

## Chapter 14

# Tourism, Trade in Services and Global Value Chains

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### Abstract<sup>4</sup>

This chapter examines the scope for economic diversification within the tourism sector, as well as across sectors, for small states that are heavily dependent on the earnings derived from tourism exports. Adopting the global value-chain (GVC) perspective, this chapter explores the linkages between different services sectors and tourism to identify opportunities for upgrading into higher-value activities. Cross-border service activities in the tourism sector, including online services provided by tour agents and online payment systems, are all alternative forms of services supply under the General Agreement on Trade in Services (GATS) framework. Although of tremendous value, the interlinkages between this type of service and the conventional tourism value chain are not always considered. Other forms of tourism services, including through commercial presence, are also not often exploited. The evidence presented in this chapter suggests that more effective upgrading processes for the tourism value chain include considering the interlinkages between different modes of service supply.

### 14.1 Introduction

The growth of global value chains (GVCs) is an important transformation in the contemporary global economy, as it is a new organisational method in business practices. Technological change in the information and communications technology (ICT) sector, in particular, has

been a key driver of GVCs, facilitated by trade and investment. Firms source service inputs either domestically or internationally, at arm's length (i.e. offshoring) or within the firm (i.e. in-house). The growth of this process is referred to as the rise of 'servicification'. Most studies in this area have been on the impact of servicification on the manufacturing sector and to a lesser extent on agroprocessing industries. The role of servicification in the tourism sector has largely been ignored.

The aim of this chapter is to highlight the important contribution of the services sector to GVCs in the tourism economy. The tourism sector is a key driver of the economy and the services sector in many developing countries, particularly small island developing states that have a heavy reliance on the sector. Given this, expansion and diversification of the tourism sector is a key strategic objective.

It is increasingly recognised that developing countries can improve their competitiveness, growth and sustainability by participating in GVCs and that to do so they need to engage in a process of industrial upgrading (Humphrey and Schmitz 2002). The argument is that economic diversification and social transformation are achievable once countries strategically tap into GVCs and move beyond the provision of basic or low value-added services (Low 2013).

The chapter draws on the experience of the Caribbean, because it is a mature tourism destination that has attracted significant

investment over time from international, regional and local firms. The economic impact of tourism in the Caribbean is high in comparison with the world average and with other developing regions. In fact, the Caribbean is the most tourism-dependent region, given travel and tourism's contribution to gross domestic product (GDP), employment and export earnings. Many Caribbean states rely heavily on tourism, including Jamaica (the economic impact of tourism in 2012 was 27.4% of GDP), Saint Lucia (39%), Barbados (39.4%), The Bahamas (48.4%) and Antigua and Barbuda (77.4%) (Edghill 2013). The findings of the chapter serve as an interesting point of reference for other developing countries and the wider Caribbean.

## 14.2 Defining tourism

According to the World Tourism Organization (UNWTO) definition, 'tourism is a social, cultural and economic phenomenon which entails the movement of people to countries or places outside their usual environment for personal or business/professional purposes' (UNWTO, n.d.a). Under this broad scope, in a strict sense a tourist would be any visitor to a country other than his/her own whose trip includes at least an overnight stay.

Tourism and travel-related services are traditionally defined as services provided by hotels and restaurants (including catering), travel agencies, tour operator services, tourist guide services and other related services. These are classified as sector 9 in the World Trade Organization (WTO) W/120 Services Sectoral Classification List. Tourism is the sector that received the largest number of commitments by WTO Members in the Uruguay Round, with 60 countries having made commitments in this sector.

The World Tourism Organization divides tourism services into three basic types:

domestic, inbound and outbound. Domestic tourism comprises the activities of a resident visitor within the country of reference, as part of either a domestic tourism trip or an outbound tourism trip. Inbound tourism comprises the activities of a non-resident visitor within the country of reference on an inbound tourism trip. Finally, outbound tourism includes the activities of a resident visitor outside the country of reference, as part of either an outbound tourism trip or a domestic tourism trip (UNWTO, n.d. a).

