Working Paper

The Caribbean Holds Its Own in Global Tourism Competition

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Abstract

The growth of the tourist industry in the Caribbean is a rich and varied success story. For the most part it has been a story of private enterprise, with the providers of tourism services pricing their services in line with the quality of service on offer, and, for a majority of countries, adjusting prices in a successful strategy of protecting or increasing their market share. The best performing countries recorded high average daily expenditures per visitor, full capacity, a growing inventory of accommodation, and strong growth in arrivals. Among the other countries there is every combination of high/low average daily expenditure, good and bad value propositions, diversification of source markets, full to low capacity utilization, and large, modest, or little or no increase in accommodation. The results ranged from modest to exceptional growth in visitor arrivals, sustaining the Caribbean's share of world tourism above two per cent of the global total.

JEL code: L83

Keywords: Tourism; Caribbean tourism; Tourism competition; Tourism prices; Tourism expenditures

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1. Introduction

The Caribbean is, in the minds of most North Americans and many travellers elsewhere, the epitome of the tropical resort destination. That is unsurprising given the region's climate, natural endowments and convenient location. The Caribbean boasts the world's second largest barrier reef, on the east coast of Central America, some of the world's best beaches, sailing, fishing and surfing conditions, and areas of outstanding natural beauty. In addition there is a wealth of heritage and sporting attractions which bring visitors to the region's shores. The islands are within easy reach of North America and Western Europe, and the region's history has endowed it with transport and communications links with these areas that are of long standing. This has made the cost of travel to the Caribbean more affordable than newer and more distant resort destinations.

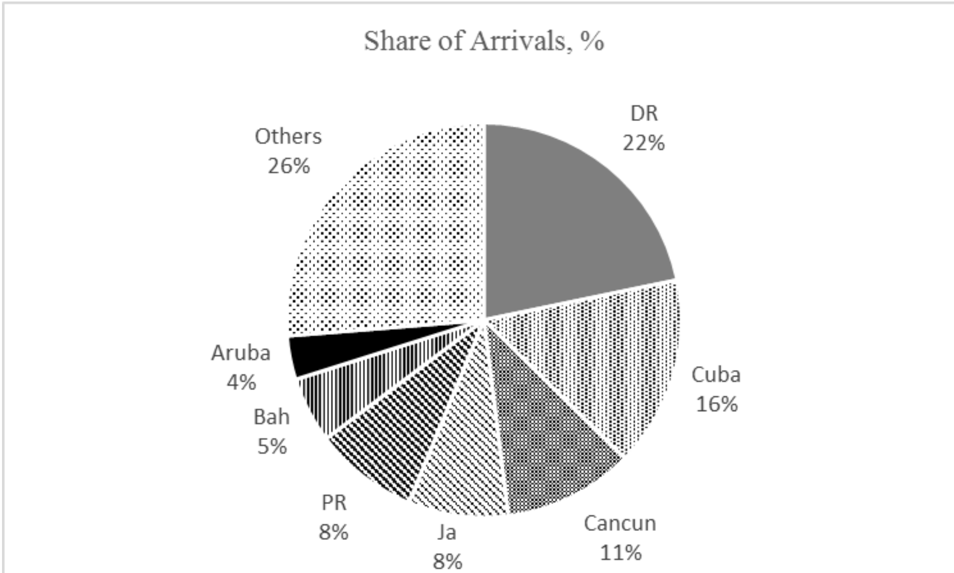
There is also a great variety of experiences on offer within the Caribbean. The majority of visitors may spend much of their time on the beach or by the swimming pool, but there are many cultural, sporting and educational activities on offer. These include the wide range of water and land sports found in resort destinations worldwide, but they also include experiences peculiar to the Caribbean. There are storied historical sites such as the Mayan pyramids, the old colonial port cities of Cartagena, Havana and San Juan, as well as less well known treasures such as Barbados' St Nicholas Abbey and the eighteenth-century rum distilleries of Guyana, which are still in use. There are unique sporting and cultural activities, including diving sites in the Caymans and Bonaire, and the street festival culture which has blossomed from the Trinidad Carnival. The Caribbean exposes visitors to blends of the cultures of many peoples: the indigenous peoples of this region (Maya, Taino, Kalina, Garifuna), Europeans, Africans, (east) Indians, southern Chinese and Javanese. The admixture has created a recognisable Caribbean culture which contains many languages and unique dialects, and which varies greatly from Suriname in the east, to Belize and Cancun (Mexico) in the west. Among the less well known Caribbean attractions are the rainforests of Guyana and Suriname, the flora of Dominica and the fauna of Belize.

The present study covers the member countries of the Caribbean Tourism Organization (CTO), which includes the full range of Caribbean visitor experiences. Its members include the larger islands (Cuba, Hispaniola) as well as tiny islands such as Montserrat, with only 6,000 inhabitants, and it includes all the language and ethnic groups previously mentioned. Unfortunately, it excludes some of the northern littoral of South America, and the eastern littoral of Central America, and the associated islands. These are all integral to the rich and diverse culture that is recognisably Caribbean, but because they are not CTO members, comparable up-to-date information on them is lacking.

2. The Caribbean tourism landscape

Although every one of the Caribbean tourist destinations is unique in its own way, it is helpful to think of them in groups according to their size, measured by share of the Caribbean tourism market, and the amount typically spent by the visitor to each country. The largest players - the Dominican Republic (DR), Cuba, Cancun, Jamaica, Puerto Rico, The Bahamas and Aruba – accounted for 66 per cent of Caribbean arrivals and 73 per cent of rooms in 2018. They all feature very large hotels, and though they do offer unique experiences for those with an interest in heritage, culture, ecology and sports, their bread and butter offerings are not much different from what is available in resort destinations worldwide, and this is the bulk of their business.

Figure 1.



There are a number of smaller countries that may be classed as value added destinations, countries where the average spending per tourist exceeds US$1,500. This group comprises the US Virgin Islands (the highest total spending per person, at US$2,750), St Maarten, St Lucia, Antigua and Barbuda, Anguilla, Bermuda, the Turks and Caicos Islands, Barbados, The Bahamas, Cayman I., Dominica, Aruba, Bonaire and St Kitts and Nevis (US$1,560 per person), in descending order of expenditure. The only destination in the large category to exceed this expenditure bar was Cancun (US$1,550). (See Figure 1 and Table 1).

Table 1. Average Expenditure per Visitor, US$000

USVI	2.75		Aruba	1.62		Grenada	1.25
St Maarten	2.54		Bonaire	1.60		BVI	1.22
SLU	2.37		SKN	1.56		DR	1.15
ANB	2.23		Cancun	1.55		Haiti	1.08
Anguilla	1.96		Cozumel	1.55		Belize	1.04
Bermuda	1.79		PR	1.48		Martinique	1.02
TCI	1.73		Guadeloupe	1.38		Montserrat	1.00
Barbados	1.70		Curacao	1.37		Cuba	0.71
Bahamas	1.69		T&T	1.30		Guyana	0.38
Cayman I	1.67		SVG	1.30		Suriname	0.19
Dominica	1.65		Jamaica	1.30			

Source: Caribbean Tourism Organization

Among the remaining CTO members there is a group we may call the boutique countries. Their visitor appeal derives from features that are unique, rather than the white sand beaches and water sports that are typical of most Caribbean resort destinations. Dominica has beaches, but the sand is black, which makes them unsuitable for sunbathing and impossible to walk on barefoot in bright sunshine. However, it is a small ecological paradise with an active Taino-influenced culture, which attracts hikers, nature lovers and adventure seekers. St Vincent and the Grenadines and the Virgin Islands offer some of the world's best yachting, with dozens of small islands within a few hours' easy sailing of each other. The Trinidad Carnival has spawned a unique type of street festival, a moving masquerade party that wanders through the streets of the capital, Port-of-Spain. With costumes and music composed especially for the occasion, and with food and drink provided on the way, the Trinidad Carnival is like no other, and neighbours from the Caribbean, Trinidadians, Tobagonians and other Caribbean people from the diaspora, and aficionados from around the world visit to participate. Belize offers something for everyone, with marine activities centred in islands and the barrier reef which sits off the east coast, as well as Mayan heritage sites, treks into the rainforest, exotic fauna and a unique Afro-Taino culture, the Garifuna, in the south of the country. Guyana and Suriname are neighbours on the northern littoral of South America, with rainforests, vast savannah grasslands, and flora and fauna that are the basis for a nascent eco-tourism industry.

