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THE TOURISM SECTOR AND THE GLOBAL ECONOMIC CRISIS

DEVELOPMENT IMPLICATIONS FOR THE CARIBBEAN

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Executive summary

Over the past two years the global economy has experienced substantial economic turmoil, resulting in severe economic contraction. While there has been a recent return to growth, this situation has impacted all economic sectors worldwide. In the highly tourism-dependent region of the Caribbean, the impact of the global economic crisis has been most notable on the tourism sector, which, from the early 1990s, became the key driver of economic growth for the region. The eventual emergence of this sector reflects an economic development history which was previously underpinned by the export of agricultural commodities, and subsequently by the adoption of the import substitution industrialization model as promulgated by Arthur Lewis. This was further stimulated by spectacular economic contraction in Caribbean economies during the 1980s as a result of changes in the global terms of trade for commodities, generally low levels of competitiveness for manufactured goods, as well as weak institutional and governance frameworks.

Ultimately, many economies began to reflect fiscal and balance of payments constraints. By the end of the 1990s, too, evidence of declining competitiveness even in the tourism sector began to become apparent particularly when evaluated under the framework of the Butler Tourism Area Life-Cycle (TALC) model. The recent economic crisis, therefore, provides an opportunity to reflect on the overall approach to economic development in the Caribbean, and to assess the implications of the region's response to the crisis. This analysis makes the case for the future development of the sector to be based on two broad strategies. The first is to deepen the integration of the tourism sector into the broader economy through the diversification of the regional tourism product, as well as the enhancement of linkages with other sectors, while the second is to expand the tourism sector into a total service economy through the introduction of new services. Considering linkages, the development of clusters and value chains to support the tourism sector is identified with respect to agriculture and food, handicraft, and furnishings. Among the new services identified are education, wellness, yachting and boating, financial services, and information and communications technologies (ICT). This overall strategy is deemed to be better suited to the macroeconomic realities of the Caribbean, where high labour costs and other structural rigidities require a high-valued specialty tourism product in order to sustain the sector's global competitiveness.

INTRODUCTION

The Caribbean is considered to be one of the most tourism dependent regions in the world (Andrew, 2007). This region encompasses some 34 countries and areas bordering the Caribbean Sea, and includes island destinations such as Jamaica, Aruba, Barbados and Grenada, mainland territories such as Belize, Guyana and Suriname, and specific tourism regions of mainland territories such as Cancun and Cozumel. The development of the tourism sector in the Caribbean began in earnest in the second half of the twentieth century (Platullo, 1996), as nations, both older and emerging, sought to throw off the legacies of slavery, colonialism and the plantation economy. By the mid 1990s most countries in the Caribbean had replaced agriculture with tourism as the primary engine of economic growth.

Many Caribbean destinations suffer severely from the impacts of natural events such as hurricanes, floods and seismic and volcanic activities. The Caribbean tourism industry has also been subject to a number of economic shocks, the most notable of which were the slowdown occasioned by the terrorist attacks on the United States of America in September 2001 and, more recently, by the economic crisis which impacted the global economy from mid 2008 until towards the end of 2009.

The objective of this paper is to assess the pivotal role of the tourism sector in the broader developmental experience of the Caribbean subregion and, based on this, to examine the implications of the global economic crisis on the current and future economic development of the Caribbean.

The discussion is presented in four sections. Section One briefly chronicles the Caribbean development experience and assesses the historical antecedents which led to the emergence of the tourism sector as the current engine of growth. In Section Two, the central role of the tourism sector is examined, with a view towards identifying the key economic elements which are currently at work to sustain it. The analysis here draws heavily from Butler's Tourism Area Life Cycle (TALC) model, through which aspects of Caribbean global tourism competitiveness are assessed. Section Three looks at the impact of the global economic crisis on the tourism sector, and the Caribbean response in the context of the tourism sector's global competitiveness. Section Four draws conclusions about the future evolution of the tourism sector, given the emerging economic, environmental and social challenges for the Caribbean in the immediate future.

I. TOURISM AND THE CARIBBEAN ECONOMIC DEVELOPMENT EXPERIENCE

For the Caribbean, contemporary notions of economic and social development began with the arrival of European colonization in the late fifteenth century. This process began an extensive period of settlement and social evolution, underpinned by an economic development model structured so as to supply key commodities to the metropolitan centres of Europe. The plantation evolved as the basis for the production of tropical commodities such as tobacco, cotton, cocoa, citrus, sugar and bananas. The extraction of minerals such as bauxite, gold and petroleum also emerged as important economic activities for colonies such as Jamaica, Guyana, Suriname and Trinidad and Tobago. The export of these agricultural and mineral commodities formed a fundamental framework for the organization of capital and labour, as well as the marketing of output. Labour was a key constraint for production, and slavery, indentureship, and sheer economic opportunism were the response mechanisms which brought many diverse peoples to the Caribbean. Hence, over a period of approximately five hundred years, the Caribbean has received migrant Europeans, Africans, East Indians, Chinese, Portuguese, Arabs, and Jews. All of these peoples, along with dwindling native populations of Amerindians, have helped to shape the common social, economic, and political heritage of the Caribbean (Pattullo, 1996).

The Caribbean development experience can be summarized as one involving several structural shifts, spanning the period of independence to the present. Aspirations of independence first began to take root by the early nineteenth century, with the emergence of former colonies such as Haiti, the Dominican Republic and Cuba as independent nations. A second wave of independence during the latter half of the twentieth century saw the emergence of many of the Anglophone small island nations as sovereign States. Since that time, the economies of the Caribbean subregion have evolved from being mainly agriculture-based, with varying levels of contribution from mining, and manufacturing, to the present situation where tourism is largely the dominant economic sector.

Several economic shocks account for these structural shifts in the post independence era. They include the energy crisis of the 1970s, the implementation of structural adjustment programmes to counteract fiscal and balance of payments difficulties of the 1980s, and the shift to a more liberalized global trading regime of the 1990s. For most of the first decade of the new millennium, Caribbean economies have been buffeted by the passage of a higher frequency of natural events such as hurricanes, flooding, and earthquakes, all of which have impacted the economic bases of these countries. These most recent occurrences are considered to be related to climate change, a phenomenon which is deemed to have significantly increased the physical, economic and social vulnerability of small island developing States, many of which are in the Caribbean. The decade culminated with the global economic crisis, which impacted the tourism and financial services sectors of Caribbean countries.

After independence, many Caribbean countries adopted the Arthur Lewis two-sector model[1] as a development paradigm. This model, promulgated in 1954, is regarded as the most influential paper on development economics, and is deemed to have revolutionized contemporary thinking on development (Watson, 2009). The Lewis model of economic growth identifies two sectors – a small modern sector and a larger traditional sector – from which excess labour is shunted to the modern sector in order to stimulate industrial development. In this context, the Lewis model makes the case for the State to play a key role by offering incentives which would attract capital from capital-surplus countries to the fledging modern sector, and would eventually stimulate growth through the export of cheaper goods from the labour surplus developing economy. These incentives included income tax holidays, tax exemptions and concessions, and export subsidies (Perez, 2007). This import substitution or 'industrialization by invitation' model was widely applied as a development approach in the English-speaking Caribbean and Puerto Rico[2] from the 1960s onwards.

The contemporary economic development experience over the past four decades suggests that the approach has not worked as well as anticipated. In fact, average growth rates for the Caribbean as a whole ranged from 5% during the period 1970 - 1990 (Kida, 2006), to 3.5% between 2001 and 2007 (ECLAC, 2009d). Such growth has been largely heterogeneous across the Caribbean, and for most of the last four decades, consistent growth has been achieved by only a few Caribbean countries. Alleyne (2009) noted that the Caribbean subregion, excluding Cuba, the Dominica Republic and Haiti, achieved an average per capita growth rate of just 0.86% for the period 1979 – 1989; 0.93% for the period 1990 – 1999; and 2.81% for the period 2000 – 2008.

Significantly, the improved performance of the most recent decade reflects primarily the strong growth performance of Trinidad and Tobago, Suriname, Belize, as well as Antigua and Barbuda, Saint Vincent and the Grenadines, and Grenada. With an overall similar pattern observed for Cuba, and the Dominican Republic, and a long run negative growth rate for Haiti, Alleyne concludes that, barring Belize and the Dominican Republic, all Caribbean countries showed declining growth rates over the last three decades. Table 1 summarizes economic growth rates for selected countries over the period 2001 – 2008.

1 The Lewis model was a major departure from neo-classical economics at the time since it did not regard labour as scarce. Instead, Lewis posited that under the prevailing development circumstances, the modern sector used capital intensively, and was focused on the production of industrial goods. This contrasted with the traditional sector which was larger, with low levels of capital and capital accumulation, and possessed a large quantity of excess labour. In setting up the model, Lewis affirmed that the marginal productivity of labour in the traditional sector was zero, and that both sectors faced diminishing marginal product. See Stolyarov (2009), for and extensive treatment of the Lewis Model.

2 Perez notes that the approach was applied from as early as 1950 until 1986 in Puerto Rico, and was known then as 'Operation Bootstrap'.

Table 1: Growth rates for selected countries as a percentage of GDP, 2001 – 2008

Country	2001 – 2005*	2006	2007	2008p
Anguilla	3.0	5.4	6.1	2.0
Antigua and Barbuda	6.7	18.3	21.0	-0.5
Bahamas, the	1.8	4.3	0.7	-1.7
Barbados	1.3	3.2	3.4	0.5
Belize	5.4	4.6	1.2	2.1
Cuba	-	12.1	7.3	4.3
Dominica	0.8	3.7	1.8	3.2
Dominican Republic	-	10.7	8.5	4.5
Grenada	2.1	-2.3	4.5	0.3
Guyana	0.5	5.1	5.4	3.1
Haiti	-	2.3	3.2	1.5
Jamaica	1.6	2.7	1.4	-0.6
Montserrat	0.7	-3.8	2.8	6.2
Saint Kitts and Nevis	3.2	2.5	2.9	2.5
Saint Lucia	2.7	4.9	1.7	2.0
St Vincent and the Grenadines	3.5	7.6	7.0	-0.5
Suriname	5.7	4.5	5.3	5.2
Trinidad and Tobago	8.6	12.2	5.5	3.5

Source: ECLAC 2009c
* Annual average
p preliminary figures

But what explains this downward trend in economic growth over time? With the exception of Trinidad and Tobago, Guyana, Suriname and Jamaica, economic growth in the Caribbean from the 1960s until the early 1990s has been driven largely by export agriculture, and manufacturing.[3] However both sectors have faced declines during the period.

The agricultural sector, considered the foundation of growth for most countries, has been at best a sputtering engine with its contribution to GDP and ratio of foreign exchange earnings to total export sector earnings declining steadily in most Caribbean countries during the 1970s to 1990s period (Kendall and Petracco, 2003). In consequence, over time agriculture has become consistently less important as a generator of real income, earner of foreign exchange and creator of employment.

Export agricultural earnings to GDP ratio for Barbados fell from 11.4% to 3.3% between 1970 and 1998. In Belize, this ratio fell from 23% to 7% between 1970 and 1999, while for Dominica, the ratio fell from 24.8% to 9.2% over the same period. Jamaica enjoyed only a marginal increase from 5% to 7% during the period under consideration, and only in the case of Guyana was there a clear increase in this ratio, from 18.9% to 32% in 1999, after a protracted period of decline during the seventies and part of the eighties.

Table 2 summarizes changes in agricultural foreign exchange to export earnings ratio for selected Caribbean countries.

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3 Exceptions are Guyana, Suriname and Jamaica where the extraction of minerals such as bauxite and metals such as gold (Guyana and Suriname only) were significant economic contributors, and Trinidad and Tobago, whose economy has been dominated by the extraction of oil and natural gas.

Table 2: Changes in agricultural foreign exchange to export earnings ratio for selected countries

Country	Start year	Foreign exchange to exports ratio	End year	Foreign exchange to exports ratio
Barbados	1970	22.2%	1998	6%
Dominica	1976	70%	1999	24%
Jamaica	1976	14.6%	1999	7.4%
Belize	1984	40.8%	1999	29.2%
Guyana	1970	40%	1999	25.9%
Haiti	1971	41.3%	1998	8.7%
Suriname	1978	4%	1997	8%

Source: Summarized from Kendall and Petracco, 2003.