Tourism is a highly 'perishable' commodity, since unsold airline seats and hotel rooms, for instance, have no residual value. Thus, the cost of opportunity is especially high in this services sector, since it is impossible to obtain an income on the seats and rooms that were not occupied in the past.

Another important issue that also affects tourism is migration regulation (WTO 1998). This will largely determine how easy it is for tourists to access any given location and how easily foreign workers may be recruited to help with the required support services for tourists.

## 14.3 Tourism and the global economy

International tourism (including both travel and passenger transport) generated US\$1.4 trillion in export earnings in 2013. Receipts earned by destinations from international visitors grew by 5 per cent to reach \$1.2 trillion, while an additional \$218 billion was earned by international passenger transport (UNWTO 2014). International tourist arrivals grew by 5 per cent in 2013 to 1.087 billion (UNWTO, n.d. b). Tourism accounts for 29 per cent of world exports of services and 6 per cent of overall exports of goods and services. It is ranked fifth as a worldwide export category, after fuels, chemicals, food and automotive products. It is the highest-ranking services

industry export. Tourism is the first and most important export category and foreign exchange earner for many developing countries (UNWTO 2014).

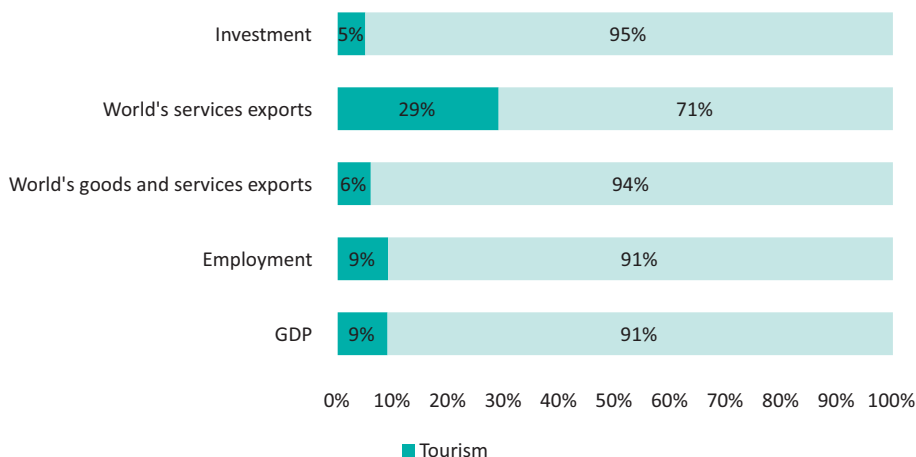
The direct contribution of travel and tourism to the world economy was estimated to account for \$2.1 trillion and to provide 101 million jobs in 2012. But the real contribution of tourism is much more than this when the indirect and induced impacts are also taken into account. Including together the direct, indirect and induced impacts, travel and tourism’s total contribution to the world economy in 2012 was an estimated \$6.6 trillion to global GDP, \$760 billion to investment and \$1.2 trillion to exports (all in 2012 prices), as well as providing around 260 million jobs (World Travel & Tourism Council 2013). The economic contribution of tourism to the global economy is set out in Figure 14.1, shown in terms of its contribution to these four key economic variables.

More specifically, this indirect contribution relates to the economic contribution to GDP and employment of the following sectors: capital investment on travel and tourism; government collective travel and tourism

spending; and supply-chain effects, which are the purchases from suppliers dealing directly with tourists that use them as inputs to their final tourism output. ‘Induced contribution’ refers to the spending of direct and indirect employees working in activities that involve tourism, and may include the following categories: food and beverages; recreation; clothing; and housing and household goods (World Travel & Tourism Council 2012). Figure 14.2 breaks down the direct, indirect and induced contributions of travel and tourism to GDP.