Guadeloupe and Martinique (and French Guiana, *Guyane*) are integral parts of France, and the population are all French citizens. They are a special case, because travel from France (and other Schengen countries) does not involve crossing the national border. As a result, the factors that affect arrivals to other Caribbean destinations have much less impact on these two islands. (Guyane is not a member of CTO, so we have no information on that country.)

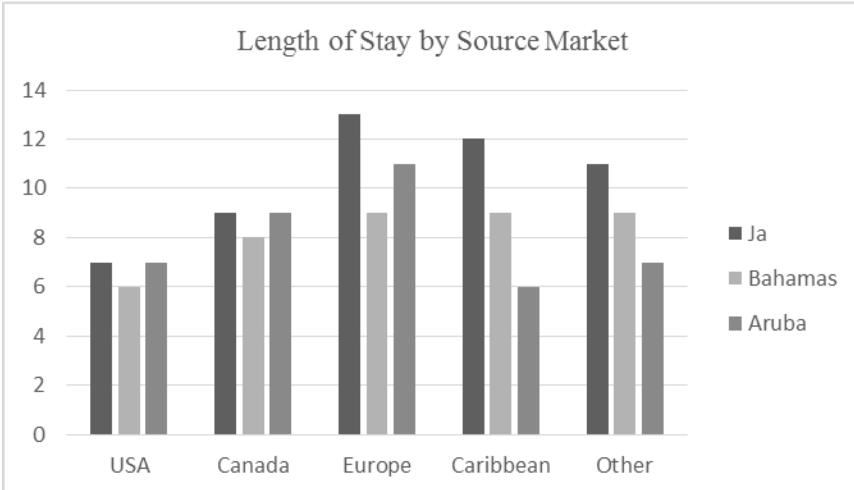
Two countries for which we have data are left: Haiti and Montserrat. Haiti has tremendous tourism potential, with typical tropical resort features as well as a rich culture and outstanding heritage sites. However, poverty and social, political and economic instability continue to stifle that potential. Monserrat is a tiny island in the Eastern Caribbean which lost two-thirds of its usable land area in a volcanic eruption in 1995. It attracts a small number of tourists interested in viewing what remains.

Table 2. Length of Stay, Days

Guyana	23		Martinique	10		Belize	6
Montserrat	14		Anguilla	9		Bermuda	6
SVG	14		Grenada	9		Cayman I	6
T&T	14		Curacao	8		USVI	5
SKN	13		Dominica	8		Cancun	3
Barbados	11		DR	8		Guadeloupe	3
Bonaire	11		Ja	8		PR	3
BVI	11		SLU	8			
ANB	10		Aruba	7			
Cuba	10		Bahamas	7			

Source: Caribbean Tourism Organization

Figure 2.



Visitors to the Caribbean typically spend between five and ten days in the destination of their choice (Table 2). Countries which depend mainly on the US market record lower average length of stay, because US visitors tend to spend one week or less on holiday in the Caribbean. The typical Canadian and European tourist spent between eight and ten days. The outliers are the countries whose attractions are atypical: Guyana reports average length of stay as high as 23 days, and St Vincent and the Grenadines, with a largely yachting clientele, also records relatively long average length of stay (Figure 2).

Table 3. Available Capacity, Number of Rooms

Rooms	**1980**	**2018**		**Rooms**	**1980**	**2018**		**Rooms**	**1980**	**2018**
DR	3,800	78,599		Cayman I	118	6196		Hai	2,943	1,758
Cuba	7,526	60,744		St Lucia	1,245	5078		St Kitts-Nevis	584	1,754
Cancun	n.a.	35,024		Cozumel	n.a.	4663		BVI	651	1,710
Jamaica	10,092	32,797		Guadeloupe	3,037	4460		Suriname	553	1,276
Bahamas	11,429	17,028		Antigua	1,350	3773		Bonaire	307	1,246
PR	9,224	15,099		Guyana	538	3623		Anguilla	150	547
Aruba	2,235	11,929		St Maarten	1,670	3532		Dominica	157	525
Martinique	2,235	8,785		TCI	240	2632		Montserrat	131	156
Curacao	1,668	7,970		SVG	500	2609		Saba	50	85
Belize	1,016	7,912		USVI	4,834	2483		St Eustatius	90	62
T&T	2,141	7,731		Bermuda	4,710	2405				
Barbados	6,680	6,657		Grenada	570	2242				

Source: Caribbean Tourism Organization

There has been major expansion in Caribbean tourist accommodation in the past four decades, mostly by new entrants (Table 3). None of the three largest players today (the Dominican Republic, Cuba and Cancun) was a significant Caribbean destination in 1980. A fourth country, Aruba, also emerged as a major Caribbean destination during this period. After the closure of the oil refinery that was the island's main source of income and employment up until the mid-1980s, Government embarked on a tourism promotion strategy which successfully transitioned the economy to this new foundation for future economic growth. Tiny Aruba is now the sixth largest Caribbean destination, in terms of hotel rooms; the five that rank higher are all several times larger in land area.

Of the Caribbean tourism destinations that were already major players in 1980, Jamaica is the only one whose expansion has kept pace with the top three. Accommodation expanded three-fold, lifting Jamaica to Number 4 in terms of hotel rooms available. Puerto Rico also recorded a significant, but more modest, increase in rooms, by about one-third.

Belize and the countries of the Organisation of Eastern Caribbean States (OECS) were among smaller destinations which entered the Caribbean tourism market in a substantial way in the 1990s. Belize capitalised on the potential of its barrier reef, the world's second largest, and its Mayan cultural heritage, to build tourism into a new pillar of the economy, along with agriculture. As the banana economy of the OECS region fell into decline in the 1980s, the region was able to take advantage of its natural endowments to build a tourism industry that highlights heritage, adventure, ecology, culture and sailing. Significant accommodation expansion also occurred in Tobago, The Bahamas, Curacao and the French *departements*.

The exceptions to this growth story were Barbados, USVI, Bermuda and Haiti. Barbados recorded about the same amount of accommodation in 2018 as in 1980. Room counts fell in the other three countries. Financial services displaced tourism in Bermuda, and political and social turmoil caused the collapse of tourism in Haiti.

Table 4. Occupancy Rates, Percentage of Available Rooms

Aruba	85		St Maarten	65		Cuba	57
BVI	79		Bermuda	64		Cayman I	56
Curacao	78		Barbados	63		Grenada	55
DR	78		ANB	61		TCI	54
Cancun	77		Cozumel	60		Dominica	51
PR	72		Martinique	60		USVI	43
Bonaire	67		T&T	60		Anguilla	42
SLU	67		Bahamas	58		Belize	38
Ja	65		Guadeloupe	58			

Source: Caribbean Tourism Organization

The countries that might attract investors' attention, all things being equal, are Aruba, BVI, Curacao, DR and Cancun. They all had average occupancy levels in excess of 75 per cent in 2018. Caribbean tourism for most destinations peaks in the Northern Hemisphere's winter, when holiday makers from those temperate regions seek respite from their colder climates. There is a secondary peak of activity in mid-summer, when families vacation together. In between those peaks are periods when there is lower occupancy. A hotel which is at full capacity at peak periods will therefore fall below 100 per cent when occupancy is averaged for the full year. Hotels in the five destinations listed above were almost certainly at full capacity during peak seasons, a fact that would have attracted the attention of potential investors seeking opportunities for new hotel investment. As might have been expected, there was a remarkable increase in accommodation in Curacao, where the room inventory grew by one-third in the last five years, and by Aruba, with a 26 per cent expansion. From a very much larger base, accommodation in the Dominican Republic grew by 14 per cent, and in Cancun by nine per cent. However, accommodation in the BVI fell by almost a quarter.

