Tourism and Inclusive Growth in Small Island Developing States

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Commonwealth Secretariat

THE WORLD BANK

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Foreword

Small states face a unique set of development challenges posed by their small size, narrow production and export bases, and susceptibility to climate change impacts. These factors influence and shape policy responses and the approach these countries take to address their sustainable development concerns. With over half of Commonwealth members comprising small developing states, the Commonwealth Secretariat has extensively researched their peculiar development challenges and helped countries explore the available opportunities for enhancing their development outcomes. Sustainable and inclusive economic growth is seen as an important plank in the strategy for achieving improved development outcomes for these countries. Due to their geographical location, the tourism sector in many of these countries plays a significant role, contributing to economic activity including government revenue and employment.

In recognition of the importance of the tourism sector and its potential catalytic role in these economies, the Commonwealth Secretariat and the World Bank commissioned three studies to explore the transmission mechanisms of tourism to the development of small states. These studies are: *Tourism and Inclusive Growth in Small Island Developing States (SIDS)*; *Cruise Ship Tourism in Small States*; and *Local Tourism Supply Chains in Small States*. These studies were presented and discussed at the Commonwealth Secretariat's 2012 Second Global Biennial Conference on Small States. This report presents the material findings from these studies and feedback received from the Biennial Conference.

The central research question of these studies relates to how the economic impacts of tourism are transmitted through the economies of SIDS. Further to this question is how initial tourism expenditure in a small economy translates into changes in local incomes through direct, indirect, and induced channels. The study also explores how tourism affects and changes local livelihoods in the host communities in SIDS.

The report concludes with two principal recommendations. First, there is an urgent need to address data gaps, as the existing data lack the level of granularity required for policy-makers to make effective and informed policy decisions to minimise economic leakage and to maximise value-added contributions from tourist consumption. Second, there is a need to develop locally-owned/operated niche tourism markets that promote and support local producers and suppliers. Given the glaring capacity constraints that these countries face, the international community can play a role in supporting their ongoing efforts in these areas.

This report offers a unique and focused set of contributions to better understand the value and impact of an important services sector in small developing states. It

provides valuable information and insights for policy-makers in small states, regional and international organisations, tourism industry stakeholders, experts, academics and students of development economics.

Cyrus Rustomjee

Director
Economic Affairs Division

Acknowledgements

We are grateful to the World Bank and the Commonwealth Secretariat for commissioning and funding the studies that underpin this report and for the opportunity to research this area of importance for SIDS and other small states. We hope that this report will generate discussion and further thought in the international policy community. We would like to thank our World Bank leads, Dr Sona Varma and Dr Apurva Sanghi, and our Commonwealth Secretariat leads, Dr Denny Lewis-Bynoe and Mr Wonderful Khonje, for their guidance and feedback on earlier drafts. We would also like to thank our senior colleagues on the team, Professor John Fletcher and Professor Adam Blake (University of Bournemouth) and Professor Donna Lee (University of Birmingham), for their incisive and constructive comments at different stages of the preparation of the report. We also thank the Research Services Department, University of Kent, for its assistance with the financial aspects of the project. For the Seychelles country visit and fieldwork, we are grateful to the Republic of Seychelles Ministry of Finance for its hosting and great help with logistics. Finally, we thank our interview respondents for giving up their time. The usual disclaimers apply.

Mark P. Hampton and Julia Jeyacheya

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Abbreviations and acronyms

3S	Sun, sea and sand
ABTA	Association of British Travel Agents
AIMS	Atlantic, Indian Ocean, Mediterranean and South China Seas
BREA	Business Research & Economic Advisors
BRIC	Brazil, Russia, India, China
CENTICA	Centre for Tourism in Islands and Coastal Areas (University of Kent)
CGE	Computer generated equilibrium (model)
C&IT	Conference & Incentive Travel
CLIA	Cruise Lines International Association
CPD	Continuous professional development
CSR	Corporate social responsibility
ECC	European Cruise Council
EPA	Environmental Protection Agency
F&B	Food and Beverage
FCCA	Florida-Caribbean Cruise Association
GST	General sales tax
HDI	Human Development Index
IMF	International Monetary Fund
IMO	International Maritime Organization
I-O	Input-output (model)
JAS	Jamaica Agricultural Society
MARPOL	International Convention for the Prevention of Pollution from Ships
MICE	Meetings, incentives, conventions, exhibitions
MVR	Rufiyaa (Maldives)
NGO	Non-governmental organisation

RCI	Royal Caribbean International
RCL	Royal Caribbean Line
SCM	Supply chain management
SENPA	Small Enterprise Promotion Agency (Seychelles)
SIDS	Small island developing states
SME	Small and medium-sized enterprises
SUT	Supply and use tables
TNC	Transnational corporation
TSC	Tourism supply chain
UNWTO	United Nations World Tourism Organization
USTA	United States Travel Association
VCA	Value chain analysis
VFR	Visiting friends and relatives
WTTC	World Travel and Tourism Council

Summary

Tourism is a key sector in most small island developing states and in many other small states, contributing to GDP, government revenue and employment. This report considers the effects of tourism as they work through the economy through the main channels, both direct and indirect. It examines land-based and cruise tourism, and explores how the local supply chain can be enhanced as part of an inclusive growth strategy.

SIDS and small states have characteristics that differentiate them from other economies. Inclusive growth is predicated upon broad-based growth across all sectors of an economy, includes low- and middle-income groups and has a distributional aspect that aims to reduce income inequality. Development strategies for these small nation states are further complicated by significant and challenging data gaps. Until recently inclusive growth has not been associated with tourism and economic development, especially in SIDS and small state tourism policy-making. This report examines the challenges of tourism and uses available data taken mainly from four SIDS that provide robust statistics, Jamaica, Maldives, Mauritius and Seychelles,[1] and highlights the direct channels through which tourism contributes to the national economy. These channels are its contribution to GDP and government revenue, visitor expenditure and direct employment. The report concludes that policies must favour local businesses and create employment.

The indirect channels are also discussed, with a specific focus on economic leakages, backward and forward linkages, and multipliers. For SIDS and other small states considering inclusive growth, the key question is how to maximise economic linkages to other sectors and how to minimise economic leakage. The operational challenges facing tourism, particularly in SIDS, are illustrated in the Seychelles case study. This demonstrates the need to analyse the local political economy and illustrates challenges for inclusive growth from hosting international hotels in a small economy with limited human resources, and supply chain issues that limit significant backward linkages.

As noted above, the data gaps are significant, and the collection of better data is one of two key recommendations for policy-makers made by this report. The data that do exist lack the level of granularity that is required to minimise economic leakages and maximise value-added contributions from tourism. The second recommendation is to develop locally owned and operated niche tourism markets that promote and support local producers and suppliers.[2]

The report's recommendations give policy-makers in governments and international agencies a firmer foundation for the formulation of evidence-based policy to facilitate inclusive growth strategies for tourism in SIDS and other small states.

Chapter 1

Challenges and Contributions: Tourism Development in SIDS

1.1 Introduction

Many small island developing states and small island states in the Caribbean and Pacific Ocean regions and in the Atlantic, Indian Ocean, Mediterranean and South China Seas (AIMS) region are Commonwealth member countries. Two-thirds of all Commonwealth countries are small states, and 23 of these are classified as SIDS.[3]

These nations share limitations and barriers associated with their geography, topography, demography, size and economy (Table 1.1), supporting the argument that they are both fragile and vulnerable to economic and environmental shocks. The impact of globalisation has created additional obstacles, so that there are fewer opportunities for economic growth through traditional industries (agriculture, fishing and manufacturing) in a globalised context where increasing competition and liberalised trade agreements further limit opportunities for trade (Encontre 1999; Bishop 2010; Seetanah 2011; Commonwealth Secretariat 2010).[4] Encontre (1999: 261) argues:

> Whereas shocks, in the past, were often confined to natural disasters or sharp market-related influences, there is now, in most SIDS, a perception of vulnerability to globalisation forces which generally involves difficulties to remain competitive and retain market shares internationally.

From a tourism perspective, SIDS particularly are more notable for their unique characteristics such as remoteness, scenery and sense of place (their competitive advantage) than for their limitations and barriers. These characteristics can be used to transform the western fantasy of 'tropical paradise' into a successful holiday product. As a consequence, SIDS have been popular holiday destinations for many decades, initially serving those seeking a traditional '3S' (sun, sea and sand) holiday in an exotic location (Bishop 2010) during the 1960s, and diversifying into special interest packages (sports, adventure, culture) in the 1980s.

In the last three decades, tourism development has again responded to changing trends, largely influenced by an increasing demand for more luxurious, tailor-made holidays (spa tourism, 'wellness', honeymoons and weddings) on land, and accommodating the rapid growth of cruise tourism. This latter sector is becoming an important element within the product mix as a means of diversifying regional or national economic development through revenue generated from port fees and excursions (Bresson and Logossah 2008).

The main tourist generating markets have changed over time. Initially, some SIDS regions such as the Caribbean and Pacific had tourists mainly from the nearest large

Table 1.1 Characteristics of small states

Factors	Characteristics
Economic	• High import dependence • Limited export opportunities • Vulnerable to global trade and finance markets • Inability to compete at global level • Limited opportunities to diversify economy and trade • Specialisation in too few sectors
Social	• Small population (<1.5 million) • Limited human capital • Limited institutional capacity • Poverty • Low ranking in Human Development Index (HDI)
Environmental	• Small land mass • Remote location • Fragmented land mass (island chains and atolls) • High natural biodiversity (marine and terrestrial) • Low-lying land • Vulnerable to global climate change impacts • Susceptible to natural disasters • Limited exploitable natural resources (mineral, vegetable, animal)

Sources: Briguglio 1995, Encontre 1999, Baldacchino 2005, Hampton and Christensen 2007, Bishop 2010, Lee and Smith 2010 and Seetanah 2011

generating markets (North America and Australasia, respectively).[5] In comparison, because of their remoter location, the Indian Ocean SIDS had long-haul tourism from the start. However, since the 1990s, the growth of long-haul air transport (and cheaper ticket prices) has meant that now tourism to SIDS is not necessarily from neighbouring regions, although North America remains a key market for the Caribbean despite a growing market share from Europe (Box 1.1).

Caribbean SIDS appear to offer a greater diversity in product development than SIDS in other regions. In comparison, the Indian Ocean SIDS (Mauritius, Seychelles[6] and Maldives) seem to be broadly selling the same product, namely high end, luxury tropical island tourism based in resorts. While Mauritius has developed some lower end mass tourism, all three SIDS appear to be aiming for the same market.[7] In comparison, the Pacific SIDS were initially short-haul destinations mainly for Australia and New Zealand. Some were also part of the round-the-world backpacker trail in the 1980s and 1990s that ran Asia–Australia/New Zealand–Fiji–USA. At present, tourism in Fiji is still buoyant and the country has the largest tourism economy in the region, but in the smaller islands, such as Vanuatu, tourism is struggling. This needs further research, but is probably the result of remoteness and difficulty of access, high costs (a structural aspect of SIDS economies) and increasing international competition among tropical island destinations.

Box 1.1 Tourism development in the Caribbean region

- The Caribbean had the earliest significant tourism, primarily from the USA and Canada in the pre-war period.
- This accelerated with the growth of mass tourism in the 1960s, with predominantly beach-based '3S' tourism on offer.
- With the growth of all-inclusive packages and highly capitalised enclave tourism owned by foreign firms (Weaver 2001), the region also saw the massification of the US-based cruise industry from the 1970s; this has become the fastest growing tourism sector (Wilkinson 2009).
- More recently, the tourism product has developed to include niche markets that focus on heritage and culture for both land-based tourists and cruise passengers.
- According to Nurse (2010: 27), 75 per cent of adult visitors to the Caribbean engage in cultural tourism that includes events, festivals and activities, while cruise passengers are the largest market for heritage tourism.
- The Caribbean has long been known for its culture and this is becoming an increasingly exploitable area for niche tourism opportunities that benefit the local economy and communities.

Fundamentally, sustained economic growth in long-haul luxury island destinations is closely tied to the wider global economy, especially in the main markets, such as Europe and North America (UNWTO 2012).

1.2 Tourism challenges

Four key challenges, that stem from the nature of the tourism industry, face tourism in SIDS and therefore impact upon whether inclusive growth policies can be deployed effectively. The challenges are:

1. Division between land-based and cruise tourism;
2. Issues of economic dependence on tourism;
3. Issues concerning accessibility; and
4. Competition between destinations.

These issues are discussed below. It should however be noted that some of these areas overlap or interact.

Some issues are associated with the division between land-based tourism and cruise ship tourism. Evidence suggests that these are compounded by multifarious challenges that relate to taxation, regulation, and research and data collection, as well as, perhaps more importantly, the distinct separation of the cruise sector from the rest of the travel and tourism industry. This report therefore includes a separate chapter that explores cruise ship tourism in SIDS and small state economies.

Issues associated with a high level of economic dependence on tourism, as well as vulnerability to external shocks, are characteristic of SIDS. In terms of inclusive growth and the tourism sector, much of this lies outside the control or influence of SIDS' governments. However, measures should be taken to maximise the opportunities for inclusive growth by stimulating new 'home-grown' enterprises that add value to the overall tourism product. This is discussed more fully below.

Other issues are associated with accessibility and the spatial location of SIDS. Affordable, regular access (usually by air transport) is fundamental to successful tourism development. Remoteness is a key factor in limiting tourist access (see Box 1.2).

There are also factors associated with the intense and growing competition between tourist destinations and the need for product innovation. The nature of the tourism industry means that it is very fast changing, with many new trends and destinations moving in and out of fashion. This has implications for the planning and management of SIDS tourism; for tourism to be part of inclusive growth policies, product innovation is key.[8] However, evidence from some SIDS shows that product innovation in tourism appears to be lacking (UNEP 1996; Nurse 2009). Given the dominant role of transnational corporations (TNCs) in many SIDS, especially in the accommodation, transport and cruise sectors, it appears that the possibilities

Box 1.2 The impact of reduced air access to remote SIDS: Seychelles

Between 95 and 99 per cent of tourist arrivals enter Seychelles by air; the rest arrive by sea as cruise passengers. The dependence on air transport is not uncommon for SIDS, but it does carry risks. Air Seychelles now operates under Etihad, as a result of the government's sale of a 40 per cent stake to the airline. The last flight by the national carrier was in late April 2012.

In-depth interviews with hoteliers (international and local) and local travel agencies in May 2012 indicated that traditional markets, such as France, are less likely to book a holiday to a destination to which there are no direct flights. Measures have been taken to attract visitors from new markets, particularly the Chinese, with arrivals from mainland China increasing every week.

It is too early to predict whether or not the loss of Air Seychelles will have a significant impact on Seychelles' tourism economy, and whether the growth of the Chinese market will continue.

for product innovation are affected by the power and dominance of the tourism TNCs. While the industry may at first glance appear innovative (with features such as infinity pools and wi-fi in guest bedrooms), global decisions about overall financial performance tend to crowd out the possibilities for local innovation. There is considerable 'copycat' behaviour in SIDS tourism products. This suggests that the TNCs exert significant influence on how SIDS tourism products are presented and promoted to a global audience.

1.3 Direct tourism contributions

The importance of tourism to SIDS is unquestionable. However, the evidence to support this is frequently inconclusive or partial, thus limiting opportunities to track year-on-year tourism growth, observe tourist expenditure in the wider economy or measure value-added over significant time periods.[9]

This combines with the lack of data about SIDS from which case study material can be drawn. Specifically, few SIDS have comprehensive financial accounting and tourism-related research data. Based on data available for direct and indirect expenditures and contributions, and employment and cruise versus land-based tourists, only three SIDS meet this requirement: Jamaica, Maldives and Mauritius. All three are well-researched destinations, where the tourism industry is monitored regularly by government ministries. Data are available from the national statistics office or tourism department; this is used here to emphasise examples of good practice.

1.3.1 Tourist spend and contribution to GDP

The World Travel and Tourism Council (WTTC) defines the direct contribution to GDP as the 'equivalent to total internal travel and tourism spending within a country less the purchases made by those industries (including imports)'.[10] In terms of SIDS, where imports of travel and tourism goods and services are high, as is the level of economic leakage, data for internal spending on locally-sourced and produced goods are essential, and that is shown where possible.

Tourism in most SIDS is a major contributor to GDP, government revenue, foreign exchange and employment (Royle 2001). In some cases, tourism contributes more than 40 per cent of GDP, rising to 45.5 per cent in Aruba and 47.4 per cent in Maldives. These figures relate to total contribution to GDP and include direct and indirect contributions (Figure 1.1). Induced contributions are not included.

A breakdown of leisure and business spending (Figure 1.2) shows that the majority of SIDS tourist expenditure is from leisure spending and that this exceeds 90 per cent of tourism consumption in 9 of the 12 SIDS selected for this report. Where business tourism spending exceeds 10 per cent of the total, the difference is quite considerable, for example ranging from 40 per cent in Mauritius to 98 per cent in Vanuatu.

Domestic tourism spending is less likely to make a significant contribution to GDP in SIDS. There are a number of reasons for this. First, the industry has been generally

Figure 1.1 Direct tourism contribution to GDP and employment in selected SIDS, 2011

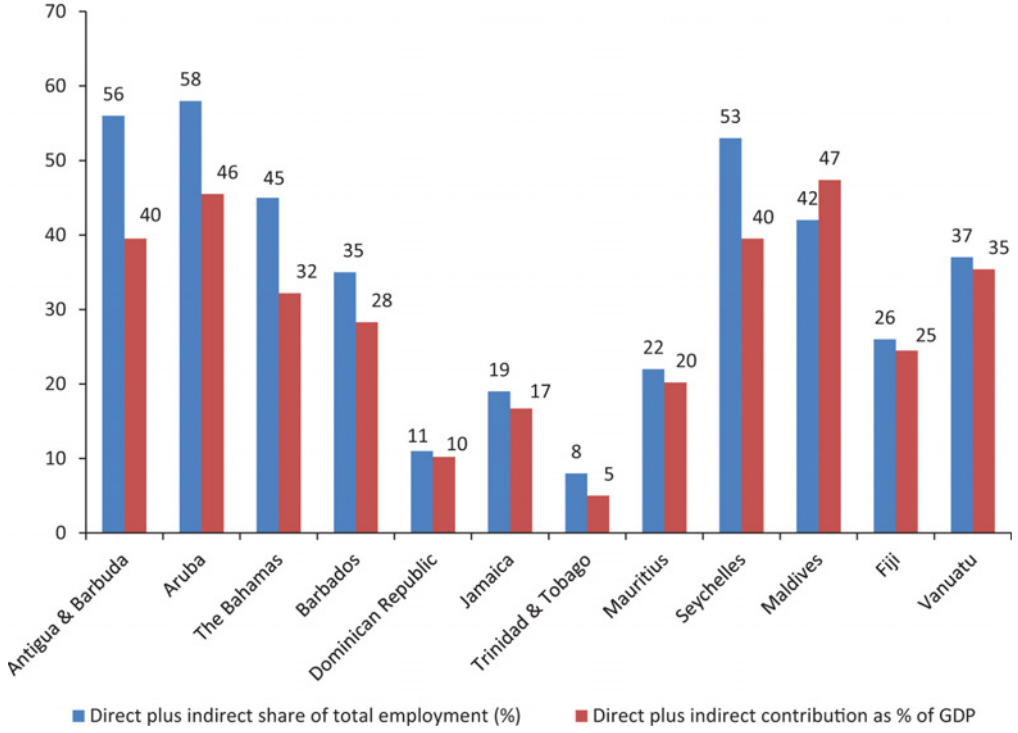
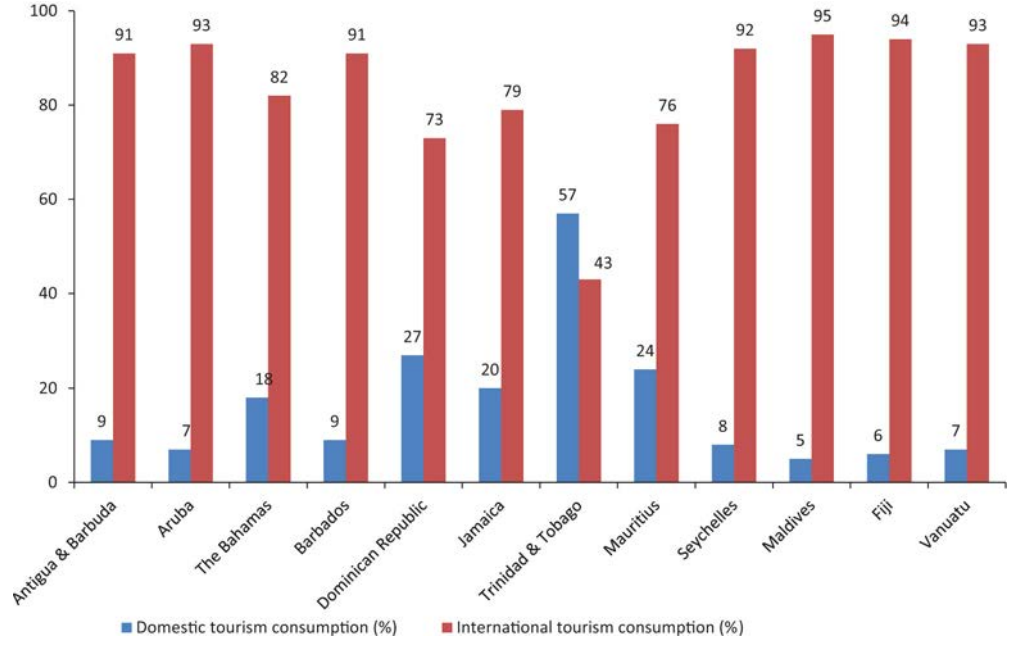


Figure 1.2 Business and leisure tourism expenditure, 2011

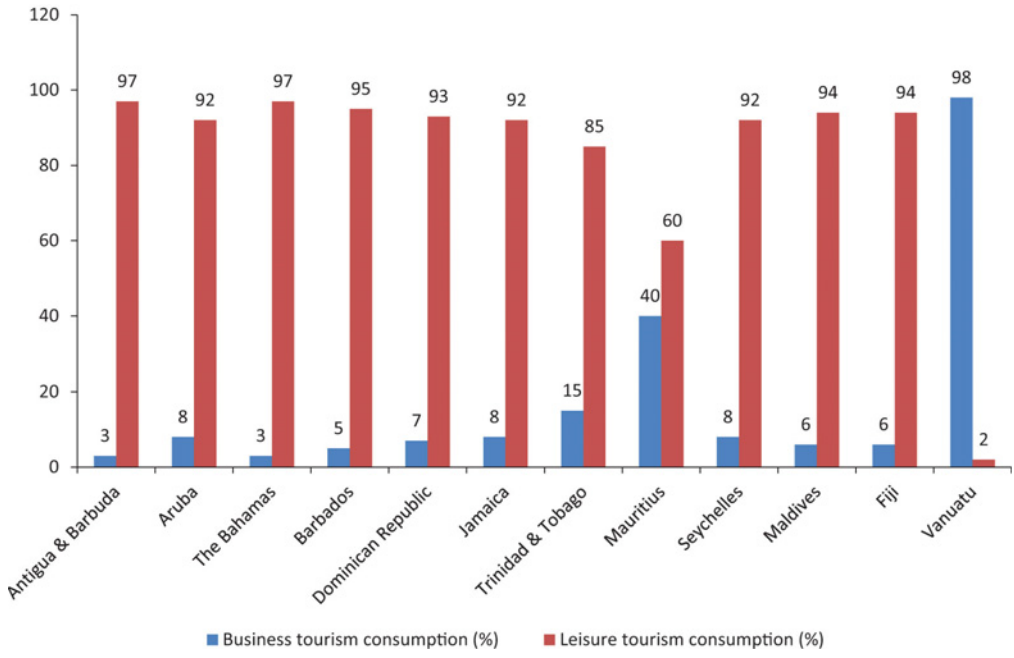


developed for international tourists and all-inclusive holidays. Second, the small populations generally found in SIDS make this a reasonably small sector (though it may be an option for larger SIDS). Third, infrastructure that serves niche tourists or even domestic tourists may not be available. And finally, domestic tourism is often perceived as the 'poor relation' of international tourism, as the average tourist spend is less (Figure 1.3 and Box 1.3).

Figure 1.3 provides some evidence to support this notion, with foreign visitor spending contributing between 73 and 95 per cent of GDP in most of the SIDS selected for this report. The exception is Trinidad and Tobago, with less direct spending from foreign visitors (43%) and more from domestic spending (57%). The fluctuations in total tourist arrivals and cruise passengers over the ten-year period 2000–2010 (Appendix 1, Table A1.5) could be due to any number of reasons, for example global financial instability, regional competition or policy change. However, it does not explain why domestic tourist spending has increased.

Tourism in Trinidad and Tobago developed more recently than in many of its Caribbean neighbours. In early 2000, cruise tourism was growing alongside a predominantly eco-tourist land-based tourism market. Traditionally, eco-tourism attracts high value, low volume development options. It is more likely to develop infrastructure that is accessible to both local and international tourists[11] and is sensitive to the natural environment.[12] Certainly, the guiding principles of the 2010 Tourism Master Plan clearly indicates a long-term intention to continue developing the tourism industry

Figure 1.3 International and domestic tourism in SIDS, 2011



Box 1.3 Leisure and business tourism in Vanuatu

Vanuatu is the only country where business tourism spending is higher than leisure tourism spending in the SIDS under review. One reason for this, apart from distance and cost, is the nature of tourism development on Vanuatu.

Total tourist arrivals and cruise passenger numbers were almost the same in 2000 (58,000 and 52,758, respectively). However, the growth in cruise passengers in ten years has been almost threefold (rising to 140,000). This rapid growth could have overshadowed land-based tourism development, especially if air access had not significantly improved over the same period.

Higher business spending in Vanuatu has been associated with an economy which has 'characteristics often associated with EPZs', that encourage foreign investors through incentives and tax breaks (Haywood 2003: 1).

for the domestic, as well as the international, market by focusing on a people-centred approach to tourism development (Box 1.4).

