

CHALLENGES TO CARIBBEAN TOURISM

Within the services sector tourism is the mainstay of the majority of regional economies. This is particularly the case of the smaller economies of CARICOM, where tourism plays an important social role and has a major impact on their financial stability and their external position. The United States constitutes the main tourist market for the larger Caribbean countries, including those of the Hispanic Caribbean, the Dutch West Indies, the French West Indies and the US territories, and accounts for 53% of the total number of tourist arrivals followed by Europe (23%). Intra-Caribbean tourism represents 6% of the total. For the CARICOM countries, the United States market represents 38% of all visitors followed by the Caribbean (28%) and Europe (23%).

CARICOM countries have a natural comparative advantage for the development of the tourism industry and are long-established tourist destinations. In addition, some of its member states are amongst the most important tourist destination in the larger Caribbean region. However, CARICOM economies have lost market share relative to other Caribbean destinations, due to relative cost disadvantage. In some cases the economies have also witnessed a decline in tourist expenditure and receipts and in the growth of visitors. This deteriorating performance was aggravated by the September 11th events, which dealt an important blow to the development of the tourism industry in the Caribbean, where the region experienced an 18.3% drop in tourist arrivals vis-à-vis 11% for the world as a whole.¹

CARICOM economies have lost market share to countries in the Hispanic Caribbean. CARICOM regional share of stay over and cruise tourist arrivals represented 38% of the total in 1990 and declined to 34% in 2001. On the other hand, Cuba and the Dominican Republic increased their shares from 1.78% to 5.75% and 8.26% to 10.51% respectively over the same period.

Table Stay over and cruise tourist arrivals As a percentage of the total 1990 - 2001												
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
CARICOM	37.70	38.38	38.67	37.79	36.50	36.07	35.55	34.13	33.73	34.43	34.60	34.02
Cuba	1.78	2.11	2.19	2.45	2.67	3.28	4.08	4.39	5.18	5.84	5.72	5.75
Dominican Republic	8.26	7.30	7.48	7.49	7.87	7.77	8.28	9.32	9.88	10.72	10.85	10.51

Source: Itam et al (2000) and Caribbean Tourism Organisation (2002)

This change in tourist demand has had an adverse effect on the average GDP/visitor expenditure ratio in CARICOM countries, which fell from 12.35% in 1992 to 10.79% in 2001. Tourism demand is influenced by many factors that vary over time. The total quality of the tourism product is probably one of the most critical influences on demand, which determines the level of competitiveness of the overall product. Tourists today put a premium on high quality services delivered in an efficient and timely manner. Further, with the advantage of information technology the tourist is more cost conscious, has the

¹ Sobers, A Tourism trends in the Caribbean. CTO
http://www.caribank.org/downloads/Panel1_ArleySobers.pdf

ability to weigh a basket of options through scenario analysis and is more familiar with standards. Tourists also demand a wider variety of attractions and services than traditional natural resource based tourism can provide. Cultural events such as Carnival in Trinidad and Tobago, Reggae Sunsplash in Jamaica and the St. Lucia Jazz Festival have become important tourist attractions.

Nevertheless, on the whole, the region has suffered from stagnation, partly on account of insufficiently varied attractions. In addition, relatively tight profit margins in the sector and lack of venture capital and equity finance mean that firms have not been able to undertake the requisite product development and rejuvenation that is necessary. Consequently the competitiveness of the regional product has suffered in most destinations, except the newer ones such as Cuba² and the Dominican Republic. Cuban tourism has grown because of its reputation as a safe destination, curiosity due to opening and significant investment by European firms in the tourism sector. On the other hand, the Dominican Republic is more price competitive than CARICOM destinations due to lower labour cost which facilitates “mass market” tourism.

Various initiatives are being implemented to halt the decline in quality of accommodation and other services. Important among these are the Quality Tourism for the Caribbean (QTC) initiative, the Green Globe and Blue Flag programmes. The QTC initiative establishes a quality assurance system for hotels in the areas of health, hygiene and conservation. The programme offers training and information and evaluations of health and hygiene practices. However, there is probably need for sanctions for hoteliers who consistently fail to meet required standards. The European Union (EU) Blue Flag beach certification scheme grades beaches according to the quality of their services and beach maintenance (e.g. sand spread and quality). The programme seeks to establish benchmarks for positive imitation and learning by hotels across the region. Barbados, for example, has eight hotels that are Green Globe certified and a number of hotels are seeking Blue Flag certification. This would entail outfitting beaches with proper quality water, shower and other facilities and conveniences.

The Caribbean Tourism Organization (CTO) aided by the Caribbean Hotel Association has promoted and marketed the region under the “Brand Caribbean” model. The focus of this model is the concept of a regional product that is distinctive and differentiated from other destinations. Brand Caribbean is akin to a regional public good that has to be promoted by regional governments. Nevertheless, co-operation with hoteliers and other service providers is critical for providing their perspectives and experience to inform the marketing strategy. The Caribbean strategy is to focus on the high-value segment of the market that offers high quality attractions and services. Obviously there will still be some mass-market segments in the region, but policy makers want the region to be known much more for its high quality sustainable segment and alternative products such as eco-tourism, cultural and heritage tourism.