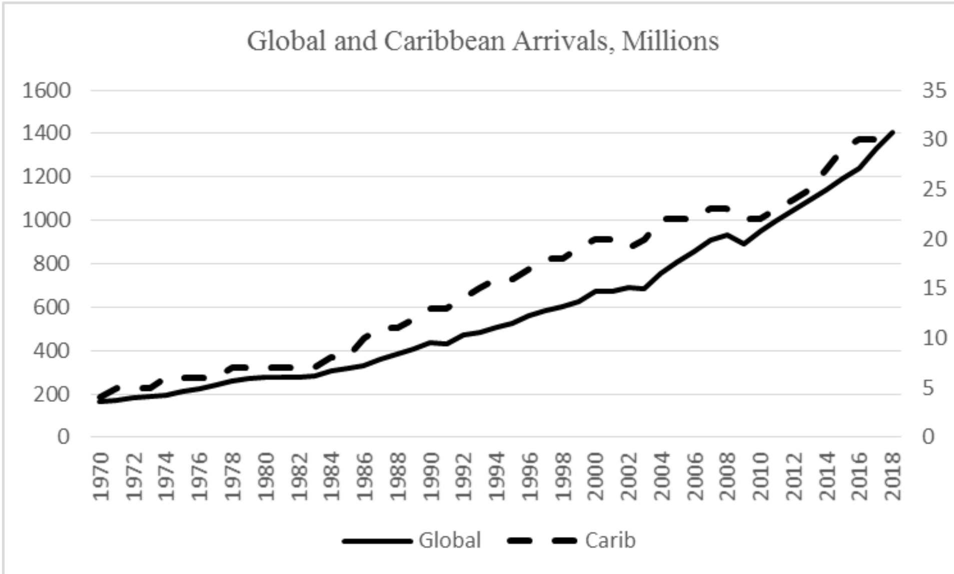
At the other end of the spectrum, with occupancy rates at less than 50 per cent in 2018, were Belize, Anguilla and the USVI. There was a modest eight per cent increase in rooms available in Belize in the last five years, which probably reflects the great diversity of Belize's tourism offerings. Within the mix there were probably segments that offered profitable investment opportunities in that country. There was no change in the volume of accommodation in Anguilla, and, as in the BVI, there was a big reduction in accommodation recorded in the USVI (Table 4).

3. The growth of Caribbean tourism

The emergence of tourism as a major economic activity in the Caribbean may be dated to the widespread adoption of jet airliners in the 1960s, which made short Caribbean resort vacations affordable to the middle classes of North America and Europe. Tourism in the region has a history going back to the eighteenth century; the first President of the US visited Barbados as a 19-year-old, and visitors to the island may visit George Washington House, where he stayed with his older brother, Lawrence. However, until the arrival of jet transport, tourism was the privilege of the wealthy, those with the time and wherewithal to make an extended stay in the region. Their average spending on holiday would have been high, but their numbers so small that tourism was not a significant economic sector in most of the Caribbean.

Cuba, and to a much lesser extent The Bahamas, were the exceptions, because they are so close to the US mainland. Pre-Revolutionary Cuba complemented its sugar and tobacco economy with a thriving tourist industry, centred on Havana. The Cuban Revolution provided The Bahamas with a major tourism boost, as a majority of activity was diverted there, once the economic blockade of Cuba came into effect in the late 1950s.

Figure 3.

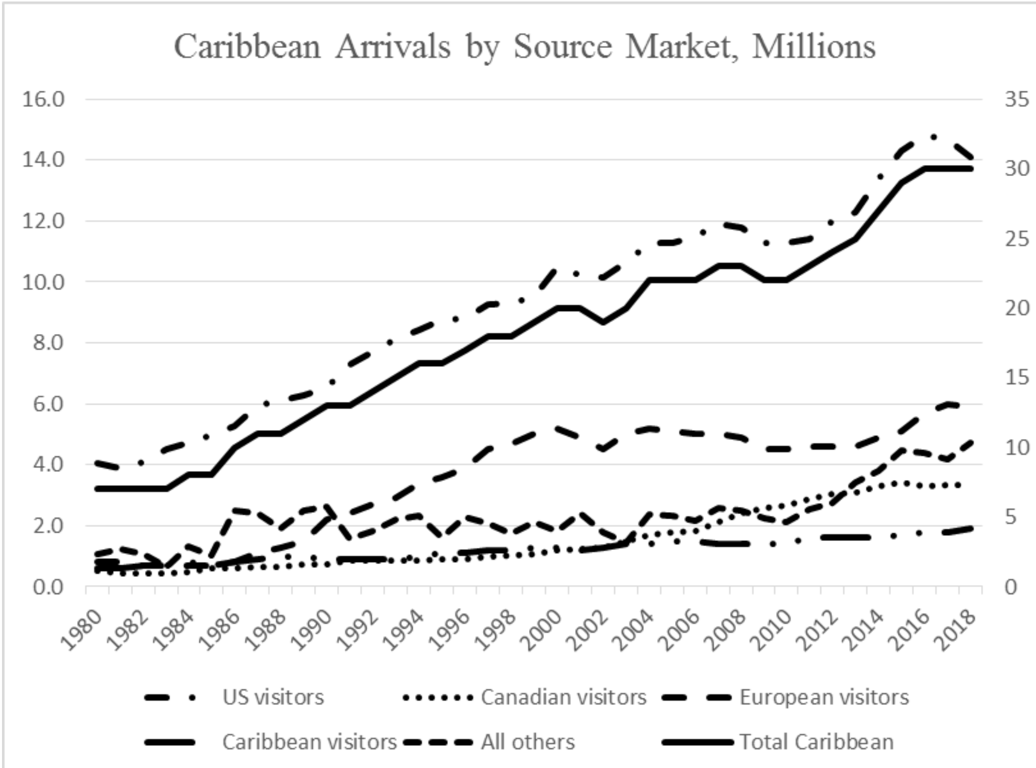


Over the entire period since 1970 the Caribbean has kept pace with the remarkable growth of international tourism. Arrivals in the Caribbean in 2018 were 7.5 times the number in 1970, compared to the global market, which grew eight-fold over that period. That is a creditable performance, given how many competing resort destinations have mushroomed during that period. The Caribbean outpaced the global market from the mid-1980s to the start of the new millennium, but the region suffered badly at the time of the 2007/8 Global Recession, and recovery came only in 2012 (Figure 3).

The region's success is as a result of a variety of country-specific strategies initiated almost entirely by the private sector. The outstanding exceptions, where deliberate government policy made all the difference, are Cancun and Aruba. In Aruba, the failure of the oil refinery that had been the mainstay of the economy until the early 1980s left Government the urgent task of promoting an alternative with the capacity to quickly become the bedrock of continuing economic prosperity. Tourism was the obvious choice, and official policy initiatives were successful in attracting large-scale hotel investments, thanks to which arrivals more than doubled within five years of the start of the initiative. By 2018 Aruba had become the seventh largest Caribbean destination, by arrivals (and sixth largest, by accommodation).

The development of Cancun was the result of a Mexican Government initiative to diversify the economy by developing the tourist potential of the Caribbean coast. In the early 1990s the Bank of Mexico, the central bank, provided finance for massive investment in roads, an international airport and other infrastructure, attracting investment to make Cancun the Caribbean's third largest destination, after the Dominican Republic and Cuba.

Figure 4



The Caribbean experienced two periods of very rapid growth during which the region increased its share of international tourism: 1985-2000, and 2010-2016. The driving force in both cases was the US market, which accounts for almost 50 per cent of tourists to the Caribbean. In the early 1990s, European visitor arrivals experienced a surge which augmented the overall rate of growth of Caribbean tourism, pushing it to an average of 7.3 per cent per year between 1985 and 2000. However, the number of arrivals from European countries stagnated after 2000, and the even more rapid growth in Caribbean arrivals between 2010 and 2016, 8.2 per cent annually, was entirely reflective of the US market. European arrivals, up to 25 per cent of the total in 2000, were back to 20 per cent by 2018. The other significant markets in 2018 were Canada with eleven per cent, and intra-Caribbean travel at six per cent (Figure 4).