1.3.2 Tourism contributions to government revenue

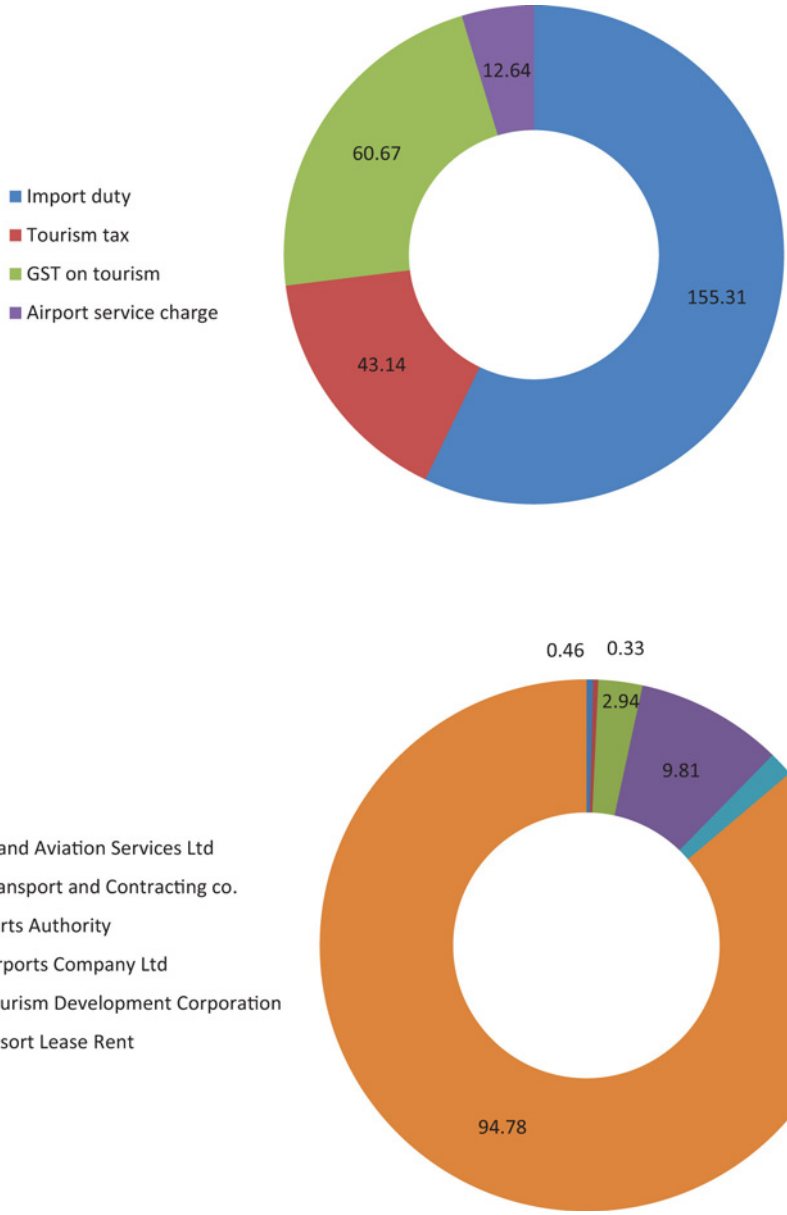
Direct revenue from tourism to government revenue is accounted for in national accounting (supply and use tables [SUT] or input–output [I–O] models are typically used); however, this level of detail is not always readily available. Maldives is used as a best practice case study of detailed analysis of this direct contribution. Figure 1.4 gives statistical data for government revenue from direct tourism services. It includes tax and non-tax revenue, and values are given both in US dollars and Maldives Rufiyaa (MVR) (Appendix 2, Table A2.2).

From the data presented, it is clear that resort land leasing is the single most important direct contributor to government revenue, with general sales tax (GST) on tourism services and tourism tax as the second and third largest contributors. Transport services make up a relatively small proportion of total government revenue. This suggests that either economic leakage is high or that the government has made a strategic decision to encourage new links, and maintain existing ones, with international airlines and cruise operators.[13] These suggestions are equally plausible.

1.3.3 Direct contribution to employment

Forecasts from WTTC Country Reports show that the Indian Ocean islands will experience a fall in employment of 3–5 per cent in 2012, while the Caribbean islands are likely to see a rise of 0.6–2.4 per cent in the same year. This may be attributed to many factors, such as the location of the islands relative to the key markets (notably North America and Europe), the frequency of scheduled flights, and cost and journey time.

Figure 1.4 Maldives: Tax and non-tax revenue from direct tourism services (US$), 2011



The direct contribution to employment in SIDS suggests that the tourism industry is an important route to employment for the islands' workforce (see Appendix 1, Table A1.3).

However, in many SIDS the nature of tourism employment (type of job, role and salary) is not necessarily equitable. As discussed above, tourism in SIDS is dominated by international resorts and hotels; typically expatriate workers make up a high

Box 1.4 Trinidad and Tobago Tourism Master Plan, 2010: Eleven Guiding Principles

1. Tourism development shall benefit all of the people of Trinidad and Tobago both as visitors (customers) as well as participants (suppliers) of the industry;
2. Effective local community involvement shall form the basis of tourism growth;
3. A participatory integrative approach shall be adopted where local communities, the private sector, NGOs, the general public and other interest groups and stakeholders are given the opportunities to take part in the planning and decision making process, and ownership of the tourism industry;
4. Tourism shall be used as a tool for the social development and transformation of the country;
5. Central Government shall work collaboratively with the Tobago House of Assembly and the tourism sector in Tobago to ensure that tourism is sustainably developed in Tobago;
6. Tourism development shall be people-centred and innovation and investment-driven;
7. Government shall provide the enabling framework and impetus for development;
8. Sustainable usage of the environment shall be practised;
9. Cultural authenticity shall be maintained and the culture further supported and promoted;
10. The talent of the people of Trinidad and Tobago shall be developed and nurtured to provide the innovation and creativity that will fuel the competitiveness of the sector; and
11. Tourism development shall take place in the context of strong cooperation with other States within the Caribbean.

Source: Trinidad and Tobago Tourism Master Plan, 2010

proportion of those employed in key positions, compared with local workers. On this basis, and with inclusive growth in mind, further case study evidence is now given.

Employment in restaurants and hotels

Accessing data that differentiates between foreign and local workers in tourism services is generally difficult. This level of detail is either not published or it is not

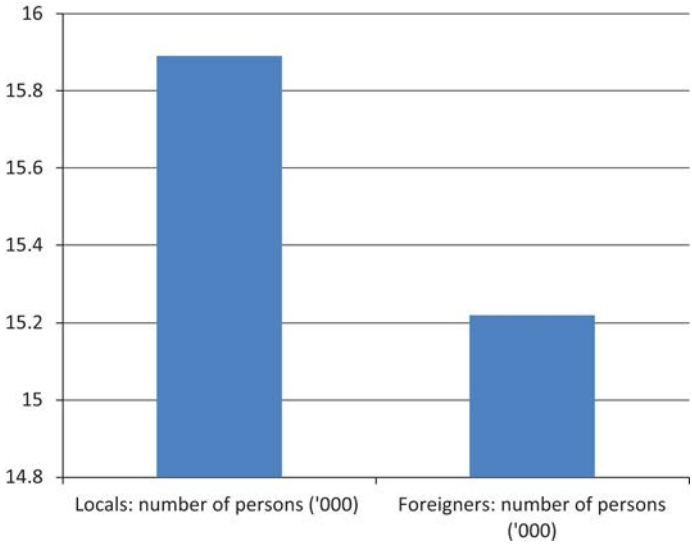
disaggregated at the point of data collection.[14] Nonetheless, Maldives' Financial Yearbook for 2011 includes this level of granularity (see Figure 1.5). For every local worker employed in restaurants and hotels there is approximately one foreign worker. This ratio is indicative of an industry dominated by international hotels and resorts, where high economic leakage can be partly attributed to high numbers of foreign workers.

Maldives is a special case as it is highly dependent on tourism. In SIDS with more diverse economies that are less dependent on tourism, the proportion of foreign workers may not be so high. As data from other SIDS are very limited, the assumption is that most SIDS employ more foreign workers when mass tourism and the all-inclusive market dominates the sector, rather than other forms of tourism.

To understand the direct contribution of international hotels and resorts to employment, a comparison with locally-owned and smaller accommodation is useful. Figure 1.6 shows the number of people employed across all accommodation types in Jamaica (2009 and 2010). The role of international hotels and resorts as a principal employer is very clear; this is not surprising, given the average size of these establishments (usually over 400 rooms). However, in terms of mitigating seasonal unemployment, the international hotels and resorts appear to maintain employment levels throughout the year.

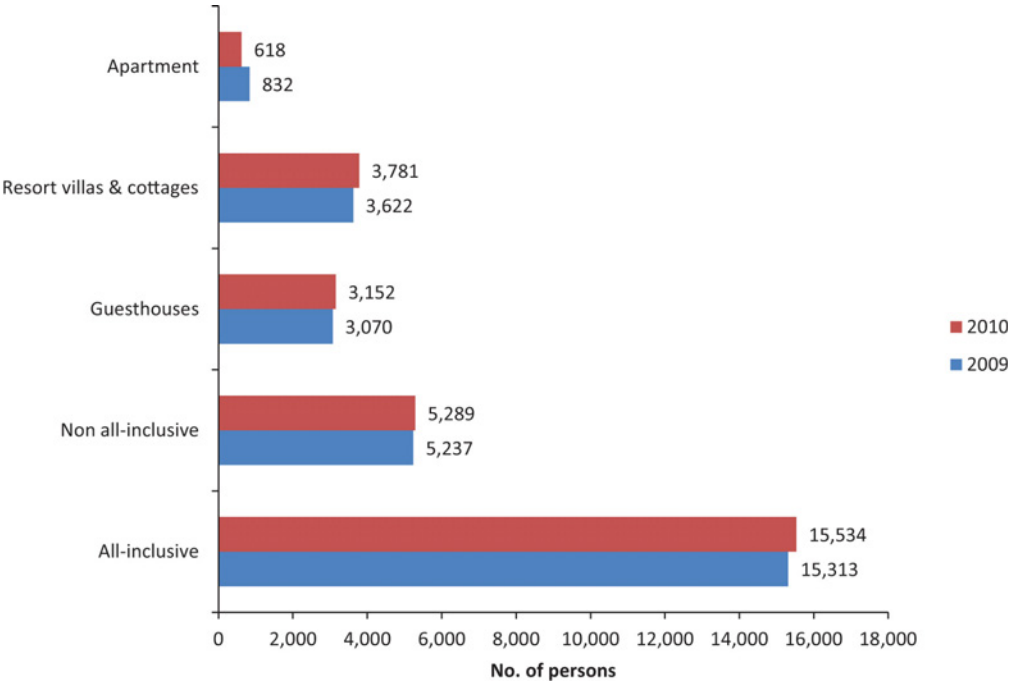
Seasonal occupancy rates for each accommodation type in Jamaica are considered in Chapter 2 (see Table 2.3). All-inclusive resorts maintain higher occupancy rates in both the winter and summer seasons[15] than island resorts and resorts that are not all-inclusive. Furthermore, the larger accommodation units (more than 101 rooms)

Figure 1.5 Number of local and foreign workers ('000) employed in restaurants and hotels in Maldives, 2011



Source: International Migration Paper No. 112, International Labour Office, Geneva: 25.

Figure 1.6 Number of people employed in all accommodation types, Jamaica (2009 and 2010)



Source: Jamaica Tourist Board, Annual Travel Statistics 2010

typically hold occupancy rates above 80 per cent in peak season and 60 per cent during summer. Occupancy rates for smaller units are very low during summer. This trend is indicative of SIDS where tourism development depends on international hotels and resorts to support their mass tourism markets. There is little opportunity for smaller and local accommodation providers to compete with global accommodation brands for the same tourist market.

The evidence presented in this chapter shows that tourism does contribute directly to employment and the economy in SIDS. It is equally clear, however, that certain sectors, such as enclave tourism development (land-based or cruise), offer only restricted opportunities to benefit from tourism or no opportunities at all. Given the dominance of these sectors in SIDS, and the vulnerability of SIDS to global economic trends, there is a clear need for a shift in policies to favour and support local businesses and local people in tourism activities. Chapter 2 considers alternative tourism markets, more specifically niche tourism markets that consume more than just '3S'. They have characteristics favouring inclusive growth strategies that show levels of economic leakage can be minimised by promoting local products and services. (The issue of economic leakage is examined further below).

Chapter 2

Local Tourism Supply Chains in Small States: Sharing Best Practice

2.1 Introduction

This chapter gives an overview of tourism supply chains. It discusses supply chain management and identifies existing local supply chains, who the main players are, what level of contribution is made along the supply chain, and the level of local supply and procurement along the tourism value chain. The economic linkages of tourism in small states are explored to reveal their extent and, in particular, the effect on the backward and forward linkages in the tourism sector. The chapter introduces this topic more generally before analysing tourism supply chain issues using case study material from Malta,[16] Seychelles and Jamaica.[17] Finally, the associated topics of niche products and services are examined.

2.2 Understanding the tourism supply chain

Supply chain management has become an important area of research for academics and practitioners alike and much has been published in academic and industry publications (Burgess et al. 2006). Supply chain management in the tourism industry, on the other hand, has not received as much attention and is not as well understood. There are a number of reasons for this, many of which relate to the characteristics of the tourism industry.

1. Traditional supply chain management research has focused on manufacturing industry, rather than the service sector, of which tourism is a part (Zhang et al. 2009). Where research does exist, the emphasis is on tourism demand, rather than tourism supply, and therefore overall knowledge is limited.

2. Tourism is a complex 'industry' or, more precisely, group of industries (Cooper et al. 2008; Jones 2010) It is an export industry that does not physically export anything; rather it relies on 'exporting' images through various distribution channels (online, in print or point of sale) that generate demand for the product. The product is not seen before purchase, and therefore the quality of information is crucially important. This makes tourism an information-intensive industry.

3. Zhang et al. (2009: 347) state 'the attention paid by the academic community and industrial sectors to tourism supply chains has not kept pace with the rapid development of the tourism industry in recent decades'. This is a concern, as the tourism industry is highly dynamic and responsive to changing trends and markets. Without a basic understanding of the tourism supply chain, there is

limited opportunity for strategic supply chain management, particularly at the destination level.

4. Tourism is the sum or final product of many highly co-ordinated products and services which include transport, accommodation and restaurants. Most of those products and services are not purchased at the destination, even though they are all consumed there; so there is a need for effective flows of information and highly co-ordinated action across a complex network that comprises producers, suppliers, purchasers and consumers to ensure that the 'unseen' product or service meets expectations. This makes tourism a co-ordination-intensive, as well as information-intensive, industry (Zhang et al. 2009).

5. The key components of tourism are accommodation, transport, attractions and excursions, and restaurants; all are 'perishable'. This means that airline seats, hotel rooms and daily ticket sales, for example, cannot be stored for potential future sales. This level of uncertainty, coupled with the uncertainty of global trends and exogenous shocks, has become an important area of tourism supply chain research. Areas of particular interest include demand forecasting, yield or revenue management and inventory management (Zhang et al. 2009).

6. Finally, the supply chains in tourism that already exist are usually part of the wider global operations of major hotels and resorts (for example Hilton and Four Seasons hotels) and of cruise ship operators (for example Carnival Corporation and Royal Caribbean). In many cases, the supply chains that furnish the interiors and feed the guests originate in different countries, or even continents, before they are stored together at a regional distribution hub for delivery to the destinations. Although these international tourism businesses are vital for many small states' and SIDS' tourism industries, the only significant benefit may be import taxes, and possibly some engagement with local distribution networks if these exist.

2.2.1 Defining supply chain management

The three critical areas of supply chain management are the flow of information, the flow of products and the functional relationships between these. The latter is the factor that enables there to be an efficient and effective flow of information one way and flow of materials the other; without this relationship, the flow is disrupted and the entire supply chain becomes dysfunctional.

The principles of supply chain management (SCM) in manufacturing and in the service industries are essentially the same; it is the characteristics of the industries that influence the application of SCM, and hence its effectiveness in achieving favourable outcomes. It is important to recognise the definitions proposed for SCM before analysing those specific to the tourism industry, particularly as there is no single, universally agreed definition. According to Mentzer et al. (2001), SCM 'has been poorly defined and there is a high degree of variability in people's minds about what is meant'.

This is partly because practitioners and academics have defined SCM in the context of their specialist area (manufacturing, retail or food), rather than considering it in the

context of a particular business. For the purposes of this report, Mentzer's definition of SCM is perhaps the most useful:

> … the systematic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across businesses within the supply chain, for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole.[18]

2.2.2 Tourism supply chain

The generic definitions of SCM could be applied loosely to tourism, but are not explicit enough to lead to an understanding of the complexities of the industry. Furthermore, unlike traditional businesses, where the end product is tangible and can be taken home, tourism produces a tangible product but an intangible outcome – the customer experience (Smith and Xiao 2008).

Again, there is no internationally agreed single definition of the tourism supply chain (TSC); for the purposes of this report, the definition by Zhang et al. (2009: 347) is used:

> … a network of tourism organizations engaged in different activities ranging from the supply of different components of tourism products/services such as flights and accommodation to the distribution and marketing of the final tourism product at a specific tourism destination, and involves a wide range of participants in both the private and public sectors.

Zhang's definition offers a more holistic understanding of TSC and refers to the destination level supply chain; its reference to the 'wide range of participants' indicates that a complex system of flows of information and materials (products and services) is present. Other definitions exist[19] but space precludes further discussion.

Tourist destinations host a mixture of establishments, with one estimate being that the largest companies (typically multinational hotels, tour operators and transportation groups) account for around 20 per cent of the supply chain in small states, with 80 per cent of the supply chain operated by SMEs (Commonwealth Secretariat 2006: 3). We will discuss the composition of the tourism supply chain in more detail later. This will be explored with reference to the case studies and the key questions that refer to what local supply chains exist, who the main players are, what level of contribution is made along the supply chain and, where possible, the level of local supply and procurement along the tourism value chain.

2.2.3 Value chains

Value chain analysis (VCA) is relatively new in tourism research. It examines the chain of expenditure and transactions of a commodity and identifies the agents involved as it flows from production to consumption. This chain of co-ordination and co-operation between agents can, if measures are taken, minimise risks (and associated costs) and maximise the value, reliability and speed of the supply. Mitchell (2012: 465) states that 'the key point about value chains is that they recognise that the firms linking suppliers

to producers to processors and intermediaries to the customer at the end of the chain are the critical determinants of trade, whether these are domestic, regional or global'.

As the demand for quality and standards has risen, so too has the need to understand the value of tourism from production to consumption. The principal suppliers are international firms (tour operators, accommodation providers and cruise ships) with sufficient power to govern the value chain and demand certain standards of quality and service. For small states, SIDS and developing countries more broadly, significant barriers prevent local suppliers from meeting the standards set. These may include inadequate storage and distribution infrastructure, insufficient funds for imported fertiliser, feed or other agricultural supplies, or lack of land to meet a year round demand for specialist fresh foods (Hampton and Jeyacheya field notes from May 2012).

'Chain governance' is now considered an essential component in value chain competitiveness. In the case of tourism and a typical holiday product (e.g. a package holiday), the flow of expenditure along the value chain as it travels 'downstream' is governed by the principal suppliers. Thus, the chain of governance in international tourism is regulated by them; Gereffi et al. 2005 (cited in Mitchell 2012) refer to tourism value chains as 'buyer-led chains'[20] – typical of an industry that is demand driven and 'influenced more by market forces rather than governments that try to control or manage it' (McKercher and Du Cros 2002: 30).

VCA is a useful tool for determining more precisely the extent of the economic linkage at each transaction, and it helps to identify the main processes of the chain in generating and receiving destinations and the stakeholders involved, directly and indirectly. One recent study, commissioned by the Commonwealth Secretariat on VCA in Seychelles (McEwen and Bennett 2010), is exemplary, but few other studies appear to exist. Furthermore, data capture methods at destinations that measure the flow of tourist expenditure are aggregated to a point where backward and forward linkages are not evident. The next section addresses economic linkages from tourism and the backward and forward linkages that occur at the destination level.

2.3 Economic linkages

Research on economic linkages at the destination level only partly enables an understanding of what exists. Backward linkages are fairly well researched in tourism studies, measuring the importance of each sector as a purchaser of all sectors (Fletcher 1989). Forward linkages are less well known; they are a measurement of the importance of each sector as a supplier (Pratt 2011). In this case, tourism expenditure does not produce forward linkages as such, but rather those sectors that supply the tourism industry do (Cai et al. 2006; Benyon et al. 2009). The gaps in statistical evidence, coupled with gaps in research on forward linkages, limit this report's findings significantly, and highlight the need for further field-based research studies in selected small states and SIDS.

2.3.1 Economic linkages in small state tourism

The economic linkages created by tourism in small states and SIDS are often considered limited because the market is monopolised by larger and international suppliers.

Few data exist on backward linkages from tourism in small states, particularly to agriculture; where they do exist, they tend to demonstrate weak or underdeveloped economic linkages (Momsen 1998; Segura 2010). However, local backward linkages from the hotel sector to agriculture can be developed (see Telfer and Wall 2000) with targeted local purchasing, but this is not without challenges (Torres and Momsen 2004), including issues of consistency of supply and product quality, pricing, storage and transport. In some small states, particularly SIDS, there are also structural challenges, including the high cost (or lack of) land, the overall cost of production of agricultural goods and their transportation and, in some cases, labour issues, with competition from other economic sectors such as offshore finance (Hampton and Christensen 2007). In the case of Malta, which is considered in more detail in the following section, there has been some concern about the lack of backward linkages to local agriculture:

> Despite tourism's vital role in the development of the country's economy, little spin-off benefit has come to the nation's rural sector, in part due to the comparatively recent realisation of the potential for doing so. (Mizzi 2006: 146).

In the case of Jamaica, another case study that we will examine later, Segura (2010) estimates that only about 25 per cent of the total value of food purchased by hotels in Jamaica in 2008 was purchased locally. Why this might be so is discussed next.

2.4 Small state case studies of tourism supply chains

This section analyses and discusses the local tourism supply chains in the three case studies of small states (Malta, Seychelles and Jamaica). Although, as noted above, the tourism supply chain is made up of many components, this section focuses on three of the larger components: accommodation, food supply, and souvenirs and handicrafts. Tourist excursions and visits to attractions will not be discussed here, since the vehicles used are normally imported coaches or minibuses, and the broader area of the role of attractions in the tourism supply chain is significantly under-researched (Font et al. 2008). Similarly, car hire will not be discussed here since, given the lack of local car manufacturing industry in virtually all small states, all rental vehicles are imported, as are spare parts and other consumables. That leaves a tiny local value component that comprises the small numbers employed in clerical work in offices and depots, and some employment for drivers and mechanics. As with the attractions component, there has been little academic study on the hire car component of local supply chains.

2.4.1 Comparing tourism in Malta, Seychelles and Jamaica

Most small states, particularly SIDS, have seen tourism as a key economic development strategy since the 1960s (Bishop 2010). In 2010 there were around 940 million international arrivals, with global export income from tourism valued at around US$1 trillion (UNWTO 2012). The three Commonwealth small states selected here are all major tourist destinations and their tourism sectors have certain key characteristics. In all three states tourism is a main plank of the economy, contributing to overall economic development and GDP.

Table 2.1 Top five source markets for Jamaica, Seychelles and Malta (2010), international arrivals, contribution to employment and GDP, and specific regional vulnerabilities

	Jamaica	Seychelles	Malta
Top five source markets (2010)	USA Canada UK Germany Italy	France Italy Germany UK and Eire Russia	UK Italy Scandinavia Spain France
Total population	2,889,187	90,024	412,970
Tourist arrivals	1,922,000	174,529	1,336,000
Direct contribution to employment ('000 jobs)	84	11	25
Indirect contribution to employment ('000 jobs)	141	11	14
Direct contribution to GDP (US$ billion)	1.2	0.2	1.1
Indirect contribution to GDP (US$ billion)	1.4	0.1	0.6
Specific current vulnerabilities (excl. environmental and climatic factors)	Regional competition	Access and location Piracy	EU financial crisis

Source: WTTC Country Reports; UN WTO Highlights 2011; World Bank; *Times of Malta*; *Jamaica Gleaner*

In Seychelles, for example, tourism accounts for around 40 per cent of GDP and around 60 per cent of all employment (direct, indirect and induced). In Malta and Jamaica, tourism generates more than 20 per cent of all employment. In all cases, the leisure tourism market contributes to GDP by over 90 per cent with international visitor contributions to GDP exceeding 80 per cent (WTTC Country Reports).

Tourism in Malta is based upon so-called '3S' (sun, sea and sand) tourism, affordable package holidays for families. In addition, it has a growing cruise sector. In 2010, Malta recorded 1.3 million international tourist arrivals and around 490,000 cruise ship passengers (UNWTO 2011). In comparison, Seychelles is broadly a high-end destination, resort based with smaller cruise activity. In 2010, Seychelles had around 174,000 international tourist arrivals and 16,000 cruise passengers (UNWTO 2011). Finally, tourism in Jamaica consists of both mass tourism package holidays and a large cruise sector, with 1.9 million tourists and around 910,000 cruise passengers in 2010 (UNWTO 2011).

2.4.2 Product diversification

Many destinations are in the process of diversifying the tourism product by attracting new markets such as scuba divers, cultural tourists and heritage tourists (Briguglio 2008; Foxell and de Trafford 2010). There are various reasons for this: Malta aims to extend the shoulder season and increase numbers of visitors in the off-peak season, while Jamaica's Vision 2030 explains that diversification aims to 'increase the use of

Jamaican inputs and culture in all areas of the industry; and strengthen the integration of tourism development with sustainable land use planning and environmental management'. More broadly, product diversification can stimulate local employment opportunities, and thus the local economy, by focusing on traditional skills and trades. It can respond to changing tourist behaviour and demand, particularly in the traditional tourism markets, where tourists now commonly take more than one holiday per year. This includes a main (and possibly long-haul) break and a short weekend break (typically four or five days). The final reason considered here is to encourage and increase repeat visits. A package holiday tourist, for example, may wish to return to a destination, but engage in a different holiday experience from '3S' that offers a more enriching experience of the destination, for example learning more about heritage or culture or staying in local homestays.

Product diversification is most advanced in Malta, with growing tourist segments engaged in culture and heritage, diving, English language holidays, and conference and incentive travel (CIT) (Table 2.2). Seychelles and Jamaica are planning initiatives that include sports, community-based tourism and festivals (Seychelles Tourism Board 2012; Commonwealth Secretariat/Ministry of Tourism and Sport Jamaica 2002; Government of Jamaica 2009).