Re-engineering the Caribbean Tourism Product

A number of Caribbean destinations are in the maturation phase of the product life cycle. This is characterised by waning product quality, declining competitiveness and demand.

² Cuba was once the premier destination in the region, but went into decline in the wake of the Revolution and the United States embargo.

Product development is needed to focus on product rejuvenation and revitalisation as much as the creation of new products as the fruits of innovation.

This would entail the use of an integrated strategy to resuscitate and upgrade the quality of the product offering, incorporate the use of new and cutting edge technology and to strengthen labour productivity and efficiency in the sector. With respect to the issue of quality, carrying capacity limitations suggest that Caribbean destinations should focus on the high-end/high value added segment of the market as far as possible. This offers the opportunity for providing a high quality product that can be differentiated from mass-product offerings. The reality is that tourists are not concerned with price of services by itself, but with value for money. This means that in many instances, they would prefer to purchase a higher quality, more expensive product that provides greater satisfaction. Small destinations such as those in the OECS countries are hard pressed to cope with mass tourism given their limited land space and facilities, but have good potential in indigenous heritage, eco-tourism and sports tourism among other areas.

Product strategy of product diversification could promote health tourism as an area for prospective growth. Health care institutions providing comprehensive care, especially for the aged could incorporate the use of hot water sulphur springs where they are available, alternative tropical medicines and treatments and high quality care and hospitality. Importantly, this type of tourism presents an avenue for developing linkages with the pharmaceutical industry, agriculture and the communities in which springs, waterfalls and other natural restorative features are located.

Branding, though well established in the mass-market, is not often used in the marketing of alternative tourism. Different alternative brands could be developed to cater for multiple customer demand and promoted through strategic advertising, the meeting of standards and quality expectations and be properly distinguished from other brands. For example, within the eco-tourism sub-sector high quality nature trails could be “labelled” differently from lower quality ones, snorkelling sites should be graded as well as scuba diving and kayaking. Branding, though it entails added costs, provides the tourist with a sense of confidence that standards would be upheld and quality and safety adhered to. Consequently, it is an important means of maintaining the demand for the product.

Strategies for the development of the tourism sector

Caribbean governments have recognised that natural resource comparative advantage alone does not guarantee consumer demand for tourism. Therefore, from the inception of the sector, governments have used policy incentives and strategies to promote its development. The logic of tourism policy in the region derives from the antecedent industrialisation by invitation strategy aimed at developing import-substituting manufacturing. As a consequence, policy has been heavily skewed in favour of investment incentives to the exclusion of a wider and more integrated policy framework geared to the holistic development of the sector. For instance, incentives for attracting investment in new hotels, attractions and transport promotion were not usually supported by complementary incentives for product maintenance, innovation and human resource development. Fortunately, the challenges of competition have led a number of countries, particularly Barbados, Jamaica, St. Lucia and St. Kitts and Nevis to develop more holistic and

articulated tourism development strategies focussed on sector productivity, innovation, sustainability and competitiveness based on high quality service and value for money.

The majority of firms in the regional tourism sector are small and medium enterprises (SMEs). SMEs are widespread in the hotel sector, tour operator, entertainment and ground transport and other activities. SMEs contribute to competition in an industry that has experienced growing levels of concentration, particularly consumer-unfriendly vertical integration, the result of mergers and acquisitions. Healthy competition is essential to a dynamic and vibrant sector that would be forced to improve the standard and quality of its service in order to survive. More important is the potential that small firms hold for improving innovation and creating new products, which are more important to competitiveness than price.

The traditional tourism development incentive package was relatively standardised across the region, with notably little adaptation to take account of the bottlenecks and stage of development of the sector in individual countries. The standard investment package included: 15 year exemption from corporate taxation, duty free concessions for the import of construction materials, furniture, fittings and other materials, capital allowances, depreciation allowances and guaranteed unrestricted repatriation of profits, dividends and capital by foreign investors.

There is also evidence of a lack of uniformity and equity in the administering of the incentives. Generally, the regime is biased in favour of larger hotels and other operators, which can exercise more political influence because of their size, the number of persons they employ and tax returns. Smaller hotels and operators have long clamoured for a harmonised incentive regime, which will allow them from this standpoint to compete on the same footing as larger properties.

The incentive framework for SMEs in the hotels, entertainment, transport and other sectors should be made as favourable or even more favourable than that for large firms in the sector. Tax incentives, duty free concessions on imports and marketing assistance should be more favourable for small firms in the sector. Technical assistance under the EU Partnership agreement and at the multilateral level should be fully utilised to provide a fillip to growth and competitiveness in local SMEs. Technical assistance should be secured to upgrade the standards of operations, improve internal management practices, to improve product quality and to capture high value-added market niches for SMEs.