

Marion Williams: The tourism sector - growth prospects and challenges

Address by Dr Marion Williams, Governor of the Central Bank of Barbados, to the Barbados Hotel Association, Christchurch, 8 September 2004.

* * *

Good morning, ladies and gentlemen.

It is a great pleasure for me to deliver the feature address to the annual meeting of the Barbados Hotel and Tourism Association. This association along with the BTA and the Ministry of Tourism has worked extremely hard over the years and especially hard since 2001, to ensure the survival and the rapid growth of the sector.

My address will describe the economic landscape and will address issues of repositioning and will also flag issues to be considered but will stop short of prescribing solutions.

Repositioning

In recent years, Barbados' dependence on the performance of the tourism sector has never been more obvious. International developments and external challenges have forced the country to focus on policies and programmes to ensure that Barbados is able to compete successfully within an increasingly challenging environment. We have thus far weathered the storm (no pun intended) but important challenges lie ahead both at a broad macroeconomic level and at the sectoral level. At the broader economic level, Barbados will need to focus on developing our physical and economic infrastructure. There comes a time when incremental increases will not do unless the structure is revamped and repositioned. Yet we need to be continuously mindful of what is fiscally prudent. We also need to keep our energy policy under review in the light of rising oil prices, and we need to ensure that our manufacturing and agricultural sectors are so repositioned as to have viable futures given global trade developments. The issues of financial liberalisation and liberalisation pressures on services are also continuing challenges both within CSME and within other negotiating fora. We need also to get the maximum advantage out of the tourism sector and give this key sector our fullest support. In the medium term it will continue to be our flagbearer.

Credit rating

In spite of the recent downgrade of Barbados' sovereign credit rating, the medium term prospects for Barbados are promising. We still expect to grow by approximately 2.5%, led by tourism. The financial markets have in fact recognised that Barbados continues to be a good credit and the risk premium on Barbados' sovereign debt has not been affected by the recent ratings action.

Not only has tourism been the best performing sector, but its performance last year and this year so far has been at its highest in recent years. While we do need to have balanced growth, and I am a great advocate of that approach, we should not be apologetic about the fact that the tourism sector has outperformed all others.

Foreign exchange earnings

The foreign exchange earning capacity of the sector has helped to offset some of the downside risks of the country's debt levels. Earning as it did about \$1.3 billion in foreign exchange in 2003 (expected to rise to \$1.4 billion in 2004) contributing to close to 16% of gross domestic product, and employing over 11% of the labour force; the sector has contributed handsomely to the economic performance of the Barbadian economy even when international developments have presented tremendous challenges. I think it is a credit to the hard work of the officials in the sector and to Government's willingness to provide support, that this outcome has been possible. The sector was able in 2003 to register output growth of 7.3% (6.7% in long stay arrivals) against a global decline of 1%. This compared with an annual average of 3% between the period 1994-2003. However, in 2004 growth has been particularly robust, reaching as high as a real value added of 10% in January to June.

Satellite accounting for tourism

I read with interest the recent report of the Private Sector Trade Team's sectoral profile on the tourism industry - an excellent document. The tourism satellite accounting approach which measures the indirect contribution of the sector to output and which puts this at 52%, is an interesting statistic. Statisticians have always known that tourism's overall contribution to GDP is much greater than 15-16% of GDP, when indirect effects are taken into account, but the double counting that results has hindered that approach. How, for example can we say that the construction of - say Hilton hotel - should not be included in statistics for the construction sector, but rather be included in the output of the tourism sector. These are the statistical challenges, and they are governed by international standards which, for international comparability, require standard measurements. However the satellite approach is a very useful one for giving us a more precise and measurable appreciation of the indirect impact of the sector on the Barbados economy, and can assist in strategising on the intersectoral linkages between tourism and other sectors, thus allowing allied sectors to spot opportunities.

The growth rates predicted for tourism and its anticipated continuing expansion, and are dependent on specific conditions, such as a growing world economy, low energy prices and a global decline in conflicts.