The decline in agriculture resulted largely from its dependence on preferential access arrangements for its export to European markets, an arrangement that did not serve to enhance agricultural sector efficiency and competitiveness. Indeed, economic losses from changes in preferential access to the United States, European Union, Canada and Japan were highest for sugar and bananas, two of the main Caribbean traditional exports (Bauer, Cashin and Panth, 2008). Seven Caribbean countries are among the top ten countries with the greatest export losses[4] arising from preference erosion since the evolution of a more liberalized global trading regime in the 1990s: Saint Lucia (32.9%), Belize (29.3%), Saint Kitts and Nevis (28.7%), Guyana (24.2%), Dominica (15.9%), Jamaica (9.7%) and Saint Vincent and the Grenadines (9.4%).

Preferential access also reinforced the production of a narrow range of primary commodities – the so-called traditional exports - while militating against policies for promoting non-traditional and more highly valued agricultural commodities.

In the manufacturing sector, Caribbean adherence to the tenets of the Lewis industrialization model led to the adoption of a largely protectionist industrial policy (ECLAC, 1999). This approach emphasized the application of high tariff levels and quota restrictions on imports, as well as an incentive regime which included subsidies, tax holidays, accelerated depreciation of allowances and the importation of raw materials and capital items free of duty. Ultimately, this so called import substitution model operated to stifle competition, promote declining industries and limit imports. Furthermore, the Caribbean subregion lacked important macroeconomic and resource fundamentals to successfully develop and sustain an efficient industrial sector. Among these were an adequate source of cheap industrial credit, a skilled and productive labour force, a comprehensive regime of industrial standards and regulations, and competitive real exchange rates.

Hence, over the two decades of the 1970s and 1980s, manufacturing, like agriculture, also showed significant declines, with sectoral growth falling from an average of 7.0% for the decade of the 1970s to an average of 3.9% in the decade of the 1990s. Moreover, worsening terms of trade for exports of agricultural and mineral commodities led to a reduction in real incomes and further galvanized economic contraction. Table 3 summarizes average sectoral growth rates, GDP shares and contribution to GDP for various sectors in CARICOM countries from 1970 to 1990.

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[4] Losses here are measured by the Total Preference Margin which is the percent of the trade-weighted average world market price of the country's exports.

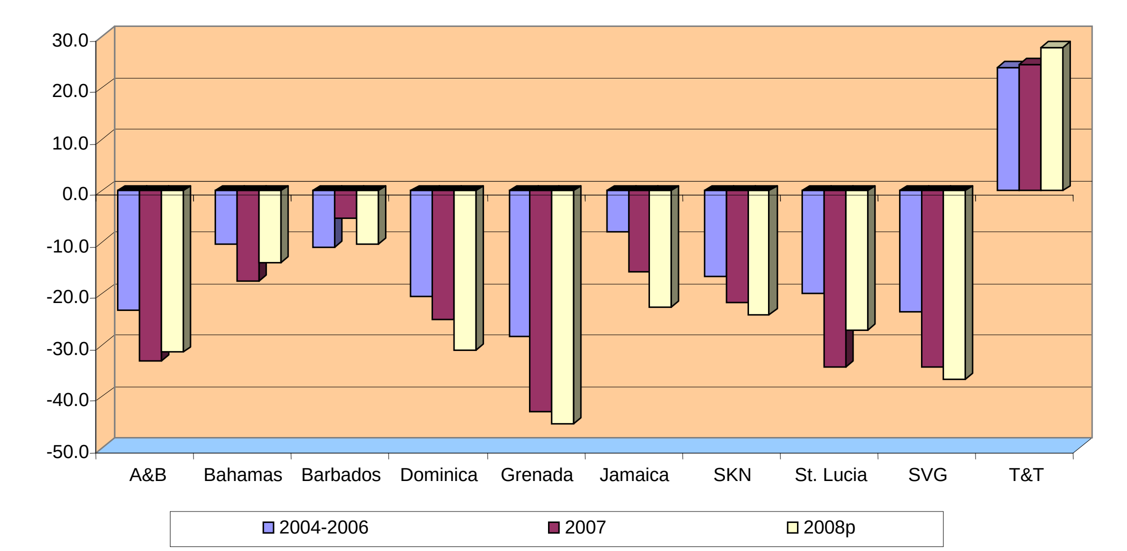
Table 3: Sectoral growth rates, GDP shares and contribution to GDP: 1970 – 1990

	Agriculture	Manufacturing	Services
Sectoral Growth - %			
1970s	0.5	7.0	5.8
1980s	0.3	4.6	4.9
1990s	1.2	3.9	3.3
GDP Shares - %			
1970s	16.6	25.8	54.3
1980s	12.5	25.3	58.9
1990s	9.8	25.1	61.6
Contribution to GDP -%			
1970s	0.0	2.0	3.3
1980s	0.1	1.1	2.8
1990s	0.1	0.8	2.4

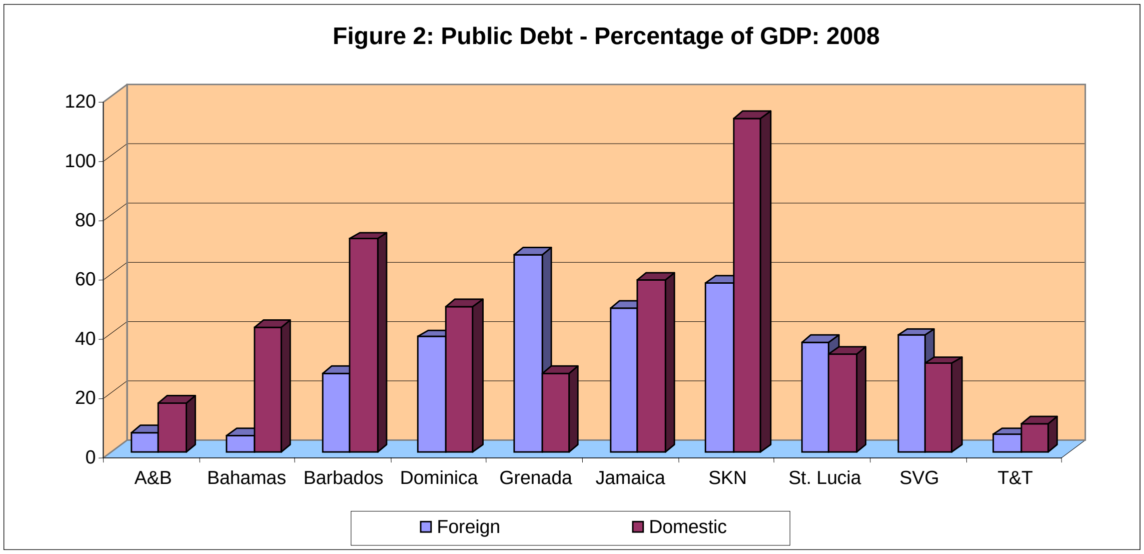
Source: ECLAC Caribbean Development Report, Vol. 1, 2009

The persistent contraction of Caribbean economies resulted in major economic challenges, and by 2005 many countries were saddled with growing unemployment, increasing fiscal deficits, growing public debt and balance of payment challenges. For example, the Caribbean as a whole, excluding Haiti, the Dominican Republic and Cuba, had an average current account deficit of 9.07% of GDP during the period 1990 – 1997. This figure increased to 13.41% of GDP during the 1998 – 2005 period (ECLAC, 2009c). Figure 1 shows current account balances for selected Caribbean economies for the period 2004 – 2008.

Figure 1: Current Account Balance - Percentage of GDP: 2004 - 2008



Source: ECLAC, 2009c



Source: ECLAC, 2009c

Over time, further economic challenges emerged in terms of public debt, where the average debt stock as a percentage of GDP increased from 64.81% during the period 1990 – 1997, to 79.67% for the period 1998 – 2005 (ECLAC, 2009c). By the end of 2008, the public debt burden had further increased with Guyana, Jamaica, Grenada, and Saint Kitts and Nevis having accumulated a total debt of over 100% of GDP. At the same time, Barbados, Belize, Antigua and Barbuda, Dominica, and Saint Lucia held levels of debt ranging between 70% to 100% of output (ECLAC, 2009c) (See figure 2). The Caribbean performance in terms of fiscal balance and public debt are summarized in table 4 below.

Table 4: Fiscal balance and public debt – percentage of GDP: 2004 – 2008: selected Caribbean countries

Country	**Fiscal Balance**			**Public Debt – 2008p**	
	2004 – 2006[b]	**2007**	**2008[p]**	**Foreign**	**Domestic**
Anguilla	-1.7	-2.1	-3.9	4.4	16.6
Antigua and Barbuda	2.0	-6.4	-8.5	38.9	49.1
Bahamas, the	-1.4	-1.5	-1.3	5.7	42.0
Barbados	-2.8	-1.8	-5.9	26.7	72.0
Belize	-5.1	-1.2	1.1	68.9	12.4
Dominica	0.9	1.0	0.8	66.6	26.7
Grenada	-1.7	-6.6	-6.5	78.5	27.8
Guyana	-11.2	-7.4	-6.3	72.0	31.8
Jamaica	-4.6	-4.7	-6.6	48.7	58.1
Montserrat	-6.0	-6.4	-9.8	6.8	1.4
Saint Kitts and Nevis	-4.6	-2.4	0.4	57.2	113.1
Saint Lucia	-5.8	-2.2	-0.2	37.1	33.0
Saint Vincent and the Grenadines	-3.2	-3.6	-1.3	39.4	29.9
Suriname	0.0	3.2	2.1	12.7	12.5
Trinidad and Tobago	3.5	1.7	6.5	5.8	9.7

Source: ECLAC, 2009c

The evolution of these economic circumstances formed part of the dynamics which forced many Caribbean economies to adopt International Monetary Fund (IMF) support programmes either in the form of standby facilities or structural adjustment programmes during the decades of the 1980s and 1990s. Guyana, Jamaica and Trinidad and Tobago were especially severely affected. In fact, since 1979, IMF financing facilities have been accessed by seven Caribbean countries, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, and Trinidad and Tobago (Fontaine, 2001).

Hence, by the conclusion of the Uruguay Round of multilateral trade negotiations and the ushering in of a new era of liberalized trade under the watch of the World Trade Organization in the early 1990s, the inability of Caribbean agricultural exports to compete in this globalized context resulted in the almost total collapse of the agricultural export sector in the Caribbean. In this evolving context, the nascent tourism sector assumed a pivotal role in Caribbean economic development during the decade of the 1990s.[5]

II. THE CENTRAL ROLE OF THE TOURISM SECTOR IN THE CARIBBEAN

While many Caribbean countries are small destinations,[6] the Caribbean attracted approximately 20.2 million visitors in 2008, a figure which represents 2.2% of international tourist arrivals (UNWTO, 2009d). Andrew (2007) notes that the Caribbean actually received 22.2 million stay over arrivals, and 19.2 million cruise ship arrivals in 2006, and earned about US$ 21 billion in tourist revenues. In fact, from 1970 to 2001, tourist arrivals to the Caribbean grew faster than the world average, and only declined significantly after the terrorist attacks in the United States in 2001.

On a global scale therefore, the Caribbean subregion, with only 1% of the world's population, is assessed to consistently attract approximately 3% of both global tourism arrivals and world tourism expenditure (Andrew, 2007).

In 2008, the Dominican Republic and Cuba attracted the largest numbers of stay over visitors to the Caribbean, approximately 4.0 million and 2.3 million respectively (CTO, 2009). Jamaica (1.8 million), the Bahamas (1.5 million) and Puerto Rico (1.3 million) were the next largest recipients. Among the smaller islands, Aruba and the United States Virgin Islands recorded 826,774 and 683,294 visitors respectively in the same year, while Barbados recorded 567,667 visitors. Martinique, St. Maarten and Trinidad and Tobago were the other main visitor destinations with just under 0.5 million stay over visitors in 2008. Table 5 summarizes stay over arrivals to selected Caribbean destinations for the period 2005 – 2009, while figure 3 shows arrivals for 2007 and 2008.

