges and guides. Fly Fishermen account for 4% of the overall arrivals to The Bahamas, but 12% of the overall tourism expenditure (Fedler, 2017).

The protection of Mangrove swamps and the implementation of National Parks are essential for the Fly-Fishing sector. Inter-coastal tidal flats such as mangroves, are habitats for key fly-fishing species such as bonefish, tarpons, and permits. Therefore, it is crucial to protect these environments as they provide an economic stimulus to local communities in The Bahamas. The Government of The Bahamas has made moves to ensure the sustainable development of this sector with the introduction of the Fisheries Resources (Jurisdiction and Conservation) (Flats Fishing) Regulations, 2017. Some of the most notable strategies in this legislation to ensure the fly-fishing sector remains a responsible tourism product include requiring anglers to purchase licenses, and all guides to be trained. The training program which adheres to the legislation was developed as a sustainable fly-fishing certification, which instills environmental principles in the training of novice fly fishing guides.

The development of The Bahamas National Park Network has significantly aided in the promotion of nature-based tourism activities in The Bahamas. The Inagua National Park, Andros Westside National Park and the Exuma Land and Sea Park; has facilitated birding tourism, fly fishing, and snorkeling. These activities have allowed local communities in The Bahamas especially those in the Family Islands to develop tour companies, and small lodges.

To facilitate the growth of ecotourism and leverage both environmental and social sustainability to improve the living standards of local communities, The Bahamas government has developed several programs to train Bahamians in various aspects of ecotourism. Two of the most recent trainings were in the fly fishing sector with the Fly-Fishing Economic Empowerment Program (FFEEP) and the bird tourism sector with the Bird-based tourism training program.

The Bahamas Ministry of Tourism and The Bahamas Technical Vocational Institute are currently training novice guides under the Fly Fishing Economic Empowerment Program, which is aimed at increasing the business acumen of current guides and training new guides.

The Bahamas National Trust and the Audubon Society, in collaboration with The Bahamas Ministry of Tourism with funding from the Inter-American Development Bank (IDB), trained bird guides on the islands of Andros and Inagua. The Bahamas Ministry of Tourism played a pivotal role in developing a marketing strategy to generate business for these newly trained guides.

The Bahamas Government invested \$100,000 to develop a review entitled 'Clifton Rising' (Campbell 2019). This review introduced new experiential tours called 'Portals from the Past'. The tour is intended to reflect three different eras of Bahamian history; Lucayan Amerindians, the Loyalists, the African slaves and the free black the free black Loyalists at Clifton Heritage National Park. The Clifton Heritage National Park is located on the western side of the island of New Providence. Managed by the Clifton Heritage Authority, Clifton Heritage National Park was established in June 2004 to preserve this important area for the use and benefit of the people of The Bahamas. The Park officially opened its doors in April 2009.

The park also features an underwater sculpture garden, the main piece being Ocean Atlas (figure 11). Visitors can snorkel from the shore to the sculpture garden. The garden was established in collaboration with the Bahamas Reef Environment Educational Foundation (BREEF). The sculpture garden is also used as a coral propagation site where endangered staghorn and elkhorn corals are grown to replenish reefs in the nearby areas. Furthermore, the government invested 24 million dollars to commence the development of a Lucayan Village at the Clifton Heritage site. The village will be an interpretative center that will display in detail the everyday living of the first inhabitants of The Bahamas.

Another cultural heritage site that has been the focus of government's attention has been the Hermitage at Mount Alvernia on the island of Cat Island. The site is an old Catholic Monastery built at 206 feet above sea level, the highest point in The Bahamas. The site was built in 1939 by Monsignor John Hawes, a Roman Catholic priest. Antiquities, Monuments and Museums Corporation (AMMC) was developed to oversee and provide expert advice on the development and restoration historical sites in The Bahamas. The Corporation provide technical support and has aided in site restoration projects throughout the Bahamas. Most notably, AMMC assisted in the development of a historical re-enactment of the Fort Charlotte battles where visitors can witness a mock fort battle scene. Visuals of these historical monuments and shows can be seen in various tourism ads, promoting more than just sun, sand and sea but the rich culture of The Bahamas.

Figure 11
Ocean Atlas at Clifton Heritage Site, Nassau, Bahamas



Source: <https://www.thisiscolossal.com>.

Other attractions include the Abaco National Park and the Crab Replenishment Reserve (The Islands of the Bahamas, 2018). The government has provided incentives for the development of eco-tours and the provision of ancillary services, including food and beverage provision for these tours. Crucially, there is a major thrust in attracting local investment in this sub-sector to spread the gains from the industry to local communities.

Figure 12
Ocean hole blue hole in Eleuthera The Bahamas



Source: [Tripadvisor.com.nz](https://www.tripadvisor.com).

Belize has been actively pursuing eco-tourism and adventure tourism as important areas of product diversification. Eco-tourism entails responsible travel to natural areas that centres on enjoying these areas, conserving the environment, sustaining the well-being of local people and involves education and interpretation of the reality in these areas (International Eco-Tourism Society, 2018). The country views eco-tourism as enabling it to pursue three clear goals:

- (i) The integration of the tourism product with the natural and cultural environment in a sustainable way for the long-term benefit of the society
- (ii) The ability to better develop linkages with agriculture and other sectors in communities surrounding the eco-sites and trails.

Meanwhile, **Saint Kitts and Nevis** is diversifying into culture and heritage tourism, cruise and dive and yachting tourism. The country is seeking to leverage its history and heritage sites to promote this sub-sector. These include the fact that Saint Kitts was the first island to be settled by British in the Eastern Caribbean. An inventory has been developed of 250 sites. The islands have developed eco-tours around clusters of sites, including the Brimstone Hill Fortress National Park, a World Heritage site and Romney Manor in Saint Kitts and the Botanical Gardens and Bath Springs in Nevis: the inspiration for the development of the Bath Hotel, the first luxury hotel built in the West Indies in 1778.

There has been a heavy thrust into the cruise subsector, which has grown rapidly, with Saint Kitts and Nevis receiving one million cruise visitors in 2018. Saint Kitts is constructing a new cruise pier at Port Zante to host Oasis class ships, the largest cruise ships in the world. In December 2018, the MS Symphony of the Seas, the largest cruise ship in the world, owned by Royal Caribbean International made its inaugural visit to the Caribbean, with Saint Kitts being its first Port of call. The ship can accommodate up to 6,680 passengers and 2,200 crew members.

However, there are concerns regarding the rapid expansion of the cruise subsector in a small destination with limited carrying capacity. This implies a very high cruise passenger to local population ratio, and given the relatively low spending among cruise visitors, a robust assessment needs to be undertaken of the net return to the islands from this growing sector.