The move away from the traditional '3S' mass tourism market in Malta has seen the individual traveller overtake the tour operator market in a relatively short period of time. For example, in 2006 Malta received 373,388 independent travellers, compared with 750,848 tourists booking through a tour operator. This trend was reversed in 2008, when the number of independent travellers (695,612) exceeded those booking through a tour operator (594,979) (National Tourism Policy 2012–16: 5) . This trend is continuing.

Best practice case studies are given at the end of this chapter and refer more broadly to small states and SIDS.

2.4.3 Accommodation

When the accommodation sector in small states is examined in more detail, a common pattern emerges of a mixed sector comprising large resort hotels, often owned or managed by international hotel chains, and a range of smaller hotels and guest

Table 2.2 Niche tourism in Malta, 2006–10

	2006	2007	2008	2009	2010
Summer/winter sun leisure	*712,935*	*821,368*	*852,378*	*758,202*	*885,780*
Culture and heritage	163,066	158,610	157,640	170,000	180,000
Diving	51,349	46,900	51,856	60,000	57,000
Other sports	29,261	34,970	33,265	16,000	19,500
English language	65,983	82,850	83,288	68,918	72,695
Conference and incentive travel	63,500	61,200	69,800	54,200	73,000
Total departures	*1,124,233*	*1,243,512*	*1,290,856*	*1,182,488*	*1,332,086*

Source: Malta Tourism Policy 2012–16

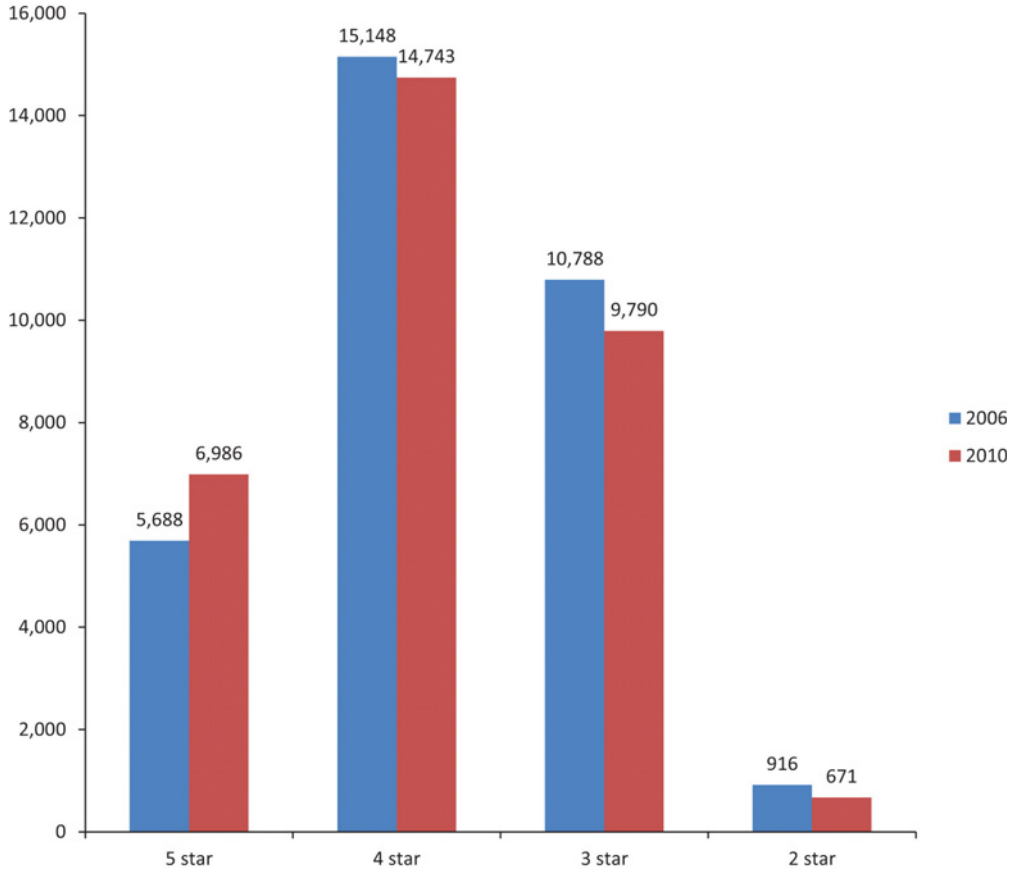
houses[21] which are typically locally owned and managed. Broadly, once they have been built and are operational, hotels require regular supplies of consumables such as food and beverages, cleaning materials, replacement toiletries and small electrical items such as light bulbs, fuses and batteries for TV remote controls. In addition, depending on size and laundry facilities, they may also require some local services, such as laundry services (for guest bed linen and towels,[22] tablecloths and napkins), and possibly the services of other specialists, such as local florists, to supply and create the large floral displays in hotel lobbies and other public rooms.

Value chain analysis suggests that, excluding international air travel, accommodation will be the major component of tourist expenditure in the local tourism value chain. In Seychelles, McEwen and Bennett (2010: 22) found that accommodation accounted for around 69 per cent of the total tourist spend, compared with an estimated 10 per cent for restaurants, 6 per cent for excursions, 4 per cent for souvenirs and 3 per cent for car hire. Similarly in Jamaica, 57 per cent of visitor spend per night was on accommodation during the winter season and 54 per cent in the summer season, during which time daily spend on shopping and miscellaneous items increased from 8.9 per cent to 11.3 per cent and 10.2 per cent to 11.7 per cent, respectively ((Jamaica Tourist Board 2010). Visitor spend (excluding cruise passengers) remained steady in food and beverage (F&B), entertainment and transportation for both seasons. The rise in shopping suggests that tourists visiting the island during the off-peak season visit are interested in more than sun, sea and sand. Nurse's (2009) study of heritage tourism in the Caribbean region states that 75 per cent of international tourists visited a cultural activity or event.

The accommodation sector in Malta caters mainly for the mass tourism market, with many four star hotels that are family owned and managed. There is a growing five star hotel offer for business travellers and MICE (meetings, incentives, conferences and events) (Ministry for Tourism, Culture and the Environment 2012) while three star hotels, which remain a dominant subsector, are in decline (Figure 2.1). The main reason for this decrease in three star hotel beds is cited in Malta's tourism policy (National Tourism Policy 2012: 35) as 'the result of difficulties encountered by some three star operators to adapt to the new way of doing business – that is, moving away from the tour operator model in favour of the internet booking system'. Similarly, Debattista (2004: 9) noted that although there is growing use of e-commerce in the supply chain between the hotels and the larger suppliers (for example, the island's main beverage supplier and brewery), there was concern over other parts of the supply chain, such as 'fruit and vegetable suppliers who are traditionally conservative and not keen to adopt IT'. Interestingly, Malta's 2012 National Tourism Policy shows that hostel beds increased particularly sharply between 2006 and 2010, from 488 to 1,185.

On the island of Gozo, most of the accommodation stock (licensed beds) is self-catering (62.8%), with hotel accommodation making up the remaining 37.2 per cent. Gozo is not the main tourist island and its infrastructure is not developed for the mass market, but rather for independent and special interest/niche tourists. Their preference for well-serviced accommodation over self-catering presents Gozo with an opportunity to diversify this sub-sector – boutique hotels and similar small accommodation units are more likely to attract this market.

Figure 2.1 Classified hotel beds in Malta, 2006 and 2010



Note: Excluding tourist villages, aparthotels, guest houses and hostels
Source: Ministry for Tourism, Culture and the Environment, Malta (2012)

Since Seychelles is a relatively remote, high-cost and upmarket destination, its accommodation sector is dominated by international resort hotels, with fewer small hotels and guest houses than comparable SIDS. Evidence from Seychelles value chain analysis (McEwen and Bennett 2010) and the recent Tourism Master Plan (Seychelles Tourism Board 2012) suggests that large hotels account for around 48 per cent of the tourism value chain. As elsewhere in other tourism-dependent SIDS, the accommodation sector has a high propensity to import and few inputs are sourced locally. Unlike the larger small states, there is no real manufacturing sector and hotel operations depend on imports for larger items, such as lifts and kitchen equipment, and consumables; these are typically sourced from Dubai or South Africa. Since 2008, attacks by pirates along the east coast of Africa and within Seychelles' territorial waters have extended the time taken to ship supplies from Mombasa to Seychelles – from 3 days to 12 days (Hampton and Jeyacheya field notes from 2012).

There is evidence of a local supply chain for some aspects of the accommodation sector. However, as in many other small states, the accommodation sector in Jamaica

has a higher propensity to import than other tourism sub-sectors (Commonwealth Secretariat/Ministry of Tourism and Sport Jamaica 2002: 14).

One aspect of tourism in Jamaica is the significant role of visiting friends and relatives (VFR) and its impact on the accommodation sector; an estimated 30 per cent of visitors to the island are VFR. Of the estimated 350,000 per year, less than 5 per cent of non-resident Jamaicans stay in tourist accommodation rather than with their relatives (Commonwealth Secretariat/Ministry of Tourism and Sport Jamaica 2002). The VFR market, with its longer average stay and lower spend, also affects overall average visitor spend in the island. It could be argued, however, that visiting friends and relatives are more likely to purchase locally produced food and non-food items that maybe difficult or expensive to source 'back home'. The extent to which VFR contribute to the local supply chain is not known, as this level of granularity in data collection is rarely completed. However, research by Nurse (2009) suggests that the number of diasporic tourists visiting cultural and heritage attractions, events and activities is growing.

A second aspect of tourism in Jamaica relates to the dominance of the all-inclusive sub-sector as an employer, as well as the dominant accommodation provider. Room occupancy rates in both peak and off-peak seasons are sustained in accommodation units with more than 100 rooms (Table 2.3); typically, these are all-inclusive hotels, which serve most international visitors. One reason given by Jamaica's Ministry of Tourism is visitor perceptions of security on the island. The Jamaican-owned accommodation sub-sector, which includes hotels, villas and guesthouses, is buoyant with around 30,000 rooms. This has been driven by government legislation (Hotel Incentives Act and Resort Cottages Incentives Act), designed to incentivise local accommodation businesses to develop new stock and improve their existing stock. In spite of this campaign to promote local supply and value chains through accommodation, the Tourism Ministry reports a 'notable trend in recent years [in] … the construction of large hotels by Spanish hotel chains' (Government of Jamaica 2009: 4). This is a clear example of how market forces dominate tourism in many SIDS and small states, in spite of concerted efforts by governments and tourism ministries to develop more inclusive, locally-driven economic growth in the tourism industry.

Table 2.3 Room occupancy rates for all accommodation types in Jamaica: winter and summer seasons, 2010

Room occupancy rates (%) 2010	Winter	Summer
All-inclusive	80	61
Non all-inclusive	41	30
Island	72	55
<50 rooms	37	23
51–100 rooms	46	30
101–200 rooms	81	62
>200 rooms	81	62

Source: Jamaica Tourist Board, Annual Travel Statistics 2010

2.4.4 Food supply

In terms of food supply to the tourist industry in small states, restaurants and accommodation providers (mainly hotels and guest houses) can usually source from a range of possible suppliers, including wholesalers, retailers and supermarkets, local farm producers, farmers' co-operatives or local produce markets. In addition, the food purchased may be imported or locally grown. While some small states have local tea and coffee production, or local breweries or vineyards, the tourism industry can source imported brands from wholesalers or local retailers to supplement local produce.

Some of the product mix in a given establishment depends upon the type of tourist market being catered for. Mass tourism is typically driven by a business model of high volumes of tourists, with customers looking for the lowest prices (Poon 1993). Research on tourist typologies and preferences[23] suggests that this market segment is generally conservative in its taste and prefers familiar foods and brands from their home country which typically need to be imported. In all-inclusive tourism – the logical further development of the resort hotel model – tourists tend to take their meals and drinks entirely within the resort complex. This pre-paid and all-inclusive business model thus captures their expenditure on food and drink almost entirely (Abdool and Carey 2004; Anderson 2012).

In comparison, some types of upmarket tourists show greater interest in consuming local food and specialities. Typically, in mass tourism hotels there is also a significant demand for well-known international brands of hot drinks, soft drinks and alcohol, whereas more upmarket tourists are more interested in local coffee, tea, beer or wine. Evidence from both Seychelles and Jamaica suggests that some purveyors just supply imported goods, so that some hotels have little idea of the provenance of the food supplied to them (Rhiney 2009). In addition, in both Seychelles and Jamaica, there is an apparent lack of cold storage units and a lack of chilled transport trucks. This results in higher levels of spoilage of fruit and vegetables and inconsistent quality of supply to hotels and restaurants.

In terms of food supply in Malta, accessible information is limited, but tourist spending on food was estimated to account for around 43 per cent of their total spend in the islands (Ministry for Tourism, Culture and the Environment 2012: 109). Local expenditure surveys also showed an interesting qualitative shift in tourist spending on food: from spending on eating and drinking in accommodation establishments to eating in restaurants, bars and pubs and the purchase of food in supermarkets. This is possibly due to a change in the type of tourists from mass tourists, who tend to eat in their hotels, to a growing proportion of independent travellers, who want local cuisine. This creates opportunities for locally owned restaurants and local producers to diversify their revenue stream. In 2008, local production of vegetables and fruit for the domestic market met around 80 per cent of demand on the islands (Dimech et al. 2011).

Regarding food supply to hotels and restaurants in Seychelles, local wholesalers supply from imported foods sourced in the Middle East via Dubai. The local component is very small indeed, with only some local fish being supplied to certain hotels. Despite fertile

land and the possibility of supplying certain types of tropical fruit to the hotels, there are significant bottlenecks in the supply chain, with a lack of cold storage facilities and refrigerated trucks, and heavy import duties on animal feedstock[24] (see Box 2.1 for further challenges for local fresh food suppliers). Observations from the field visit to Seychelles suggest that the local supply chain has become dysfunctional (or even broken), as the country has transitioned from a single-party state with parastatals and government subsidies to a free market economy under International Monetary Fund (IMF) tutelage. Local farmers supply some restaurants, but this is a small proportion of the total.

Rhiney (2009) discusses food supply and tourism, focusing particularly on local purveyors (mainly farmers) and agricultural co-operatives in Jamaica. Several points of interest emerge from this study. First, transport and logistical issues are highlighted, with a general lack of chilled trucks and chilled storage, commonly resulting in high levels of spoilage of fruit and vegetables. However, this has been partially overcome with the development of some farmers' co-operatives, which have greater access to funds to acquire trucks and cold storage units.

Box 2.1 Direct and indirect primary producers: Challenges for local suppliers in Seychelles

The agriculture and fishing industries were competitor industries that provided Seychelles with alternative revenue streams. Since around 2008, however, the decline in agriculture and fishing has been quite marked. Interviews with direct and indirect producers and suppliers to the tourism industry in May 2011 cited the following reasons for this decline.

- Land set aside for agricultural production is on the steep granite slopes where terracing is essential for growing crops. Flat land adjacent to the coast is designated for tourism infrastructure, therefore the scope for farming livestock is limited to a few cattle (less than 100), pigs and chickens.
- The cost and availability of land for farming beyond subsistence level is prohibitive. Soft loans up to SCR250,000 (US$17,556) (at 2% interest) are available; however, they are only granted once land has been secured. Land clearance is costly and can account for 40 per cent of the total loan. Combined with the cost of basic infrastructure (i.e. secure from increasing thefts) and rising labour costs, this means that often the loan is insufficient.
- As part of the privatisation and liberalisation process under the IMF reforms, the infrastructure necessary for an agricultural economy has declined to a point that the supply chain appears to have broken. One main issue is increasing import taxes, which is 'killing business', but provides the government with much-needed revenue. This led to the closure of the

(*Continued*)

(*Continued*)

country's main chicken feed factory (in the last quarter of 2011) and an increase in imported frozen chicken from Brazil and other highly discounted poultry suppliers.

- Storage facilities (for dry goods and frozen) are minimal. This restricts opportunities to harvest the abundance of tropical fruit in Seychelles and reduces farmers' ability to sell surplus fruit to hotels and restaurants.
- The lack of cold storage distribution units and refrigerated transport trucks restricts the extent to which local produce can be stored and safely transported around the islands. 'To buy locally would be a dream' – unequivocal support and preference for local produce over imported goods was clearly expressed by the hoteliers interviewed, so long as the supply was consistent.
- Tuna canning remains fairly buoyant in spite of competition from Asia. Being located in the International Trade Zone, it is unclear how much profit is actually retained in the Seychelles economy, especially given intra-firm transfers by its owner, MW Brands, using the Seychelles offshore finance centre itself (fis.com 2010). Most workers are from the Philippines.
- The remaining fishing industry is extremely vulnerable. Somali pirate attacks within Seychelles' maritime territory has impacted the local fishing industry since 2008. Fishing vessels are restricted to the inner islands to limit the risk of attack, but this has limited the size of their catch and increased the price of fish by 20 per cent.

Second, Rhiney notes the role played by the purveyors as intermediaries between the farmers and the hotels and restaurants, observing the farmers' dissatisfaction at the low prices offered at the farm gate, compared with the healthy margins made by the intermediaries. Again, in contrast to the intermediaries, some local co-operatives successfully market their products directly to the large hotels. Third, Rhiney notes the role of the Sandals Resorts' Farmers Programme[25] in the provision to local famers of credit, seeds, specialist advice and access to other funding sources for irrigation and nursery facilities. The results of the latter appear to have strengthened linkages to the rural economy, provided a range of fresh vegetables and fruit to the Sandals Resorts and helped to 'reduce the mismatch between food supply and demand' (Rhiney 2009: 252).

2.4.5 Souvenirs and handicrafts

In many small states, especially SIDS, a significant proportion of the souvenirs sold to tourists are imported, such as t-shirts, basketware, wooden carvings, pottery, embroidered work, beads and jewellery, ornaments and other goods.[26] In addition, there is concern among governments about the role of the informal sector, especially street vendors and hawkers (Meyer 2007).

While information on the souvenir component of the value chain in Malta is scarce, the recent draft Tourism Policy 2012–16 (Ministry for Tourism, Culture and the Environment 2012: 47) notes that tourist expenditure on shopping has fallen from 20 to 14 per cent and suggests that tourists are attracted to international brands. However, a few pages later, the policy also recommends village development of handmade local crafts to sell to tourists as part of village regeneration and diversification. This might seem contradictory, but it is more likely to reflect a nuanced understanding of the fragmented tourist market visiting Malta (and Gozo), so that it is pragmatic to offer both branded goods and handmade local products to different tourist markets.

For the souvenir component in Seychelles, there is some local art and sculpture, rum, local perfumes and jewellery on sale. An attempt was made to produce a local stamp for souvenirs, 'Made in Seychelles', but there were problems in implementing this (McEwen and Bennett 2010: 43). State encouragement and some start-up funding from SENPA (Small Enterprise Promotion Agency) are available for local Seychellois wishing to develop handicraft businesses.

In terms of souvenirs, in Jamaica the majority of handicrafts are locally made from local source materials such as beads, shells and wood. Other materials are imported, but the proportions are unknown. However, it has been pointed out in the Tourism Sector Plan Vision 2030 that 'there is homogeneity of craft items which translates into high levels of competitiveness. Most craft vendors buy from the same producers, so there is limited variety and the quality is often at times low' (Government of Jamaica 2009: 7). This sub-sector is typically dominated by women and many of the tourist sales take place at craft markets in the resort areas; tourists from the growing cruise and all-inclusive tourism sectors may find these difficult to access. Information on other types of souvenirs appears to be unavailable.

The Vision 2030 report also outlines challenges for the craft sector, with competition from 'in-bond' souvenir outlets selling to cruise passengers, low skill levels of the craft vendors and poor product quality and, as noted above, poor location of craft markets, when tourists may not even venture out from their all-inclusive resort or cruise ship.[27] The Vision 2030 report argues for the planned development of this sub-sector when resort areas are expanded.

2.5 Niche tourism products and services

Tourism in SIDS is viewed by Bishop (2010: 101) as '… a particular kind of tourism industry which is often externally controlled, highly dependent upon external capital, and not particularly congruent with island society and ecology'. This is not necessarily the case with some niche tourism products and services. Although niche tourism or special interest tourism does not have a dominant market share in SIDS, there is increasing interest in this area as an additional direct and indirect revenue stream that could have more linkages to the local economy and employment than the traditional mass tourism market.

Niche tourism products are generally higher value, lower volume products that attract tourists who are willing to pay more for an enriching holiday experience. These tourists are generally motivated to learn something new or practise a hobby or sport (e.g. diving) and, perhaps more importantly, seek locally-sourced products and services (including accommodation, restaurants, visitor attractions and transport). Niche tourists are typically professionals with higher disposable incomes, seeking a holiday that is the antithesis of the all-inclusive, mass tourism experience and has the potential to generate more economic linkages along the tourism supply chain, particularly in the shoulder season.

Festivals and events '… create a strong demand-pull for visitors' (Nurse 2002: 4); exit surveys show that the contribution from festival tourism to the economy and occupancy rates is significant. A study by Nurse (2001) of festival tourism in two Caribbean states, Trinidad and St Lucia, is presented in Box 2.2. It shows that visitor expenditure is a significant direct contributor to tourism services (accommodation

Box 2.2 Case study: The direct contribution made by festivals and events to tourism in Trinidad and St Lucia

The Trinidad Carnival in 1998 attracted 9.2 per cent of the total annual visitors (32,071).

It generated 7.6 per cent (US$14.08 million) of the annual visitor expenditure for that year.

The budget for the carnival was US$2million and hotel occupancy was at 95 per cent capacity.

St Lucia Jazz Festival in 1998 attracted 3.9 per cent of the total annual visitors (9,929).

It generated 4.9 per cent (US$14.15million) of the annual visitor expenditure for that year.

The budget for the festival was US$1.55 million and hotel occupancy was at 74.5 per cent capacity.

These two case studies show that:

- The market for events and festivals are different, with higher spending patterns among 'jazz tourists' than 'carnival tourists'.
- Heritage and culture tourism attracts a different type of tourist, who are willing to pay more for the experience.
- The impact on hotel occupancy rates is significant. Annual festivals and events can extend the tourist season and, subsequently, the tourist spend.

(See Appendix 2, Table A2.8 for further details and case studies.)

and entertainment), as well as to government revenue (taxes and cost-benefit ratio, i.e. visitor expenditure to festival budgets).

> Often the cultural industries are not seriously regarded as an economic sector, the key stakeholders are poorly organized and its economic value remains largely undocumented. In this context policy measures have typically been absent. (Nurse 2001: 6)

While tourism cannot depend on this market exclusively, festival and events are part of the tourism mix and they are important areas to exploit, particularly during low season. Most SIDS have a unique culture and heritage; for many, their culture and heritage is already exported globally in the form of music, film, fashion and food, as well as sold in local shops and markets to visiting tourists and passengers.

The level of investment needed to promote existing festivals and events to the international market is likely to be substantially lower than developing new niche tourism products. However, the opportunity to develop this market further is generally limited through a lack of investment, training, entrepreneurship and profile. Reasons for this are given below (Nurse 2001: 6).

It is recommended that all SIDS should monitor and account for the direct and indirect impact of all festivals and events (domestic, regional and international) on the national economy. Understanding the benefits and contribution from hosting annual festivals or events to the tourism economy can help in strategic tourism planning that is sensitive to island life and culture. Box 2.3 refers to a niche tourism product categorised under 'cultural tourism' called creative tourism, where value-added is generated and evident along the supply chain.

2.5.1 Reef recreation including diving and snorkelling[28]

The coral reefs provide more than a recreational space for tourists and residents – they are a natural barrier to the erosive action of the waves and provide vital sources of protein for terrestrial and marine life. Furthermore, coral reefs can be classified as biodiversity hotspots with high numbers of endemic species; however, coral bleaching, caused by dramatic climatic events such as El Niño, and increased seawater temperatures have placed this globally significant natural resource under stress. The additional and direct impacts of humans from destructive fishing practices, industrial effluent, agricultural run-off, tourism development and coastal dredging has compounded and accelerated the rate of coral die-off.

The net benefits of tourism and recreation to coral reefs in the Caribbean and Indian Ocean SIDS are undeniably important, ecologically and economically (Figure 2.2).[29] The contribution of tourism to the total value of coral reefs varies between 33.7 per cent (US$1,408 million) in the Indian Ocean) and 35.7 per cent (US$663 million) in the Caribbean). The only activity of greater benefit to the reefs in the Caribbean and Indian Ocean regions in economic terms is coastal protection (US$1,579 million in the Indian Ocean and US$720 million in the Caribbean).[30] Perhaps not surprisingly,

Box 2.3 Creative tourism: Benefiting the local value chain

Creative tourism evolved as a backlash to 'identikit' cultural and heritage products. It is about the consumption of experience (tangible and intangible) and not consumption of services (Richards and Raymond 2000).

A creative tourist is motivated by '… travel directed toward an engaging and authentic experience, with participative learning in the arts, heritage, or special character of a place, and it provides a connection with those who reside in this place and create this living culture' (UNESCO 2006: 3).

People from this niche market are generally willing to pay more for a truly authentic holiday. Creative tourism fits in with the inclusive growth concept very well and value-added is generated throughout the supply chain. For example:

> The Mockingbird Hill Hotel in Jamaica is a high-end eco-boutique hotel. It offers, among other activities, cooking courses over a 7–9 day period in summer and winter. The course includes learning traditional Jamaican cooking, learning skills from local chefs and producers, and visiting markets, farms and plantations to source the food they prepare and eat. The average price per person is US$3,376 in winter and US$3084 in summer (2011 prices based on double occupancy and internal transfers only) (www.hotelmockingbirdhill.com/jamaican-cookery-course.shtml).