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[5] Some countries such as the Bahamas, Jamaica, the Dominican Republic, the United States Virgin Islands, Aruba and Barbados had already developed mature tourism sectors by the 1990s. The decline in other sectors, however, increased the relative contribution of tourism in these economies that, by deliberate development policy, assumed increased importance in absolute terms in economies such as Saint Lucia, Grenada, Saint Vincent and the Grenadines, Trinidad and Tobago, and Guyana.

[6] These include nation states such as The Bahamas, Barbados, Cuba and the Dominican Republic, as well as specific local destinations and dependencies such as Cancun (Mexico), Puerto Rico (USA) Aruba and Curacao of the Dutch Antilles, and Martinique (France).

Table 5: Tourist stay over arrivals in selected Caribbean countries: 2005 to 2009

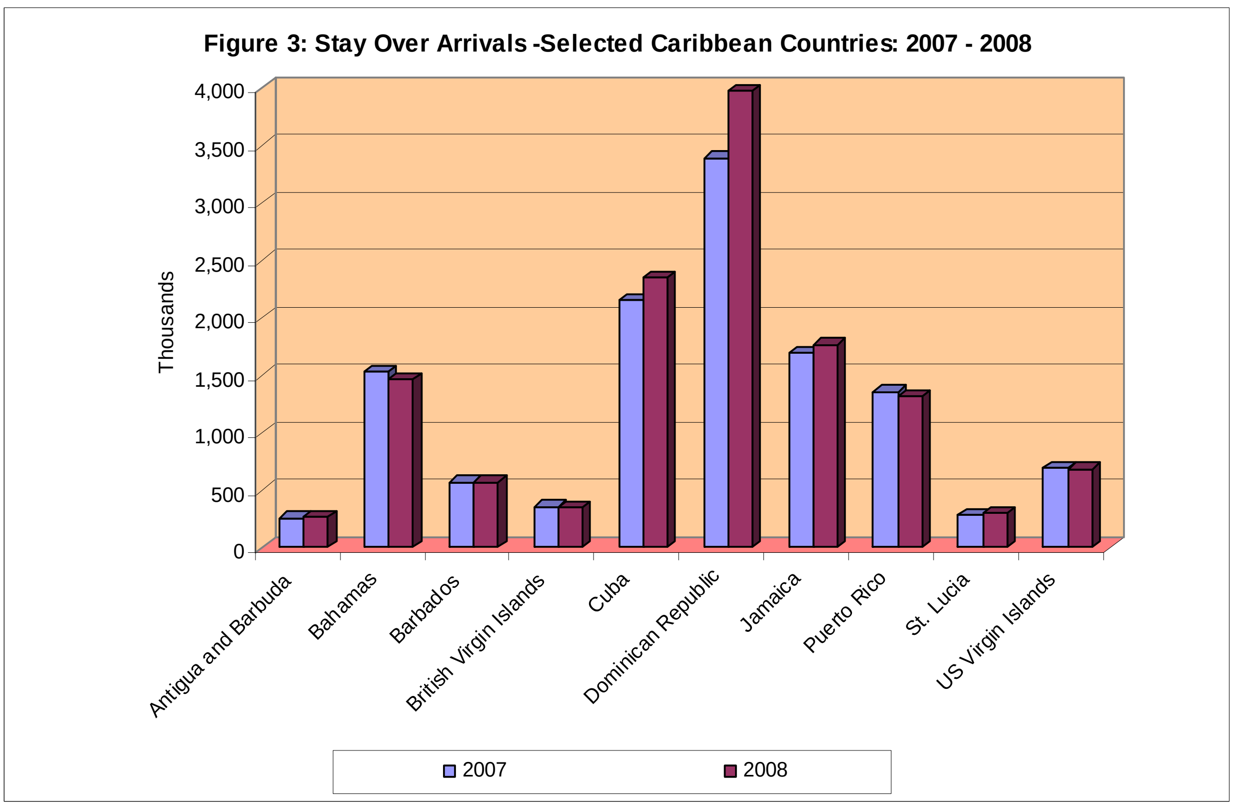
Country	2005	2006	2007	2008	2009[7]
Antigua and Barbuda	245,384	253,670	261,786	265,841	177,318
The Bahamas	1,608,153	1,600,862	1,527,726	1,462,404	983,808*
Barbados	547,534	562,558	572,937	567,667	379,721
British Virgin Islands	337,135	356,271	358,056	345,934	85,964**
Cuba	2,319,334	2,220,567	2,152,221	2,348,340	1,856,774
Dominican Republic	3,690,692	3,342,106	3,398,374	3,979,672	3,069,794
Jamaica	1,478,663	1,678,905	1,700,785	1,767,271	1,414,967
Puerto Rico	1,465,292	1,446,184	1,356,470	1,323,044	805,145***
Saint Lucia	317,939	302,510	287,518	295,761	210,348
US Virgin Islands	693,058	671,362	693,372	683,294	507,296

Source: Caribbean Tourism Organization

* Data to August, 2009

** Data to March, 2009

*** Data to July, 2009



Source: Based on CTO data

The Caribbean is also a major destination for cruise ships, with up to 18.2 million arrivals in 2008 (CTO, 2009). This represents a 7.1% decline in cruise visitors from 2007, when approximately 19.5 million passengers visited the Caribbean. The Bahamas is one of the main cruise destinations in the

7 Figures up to September 2009, except where otherwise noted.

Caribbean, hosting some 2.9 million passengers in 2008. However, other important Caribbean ports of call for cruise ships include the Cayman Islands, Puerto Rico, and the United States Virgin Islands, all of which received 1.6, 1.4, and 1.8 million visitors respectively, in 2008. A summary of cruise ship arrivals for selected countries is presented in table 6 below.

Table 6: Annual cruise ship arrivals – Selected countries: 2005 to 2009

YEAR	2005	2006	2007	2008	2009p
Antigua And Barbuda	466,851	471,623	672,788	580,853	539,924
Aruba	552,819	591,474	481,775	556,090	403,924
Bahamas, The	3,078,709	3,078,534	2,970,659	2,861,140	1,913,250*
Barbados	563,588	539,092	647,636	597,523	470,245
Cayman Islands	1,798,999	1,923,597	1,715,666	1,553,053	1,144,948
Dominica	301,294	379,643	354,515	463,355	381,587
Dominican Republic	289,805	303,489	384,878	417,685	374,284
Jamaica	1,135,843	1,386,994	1,179,504	1,088,901	658,485**
Puerto Rico	1,315,079	1,338,019	1,437,239	1,392,624	618,857***
Saint Lucia	394,364	359,593	610,345	619,680	478,346
St Maarten	1,488,461	1,421,645	1,421,906	1,345,812	956,657
St Vincent and the Grenadines	69,753	106,474	144,555	116,709	101,616
US Virgin Islands	1,912,539	1,903,533	1,917,878	1,757,067	1,217,006

Source: Caribbean Tourism Organization, 2009
* Figures for January to July
** Figures for January to August
*** Figures for January to May
P All other figures for January to September

North America and Europe are the main sources of visitors to the Caribbean. The United States of America has traditionally been a dominant North American supplier, given the Caribbean's comparative advantage in terms of geographical proximity, and a relatively high frequency of cheaper and more direct flights.[8] Since the 1970s, the United States share of visitors to the Caribbean has declined from a high of 64% to about 55% by the mid-1980s, and to approximately 52% by 2004 (ECLAC, 2009f). Subsequently, the Gulf war and recession in the United States in the early 1990s saw a significant shift to European visitors to the Caribbean, from 17% in 1990, to 26% in 1999. The United Kingdom is a dominant source of European visitors to the Anglophone Caribbean, while Spain remains a major supplier to the Hispanic destinations of Cuba and the Dominican Republic. Other European source countries, albeit in significantly smaller quantities, include Italy, Germany, France, Sweden and Norway.

Over the last five years, there have also been significant increases in Canadian visitors to the Caribbean, with an average share of 10%. Furthermore, given the long standing United States economic embargo of Cuba, Canada is that country's largest source of visitors from North America. The level of intra-Caribbean visits to friends and relatives (VFR), as well as visitors from the South American mainland continues to be insignificant. Table 7 below shows the composition of Caribbean tourist arrivals by main markets for selected countries for 2007.[9]

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[8] Direct flights are generally more readily available from United States gateways such as Miami, Atlanta and Phoenix to destinations in the northern Caribbean (Bahamas, Jamaica, Puerto Rico, Dominican Republic). However, flights into the southern Caribbean typically have at least one or two stopovers before final destinations.
[9] This is the year for which latest annual figures are available.

Table 7: Tourist arrivals and shares by main markets: 2007

	United States		**Canada**		**Europe**		**Other**		**TOTAL**
Destination	**Tourist**	**Share %**	**Tourist**	**Share %**	**Tourist**	**Share %**	**Tourist**	**Share %**	
Antigua and Barbuda	78,697	30.1	10,489	4.0	115,448	44.1	57,152	21.8	261,786
Aruba	520,385	67.4	25,673	3.3	67,353	8.7	158,662	20.6	772,073
Bahamas	1,263,678	82.7	100,340	6.6	87,170	5.7	76,538	5.0	1,527,726
Barbados	133,519	23.3	52,981	9.2	250,773	43.8	135,664	23.7	572,937
Belize	152,567	60.6	16,655	6.6	34,173	13.6	48,260	19.2	251,655
Cayman Islands	231,865	79.5	17,355	6.0	20,267	7.0	22,016	7.6	291,503
Cuba		0.0	660,384	30.7	924,025	42.9	567,812	26.4	2,152,221
Dominican Republic	1,080,066	27.1	587,370	14.8	1,387,476	34.9	924,670	23.2	3,979,582
Dominica	21,477	28.1	2,610	3.4	10,743	14.0	41,685	54.5	76,515
Grenada	27,136	21.0	6,017	4.7	41,792	32.4	54,173	42.0	129,118
Guyana	68,861	52.4	19,508	14.8	9,686	7.4	33,432	25.4	131,487
Jamaica	1,132,532	66.6	190,650	11.2	288,894	17.0	88,709	5.2	1,700,785
St. Kitts and Nevis	68,586	55.7	7,076	5.7	14,623	11.9	32,876	26.7	123,161
St. Lucia	113,433	39.5	18,640	6.5	88,828	30.9	66,506	23.1	287,407
St. Vincent and the Grenadines	26,642	29.7	6,745	7.5	23,454	26.2	32,796	36.6	89,637
Trinidad and Tobago	180,557	40.2	51,411	11.4	82,511	18.4	134,973	30.0	449,452
US Virgin Islands	612,197	86.5	6,017	0.8	14,881	2.1	74,934	10.6	708,029

Source: CTO

Quite apart from the Caribbean's demonstrated capacity to attract a significant share of world tourist arrivals relative to its size, the dominance of the tourism sector is further borne out by its impact on key economic indicators such as contribution to GDP, employment and the generation of foreign exchange. In 2001, the contribution of tourism to GDP ranged from a low of 6.9% for Curacao to a high of 95.2% for the British Virgin Islands (Piraszewska K., 2006). Estimates of GDP contribution for selected Caribbean countries prepared by the World Travel and Tourism Council (WTTC) in 2008 also show the lowest GDP contribution being 4.4% for Suriname, while the highest was 73.5% for Antigua and Barbuda. Moreover, as many as 16 out of 23 countries generated upwards of 20% of their GDP from tourism and travel related activities.

The role of the tourism sector in employment assumes even greater importance. According to WTTC estimates, in 2008/2009 Antigua and Barbuda earned the highest share of employment, 80.6%, from the tourism sector, compared to Suriname where only 4.0% of the labour force was employed in 2008. Tourism as an employment generator is also particularly crucial for countries such as Anguilla (67.6%), Aruba (78.6%) the Bahamas (60.4%) and Barbados (43.7%). The majority of Caribbean economies depend on tourism to provide employment for more that 20% of the workforce. GDP and employment estimates for selected countries are summarized in table 8, below.