The three countries have also prioritized **market diversification** to reduce the risks of shocks to the sector from reduced demand in major markets. The **Bahamas** has widened its market reach in the United States, with increased airlift from states such as California, Texas and Atlanta. Also, the Bahamas is the only Caribbean country with a hub at Heathrow in London. The country is also diversifying in Latin America, with Copa Airlines providing four flights per week facilitating multi-generational travel. Particularly with the opening of the Baha Mar, the country is striving to attract Chinese visitors, who are the leading spenders by value in world tourism. Similarly, **Belize and Saint Kitts and Nevis** are also focusing on attracting more visitors from the United States. Belize has attracted additional flights from hubs such New York and Los Angeles. The country has also attracted Copa Airlines, which should boost arrivals from Latin America. Saint Kitts and Nevis is also trying to increase its presence in the US market, which accounts for over 65% of its arrivals. To limit the decline in occupancy in the slow season, nine hotels in St. Kitts offer a 'summer sunsation' getaway that provides guests with three free nights and other perks when they visit during this time.

A crucial consideration for the three countries in assessing their upgrading strategy is evaluate the relative importance of the four modes of trade in services. Arguably, the three countries, like the wider Caribbean, have not paid enough attention to modes of supplying tourism services other than

consumption abroad.¹¹ However, cross-border supply,¹² the establishment of Caribbean businesses¹³ in countries abroad and temporary movement of natural persons, for example to work on cruise ships and in hotels abroad are also critical. The reality is that ownership and FDI is a two-way process, and in the same way that the region has been active in attracting business owners and FDI, it needs to promote its own out-bound businesses and FDI.

¹¹ Consumption abroad under the General Agreement on Trade in Services (GATS) of the WTO refers to the consumer (tourist) moving to a country abroad to consume a range of tourism services such as accommodation, food and tours of historical sites.

¹² Cross border supply refers to the supply of tourism services without the physical movement of the service provider or receiver. The service is provided through media such as the telecommunications or postal services, for instance, online bookings and tour packages.

¹³ Commercial presence refers to the case where a Caribbean tourism firm establishes an affiliate or office in a foreign country, for instance the United Kingdom.

VIII. Results of the survey of tourism operators and policymakers

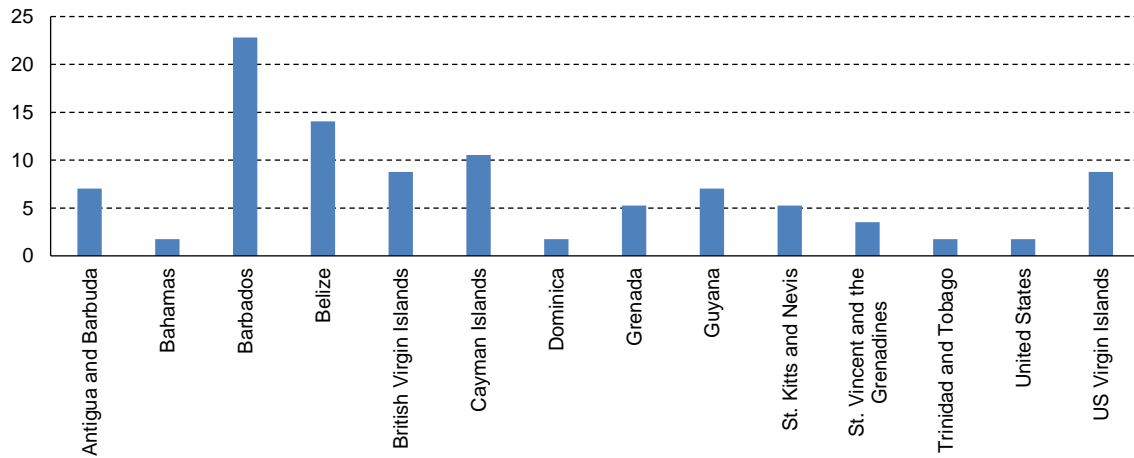
Given the shortage of secondary data that could clearly indicate the actions and strategies that the targeted countries and the wider Caribbean have taken to upgrade and diversify their tourism industries, two surveys were conducted to collect primary data and information. The first was a survey of operators of tourism businesses, including hotels, dive operations, marinas and tour operators. The second was a survey of policymakers to gauge the focus of policies and action plans to enhance upgrading and diversification in the sector. The survey suffers from certain limitations including the lack of a random sample frame that precludes generalizing the results and a relatively low response rate. Also, the limited number of responses from individual countries meant that the results had to be aggregated across the Caribbean to get useable results. Nevertheless, the findings provide some broad, tentative indications, actions and strategies that facilitate upgrading and diversification in the sector in the region. It is expected that given similarities in the industry across countries, a number of the results are partly applicable to the three case study countries.

A. Results of the survey of tourism operators/businesses

Tourism operators or businesses are key stakeholders in the development and sustainability of the tourism industry across the Caribbean. Therefore, understanding their perspectives is essential to gauging developments in upgrading and diversification of the industry. In order to obtain information on their perspective, an online survey was distributed to a broad spectrum of members by the Caribbean Hotel and Tourism Association along with members of the national associations from 13 countries. The survey was distributed electronically to tourism operators comprising of hotels, restaurants, transportation services, dive businesses, tour operators, marinas, distributors, and tourism service

providers. The survey was completed by 57 participants from 14 countries with an overall response rate of approximately 10% (see figure 13 below).

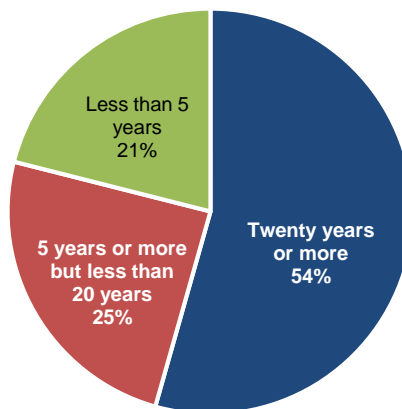
Figure 13
Operators by Country of Participation



Source: Survey of Tourism Operators.

Of the 57 completers, 26 (45.6%) were female. Positions of the survey participants primarily comprised of managers (26.3%), general managers (22.8%), directors/chairpersons (22.8) and owners (10.5%). Other positions with lower representation included attorney at law, chief executive officer, customer representative, senior vice president, owner, manager, senior vice president, president, principal and programme administrator. Hotels (50.9%) made up the bulk of businesses/ operations represented in the survey followed by the 'Other' category (35.1%), Restaurants (19.3%), Transportation (12.3%), and Dive businesses (7.0%). The 'Other' category comprised of a variety of businesses including an advertising agency, tour operators, a marina, hospitality law, industrial security, marine electronics service company and retail operation.