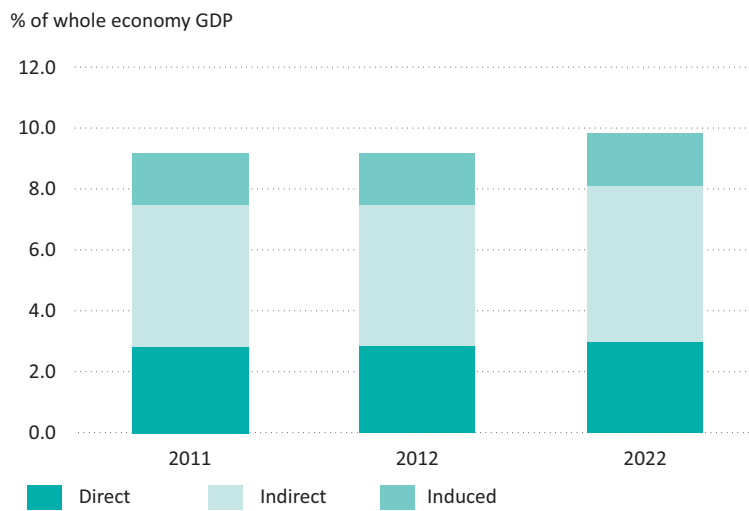
With the growing importance of travel and tourism in the global economy, it is estimated that, by 2022, travel and tourism’s total contribution will account for around 10 per cent of world GDP and more than 1 in 10 jobs. Figure 14.3 shows the employment derived from the tourism sector in percentage terms and indicates a considerable increase forecast for the number of jobs related to tourism and travel by 2022. The World Travel & Tourism Council (2013) estimates that more than 70 million jobs will be created in this sector over the next decade, with two-thirds of these additional jobs located in Asia, the most dynamic region for future tourism growth.

Figure 14.1 Contribution of tourism to the global economy



Sources: Figures on investment from World Travel & Tourism Council (2013). Figures on goods and services exports, employment and GDP from UNWTO (2013). Figures on world’s services exports from UNWTO (2014).

Figure 14.2 Direct, indirect and induced contributions of travel and tourism to GDP



Source: World Travel & Tourism Council (2012).

### 14.4 Tourism services and global value chains

Under the WTO General Agreement on Trade in Services (GATS), the mode of supply used to trade tourism services is Mode 2. It is the movement of the consumer from his/her home country to consume, in this case, tourism services abroad. The GATS defines this in Article 2(b) as the ‘Supply of a services in the

territory of one WTO Member to the service consumer of any other Member’. This involves the cross-border movement of consumers, who travel to the source of the service in question, in this case tourism.

A broad range of workers, both skilled and unskilled, employed inside national borders contributes to providing tourism services (WTO n.d.). This includes such jobs

Figure 14.3 Total contribution of travel and tourism to employment



Source: World Travel & Tourism Council (2012).