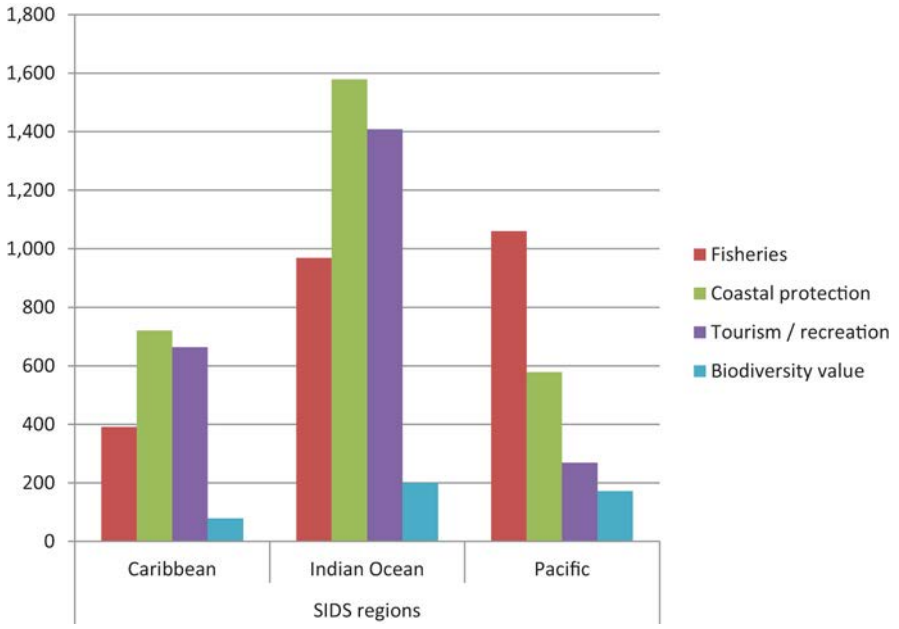
The creative tourism model can be replicated in other SIDS relatively easily. It offers a diverse range of experiences for tourists wishing to learn about local traditions, customs, handicrafts, culture, art and music.

SIDS can benefit from this niche market. It is high value and low volume. There are obvious stronger economic linkages here, and value-added can be tracked from the primary producers to the end source. In terms of inclusive growth, creative tourism consumes a broad range of local skills, knowledge and resources, and can catalyse entrepreneurial activity among the low- and middle-income groups. It can re-energise local interest and pride in culture and traditions, as well as in the natural environment.

the Pacific region is the exception, with fisheries and coastal protection providing significantly more benefit than tourism, which only contributes 12.9 per cent to the total value of coral reefs.

To put this in context, St Lucia and Tobago both offer statistical case studies of the economic value of specific tourism and recreation activities around coral reefs (Table 2.4). The economic value of all reef-related activities combined (diving, snorkelling and glass-bottomed boats) is fairly significant (US$2.8 million in Tobago and US$5.7 million in St Lucia).

Figure 2.2 Net benefit of tourism and recreation to coral reefs in SIDS regions (US$ million)



Source: Ministry for Tourism, Culture and the Environment, Malta (2012)

What is interesting is the additional tourist spend[31] that accompanies these activities (US$16 million in Tobago and US$21.2 million in St Lucia). This is a significant contributor to the national economy. However, the level of aggregation given limits any further analysis or understanding of the spending habits of this particular niche market. This is especially disappointing, as tourist are clearly motivated to visit

Table 2.4 Case study: The economic value of reef recreation in St Lucia and Tobago

	Tobago	St Lucia
Visitors motivated to visit island due to reefs (%)	40	25
Accommodation (US$ million)	24.7	64.7
Reef recreation – diving (US$ million)	1.3	4.9
Reef recreation – snorkelling and glass-bottom boats (US$ million)	1.5	0.8
Marine park revenues (US$ million)	n.a.	0.1
Miscellaneous visitor expenses (US$ million)	16.0	21.2
Indirect (US$ million) (using multiplier of 1.45–1.67 St Lucia and 1.8–2.2 Tobago)	58–86	68–102
Total (US$ million)	101–130	160–194
Values not always captured by economies		
Consumer surplus (US$ million)	1.1	2.2–2.4
Local use (US$ million)	13–44	52–109

Source: Burke et al. 2008: 19 and 30

these destinations by the natural marine assets (coral reefs), and it seems prudent to understand this niche market better.

Further points of interest in Table 2.4 are those 'values not always captured by economies'. This provides evidence that domestic tourist spending is being differentiated from spending by international visitors. However, without some level of disaggregation of where that spend takes place, this figure offers little guidance to tourism planners who may want to develop the domestic tourism market.

Although the case studies only provide snapshots of the economic impact of the niche and special interest tourist market in SIDS, the economic value of these products and services and, more importantly, their direct (and indirect) socio-economic value, including job creation, product innovation and entrepreneurial activities, is evident.

A tourism master plan is an effective way of promoting the growth of niche markets as a means to stimulate inclusive growth and adding value along the supply chain. Not all SIDS have a tourism master plan, while others have only recently released their first such plan. However, some SIDS have generated several master plans in the last two decades. For example, Maldives is preparing to release its fourth tourism plan in early 2013.

An example of a tourism master plan is taken from Trinidad and Tobago to highlight the guiding principles for tourism development on the islands. The 11 principles in Box 1.4 in Chapter 1 clearly indicate how tourism development is working for the people and culture of Trinidad and Tobago, its economy and the local environment. Although this small island state has cruise tourism and all-inclusive land-based tourism, as well as an unusually significant domestic tourism market in comparison to other SIDS and small states, the aim is very clearly to promote complementary tourism products that can retain and build on economic and other linkages, while effectively minimising leakages.

Chapter 3

Cruise Ship Tourism in Small States

3.1 Introduction

Despite its rapid growth, the cruise sector is still relatively small in comparison to land-based mass tourism in SIDS. However, its rapid growth and expansion, especially over the last ten years or so, and the forecasts for growth in the next ten years, make this niche sector worthy of further attention.

It has been observed that 'Cruise lines are possibly the most difficult sector to target to improve the level of income that remains in the local economy' (Travelwatch 2006: 10). However, the opposing argument in the academic literature (see Ritter and Schafer 1998) and from tourism ministries in many destinations is that the cruise industry overall generates great benefits for the host. The cruise operators and associations support this view and go one step further to suggest that destinations should pay cruise ships to stop at their ports, given the revenue generated from onshore expenditure by cruise ship passenger and crew and port fees (Peisley 2012a) and, in some cases, from investment in port development. This chapter will examine these arguments in the context of 'mega' cruise ship tourism.

3.2 Background to the cruise tourism industry

For some small states, the opportunity to diversify the tourism product from land-based tourism to include cruise tourism came about when ocean crossing liners were retired, as affordable mass air travel emerged. As cruise holidays rose in popularity during the 1970s and 1980s, the capacity of cruise ships increased, as did the portfolio of indoor and deck activities and entertainment (Dowling 2006). In the 1970s cruise ships typically accommodated 1,000 passengers; this increased to 2,000 passengers during the 1980s, while today the largest cruise ships, such as the Royal Caribbean's *Allure of the Seas*, can carry more than 6,300 passengers (Rodrigue and Notteboom 2012: 13; Royal Caribbean 2012).

The cruise tourism industry has seen a rapid and significant increase in passenger numbers and operations. Growth in cruise tourism has remained at an impressive 7 per cent year on year for the last ten years (Rodrigue and Notteboom 2012: 13). This demonstrates remarkable resilience, given the ongoing global economic downturn. This resilience has been associated with the industry's ability to diversify the products and services that appeal to a broader demographic by strategic itinerary setting and, perhaps more important, by dropping prices (Larsen et al. 2013). That said, cruise itineraries have concentrated on two main regions only: the Caribbean, accounting for over 40 per cent[32] of the annual cruise supply; and the Mediterranean region, accounting for 29 per cent (Rodrigue and Notteboom 2012: 14).[33]

3.2.1 Business models and itineraries

Diversity of products and services is achieved through different itinerary types that operate to maximise passenger capacity all year round. The Caribbean region, for example, lies in the subtropics and can sustain cruise tourism throughout the year, with reduced operations during northern hemisphere summer, when extreme weather events are common. This perennial itinerary sustains both demand and overall resilience. However, cruise destinations located in regions found in the extreme north and south experience seasonal itineraries that operate during selected months only. This strategic itinerary setting allows cruise operators to increase annual passenger numbers by expanding the geographical range of cruise holiday options.[34]

The mobility of the cruise ship itself allows this sector to exploit the global seasonality of weather events and the main holiday periods to their advantage and during the seasonal transition from one region to the next a third itinerary type emerges. Repositioning is commonly used when cruise ship operations move from one region to the next as seasonal changes occur; more typically, between the Caribbean and Mediterranean regions. This itinerary differs, as it is effectively one-way and passengers require air travel for their return journey.

In all cases, the business model used by cruise ship operators has increasingly focused attention on their unique assets that are not available to land-based tourism suppliers:

1. 'Floating' destinations: The development of cruise ship technology has created vessels that are themselves floating or 'mobile destinations' (Hall 2005), offering the same activities and services as a coastal tourism destination, but with retail and leisure services more commonly associated with high-end city destinations such as Dubai or Singapore.
2. Captive audience: Cruise itineraries typically visit ports of call during daylight hours (8am to 4 or 5pm); otherwise, passengers are confined to the ship and are therefore a willing, but captive, audience. In order to retain the passengers' spend, off-ship (as well as on board) sales of activities and excursions are heavily promoted on board. On-board services are important contributors to cruise ship revenues and account for 20–30 per cent of total revenue (Rodrigue and Notteboom 2012: 13).
3. Mobile and excessive choice: Cruise ships are not fixed assets and are not dependent on one location. Therefore the industry has the flexibility to change itineraries and ports of call with ease. Given the number of small states located in tropical and sub-tropical latitudes, the cruise industry has a wide range of (usually willing) host destinations to choose from.

3.3 The benefits of cruise tourism

The costs and benefits of cruise tourism to small states and SIDS are explored in this section. It uses research studies and reports from academic, government and independent organisations to build knowledge and understanding of this increasingly important tourism sector as it relates to small states. It establishes key themes and issues.

3.3.1 Economic benefits

The main economic benefits for the host destination cited by the cruise industry and its supporters include involvement with a dynamic and fast-growing tourism sector that brings high yield tourists with higher daily expenditure than other types of international tourist (Dwyer and Forsyth 1996; BREA/F-CCA 2009). While some cruise passengers fit the high yield category, there are two caveats. First, the cruise industry has diversified its products to open up cruises to a mass market, rather than just wealthy customers, and so this may no longer be an accurate categorisation of passengers (Wood 2000).[35]

Second, it can be debated whether cruise ship passengers spend their money in the port of call or whether passenger expenditure remains primarily on board. Retaining as much passenger spend on board as possible is the general business model of the cruise industry (Pattullo 1996; Wood 2004). It should also be noted that while cruise ships may stop over in some destinations, especially in the more remote islands, most stay in port for an average of 8–10 hours during the day; therefore the night-time economy of the destination does not gain from cruise passenger spending.

3.3.2 Cruise passenger and crew expenditure onshore

The destinations and the cruise sector use surveys to measure the onshore spend of passengers and crew. However, the evidence suggests that data collection, particularly at the destinations, is inconsistent and lacks sufficient granularity to identify nuanced spending patterns. In the Caribbean region, Jamaica is an exception and offers detailed information. This is summarised in Box 3.1 and is accompanied by a short analysis that reveals interesting, and in some cases surprising, results. To represent the cruise sector, a 2009 economic impact study conducted by BREA/FCCA provides detailed evidence of spending patterns onshore by passengers, crew and cruise ships. This is summarised in Tables 3.1, 3.2 and 3.3.

Box 3.1 Case study: visitor expenditure in detail, Jamaica

Jamaica is used as a best practice case study to illustrate the direct expenditure of land-based and cruise passengers in the winter and summer seasons.

This level of data can enable governments, analysts and developers to take more strategic decisions when it comes to future tourism development options. This level of granularity is not sufficient for inclusive growth strategies.

The data indicate that:

- Tourist behaviour and motivation differs between the seasons;
- Spending is higher in winter than summer; however, shopping attracts higher spend in summer; and
- Transport, restaurants, attractions and retail all benefit directly from tourist spend.

(*Continued*)

(*Continued*)

The data do not indicate where tourist spend is taking place, for example:

- At local or foreign-owned businesses (apart from 'in-bond' shopping); and
- At natural or man-made attractions (and related activities); and
- On imported or locally-produced goods.

Visitor expenditure (US$ million)	**2009**	**2010**
Stopovers	1,848	1,922
Cruise passengers	78	79
Distribution of expenditure (%)	**2010**	**2010**
Stopover visitors (%)	**Winter**	**Summer**
Accommodation (including F&B)	56.6	54
F&B	6.8	5.7
Entertainment	11.6	11.7
Transportation	5.9	5.7
Shopping	8.9	11.3
Miscellaneous	10.2	11.7
Average spend per person (US$)	127.79	109.69
Cruise passengers (%)	**Winter**	**Summer**
F&B (off ship)	4.7	4.5
Attractions	23.2	18.9
Taxis	2.9	1.9
Car rental	0	0.1
Other transportation	1	0.7
Shopping 'in-bond'	27.2	34.1
Coffee	2	1.9
Clothing	7.2	7.3
Spices	0.7	0.7
Spirits (alcohol)	5.4	5.6
Straw products	2.7	2.7
Wooden articles	4.8	3.7
Other shopping	2.1	2.2
Tips	0.7	1.1
Misc (including tax)	15.4	14.8
Average spend per person (US$)	89.11	87.35

Source: Jamaica Tourist Board, Annual Travel Statistics 2010

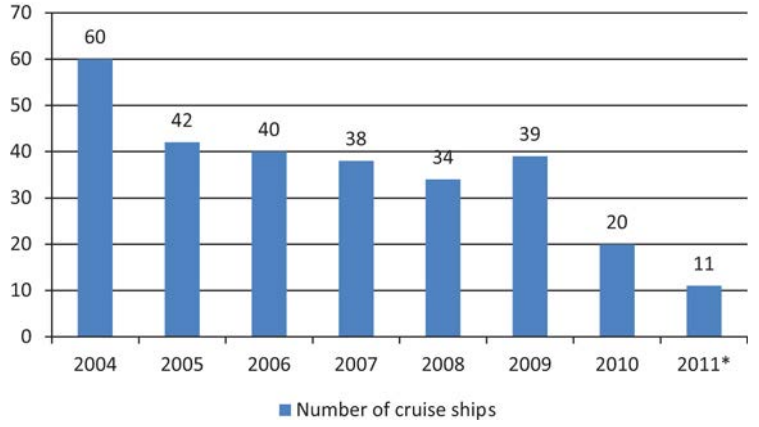
Destination survey results from Jamaica

Typically, it is accepted that cruise passengers spend less per person than stay-over tourists, and 2010 Jamaican data reinforce this, showing an approximate difference of around US$39 per person per night. However, when the main component of stay-over expenditure, accommodation, is removed, the data show a different story, revealing that stay-over tourists spent less than cruise passengers (US$33 in winter and US$36

Box 3.2 The value of cruise ship tourism to remote SIDS: Seychelles

Unlike the Caribbean SIDS, Seychelles does benefit from cruise tourism through port fees, bunkering, ship chandlery and a passenger head tax.

Typically, a cruise ship with 2,000 passengers would provide SCR35,000 (US$2,458) in port fees alone. Cruise tourism is still an emerging market here and its growth is severely limited at present.



Piracy in the Indian Ocean has advanced to Seychelles outer islands. This has significantly impacted on cruise ship arrivals, offshore, high value fishing and diving activities, as well as general prices for everyday food and non-food items (the majority of which are imported).

There is an expectation that the cruise tourism and other offshore activities will resume after international security forces succeed in combating piracy in the region. Currently Seychelles hosts the vessels and visiting personnel, who themselves contribute to the local economy when in port.

Table 3.1 Estimated total expenditure onshore (US$ million): passengers, crew and cruise lines

Caribbean region	Estimated total expenditure onshore (US$ million) 2008–09			
Selected destinations	**Passengers**	**Crew**	**Cruise lines**	**Total**
Antigua and Barbuda	38.3	5.5	4.5	**48.3**
The Bahamas	169.5	28	48.5	**246**
Barbados	42	6.4	5.2	**53.6**
Belize	45.7	4.5	8.4	**58.6**
Grenada	13.4	1.9	6.4	**21.7**
Jamaica	81.8	7.7	11.9	**101.4**
Puerto Rico	118.8	29.2	34.2	**182.2**
Trinidad and Tobago	1.8	0.5	0.6	**2.9**

Source: BREA/FCCA 2009

Table 3.2 Average passenger expenditure onshore (US$) and share of all onshore visits (%)

	Average expenditure	Share of all onshore visits (%)
Shore excursions[a]	35.78	52.2
F&B at restaurants and bars	14.37	45.3
Local crafts and souvenirs	15.82	44.6
Clothing	21.76	44.0
Ground transportation	12.86	27.9
Watches and jewellery	165.88	21.8
Other purchases	45.63	20.5
Retail purchase of liquor	17.73	11.3
Perfumes/cosmetics	29.6	4.2
Entertainment/night clubs	43.02	2.2
Telephone and internet	5.71	2.0
Lodging	134.25	1.2
Electronics	63.54	0.9

[a]Local tour operators selling direct to onshore passengers
Source: BREA/FCCA 2009: 8

in summer) (Jamaica Tourist Board 2010). This single study appears to contradict the dominant view in the literature on cruise ship impacts at ports of call.

A similar spending pattern is noted with shopping between summer and winter; cruise passengers spend is split between 'in-bond' shopping (duty free) and shopping (handicrafts and locally produced products). Although 'in-bond' shopping expenditure falls in the winter months (by 6.9%), shopping (which includes coffee, spirits, straw products, wooden articles, clothing and spices) remains consistent throughout the year (24.9% in winter and 24.1% in summer). In comparison, stopover visitors spend significantly less on shopping, and the amount differs between the seasons (8.9% in winter and 11.3% in summer). It is clear that the principal expenditure for stopover

Table 3.3 Average spend onshore (US$): homeport passengers, in-transit passengers and crew

	The Bahamas passengers	Crew	Barbados in-transit	Homeport	Crew
Shore excursions[a]	85.79	50.9	64.2	274.24	68.5
Local crafts and souvenirs	39.3	16.4	26.7	32.68	21.1
Clothing	46.1	36	44.9	42.7	33.3
F&B restaurants and bars	36.6	35.8	23.4	47.24	27.9
Other purchases	171.8	75.6	56.54	431.86	19.2
Taxis and ground transport	26.2	12.6	23.9	36.06	21.3
Watches and jewellery	236.8	167.5	330.3	137.62	43
Perfumes/cosmetics	46.6	28	57.7	65.82	35.7
Retail purchases of liquor	32.5	19.2	27.4	33.34	22.3
Entertainment/night clubs	94.4	191.1	51	57.44	36.3
Telephone and internet	10.3	14.4	8.1	11.97	19.2
Electronics	153.8	25	49	n/a	22.5
Lodging	n/a	n/a	n/a	220.26	n/a

[a]Passenger expenditure is based on cruise parties which are typically 2–2.3 people.
Source: BREA/FCCA 2009

visitors is on accommodation; when this is not included in total spend per person per night and the spend is compared with cruise passengers, stopover visitors' spend is significantly less (US$33.65 less in winter and US$36.89 in summer).

Even if 'in-bond' shopping is excluded from the average passenger spend, it is still more than the average spend per stopover visitor.[36] This evidence suggests that in this particular case cruise passengers contribute more to the local economy than stopover visitors, contradicting the dominant view in the literature. It also suggests that cruise passengers spend more on attractions, handicrafts and local produce than land-based tourists; this spend makes up a large proportion of their total expenditure on land (an average of US$46 per person per night in winter and US$40.80 in summer). This corroborates the findings of Nurse (2009), which show higher spend by cruise passengers at heritage attractions than by land-based tourists.

If we consider passenger spending more closely (Table 3.2), the level of detail in the data for cruise ship passengers is significantly higher than that for land-based tourists and could be attributed to the nature of the cruise industry and the business model[37] adopted by the main operators (particularly in Caribbean SIDS).

There is more opportunity to monitor the impact of cruise passengers, as their movements onshore are limited by time, and to an extent by space, with shopping, pre-booked activities and excursions taking place in selected areas. By comparison, land-based tourists are more or less free to explore a destination beyond the hotel boundary, so it is more difficult to track visitor spend.

Passenger spend provides only a snapshot of the total direct contribution however. First, it is not clear whether cruise passenger expenditure is on locally-produced goods

and services at the cruise centres or is with local, independent sellers outside the port boundary. Second, land-based tourism expenditure requires further granularity to differentiate spending by package tourists from spending by independent or special interest tourists. It is possible that spending is not tracked sufficiently outside the main tourist centres and therefore remains unaccounted for. Third, the perception that headline visitor arrival numbers from cruise ships are a priority over sometimes lower land-based tourist arrivals (Pattullo 1996) may be concluded, as data on spending are partial or incomplete. Finally, it is not clear whether passenger expenditure includes both in-transit and homeport passengers. This is an important detail, since the difference in expenditure patterns between the two is significant; this is analysed in more detail later in this chapter using data from BREA/F-CCA (2009).

Apart from this one very particular study, anecdotal evidence from other destinations suggests very different findings; specifically, it suggests that an estimated US$12 million[38] has been lost as a consequence of cruise operators not always paying head tax.[39] It is not clear over what period of time this loss was calculated. However, the evidence supports the views of many critics about cruise practices in developing countries. This is not necessarily true for other SIDS (or for all cruise operators), although it is more likely to be relevant to Caribbean SIDS than to those in the Indian and Pacific Oceans.[40]

This entire area needs further research by governments and international organisations to gain a better understanding of the dynamics between cruise operators, different destinations and different world regions. This could prove significant for SIDS in relation to the development of inclusive growth strategies.

Cruise sector survey results

Data recorded from passenger surveys of cruise ships operating in the Caribbean region are detailed in the BREA/F-CCA 2009 Economic Impact Study report. Table 3.1 outlines the estimated total expenditure (US$ million) onshore by passengers, crew and the cruise lines for 2008–2009 at selected Caribbean homeports and in transit.[41]

In Table 3.1, The Bahamas and Puerto Rico are worth highlighting, given that the estimated total expenditure onshore by passengers, crew and cruise lines is significantly higher than in the other selected destinations. Puerto Rico is a main Caribbean homeport and 30 per cent of cruise line expenditure is from purchasing ship supplies. This expense is typical of homeport destinations where cruise ships will typically stay overnight in port. Most cruise lines' expenditure onshore is on port fees, taxes and navigation services; however, this varies among destinations. For example, of the US$48.5 million spent by cruise ships in The Bahamas, 98 per cent is accounted for by port fees and taxes. This is probably attributable to the fee structure adopted by The Bahamas, which differentiates cargo from cruise by applying a fee based on the length of the ship as opposed to the tonnage (Peisley 2012b).

The average passenger expenditure data in the BREA/F-CCA report are based on 29 destinations and include cruise ships in transit and at their homeport. They are a useful proxy for typical spending patterns by cruise passengers in the Caribbean and emphasise

the spend per passenger on luxury goods such as jewellery and cosmetics. Although it is not clear where these purchases were made, it is likely to be from 'in-bond' shopping. Lodgings are also included in Table 3.2; however, this figure only relates to homeports and it is not clear what type of accommodation is used and whether this includes locally-owned and managed properties as well as international hotel chains.

For a more nuanced understanding of passenger and crew expenditure in both homeports and in-transit ports, The Bahamas and Barbados are examined further in Table 3.3.

Homeport destinations clearly have an advantage, as they benefit from both homeport and in-transit passengers. It is perhaps obvious that expenditure by homeport passengers will be higher, as it includes paying for accommodation and contributions to the night time economy from additional spend on F&B and entertainment. By comparison, passengers in transit spend twice as much on watches and jewellery, but far less on shore excursions. This suggests that transit passengers spend more time within the port boundary where 'in-bond' shopping is located. If the average length of stay in port is 4.3 hours (see Box 3.3), then this could explain why transit passengers not only spend less on excursions, but also on other goods and services outside the port area (e.g. local crafts and souvenirs, restaurants and bars, and other purchases).

3.3.3 Port development, investment and fees

It is reasonable to assume that the seeming prioritisation of the cruise sector by many governments in SIDS is also influenced by the investment opportunities offered by cruise operators, rather than by a purely rational and economics-based argument (e.g. applying tourist spend per head as a metric). Investment opportunities include the development of new cruise ports and terminals, and upgrading existing infrastructure.

Box 3.3 Main attributes of port-of-call passenger visits

Average hours ashore: 4.3

Purchased onshore excursions and tours:

77.5 per cent of excursions were purchased from the cruise lines

17.7 per cent were from onshore tour operators

4.8 per cent were made at a travel agent

The average price of an excursion:

US$57.37 from a cruise line

US$27.21 from an onshore tour operator

US$77.56 from a travel agent

Source: BREA/FCCA 2009: 13

Different approaches have been taken by the various destinations, particularly in the Caribbean and Latin America, to attract cruise ships to their shores. These range from investing significant sums of money in the development of cruise villages complete with water parks, beaches and transport hubs, to offering no investment or financial help at all. According to Royal Caribbean International (RCI) President Adam Goldstein, these differences are the result of 'market forces at play ... that evolve over time as ports gain or lose stature in the industry' (cited in Peisley 2012b). They are examined in more detail below.

In some cases, cruise operators favour enclave port development,[42] with private beaches or islands for the exclusive use of their passengers.[43] For example, Castaway Cay in The Bahamas is a private island owned by the Walt Disney Company and is for the exclusive use of Disney cruises. It is unclear what revenue is derived from cruise passengers disembarking at Castaway Cay (apart from passenger head taxes), as all the services, activities and facilities are managed by the cruise line. The products sold in the island's restaurants, bars and shops may be regionally sourced (e.g. fresh fruit and vegetables, and handicrafts); however, no evidence could be found to confirm this. A number of questions arise, given the lack of evidence and the exclusivity of privately owned islands that challenge the concept of inclusive growth.

Investment in port infrastructure and development that is shared, through a partnership between the cruise operator and the port authority, seems to have more potential for the development of inclusive growth strategies. For example, Falmouth Port, Jamaica is a US$260 project where the port authorities have invested US$120 and retained ownership and operator rights (see Appendix 2, Table A2.13 for further details and examples). The development of the cruise berths has increased capacity by 50 per cent, and in-bond shopping and the regeneration of the heritage town offers employment opportunities that are accessible to the local workforce with skills in craftwork, woodwork, retail and hospitality. The projected spend per cruise passenger from this redevelopment was US$100. One year after the port was opened, the local communities were still not benefiting from the projected increase in spending at Falmouth Port. According to local people, this is because the cruise lines tempt passengers away from local businesses towards the international chain stores, while RCI claims that passengers prefer to take up onshore excursion and sightseeing packages, leaving less time and money for shopping. A third reason is given by the Vice President of Jamaica's Port Authority, William Tatham, who states that Falmouth Port 'is still adapting to its new role as a resort town'. He suggests that although there are many opportunities for local business entrepreneurs, 'the problem in Falmouth is that the residents are not tourist savvy' (Royal Caribbean 2012).