Figure 14
Number of years business has been in operation
(Percentages)



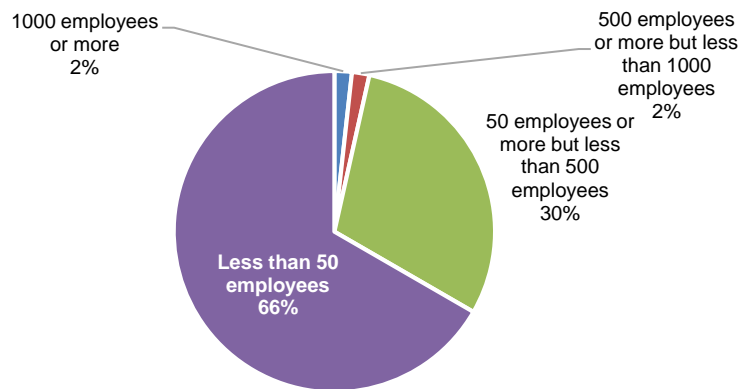
Source: Survey of Tourism Operators.

Most businesses (54%) were in operation for over twenty years or more (see figure 14 above). This suggests that most businesses have met with some degree of success as they have remained in business.

Also, 66% of operators were small businesses comprising of 50 employees or less, which highlights that most businesses in the sector, as for other activities in the region, are small operators (see figure 15 below).

In an effort to upgrade their product/service offerings, most businesses (97%) reported that they will be giving priority to improving the quality and competitiveness of their current product offering in the next 1-5 years with 91% planning to give it either high or very high priority. Businesses/ operations offering recreation and accommodation appear to give such improvements higher priority relative to other business groupings. Arguably, this partly reflects the relatively heavy weighting given by tourists to high quality accommodation and recreational experiences to their overall comfort and enjoyment of their vacation experience. This demands that hotels and guest houses and tour operators constantly update and match their product offering with the preferences of tourists to remain competitive. The survey indicated that businesses were most interested in improving the quality of products/ services offered followed by strengthening administration and operation processes. This was consistent across the various types of business/ operation and country.

Figure 15
Number of employees at your business/ operation
(Percentages)



Source: Survey of Tourism Operators.

It is well acknowledged that the efficiency and effectiveness of the general business environment, including the ease of doing business and the quality of support services can be an important constraint or catalyst for upgrading, diversification and overall competitiveness in tourism. Nevertheless, the survey found that generally, participants expressed a high degree of displeasure with the quality of support services in the country in which their business operated. In particular, the proportion of participants indicating that the quality of 'agriculture and agro-processing' and 'government support services and processes' was of low or very low quality was 64.9% and 59.6%, respectively (see table 7 and figure 16 below). Although the sample size is relatively small, if these results apply on a wider scale across the region, this is a cause for concern. In fact, in-person and telephone interviews with a number of hotels, other operators and policy officials in the selected countries highlighted the lack of standards, consistency of quality and regularity of supply of fruits, vegetables, fish and other products from the

agricultural and fisheries sector. This no doubt is an important constraint on the region's ability to strengthen linkages between tourism and agriculture for to increase the tourism multiplier and spillover benefit to communities in the region.

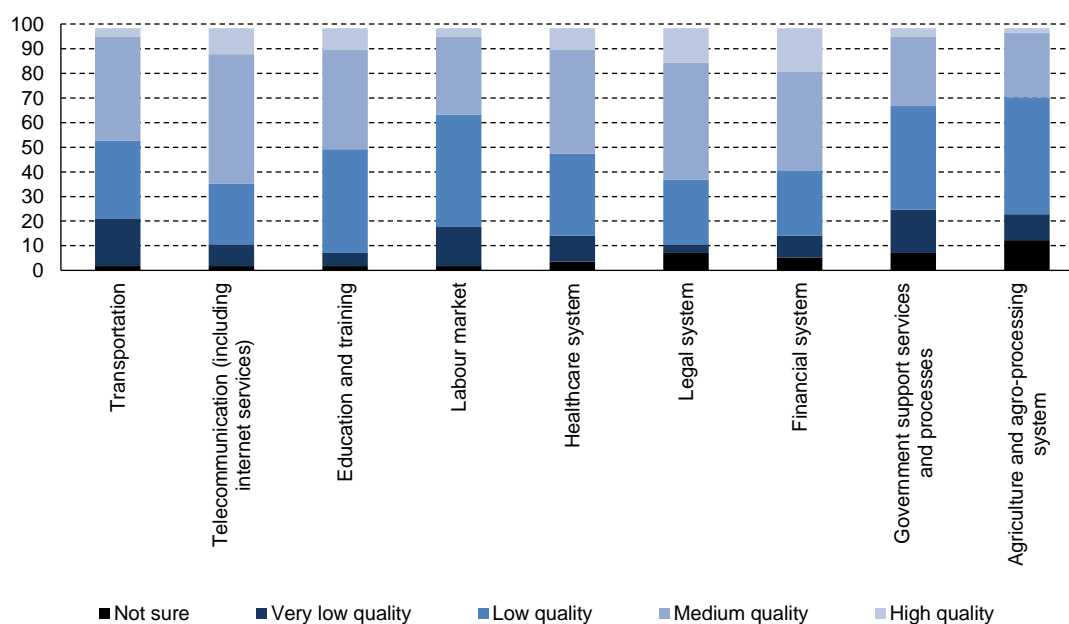
Telecommunication and Financial services fared better relative to other categories as 63.1% and 57.9%, respectively considered it to be of medium or high quality.

Table 7
Participants ranking of the quality of support services in their country of operation

	Not sure	Very low quality	Low quality	Medium quality	High quality
Transportation	1.8	19.3	31.6	42.1	3.5
Telecommunication (including internet services)	1.8	8.8	24.6	52.6	10.5
Education and training	1.8	5.3	42.1	40.4	8.8
Labour market	1.8	15.8	45.6	31.6	3.5
Healthcare system	3.5	10.5	33.3	42.1	8.8
Legal system	7.0	3.5	26.3	47.4	14.0
Financial system	5.3	8.8	26.3	40.4	17.5
Government support services and processes	7.0	17.5	42.1	28.1	3.5
Agriculture and agro-processing system	12.3	10.5	47.4	26.3	1.8

Source: Survey of Tourism Operators.

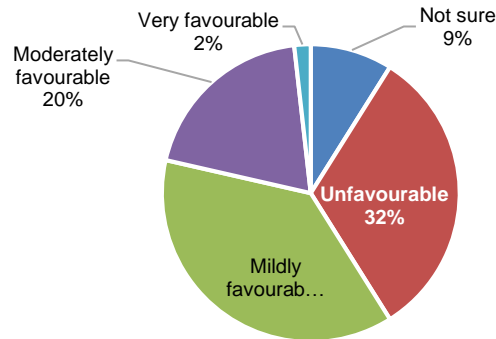
Figure 16
Participants ranking of quality of support services in country of operation
(Percentages)



Source: Survey of Tourism Operators.

Favorability of the incentive framework (e.g. tax breaks and subsidies) in the country of operation was particularly low with only 22% considering it as moderately or very favorable (see figure 17 below). No participants representing restaurants reported moderate or high favorability towards the incentive framework. Results were slightly better among those representing hotels and the transportation sector with 34.5% and 28.6% expressing moderate or high favorability of the incentive framework in their country of operation.