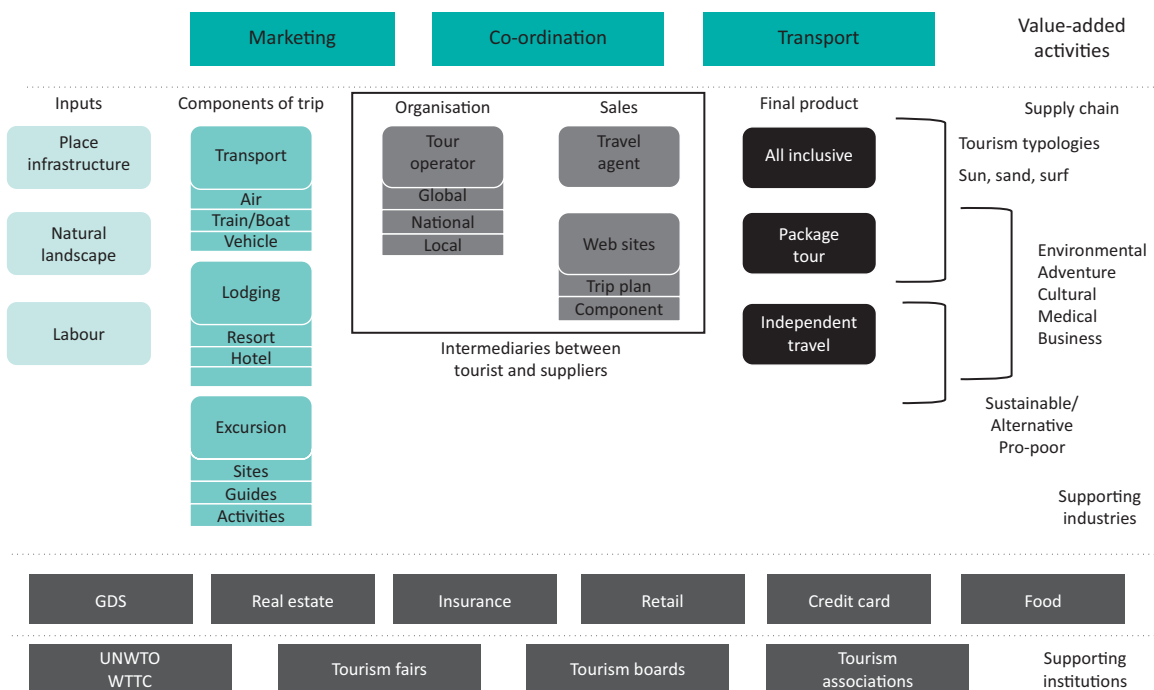
as hotel staff, tourist guides, taxi and bus drivers, entertainment workers and many others. When such services are provided to tourists, they are considered to be exports of trade in tourism services by the supplying country, and imports of tourism services by the country from which the tourists originate. The corresponding payments for these tourism services appear in a similar way in the balance of payments ledger, as foreign exchange earnings in the first case, or as foreign exchange payments in the second case.

Some examples of trade in tourism services may be as follows: a visitor spending two months travelling around the Caribbean, making use of accommodation in different countries; visitors who arrive in a city for just one day but have lunch in a restaurant and use taxi services and possibly spa services; or persons who disembark in a Caribbean country for one or two days from cruise ships departing from Miami.<sup>5</sup>

The tourism sector can be mapped as a GVC, both from the point of view of the tourist and from the point of view of the tourist providers. It is interesting that this service sector, so important to so many developing countries, has been very little studied from a value-chain point of view.

From the point of view of the tourist provider, the tourism global production network depicted in Figure 14.4 can be characterised as having five segments: inputs, components of trip, organisation, sales and final tourism ‘product’. The components of trip, organisation and sales segments are represented by tourism businesses in inbound and outbound tourism destinations. The trip segment components are travel, lodging and excursions. Every segment is a mix of large and small firms and, if the investment regime allows it, a degree of foreign direct investment (FDI). The accommodation sector is a part of the lodging or ‘trip segment’ component of the value chain.

Figure 14.4 Tourism global production network



Source: Christian (2012); WTTC, World Travel & Tourism Council.

The organisation and sales segments act as intermediaries. Within the organisation segment, tour operators knit together an array of tourism products to create the tourist experience. In the sales segment, travel agents are the strongest retail venue. They sell tourism products, online and in sales offices, and inform potential tourists about destinations and suppliers. These tourism intermediaries are often vertically integrated operations, including not only retail sales and tour operator co-ordination, but also hotels and air transport. All the tourist experiences can be bundled together and sold as a packaged tourism ‘product’ by global tour operators. Travel agents can operate as subcontractors to global tour operators, but can also sell their tours directly to tourists.