A final example that emphasises the varying approaches taken by different destinations, particularly in the Caribbean and Latin American region, uses Panama and Puerto Rico as case studies. They perhaps exemplify the cruise ship industry's view that destinations should pay them to stop at their ports, given the additional economic and social benefits accruing from cruise passengers, 'at minimal cost to the destination' (Peisley 2012b: 19). Panama spent US$100 million

on port infrastructure at either end of the Panama Canal to entice cruise ships to add this destination to their itineraries. On top of this investment, the government further incentivised cruise ships by offering to pay a passenger head tax of US$2–12 per passenger, depending on the number of passengers and brand, and further incentivising cruise lines who registered their ships in Panama. It is reported that the onshore spend is US$106 per passenger, of which one-third is estimated to be spent on locally produced goods.

In 2010/2011, Puerto Rico's cruise industry was estimated to be worth US$250 million to the economy; directly and indirectly, it was estimated that it supported 4,000 jobs. Passenger head taxes are also paid to the cruise lines, starting at US$2.95 per passenger (for up to 10,000 passengers) and rising to US$7.45 when the total number of passengers exceeds 140,000. To encourage spending in the local supply chain, a 10 per cent discount is offered on all locally purchased goods and procurement, with a further 5 per cent discount if the goods purchased are locally made or manufactured. (Peisley 2012b: 21).

In other SIDS regions, while there is interest in the cruise sector, this appears to be less of an issue. The difference in attitude is likely to be linked to: (i) the distance between the originating markets and SIDS; (ii) remoteness and spatial dispersion; (iii) less competition among cruise operators and other SIDS; and (iv) exogenous shocks.

3.3.4 Employment generated by cruise tourism

Although it is recognised that cruise tourism broadly generates less employment than stay-over tourism at destinations, some local employment is clearly created onshore. In some cases, there is also some employment on board for local workers, but generally cruise ships are crewed by cheap labour from low- income countries in Southeast Asia such as Indonesia or the Philippines, with the officers typically from Europe or North America. In the Caribbean, estimates of local employment on cruise ships vary from 5 to 26 per cent of the crew. Employment information from other regions is scarce.

3.3.5 Government revenue

SIDS governments also receive revenue from passenger taxes, port fees, bunkering and fuel charges (on remote islands) and taxes on tourist (and crew) expenditure onshore. This could prove a useful revenue stream for some small states and SIDS, but few data exist for this, given the general lack of useable and detailed tourist data from many small states. It is also unclear how much of the revenue from port fees, bunkering and passenger head tax goes to the port authorities themselves, rather than to governments. Reports suggest, however, that the Caribbean region, and in particular some SIDS, failed to adjust their port tariffs when cruise ship tourism increased, so that port charges continued to be based on cargo traffic and tonnage. This can deter cruise lines from including those destinations in their itineraries, favouring others with more favourable rates for cruise lines. Barbados was noted earlier in this report as a small state that has updated its port tariffs for cruise ships (Peisley 2012b: 23).

3.3.6 Environmental benefits

It is difficult to find convincing evidence in the existing literature of any significant overall environmental benefit accruing to small states from the cruise ship industry.

It is important to point out, however, that increased cruise ship traffic to tourist destinations may put pressure on governments to develop plans and policies on environmental disaster preparedness. This may trigger the emergence of private sector companies that will respond to the environmental and waste management needs (onshore and offshore) of this tourism segment, and thus generate jobs. There are clear challenges, however, particularly in relation to offshore environmental management.

3.3.7 Social benefits

In terms of social benefits for destinations, an argument can be made that local communities benefit from having cruise ship tourism. As noted earlier regarding the economic benefits, employment opportunities are created by cruise tourism. Although the numbers of local people from small states employed on board is likely to be low, the arrival of cruise ships generates social benefits from employment creation onshore in businesses such as retail outlets, catering, transport and ground handling, handicrafts and local attractions.

In addition, it could be argued that local communities in small states also benefit from new developments and infrastructure specific to cruise ships, such as the regeneration of historic buildings,[44] new roads and transport hubs, new (redeveloped) beaches and/or beach infrastructure.

However, questions remain concerning the overall social benefits of cruise tourism in a range of small state destinations, including those regions with a high concentration of cruise ships, such as the Caribbean, as well as the more remote regions of the Indian and Pacific Oceans.

3.4 Costs of cruise tourism for small states

The cruise ship business model is different to land-based stay-over tourism; it benefits significantly from accessing economies of scale, oligopolistic market power and loopholes in international regulation. This section considers the costs of cruise ship tourism in destinations.

3.4.1 Economies of scale

In terms of economies of scale, as noted above, there is a trend towards ever larger ships, with the largest now able to carry more than 6,000 passengers. This means that the economics have shifted positively for the cruise lines and cruise ships now have a lower build cost per room than the equivalent four or five star hotel room onshore. It has been recently estimated that the cost per cabin on the larger ships is US$250,000, compared with around US$750,000 per room in a new four or five star Caribbean resort (MacLellan 2012). The large cruise companies can reduce

unit costs by exploiting these economies of scale and implementing a high level of standardisation across their fleets (Barbados Free Press 2012).

3.4.2 Oligopolistic market power

In the Caribbean, the oldest and dominant cruise region, ownership is highly concentrated, with three large companies, Carnival Cruises, Royal Caribbean International and Norwegian Cruise Line, owning over 85 per cent of total capacity. This oligopoly and economic strength gives the cruise industry significant market power, as well as important political influence in relation to the region's small states (Novelo et al. 2007). There is also the fact of foreign ownership outside the small states. In the Caribbean, the cruise industry is predominantly owned by US firms who therefore have a major role in the Florida-Caribbean Cruise Association (FCCA). Foreign ownership also means that there is a flow of profits away from the host destination small states, who lose potential revenues from taxes on profits. Other economic leakages, mentioned above, are outcomes of this oligopolistic market power, such as the employment of foreign workers or sourcing of provisions from homeports (especially the USA). Where cruise ship companies have established their own onshore tourist operations, lower economic benefits for local businesses and stress on existing infrastructure are likely outcomes, unless governments intervene with policy measures that reverse this trend. This is not easy given the characteristics of the sector.

3.4.3 International regulation and exploiting the loopholes

By operating at sea between legal jurisdictions, cruise lines can exploit loopholes in national law on employment, the environment and health and safety by registering their ships under 'flags of convenience' such as Liberia, Bermuda or Isle of Man. In one sense, cruise ships can be seen as an advanced form of global capitalism, freed from the geography of the nation state. As 'mobile floating chunks of multinational capital, cruise ships have no permanent home, whatever their current "homeport" might be' (Wood 2004: 160).

The cruise lines' business model and their use of international regulatory loopholes mean that operating costs are also significantly lower than those for similar sized large resort operations onshore. It can be reasonably assumed that the cruise industry also has lower variable costs, such as labour costs, with its non-unionised workforce and lower costs for health and safety regulation, as they operate under 'flags of convenience' (see Appendix 4, Table A4.1). Onshore tourism resorts in small states and SIDS clearly cannot compete with this model on a like-for-like basis.

3.4.4 Cruise ship infrastructure

One major area of economic cost for the small state destinations is infrastructure costs, for example dedicated cruise terminals and jetties and deep water channels. The cost of constructing and maintaining these has increased significantly due to increasing ship size. Although many cruise operators invest jointly with the destination's port authorities, the management of the port infrastructure, including the 'in-bond'

shopping centres, usually lies with the cruise operator. Further research on cruise operators and individual port destinations is needed to gain any real sense of the economic costs associated with these business relationships.

3.4.5 Passenger spend onshore

Another aspect of the costs of cruise tourism is passenger spend ashore. Although estimates vary, the overall pattern seems to be that cruise passengers spend significantly less per person in the destination than stay-over tourists. Estimates vary, with some data from the 1990s suggesting as little as US$10–20 spend per passenger in the Caribbean (Pattullo 1996). Data from Belize from 2005 show that cruise passengers spend around US$45 per day, compared with US$96 per day for staying visitors (Honey 2009). Nearby Costa Rica had a cruise passenger spend of US$55 per day, compared to a US$653 per person spend for visitors overall (approximately 14 times that of cruise passengers). In Costa Rica, staying visitors spent around US$1,000 per visit (approximately 18 times more) (Honey 2009). Different data presented by the FCCA and Caribbean destination surveys from 2008 (BREA/F-CCA 2009: 7) show an average spend of around US$97 per passenger for Caribbean and Central American destinations, with the lowest spend being US$33 (St Vincent and the Grenadines) and the highest US$193 (US Virgin Islands). Nevertheless, these cruise passenger spend figures are far lower, both in relative and absolute terms, than the average spend by stay-over tourists.

3.4.6 Cruise passenger duties

There also seems to be limited revenue for small states and SIDS from passenger duties. Bermuda, for example, levies an exceptional charge of US$60 per visitor and insists on a 2.5 day port visit, but as far as the authors are aware no Caribbean port demands this. However, Bermuda is in a somewhat unusual position for a small island, as there are no other destinations close by. When other small state destinations have attempted to raise passenger duties, the cruise lines have responded vigorously by threatening to pull out and call at rival destinations that do not levy the increased duties. In the early 2000s, the average Caribbean port passenger charge was only US$5–10, which Wood (2004) commented was a tiny amount compared with airport departure taxes in the region at that time. More recent examples illustrate the continuing low level of typical passenger charges: Belize still only charges a nominal US$7[45] per cruise passenger (Ministry of Tourism 2010), while Jamaica charges US$2 per cruise passenger.

3.4.7 Cruise ship provisioning

In addition, there is little provisioning from islands and other small state destinations in general, especially in the Caribbean, since food and beverages and other supplies are normally loaded at the vessel's homeport in the USA, thus reducing opportunities for local sales. In addition, given the routes, bunkering is often not needed, as sufficient fuel can be carried on board. However, for more remote oceanic destinations such as Seychelles, there is the possibility of some food and beverage sales, as well as revenue from bunkering.

3.4.8 Onshore excursions

Another cost for the destinations is the cruise lines' control over onshore excursions, an aspect of their port visits that could otherwise generate useful income for the small state. Typically, cruise lines insist on the addition of a substantial mark-up to local tours and excursions, thus creating extra profits when the tours are purchased on board. Box 3.3 shows the average cost of an excursion organised by the cruise ship, onshore tour operators and travel agents. The difference is quite marked, but interestingly it is the travel agent that profits the most (it is unclear if the travel agent is local, national, international or internet based). In some cases, cruise companies have even taken food for their passengers ashore or brought their own firm's bicycles to the islands rather than renting them from local SMEs (see Slatter 2006 on Vanuatu).

3.4.9 Return of cruise passengers as stay-over tourists

It is usual for destinations to measure tourists' intention to return 'in the belief that they are a valid surrogate for predicting actual repeat propensity'; for example, one 2009 publication (BREA/F-CCA 2009) cited returns from passenger surveys stating that 50 per cent planned to return to their destination for a land-based vacation. However, research suggests that this is not the case because 'intention is typically measured as a vague aspiration and not in a probabilistic manner' (McKercher and Tse 2012: 671). Unless follow-up research is conducted to measure 'actual' returnees,[46] there is limited use in measuring 'intention to return'.

Wilkinson (1999) and Wood (2004) doubt that cruise passengers do in fact return to a region as staying tourists. Wilkinson (1999) found that only 6 per cent of tourists in The Bahamas had previously visited the islands as cruise passengers.[47]

In addition, the cruise industry works hard to retain passengers, with loyalty schemes, discounts and upgrades for repeat customers.

3.4.10 Environmental costs

Cruise ships generate clear environmental costs, with significant negative impacts on coral reefs, mangroves and seagrass beds. Operations that are damaging to the environment range from dredging deep water channels and harbour areas for the new larger cruise ships to clearing mangroves and other natural sea defences for port development and expansion on land.

Another common environmental cost is the physical overcrowding at attractions and high spatial concentration of passengers where 'the environmental impact of both the vehicle and thousands of people descending on a small island community can create more damage than the economic benefits of visitor and company spend. Many islands levy much disputed taxes to cover for this' (Commonwealth Secretariat 2006: 11). In St Thomas in the US Virgin Islands, for example, five or six cruise ships may visit the island at the same time, which can result in more than 2,000 tourists per day disembarking in peak season (Spencer-Brown and Paloti 2012). The impact on public water and waste and sewage facilities is significant, particularly in countries with poor infrastructure that struggles to meet the local demand.

In addition, the literature also lists common issues with water (grey water), solid waste and other associated environmental damage. A study completed by Klein in 2009 for Friends of the Earth states that the carbon footprint of a cruise passenger is '… 36 times greater that the carbon footprint of a Eurostar passenger and more than three times that of someone travelling on a standard Boeing 747 or a passenger ferry' (Klein 2009: 4). Furthermore, because of the number of passengers and crew on board cruise ships that concentrate in the same region and sea routes, the impact of solid waste emissions can be significant.

Klein's report is a comprehensive study of the impact of cruise ships on the environment. It states that in spite of strict regulations on pollution in countries such as the USA (the largest cruise market) and the International Maritime Organization's (IMO) Convention for the Prevention of Pollution from Ships (MARPOL), if a cruise ship is registered with a flag state that is not a signatory of MARPOL, pollution regulations do not apply. This is a useful strategy that cruise ship operators adopt to avoid strict regulations in their operating country.

Figure A2.1 in Appendix 2 illustrates the regulations on pollution laid down by the IMO and other organisations that cruise ships are obliged to follow. The flowchart clearly indicates what waste can be dumped at sea, where it can be disposed of at sea (in terms of distance from the shore) and, perhaps more interestingly, what waste, including recycling, can be treated at onshore facilities. This raises a number of questions, particularly with regard to SIDS that are already struggling to maintain a safe and effective domestic waste and sewage disposal system.

Another potentially large environmental cost for small states is shipwreck and accident. The cases of the *Costa Concordia* in early 2012 off the coast of Italy and the breakdown of the *Costa Allegra* near Seychelles, also in early 2012 (BBC 2012a, b) illustrate the risk of accident. Cruise ship accidents create a risk of significant amounts of oil spill and other contaminants into the sea that can seriously affect the coastline; for many small states, and for SIDS in particular, this is an important and vulnerable ecosystem.

3.4.11 Social costs

One interesting aspect of the cruise ships' itineraries and daily schedule is that most ships arrive at destinations at about the same time to give passengers the maximum daylight time ashore. This leads to an arrivals 'spike' for cruise passengers compared with staying visitors, whose flights arrive throughout the week on different days. There was an infamous case in the Cayman Islands when several cruise ships all arrived at the same time and there was gridlock not just in the port area as passengers waited to disembark, but also in Georgetown, where passengers' tour buses and taxis caused severe traffic congestion and even prevented some local shopkeepers from opening their shops for the cruise passengers. This arrivals 'spike' problem is likely to worsen as cruise ships get ever larger. In addition, once onshore, cruise passengers tend to stay in and around the port area that is in the tourist 'bubble' (Jaakson 2004). Further research is required to understand the social impact of these arrivals 'spikes' in small state destinations so that the expected future increases in cruise passengers can be sensibly managed.

3.4.12 Winners and losers from cruise ship enterprises

1. Overall, who reaps the benefits and costs, since there appears to be an uneven distribution of the main impacts between foreign owners (cruise ship companies) and local communities and business owners?
2. Do the positive benefits mainly operate at regional level, while the negative impacts have an impact at national level?
3. In the final analysis are more jobs overall created for small state local residents? If so, small states' governments will receive greater income and payroll taxes. In addition, governments may gain through reductions in the cost of social security benefits.
4. There is an under-researched area concerning overall migration into port areas for employment. This can lead to an increase in street beggars, as has happened in Mexico (Dowling 2006).
5. In terms of pollution, little seems to be known about environmental externalities such as traffic congestion or overcrowding of port entertainment facilities (Peisley 1992).

3.4.13 Small state tourism and cruise ship tourism policy and regulations

Hall (2001) suggests that governments can use five main policy categories to regulate marine tourism, including the cruise sector: regulatory instruments; voluntary instruments (public information, volunteers and non-governmental organisations [NGOs]); the use of expenditure (often by the state, but including public–private partnerships); financial incentives (e.g. taxes, grants, loans and subsidies); and lastly, what he calls deliberate 'non-intervention' as a purposive policy choice.[48]

Co-operation between small states has been suggested as a policy move to attempt to counteract the sizeable economic and political influence of the cruise lines. In the recent past, tourism advisors suggested that Caribbean governments should join forces to protect their countries' interests from 'unreasonable' demands made by the cruise ship industry (Barbados Free Press 2012). Logic suggests that a common policy is needed to ensure that the region obtains substantial benefits from the cruise sector. However, this seemingly sensible policy route is not without problems and may not be straightforward in practice. In addition, if one small state makes different policy choices to its neighbours, this can be exploited by the large cruise companies. For example, in 1999 Grenada levied a tiny environmental tax of US$1.50 on cruise ship passengers, which quickly led to Carnival Cruises pulling out of its port (CARICOM Secretariat 1999).

3.4.14 Uniting the cruise industry with the wider travel and tourism community

The cruise industry has been compared to the aviation industry of 20 or so years ago, operating 'very much within its own bubble'. Issues such as taxation and the environment are resolved within the bubble even though they 'are common to all companies within the sector, and are not competitive' (Peisley 2012b). This distinct

separation of the cruise sector from the rest of the travel and tourism industry appears to be a fundamental barrier to the achievement of consensus and 'one voice' by the global industry in the face of common challenges. At the destination level, this separation contributes to challenges faced by governments attempting to draw up effective, comprehensive tourism policies, especially when one considers the importance of robust and reliable datasets in achieving this. Cruise industry data appear to be more comprehensive, but they are not nuanced enough to show impacts at the level of specific destinations.

Table 3.4 presents information about the top five cruise companies operating worldwide, showing individual brand passenger market share, company market share and membership of cruise associations in Europe (European Cruise Council [ECC]), North America (FCCA) and worldwide (Cruise Lines International Association [CLIA] and WTTC). No cruise companies or associations are members of the United Nations World Travel Organization (UNWTO), but most are members of one or more

Table 3.4 Top five cruise companies: market share (%) and association membership

Cruise company	Brands	Share of worldwide passengers (%)	Organisation membership			
			ECC	FCCA	CLIA	WTTC
Carnival Corporation	Carnival Cruise Lines	21.1	✓	✓	✓	×
	Costa Cruises	7.7	✓	✓	✓	✓
	Princess	6.1	✓	✓	✓	×
	AIDA	4.6	✓	✓	×	×
	Holland America	3.3	✓	✓	✓	×
	P&O Cruises	1.7	✓	✓	×	×
	P&O Cruises Australia	1.6	✓	✓	×	×
	Ibero Cruises	1.1	✓	✓	×	×
	Seabourn	0.3	✓	✓	✓	×
	Total market share (2012): 48.4%					
Royal Caribbean Line (RCL)	Royal Caribbean International (RCI)	16.4	✓	✓	✓	✓
	Celebrity	4.4	✓	✓	✓	×
	Pullmantur	1.9	✓	×	×	×
	CDF (subsidiary of Pullmantur)	0.4	×	×	✓	×
	Azamara	0.2	✓	✓	✓	×
	Total market share (2012): 23.3%					
Norwegian Cruise Line		7.6	✓	✓	✓	×
	Total market share (2012): 7.6%					
MSC Cruises		7	✓	✓	✓	×
	Total market share (2012): 7.0%					
Disney Cruise Line		2.5	✓	✓	✓	×
	Total market share (2012): 2.5%					

Source: Peisley (2012b)

travel agent associations such as the Association of British Travel Agents (ABTA) and the United States Travel Association (USTA).

The cruise sector is a very small part of the global travel and tourism industry, which contributed 9 per cent to global GDP and generated 1 in 12 jobs worldwide in 2011 (Peisley 2012b). However, the forecast for the sector suggests that this 'niche market' will continue to grow as demand for travel from the BRIC nations (Brazil, Russia, India, China) begins to make an impact.

For SIDS and coastal small states, a continued growth in the global travel and tourism industry, including the cruise sector, will arguably intensify the demand for limited space and natural resources on land, around the coastline and within territorial waters.

According to Peisley (2012b), a more holistic approach is taken by travel and tourism organisations such as the International Air Transport Association (IATA), which 'now talks about the overall tourism industry instead of just quoting its own traffic and revenue numbers'. Fewer than five cruise companies are members of the WTTC, with only two of these (Costa Cruises and RCI) among the largest cruise companies (Carnival Corporation and Royal Caribbean International) (Table 3.4).

The largest cruise associations (CLIA, FCCA and ECC) are conspicuous by their absence from the global travel and tourism industry. CLIA and ECC, however, have recognised the benefit of 'taking a unified approach as an industry' (ECC 2010/2011 Report), so they can respond more effectively to international and regional regulatory, policy and technical issues and changes affecting the cruise sector. This is a positive step; however, the association representing the largest cruise passenger market (North America), the FCCA, continues to operate separately.

The recognition given to the travel and tourism industry as a vehicle for economic and social development in the Declaration of the Mexico G20 summit in 2012 is evidence of a unified travel and tourism industry. The importance of organisations such as the WTTC and UNWTO in persuading global leaders to confront industry-wide challenges (including the cruise sector), notably visa administration and restrictions, was critical.

G20 Declaration, 2012 summit, Mexico

> 25. We recognize the role of travel and tourism as a vehicle for job creation, economic growth and development, and, while recognizing the sovereign right of States to control the entry of foreign nationals, we will work towards developing travel facilitation initiatives in support of job creation, quality work, poverty reduction and global growth.

An evidence-based research report by the WTTC and UNWTO was completed and presented to the G20 Ministers of Tourism prior to the summit in June 2012, setting out the potential impacts of tourism in generating jobs and economic growth. It clearly served its purpose, giving the global travel and tourism industry more power to address global challenges with governments and tourism ministers, including SIDS and small states.

A call to the cruise sector from the WTTC's president and chief executive officer, David Scowsill, to join the wider travel and tourism industry was made at the 'Cruise Shipping Miami' conference on 12 March 2013. The outcome remains to be seen (WTTC 2013).

3.5 Best practice and lessons from small states

3.5.1 Caribbean examples

While all major destinations have developed their own overall tourism policies, Belize was the first destination in the Caribbean and Central America to commission a major research study that led to the creation of a specific cruise ship policy in 2000 which was then revised in 2003 (CESD 2006). There are some interesting lessons here for other small states.

This aspect of tourism policy-making in Belize must be seen in the broader context of the government's approach to creating 'responsible tourism'; this dates back to the first national tourism strategy in 1998 (CESD 2006; Ministry of Tourism 2010). Belize's original 2000 Cruise Ship Policy had several aims. The main points were to:

- Manage the number of cruise ships and total passengers within agreed capacity limits;
- Maximise revenue from the cruise sector;
- Increase economic linkages between local suppliers and the cruise sector;
- Develop new visitor attractions and expand existing attractions to even out the flows of cruise passengers ashore; and
- Find ways to convert cruise passengers to eventual stay-over return visitors.

Interestingly, in light of the evidence presented in this report about overcrowding and the spatial concentration of passengers, the 2000 Cruise Ship Policy also set upper limits for passenger numbers (e.g. a maximum of 3,000 per day disembarking at Belize City). This was a bold move. However, when it was revised in 2003, the policy substantially increased the maximum number of disembarking passengers by doubling the limit to 6,000 per day. This was subsequently raised to 8,000 and then to 10,000 in 2007. According to CESD (2006: 34), this was one of the changes 'that weakened some of its progressive measures'.[49]

3.5.2 Indian Ocean examples

Seychelles is another interesting example. In this case, its remote, oceanic location is an advantage in terms of generating revenue from cruise ships. Unlike most Caribbean or Central American small states, Seychelles benefits from providing bunkering, provisioning and other port services to visiting cruise ships, since the distance to the islands necessitates some re-supply and, normally, bunkering for fuel. Therefore in Seychelles proportionally more revenue is collected from cruise liners than in other SIDS (i.e. more than just a nominal passenger head tax). There is also some evidence

concerning the economic benefits from cruise passenger expenditure ashore for SMEs, especially local handicraft producers, but this is mainly anecdotal and gathered from destination interviews (by the authors in 2012) and actual evidence was not available.

3.5.3 Pacific Ocean examples

In the Pacific region, Vanuatu has an interesting (and atypical) tourism industry, where the majority of stay-over visitors appear to be business travellers rather than holiday-makers; this is combined with a healthy cruise tourism sector. This makes for an interesting case study.

For the region, MacPherson (2008) is positive overall and sees cruise tourism as important for Pacific destinations if 'managed effectively' by government. But the political economy of the recent experience of small states with the global cruise industry would suggest that this is not as simple as it seems at first glance. In comparison, Slatter (2006) argues that in Vanuatu there are positive effects of some tourist spend and some direct employment, but there are also issues where the cruise lines use a local (expatriate-owned) firm for ground transport, rather than local owner-operated taxis and buses. The cruise lines engage in anti-competitive oligopolistic behaviour, which suggests there is some way to go before the sector is managed so that the benefits to the local economy and especially to the environment, can be better understood in the context of the global tourism industry and also in this diverse and growing sector.

Chapter 4

The Indirect Impact of Tourism

4.1 Introduction

The previous two chapters presented the main direct channels through which tourism impacts upon SIDS and small state economies. We noted significant impacts and gave supporting evidence. This chapter examines the indirect channels. While there is evidence relating to direct channels, there is often a paucity of data concerning indirect channels in SIDS; however, appropriate examples are used here where possible. In terms of reliable and usable data, the WTTC publishes disaggregated data that it has collated into direct, indirect and induced categories. WTTC material is used here where appropriate.

After briefly discussing tourism and growth, this chapter focuses on key economic issues for tourism in SIDS in terms of indirect effects, specifically the issues of linkages (both backward and forward linkages), leakages and why this results in low multiplier values. Induced effects are, almost by definition, the most difficult to substantiate robustly; they are therefore not discussed further in this report.

The chapter concludes with a discussion of inclusive growth strategies and explores ways in which tourism can make a bigger contribution to equitable development.

Tourism is clearly of great significance to SIDS, although the evidence to support this is frequently inconclusive or partial. Specifically, there are limited opportunities to track year-on-year tourism growth given an *overall* lack of robust data across all SIDS. Annual data published by the WTO and WTTC are useful at one level, as it shows the direct and indirect contribution of tourism to national GDP and employment, for example, and visitor volume (expressed in thousands). However, it is difficult to measure value added over significant time periods because at a national level data collection lacks sufficient granularity to understand how tourism spend works its way down through the regional and local economy. This report includes exceptional case studies, including the Caribbean Tourism Organisation, OneCaribbean.org, Jamaica and Maldives, whose detailed data differentiate the socio-economic values of foreign-owned and locally-owned businesses in tourism specific sectors, such as accommodation, F&B and retail (including handicrafts).