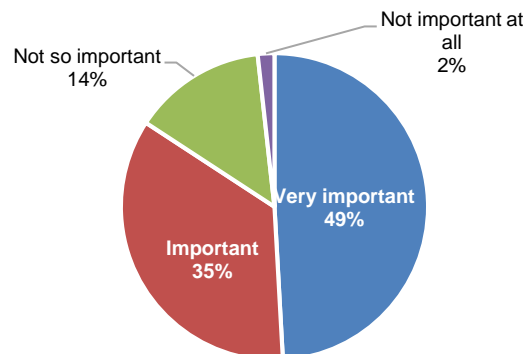
Figure 17
Participants view of the favourability of the incentive framework
(Percentages)



Source: Survey of Tourism Operators.

Diversification of the tourism product was also of great importance to participants as 84.2% indicated it was either important or very important to the success of their businesses. Results were similar when disaggregated by country or type of business/ operation (see figure 18 below). Further, 75% of these participants indicated that they intended to offer new products/services within the next 1-5 years. This high percentage of participants who consider diversification as essential to their business success, especially if it applies even more widely across the region, is a welcomed development as the recent literature on upgrading in global value chains in successful firms indicates that diversification into more skill-intensive, sophisticated, unique or customized product or service lines is critical for sustained competitiveness (Mercato and Baltar, 2017 and Kowalsi et. al., 2015).

Figure 18
Participants view of the importance of diversification to success of their business
(Percentages)

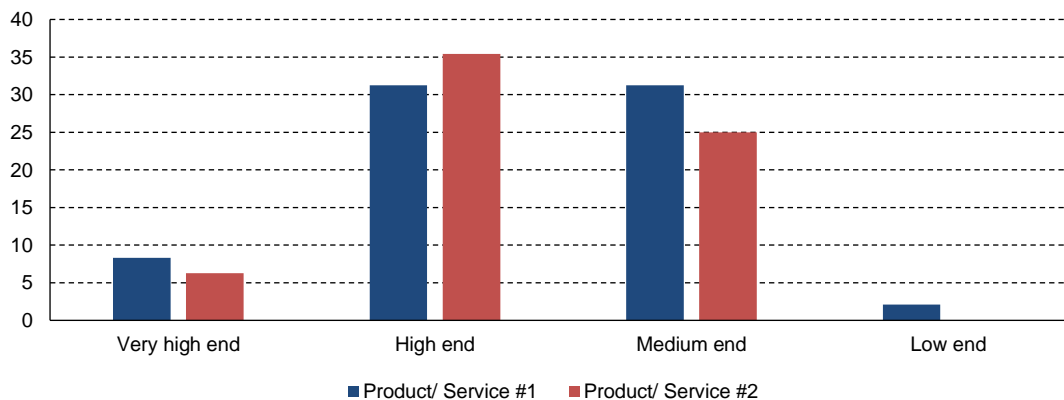


Source: Survey of Tourism Operators.

When asked to name two new product/ service offerings expected to be introduced at their business/ operation within 1-5 years, 73 percent named at least 1 product/ service (see figure 19 below). Most of the reported products/ services were high end or medium end. For the first product/ service, 62.6% were high end or medium end and for the second product/ service, 60.4% fell into those two categories.

Eleven (22.9%) businesses/ operations across 8 countries indicated that diversification of their tourism product/ service was at least important to the success of their business, but were not sure they would introduce new products/ services within 1-5 years. All but one of these businesses were at least 5 years in operation and half had less than 50 employees. Only 1 business, indicated that diversification of its product/ services was unimportant to the success of its business.

Figure 19
Participants rating of the quality of new products they plan to introduce in next 1-5 years

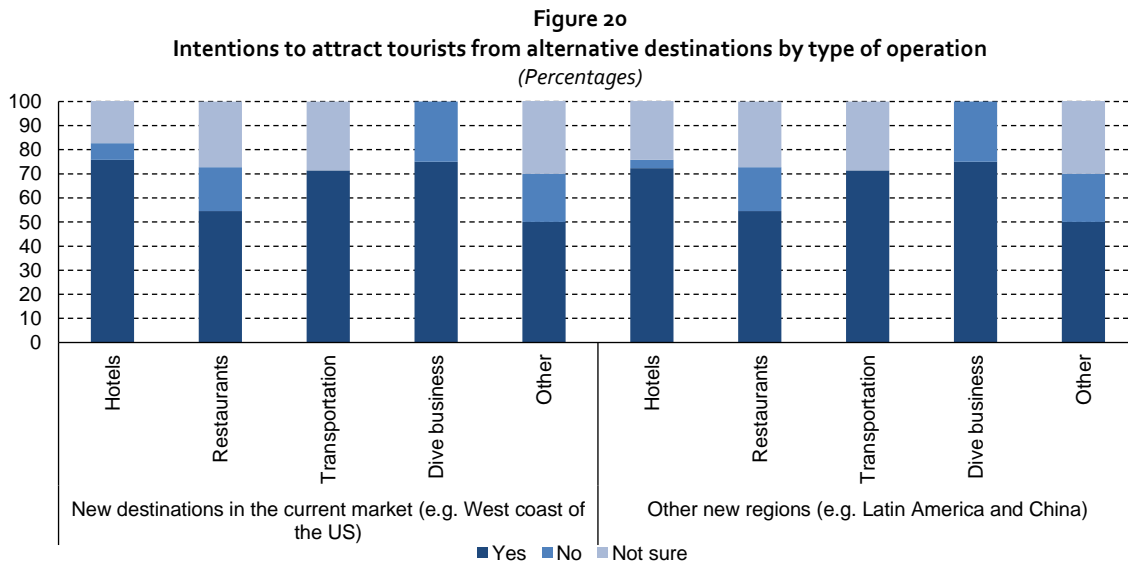


Source: Survey of Tourism Operators.

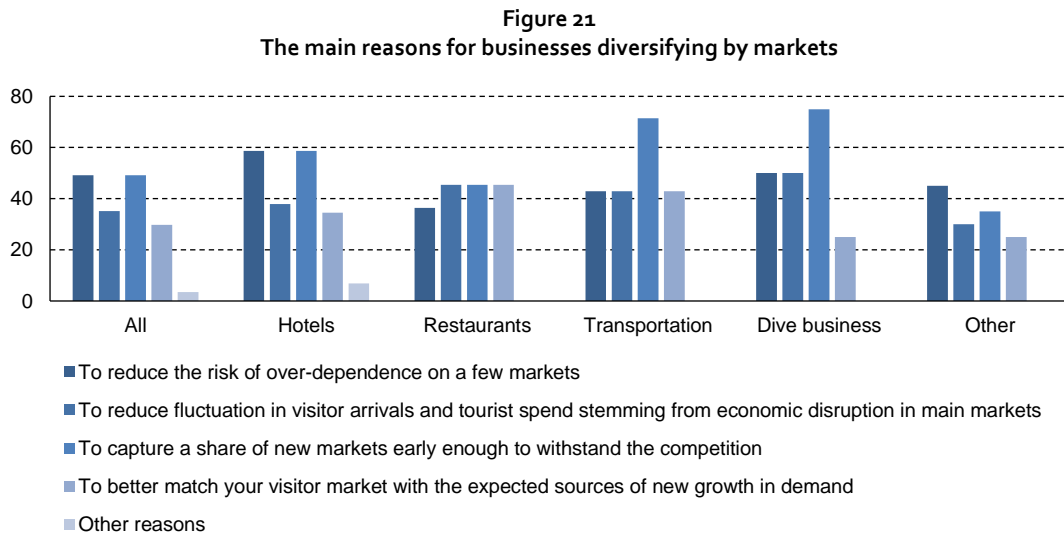
Although there was lower than expected interest expressed in improving current products and the importance of product diversification, there was a strong interest (64.4% for each category) in attracting tourists from new destinations in the current market (e.g. West Coast of the US) and from other new regions (e.g. Latin America and China) within 1-5 years (see figure 20 below).