The tourism GVC shown in Figure 14.5 follows the tourist’s ‘footprint’, or the series of the tourist’s interactions with firms and tourism suppliers. It includes the distribution, transport, lodging and excursion segments, as consumed by the tourist. The accommodation sector in this case is included in the inbound country under ‘lodging’.

One of the goals of countries or firms that are part of the tourism value chain is to upgrade their activities along the chain. Four upgrading

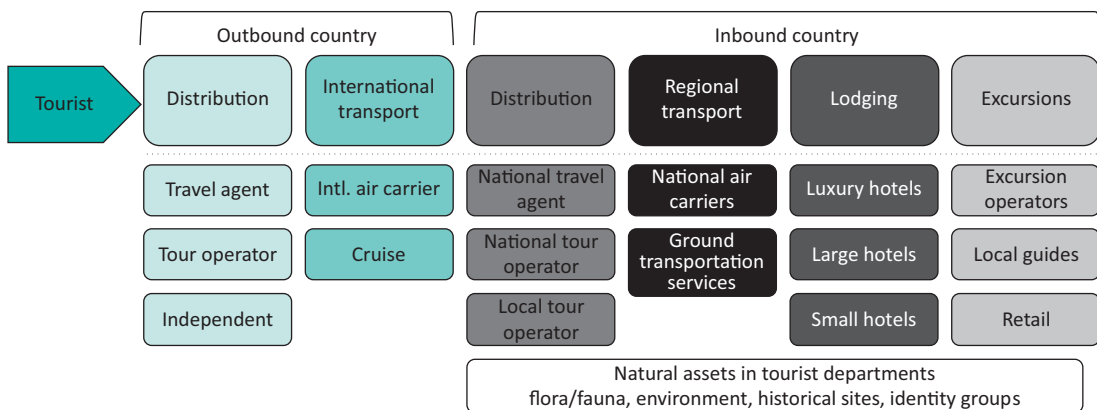
trajectories are key drivers of the global tourism industry:

- pursuing pro-FDI policies to attract international hotels offering higher levels of luxury;
- upgrading the co-ordination and destination trip planning by global tour operators;
- using upgraded information technology services to establish a more sophisticated web presence; and
- catering to the growing diversity of international tourists, with varied tastes and preferences, with ever more specialised ‘products’.

### 14.5 Tourism global value chains and trade in services: perspectives from the Caribbean

The tourism industry is highly dependent on transport, telecommunications and financial services. These sectors have a huge impact on the level of competitiveness of tourism services, since they are essential elements of the tourism value chain. Transport is key for travel agencies and tour operator services, telecommunications services are necessary components of

Figure 14.5 Tourism global value chain



Source: Christian (2010).

marketing and co-ordination activities between travel agents and tourists, and financial services are vital for the settlement of payments. What is illustrated here is the role of servicification in the tourism industry and the expanding role of trade in services beyond just Mode 2 ‘consumption abroad’ activities (see Table 14.1).

### 14.5.1 Mode 1: cross-border

An increasing proportion of the global value added in the tourism sector has been captured in Mode 1 or ‘cross-border’ activities, which

operate largely on the outbound side of the GVC. Of particular importance has been the rise of travel e-commerce – for example, the creation of automated transactions between travel service providers (mainly airlines, hotels and car rental companies) and travel agencies (see Quinby 2009). Global distribution systems (e.g. Amadeus, Sabre and Galileo Global), online travel agencies (Priceline and Expedia<sup>6</sup>) and peer-to-peer online sharing networks (e.g. Airbnb, Tripping, HomeAway), whereby consumers/tourists purchase accommodation,