Tourism in SIDS and small states can be further influenced by the historical context. For many Caribbean SIDS, the linkages between their colonial past and their present political economy are not dissimilar, with levels of dependence, and thus vulnerability, influencing policy direction for tourism development since the 1970s (Bishop 2010). More recently, the impact of foreign investment and resort enclaves has further limited the opportunity for: (1) traditional economic activity to expand;[50] (2) innovative and

entrepreneurial activities to develop sustainably; and (3) local people to compete beyond the 'niche market'. Encontre (1999: 261) observes:

> In the sphere of 'niche' markets, which involve island-specific products and less global competition, few cases of lasting success have been observed among SIDS, as commercial ventures have often had a short life, or ideas involving niche activities have failed to come to fruition.

It has been suggested '… even when the increase in the terms of trade does not balance the technological gap, the exploitation rate of tourism resources can increase sufficiently to correct the technological gap and to enhance growth' (Lanza and Pigliaru 2000, cited in Seetanah 2011: 294). However, a cautious approach is advised, as over-exploitation and unsustainable use of unique tourism resources can led to further over-dependence on foreign investments and skills to bridge gaps.[51]

The environmental impacts associated with coastal and island tourism are typically associated with habitat loss through land and beach clearance for tourist infrastructure (accommodation, restaurants, bars, attractions and port development), as well as with increased visitor numbers in environmentally sensitive areas such as national terrestrial and marine parks. Erosion, vegetation damage, and loss and disturbance of wildlife are common management issues. One final impact concerns natural resource depletion, specifically fresh water supplies, as well as sewage treatment and waste disposal. These are common issues in many SIDS. To exemplify the final issue of solid waste disposal, Maldives' Thalafushi ('rubbish') island is a well-publicised case. Here the country's capacity to deal with the significant rise in waste generated by the tourism industry seems to have been totally inadequate.

4.2 Tourism and growth

Tourism is a multi-sector economic activity that is not recognised as an 'industry' within the UN SIC system or in official national economic statistics. It is effectively 'a form of final demand' (Benyon et al. 2009: 2128) or composite of sectors, including accommodation, catering, retail, entertainment, transportation and tourist attractions (Jones 2010). This has implications for analysing the economic impacts of tourism within host economies. Tourism expenditure may not only increase incomes in terms of economic contribution, but may also lead to long-term economic growth.

The tourism-led growth hypothesis was first tested empirically by Balaguer and Cantavella-Jorda (2002) for Spain. Their approach of using Granger causality to test the statistical relationship between tourism (arrivals) and subsequent economic growth has been followed by other authors, with some refinements to the methodology. The hypothesis is that earnings from tourism allow countries to purchase capital goods that lead to further growth, and may also lead to economies of scale and improvements in competition and innovation. The growing literature on the tourism-led growth hypothesis confirms the hypothesis in the majority of countries on which it has been tested (Brida and Paulina 2010). There is also considerable evidence that smaller, more tourism-specialised countries grow faster than less tourism-specialised countries (Brau et al. 2007) (Box 4.1).

Box 4.1 The tourism-led growth hypothesis and SIDS

The tourism-led growth hypothesis in SIDS was confirmed in:

- Mauritius (Durbarry 2004)
- Barbados (Jackman 2012)
- A panel of South-Pacific SIDS (Narayan et al. 2010)
- A panel of 19 island economies (Seetanah 2011)
- A panel of three Caribbean countries (The Bahamas, Barbados and Jamaica) – tourism is found to cause GDP growth, but only in the short run (Singhet al. 2010).

4.3 Indirect channels

This section will focus on backward and forward linkages, value-added, economic leakages and multipliers.

4.3.1 Backward economic linkages

When considering indirect channels from tourism, it is necessary to examine the area of economic linkages, both backward and forward.

Backward linkages 'measure the relative importance of each sector as a purchaser to all other sectors in the economy' (Pratt 2011: 636), whereas forward linkages measure 'the relative importance of each sector as a supplier to all other sectors in the economy' (op. cit.: 636–7).

Backward linkages for tourism are relatively well-explored (Fletcher 1989), whereas forward linkages are less so, as tourism expenditure does not really have any significant forward linkages (Cai et al. 2006; Benyon et al. 2009). This is further complicated by the fact that 'sectors that service tourism demands do themselves have forward linkages' (Benyon et al. 2009: 2125).

It seems that 'backward linkages hint at sector embeddedness and the support of employment and output in the sector's value chain' (Benyon et al. 2009: 2128). There are backward linkages from tourism to, for example, the local agricultural sector. Given the role of agriculture in some SIDS, it is reasonable to consider whether or not effective backward linkages can be maintained or established with local agriculture. However, the assumption that strong backward linkages can be developed and maintained has been questioned by Momsen (1998), Latimer (1985) and Telfer and Wall (1996, 2000).

Key issues and concerns:

1. Supply (quantities needed, storage, transport and the overall quality of agricultural produce).

2. Problems specific to SIDS, which include:
    - Cost and shortage of land in islands;
    - High cost of production and transport; and
    - Labour issues.

In the Caribbean region, agriculture is particularly affected by local environmental problems: small crowded islands; the lack of physical variety; and vulnerability of crops to drought and high winds. All these issues add to the problems of supplying tourism (Momsen 1998, citing Latimer 1985).

Bryden (1973) and Britton (1991) argue that some problems with developing backward linkages are the result of the way in which international tourism is organised and structured. For example, foreign-owned hotel groups tend to have strong links to overseas food suppliers and this can act as a barrier to local suppliers.[52] This is also evident in Seychelles.

Despite assertions by policy-makers that backward linkages can be created between agriculture and tourism, '… there is little evidence to suggest that the international tourism industry has been successful in developing backward linkages to local agriculture sufficient to stimulate growth in the agrarian sector' (Momsen 1998: 118). This is compounded by data problems.

Few data exist on backward linkages from tourism to agriculture in SIDS. Where data do exist, they tend to show significantly weak economic linkages (Box 4.2).

The evidence in Box 4.3, as well as that from other research studies on SIDS, suggests that weaknesses in economic linkages between tourism and agriculture and agro-food sectors are the result of a number of factors.

Box 4.2 Backward linkages between the hotel and restaurant sector and the agro-food sector, Jamaica

In 2008, backward linkages between the hotel and restaurant sector and the primary and agro-food sector in Jamaica existed at two levels.

1. Intermediate inputs from agriculture represented:
    i. 9.2 per cent (primary sector); and
    ii. 18.2 per cent (agro-food sector) of total tourism output.
2. Secondary linkages from the agriculture sector (as inputs) represented:
    i. 11.5 per cent of the total output in food processing.

Total food purchases by hotels in Jamaica for 2008: $J16 billion

Of that figure, local food purchases by hotels: $J4.8 billion

Source: Segura 2010: 18

Box 4.3 Factors limiting backward linkages to agriculture and possible solutions

The perceived value placed on locally produced food is lower than the perceived value of foreign imports.

An annual national awareness campaign and marketing exercise, e.g. the 'Eat Jamaican' campaign, can reverse this trend over time.

Sectors in decline can be sidelined by policy- and decision-makers.

Cross-sector collaboration (nationally and regionally) can produce mutually beneficial outcomes for short- and long-term growth, e.g. One Caribbean.

Land available for agriculture is often limited and not able to support the local population and tourists.

Support and promote cottage industries that produce high value locally grown and produced food items, e.g. SENPA (Small Enterprise Promotion Agency), Seychelles.

The cost of fertiliser and animal feed inhibits agricultural production by small-scale farming.

Develop complementary low-impact commercial enterprises, e.g. Belmont Estate, Grenada.

These include:

- Weak policy linkages between the sectors,[53] as noted in Seychelles;
- Tourism physically displacing agriculture, as in Antigua (Weaver 1988);
- The 'demonstration effect' from tourist behaviour can create an increased demand for the purchase and consumption of imported foods.

Momsen (1998: 120) sounds a cautionary note and argues that tourism and agriculture may be seasonally complementary in relation to local labour, as hotels are often built in dry coastal areas that are unsuitable for agriculture. A stronger policy link between the two sectors could encourage greater collaboration between local agriculture and the tourism industry.

On the demand side, depending on the types of tourism in SIDS, it may prove possible to create demand for some specialist foodstuffs of local provenance. There are some problems that particularly affect SIDS. For example:

1. Islands cannot produce fresh foodstuffs all year round, and questions remain over the reliability of quality and the freshness of supplies to tourism (this is linked to limited cold storage and lack of transport capacity).

2. The proportion of locally produced food consumed by tourism in SIDS appears to depend on the size of accommodation (and its ownership), the type of tourists and local producers' ability to meet the demand.
3. Potential conflict between local agricultural producers and wholesalers/retailers who import, and SIDS governments, who benefit economically from levying import duties (Momsen 1998: 125).
4. The gender and distributional imbalance seen in some SIDS with locally produced foodstuffs is a potential problem for inclusive growth. For example, in the Caribbean region research shows that male farmers with relatively large farms gain more from the specialist food production required for tourism than small-scale female subsistence farmers (Momsen 1998: 132).

Given the trend within Western consumer societies towards seasonal and local foods (Sims 2009), certain tourist segments, such as heritage, eco and upmarket tourism, could be targeted for this development. However, it is unlikely that mass tourism could be sensibly targeted, because it has different demands, for example for familiar international brands.

It is possible that stronger local backward linkages to agriculture can be developed for some crops in the Caribbean. This could be achieved in Jamaica, on the pattern of the 'Eat Jamaican' national campaign launched in 2003 by the Jamaica Agricultural Society (JAS) to raise awareness among Jamaicans of the advantages of eating more locally grown food as part of a healthier lifestyle. However, there needs to be a concerted effort from other government ministries and the tourism industry (particularly the accommodation and F&B sectors) for this to be truly effective. In 2012 the *Jamaica Gleaner*[54] reported that in spite of efforts to increase demand for domestic food 'the Eat Jamaican campaign has failed to slow Jamaica's burgeoning import bill, which at the current rate is estimated to reach $1.2 billion'. As a result of economic measures taken to reduce the food import bill, the agriculture sector is likely to experience an upturn in production as demand for local food (from both local people and tourists) increases. This is not so clear for Indian Ocean and Pacific or dispersed archipelagic SIDS. The question requires further specialist research.[55]

Another option is the development of packaged high value food and beverage souvenirs for tourism, such as rum, specialist coffees, brown sugar, spices and pepper sauce (as seen in the Caribbean SIDS). Such businesses are often owned by expatriate entrepreneurs, which suggests that policy linkage is weak (Momsen 1998: 132). 'Despite the unequal distribution of benefits, backward linkages from tourism are expanding. After thirty years of half-hearted attempts to form economic linkages between tourism and agriculture, the closure of their traditional markets for plantation crops has finally forced Caribbean governments and farmers to take the global market visiting their shores seriously and to capitalize on it' (Momsen 1998: 132).

4.3.2 Forward linkages

In theoretical terms, forward linkages exist between tourism and the rest of the local economy; however, Pratt (2011) argues that in practice these are typically very weak

from the tourism component sectors. International tourism is an export activity, so it is natural that the forward linkages are low.

Forward linkages tend to be stronger where there is a diverse economy with significant business tourism (still defined as tourism) or where specific sectors, such as restaurants that cater for local as well as international demand, are developed. These are still low linkages because the sectors related to tourism are generally end or final user sectors (Professor John Fletcher, personal communication, June 2012).

Benyon et al. (2009) suggest that any such development of effective forward linkages is associated with the notion of 'clusters of competencies' (Porter 1990). This is not covered in the present tourism and SIDS literature, but could be worth pursuing.

Box 4.4 Small agricultural production on Mahé, Seychelles

The photograph below shows vegetables grown on flat land adjacent to the beach. Vegetables are sold to local restaurants, guest houses and the local market. Local farmers are given advice and support by the Seychelles Agricultural Agency.

The photograph below shows pineapple farming on steep ground. Pineapples are sold locally. This farm is privately funding development (cold stores and preparation rooms) to enter the export market and the agritourism business.

4.3.3 Economic leakage

Economic leakage within tourism is relatively well-researched and has been defined as the 'share of direct and indirect tourism activity that accrues overseas' (Mitchell and Ashley 2010: 80).

Leakages, especially in less developed countries, have been estimated as being as high as 40–50 per cent because of tourism's reliance on imports; however, leakages have been estimated as being up to 75 per cent in some destinations if external intermediaries such as tour operators and firms which have highly vertically integrated operations play a prominent role (Diaz Benevides 2001).

However there may be problems with this concept. It has been argued, particularly by Mitchell and Ashley (2010), that if leakages are poorly identified and perhaps over- or understated, this can lead to policy-makers misunderstanding the impact of tourism. This can then lead to problems with policy prescriptions that could harm other sectors.[56]

According to Adama Bah (a tourism researcher in Gambia) '… much of the debate about "leakage" from tourism destinations is based on the erroneous assumption that somehow the destination country "owns" the whole value chain. Without international tour operators and airline companies, there would be no tourists and no value chain' (Mitchell and Faal 2007). This raises an interesting point and suggests that further clarification is needed to disaggregate the economic contribution at different stages of the inbound value chain, so the actual economic leakage at the destination can be measured more accurately.

Overall, there is concern in the literature that leakages may be highest in small developing countries and SIDS (Wilkinson 1989; Meyer 2007). Many studies exist, but typically the use different calculations so it is difficult to compare results. For example:

1. Jayawardena and Ramajeesingh (2003) estimate leakage for Caribbean SIDS ranging from 45 per cent (Dominica) to around 90 per cent (The Bahamas).
2. In addition, when tourism is disaggregated, economic leakage may vary between different tourism sectors with air transport (often foreign-owned) having higher leakage than, say, local ground transport or accommodation, if it is small scale or locally owned (Walpole and Goodwin 2000).
3. The types of tourists going to SIDS may have different levels of economic leakage, for example small-scale tourism (involving independent travellers like backpackers, cultural tourists or some types of eco-tourist) may arguably have lower levels of leakage than mass tourism as a result of lower import components and locally retained profits (Diaz Benevides 2001; ECLAC 2005).

Very little is known at present about leakages from these sub-sectors and types of tourist, and more research is needed specifically on this issue. Reasonable estimates could be generated to assist policy-makers, using detailed survey work on expenditure patterns based on research on SIDS in different world regions.

4.3.4 Multipliers

Economic multipliers associated with tourism activity have been developed from Keynesian analysis. These multipliers tend to be associated with a variety of economic variables, including sales (transactions), output, income and employment multipliers.

The type of multiplier that is most significant depends on the objectives associated with tourism development; in much of the literature income multipliers seem to receive most attention. Textbooks typically state that income multipliers are highly significant measures of impact, as tourists' expenditure circulates and recirculates through the local economy (Meyer 2007).

As already noted, tourist spending within a host economy has been conventionally linked to three distinct impact levels: direct, indirect and induced. Therefore the income multiplier attempts to measure the change in local income in the destination (at the direct, direct plus indirect or the direct, plus indirect plus induced levels of impact), resulting from a given change in tourist expenditure. In islands and small economies, it is reasonable to expect that income multipliers will be lower than for large economies, since by definition SIDS tend to be small, open economies.

Estimates of income multipliers depend on whether they are direct and indirect, and whether they are direct, indirect and induced, the latter having larger values than the former.

Multiplier values also depend on the type of models that are used to construct them, with ad hoc multiplier models generating lower income multiplier values for the same economies as input–output (I–O) models (by a margin of around 30 per cent); however, CGE[57] models tend to generate lower values than I–O models because they take into account changes in prices and allow factor substitution. This makes it very difficult, and quite suspect, to compare multiplier values for different economies unless it is known that they have been generated using the same method of analysis and refer to the same levels of impact.

The literature shows income multipliers ranging from below 1.0 to 2.0. Karagiannis (2004, cited by Meyer 2007) discusses multipliers for seven Caribbean destinations and notes a range of multipliers from 0.39 (the lowest) to 2.0 (the highest, for Trinidad and Tobago). Some islands have an income multiplier of over 1.0: for example, the multiplier for Bermuda was 1.17 at the direct, indirect and induced level of impact. Corresponding figures were 1.27 for Jamaica; 1.56 for St Lucia; 1.59 for Dominica; 1.79 for St Vincent and the Grenadines; and 2.0 for Trinidad and Tobago (Archer and Fletcher 1990: 54).[58]

Another problem with applying multiplier analysis is the different types of tourism experienced in SIDS. For example, cruise ship day visitor spending is typically lower per person in absolute terms than stay-over tourism (Dowling 2006) and the pattern of spending, and hence the income multipliers associated with the different types of tourists, differs. However, often this granularity of data level collection may not exist in many SIDS with small government statistics departments and human resource constraints.

To further use multipliers to inform policy, multiplier values need to be calculated at sector level and then aggregated to reflect tourist spending patterns. Existing applied studies on island tourism economies distinguish between the different activities involved in tourism, for example between accommodation and catering or transport, as well as making distinctions within these sectors, for example distinguishing different types of accommodation. Typically, small accommodation units tend to have a greater propensity to purchase locally whereas the larger hotels – because of chain purchasing policies or the volume of goods bought – tend to purchase outside the local economy. Therefore it is likely that small guest houses in SIDS will have a higher income multiplier than four or five star hotels, as there will be less of an import component in the circulation of the expenditure within the SIDS economy.

The next section explores the inclusive growth framework as an alternative approach to increasing the economic benefits for the local destination and reducing economic leakage.

4.4 Inclusive growth

Linking inclusive growth explicitly to tourism is a relatively new development that shares certain principles with the more established pro-poor tourism approach. Inclusive growth is not yet an established alternative, as the principles and framework for implementing a new model for growth remain at an abstract level of discussion, rather than being a policy recommendation. Few publications refer explicitly to SIDS, but inclusive growth as a concept is increasingly discussed by academics, international agencies and policy-makers. Box 4.5 illustrates the main principles of inclusive growth and the enabling factors that can contribute to inclusive growth strategies.

It is evident that inclusive growth is concerned with economic growth, but it is equally clear that this is not the only mechanism driving the inclusive growth strategy. The concept differs from sustainable development in that the latter is typically viewed as the three pillars of environment, economy and society (WCED 1987); however, inclusive growth typically focuses on the economic and social aspects. At a country level, inclusive growth may work in parallel with sustainable development, where sustainable development is the overarching framework and inclusive growth sits within this.[59]

Inclusive growth concepts show that definitions follow one of three routes: process, outcome, or process and outcome (Klasen 2010).

1. *Process:* Growth as a catalyst to employment that is productive (World Bank 2009), equal, well-distributed and accessible (Ali and Zhuang 2007).
2. *Outcome:* Inequality declines (Rauniyar and Kanbur 2009) and non-income production increases with growth (Ali and Son 2007).
3. *Process and outcome:* Includes participation in growth and benefit-sharing from growth (IPC-IG 2012).

The proposed inclusive growth concepts, whether process or outcome led, consider income and non-income dimensions as equally important, and income growth as a

Box 4.5 Principles of inclusive growth

Inclusive growth:

- Is broad-based across different sectors of the economy
- Includes low- and middle-income groups within the workforce;
- Promotes a productive workforce; (World Bank 2009: 1)
- Promotes equal opportunities with economic growth (Ali 2007); and
- Reduces inequality as economic growth continues (Rauniyar and Kanbur 2009).

A number of enabling factors contribute to inclusive growth by reducing inequality, including:

- Improvements in the communication and transport infrastructure to catalyse a local business and investment climate (Ali and Yao 2004);
- Improved rural infrastructure and agricultural technologies that give greater access to tourism and other markets and increase local production (Fernando 2008; Rauniyar and Kanbur 2009);
- Support for rural economic development by removing institutional and infrastructure constraints (Bolt 2004; Fernando 2008) and, more broadly, social inclusion in the policy process (Ali and Son 2007); and
- Support for social and health protection and security measures to reduce inequalities in social development (Ali and Son 2007; Tandon and Zhuang 2007; Fernando 2008).

necessity. Furthermore, the concepts acknowledge similarities with pro-poor growth strategies and at the same time offer a summary of differences. Those differences are presented in Box 4.6 for comparison (Rauniyar and Kanbur 2009; 2010).

Box 4.6 Inclusive growth and pro-poor growth

Inclusive growth		**Pro-poor growth**
Creates employment and economic opportunities	–	Redistributes direct incomes
Targets low- and middle-income groups	–	Targets low-income groups
Increases opportunities	–	Increases welfare
Creates greater equality	–	Improves equality
Growth reduces inequality	–	Growth alleviates poverty
Improves the average achievement critical threshold	–	Improves average and below average achievement

Box 4.7 Inclusive growth strategies: quality infrastructure

In 2011, Seychelles hosted the 8th Indian Ocean Islands Games. The games village, in Ile Perseverance, was designed and built to accommodate international athletes for the duration of the games with new housing, a desalination plant, kitchen facilities and a cultural performance area.

Hosting the games served several purposes for Seychelles, apart from raising its profile through extended regional media coverage:

- It catalysed a long-term solution to the potential urban sprawl on the main island, Mahé. Ile Perserverance is a reclaimed island.
- In doing so, protected areas and forested areas can remain intact. 48 per cent of Mahé is either forested (38%) or a designated protected area (10%). The natural unspoilt landscape is a unique feature of Seychelles.

- The infrastructure (housing, roads, etc.) developed to host the sports teams is now affordable and modern housing for Seychellois. Further housing developments were evident in Ile Perseverance in May 2012.

- Sports infrastructure (stadiums, a swimming pool, etc.) that were upgraded for the Games continue to be used regularly for national and regional sports events and are in daily use by schools and the general public.

Developing non-tourist infrastructure that improves the livelihoods of local communities is part of a long-term inclusive growth strategy.

A crucial parallel can be drawn between inclusive growth and pro-poor growth that indicates that inclusive growth and pro-poor growth could be construed as sharing the same ideology. Pro-poor growth is measured in either absolute or relative terms, and it is the former which bears most resemblance to inclusive growth, as it includes all low-income groups as beneficiaries in relation to overall economic growth. The distribution of beneficiaries is prioritised to achieve a greater distribution of equality (or reduced inequality). It is relative pro-poor growth that is frequently compared with inclusive growth to highlight the disparities between them (Saad-Filbo 2010).

4.5 Summary

This chapter has examined the economic impacts of tourism as initially discussed in Chapter 1. Chapter 1 focused on direct channels (where most of the evidence can be found), whereas this chapter mainly examines indirect channels, with a short explanatory note about induced channels. Nevertheless, it has been shown that in most host economies, and especially in less developed countries, questions of how to maximise economic linkages to other sectors and how to minimise economic leakage are of pressing concern. For tourism-dependent SIDS, these are compounded by their characteristics of smallness (often combined with remoteness) and economic vulnerability, especially to exogenous shock, and by being highly open economies (Briguglio 1995; Armstrong and Read 1998; Santos-Paulino 2010). The challenge in relation to inclusive growth is how to refocus tourism in SIDS so that it operates more equitably and sustainably for the demonstrable benefit of local communities.

Chapter 5

Summary and Recommendations

5.1 Introduction

The conceptual framework that underpins this report has been developed by the World Bank and applies the concept of inclusive growth to tourism in SIDS. In particular, the notion that has been used here is that the impact of tourism on SIDS can best be expressed by considering in turn direct, indirect and induced channels. This final chapter draws upon the results of the desk-based research, the country case study of Seychelles, and technical and specialist advice from professors at the Universities of Birmingham and Bournemouth. The chapter ends with policy recommendations and suggestions for future work on tourism and inclusive growth strategies.

5.2 How to analyse tourism to foster inclusive growth in SIDS

The central research question of this study is: How are the economic impacts of tourism transmitted through SIDS economies? This question has two components: first, how does initial tourism expenditure in the small economy translate via economic linkages to changes in local incomes? Can this be seen through direct, indirect and induced channels? Second, and clearly associated with this, how does tourism affect and change local livelihoods in SIDS host communities?

Inclusive growth relative to tourism is an approach that requires long-term development, as it aims to distribute economic and 'other' benefits from tourism more widely (across island society) and more broadly (across the island's industries) (Ianchovichina and Lundstrom 2009). 'Other' benefits refer to non-income factors, such as continuous professional development (CPD), that help raise productivity levels within a workforce. In addition, further training and experience lead to higher levels of professionalism, and over time this can reverse the trend of foreign workers occupying key positions. This is commonly noted with international hotels and resorts in SIDS, where chief executive officers and the senior management team are typically from Asia or Europe.

In the case of one particular small island state, Seychelles, training in tourism-related sectors through the Seychelles Tourism Academy is limited to customer service and lower management skills. The results of this relatively new academy show a poor uptake of jobs (25 per cent of graduates only) in the industry, suggesting that the type of training and experience offered needs to be diversified to attract high-achieving and motivated individuals; to inspire and motivate entrepreneurism and innovation; and to reverse the employment trend in tourism towards low wages and long hours, especially for local workers.

For tourism to make a wider contribution to inclusive growth in SIDS, policy changes may be necessary. These fall into three broad areas: enabling factors, social well-being

and the overall political economy. These clearly overlap and connect with each other. As noted in the first chapter, the literature suggests that enabling factors for inclusive growth include local infrastructure, specifically its extent and quality. Basic infrastructure, such as transport and reliable power supplies, allows SMEs to flourish, while more specific tourism-related infrastructure, such as hotel development, encourages 'clustering' of tourism services to capture the benefits of proximity and agglomeration economies (Kim and Wicks 2010). Policy-makers in SIDS need to support investment in basic infrastructural development (especially in rural or isolated areas), in addition to well-considered, planned tourism infrastructure development.[60] The exact form that this takes will be both island and location specific, but could include carefully targeted development to support tourism sectors that retain more of the tourist spend in the island economy, such as some types of cultural and heritage tourism, independent travellers, and some forms of eco-tourism and other niche markets. In comparison, large-scale expenditure on infrastructure for the cruise sector may not be the best use of scarce finances. As noted earlier, with one exception, a low proportion of tourist expenditure in the cruise sector is retained in SIDS.