Table 8: Tourism GDP and employment for selected Caribbean countries:2008/2009

Country	Share of tourism in GDP (%)	Share of tourism in total employment (%)
Anguilla	65.8	67.6
Antigua and Barbuda	73.5	80.6
Aruba	67.1	78.6
Bahamas	50.0	60.4
Barbados	39.0	43.7
Belize	29.7	29.8
Bermuda	12.0	14.3
British Virgin Islands	37.4	45.2
Cayman Islands	29.1	35.1
Cuba	9.6	8.2
Dominican Republic	15.9	13.8
Dominica	24.5	22.4
Grenada	25.0	23.7
Guyana	10.9	9.0
Jamaica	27.0	23.7
Puerto Rico	5.7	5.6
Netherlands Antilles	23.1	30.6
St. Kitts and Nevis	31.7	32.2
St. Lucia	37.4	37.1
St. Vincent and the Grenadines	29.1	26.0
Suriname	4.4	4.0
Trinidad and Tobago	12.8	16.2
US Virgin Islands	37.4	44.8

Source: World Travel and Tourism Council (WTTC), 2009

Most Caribbean countries being small open economies, trade and the generation of foreign exchange are critical for their economic and social well-being. Earnings from tourism are therefore very important in this regard, and foreign exchange earnings are generated primarily through visitor expenditures. Among Caribbean destinations, the Dominican Republic collected the largest share of tourist earnings in 2008, having generated an estimated US$ 4,176 million (UNWTO, 2009d). Significant shares of earnings were also recorded for Puerto Rico (US$ 3,644 million), Cuba (US$ 2,267 million), the Bahamas (US$ 2,153 million) and Jamaica (US$ 1,984 million).

Travel and tourism are projected to contribute US$ 28.4 billion dollars worth of visitor export earnings to Caribbean economies in 2009, representing 18.6% of total Caribbean exports (WTTC, 2009). Tourist earnings for selected Caribbean countries from 2006 to 2008 are presented in table 9 below.

Table 9: International tourist receipts for selected Caribbean countries: 2006 to 2008
(US$ million)

Country	2006	2007	2008*
Aruba	1,080	1,255	1,412
The Bahamas	2,056	2,187	2,153
Barbados	1,057	1,119	1,192
Cuba	2,127	2,141	2,267
Dominican Republic	3,917	4,064	4,176
Jamaica	1,870	1,910	1,984
Puerto Rico	3,369	3,414	3,644

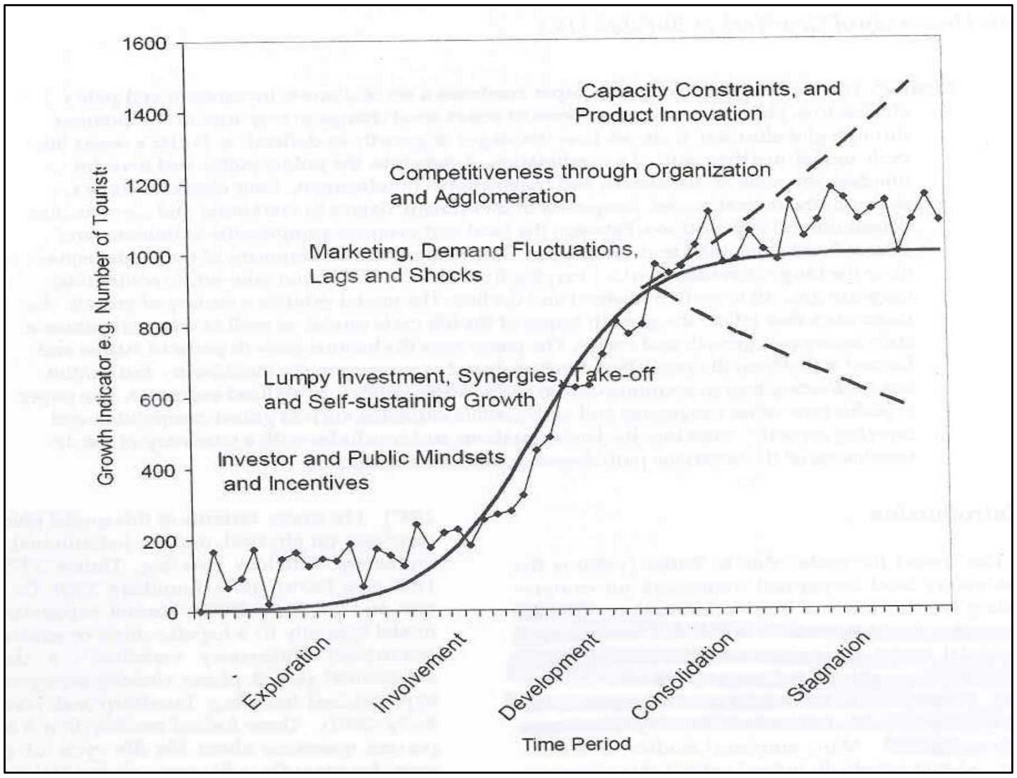
Source: UNWTO, 2009d
* Projected figures

Apart from these direct benefits, the tourism sector also influences fiscal policy in the Caribbean through its impact on public sector investment, tax policy and spending. While it is extremely difficult to disaggregate data for specific public sector spending on tourism for Caribbean countries, Pattullo (1996) notes that since the 1960s, many governments have undertaken enormous public sector investment programmes in order to create the necessary ‘ecological bubbles’ upon which a modern tourism sector is based. Such investments include the development of modern airports, expansion and/or upgrading of roads, water and sewerage systems, electricity and telecommunications, and port and related berthing facilities for cruise ships. Further elements of fiscal policy directed towards the tourism sector include the granting of tax holidays and other concessions on the import of materials and other start-up equipment for hotels, as well as exemptions from land taxes and other capital gains during operation of the tourism enterprise. Substantial operational investments are also made by many governments in the promotion of the destination in international markets.

Given the apparent success in the development of its tourism sector over the past three decades, a key question that arises is, what factors account for the competitiveness of Caribbean tourism relative to the rest of the world?

In this paper, the assessment of Caribbean tourism competitiveness is based on Butlers’ Tourism Area Life Cycle (TALC) model and its application to the Caribbean by De Albuquerque and Mc Elroy (1992) and ECLAC (2009f). Butler’s model posits that over time, a tourism destination follows an S-shaped growth path which involves six stages, these being: exploration, involvement, development, consolidation, stagnation and then rejuvenation or decline (Cole, 2007). Figure 4 below summarizes the essential elements of the model. The determination of each stage in based on the performance of some major tourism sector performance indicator, such as changes in the number of visitor arrivals, growth in the number of rooms, or changes in the level of public investment in the tourism sector.

Figure 4: Butler's Tourism Area Life Cycle (TALC) Model



Source: Cole, 2007

In the exploration stage, a small number of visitors make irregular visits to a destination, ostensibly because they managed to discover some unique or very different natural or cultural attraction. There is very limited public investment in tourism at this stage, so that visitors' enjoyment of the destination depends heavily on close interaction with locals. Impact of tourism on the destination is very low during the exploration stage.

With the increase in the number and regularity of visitors, the destination enters the involvement stage of the life cycle, with the first signs of formally organized facilities and services for tourists. Interaction between visitors and locals continue to be high or may even increase, as specialization among visitor service providers begins to emerge. Tourism businesses and other institutions providing travel services, destination marketing, and industry associations also begin to develop, and may even begin to lobby governments to provide public infrastructure such as transportation and communications systems necessary for the further development of the tourism sector.

The destination enters the development stage when it assumes the characteristics of a well-defined tourist-market area which is supported by significant advertising. During this stage, contact with locals, as well as the control of tourism sector development begins to decline, as formally locally provided facilities are replaced by larger and more elaborate internationally branded services. This phase also sees the development and marketing of specially packaged natural and cultural attractions, and the provision of man-made imported facilities.

The consolidation stage is next in the life cycle, and becomes apparent as the *rate of increase* of visitors begins to decline. By this time, tourism has become a major driver of economic activity, and development and marketing strategies are now oriented towards extending the visitor season, as well as the tourism catchment area. While most major international franchises in the tourism sector are likely to be represented, there are no new introductions of international business, and longstanding enterprises begin to lose their ratings and appeal. This is also the stage where social discontent related to the presence of visitors begins to manifest itself, as local residents begin to be frustrated by the deprivations or restrictions which might be necessary in order to host tourists.

This development signals the onset of the stagnation stage, where peak visitor arrivals would have been met and surpassed, and the destination begins to show signs of exceeding its social, economic and environmental carrying capacity. At this stage, the destination is largely dependent on repeat visitors, and the number of surplus beds per period will begin to increase in spite of considerable efforts to attract visitors. A large number of contrived attractions, either in the form of events or man-made facilities, are common at this stage, accompanied by frequent changes of ownership of the tourism plant.

As indicated by Butler (2006), after stagnation, a destination may move along two possible pathways. These are decline or rejuvenation. In the decline stage, the destination is no longer able to compete with newer or emerging areas, and will increasingly attract short stay or itinerant clients such as weekenders and day trippers. Property turnover is very high in this stage, and if rejuvenation does not occur, tourism facilities begin to be replaced by non-tourism enterprises, as the destination begins its retreat from tourism as a dominant economic sector. By way of example, hotels may convert to condominiums, convalescent homes, or conventional long term housing.

A destination may, however, enter a rejuvenation phase of the tourism life cycle, and Butler points to two brand strategies for attaining this. The first is to undertake a substantial investment in man-made attractions, typically including casinos, theme or heritage parks, or other related enterprises. The second is to focus on heretofore untapped natural resources, which may be allied to specialty sporting and or recreational events. This approach usually requires a joint partnership effort between the government and the private sector in order to be successful, but offers the promise of extending the long run sustainability of the area as a tourism destination.

The Butler model provides invaluable insights for policymakers and private investors involved in the development of the tourism sector, as it holds up to question the apparent notion that a tourist destination can be expected to experience growth indefinitely. The model, however, also reflects the underlying variables which drive tourism activity at a destination over time.

ECLAC (2009f) points to a number of exogenous and endogenous factors which determine the location and rate at which a destination progresses along its life cycle. Among the exogenous determinants are: geographic location, environmental assets, natural beauty, cultural diversity, and heritage. Likewise, the endogenous factors include man-made embellishments to the destination such as: availability of tourism facilities that make tourism destinations attractive, low-cost structures that make them price competitive, and strong rule of law and order that guarantee public safety and enhance international image. All of these factors are deemed to be strongly linked to a tourism destination's competitiveness reflected in terms of attractiveness, efficiency, productivity, and development potential. Moreover, the factors which determine the stage of the tourism life cycle are considered to be equivalent to those which determine a destination's competitiveness (ECLAC, 2009f).

What then are the competitive parameters and related life-cycle stages of Caribbean tourism destinations? Several researchers (Craigwell, 2007; Dwyer and Kim, 2003; ECLAC, 2009a) have examined this issue. The WTTC has also elaborated a comprehensive analysis in order to derive a Tourism Competitive Index (TCI).[10]

ECLAC (2009a) used the framework elaborated by Craigwell and Dwyer and Kim in a study of Caribbean tourism competitiveness, and identified the following seven factors as key:

- Price competitiveness advantages
- Infrastructure advantages
- Environmental advantages
- Technological advantages
- Industrial organizational advantages
- Social advantages
- Exogenous advantages

From these factors, a matrix of macroeconomic, social, industrial and environmental, and historical/heritage variables were identified and used to estimate an econometric model of competitiveness. The main findings of this study were the following:

- Real exchange rate depreciation could serve to increase Caribbean tourism competitiveness with respect to stay over visitors from Canadian source markets. This was however not the case with visitors from Britain;
- Increases in long haul transportation costs, reflected in increased oil prices, reduce Caribbean tourism competitiveness, particularly for Canadian and British source markets. Close proximity to the United States, however, may enhance Caribbean competitiveness in this market relative to other destinations;
- Former Spanish colonies appear to have a competitive advantage over former English colonies in the Caribbean;
- Factors such as government consumption, trade openness, labour market rigidities, exposure to natural disasters and the prevalence of AIDS all strongly undermine Caribbean tourism competitiveness;
- Positive factors which influence tourism competitiveness in the Caribbean include population density, domestic credit to the private sector, increases in gross fixed capital formation, and the number of telephone mainlines in use;
- Significantly, real income growth in Caribbean tourism source markets is not significant in influencing tourism competitiveness.