**Table 14.1** Tourism and trade in services

Supplier presence	Mode of supply	Description of activities
Service supplier not present within the territory of the member	Mode 1: Cross-border supply – the possibility for non-resident service suppliers to supply services across borders into the member’s territory	Supply of services from one country to another, for example ICT-related services such as online booking or reservations through: <ol style="list-style-type: none"> <li>1) global distribution systems (e.g. Amadeus, Sabre, Galileo Global)</li> <li>2) online travel agencies (e.g. Expedia and Priceline)</li> <li>3) peer-to-peer online marketplace and homestay networks (e.g. Airbnb, Tripping, HomeAway, FlipKey)</li> <li>4) booking direct through major hotel and airline brands such as Hilton, Marriott, Hyatt, Starwoods, Accor, American Airlines, British Airways, Delta</li> <li>5) national and regional destination management services transmitted via the internet and other forms of telecommunications</li> </ol>
	Mode 2: Consumption abroad – the freedom for the member’s residents to purchase services in the territory of another member	Consumers from one country travel to another country and spend more than one day but less than one year as stay-over travellers; for example, to enjoy holidays, do business, visit friends and family, enjoy eco, cultural, festival and heritage tourism, or take advantage of medical and health and wellness tourism
Service supplier present within the territory of the member	Mode 3: Commercial presence – the opportunities for foreign service suppliers to establish, operate or expand a commercial presence in the member’s territory, such as a branch, agency or wholly owned subsidiary	A company from one country establishes a subsidiary or branch to provide services in another country; for example, setting up a travel agency, hotel, restaurant, tour operation, airline or catering company
	Mode 4: Movement of natural persons – the possibilities offered for the entry and temporary stay in the member’s territory of foreign individuals in order to supply a service	Individual professionals travelling from their own country to offer services in another; for example, chefs or entertainers working on cruise ships or in hotel chains

air travel and car rental as either standalone or bundled services, are also becoming more prevalent. As a result, an increasing proportion of tourism-related economic activity is embedded in online payments facilitated through international operators and transnational firms (e.g. hotel chains that allow direct booking).

Developing countries have largely not participated in the cross-border mode of services trade, as the economies of scale and scope required to achieve critical mass and global reach are beyond the capabilities of domestic or regional firms unless they are able to aggregate product and market offerings to compete globally. However, developing countries have some level of participation where they have locally owned airlines and hotel chains that are able to offer customers online booking and payment options.

In the Caribbean context, an example of cross-border services such as direct bookings in the outbound side of the accommodation sector is Sandals Resorts International (SRI). SRI is Jamaican-owned and operates all-inclusive resorts for couples, under brands such as Sandals Resorts (15 operations), Beaches Resort (3), Grand Pineapple Beach Resort (2) and Fowl Bay Resort (1 operation), as well as four private villa resorts in Jamaica. SRI employs more than 10,000 persons and has operations in several Caribbean territories: Jamaica, The Bahamas, Antigua and Barbuda, Saint Lucia, Turks and Caicos, Barbados and Grenada (Sandals Resorts International n.d.). Sandals was one of the first innovators in the all-inclusive resort model in the Caribbean and it offers a range of upscale services such as gourmet dining, high-end drinks bars, weddings and spa services, along with sport activities such as golf, scuba diving and other watersports. Sandals is a multibillion-dollar company, hosts a corporate university and a charitable foundation and has one of the strongest independent hotel brands in the world.

Another example from the Caribbean is the regional airline Caribbean Airlines, which is owned by the Government of the Republic of Trinidad and Tobago and is the largest regional carrier and Caribbean-owned airline. It operates international routes to Miami, New York, Toronto, Fort Lauderdale, Orlando and Caracas, along with a large number of routes within the Caribbean. On its international routes it competes with international carriers such as American Airlines, Delta, Air Canada and JetBlue. Caribbean Airlines has a fleet of 17 aircraft, a vacations and car rental online booking service, a loyalty programme, a cargo and small package express delivery service, and a duty-free store. It has more than 1,700 employees (Caribbean Airlines n.d.).

These two examples of how Caribbean firms are participating in segments of the tourism services value chain relate not only to Mode 1, cross-border activities. They also relate to Mode 3, 'commercial presence', because the activities involve investment in overseas operations. This illustrates cross-modal activities in services trade.