Energy costs

In the case of energy, the current level of oil prices must be of concern as the cost of utilities, operating costs and investment have constantly been an issue with respect to their cost impact on the tourism product in Barbados. Therefore, continued buoyancy in the price of oil will impact on economic prospects. Government earlier this year passed on some of these price increases to the consumer. This had an impact on all sector of the economy, including tourism. This was however prior to the since galloping increase in oil prices. Even the airlines have imposed a fuel tax but it is unclear whether this will have far-reaching implications. In a simulation run by the economists at the Central Bank it was found that a 25% rise in domestic fuel prices reduces nominal GDP by approximately one percentage point, implying that higher oil prices do impact on overall output. An analysis by sector has not however been conducted so we are unable to say what proportion of this impact would be borne by the tourism sector.

Exchange rate changes

Meanwhile exchange markets have been dominated by declines in the US dollar. Notwithstanding some rebound since last February, World Economic Outlook, an IMF Report, notes that the US dollar depreciated by 3 1/4 percent in trade weighted terms since September 2003 and by 16 1/2 percent since its peak in February 2002. The dollar depreciated significantly against the Euro and against the Yen. This would have made travel from these source markets more attractive, and because the Barbados dollar is tied to the US, would not have affected travel from the US market. The Report also indicates that in developed economies (our main source markets) business confidence is rising, unemployment is improving, consumer confidence is up and global investment is promising. This augurs well for travel in late 2004 and 2005.

The Latin American market

While Latin America is not a major source market for the Caribbean, ECLAC reports that rising commodity prices in Latin America have resulted in the highest surplus in goods and services in 13 years and the best current account surplus in half a century. This would have positively affected discretionary income available for travel. However, it is not clear that the improvements are sufficiently significant as to lead to greater travel to the Caribbean from those markets, but the information should be noted and monitored when future strategies involving that market are being developed. Many Caribbean markets also provide a continuing growth opportunity, particularly since some of our neighbours to the South are experiencing prosperous times.

Comparative advantage

In preparing for increased competitiveness, any country is best able to reap benefits if it specialises in areas on the basis of its comparative advantage. Clearly tourism is an area in which Barbados has a comparative advantage. In the case of tourism, our comparative advantage is one with which we were endowed. But competitive advantage can be built and engineered. Also, the buoyant sectors can help to support other sectors. The offshore services sector is able to support the tourism sector. Developments in that sector therefore ought to be of great interest to tourism officials and changes in the face of this sector should be monitored closely. It is important that we identify these linkages and build on these synergies. The development of local craft is an example of synergies between tourism and local manufacturing. In fact, the craft industry is largely a foreign exchange earner like any other export industry though it is not always so perceived.

Sectoral linkages

Tourism-linked sectors grow strongly when tourism performs well. Consequently, distribution, utilities, and the transport and communication sectors have exhibited good growth rates over the same period. Much of the major increases in construction activity, in particular, over the past five years, has been tourism-related. Capital investment in the sector has also been a source of long term capital flows which benefit the balance of payments and help to boost our foreign exchange reserves. This emphasises the catalytic role which the tourism sector plays. If we can ensure that our service industry is globally recognised for its quality, we can also use our visiting tourists as marketing agents (by word of mouth) for our service products on a broader scale. The service and the quality of our products therefore have to be superior if we are going to use our tourism linkages to effectively sell them abroad, and this includes the ambience and the environment in which these sales take place.

The cruise industry

Despite the rapid growth in long stay visitors, the fastest growth in numbers has been in the cruise business. I read recently that fifty percent of new cruises are destined for Caribbean waters. Yet the value-added from cruise visitors is very much lower than that for long stay visitors. This is something on which Barbados and the region must strategise together so as to reap greater benefits. After our failed attempt to raise a tax on cruise passengers regionally, it may be time for us to seriously consider an entrance into the cruise business, either on our own or in partnership with others. It is a market from which we need to reap greater benefits. This industry is expected to reach the 800,000 mark this year, and so far this year cruise arrivals have grown almost 30%. This is clearly a booming business. Currently however, it is the ship owners who are reaping the greatest benefits. They have the capital, we have the waters. Our private sectors need to work on getting into joint ventures with the ship owners and we should consider using a common cruise policy to give ourselves leverage. We should not give up on this.

Market forecasts

Future forecasts of world economic growth can have important implications for tourism's sources and markets. Forecasts differ among individual regions and groups of countries. Generally however, whereas growth in the industrialised nations is expected to converge and is unlikely to change significantly, some individual markets will do better than others. In addition, there is an evident widening of the gap between, not only rich and poor countries, but between the rich and the poor within countries in our tourist markets. This suggests that upmarket tourism will continue to be an important target market. Indeed, in those countries whose economies are flagging, the high end of the travel market is expected to be less affected. This suggests that we should continue to market ourselves, among other things, as a playground for the rich, as this may lead to reliance on a more inelastic type of demand which is not particularly affected by economic slumps.