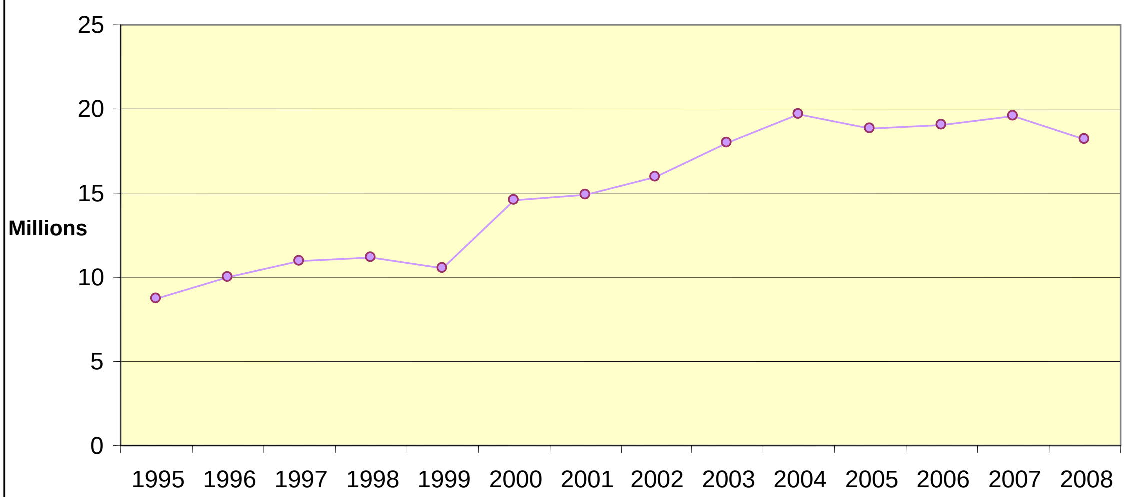
Craigwell (2007), in a slightly different model specification, suggested that the capacity of a country to attract stay over visitors depends on three critical factors: (1) technological advantage; (2) industrial organizational advantage; and (3) price advantage. Based on these factors, he identified travel cost as a significant variable in regional tourism competitiveness, with the Caribbean having a lower competing capacity in source markets that are further away from the region. Additionally, Craigwell found a negative Capital-output ratio which he interpreted to mean that capital investment in the Caribbean was not 'directly aimed at increasing tourism capacity' and was possibly crowding out investment and therefore undermining tourism competitiveness. Unlike the ECLAC study, however,

[10] This TCI has been built around eight dimensions: price competitiveness, infrastructure development, environmental quality, technology advancement, degree of openness, human resources, social development, and human tourism indicators. In 2007, generation of the index has been assumed by the World Economic Forum, which since then has generated indices for 124 countries.

relative income was found to be positive, indicating that increased growth rates in tourism source markets resulted in enhanced competitive gains for the tourism sector in SIDS countries.

On the basis of the above findings, the performance of the Caribbean in recent decades indicates that the subregion possesses some degree of competitiveness.[11] Relative to the rest of the world, the Caribbean subregion has enjoyed a stable share of approximately 2.9% of world stay over tourists since 1970. The capacity of the Caribbean to attract stay over visitors has been even more apparent in the Americas Region.[12] While the Americas share in the global market has fallen by approximately 25% since 1970, over this period the Caribbean has increased its share *within* the Americas from 9.9% to 17.3%.

Figure 5: Growth of Caribbean cruise passenger arrivals: 1995 to 2008



Source: Based on figures from CTO, 2009

The cruise sector is also a major segment of the Caribbean tourism market. Since 1974, the Caribbean has seen a steady growth in cruise arrivals and today leads the world in terms of the cruise visitors. Figure 5 shows growth trends for cruise passenger arrivals since 1995.

As noted earlier, while the overwhelming majority of visitors originally came to the Caribbean from the United States of America, over time the Caribbean has also shown its competitiveness by increasing its market share from Europe since 1970. Table 10 summarizes performance in this regard since 1970.

[11] See ECLAC (2009f), for a comprehensive treatment of this issue.
[12] The UNWTO defines the Americas Region to include destinations in North, Central and South America, as well as the Caribbean.

Table 10: Market shares by source market: 1970 to 2004

Year	United States	Canada	Europe	Caribbean	Other
1970	64.288	4.490	7.362	-	24.774
1980	58.514	7.319	11.930	8.116	14.120
1981	58.218	6.828	11.331	9.478	14.145
1982	59.203	6.374	10.814	9.493	14.116
1983	61.944	6.849	9.756	9.178	12.273
1984	61.976	7.814	9.421	10.763	10.025
1985	62.193	7.541	9.149	8.788	12.330
1986	55.088	6.654	8.697	8.427	21.134
1987	54.392	6.123	9.892	8.165	21.428
1988	54.121	6.370	11.926	8.584	18.999
1989	52.223	6.033	12.838	8.250	20.656
1990	57.668	6.600	17.239	6.899	11.594
1991	59.472	6.887	18.735	7.036	7.871
1992	59.606	6.590	19.022	6.169	8.612
1993	57.762	6.233	19.607	6.279	10.119
1994	56.675	5.834	21.639	6.439	9.413
1995	55.836	5.966	22.298	6.498	9.403
1996	52.128	5.801	23.603	6.517	11.951
1997	51.689	5.416	24.965	6.565	11.365
1998	50.921	5.578	25.616	6.428	11.456
1999	49.740	5.623	26.313	6.590	11.735
2000	51.573	5.966	25.517	6.334	10.609
2001	52.509	6.443	24.746	6.198	10.104
2002	53.328	6.701	23.647	6.854	9.471
2003	52.281	7.356	24.560	6.978	8.825
2004	52.495	7.978	24.264	6.556	8.708

Source: ECLAC, 2009f.

Hence in summarizing the status of the Caribbean with respect to stages in the tourism life cycle and its related competitiveness, it is important to note the conclusions of the ECLAC competitiveness study, which observes that Caribbean competitiveness in stopover tourism has stagnated or begun to decline. This is the case since the subregion has not managed to increase its share of stay-over visitors over a period of almost 40 years. This is not inconsistent with the results of the Butler TALC analysis undertaken by De Albuquerque and Mc Elroy (1992) for the Caribbean, in which it was concluded that many Caribbean tourist areas are now mature destinations. This is evidenced by the increase in the number of man-made attractions which continue to be offered to visitors, including music (Jazz) festivals, carnivals, heritage programmes, and sporting activities (cricket world cup, sailing regattas, golfing, cycling and soccer tournaments).

Additionally, the rate of change of ownership of properties is evidence of the classical stagnation/post-stagnation phase as suggested by Butler. Some destinations such as Cuba, the Dominican Republic, the Bahamas, Jamaica, and Barbados have demonstrated varying degrees of competitiveness in moving upwards towards rejuvenation, or in avoiding sector decline. Smaller destinations such as Antigua and Barbuda, the British Virgin Islands, St. Maarten, and Dominica have achieved distinguishing performances in specific niche markets such as yachting, diving and ecotourism. Belize has also emerged as a vibrant Caribbean destination, thereby proving its competitive capacity in the cruise and nature tourism markets.

Given this reality, the paper now examines the Caribbean response to the crisis with a view towards assessing the implications of the crisis to the future evolution of its tourism sector.

III. IMPACT OF THE GLOBAL ECONOMIC CRISIS AND THE CARIBBEAN RESPONSE

Since October 2008, the global economy has experienced substantial economic turmoil, occasioned by the failure of the international financial system to fulfil its role of efficient credit allocation. The impact of this failure has negatively affected developed and emerging economies alike, and governments have responded with haste to shore up both national and international financial markets as a means of re-energizing struggling economies. The tourism sector within the Caribbean has also been impacted and governments have also sought to provide broad based stimulus interventions in order to minimize the impact of the crisis.

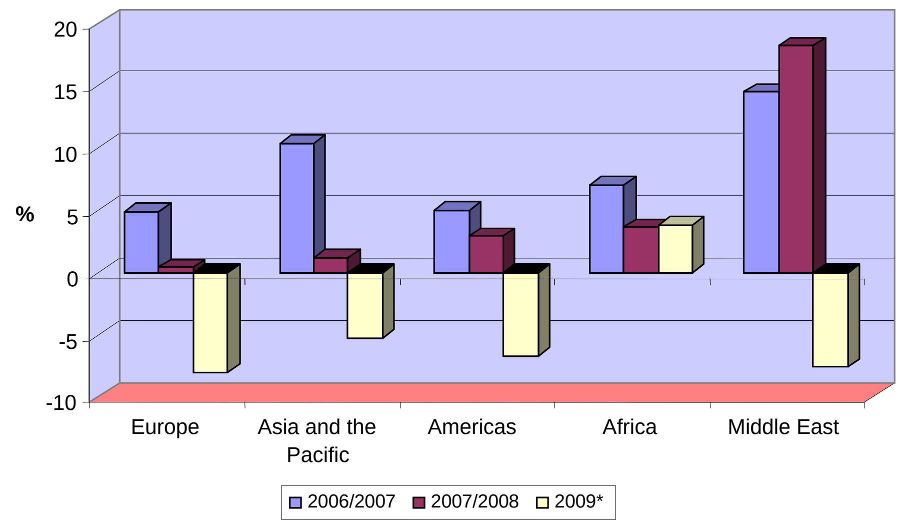
According to UNWTO (2009e), international tourist arrivals grew at a sustained rate of 7% on average between 2004 and 2007 with a peak in global arrivals of 924 million in 2008. Such spectacular growth rates were severely curtailed with the onset of the global economic crisis from the final quarter of 2008. This crisis resulted in a fall in international tourist arrivals by 7% during the first eight months of 2009, with preliminary figures suggesting a slowing of the decline towards the end of the year. On that basis, UNWTO projected an overall annual decline of 4% for 2009. Alongside declines in arrivals, international tourism receipts are also estimated to decline by 6% in 2009, from a high of US$ 944 billion in 2008.

The contraction in the global tourism market has its genesis in the financial crisis which first began to manifest itself as a credit crunch in United States financial markets in 2007. Through the mechanism of the United States housing and asset markets, this credit squeeze spread to Europe, Asia and the Pacific, and eventually the wider global market. These developments, coupled with rising global commodity prices, particularly energy and food, as well as the failure of many major financial institutions, triggered rising unemployment, and a deterioration of business and consumer confidence. Ultimately, increasing job losses as well as uncertainty about future incomes resulted in a dramatic fall off in international travel and related tourism activities.

While the impact of the decline in international tourist arrivals was felt worldwide, it was most severe in the Middle East, the Americas, and Asia and Pacific Regions. In the Middle East, previously high growth rates of 18.2% over the 2007-2008 period fell away sharply to a negative growth rate of 7.6% by August, 2009. At the same time, the Americas Region[13] also experienced a sharp drop in arrivals, from a growth rate of 2.9% in the previous fiscal period, to -6.7% by the end of August 2009. The Asia and Pacific Region also recorded negative growth in arrivals of 5.3% up to August 2009, compared to an overall growth rate of 1.2% for the 2007-2008 period. This decline was also apparent for Europe, where the growth rate in arrivals as at August 2009 was -8.0% compared to a positive rate of 0.4% in the previous period. Only in case of the Africa Region, was the growth rate of international arrivals largely sustained, with figures of 3.6% in 2007-2008, compared to 3.8% in the first eight months of 2009. These changes in international arrivals are summarized in figure 6.