4. **Competitiveness**

The World Economic Forum's *Travel and Tourism Competitiveness Report 2019* argues that world tourism is at a tipping point between its potential for development of host countries and "over-tourism", which creates congestion and destruction of the physical, economic and sociocultural environment. Tourism competitiveness continues to improve worldwide thanks to intensification of air transport links, digital connectivity and international openness, notwithstanding the global context of growing trade tensions and nationalism. Travel is mostly less expensive and safer. Moreover, Governments view tourism more favourably than in earlier years, and this is reflected in increases in Government funding and more effective tourism marketing.

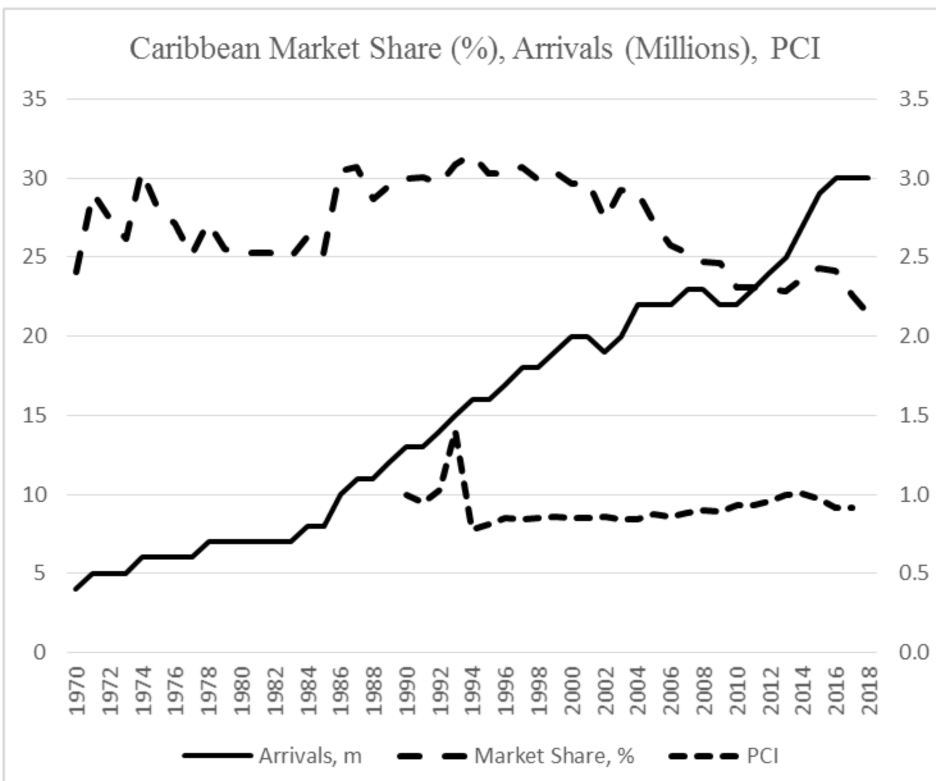
However, demand threatens to overwhelm infrastructure, overcrowding threatens cultural and natural assets, and there is continued rise in deforestation, air pollution and species endangerment. Europe and

Eurasia are judged to be the most competitive regions, followed by Asia-Pacific, the Americas, the Middle East and North Africa and Sub-Saharan Africa.

Countries are evaluated based on criteria that are grouped under four headings: the enabling environment, government tourism policy, infrastructure and natural and cultural resources. The enabling environment includes the business climate, safety and security, health and hygiene, the labour market and information and communications technology (ICT) readiness. Government policy includes prioritization of tourism, openness, price competitiveness and environmental sustainability.

Only five Caribbean destinations are included in the *Travel and Tourism Competitiveness Report*: Barbados (in 2017; not included in 2019), Cancun (Mexico), the Dominican Republic, Jamaica and Trinidad-Tobago. Mexico scores well above the global average for all countries included in the tourism index, with a score of 4.7, compared with Spain, which tops the rankings with a score of 5.4; Barbados, the Dominican Republic and Jamaica are in the vicinity of the global average, 3.9; Trinidad-Tobago is somewhat below the average, with a score of 3.6.

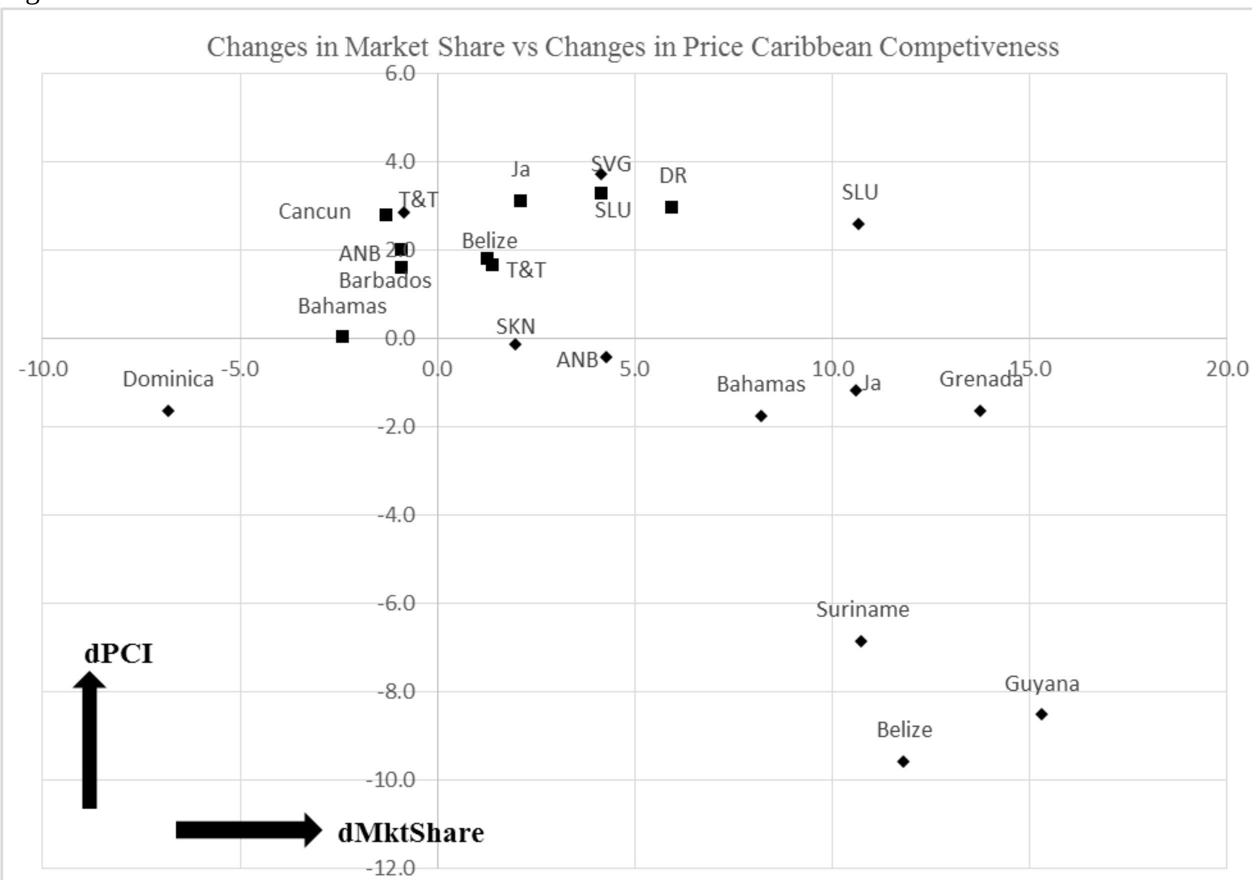
Figure 5



The Caribbean lost market share during the period from 2004 to 2010 when the volume of arrivals to the region virtually stagnated. It is testimony to the very rapid resurgence of worldwide tourism in the last decade that the Caribbean was unable to recapture the lost market share, despite the record increase in arrivals to this region between 2010 and 2016. In 2018 the Caribbean's share of world tourism was 2.1 per cent, down from a peak of over three per cent in the 1990s (Figure 5).