This interest in attracting tourists from new destinations in the current market was particularly high among hotels (75.9%) and dive businesses (75%) (see figure 20 below). Similarly, interest in attracting tourists from other new regions was high among hotels (72.4%) and dive businesses (75%).

The most common reasons why businesses wanted to engage in such diversification was to reduce the risk of over-dependence on a few markets and to capture a share of new markets early enough to withstand the competition (see figure 21 below). The main factors noted that would best contribute to the success of their business/ operation in diversifying into current markets or new regions were improved airlift followed by increased spending by the government on marketing and promotion. Results were consistent when disaggregated by type of business/ operation.



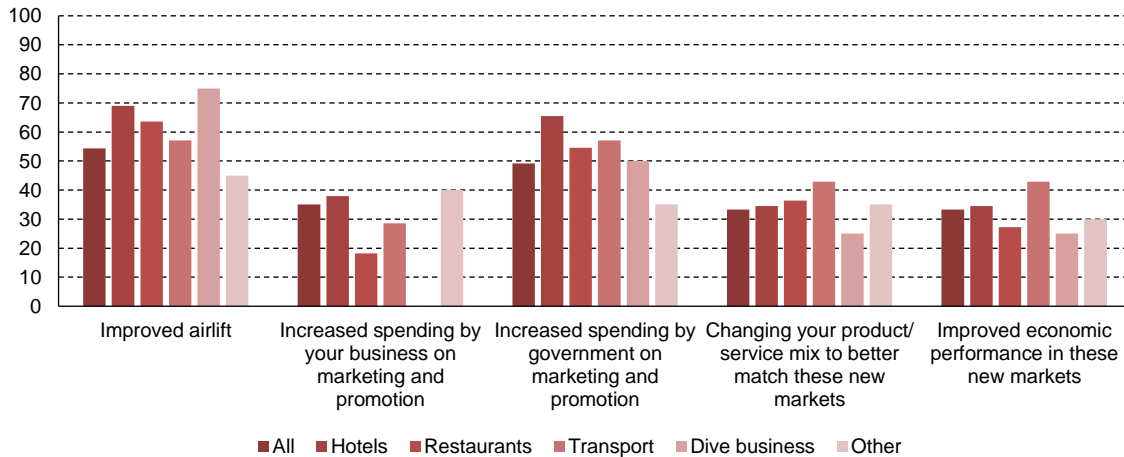
Source: Survey of Tourism Operators.



Source: Survey of Tourism Operators.

Hotels, restaurants and other businesses indicated that the main factors contributing to successful diversification in current markets or new regions was improved airlift (see figure 22 below). This suggests that current efforts to increase airlift to the region need to be strengthened, including assessing the disincentive effects of high air travel taxes and fees, which could lead to lower tourist spending in the region (Jamaica Observer, 2018). Increased spending on marketing and promotion was also deemed quite important for diversification, especially by hotels and transport companies.

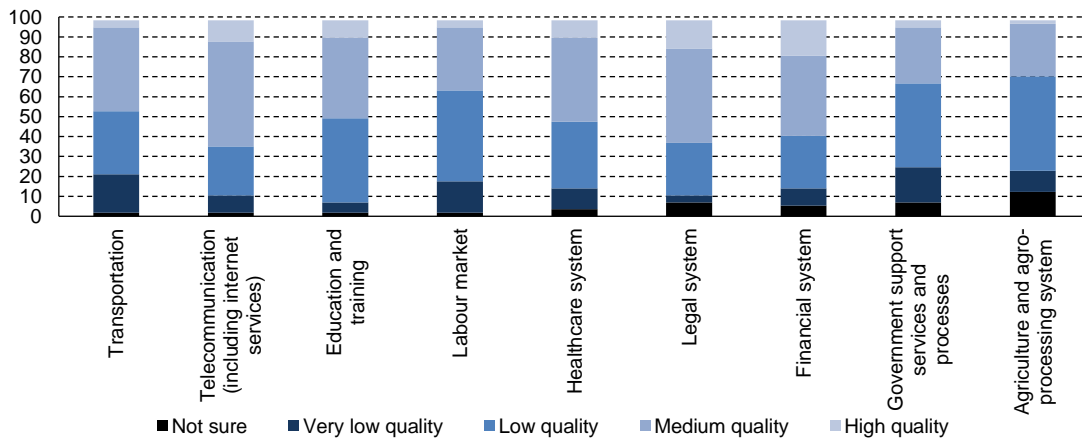
Figure 22
Factors that contribute to successful diversification of business operations



Source: Survey of Tourism Operators.

Businesses expressed concern about different aspects of the support services for the tourism sector. Over 50% of the participants thought the transportation system was of very low or low quality, while a third thought the same of the telecommunications system (see figure 23 below). If these results reflect widespread sentiment across the region, they are a major cause for concern, which needs to be addressed by regional governments to create a more facilitatory business environment. Further, over 42% of participants thought the education and training system and government support services were of a low quality, which again are causes for concern.

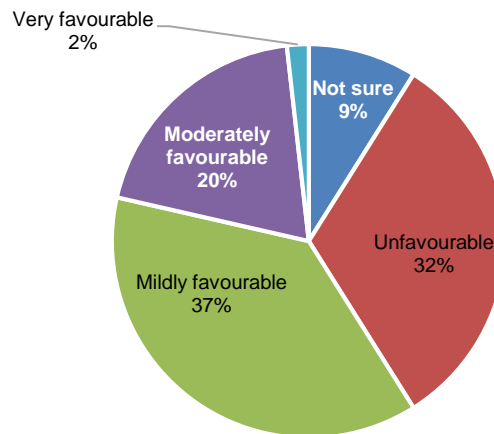
Figure 23
Operations evaluation of the quality of support services
(Percentages)



Source: Survey of Tourism Operators.