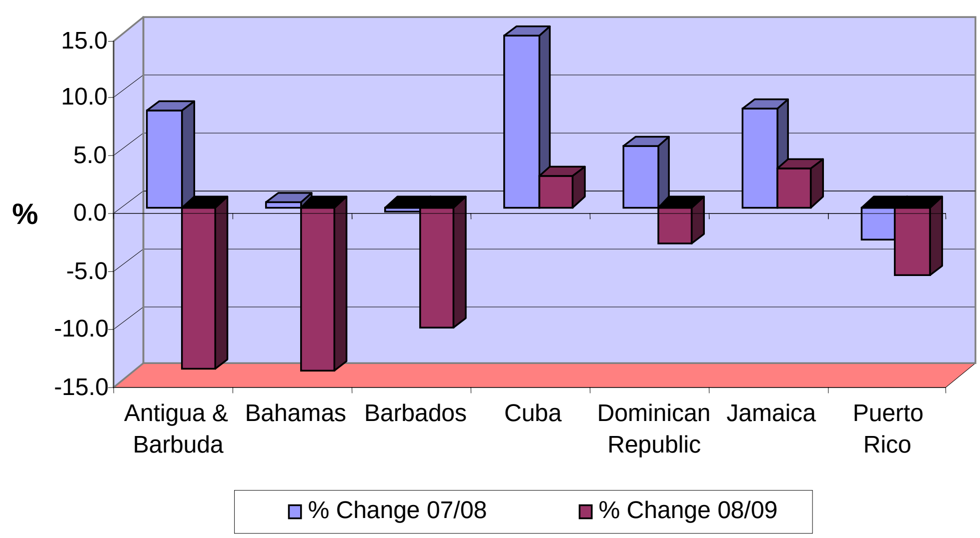
[13] The Americas Region includes the Caribbean.

Figure 6: Percentage Change - International Tourist Arrivals By Region: 2007 - 2009



Source: Based on UNWTO data.

Figure 7: Change in Stop-Over Tourist Arrivals - January to June 2007 to 2009 – Selected Caribbean Countries



Source: Based on CTO data.

Several Caribbean countries also experienced significant contraction as a result of the global economic crisis. In the case of Antigua and Barbuda for instance, growth in tourist arrivals declined from 8.3% over the 2007/2008 period to -14.0% between 2008 and 2009. Similar trends were observed for the Bahamas, where arrivals fell by 14% from 2008, and Barbados, where arrivals declined by 10.5%

between 2008 and 2009. Smaller reductions in arrivals were also recorded for the Dominican Republic (3.2%) and Puerto Rico (5.9%). Only in the case of Cuba and Jamaica, were there no absolute declines in arrivals; however, both countries experienced significantly lower growth rates of 2.7% and 3.4% respectively over the 2008 to 2009 period (figure 7).

The effects of the crisis were also felt in the Caribbean cruise subsector, although not to the same degree as in the stay over subsector. For instance, among 21 cruise destinations, significant falls off in arrivals were recorded for six countries between 2008 and 2009. Most of these countries include the mature cruise destinations such as Jamaica (-15.3%), Puerto Rico (-15.0%), the United States Virgin Islands (-9.9%), St. Maarten (-6.6%), and Cayman Islands (-2.1%) (CTO, 2009). The largest decline was recorded for Martinique (-19.9%).

In spite of the crisis, the Caribbean demonstrated its robustness as a cruise destination by registering *increases* in cruise passenger arrivals in fifteen countries. Such increases ranged from a high of 253.7% in Trinidad and Tobago to a modest 6.4% for Barbados. Dominica (51.7%), Belize (18.1%), Curacao (29.7), Grenada (26.6%), Saint Lucia (15%), and Saint Vincent and the Grenadines all showed significant positive growth during the period, thereby underlining Caribbean comparative advantage in attracting cruise passengers. Table 11 summarizes the performance of the cruise sector in the Caribbean over the 2008 to 2009 period.

Table 11: Cruise passenger arrivals – 2008 and 2009

Destination	**Period**	**2008**	**2009**	**%Change**
Antigua and Barbuda	Jan - Oct	427,263	539,924	26.4
Aruba	Jan - Oct	403,845	441,288	9.3
Bahamas	Jan - Oct	2,264,860	2,602,321	14.9
Barbados	Jan - Dec	597,523	635,746	6.4
Belize	Jan - Dec	597,370	705,219	18.1
Bermuda	Jan - Sep	246,373	266,381	8.1
Bonaire	Jan - Sep	95,615	148,058	54.8
British Virgin Islands	Jan - Jul	398,267	355,065	-10.8
Cayman Islands	Jan - Dec	1,553,053	1,520,372	-2.1
Curacao	Jan - Oct	239,208	310,158	29.7
Dominica	Jan - Oct	251,460	381,587	51.7
Dominican Republic	Jan - Aug	348,923	374,284	7.3
Grenada	Jan - Sep	181,165	229,415	26.6
Jamaica	Jan - Dec	1,088,901	922,349	-15.3
Martinique	Jan - Dec	87,079	69,749	-19.9
Puerto Rico	Jan - Nov	1,230,420	1,045,459	-15.5
St. Lucia	Jan - Nov	512,600	584,451	15.0
St. Maarten	Jan - Oct	1,024,178	956,657	-6.6
St. Vincent & the Gren.	Jan - Oct	70,206	104,781	49.2
Trinidad and Tobago	Jan - May	23,667	83,713	253.7
US Virgin Islands	Jan - Dec	1,757,067	1,582,264	-9.9

Source: Caribbean Tourism Organization

Global tourism expenditures also mirror arrival trends, but the impacts on expenditure are more marked in periods of economic crises (UNWTO, 2009d). This is because of the high positive income elasticity of travel and leisure, where consumers forego vacations with the loss of income as unemployment rises during the crisis. This pattern was also very much in evidence during 2009. As noted by UNWTO, receipts from global tourism were estimated to have contracted by approximately 10% in real terms during the first half of 2009. This compares to a 1.8% *increase* in international expenditure for 2008, an increase that resulted in an estimated US$ 944 billion in tourism receipts for the same year, as noted above. The significance of the impact of the global economic crisis is made all the more apparent when it is considered that for the period 1990 – 2008, receipts from global tourism grew at an average rate of 4.0% per year in real terms.

While no regional analyses are as yet available, performance results for 47 of the top 50 destinations in terms of receipts show 38 of these countries recording declines for the first six months of 2009. Among those countries experiencing the sharpest slump from 2008 were Saudi Arabia (-36%), the Russian Federation (-24%), Thailand (-23%), the United States of America (-18%), Mexico (-18), and Belgium (-17%) (UNWTO, 2009c).

Based on figures available for nine destinations, UNWTO estimates year to date percentage falls in international tourism receipts to the Caribbean Region ranging from 26.2% for Bermuda, to 2.8% for St. Maarten. Significant declines were also projected for larger destinations such as Cuba (-11.7%), the Dominican Republic (-7.1%) and Jamaica (-6.1%). These projections, summarized in table 12 below, reflect the general experience for the Caribbean since 2008, and demonstrate the clear impact of the global financial crisis on the Caribbean tourism sector.

Table 12: International tourism receipts: (US$ M) for selected Caribbean countries

	2007	2008	% change 2008/2009*
Aruba	1,255	1,415	-10.4
Bahamas, the	2,187	2,153	-10.0
Bermuda	568	431	-26.2
Bonaire	110	121	-8.9
Cuba	2,141	2,267	-11.7
Curacao	327	378	-11.1
Dominican Republic	4,064	4,176	-7.1
Jamaica	1,910	1,984	-6.1
St Maarten	662	663	-2.8

Source: United Nations World Tourism Organization (UNWTO,, 2009e)
* 2009 Year to Date Estimates

A. CARIBBEAN STIMULUS RESPONSES TO THE CRISIS

By way of response, most Caribbean governments implemented broad-based macroeconomic policies rather than sector specific initiatives in order to mitigate the impact of the economic crisis. In an initial global assessment updated by UNWTO in September 2009, stimulus measures for recovery in the tourism sector were grouped into eight categories, as follows:

- Fiscal
- Marketing
- Monetary
- Employment
- Public-private partnerships
- Regional cooperation
- Towards green economy
- Travel facilitation

From this assessment, ten of the thirty-four CTO countries reported specific response measures in only the first five areas. A summary of their actions is presented in table 13 below. Marketing efforts to stimulate falling arrivals were the most frequently reported (Aruba, Antigua and Barbuda, Bahamas, Barbados, Jamaica, Puerto Rico, Dominica Republic and Saint Lucia) as the crisis deepened, while fiscal initiatives, such as increased public expenditure or reduced taxes in the tourism sector, were applied in four countries.

Table 13: Stimulus measures adopted by Caribbean economies in response to the crisis

Country	**Measure**					
	Fiscal	**Marketing**	**Monetary**	**Employment**	**Public Private Partnerships**	**Regional Cooperation**
Aruba		**X**				
Antigua & Barbuda	**X**	**X**		**X**		
Bahamas	**X**	**X**	**X**		**X**	
Barbados		**X**	**X**	**X**		
Grenada	**X**					
Jamaica		**X**	**X**		**X**	
Puerto Rico		**X**			**X**	**X**
Dominican Republic		**X**			**X**	**X**
St. Lucia		**X**				
St. Vincent/ Grenadines	**X**		**X**			
Trinidad and Tobago[14]	**X**					

Source: UNWTO, 2009b

Efforts to shore up tourism sector employment were undertaken in both Antigua and Barbuda and in Barbados, two Caribbean countries where the tourism sector is a larger generator of employment. Monetary policies were applied in four countries in the form of new credit lines, particularly to small and medium- sized enterprises. Many countries implemented measures to offset the decline in government revenues. The main fiscal interventions were to increase fiscal spending in order to stimulate economic activity: Jamaica allocated J$2.5 billion for roads and drainage works in November 2008; the Barbados government secured debt financing for infrastructure improvements. Other fiscal measures included the reduction value-added tax on selected foods and utilities, or deferral of specific taxes for determined periods, as in the Bahamas, Barbados, and Jamaica. Additionally, with the collapse of CL Financial and Stanford,[15] many fiscal interventions were undertaken by several Caribbean governments to protect jobs and reduce financial sector losses. Such countries include Suriname, Guyana, Trinidad and Tobago, the Bahamas, Barbados, Saint Lucia and Antigua and Barbuda. The overall effect of these policies was

[14] Although not reported by UNWTO, Trinidad and Tobago provided a financial stimulus of TT $25 million to the Tobago Tourism Sector, to support upgrades of facilities.

[15] CL Financial with headquarters in Trinidad and Tobago, and Stanford International Bank based in Antigua and Barbuda, are two of the most spectacular casualties of the global economic crisis in the Caribbean. CL Financial Limited is a holding company for Colonial Life Insurance Company Limited (CLICO). In 2008, it was the largest conglomerate in the Caribbean with 70 companies in 32 countries, and assets exceeding US$16 billion. Stanford International Bank was reputed to control up to US$ 8 billion in assets at the time of its collapse. Over the past year, the Trinidad and Tobago Central Bank and the Eastern Caribbean Central Bank have each assumed control of both financial institutions.

increased fiscal deficits and public debt for many Caribbean economies. Barbados, Belize, Guyana, Jamaica and Suriname all increased domestic and external borrowings, while Trinidad and Tobago and the Bahamas engaged in deficit financing of their national budgets.

Given the central role of financial entities in the recent global economic crisis, most monetary and financial management policies focused on stimulating domestic credit availability, managing liquidity, as well as enhancing the regulatory framework for more prudent management of the financial sector. In the Bahamas, legislation was approved to strengthen controls of money-laundering and terrorist financing; in Jamaica, the government adjusted the time period related to non-performing loans from 90 to 180 days in order to provide some mortgage relief to clients. Efforts to raise public financing were also undertaken, as in the case of Barbados where two bond issues were made in order to inject development financing into the economy. Further, several central banks, including Trinidad and Tobago and Barbados, reduced their minimum reserve ratios, in order to increase the money supply in these economies. In Jamaica, a major monetary intervention was the increase in interest rates across the full spectrum of open market instruments, a measure reflecting the significantly increased cost of securing credit during the crisis.