#### 14.5.2 Mode 2: consumption abroad

Under Mode 2, 'consumption abroad' activities, there are some key examples of how Caribbean firms are participating in the GVCs on the inbound side of the business.

Analysis of the villa rentals industry in Barbados provides a useful case study of how developing countries can participate on the inbound side of the tourism GVC. Like many other services in the tourism industry, the villa rentals business in Barbados consists of collaborations between international booking agents – such as Sotheby's International (London, UK) and Luxury Resorts (Canada) – and local property management firms. The international booking agents market luxury self-catered accommodation in foreign destinations to their clientele.

These agents then partner with local property management firms to provide concierge services in Barbados. The international booking agents possess detailed knowledge about their clients' preferences and tastes. As a result, they maintain strict regulation of the quality and price of services offered in the villas. In terms of value-chain integration, it is important to note that the villa property management companies find it difficult to work with global distribution systems and online travel agencies such as Expedia and Priceline, which insist on heavily discounted rates for properties advertised on their booking websites.

The local property management firms procure service inputs from within the local market to provide an array of services, to ensure that the international visitors to the villas under their management are satisfied with their stay. The services recruited from the local market include concierge services, event planning for special occasions, wedding planning, utilities, telecommunications, general contracting services, internal maintenance, transport, tourist attractions or guided tours, medical services, internal services, and operational services.

In Barbados, one can find several destination management companies that provide services to stayover guests and cruise passengers: access to tourist attractions and experiences; organising weddings and other specialty events; facilitating business meetings, conferences and other events; on-shore services for marine shipping operations; and scheduling bookings for airline and cruise ship staff. Some Barbados-owned firms have expanded to offer services in other Caribbean jurisdictions. Three examples illustrate how Barbados companies are linked in to GVCs and export services. Sun Group Inc. was established in 1982 and operates 51 offices in 11 countries, including offices in Florida, employing more than 700 people. The Sun

Group has business operations in hotels, retail travel, land and sea adventures, duty-free retail, vehicle rentals, land transport, destination management, villa rental, convenience shopping and general insurance services (Sun Group Inc. n.d.). Sunlinc also has its head office in Barbados and has grown to provide destination management services in Saint Kitts and Nevis, Antigua and Barbuda, and Grenada, along with an international marketing office in Florida (Sunlinc n.d.). Another useful example is Foster and Ince, a company which specialises in providing a range of services to cruise ships such as homeporting, shore excursions and transport. Foster and Ince has also invested abroad, with an office in Saint Lucia.

### 14.5.3 Mode 3: commercial presence

An interesting example of Mode 3 commercial presence is the business of in-flight catering conducted by the Barbados-based and -owned Goddards Enterprises. Goddards has 50 companies and operates in 23 countries. At the core of its business is a catering company that services airlines in 21 countries in the Caribbean and Latin America, including Uruguay, Paraguay, El Salvador, Venezuela, Ecuador, Guatemala and Colombia. It has a joint venture with LSG Chfs to offer this service to international air carriers such as British Airways, Virgin Atlantic Airways, American Airlines and Condor. The service also includes transport of food to aircraft, equipment handling, inventory management for food, procurement and aircraft laundry services. Airline in-flight catering is a very complex logistics business with issues such as turnaround times, food quality and variety, as well as weight, contributing to cost considerations. Many of the international airlines coming into the Caribbean 'double-cater', i.e. they bring enough food from the source market to cater for both their incoming and outgoing flights. Caribbean airlines flying into the US and UK

markets are not allowed to double-cater. This ultimately has an impact on the scope for expansion of local or regional catering firms in the in-flight catering GVC.

#### 14.5.4 Mode 4: movement of natural persons

The movement of natural persons is an area of the Caribbean tourism sector for which there are very few or no data. While there are data on the employment impact of tourism in the region, there is no data capture on the number of person employed or employees of firms (i.e. contracted service suppliers) who offer services abroad. Given this, there is no information on the number of Caribbean nationals working in hotel chains abroad.