Source markets

Economic performance of our source markets will influence the travel market. Global trends suggest that in the euro area the recovery remains subdued. While there are signs of a pickup in investment,

household consumption remains weak but a gradual strengthening in domestic demand is expected. In Japan, GDP growth continues to exceed expectations with strong external demand - notably from China - accompanied by rising investment and latterly a pickup in consumption. This may have implications for the marketing thrust by the industry in these countries. Indications are that international tourism will continue to be concentrated from the main source regions of the world. The US economy is projected to grow by 4.6% in 2004 and 3.9% in 2005, the euro area by 1.7% in 2004 and 2.3% in 2005, and Canada by 2.6% in 2004 and 3.1% in 2005. The heaviest international travel flows will therefore continue to be within Europe and the USA - at least over the medium-term - partly because of growth, but also because of higher per capita incomes and longer leisure time. The IMF Outlook refers to the global recovery as becoming "increasingly well established".

Dynamic growth markets

Countries regarded as dynamic growth travel markets are: China and the Southeast Asia region, and in some cases the Mediterranean and eastern European countries. Other Europe's market share decreased slightly from 1995, but with a 57.8% share of the market there are still by far the most dominant tourist destinations. Only a few developing and emerging market countries are expected to do especially well. However, within CARICOM itself, travel has grown even faster than international travel to the region. The Caribbean must however continue to work on increasing its share of the global market.

National treatment

It will be important during the next few years that tourism investors are not put off by what appears to be the impending prospect of liberalisation and a scenario where because of "national treatment" considerations they may feel uneasy. It may appear that countries will have to offer similar concessions to non-residents which they now offer to Barbadian residents, but some of these positions can be negotiated and it will be influenced by what the country commits to. Also, changes in position in the negotiating arena appear possible and it would be unwise not to grasp the opportunities offered by the various concessions and special legislation such as the Tourism Development Act and others while they are still available based on the fear that they will not last. I urge you to grasp these opportunities now.

Industry consolidation

Given that tourism's growth globally has been reinforced by consolidation among every component of the major tourism service suppliers and by technological advances, our tourism sector cannot afford not to take advantage of these incentives so as to counteract some of the diseconomies of scale which small countries like ours face. All stages in the tourism value-added chain - travel agents, travel organisers, the transport and hotel and catering industries - are subject to growing competition. Growth in size, trends towards concentration, and strategic alliances are pervasive. Expansion and concentration strategies are increasingly pursued internationally through investment, mergers and joint ventures, both horizontally and vertically. I am not necessarily recommending mergers but I am suggesting that this region needs to respond pro-actively by forming alliances and partnerships among themselves and with the big players so as to increase its economic and operational space even if ownership is not increased or even though mergers may not take place.

Bargaining and negotiation

The increasing trend towards concentration, makes it difficult for small and medium-sized companies in this segment to survive without a broad regional or even global presence. We must be agile and respond to these challenges to small developing states, as we seek to negotiate the most appropriate deals with tourism suppliers as there are likely to be fewer actors among which to bargain and possibly more uniformity in price.

A consumer driven sector

It is not far-fetched to say that tourism is moving from a supplier-dominated industry to a consumer driven business. Some destinations, in an effort to either remain demand-driven have embarked on providing man-made travel and adventure environments which will entice the customer to choose their destination on grounds of specific performance and not on price alone. As a relatively high cost destination the Caribbean may need to adopt this approach. Scale diseconomies again may require the use of existing incentive support to assist in providing these ancillary attractions.

Accessibility and air travel

Transport is increasingly being determined with the co-operation of strategic partners and alliances - and Barbados' officials are becoming more adept at negotiating their way through this network. I am going to be very provocative here. As a tourism dependent economy, it might well be worthwhile for Barbados to consider getting back into long haul airline ownership jointly with one of our regional partners. As a tourism destination, Barbados has a lot of leverage. We need to use it. I am speaking here to the private sector.