Generally, Caribbean economies implemented no special exchange rate measures to confront the crisis. The exception here was Jamaica which undertook explicit measures to moderate depreciating trend in its currency by selling US$ 432 million during the final quarter of 2008. With respect to trade, most regional economies signed on to the EU Economic Partnership Agreement, a post-Cotonou trading arrangement between EU and ACP countries. Although Guyana initially hesitated signing the agreement citing the prevailing economic crisis as a basis for the deferment, it eventually signed it later in the year. Specific trade related responses were, however, recorded for Dominica, which reduced tariffs for selected food items, as well as Saint Lucia, where the Common External Tariff and other consumption taxes were suspended for nine imported articles.

The ECCU countries sought to respond to the crisis as a group, by undertaking an overall medium to long-term joint economic stabilization programme. This programme details a combination of several initiatives which are to be implemented over the long term. Among the main elements are fiscal reform, debt management, and public investment.

The agricultural sector also benefited from specific interventions. The government of Guyana implemented a "Grow More" campaign under an expanded Agriculture Export Diversification Programme, and Rural Enterprise and Agricultural Development Programme.

IV. FUTURE EVOLUTION OF THE TOURISM SECTOR IN THE CONTEXT OF CARIBBEAN DEVELOPMENT

In embarking on a discourse of the future evolution of the tourism sector in the Caribbean, a number of critical imperatives must be taken into account. These relate to the prevailing macro-economic challenges; the current social dynamics; the need for environmental sustainability; and issues of natural vulnerability and the looming threats of climate change. The recent global financial crisis also serves to highlight the need for a reengineered development strategy in order to secure previous economic gains, as well as stimulate future growth. While the focus of this paper is on the tourism sector, the long term future of the Caribbean depends on the structural, macroeconomic, and institutional adjustments which must be made in order to enhance the current global comparative advantage in tourism, as well as in identifying other avenues for economic growth. In this section, the broader structural challenges are first examined, after which the options for the future development of the tourism sector are discussed.

A. STRUCTURAL CHALLENGES

On the basis of the factors which have influenced economic growth in the Caribbean over the past four decades, the Caribbean has made good progress until the early 1990s. Since that time however, it has experienced low growth rates as a result of a changing international trading regime and declining foreign direct investment. These factors have operated to create a limited fiscal space for the pursuit of future economic development strategies (ECLAC, 2009c). A recent assessment by the World Bank (2008) notes that today, the Caribbean has a very low level of integration into the world economy, a situation which reflects its overall low level of competitiveness. This, in turn, is a result of factors such as 'high costs of doing business, labour market rigidities, tariff dispersion and trade costs' (World, Bank, 2008).

With respect to trade costs, for instance, the Caribbean is a higher cost exporter compared to similar developing countries. In 2008, the cost of exporting a container exceeded US$ 1,000 for Antigua and Barbuda ($US 1,107); Belize ($US 1,800); Dominica ($US 1,478); and Jamaica ($US 1,750) (World Bank, 2008). In fact, among Caribbean countries in 2008, Trinidad and Tobago had the lowest export cost per container of $US 693. These figures do not compare favourably with economies such as Malaysia ($US 432); Mauritius ($US 728); Thailand ($US 615) and Vietnam ($US 669). Cost inefficiencies were also reflected in terms of time, with the number of days for container imports averaging 26 in 2008,[16] compared to 14 for Malaysia, 16 for Mauritius, 22 for Thailand, and 23 for Vietnam. Table 14 below summarizes some of these costs for the Caribbean, and compares them with other emerging economies.

[16] This is an average for Latin America and the Caribbean

Table 14: Selected business costs: Caribbean and comparable developing countries

Country	Cost to export (US$ per container) in 2008	Time for import (days) in 2008
Caribbean		
Antigua and Barbuda	1,107	19
Belize	1,800	26
Dominica	1,197	18
Dominican Republic	815	13
Grenada	820	23
Haiti	1,650	53
Jamaica	1,750	22
St. Kitts and Nevis	750	17
St. Lucia	1,375	21
St. Vincent and the Grenadines	1,770	16
Trinidad and Tobago	693	26
Comparators		
LAC Average	1107	26
East Asia Average	775	25
Hong Kong, China	525	5
Malaysia	432	14
Mauritius	728	16
Singapore	416	3
Thailand	615	14
Vietnam	669	23

Source: Summarized from World Bank, 2008

Considering labour markets, low total factor productivity (TFP) has been identified as a critical constraint to growth for the Caribbean, especially since the decade of the 1990s (Kida, 2006; OTF Group, 2005). A recent study by Kida (2006) noted that, while total factor productivity growth achieved a respectable measure of 2.1% to 2.6% between 1981 and 1990, and accounted for up to half of total output growth in that period, the median country average of TFP for the Caribbean was -0.4% per year during the decade of the 1990s. It is this sizeable decline in productivity growth which is deemed to have been fundamental to the growth slowdown in the Caribbean in the 1990s.

Kida further observed that it was increases in capital per worker, rather than labour productivity, which explained the significant levels of growth during the 1980s to early 1990s. Falling TFP appears to have been extended into the decade of the 2000s as borne out by a further study by ECLAC (2009). During this period, TFP declined from 0.9% to 0.5%.

Table 15 summarizes changes in TFP for selected Caribbean countries over the decades of the 1980s and 1990s, while table 16 summarizes changes from 1971 to 2007.

Table 15: Total Factor Productivity growth rates, 1980 - 2000

Country	1980s	1990s	Change
Antigua and Barbuda	4.6	1.6	-3.0
Barbados	-	0.7	-
Belize	2.1	1.0	-1.1
Dominica	4.5	1.1	-3.4
Grenada	4.2	2.0	-2.2
Guyana	-6.3	2.7	9.1
St. Kitts and Nevis	0.4	2.6	2.2
St. Lucia	5.0	-0.3	-5.3
St. Vincent and the Grenadines	4.4	0.5	-3.9
Trinidad and Tobago	-3.1	1.1	4.2
Regional Median	4.2	1.1	-2.2

Source: Kida, 2006

Table 16: Total Factor Productivity and contribution to GDP growth for the median Caribbean country: 1971 to 2007

	Contribution to GDP Growth in Percentage Points			
	GDP Growth	**Physical Capital**	**Labour**	**TFP**
$\alpha = 1/3$				
1971 - 1980	5.0	1.9	0.4	2.7
1981 - 1990	5.1	1.4	2.3	1.3
1991 - 2000	3.2	0.8	1.6	0.9
2001 - 2007	3.5	1.9	1.2	0.5

Source: Summarized from ECLAC, 2009c
Note: α is a proxy for the share of Capital in national income.

Apart from declining TFP, the Caribbean is also characterized by relatively high wages. While no comprehensive comparisons of international wages have been cited, several researchers (OFT Group, 2005; World Bank, 2005; Kida, 2006) identify this as a major challenge. Indeed, Kida points out that high and rising wages are particularly responsible for slowing growth in the service sector from the mid 1990s, since it has outpaced productivity growth. Moreover, given the regime of fixed exchange rates employed by many Caribbean small States, the use of exchange rate policy to attenuate for high wages is largely not available to policymakers.[17] Ultimately, relatively higher wage rates, along with declining total factor productivity, are considered to be critical structural constraints to enhancing future competitiveness of the Caribbean in the medium to long term, especially in the key sectors of tourism and services.

Weak public institutions and inefficient governance are additional structural constraints to the future growth of the Caribbean. This reality is apparent from the status of public debt as well as fiscal deficits accumulated over the past decades. A measure of performance in this area can be found in the public institutions indicator of the Global Competitiveness Index prepared by the World Economic Forum. This indicator assesses five variables: (1) voice and accountability; (2) rule of law; (3) control of

[17] Note that the larger economies such as Jamaica, Trinidad and Tobago, Guyana and Suriname all have flexible or managed floating exchange rates. A fixed exchange rate prevails for the Bahamas, Barbados, and the Eastern Caribbean States (ECS). Monetary policy for the ECS is set by the Eastern Caribbean Central Bank.

corruption; (4) regulatory quality; and (5) government effectiveness.[18] According to Kida (2006), while the Caribbean ranks relatively highly on the first variable, it scores 'below par on all other indicators'.

For instance, from a rank score range of -2.5 to 2.5, only Barbados (1.36) and the Bahamas (1.10) attain scores greater than 1 for the 'rule of law' variable. No other Caribbean country attained a higher ranking score for any other variable of this index.

This assessment portends another emerging structural challenge related to the evolving social dynamic of crime and violence in the Caribbean, a challenge that is especially important to the future sustainability of Caribbean tourism. As noted by the World Bank (2007), crime is now regarded as the number one social issue for much of the Caribbean, and poses a serious threat to growth and development, through its deterrence of both foreign and domestic investment. The transshipment of narcotics between the major drug producers on the South American mainland, and major consumers in North America, has contributed to the rapid proliferation of conventional and organized crime in the Caribbean, with the result that the Caribbean now has the highest rate of homicides globally, with an average of over 30 per 100,000 (World Bank, 2007). Other forms of violent crime have also increased in recent years, especially violence against women. Apart from the drug trade, other factors which have operated to facilitate the growth of crime include: the Caribbean's extensive coastlines and territorial waters relative to land mass, and the limited capacity to effectively police same; limited capacity of its law enforcement systems; and small criminal justice systems.

As the dominant economic sector, tourism is especially susceptible since the impacts of crime on this sector readily ripple through domestic economies. The World Bank lists losses of tourism receipts among the top eight socio-economic costs of crime in the Caribbean, as it reduces tourist arrivals, and discourages tourism sector investment. The World Bank also cites specific studies[19] which indicate that crime was a main source of discouragement for visitors to certain Caribbean destinations and that, in some cases, property crime tended to be disproportionately directed at tourists.

Yet another key structural challenge for the Caribbean relates to vulnerability to natural hazards. Such vulnerability manifests itself in the occurrence of an array of natural events such as hurricanes, earthquakes, floods, volcanoes and storm surges in coastal areas. ECLAC (2009), in an assessment of the impact of natural disasters on four Caribbean countries, notes that over the period 1980 to 2004, some six million persons were affected, with damages estimated at US$ 5.6 billion. Further, more than 8,000 lives were lost due to the occurrence of natural events. These impacts for the four countries are summarized in table 17 below.

[18] Variable descriptions: 1. Voice and Accountability - political, civil and human rights, and freedom of the press; 2. Rule of Law –quality of policy and law enforcement and likelihood of crime and violence; 3. Control of Corruption – control on public power for private gain, petty and grand corruption and state capture; 4. Regulatory Quality – absence of red tape and market unfriendly policies; 5. Government Effectiveness –competence of bureaucracy and quality of public service delivery.

[19] See Dunn and Dunn, (2002); Albuquerque and Elroy, (1999); Alleyne and Boxil, (2003).

Table 17: Impact of natural disasters on four selected countries: 1980 -2004

Country	Dead	Affected	Impact in US$
Cayman Islands	2	35,389	3,432,000,000
Grenada	39	142,000	899,000,000
Jamaica	582	1,844,138	192,286,000
Haiti	7,410	3,761,508	1,112,114,300
TOTAL	**8,033**	**5,783,035**	**5,635,400,300**

Source: ECLAC, 2009b

Because of the small size of most Caribbean States, most settlements and economic activities are established on coastal zones. This is especially true for the tourism sector where beaches and related built development such as hotels, marinas, and water sports constitute a major share of the subregion's tourism infrastructure, and are therefore subject to significant damage and loss from natural events. For instance, it is estimated that of approximately 420 places of accommodation on the island of Barbados in 2007, 90% were sited on the coastline (ACS, 2007). Moreover, the typical tourism establishment in the Caribbean is located within 800 metres from the high water mark (World Bank, 2000).