One of the key elements of the tourism industry that is worth discussing is the cruise ship sector. It is the fastest-growing area in global tourism and it has a significant impact on sending and receiving countries. The Caribbean region accounts for close to 40 per cent of cruise traffic; however, it is estimated that the employment of Caribbean nationals is no more than 1 per cent.<sup>7</sup> Wages for cruise ship staff are considered low, especially for manual and semiskilled labour, and thus often more attractive to workers coming from lower-wage regions of the world. However, even in specialised areas such as entertainment, the share of Caribbean employment is considered low. Efforts are being made through the Munroe College campus in Saint Lucia to train persons for careers in the cruise ship sector.

### 14.6 Conclusion

This chapter provides a broad overview of how GVCs in the tourism sector flow through trade in services. The analysis considers not only the tourism services (output) received by international guests as the importers, but also the services provided internationally

(regionally or extraregionally) as inputs of the value chain. In particular, the chapter examines the scope for trade diversification by looking at all four modes of trade in services: cross-border, consumption abroad, commercial presence and the movement of natural persons. Thus, the chapter goes beyond traditional industry approaches, which focus on Mode 2, consumption abroad.

The chapter focuses on the experience of the Caribbean to give some perspective on the developmental impact of GVC participation. Data capture in this area is very weak, so the chapter relies on case studies to illustrate the potential impact. What is evident is that most of the activity of Caribbean-owned firms occurs in the 'inbound' side of the value chain, thereby leveraging a 'home court advantage' for tours, water sports, catamaran cruises, car rentals, dining, spa treatments, golfing, polo, etc. This highlights the linkages among service sectors and the value of relationships in the trade in services value chain.

What is also evident is that some of the more innovative Caribbean firms have displayed a capacity for industrial upgrading. Not only do these firms have a strong foothold in the home market, there are also some notable examples of these firms being able to export their services to other tourism destinations in the Caribbean and further afield. This bodes well for further diversification within the tourism sector. Many of the services traded are also cross-modal, which generates higher potential earnings and greater competitiveness. However, some higher value-added services continue to be outsourced, among them shipping services, procurement, advertisement and executive chefs.

Finally, the main factors that constrain the Caribbean from greater participation in tourism GVCs relate to governance issues. For example, many Caribbean-based destination management companies are heavily dependent

on North American and European airlines and cruise ships. An example of an uneven playing field, in this respect is the unfair competition in in-flight catering services, since Caribbean airlines are unable to double-cater in the USA and in the UK. Another issue is that it is not possible for rental estate companies to seal a deal with global distribution systems, since the conditions these systems require cannot be met by the villas because of some of their intrinsic characteristics.

All told, what can be concluded from the analysis is that the trade in services offers much scope for industrial deepening in the most tourism-dependent region in the world. Additionally, it illustrates that small island developing states can generate the capabilities to win market share in key aspects of the GVC. It is also noteworthy that the promotion of this sector would have significant spillovers in other sectors of the economy.

## Notes

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- 4 This Chapter is based on the study 'Services in the Tourism (Accommodation/Hotel) Value Chain in Barbados' prepared for the Organization of American States (OAS), with the financial support of the 2012-2015 OAS-Canada Cooperation Plan.
- 5 There are, however, other forms of Mode 2 services trade than tourism. These would include, for example, students from one country going to study in a foreign location and consuming education services under Mode 2. Another form would be the repair of aircraft or other types of vehicles in foreign locations. Tourism and travel are important for Mode 2, but they are not the only type of services trade in this category.
- 6 Expedia owns Hotwire, Travelocity, Hotels.com, Orbitz Worldwide, Trivago, HomeAway and CarRentals.com, along with several other brands (Expedia Inc. n.d.).
- 7 For further information on the cruise industry, see Cruise Lines International Association (2016).

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