Social well-being is a second area of policy concern when considering how to facilitate inclusive growth from tourism. Clearly, small island societies that have growing inequality and worsening income distribution across both rural and urban areas face significant disadvantages in attempting to encourage inclusive growth. The implication for SIDS policy-makers is that tackling marginalisation and social inequality must be a fundamental priority in attempts to foster inclusive growth, rather than a minor supplementary aspect than can be considered at leisure. This is reinforced in the literature concerning the key role of social capital in SIDS (Baldacchino 2005). This applies not only to inclusive growth in general, but is relevant to inclusive growth linked to tourism development in SIDS. Tourism, perhaps more than most other economic sectors, is predicated upon a stable and safe host society. Rising inequalities and the associated levels of social tensions and possibly crime act against tourist perceptions of the holiday destination as a safe, stable place. Given the intense and growing competition between destinations, international perceptions are of great significance. In addition to the societal argument, worsening social problems may also create problems for start-up SMEs that wish to enter the tourism business. Gini coefficients can be used to show the distribution of income within SIDS; however there is a serious lack of such data. In this report we collate Gini coefficients from selected SIDS (Appendix 2, Table A2.11), but the overall lack of these data from other SIDS is an ongoing problem.

Finally, the local overall political economy is also of great relevance to setting policy directions for SIDS governments. This necessitates a more holistic approach to strategic tourism policy in recognition of the interconnection and interactions between different economic sectors, the impacts of particular fiscal and economic policies, and the wider external geopolitical environment outside the actual SIDS. For instance, while some small states have programmes to assist low-income households or business start-up facilities for new SMEs, other government actions, such as particular fiscal policies, can act in the opposite direction as a disincentive to new businesses. To follow the approach of inclusive growth in SIDS for tourism, policy-makers also

need to consider how to help middle-income households benefit from the tourism industry. This is not as simple as it first appears and poses substantial challenges for SIDS governments.

5.3 Policy recommendations and areas of future work

Having discussed some of the challenges facing policy-makers concerning inclusive growth and SIDS tourism, this report ends with two overarching recommendations that are priorities for tourism development. Further, more detailed, recommendations are listed in Appendix 5.

5.3.1 Recommendation 1

In several places in this report it has been noted that reliable and useable tourism data from SIDS is lacking in many areas. There are some exceptions, notably in Mauritius, Maldives and Jamaica, which have generated particularly useful data that is available for analysis; these, however, are the exceptions. One major step forward in enabling a better understanding of SIDS' existing tourism activities and planning for future development with inclusive growth, would be increased funding for the collection and publication of reliable tourism statistics. This needs to go beyond the basic data requested by the UNWTO, for instance on international arrivals. Given human resource constraints in many SIDS, the lack of data is not just a financial issue, but also stems from small statistics units within SIDS governments and tourism departments. It is recommended that SIDS governments, in combination with international development agencies, should prioritise the collection of statistics from the tourism sector to underpin inclusive growth strategies for tourism.

5.3.2 Recommendation 2

There is evidence that inclusive growth tourism is a viable alternative route for SIDS that complements, and is complemented by, the existing tourism industry. While there are fundamental issues that currently limit the opportunities for inclusive growth, examples of good practice are noted throughout this report that maximise national assets and strengths that are often overlooked. The result not only offers SIDS tourism industries a more diverse product range, but can offer a new lease of life to the local workforce, declining industries (e.g. agriculture), costly conservation work (e.g. protected sites) and the creative industries (including cultural heritage). With inclusive growth in mind, there is a genuine need for progressive development. It is recommended that basic groundwork is completed to gain a full understanding of national assets (other than sun, sea and sand) that offer alternative, small-scale and locally-produced tourism products. Basic groundwork could include the compilation of an inventory of natural, cultural and heritage assets, and impact assessments to monitor changes, as well as gains and losses.

5.4 Concluding remarks

This report explores tourism and inclusive growth in SIDS and small states. It was developed from a desk study, with supplementary material drawn from a country visit to Seychelles to ground the study with examples from a tourism-dependent small island state. The report has shown, despite the overall lack of reliable and robust statistical data for most SIDS, that certain observations can be made. For most SIDS tourism remains a key economic activity, an important contributor to GDP, a main source of government revenue and a significant generator of employment. The report makes two key recommendations for the successful development of inclusive growth strategies for tourism in SIDS. If these recommendations are acted upon, government and international development agencies will have a far firmer base for the development of evidence-based policy to facilitate inclusive growth tourism strategies.

Appendix 1

Table A1.1 Island characteristics of selected SIDS

	Area of land (km^2)	Elevation (m)	Number of islands[a]	Total area of territory (km^2)	Coastline (km)
Antigua and Barbuda	280 (Antigua) 161 (Barbuda)	402	2	442.6	153
Aruba	180	188	1	180	68.5
The Bahamas	10,010	63	700	13,880	3,542
Barbados	430	336	1	430	97
Dominican Republic	48,320	3,175	$^2/_3$ of Hispaniola	48,670	1,288
Jamaica	10,831	2,256	1	10,991	1,022
Trinidad and Tobago	5008.7 (Trinidad) 308.8 (Tobago)	940	2	5,128	362
Mauritius	2,030	828	6	2,040	177
Seychelles	455	905	115	455	491
Maldives	298	2.4	1137	298	644
Fiji	18,274	1,324	322	18,274	1,129
Vanuatu	12,189	1,877	81	12,189	2,528

Data derived from UNEP Islands Directory, available at: http://islands.unep.ch/isldir.htm (accessed 19 March 2012)

Table A1.2 Demography of selected SIDS

	Total population ('000)	0–14 years (%)	15–64 years (%)	65+ years (%)
Antigua and Barbuda	89,018	25.8	67.4	6.8
Aruba	107.635	18.4	70.3	11.2
The Bahamas	316,182	24.4	69.2	6.3
Barbados	287,733	18.9	71.3	9.8
Dominican Republic	10,088,598	29.5	64	6.5
Jamaica	2,889,187	30.1	62.3	7.6
Trinidad and Tobago	1,226,383	19.5	72.1	8.4
Mauritius	1,313,095	21.8	70.7	7.5
Seychelles	90,024	21.9	71	7.2
Maldives	394,451	21.5	74.4	4.1
Fiji	890,057	28.9	65.9	5.2
Vanuatu	227,574	29.6	66.1	4.3

Table A1.3 Contribution of tourism to employment for selected SIDS, including total, direct, indirect and induced contributions, 2011

	Direct ('000)	Indirect ('000)	Direct plus indirect ('000)	Direct plus indirect, share of total employment (%)
Antigua and Barbuda	5	11	16	56
Aruba	11	17	28	58
The Bahamas	43	33	76	45
Barbados	20	33	53	35
Dominican Republic	170	266	436	11
Jamaica	84	141	225	19
Trinidad and Tobago	31	16	47	8
Mauritius	68	56	124	22
Seychelles	11	11	22	53
Maldives	31	26	57	42
Fiji	38	47	85	26
Vanuatu	11	14	25	37

Source: WTTC, Travel and Tourism Economic Impact 2012

Table A1.4 Contribution of tourism economy to GDP for selected SIDS, 2011

	Travel and tourism consumption (US$ bn)	Leisure/ business (%)	Foreign/ domestic (%)	Direct contribution (US$ bn)	Indirect contribution (US$ bn)	Direct plus indirect contribution (US$ bn)	Direct plus Indirect contribution as % of GDP
Antigua and Barbuda	0.5	97:3	91:9	0.2	0.3	0.5	39.5
Aruba	1.4	92:8	93:7	0.6	0.7	1.2	45.5
The Bahamas	2.7	97:3	82:18	1.4	1.0	2.4	32.2
Barbados	1.2	95:5	91:9	0.5	0.6	1.2	28.3
Dominican Republic	6.4	93:7	73:27	2.6	3.1	5.8	10.2
Jamaica	2.8	92:8	79: 20	1.2	1.4	2.5	16.7
Trinidad and Tobago	1.6	85:15	43:57	1.0	0.4	1.4	5.0
Mauritius	2.5	60:40	76:24	1.5	0.9	2.4	20.2
Seychelles	0.4	92:8	92:8	0.2	0.1	0.4	39.5
Maldives	0.9	94:6	95:5	0.5	0.2	0.7	47.4
Fiji	0.9	94:6	94:6	0.4	0.4	0.8	24.5
Vanuatu	0.3	2:98	93:7	0.2	0.2	0.3	35.4

Table A1.5 Tourism development in selected SIDS as expressed by visitor volume (land-based and cruise passengers)

	Total tourist arrivals		Cruise passengers	
	2010[a]	2000[b]	2010[c]	2000[d]
Antigua and Barbuda	188,189[e]	237,000	557,635	429,400
Aruba	825,000	721,000	569,424	490,200
The Bahamas	1,544,000	1,368,000	3,803,122	2,512,500
Barbados	545,000	532,000	664,747	533,300
Dominican Republic	4,125,000	2,978,024[f]	352,539	183,200
Jamaica	1,922,000	1,323,000	909,619	907,600
Trinidad and Tobago	101,716e	398,559[g]	71,802	104,100
Mauritius	935,000	656,000	–	11,090[h]
Seychelles[i]	174,529	130,046	15,634	10,176
Maldives	792,000	–	–	–
Fiji	632,868[j]	294,070[j]	63,292[k] ('09)	–
Vanuatu	97,180	58,000	140,388[l]	52,758[l] ('01)

[a]**Source:** UNWTO (2011), Tourism Highlights, 2011 edition (accessed 12 March 2012)
[b]**Source:** WTO/OMT (2001), Compendium of Tourism Statistics, 2001 edition (accessed 12 March 2012)
[c]**Source:** Jamaica Tourist Board, Annual Travel Statistics 2010, available at: www.jtbonline.org/statistics/Annual%20Travel/Annual%20Travel%20Statistics%202010.pdf (accessed 12 March 2012)
[d]**Source:** www.onecaribbean.org/content/files/2004tables46to49cruisedata.pdf (accessed 12 March 2012)
[e]**Source:** www.onecaribbean.org/content/files/Feb152011Lattab10.pdf (accessed 12 March 2012)
[f]**Source:** www.bancentral.gov.do/english/statistics.asp?a=Tourism_Sector (accessed 19 March 2012)
[g]**Source:** www.onecaribbean.org/content/files/2004Trinidadstats.pdf (accessed 12 March 2012)
[h]**Source:** www.gov.mu/portal/site/tourist/menuitem.19d688ba159a1b44c5e7931000b521ca/?content_id=a53eff0426a08010VgnVCM100000ca6a12acRCRD (accessed 19 March 2012)
[i]**Source** for all Seychelles data: www.nbs.gov.sc/files/Reports/migration2010.pdf (accessed 19 March 2012)
[j]**Source:** www.statsfiji.gov.fj/Tourism/Visitor_Arrivals.htm (accessed 19 March 2012)
[k]**Source:** www.statsfiji.gov.fj/Releases/FFF2010.pdf (accessed 19 March 2012)
[l]**Source:** www.tms.com.vu/statisitics1.html (accessed 19 March 2012)

Appendix 2 Statistical Case Studies

Direct contribution to economy

Table A2.1 Visitor expenditure: land-based and cruise passengers spend for the 2010 winter and summer seasons in Jamaica

Visitor expenditure (US$ million)	2009	2010
Stopovers[a]	1,848	1,922
Cruise passengers	78	79
Distribution of expenditure (%) 2010	**2010**	
Stopover visitors (%)	**Winter**	**Summer**
Accommodation (including food and beverages)	56.6	54
Food and beverages	6.8	5.7
Entertainment	11.6	11.7
Transportation	5.9	5.7
Shopping	8.9	11.3
Miscellaneous	10.2	11.7
Average spend per person US$	127.79	109.69
Cruise passengers (%)	**Winter**	**Summer**
Food and beverages (off ship)	4.7	4.5
Attractions	23.2	18.9
Taxis	2.9	1.9
Car rental	0	0.1
Other transportation	1	0.7
Shopping 'in-bond'	27.2	34.1
Coffee	2	1.9
Clothing	7.2	7.3
Spices	0.7	0.7
Spirits (alcohol)	5.4	5.6
Straw products	2.7	2.7
Wooden articles	4.8	3.7
Other shopping	2.1	2.2
Tips	0.7	1.1
Misc (including tax)	15.4	14.8
Average spend per person US$	89.11	87.35

[a]Alternative term referring to 'land-based' visitors.
Source: Jamaica Tourist Board, Annual Travel Statistics 2010

Table A2.2 Government revenue: Tax and non-tax revenue from direct tourism services in Maldives, 2011

Government revenue (tax revenue):	MTEF (Rf million)[a]	MTEF (US$) US$0.0654=Rf1[a]
Import duty	2,374.70	155.31
Tourism tax	659.7	43.14
GST on tourism	927.7	60.67
Airport service charge	193.3	12.64
Government revenue (non-tax revenue):	**MTEF (Rf million)**	**MTEF (US$) US$0.0654 =Rf1**
Island Aviation Services Ltd	7	0.46
Transport and Contracting Co.	5	0.33
Ports Authority	45	2.94
Airports Company Ltd	150	9.81
Tourism Development Corporation	25	1.64
Resort lease rent	1,449.30	94.78
Total tourism revenue	2,108.99	137.93

[a]Exchange rate from 27 June 2012 using xe.com
Source: http://planning.gov.mv/YearBook2011/yearbook/Public%20Finance/13.3.htm

Direct contribution to employment

Table A2.3 Tourism workforce: foreign and local workers by gender (%) in Maldives, 2008

	% Tourism workforce
Maldivian male	47
Maldivian female	2
Foreign male	46
Foreign female	5

Source: International Migration Paper No. 112, International Labour Office, Geneva: 25

Table A2.4 Tourism workforce: foreign and local workers by career type (%) in Maldives, 2008

	%
Maldivian supervisory/management	49
Foreign supervisor /management	51
Maldivian functional	57
Foreign functional	43

Source: International Migration Paper No. 112, International Labour Office, Geneva: 25

Table A2.5 Restaurants and hotels: foreign and local workers employed in Maldives, 2011

	No. of persons ('000)
Locals (no. of persons)	15.89
Foreigners (no. of persons)	15.22
Total (no. of persons)	31.11

Source: http://planning.gov.mv/YearBook2011/yearbook/Public%20Finance/13.3.htm

Table A2.6 Accommodation: employment in all accommodation types in Jamaica, 2009 and 2010

Accommodation and employment	2009	2010
No. of persons	36,354	37,018
Accommodation type (no. of persons)	2,009	2,010
All-inclusive	15,313	15,534
Non all-inclusive	5,237	5,289
Guesthouses	3,070	3,152
Resort villas and cottages	3,622	3,781
Apartments	832	618

Table A2.7 Accommodation: room occupancy rates for all accommodation types for the winter and summer seasons in Jamaica, 2010

Room occupancy rates (%) 2010	Winter	Summer
All-inclusive	80	61
Non all-inclusive	41	30
Island	72	55
< 50 rooms	37	23
51–100 rooms	46	30
101–200 rooms	81	62
> 200 rooms	81	62

Source: Jamaica Tourist Board, Annual Travel Statistics 2010

Table A2.8 Direct contribution of festival tourism in Caribbean SIDS, 1998

	Visitor arrivals (nos.)	Annual arrivals (%)	Visitor expenditure (US$m)	Annual visitor expenditure (%)	Budget (US$m)	Visitor expenditure/ budget	Benefit-cost Ratio[61]	Hotel occupancy (%)	Entertainment expenditure (US$m)	Departure taxes (US$m)
Trinidad Carnival	32,071	9.2	14.08	7.6	2	704%	7:1	95	3.1	0.517
St Lucia Jazz	9,929	3.9	14.15	4.9	1.55	913%	9:1	74.5	-	0.099
Barbados Cropover	4,428	0.86	2.42	0.34	1.021	237%	2:1	53.3	0.240	0.055

Source: Nurse 2001: xii

Table A2.9 Potential net benefit streams per year for coral reefs (by region)

	SIDS regions			Other regions				All regions
	Caribbean	Indian Ocean	Pacific	Southeast Asia	USA	Japan	Australia	World
Total reef (km^2)	19,000	54,000	67,000	89,000	3,000	3,000	49,000	284,000
Fisheries (US$m)	391	969	1,060	2,281	70	89	858	5,718
Coastal protection (US$m)	720	1,579	579	5,047	172	268	629	9,009
Tourism/recreation (US$m)	663	1,408	269	4,872	483	779	1,147	9,621
Biodiversity value (US$m)	79	199	172	458	401	529	3,645	5,483
Total value (US$m)	1,853	4,171	2,079	12,658	1,126	1,665	6,278	29,830
Tourism contribution to total value %	35.7	33.7	12.9	38.4	42.8	46.7	18.2	32.25

Source: Cesar et al. 2003 (see note 3 of this report for details on values and methods used for all data apart from tourism contribution as a per cent of total value)

Table A2.10 Economic impact of reef-related tourism and recreation in Trinidad and Tobago and St Lucia – direct, indirect and total (data based on net revenues and net transfers to the economy)

	Tobago	St Lucia
Visitors motivated to visit island by reefs (%)	40	25
Accommodation (US$ m)	24.7	64.7
Reef recreation – diving (US$ m)	1.3	4.9
Reef recreation – snorkelling and glass-bottom boats (US$ m)	1.5	0.8
Marine park revenues (US$ m)	n.a.	0.1
Miscellaneous visitor expenses (US$ m)	16.0	21.2
Indirect (US$ m) (using multiplier of 1.45–1.67 St. Lucia and 1.8–2.2 Tobago[62])	58–86	68–102
Total (US$ m)	101–130	160–194
Values not always captured by economies		
Consumer surplus (US$ m)[63]	1.1	2.2–2.4
Local use (US$ m)	13–44	52–109

Source: Burke et al. 2008: 19 and 30

Table A2.11 Basic economic indicators for selected SIDS

	GNI per capita	% share household income (2000–2010)		Average rate of inflation (%)	FDI inflows	Gini coefficient
	(US$) 2010	Lowest 40%	Highest 20%	1990–2010	% of GDP	2010
Dominican Republic	4,860	13	54	11	3.14	47.2
Jamaica	4,750	14	51	15	0.41	45.51
Seychelles[64]	9,490	27	29	5	0.66	65.77
Maldives	4,270	17	44	3	8.58	37.37[65]

Source: www.worldbank.com; www.unicef.org

Table A2.12 Economic impacts of beach erosion and reef degradation in Jamaica

	Loss in value to tourism industry (US$m)		
	Current rates of erosion	Faster rate from reef degradation	Difference (US$)
Negril	5.5	10.9	5.3
Montego Bay	7.1	10.7	3.6
Ocho Rios	6.5	11.1	4.6
Total	19	32.7	13.5

Source: Waite et al. 2011

Table A2.13 Cruise port development in the Caribbean region

Port	Cruise operator	Cost of port development	Owner/operator	Port area (acre)	Port capacity	Cruise centre/Village facilities	On-shore facilities
Grand Turk, Turks and Caicos	Carnival Cruises	US$50 m	Carnival Cruises	14	2	Retail (including duty free) and leisure village	Waterpark, 2 beaches
Mahogany Bay, Roatan, Honduras	Carnival Cruises	US$62 m	Carnival Cruises	20	2	Shops (including duty free), restaurants, transport hub	Chair lift to 10-acre private island
Falmouth, Jamaica	Royal Caribbean	US$260 m (US$120 m – invested by Jamaican Port Authorities to deepen ports and build associated infrastructure	Jamaica Port Authorities (Royal Caribbean – developer; Pihl and Son – contractor	32	2	Shops (including duty free), restaurants, transport hub	Falmouth town, heritage trails, excursions to Ocho Rios & Montego Bay

Source: www.cruiselawnews.com; www.seasiteblog.com; cruise operator internet sites

Table A2.14 Cruise ship average revenue per customer

Revenue (US$)	
Ticket	1,311
Onboard spending	417
Casino and bar	222
Short excursions (cruise portion)	81
Spa	40
All other onboard spending	61
Total spending	1,728
Daily inboard spend	49
Average cruise duration (days)	8.5

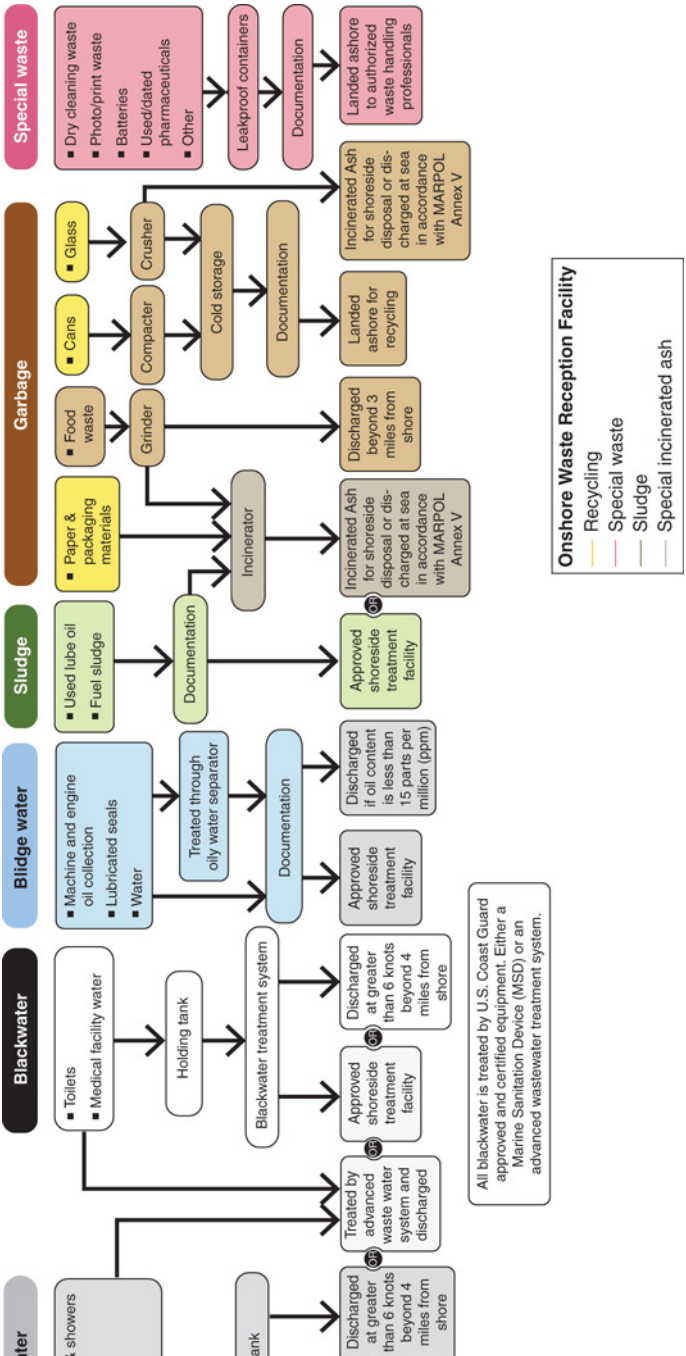
Source: www.cruisemarketwatch.com

Table A2.15 Cruise ship: average expenses per cruise passenger

	Expenses (US$)
Other operating costs	251
Agent commission	225
Ship fuel costs	221
Corporate operating costs	200
Payroll	190
Depreciation/amortisation	166
Victualling (food)	104
Onboard and other	76
Other and transportation	57
Interest expense	54
Total expenses	**1,543**
Profit before tax	**185**

Source: www.cruisemarketwatch.com

Figure A2.1 Cruise ship waste disposal requirements



Source: www.unep.org/dewa/giwa/news/01.asp

Appendix 3 Seychelles Case Study

Table A3.1 Visitor arrivals to Seychelles (1970–2011)

Year	Number of visitor arrivals
1970	1,622
1971	3,175
1972	15,197
1973	19,464
1974	25,932
1975	37,321
1976	49,498
1977	54,490
1978	64,995
1979	78,852
1980	71,762
1981	60,425
1982	47,280
1983	55,867
1984	63,417
1985	72,542
1986	66,782
1987	71,626
1988	77,401
1989	86,093
1990	103,770
1991	90,050
1992	98,547
1993	116,181
1994	109,901
1995	102,716
1996	130,995
1997	130,070
1998	128,258
1999	124,865
2000	130,046
2001	129,762
2002	132,246
2003	122,038
2004	120,765
2005	128,654
2006	140,627
2007	161,273
2008	158,952
2009	157,541
2010	174,529
2011	194,476

Table A3.2 Direct contribution of travel and tourism to GDP (%), 2004–10

	2004	2005	2006	2007	2008	2009	2010
Contribution to GDP (%)	17.7	19.2	21.5	25.9	26.5	28.5	27.5

Source: Seychelles Tourism Master Plan 2012–20: 17

Table A3.3 Direct and indirect tourism contribution to current GDP by industry, 2007–10

Industry	Current SCR m (US$)[a]				In % total value-added			
	2007	2008	2009	2010	2007	2008	2009 (prov.)	2010 (prov.)
Wholesale and retail, repair motor vehicles	41.8	61.0	80.1	74.3	2.3	2.5	2.5	2.3
Transportation	469.0	516.7	626.4	501.8	26.0	21.4	19.2	15.7
Accommodation and food service activities	994.4	1,492.6	1,944.3	1,984.0	55.1	61.8	59.6	62.0
Administrative and support service activities	114.7	128.3	202.0	223.0	6.4	5.3	6.2	7.0
Arts, entertainment and recreation	4.7	5.6	6.5	6.7	0.3	0.2	0.2	0.2
Taxes on products	178.8	210.0	403.9	411.8	9.9	8.7	12.4	12.9
Total tourism	1,803.3	2,414.3	3,263.2	3,201.6	100	100	100	100
Total GDP at current market prices	6,962.5	9,100.8	11,450.4	11,612.3	–	–	–	–
Tourism related contribution (%)	25.9	26.5	28.5	27.5	–	–	–	–

[a]Exchange rate taken from xe.com. US$1=SCR14.52

Source: Seychelles Tourism Master Plan 2012–20: 18

Table A3.4 Visitor expenditure on travel and tourism services and products, 2001–2007 (% of total visitor expenditure)

	2001	2002	2003	2004	2005	2006	2007
Large hotels	51	50	51	51	55	55	55
Small hotels and guesthouses	13	13	12	10	9	8	5
Of which is from residents	*3*	*3*	*3*	*3*	*3*	*3*	*3*
Total accommodation	**63**	**63**	**63**	**61**	**64**	**63**	**61**
Restaurants	12	12	11	11	10	10	11
Car hire	4	4	4	3	3	3	2
Prepayments for car hire and excursions[a]	2	2	2	2	2	2	2
Taxis and buses	2	2	1	2	1	1	1
Excursions	10	11	11	11	10	10	9
Handicrafts	4	5	4	5	4	4	4
Other Shopping	0.3	1	2	2	2	1	1
Unallocated	4	2	1	2	2	2	2
Cruise passenger and short-stay transit passengers[b]	1	0.4	1	1	1	1	1

[a]Prepayments estimated and based on expenditure outside the hotel.
[b]Estimate only.
Source: McEwen and Bennett (2010)

Table A3.5 Visitor expenditure 2007–10: total spend, spend per visitor and daily spend per visitor

	Tourism spend		Spend per visitor		Daily spend per visitor	
	€m[a] (US$m)	% Change	€m (US$m)	% Change	€m (US$m)	% Change
2007	219.3 (269.3)	–	1,359.6 (1,670.2)	–	137.3 (168.6)	–
2008	221.5 (272.1)	1.0	1,393.7 (1,712.2)	2.5	138.0 (169.5)	0.5
2009	201.1 (247.1)	–9.2	1,276.3 (1,567.9)	–8.4	125.1 (308.4)	–9.3
2010	232.8 (286)	15.8	1,334.0 (1,638.8)	4.5	128.3 (157.6)	2.5

[a]Exchange rate taken from xe.com. 1US$ = €0.814
Source: Seychelles Tourism Master Plan 2012–20: 21

Table A3.6 Direct contribution to GST (%): tourism sector activities, 2007–10

	Contribution to tourism GST receipts (%)			
	2007	2008	2009[a]	2010[b]
Accommodation	**84.3**	**83.8**	**83.2**	**82.9**
Five star hotels	47.8	47.9	46.7	49.3
Large hotels	30.5	28.8	27.6	23.2
Guest houses and self-catering	6.0	7.0	9.0	10.3
Other land-based tourism activities	**6.3**	**5.5**	**5.2**	**3.9**
Marine-based tourism activities	**3.5**	**5.3**	**5.9**	**7.3**
Transport-based activities	**5.9**	**5.4**	**5.6**	**5.9**

[a]In 2009, total GST receipts from the tourism sector: SCR372 m: 23
[b]In 2010, total GST receipts from the tourism sector: SCR376.8 m: 23
Source: Seychelles Tourism Master Plan 2012–20: 24

Table A3.7 Visitor average length of stay 2000–11

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 (estimated)
Number of days	10.4	10.4	10.1	10.1	10.0	9.7	9.8	9.9	10.1	10.2	10.4	10.2

Source: Seychelles Tourism Master Plan 2012–20: 30

Table A3.8 Number of cruise ship arrivals per year, 2004–11

	Number of ships
2004	60
2005	42
2006	40
2007	38
2008	34
2009	39
2010	20
2011 (Jan–Oct only)	11

Source: Seychelles Tourism Master Plan 2012–20: 32

Table A3.9 Weekly flights by airline, 2005–2010[a]

	Number of weekly flights (international)					
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
Air Seychelles	14	15	15	16	16	14
Emirates	6	4	4	4	4	7
Qatar	4	4	4	4	4	4
Air Austral	1	1	1	1	1	2
Condor	1	1	1	1	1	1
Kenya Airways	2	2	2	2	2	2
Total Weekly Flights	**28**	**27**	**27**	**28**	**28**	**30**

[a]In 2011, Ethiopian Airlines began flights to Seychelles. In April 2012, Air Seychelles began operating under Etihad. Emirates are now looking to increase weekly flights via Dubai.