Meanwhile, 37% of businesses thought the incentive framework, including tax breaks and subsidies was mildly favourable, 32% unfavourable and 20% moderately favourable (see figure 24 below). Notably, only 1.8% thought it was very favourable. This is interesting, since the Caribbean has often been noted for its favourable incentives for the tourism sector, especially for large hotels. Apparently, this appears not to be the view of many businesses in the sector.

Figure 24
Participants views of the incentive framework
(Percentages)



Source: Survey of Tourism Operators.

B. Results of the survey of policymakers

In order to establish the efforts made by Caribbean governments to upgrade and diversify the tourism industry in their respective countries, a survey was distributed to senior level government officials working in the Tourism industry across the region. Altogether, twenty-two senior level government officials received the survey. The participation rate in the survey was relatively low at 50.0%, comprising 11 participants. However, of the 11 participants, two failed to complete most of the survey. Therefore, nine participants (40.9%) fully completed the survey. Therefore, the findings are tentative.

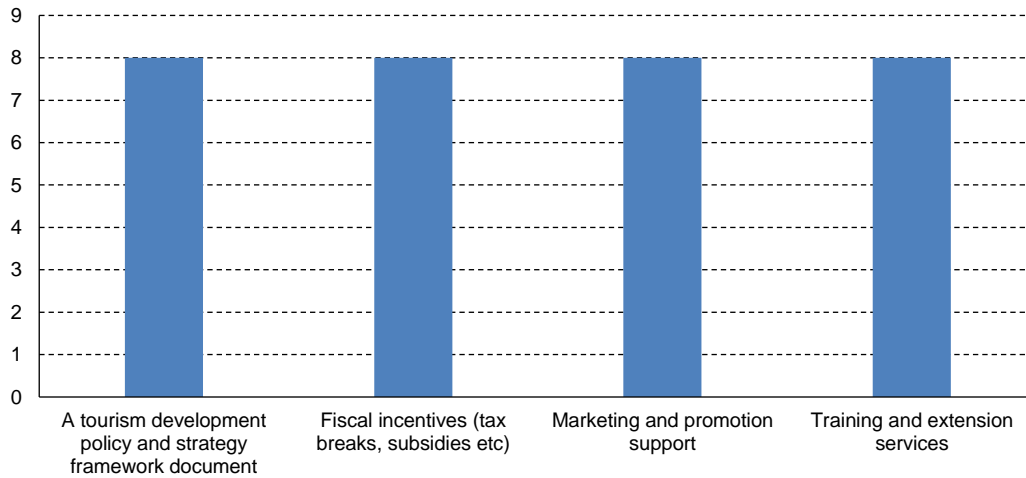
Most participants (77.8%) indicated that their government's main policy instruments to facilitate the upgrading of the tourism industry in their country comprised of a tourism development policy and strategy framework document, fiscal incentives, marketing and promotion support, training and extension services, and improving the business environment or the ease of doing business, and infrastructure upgrades (see figure 25 below). One country reported that its main policy instrument comprised of all of the above policy instruments excluding a tourism development policy and strategy framework document while another was focused on developing a tourism development policy strategy and framework document.

Four participants (45%) reported that their government's policy and strategic framework for the development of the tourism sector was very effective. Three participants (33%) considered their government's policy and strategic framework to be moderately effective. Meanwhile, one participant each felt that their government's strategy was slightly effective, or not effective at all.

Meanwhile, the majority of policymakers felt that the incentive framework was moderately effective, which indicates that there is room for improvement in order to facilitate the competitiveness of the sector.

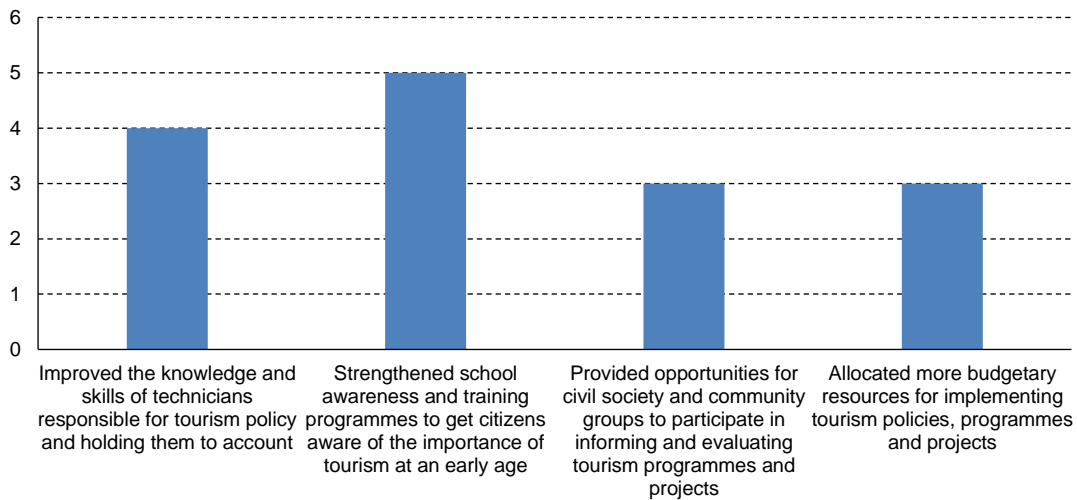
The majority (5) of the participants indicated that the government used strengthened awareness and training programmes in schools to mainstream their tourism policies and strategies (see figure 26 below). This is an important result, especially if it can be applied widely across the region, as it is important to get students interested in participating in the sector at an early age, so that they could study the subject -for the Caribbean Advanced Proficiency Examination (CAPE).

Figure 25
The main policy instruments used to facilitate the upgrading of the tourism sector



Source: Survey of Tourism Operators.

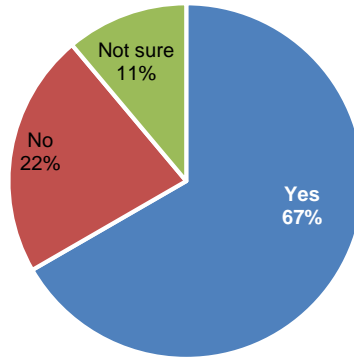
Figure 26
Ways in which government mainstreams tourism policies and strategies in development process



Source: Survey of Tourism Operators.

Six participants (67%) indicated that their government has established standards and certification for the sector (see figure 27 below). This is a welcome development, particularly if this reflects the situation across the wider region, as standards and certification are key markers of business goodwill, especially in today’s digital age.