Brand name hotels

Fewer brand name hotels are getting involved in real estate ownership today than say 10 years ago but they are willing to supply services to the industry. Because of the advantage of marketing under a brand name, this has become more and more attractive for small destinations, but somehow Barbados has not been too successful in this regard - Hilton hotel being a more recent exception. We may wish to opt to place greater energies into this search to bring brand names to Barbados and utilise existing unused prime locations more effectively. Again this is a challenge to the private sector to pool resources so as to take advantage of existing opportunities.

Barbados as a retirement destination

The recent thrust to market Barbados as a retirement destination is also an interesting one - tourism for senior citizens is a growing area. In the industrialised nations the most critical aspect of population growth is the reversal of the age distribution. This comparatively larger proportion of retired people in the total population will also influence the structure of tourist demand.

In addition, the growth in tourism continues to be closely tied to the relationship between working hours and leisure. In the majority of the advanced western industrialised nations' average working hours under collective bargaining agreements have fallen steadily over the past 20 years, while vacation length has increased. Florida is a perfect example of the employment of such a strategy for retirees. In the Florida case the added advantage is that there is no state tax, only federal taxes. We may not need (or be able to afford) to offer any other tax advantage. However, as Barbados is presently embarked on reducing its personal income taxation, this together with the double taxation treaty benefits may be sufficient.

New forms of marketing

The use of the Internet as a platform specifically enables service providers, hotels tour companies and the like, to reduce costs by contacting customers directly. With the cost of communication being lowered in Barbados, there may be opportunities for greater use here.

Although figures on the number of current bookings made through the Internet to local businesses are not available, it can nevertheless be assumed that the number, given the proper attention, will increase in future as usage costs decline. It would be useful for forward planning to get a better idea, on the basis of an industry survey, of how much this is used and how effective it has been.

With direct marketing, there is the opportunity to compare prices directly, there are no opening hours to worry about, and additional information can be obtained through other media. However, the retiree market which we hope to target more, may be less inclined to use these facilities as they are likely to be less computer dependent.

Restructuring the market

In sum, global competition in tourism will be further intensified. However, there are a number of requirements for continuing success which will continue to be important for the industry over the medium term of which you as industry specialists are already well aware. Among them:

- The increased concern for safety and security;
- Permanent investment on quality;
- Incorporation of new technologies;
- Stress on value for money; and
- Developing public-private sector partnerships.

In respect of quality output and value for money we need to encourage job flexibility. Performance-based pay or some means of creating incentives to encourage production of higher quality output, is therefore desirable.

Barbados as a small economy has managed to cater to varying segments of the market and to combine up-market with the middle-market tourism. The challenge of combining the retirement market and the up-market tourism should not be beyond us. The tourist industry may in future have to focus more on a "hybrid consumer" whose travel choices and vacation activities will be increasingly complex.

This multiple-segment marketing may have implications for ancillary services - but this is where the linkages will become evident and where the satellite measurement of tourism's impact will become important for estimating where the opportunities lie.

Tourism and the environment - a dilemma

For many countries, an undisturbed natural balance, unspoilt landscapes and varied fauna and flora are their tourist attractions. Damage to the environment arises firstly as a result of processes unrelated to tourism, and secondly as the result of inappropriate utilisation of resources by the tourism sector itself. It is not only an environmental problem, but also an economic one. There is a cost to preservation of the environment and the industry may have increasingly to bear some of that cost so as to relieve Government of some of this burden.

Hurricanes and tourism in the Caribbean

Will any of the foregoing analysis change with the advent of hurricane IVAN?

It is possible that over the short term there may be some reticence about travelling to the region during the hurricane season, particularly if the clean up and recovery is prolonged.

In some part, Barbados may even benefit from diversion of visitors formerly heading for Grenada or even Cayman. It is unfortunate that we should benefit from the misfortunes of others but this is the reality. We have had hurricanes before and we have not seen a medium term impact on long haul flights to the region. Also, Florida has been badly hit as well, so we may also benefit from a diversion by visitors originally headed to Florida. With respect to cruises, in my view, Cruises are more likely to bypass the affected islands than bypass the Caribbean. You, the specialists in the sector are in a better position to make these predictions. This is just a layman's view.

Tourism as a model industry?

I would like to conclude with the remark that planning tourism like monetary and economic strategies, is today an increasingly demanding challenge. Given the number of variables to be taken into account, the industry will be faced with the task of dealing with increasing complexity.

However, Barbados is a highly regarded brand. Our product will speak for it self. What we need are resources to market ourselves effectively to the world.

Thank you ladies and gentlemen.