With respect to tourism sector losses, the case of Grenada is instructive, as 50% of all tourism assets were destroyed with the passage of Hurricane Ivan in 2005. Additionally, total losses to the sector were estimated at US$ 94 million for the 2004 – 2005 winter tourism season[20] (ACS, 2007). Similarly, the passage of Hurricane Noel was estimated to have cost the Bahamas millions of dollars in 2007.

B. FUTURE OPTIONS FOR TOURISM

The broader social and macro economic picture elaborated above leads to the inescapable conclusion that major structural changes are required for the long term sustainable growth of the Caribbean. The Caribbean development experience over the past four decades suggests that the tourism sector now offers the best opportunity for restructuring the subregion's export sector.

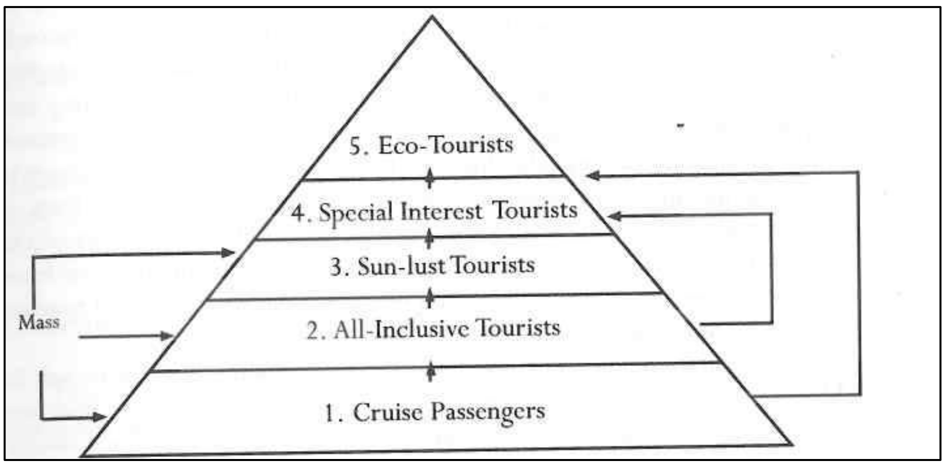
What then are the options for the future development of the tourism sector in the Caribbean? Several analyses (World Bank, 2005; Mc Bain, 2007; UNCTAD, 2007; IMF, 2008; OTF Group, 2005) contend that future economic growth, and by extension future development of the tourism sector, will depend on the Caribbean enhancing its competitiveness through economic integration. With respect to the tourism sector, this position has been positively articulated by Erikson and Lawrence (2008), who argue that "expanding the competitiveness of the Caribbean services sector beyond tourism is a way to draw on the strengths of the Caribbean while creating more sustainable economic growth". In this regard, two broad sets of options are apparent. The first relates to strategies for enhancing the value of the current tourism product by strengthening the value chain through linkages with other sectors. The second relates to the expansion of the tourism sector into a total service economy by the addition of new services, technologies, and public and private sector investments.

In the case of enhancing the current product, Meyer (2006) points out that increasing backward linkages requires increased collaboration and usage of other economic sectors in a tourism destination such that the whole economy is stimulated, and synergistic effects are created between heretofore disconnected sectors. This clustering approach as described by Mc Bain (2007) obtains where there is a 'geographic concentration of interconnected companies in a particular field, linked by commonalities and

[20] January – April, 2005

complementarities'.[21] In the long run, increased linkages with the tourism sector can reduce the level of import content through substitution of foreign imports of both goods and services, with locally produced supplies. Strengthening linkages therefore is an imperative, in the diversification of the sector from its classical sun, sea and sand model to more strategic niche tourism. This has been recognized by Jayawardena (2007) who observes that, given the diverse offerings of the Caribbean, it is necessary to divide the market into key segments which reflect the special interests of various sub-groups of travelers. Jayawardena proposes the Pyramid of Tourism Segmentation (POTS) model as a relevant segmentation framework for the Caribbean (figure 8).

Figure 8: Pyramid of Tourism Segmentation (POTS) Model



Source: Jayawardena, 2007

This model has 5 main segments thus: (1) Cruise Passengers; (2) All-inclusive Tourists; (3) Sun-lust Tourists; (4) Special Interest Tourists; and (5) Eco-Tourists. In this model, the first three segments constitute the 'mass tourist' segment for which the Caribbean became renowned up to the 1990s. Future sustainability and growth of the sector, however requires greater investment to attract special interest, as well as eco-tourists. For while these are smaller segments, they offer the prospect of attracting more seasoned, higher income visitors, who are committed to a more intimate experience of the location, engage in more direct spending in the local economy, and are more likely to undertake return visits to the destination. This is especially important given the high level of leakages from the sector, as well as the Caribbean's relatively high labour costs, and lower labour productivity.

Special interest tourism includes a number of sub-categories such as cultural and heritage tourism; adventure tourism; community based tourism; health tourism and agro-(or agri) tourism (Jayawardena, 2007). While many of these areas overlap, both agro-(agri) tourism and health tourism seem to offer particular advantages for the Caribbean. In the case of agro-tourism, the potential of a specialized domestic agriculture[22] to supplement the high food import content to the sector has been noted

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[21] Michael E. Porter, as cited by Mc Bain, 2007.

[22] While the Caribbean has suffered significant decline in its traditional export agriculture (sugar, bananas, cocoa), there continues to be potential for the supply of higher valued exotic produce and food to very specialized tourism niches in the region. Such supplies include tropical fruits, roots and tubers, organically produced vegetables, and condiments.

(Mc Bain, 2007). More importantly, given the long history in the export of tropical commodities, there is also the potential to include its agricultural heritage as part of the tourism experience offered to visitors to the Caribbean. Such experiences could include working exhibits of tropical food processing (sugar, cocoa, cassava), visits to local farms, and specialty food processing facilities (spices, chocolates, coconut candies and oils, rums), and participation in traditional farming and fishing activities. The agricultural heritage could also be further promoted through the mounting of food festivals in which the highly varied Caribbean gourmet can be presented to visitors.

Another specialty tourism sector which holds much promise for the Caribbean is in the health and wellness subsector. The services include health spas, the provision of herbal treatments, alternative medicines, and other healthy lifestyle offerings. The Caribbean year round warm weather, pristine environment and generally relaxed lifestyle is ideal for the provision of rehabilitative and recuperative services.

The clustering approach to the future development of the sector could also be extended to include the handicraft sector which could become a significant supplier of interior elements to the hotel and restaurant sector. These could include furniture, furnishings and décor elements such as drapery, wall hangings and paintings, ceramics, upholstery, cushions and rugs, bathroom furnishings, lamps and lighting fixtures, specialized prints, place mats, and napkins and napkin holders, tablecloths and other bathroom furnishings. With an estimated stock of 225,245 rooms in the Caribbean as at the end of 2009, (Smith Travel Research, 2010), this represents a significant market for the supply of artisanal products. What will be required are the necessary supply chain arrangements, quality management, negotiation and contractual arrangements which will enable Caribbean artisans to participate competitively in this sector. This implies the need for renewed policy towards enhancing the competitiveness of small and medium-sized enterprises in the Caribbean.

With respect to the expansion of the tourism sector into a total service economy, this is a *sine qua non* if Caribbean economies are to remain competitive and sustainable over the long term. Indeed, the time has come to embrace the idea of developing a more comprehensive service economy in which tourism is but one such subsector. This is especially important, given that the Caribbean's relatively high production and service costs, its exposure to external economic shocks and its vulnerability to natural hazards. This approach has been extensively elaborated by Erikson and Lawrence (2008) who identified a range of high end specialty services which can better generate income and employment, stimulate and sustain innovation, and further enhance inter-sectoral linkages in order to bolster the regional economy. Among the services identified were yachting and boating, wellness, education services, banking and finance, and information and communications technologies.

While yachting and boating services have been developed to varying degrees in the Caribbean, this subsector represents a complex of economic activities, with tremendous potential for the extension of the service offerings of the sector. Data on this subsector are extremely scarce, and the most recent estimates on the sector show earnings ranging from US$ 3 million to US$ 5 million for Dominca to US$ 100 million for the British Virgin Islands[23] (ECLAC, 2004). Yachting is considered to include a complex of activities for sustaining charter boating and cruising, such as charter operations, marinas and ancillary services, haul out facilities, provisioning, marine services, sail making, engine repair and electronics. Expansion of this sector offers prospects for enhancing earnings and employment, while linking to the local heritage of indigenous sea craft building, and the development of general seamanship of the Caribbean.

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[23] These figures are estimates for the years 1998 to 2000.

The provision of education services is another avenue through which the Caribbean can broaden its services offering. In this regard, it has already proven its potential through the success of St. George's Medical University in Grenada, Ross University in Dominica, and the Ross Veterinary School in Saint Kitts. These institutions contribute both directly to the generation of incomes, and indirectly through the introduction of technologies and other synergies with the local economies, while providing excellent natural and social ambience for learning, research and intellectual reflection. The Caribbean has the potential to attract other types of leaning institutions and, particularly in the English-speaking countries, there is potential for the establishment of English language academies, business programmes, maritime training institutes, and creative arts training. Indeed, given the subregion's long standing experience in tourism, the establishment of tourism business schools which target candidates from the global hospitality sector could be a strategic investment in diversifying the regional services sector. Such institutions will draw on other traditional tourism services such as travel, accommodation, and boarding services, all of which can readily connect to the traditional tourism sector infrastructure. To achieve this however, public sector investment in ICT will be a critical requirement for success.

The collapse of CLICO and Stanford International Bank as a result of the global economic crisis has shaken investor confidence in Finance and Banking as a prudent subsector for future expansion of the services sector in the Caribbean. The Caribbean has been particularly successful in the offshore banking sector, and should further examine this area as a possible source of future growth. As noted by Erikson and Lawrence (2008), future efforts in this area should be in the growing outsourcing industry through the offer of support services such as transaction processing, finance, human resources, and investment banking analytics.

A final, but by no means exhaustive area for consideration in the evolution to a full service economy is in the area of information and communication technologies (ICT). While the Caribbean has made initial forays into this sector through its largely unsuccessful efforts with the establishment of call centres, the strengthening of back office services in areas such as Internet gaming, and software development, can also be important pursuits in the transformation of the regional services sectors. ICT holds the potential to enhance even the current tourism sector by improving customer reach, supporting the deployment of dynamic marketing campaigns, improving inventory management, and improving the overall service offering (UNWTO, 2009a). ICT can also strengthen small and medium sized enterprises so that they can more efficiently participate it the tourism sector cluster and value chain, thereby improving overall economic competitiveness. The OTF Group (2005) provides a comprehensive treatment of the role of ICT in improving economic competitiveness and integration in Caribbean economies.

V. CONCLUSION

The Caribbean development experience up to the 1990s fostered the emergence of tourism as the main economic driver for most Caribbean economies. Since the 1990s, the sector has faced many challenges and, having competed globally for more that three decades, the evidence now suggests that Caribbean tourism is beginning to lose its global competitiveness.

The challenge has been exacerbated by macro-economic constraints such as high fiscal and current account deficits, large public debt, and high natural vulnerability, manifested through increased frequency of natural events. The global economic crisis has also added to the imperatives for adjustment, as it has shown the Caribbean to be precariously dependent on the tourism sector.

Further to this, the crisis has amplified the weakness of the region's institutions, reflected in a generally low level of competitiveness in areas such as the rule of law, control of corruption, weak regulatory frameworks and poor public service delivery.

Given additional prevailing structural challenges of high labour costs, low labour productivity, small economic scale, along with rapidly emerging social challenges, the global economic crisis has signaled the need for the Caribbean to explore a broader service economy as a medium to long term development strategy. This approach offers the opportunity to better link other economic sectors to the tourism product, and to enhance the long term competitiveness of the Caribbean.

In order to achieve this however, strong efforts are required to strengthen the human resource base, improve strategic public infrastructure such as telecommunications, and further develop regulatory and governance frameworks for targeted areas. Indeed, ICT should be recognized as a key element in a renewed development strategy, as it offers the prospects of enhancing service efficiency, developing new opportunities, and reducing human resource costs. It is the basis of the new knowledge economy, for which an expanded service sector provides an important long term development framework.

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