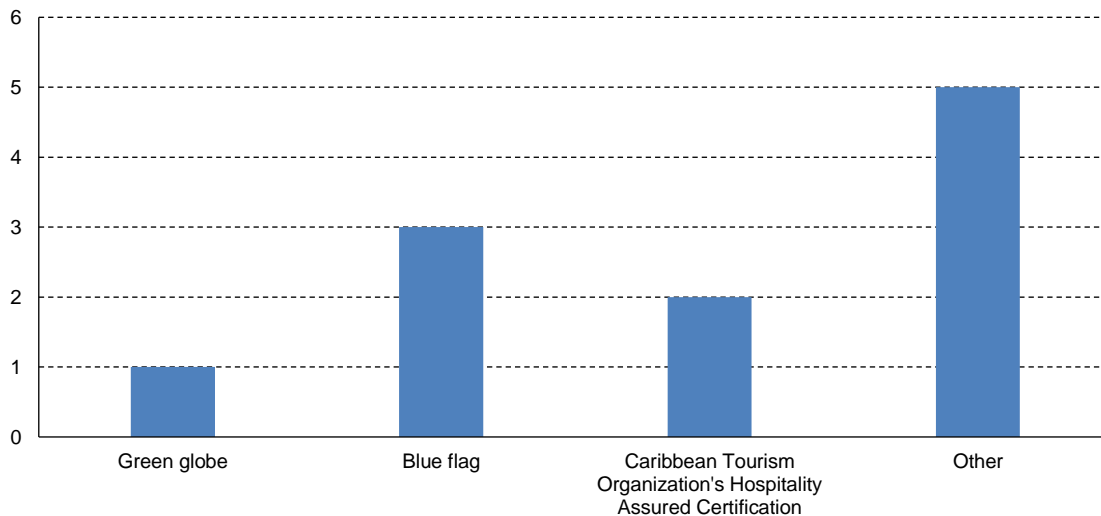
Figure 27
Percentage of participants indicating that their government has established standards and certification in tourism
(Percentages)



Source: Survey of Tourism Operators.

With respect to the standards and certification, one participant reported Green Globe certification, which is the world’s leading certification for sustainability of hospitality operations, including areas such as energy conservation, and preservation of natural and cultural heritage, among other areas (see figure 28 below). Green Globe entails 44 core criteria with over 380 compliance indicators (Green Globe, Wikipedia, 2018). Three countries reported Blue Flag certification for beaches and marinas. Two countries had CTO’s Hospitality Assured certification and 5 had other standards and certification.

Figure 28
Standards and certifications established by governments



Source: Survey of Tourism Operators.

Six participants (67%) indicated that government had provided extension services to help tourism operators improve their quality of service; the same number indicated that they received assistance to integrate their product development and marketing to provide a better match over time. This is critical for upgrading in the sector.

When asked to state the ways in which product and market integration is done, participants reported a number of ways. Key ways include joint planning, a National Tourism Consciousness Programme, the use of social media to advertise the tourism product, and the use of two overlapping agencies for the two activities which coordinate their actions.

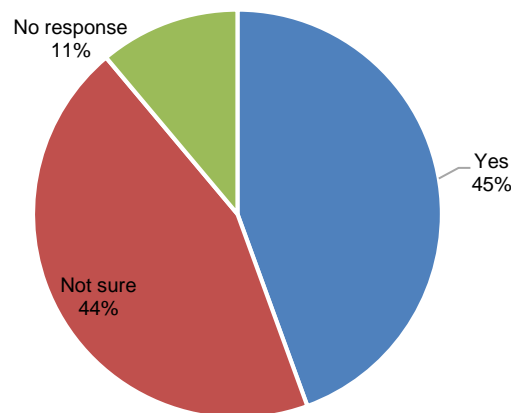
With respect to diversification of the tourism product, 5 participants indicated that their countries gave it moderate priority, while for 4 it was a high priority. Further, 8 participants (89%) indicated that they intended to facilitate the development of new tourism products/services in the next two years. This is a welcomed development given the maturing nature of the product in many islands in the region.

Countries' diversification plans included the development of historical sites and parks; entering new markets such as China and Japan; the use of big data analytics to inform strategic planning and marketing; the development of a 'Family branded hotel' that would integrate better with the community; the development of a Geo Park; the development of an eco Park and agro-tourism; and also the dive, weddings and the honeymoon market.

An important area of concern was that only 40 or 45% of respondents were sure that government's tourism development strategy gives a high priority to facilitating innovation among tourism businesses (see figure 29 below). This is a cause for concern, especially if the survey is fairly representative of the wider region, as innovation is key to product and process upgrading in the sector and the ability of the region to recover its competitive edge.

Participants indicated that governments used tax incentives, training and grants to promote innovation among tourism businesses.

Figure 29
Priority given by government to support for innovation among tourism businesses
(Percentages)



Source: Survey of Tourism Operators.

IX. Recommendations for enhancing upgrading and diversification in tourism in the selected countries

Although the three countries and the wider region have made some progress in upgrading and diversifying their tourism sectors, there are still significant challenges and gaps that limit the competitive and sustainable development of the sector. This section of the study provides recommendations that are considered necessary for advancing upgrading and diversification paths in the sector.

A. Integrate upgrading and diversification strategies into overall tourism development plan for consistency of policies and actions

The three countries should update their upgrading and diversification plans and strategies to ensure that they are fully consistent with and well-integrated into their overall tourism development strategy. This could make for a 'whole of system' approach to the sector which highlights areas where projects and programmes are not working in harmony, with the overall policy. For instance, the two-tiered incentive framework- one for local and the other foreign investors in the sector, might be stymying the development of dynamic local businesses. Further, a well-embedded tourism development strategy would provide greater clarity in prioritization of areas for investment by the state in providing necessary infrastructure; and reforming its incentive framework for the sector. In addition, it would provide clearer signals that could incentivize private investors to target high value added, more sophisticated segments of the tourism value chain.

B. Create an updated product and process development strategy and implementation plan

Overall, it is recommended that the countries develop integrated 'Tourism Master Plans/Strategies' to address the rejuvenation of the existing tourism product and the creation of new products. This should incentivize private investment and PPPs where possible to boost the development of the required skills, expertise and factors required to deliver a competitive, high quality, authentic and sustainable visitor experience that redounds to the benefit of businesses and local communities. As strong emphasis should be placed on practical process innovations The following specific actions are recommended:

- (i) Tourism businesses should undertake a major **product upgrading** programme to create a more modern and fresher product that matches the preferences of the more discerning tourist of today. Importantly, the product development programme should be guided by firms' market development and branding strategy, which should be informed by up to date market research on trends in consumer preferences. This is essential to ensure that changes in the tourism product match changes in consumer demand, for instance, the increasing trend of millennials seeking tailored, hands-on authentic experiences such as farm tourism. The question is how can this be done? It is proposed that hoteliers, owners of attractions and other tourist businesses would have to budget resources for their product upgrading programmes. This should be seen as investment in improving or maintaining their competitiveness and not just as costs. Governments and donor agencies should also contribute in areas such as market research and training.
- (ii) Private businesses in the accommodation, other food and beverage establishments and recreation, entertainment, attractions and other facilities should invest in upgrading and modernizing their plant to make them more attractive to the more demanding high-end visitors. In keeping with evolving trends, properties should consider using creative designs and themes such eco-friendly, natural, open and minimalist designs, where relevant. Further, since the countries are prioritizing cultural, heritage and eco-tourism, businesses and governments should invest in renovating attraction sites, including providing digital facilities for relaying the history and importance of the sites. This would make for more memorable experiences. Also, the ministries of tourism, should commission studies to determine the carrying capacity of sites to determine optimum visitor numbers over a period of time to reduce damage to them.
- (iii) Human capital upgrading is essential for product development as the industry is highly personal and depends heavily on 'soft skills' such as communication, multi-tasking, empathy, friendliness and the ability to work well under pressure. At the subregional level, Caribbean governments should establish harmonized standards and certification for training in the tourism sector. Education and training at universities and vocational institutes in the region should meet international benchmark standards in the industry, while addressing the specific skills and knowledge gaps that exist in the region. More hotels should work with international training institutions such as the American Hotel and Lodging Education Institute (AHLEI) to provide joint training for their staff, using a cost sharing framework where necessary. In addition, tourist businesses, including hotels, tour operators and entertainment operators need to carry out rigorous audits of the skills and competencies of their workers to evaluate how these match the product/service requirements of their target market, and eliminate gaps in service in order to meet or exceed the expectations of their guests.