Source: Seychelles Tourism Master Plan 2012–20: 35

Table A3.10 Production of key crops, 2007–2011

Year	Copra (tonnes)	Cinnamon (tonnes)	Tea (tonnes)
2007	41	63	222
2008	29	94	137
2009	31	63	63
2010	19	23	49
2011	10	39	38

Source: National Statistics Bureau, Seychelles

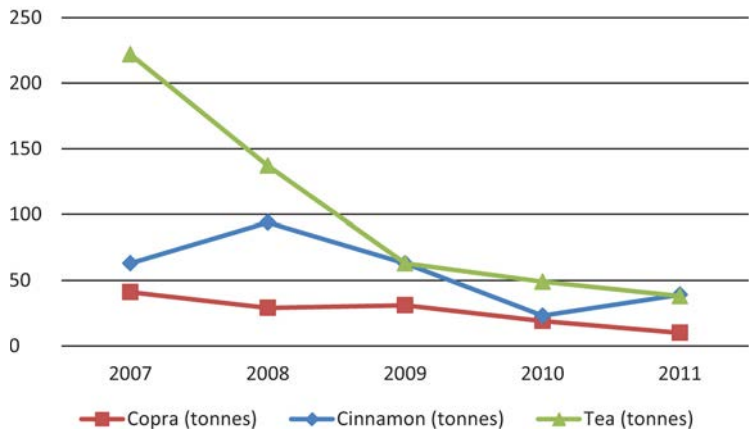


Table A3.11 Production of fish and animal feed, 2007–2011

Year	Canned tuna (tonnes)	Fish catch (tonnes)	Animal feed (tonnes)
2007	31,569	4,211	13,881
2008	28,907	4,800	13,053
2009	30,824	3,364	10,015
2010	30,338	2,597	9,053
2011	30,152	2,875	4,088

Source: National Statistics Bureau, Seychelles

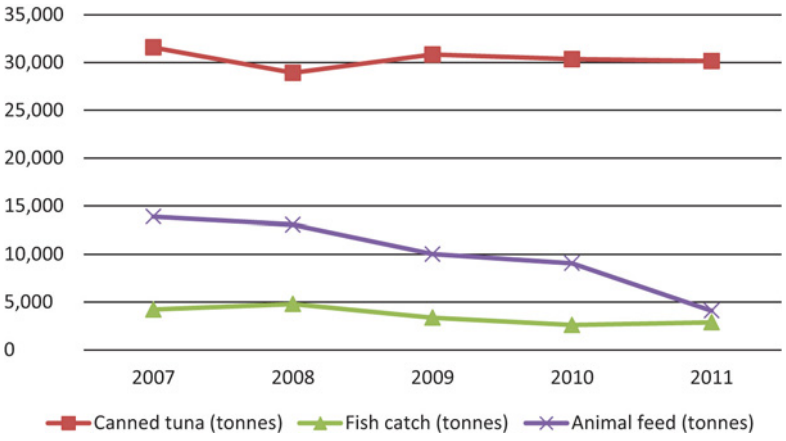


Table A3.12 Poultry production, 2007–2011

Year	Chickens (nos)
2007	833,320
2008	768,115
2009	606,697
2010	550,685
2011	622,303

Source: National Statistics Bureau, Seychelles

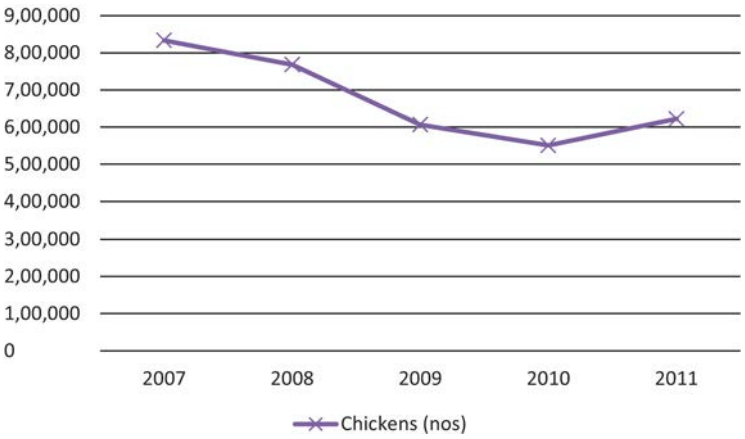


Table A3.13 Cattle production, 2007–2011

Year	Cattle (nos)
2007	75
2008	54
2009	35
2010	34
2011	15

Source: National Statistics Bureau, Seychelles

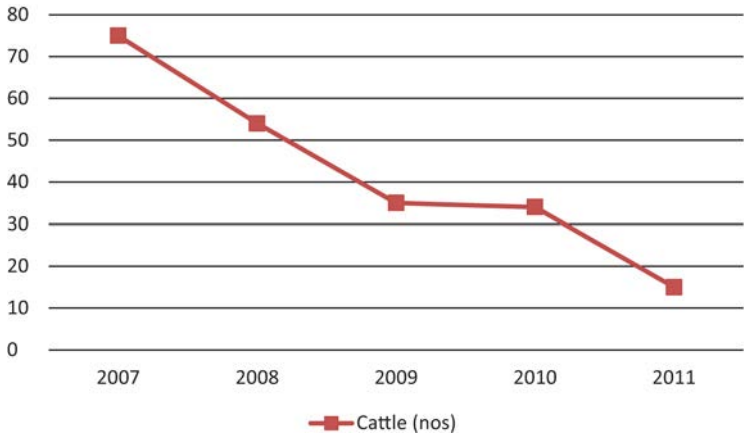
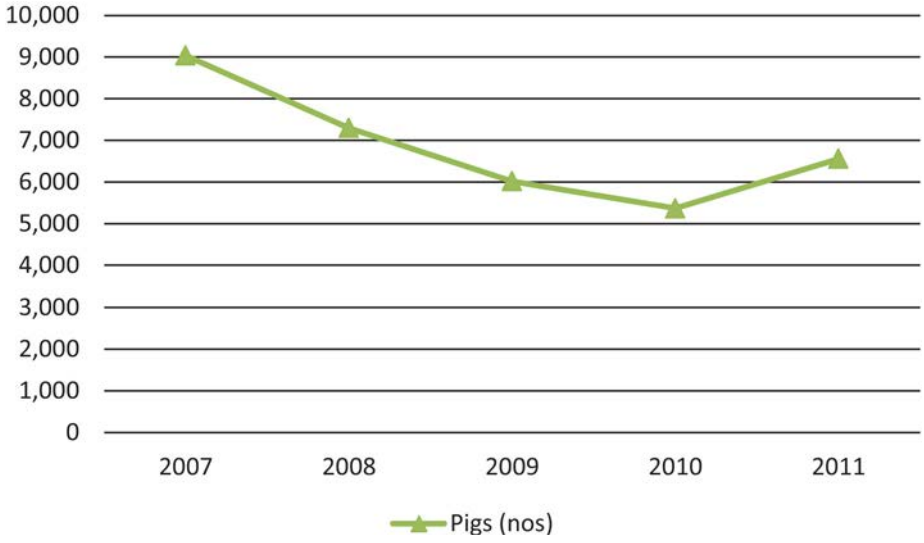


Table A3.14 Pig production, 2007–2011

Year	Pigs (nos)
2007	9,036
2008	7,293
2009	6,014
2010	5,363
2011	6,555

Source: National Statistics Bureau, Seychelles



Appendix 4 Research Methods

Aim, objectives and research methodology for country visit

The aim of a country visit was to investigate the characteristics of inclusive growth in SIDS tourism by identifying the critical factors that would inform and guide the framework. To test the key factors of inclusive growth and the proposed framework, two key objectives were set:

1. To investigate the distribution of equality in economic and employment opportunities;
2. To investigate the impact of tourist types and tourist activities on the local economy, people and environment.

Table A4.1 All participants interviewed ($n = 24$) categorised by sector and type

	Sector	Type	No. interviewed
Indirect providers/ producers of services and goods	Agriculture	Association	1
		Farmer	1
	International organisation	Development	2
	Finance	Ministry	1
	Education	Ministry	1
	Revenue	Commission	1
	Statistics	Agency	1
	Natural resources	Research services	1
Direct providers/ producers of services and goods	Tourism	Destination management company	1
	Tourism	Ministry	1
	Ports	Authority	1
	SME	Development agency	1
	Sea transport	Charter boat hire (fishing)	1
Direct suppliers of services and goods	Air transport	Carrier	1
	Accommodation	International hotel resort	3
		Locally-owned self-catering	2
	Catering	Restaurant (large)[a]	2
		Cafe (small)	1
Indirect	Business	Offshore finance	1

[a]Denotes restaurants with over 100 covers per sitting, including lunch and dinner service, and on site event host and caterers (wedding receptions, celebrations).

The fieldwork data was systematically analysed by key themes. Recordings and interview notes were closely reviewed and compared with pre-fieldwork coding patterns. The results are integrated into this report.

The research was undertaken by two team members from the Centre for Tourism in Islands and Coastal Areas (CENTICA) at the University of Kent. The main methodology used was in-depth, semi-structured interviews with key stakeholders. A total of $n = 24$ interviews were completed over seven days, with $n = 22$ interviews conducted on Mahé and $n = 2$ on Praslin. Prior to fieldwork, interview protocol sheets were generated with specific questions and more general open-ended questions. Interviews were digitally recorded and notes were also taken. However, during interviews with government officials no digital recordings were made. The majority of interviews ($n = 17$) took place with both researchers present and this included all high level meetings. Average interview duration was around one and a half hours.

Review of results from research

The results from the country visit are reviewed throughout this report and show the contributions and challenges that different suppliers and producers of tourism goods and services face in Seychelles. The results are not dissimilar to those for other SIDS of comparable size and demography; what sets them apart, however, is the direction taken by the government to develop the economy and international trade (including tourism) since independence.

Appendix 5 Further Policy Recommendations for SIDS and Small States

Policy options and the tourism supply chain

Given the different component parts of the tourism supply chain, there are a range of policy options for small state governments and international development funders to consider. Here we briefly list some initial recommendations.

Accommodation

Excluding international flights, accommodation typically accounts for the largest share of the tourism value chain. For hotels in the larger small states, which have some manufacturing capability for hotel equipment such as beds and other furniture, following Lewis (2007) it is recommended that the hotels undertake projections for when their physical stock will need replacing. This would give local manufacturing some lead time and make it less likely that the hotels will source imports from larger manufacturers elsewhere who carry higher stock levels. (This assumes the existence of some manufacturing in the larger countries, such as Jamaica, but is less relevant for smaller states that lack manufacturing capacity to support tourism).

Food supply

Concerning the food supply component of the tourism value chain, more research is needed on the role of intermediaries between farmers and the hotels and restaurant sectors in small states. More work is needed to understand the entire food distribution systems in small states, especially the problems of bottlenecks and possible policy interventions. In addition, more research is needed – with a clear fieldwork component – on the Sandals Farmers Programme in Jamaica, to establish whether it could be replicated (or whether successful elements of it could be replicated) in other small states.

Other tourism components

For other components of the value chain, there is a need for carefully targeted research applying value chain analysis in other small states, with a particular need to fill knowledge gaps concerning tourist attractions, and the rental car business.[66] It would be useful to also map local economic linkages if possible.

Finally, there is a need for more research on the relationships between different parts of the tourism supply chain and different parts of the tourism market such as VFR, independent, business and upmarket tourists, as well as potentially important segments such as eco-tourism, and cultural and heritage tourism.

Policy options for small states and cruise ship tourism

Given the challenges for small states in hosting the cruise industry, a few initial recommendations are made here to help inform policy options for small states that could increase the benefits and reduce the costs of cruise ship tourism.

First, in terms of the economic impacts of cruise ship tourism upon small states, there is a clear need to revisit the issue of the extremely low (nominal) level of current passenger charges levied, especially in relation to the regional average airport departure taxes that tourists are now used to paying.

Second, further research is needed at the micro-economic level to analyse local multiplier effects in terms of primary and secondary economies, as well as geographically from the principal cruise region to other regions.

Third, more work is needed to evaluate the nature of the multiple and changing relationships between cruise companies and national governments in small states. Helpful lessons can be learned from examples of good practice and effective management of the cruise industry, as well as salutary lessons from poor practice.

Fourth, and associated with the previous point, there is a need for more research into actual operator costs, carrying capacity of both port areas and local attractions, and more detailed passenger expenditure surveys (preferably led by independent academics rather than commissioned by the cruise industry).

These recommendations offer some pointers to small state governments that wish to develop effective, evidence-based cruise tourism policies.

Notes

1 These are extremely useful proxies.
2 'Producers and suppliers' refer to primary, secondary and tertiary levels of production and supply, and covers a wide range of professions and skills such as agriculture and fishing, transport, culture and arts, heritage, handicrafts, gastronomy, wildlife, birdlife and protected areas.
3 The 32 Commonwealth members classified as small states are: *Antigua and Barbuda, The Bahamas, Barbados, Belize*, Botswana, Brunei Darussalam, Cyprus, *Dominica*, Fiji, The Gambia, *Grenada, Guyana, Jamaica, Kiribati*, Lesotho, *Maldives*, Malta, *Mauritius*, Namibia, *Nauru, Papua New Guinea, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Samoa, Seychelles, Solomon Islands*, Swaziland, *Tonga, Trinidad and Tobago, Tuvalu and Vanuatu* (small states also classified as SIDS in italics).
4 www.thecommonwealth.org/Internal/180407/
5 These are what Timms and Conway (2011) dub 'situation factors'.
6 McEwan and Bennett's value chain study of Seychelles observed that price positioning was 'already at a premium to its adjacent rivals, Maldives and Mauritius, who themselves are priced way above destinations such as Sri Lanka' (2010: 28).
7 However, most recently Maldives has been attempting to diversify its core market away from over-reliance on Europe, given its ongoing economic and financial crisis, and has successfully attracted Chinese tourists. In 2011 Chinese tourists were the largest nationality, accounting for over 21 per cent of international tourists to Maldives (Maldives Ministry of Tourism data).
8 Product innovation refers to new and locally developed tourism products and services.
9 Data are sourced from a wide range of international organisations, including tourism and development, and individual government ministries and departments such as finance, tourism, planning and economic development. The WTTC 2012 individual country reports on the economic impacts of tourism give an overview of the direct contribution of tourism to the economy and employment, whereas country and government-specific portals are used to source more specific data from annual accounting (supply and use tables, input-output) and government and independent research studies.
10 Found under Glossary – Key definitions in all WTTC 2012 country reports, p. 15.
11 A product or service that promotes local culture, heritage, skills or knowledge is likely to attract domestic tourists. This is also likely to attract the VFR market.
12 Building materials are locally sourced; architectural design blends with the landscape.
13 Evidence from Seychelles shows the impact of airlines and cruise operators withdrawing services on the tourism industry. Accessibility is paramount for any SIDS tourism industry.
14 Typically this level of data is derived at source and through primary research, such as from entry/exit questionnaires at airports (to accumulate data on expenditure) and national census records (for socio-economic data of the local population).
15 In the Caribbean, the winter season is peak season and summer is the shoulder season (months of extreme weather) (Appendix 1, Table A1.1).
16 Although Malta is not a SIDS, it shares many characteristics. More specifically, the current economic climate in Europe and southern Europe means that the Mediterranean island states may become more dependent on tourism as their key economic sector.
17 Jamaica shares many of the characteristics of small states and SIDS, although it is larger in area and population. It is therefore grouped by the Commonwealth Secretariat with small states. The other larger member countries are Botswana, The Gambia, Lesotho, Namibia and Papua New Guinea.
18 Other well-cited definitions of SCM include those by Simchi-Levi et al. (2000, cited in Zhang et al. 2009: 347) and Kranz 1996 (cited in Larson and Dale, 1998: 1). The Simchi-Levi definition is an example of a definition firmly rooted in retail sector, whereas the Kranz definition refers to the different participants in a supply chain.
19 Tapper and Font (2004: 1) offer 'The supply chain comprises the suppliers of all the goods and services that go into the delivery of tourism products to consumers. It includes all suppliers of goods and services whether or not they are directly contracted by tour operators or by their agents (including ground handlers) or suppliers (including accommodation providers)'.

20 'Producer-driven chains' are those value chains that are governed by the 'holder of core technology' (Mitchell, 2012: 466).
21 The accommodation sector also includes small bed and breakfast establishments, youth and backpacker hostels, campsites, caravan parks and specialist accommodation such as university halls of residence etc (Cooper et al. 2004). While they make up the overall sector, their smaller proportion of tourist business in small states means that we will not be considering them here.
22 With laundry out-sourcing as an example, local SMEs and poorer households can hugely benefit (see Meyer, 2007; and Ashley and Haysom 2008).
23 There is a large body of research on tourist typologies and preferences dating from the seminal work of Plog (1974).
24 Seychelles' only feedstock factory closed recently forcing farmers to buy expensive imported feed for their livestock thus significantly increasing the cost of local production. Imported frozen chicken, for example, is now far cheaper than local fresh chicken creating another obstacle to farmers wishing to supply the hotels.
25 The Sandals Resorts Farmers Programme would be worth extended study in light of best practice for other small states and SIDS. However, as Rhiney (2009) notes there have been failures too, with one of the farmers' co-operatives failing significantly.
26 This may be further complicated if souvenirs are predominantly sold at in-bond shops or duty free in port areas to cruise passengers as happens in some SIDS and coastal small states.
27 Fundamentally it is in the interest of the all-inclusive resort or cruise ship owners that their guests do not leave as they can capture even more spend (Pattullo 1996; CESD 2006).
28 The cost associated with natural resource degradation, such as beach erosion, is rarely accounted for as an economic impact. A number of research reports from the WRI (World Resources Institute) give evidence of economic impacts of reefs and beaches (positive and negative) specifically in Caribbean SIDS and more generally across all regions in the world.
29 See Appendix 2, Table A2.9 for more details.
30 Table A2.12 in Appendix 2 shows the economic impact of coastal erosion and reef degradation as a measure of lost revenue/value (US$m) to the tourism industry in Jamaica. It would be useful to conduct further analysis of this by comparing economic impacts from coastal recreation/tourist activities, coastal protection and beach erosion/reef degradation for different SIDS to understand overall impact of these tourism/recreation activities.
31 Additional miscellaneous expenditures include: departure tax (US$0.7 m); entertainment, land transport, shopping and other (US$15.4 m).
32 Another study (CESD 2006: 20) estimated that the Caribbean had about 50 per cent of the global cruise market.
33 The Asia-Pacific region has great potential for cruise tourism and small states such as Singapore and some Pacific SIDS are planning to expand this business (MacPherson 2008; Singapore Tourism Board 2012).
34 The two poles for examples, although not Commonwealth small states, have become affordable leisure tourism destinations within the last 15–20 years.
35 As an example, P&O Cruises recently announced a £2 million sponsorship deal of the hugely popular UK TV series *Downton Abbey* to tempt 'first timers' to purchase a cruise (TravelMole 2012).
36 Accommodation and 'in-bond' shopping in SIDS does not necessarily benefit the local economy or local businesses, therefore calculating average tourist/passenger spend without those particular features should give a better view of local linkages.
37 All-inclusive cruise packages.
38 Source: www.cruiselawnews.com/2011/05/articles/taxes/cruise-lines-owe-jamaica-more-than-12000000-in-unpaid-taxes/
39 US$2 head tax for all cruises.
40 Caribbean cruise tourism is highly competitive between SIDS as well as cruise operators. This is primarily due to their location to the single largest cruise market – the USA.
41 Ports passenger arrivals at private islands in The Bahamas are not given.
42 Retail villages within the port development employ local people in restaurants, shops and sell local handicrafts.

43 Entrance fees are usually charged (by cruise operators) to passengers using water parks and other cruise-operated 'onshore' facilities.
44 This social and local heritage aspect could be hard to separate out from the effects of the small state's conservation of its built heritage but arguably adds to the country's social capital and overall sense of identity.
45 For comparison, airport departure tax in Belize at that time was around US$35 per passenger. Other Central American destinations were charging cruise passenger taxes of US$2–4 (Honduras) and US$9.50 (Costa Rica) (Honey 2009).
46 This may be captured by accommodation providers or at international ports of entry as part of existing visitor surveys, for example.
47 A wider, comparative study of cruise destinations would be useful on this topic to update this research.
48 Hall (2001) notes that this might take the form of a decision that funds could be better spent elsewhere or that other policies are already meeting their objectives for tourism in the marine environment.
49 Further problems in Belize are documented in CESD (2006) especially the controversy over a new contract with Carnival Cruise Lines that was allegedly negotiated directly with the Prime Minister rather than the normal governmental channels.
50 But in most cases there are few alternative sectors that could be developed aside from tourism, fishing and farming.
51 Seetanah (2011: 294) states that smallness reduces 'the opportunity cost of specialisation', suggesting that continued dependency on external assistance is a foregone conclusion for SIDS. Minimising this dependency might be possible through effective policy intervention however.
52 In fairness it is not just how international tourism is organised itself but in many SIDS the internal organisation of the agricultural, forestry and fishing sectors are not adequate to meet the demands of the tourism sectors.
53 It is recognised that tourism and agriculture have different lobbying groups and it may be that different ministries and supporters may need political will and high level co-ordination to facilitate policy linkage between the sectors.
54 'Grow what we eat campaign', *Jamaica Gleaner*, 29.11.12; available at: http://jamaica-gleaner.com/gleaner/20121129/news/news93.html (accessed 26 April 2013).
55 Evidence from Seychelles suggests that the dominant import market for food has led to a dysfunctional supply chain that has seen and overall decline in agricultural production and output. See Table A3.10–A3.14, Appendix 3 for details.
56 Malaysia is cited as in the literature as an example of having a high level of leakage from international tourism but conversely it is an economy with other sectors, such as manufacturing and food processing using imports to then sell to the tourism industry.
57 CGE refers to Computable General Equilibrium models.
58 Professor John Fletcher in Cooper and Fletcher et al (2008: 149) lists small island economies as having income multipliers of between 0.39 and 1.59 but advises caution over the higher values shown.
59 Further discussions about sustainable development, pro-poor tourism, green and eco-tourism are not covered within the remit of this report, but are covered by various authors including amongst others Bramwell (2007); Mowforth and Munt (2003) etc.
60 Space precludes a detailed discussion here of the problems of effective tourism planning and appropriate development in less developed countries, especially SIDS; however there is a substantial literature (see Hall 2008; Hamzah and Hampton 2013).
61 Cost-benefit ratio: visitor expenditure/budget.
62 higher multiplier rates were used for Trinidad and Tobago as 'larger percentage of secondary goods and services ... are produced domestically'. Also visitor arrivals to St Lucia are far higher and greater number of inclusive hotels and resorts. (p. 30)
63 relates to additional spending during recreation activities.
64 2007.
65 2004.
66 The recent Seychelles Tourism Master Plan (2012) devoted an entire section to the development of the hire car sub-sector and policy recommendations to increase SMEs and local Seychellois ownership of the business. Lessons could be learned for other small states.

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