The decline in the Caribbean's market share cannot be blamed on price inflation in the region. The prices of tourism and other consumer services in the Caribbean have risen modestly and at a steady pace, compared to US prices, in the period since 1990. There was no relative price inflation during the periods when the number of arrivals to the Caribbean levelled off, i.e in 2004-2010, and from 2016 to 2018. This result is consistent with the only previous study of Caribbean tourism that uses market share as the measure of competitiveness. Craigwell and Worrell (2008) reach the conclusion that "for the Caribbean as a whole, price competitiveness may not be the optimum strategy for increasing the share of major markets, even though there may be exceptions in individual countries. … These findings lend support to the notion that non-price factors and market segmentation are the keys to competitiveness, and that overall price and income effects, to the extent that they matter, may be of secondary importance for many, if not most countries."

Figure 6



A focus on enhancing product quality, increased productivity, more skillful marketing, along with the criteria discussed in the *Travel and Tourism Competitiveness Report*, might offer a better explanation of success in maintaining market share and guidance for future competitiveness. Casual empiricism suggests that destinations which have focused on providing exceptional visitor experiences, whether by way of accommodations, amenities, food, culture, heritage, sports, health, adventure and environmentally sensitive offerings, have held on to or improved their market share.

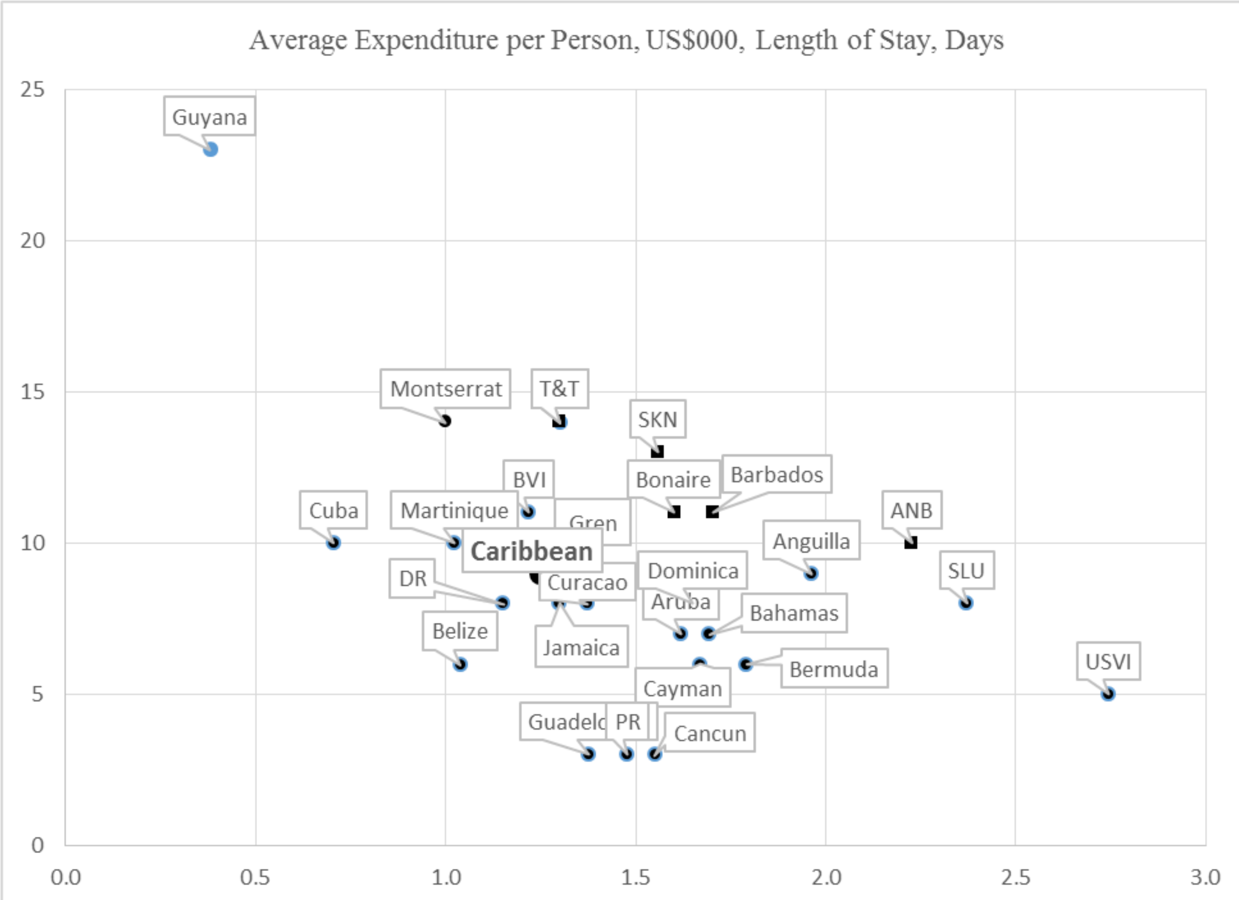
We have attempted to confirm this intuition by comparing changes in countries' share of the Caribbean market (*dMktShare*), with changes in their prices for tourism and other services, relative to the Caribbean average (*dPCI*). The price competitiveness index used, *PCI*, was devised by myself and colleagues in Worrell, Greenidge and Lowe (2013); the prices used are the country deflators for hotels, restaurants and retail services in the Statistical Yearbook of the UN Economic Commission for Latin America and the Caribbean (UNECLAC). We plot comparisons for two periods, 1985 – 2000, when arrivals to the Caribbean were increasing rapidly, and 2016 – 2018, when the number of arrivals to the region rose by less than 0.5 per cent each year.

In Figure 6 the countries to be envied are those in the top right hand quadrant, where the country has gained market share in spite of the fact that prices have increased relative to the competition. We take this as evidence of product quality improvement, an umbrella term we will use to cover all of the factors mentioned in the last paragraph as strategies to sustain market share. We have 21 observations, nine from the period of high growth (1985-2000) and twelve from the recent period when the number of arrivals stagnated (2016-18). During the high growth period five countries showed quality improvement: the Dominican Republic, St Lucia, Jamaica, Trinidad and Tobago, and Belize. The remaining four countries from that period (Antigua and Barbuda, Barbados, Cancun, and The Bahamas) also recorded relative price increases, compared with the Caribbean average, but they all lost market share, suggesting that they failed to achieve quality improvements consistent with the increase in their prices, relative to the average for the region.

During the 2016 -2018 period only two countries showed evidence of presumed quality improvement: St Lucia and St Vincent and the Grenadines. In this period Trinidad and Tobago lost market share, with the implication that tourist service providers in that country need to re-assess the value they offer at the current price point. A majority of countries, eight in all, appear to have adjusted their prices down in line with the quality of product on offer, judging from the fact that they were able to increase their market share. Those countries were Guyana, Belize, Grenada, Suriname, Jamaica, The Bahamas, Antigua and Barbuda and St Kitts-Nevis. Dominica was the only country to lose market share, even though prices in services in that country rose more slowly than the Caribbean average (Figure 7).

One strategy to increase expenditure per person is to target markets where tourists tend to take longer vacations. The countries which appear to have had some success with this approach are Antigua and Barbuda, Barbados, Bonaire, St Kitts-Nevis, and Trinidad and Tobago. They all have visitors who typically spend longer than the Caribbean average, and average expenditure per visitor is also higher than the Caribbean average. However, there is a larger number of countries which attract higher than average spending per visitor, even though the average visitor spends a short time on holiday, relative to the Caribbean average: the US Virgin Islands, St Lucia, Anguilla, Bermuda, The Bahamas, Cayman Islands, Aruba, Dominica, Cancun, Puerto Rico, Guadeloupe, Curacao, and Jamaica. The remaining countries recorded lower than average visitor spending; they are split between those where tourists stay for a relatively short time (Belize, the Dominican Republic, Grenada), and those where visitors spend relatively little, though their holidays are longer than the Caribbean average (Guyana, Montserrat, the British Virgin Islands, Cuba and Martinique). The former might try to attract tourists who are in the habit of taking longer holidays, while the latter group might try to enhance the quality and range of tourism services on offer.