- (iv) Disruptive technology will continue to be a major driver of competitiveness in tourism. Therefore, governments in concert with the private sector in the three countries should develop a 'technology adoption and adaptation strategy' for the sector. This should be guided by an overarching plan at the regional level. The strategy should provide incentives (e.g. tax credits and subsidies) and training for tourism businesses, marketing and promotion agencies in the use key digital technologies, including big data, AI, virtual reality, the internet of things and bitcoin technology. Businesses should use these technologies to help in creating unique bundles of services that are tailored to specific tourist groups. In addition, they should be used to increase the efficiency of processes such as guest check-ins and troubleshooting problems on and off the property.
- (v) The survey of operators indicated that policymakers are not paying enough attention to facilitating innovation in the sector. Given the critical importance of innovation to the quality of the tourism product, policymakers need to work more closely with businesses in the sector to promote innovation. This could be done through awards and targeted tax breaks or credits for the most innovative businesses.

C. The countries should implement a coordinated programme of social upgrading

Social upgrading should be actively promoted by a mix of incentives for improving the skills and expertise of workers in tourism and for continuous learning. This should include encouraging employers, including hoteliers and other operators to provide adequate time-off for persons undertaking training to upgrade their skills. In addition, more opportunities should be provided for local persons with the requisite skills and experience to be promoted to managerial and supervisory positions. Also, more exchange assignments should be provided to Caribbean managers and technicians in the hotel and other sectors to enable them to update their skills by working in well-established properties abroad.

D. Develop a diversification programme based on the development of new products and product mixes and the search for new markets

- (i) Tourism product and market diversification strategies should include a careful analysis of the prior requirements for successful entry into new product and market niches. Without such a strategic approach, these efforts are not likely to succeed. For instance, the countries promoting eco-tourism first need to undertake a full mapping of the key eco-tourism sites and resources and what specifically they can offer the tourist. Also, there is a need to determine how the local community can benefit and how the sites can be preserved. Without this prior assessment and planning, eco-tourism and other niches are not likely to contribute to economic, environmental and social upgrading in the sector.
- (ii) Market diversification efforts in the three countries need to give greater priority to removing bottlenecks to travel by visitors from non-traditional areas. Important areas to address include simplifying the visa application process to facilitate travel from Latin America, Russia and China. The region needs to revisit the Single Domestic Space Agreement that was used during the 2007 ICC Cricket World Cup to facilitate multi-destination tourism in the region. Strengthened language and cultural awareness training that would enable the countries to provide relevant and targeted advertising and promotion in these countries is another priority.

- (iii) The countries also need to develop policies and incentives to facilitate diversification into new modes of trade in tourism services along the value chain, including cross-border supply, commercial presence in key markets and the movement of natural persons. The region needs to scale-up investment in ICT and high quality training and to facilitate the development of enterprises, including its own online agents, providers of international tourism consultancy services and skilled persons who can obtain senior and managerial positions on cruise ships that operate in the region and abroad. There is also the need to reform the business environment, including the ease of doing business and to invest in entrepreneurship training to nurture new adventurous businesses that could take Caribbean branded enterprises, including hotels, food and beverage companies and tour operators into the United States, Europe and other major markets.

E. Develop an integrated strategy to strengthen linkages with other sectors

The countries should improve the incentives and extension services for suppliers in the agriculture, handicraft and creative industries to enhance their capacity to supply products and services to the tourism sector of a high quality and on consistent basis. This would also require strengthened relations with tourism businesses, including hotels and restaurants to share information on the what products they require and the standards and quality that must be met. In agriculture in particular, farmers need to make better use of ICT to record and match demand from businesses with their supply.

X. Conclusion

This study used a mixed methods approach to evaluate the effort of the Bahamas, Belize and Saint Kitts and Nevis to upgrade and diversify their tourism sectors. The study entailed the use of a survey, which was conducted across the Caribbean, owing to the difficulty of getting sufficient responses from the three countries. Nevertheless, the response rate was relatively low. However, the 57 responses for the operator's survey and the nine responses for the policymakers survey still provided some insights into views of persons directly engaged in the sector on their strategies, actions, constraints and opportunities.

With respect to the approaches that the three countries are taking to upgrade the sector, their plans and actions indicate the main focus is on product and process development and marketing and promotion. Tourism businesses, including hotels and restaurants are focusing on updating and modernizing their plant to improve their attractiveness to the more discerning modern traveler. In addition, many operators are accessing standards and certification programmes such as Hospitality Assured, Blue Flag and Green Globe to inform their customers that they meet international standards and can expect certain levels of service and experience. In the three countries, there are hospitality training institutions that provide important academic and to arrange internships training for persons entering the industry. Nevertheless, these institutions need to improve their programmes to make them more practical and relevant to a fast-changing sector. This is crucial as the survey of operators indicated that 42% of respondents thought the education and training services were of a low quality.

The countries have also been trying to increase tourism's contribution to inclusive growth by working to increase worker productivity, wages and working conditions in the sector. The basic framework based on wage and employment growth indicate limited improvement in these areas in recent years. Nevertheless, further investment is required to bring the workforce in these countries up to international standards of service quality. This would improve their productivity, which should enable them to secure higher wages.

The countries and the wider subregion have long championed product and market diversification as a means of reducing shocks and stabilizing earnings from the sector. Some efforts have been made to attract visitors from Latin America in the case of the Bahamas and Belize. The Bahamas, especially with the opening of the Baha Mar Resort is also trying to attract Chinese visitors. Saint Kitts and Nevis, meanwhile has focused on diversifying within the US market and the Caribbean. However, concerted efforts in market development are needed for these initiatives to succeed.

Finally, the countries need to strengthen their efforts to develop linkages with other sectors, including agriculture, handicraft and the creative industries. This requires improved systems for matching demand by tourism businesses with the supply of producers. Also, better training and extension services are needed to enable producers to improve the quality and consistency of supply of their products and services. These steps are necessary to more spread gains from the sector more widely among communities in the region.

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