Figure 7



5. **Market diversification**

All else being equal, countries that source tourists from several different countries in substantial proportions assure themselves of a greater degree of resilience in case of weaknesses in the economic circumstances of any one source country. Mitigating against this in the Caribbean is the fact of geographical proximity to the very large US market. The closer the country to the US, the more likely that they derive most of their visitors from that market; in five countries in our sample (The Bahamas, Bermuda, Cayman I., Puerto Rico and Turks and Caicos Islands) the US accounts for over 75 per cent of all arrivals. (See Appendix 1.) All except Bermuda are within an hour's flight of the US mainland, and Puerto Ricans are US citizens. The US is large enough that these countries can pursue a diversification strategy based on targetting the more prosperous cities or regions, but we do not have the data to assess to what extent that has been the policy in any country.

Another four countries (Aruba, Belize, Jamaica and St Kitts-Nevis) while somewhat less dependent, derive over half their arrivals from the US. Apart from Aruba, these are all within short flying distance of the US mainland, and it is possible to travel to Belize by road, via Mexico. Aruba's heavy dependence on the US is probably explained by the country's late entry into the tourism market, and the fact that the switch to tourism was as a result of deliberate Government policy. US companies are the dominant players in the hotel industry in the Caribbean, although there has been growing interest by European companies in recent years, and they would have been the first to be attracted to Aruba.

The remaining seven countries (Barbados, Cuba, Curacao, the Dominican Republic, St Lucia, St Maarten and Trinidad-Tobago) source at least 15 per cent of arrivals from three or more countries, affording them a degree of insurance against recession in a single source market. The US is the largest source for the last four on the list, but thanks to travel and communications links that go back centuries, Europe is the largest source market for Barbados and Curacao. The ongoing US restrictions on travel to Cuba limited US arrivals to only 14 per cent of the Cuba total in 2018, with Canada and Europe each accounting for about one-quarter of the number of arrivals.

6. **The economic importance of tourism**

The best available indicator of the importance of tourism in Caribbean economies is the proportion of foreign exchange inflows that derives from the industry. Small open economies like those of the Caribbean are fueled by foreign exchange: because of their limited size and population, they have the capacity to produce only a very limited range of goods and services at internationally competitive prices. Their economies function by selling these competitive products internationally, and using the earnings to purchase from world markets the wide range of products and services which define a modern economy. The contribution that tourism makes to the supply of foreign earnings therefore determines its importance in the growth and prosperity of the economy (See Worrell 2012).

Table 5. Contribution of Export Services to Foreign Currency Inflows, Percentage

St Kitts-Nevis	88		St Vincent and the Grenadines, 2016	49
Grenada	83		Dominica	41
Antigua & Barbuda	76		Panama	41
St Lucia	73		DR	30
Bahamas	69		Haiti	11
Jamaica	69		Trinidad & Tobago, 2016	10
Cuba, 2007	68		Suriname	6
Barbados	53		Mexico	5
Belize	49		Guyana	2

Source: UN Economic Commission for Latin America and the Caribbean

St Kitts-Nevis, Grenada, Antigua and Barbuda and St Lucia are the Caribbean countries most highly dependent on tourism, where tourism receipts accounted for over 70 per cent of all foreign currency inflows in 2018. The Bahamas, Jamaica and Cuba derive two-thirds of foreign currency inflows from the industry; for Barbados, Belize and St Vincent and the Grenadines tourism supplies over half of their foreign currency. The industry is also a major source of foreign currency for Dominica, Panama, and the Dominican Republic, all of which receive over 30 per cent of inflows from tourism (Table 5).

Trinidad is mainly an oil exporter; its tourism is related to the annual Carnival. Tobago, the tourist island, is much smaller, and that is reflected in the fact that tourist receipts account for just about ten per cent of foreign currency inflows for the country. Tourist activity is a relatively small part of the economies of Guyana and Suriname, neighbours on the South American mainland, whose main exports are agricultural products and minerals.

7. **An evaluation**

An overall assessment was made of all member countries of the Caribbean Tourism Organization, based on visitors' average daily spending, their success in "quality" improvements, the resilience of tourism with respect to economic fluctuations in source markets, competitiveness as measured by the *Travel and Tourism Competitiveness Report* of the World Economic Forum, whether hotel capacity is fully utilized, and the growth of accommodation and arrivals in the past five years (See Appendix 2). Average daily expenditure ranges from over US$200 to a low of less than US$50. Countries' success in improving the quality of tourism services, strengthening brand recognition, improving productivity, and adding value to the product is measured by comparing changes in shares of the Caribbean tourism market with changes in relative prices relative to the Caribbean average. Resilience is assessed on the basis on diversity of source markets, with the caveat that this is an imperfect measure, because diversity is possible within a large market like the US. For those countries included in the *Travel and Tourism Competitiveness Report*, we take account of their ranking. We make the plausible assumption that anything over 75 per cent for the full year indicates that hotels are at full capacity in the peak season(s).

Arrivals to the Caribbean as a whole increased a remarkable 13.5 per cent, with two countries, Cuba and Belize, recording increases in excess of 50 per cent, over the period 2014 – 2018. The Dominican Republic and Cancun were among the more successful performers. The Dominican Republic owns the largest share of tourist arrivals to the Caribbean (22 per cent), and the numbers are still growing, by 28 per cent in the most recent five years. Hotels have been operating close to full capacity (78 per cent for the full year 2018), and the country attracts tourists from a relatively wide range of countries, even though the US accounts for the largest share (34 per cent). The Dominican Republic has continued to increase its share of the Caribbean market even as its services prices have outpaced the Caribbean average. However, average daily expenditure of visitors to the country is disappointingly low, at US$128. Tourism is of major importance in the Dominican Republic, contributing 30 per cent of the country's foreign currency inflows in 2018.

Cancun, with 11 per cent of arrivals in the Caribbean, has the third largest share, after the Dominican Republic and Cuba. Average daily expenditure is quite high, at US$172 (compare with US$305 for the US Virgin Islands, the highest in the Caribbean). Mexico scores well above the average in the *Travel and Tourism Competitiveness Report*, and hotels in Cancun operate close to full capacity in the high season (77 per cent annually). Hotel capacity expanded by nine per cent in the past five years, and arrivals were up twelve per cent.

Smaller countries with a relatively strong showing include St Lucia, Antigua-Barbuda and Aruba, with average daily expenditures of US$264, US$247 and US$180, respectively. St Lucia managed to improve its market share and increase services prices, both in the 1985 – 2000 rapid growth period, and in more recent years when the market slowed. The country has relatively diversified source markets, although the US is the largest, with 44 per cent of arrivals. Capacity utilization is 67 per cent, but investors continue to show interest, and capacity rose 4.4 per cent in the last five years. Arrivals were up 17 per cent in that period. St Lucia has become very much a tourist economy, with the industry accounting for 88 per cent of foreign currency inflows.

Antigua and Barbuda was able to improve market share despite relatively faster price increases in the 1985 – 2000 period, but price increases have been associated with loss of market share more recently. Capacity utilization is 61 per cent, and hotel capacity has fallen 19 per cent in the last five years. However, arrivals were up a modest eight per cent in that period. Antigua and Barbuda is also a tourist economy, with 76 per cent of foreign earnings from the sector.

Aruba depends on the US market for 69 per cent of arrivals. The country recorded the highest capacity utilization in the region in 2018 (88 per cent), and room capacity increased 26 per cent in the last five years. However, over this period the number of arrivals rose less than one per cent.

There is a second group of a dozen moderately successful performers, all of whom recorded average daily tourist spending of US$150-200. The group includes the tourism-dependent countries of St Kitts-Nevis, The Bahamas, Grenada and Jamaica, all deriving two-thirds of more or foreign currency inflows from the tourism sector. The US accounts for 71 per cent of visitors to St Kitts-Nevis; arrivals increased by twelve per cent in the last five years, even though there was no increase in the number of hotel rooms available. The islands increased their market share in the 1985-2000 period, when services prices rose more slowly than the Caribbean average.

Eighty per cent of visitors to The Bahamas are from the US. Capacity utilization is low, at 58 per cent, but the islands continue to attract hotel investment, and capacity has risen eleven per cent in the past five years, with a 14 per cent increase in arrivals over the same period. As with St Kitts-Nevis, gains in market share in the late 1980s and the 1990s were associated with slower price rises for services, compared with the Caribbean average. The story is similar for Grenada: utilization is low at 55 per cent, but room capacity increased 14 per cent and arrivals by 21 per cent in the last five years.

Jamaica offers yet another example of low capacity utilization (65 per cent), in a country where room capacity increased 19 per cent and arrivals 22 per cent in the past five years. Jamaica sources two-thirds of its visitors from the US. In the 15 years of rapid expansion of Caribbean tourism, Jamaica was able to gain market share even though prices of services rose more quickly than the Caribbean average. However, more recently, Jamaica's capture of increased market share was accompanied by service price increases that were more modest than for the Caribbean as a whole.

Other moderately successful member countries of the Caribbean Tourism Organization (Curacao, St Vincent and the Grenadines, Barbados, Belize, Bermuda, Cayman I., Dominica and Guadeloupe) are less dependent on tourism as a source of foreign currency; tourism contributes between one-third and one half of foreign currency inflows. Curacao has a larger number of source markets that most of the Caribbean, with Europe, the largest, accounting for 52 per cent of total arrivals in 2018. In that year the hotels on the island operated at an average of 78 per cent of capacity, among the highest in the region. The number of rooms available increased by one-third in the last five years. However, arrivals for 2018 were five per cent lower than in 2014.

Visitors to Barbados come mainly from Europe (38 per cent), with substantial contributions also from Canada, the US and neighbouring Caribbean countries. Barbados' score in the *Travel and Tourism Competitiveness Report* is just about average for all the countries included in the report. Capacity utilization in 2018 was only 63 per cent, and only seven per cent more rooms were added in the last five years, but arrivals were up 31 per cent in that period.

Belize receives two-thirds of visitors from the US. It has apparently been successful in matching price to product in the tourism sector; during the 15 years of high growth, Belize gained market share, even though its service prices rose faster than the Caribbean average. In recent years Belize made even bigger market share gains, but these were associated with service prices that rose more slowly than for the Caribbean as a whole. Room capacity utilization was only 38 per cent in 2018, and there was an increase of only seven per cent in accommodation, but arrivals were up 52 per cent in the last five years.

The US is the source of 76 per cent of visitors to Bermuda. Hotel capacity on the island is not heavily utilized (64 per cent), and the number of rooms has stagnated in the last five years. However, visitor arrivals have risen by a quarter over that period. Tourism, which was once a major activity, has declined to minor significance, relative to international financial services. Cayman I. has a very similar profile, with tourism declining in importance relative to international financial services, 83 per cent of arrivals coming from the US, and 56 per cent capacity utilization. However, there has been an increase of 18 per cent in the number of hotel rooms, to accompany a 21 per cent increase in arrivals over the past five years.

Tourism provides 49 per cent of foreign exchange in St Vincent and the Grenadines. Between 1985 and 2000 this was one of the countries to gain market share even though service prices there rose more quickly than the Caribbean average. Between 2014 and 2018 capacity was up 22 per cent and arrivals were 16 per cent higher. The capacity utilisation in Guadeloupe was 58 per cent, and there was no change in the number of rooms available, but arrivals increased by one-third in the last five years. Dominica, which derived 41 per cent of foreign earnings from tourism, suffered a devastating hurricane in 2016, which destroyed 54 per cent of capacity, causing a 23 per cent loss in visitor arrivals in 2018, compared with 2014.

International banking and finance was the major activity other than tourism which contributed significantly to foreign currency inflows in Curacao, Barbados, Bermuda and Cayman I.. Barbados also exports some manufactured goods. In Belize, Dominica and St Vincent and the Grenadines agriculture is also a significant export.

There are a number of countries whose performance does not match up to those described so far. Cuba has a 16 per cent share of Caribbean arrivals, the second largest, but average daily spending is only US$78, among the lowest in the region. Tourism provides 68 per cent of Cuba's foreign currency. Capacity utilization is only 57 per cent, but the number of rooms available increased by nine per cent, and arrivals rose 56 per cent in the 2014 – 2018 period.

Puerto Rico is also a major Caribbean tourist destination, with nine per cent of arrivals in 2018. A devastating hurricane in 2017 sharply reduced the available accommodation on the island, and arrivals in 2018 were 24 per cent fewer than in 2014.

The smaller tourist-dependent destinations that recorded comparatively low average daily expenditure were the British Virgin Islands, which also lost capacity because of the hurricane, and Martinique, which recorded increases of 13 per cent and ten per cent in the number of rooms and arrivals, respectively, in the last five years.

In the remaining countries the contribution of tourism to foreign currency inflows is ten per cent or less. Average daily expenditure in Trinidad and Tobago is low at US$148, and the country score is below the world average in the *Travel and Tourism Competitiveness Report.* Capacity utilization is 60 per cent and there has been no change in the room inventory recently. Arrivals in 2018 were nine per cent lower than in 2014. Suriname derives only six per cent of foreign inflows from tourism; for neighbouring Guyana the contribution is only two per cent. Average daily expenditure per visitor is US$42 and US$21 for Guyana and Suriname, respectively, the lowest for any member of the CTO.

8. Conclusion

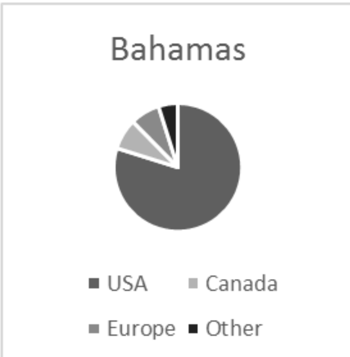
The growth of the tourist industry in the Caribbean is a rich and varied success story. This chapter uses CTO statistics to measure the extent of the success, some of the reasons that explain it, and the varieties of experience among the countries of the region. For the most part it has been a story of private enterprise, with the providers of tourism services pricing their services in line with the quality of service on offer, and, for a majority of countries, adjusting prices in a successful strategy of protecting or increasing their market share. The best performing countries recorded high average daily expenditures per visitor, full capacity, a growing inventory of accommodation, and strong growth in arrivals. Among the other countries there is every combination of high/low average daily expenditure, good and bad value propositions, diversification of source markets, full to low capacity utilization, and large, modest, or little or no increase in accommodation. The results ranged from modest to exceptional growth in visitor arrivals, sustaining the Caribbean's share of world tourism above two per cent of the global total. The fact that a growth rate of arrivals that averaged 8.2 per cent a year from 2010 – 2016 failed to breach the 2.5 per cent market share mark is no reflection on the Caribbean. Rather it reflects the unprecedented expansion in world tourism over this period.

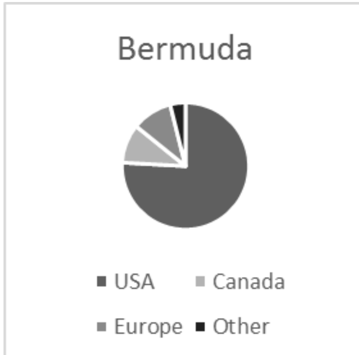
Countries for which tourism is the main source of foreign exchange had creditable performances, for the most part. That is also the case for the larger tourist destinations such as the Dominican Republic and Cancun, though the size and endowments of their economies are such that tourism is not the only major foreign currency source. In only two countries, Aruba and Mexico, have we identified direct Government investment, promotion, finance and other support as a determining factor in the emergence to prominence of the tourism industry, and in both cases Government direct action was less evident once the tourism industry became well established. The flexible responses of the Caribbean tourist industry to the markets they serve, the quality and appeal of the products they sell, and the history of adapting to changing opportunities, all augur well for the future of Caribbean tourism.

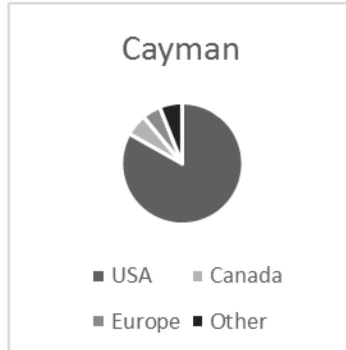
The challenges the Caribbean faces going forward are made more uncertain by the march of communications technology. We do not have data to analyse the impact of peer-to-peer online marketing services such as Airbnb and Trip Advisor. Also, limitations of our data mean that we have only been partly successful in revealing the drivers behind the successful tourism strategies, and there remain many curiosities of the data that we are unable to explain. This chapter has no greater ambition than to add meaningfully to an appreciation of the richly diverse landscape of Caribbean tourism.

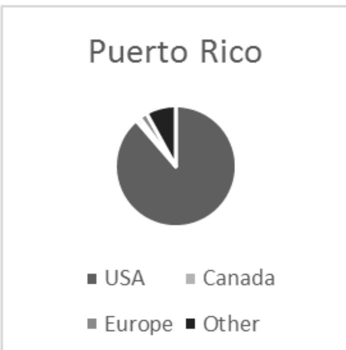
Appendix 1. Source Countries of Visitors to Caribbean Countries

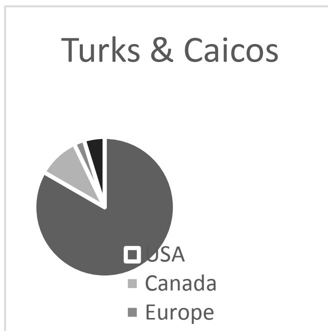
More than 75 per cent from US



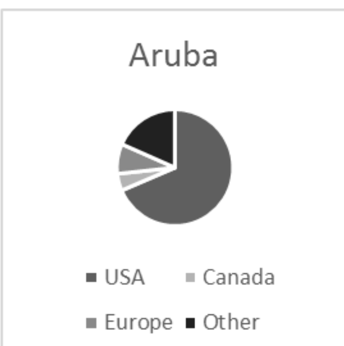


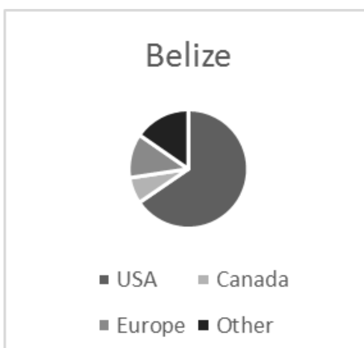


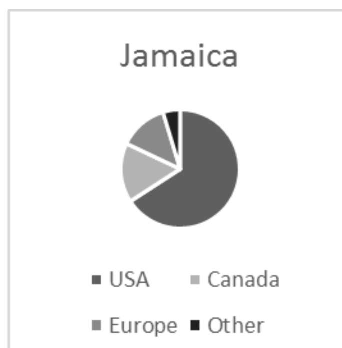


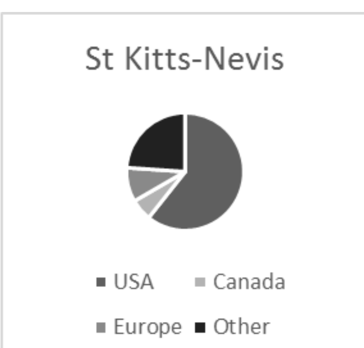


Between 50 and 75 per cent from US



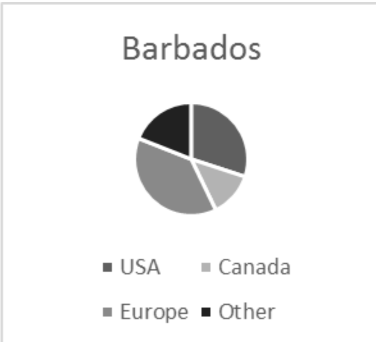


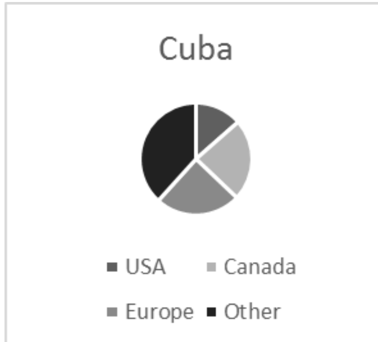


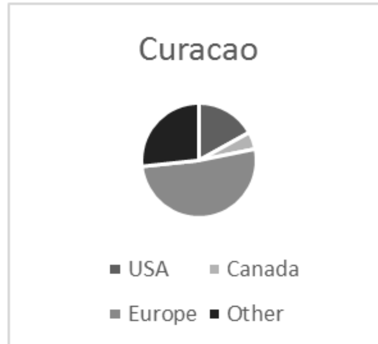


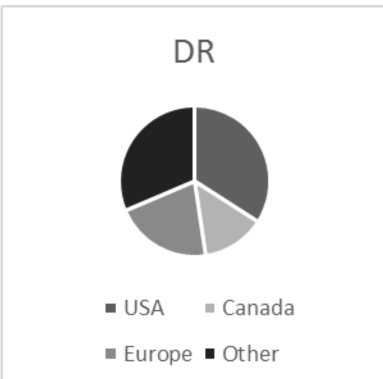
Appendix 1, Continued

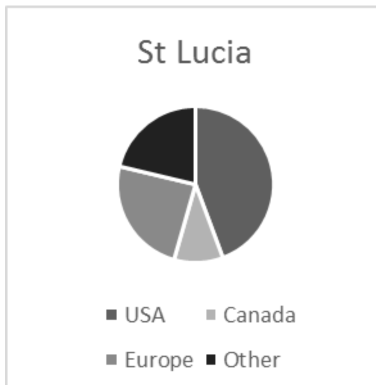
Countries with at least three source markets providing 15 per cent or more

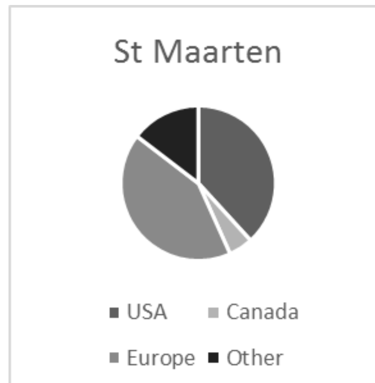


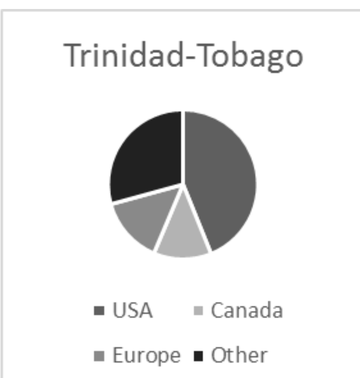












Appendix 2. Evaluation matrix

Country evaluation										
		Earlier	Recent		WEF	Size: % of		Capacity	Growth 2014-2018	
	Avg daily exp	Quality	Quality	Diversification	Competitiveness	Arrivals	% FX	utilisation	Rooms	Arrivals
Anguilla	218					<0.5%		42	0.0	-22.5
ANB	247	Adaptive	Mismatch			1	76	61	-19.3	8.0
Aruba	180			>50% US		4		85	26.1	0.9
Bahamas	188	Adaptive	Mismatch	>75% US		5	69	58	11.3	14.4
Barbados	189		Mismatch	3 or more countries	**3.9**	2	53	63	7.5	30.6
Belize	115	Adaptive	Improved	>50% US		2	49	38	7.4	52.3
Bermuda	199			>75% US		1		64	-0.4	25.9
Bonaire	178							67	0.0	3.1
BVI	135					1		79	-23.8	-50.3
Cancun	172		Mismatch		4.7	11		77	9.0	12.4
Cayman	186			>75% US		2		56	17.7	20.9
Cuba	78			3 or more countries		16	68	57	9.1	56.3
Curacao	153			3 or more countries		1		78	37.4	-5.1
Dominica	183	Failing				<0.5%	41	51	-54.0	-23.2
DR	128	n.a	Improved	3 or more countries	3.8	22	30	78	13.5	27.8
Grenada	139					1	83	55	13.9	21.1
Guadeloupe	153					1		58	0.0	33.3
Guyana	42	Adaptive				1	2			40.0
Jamaica	144	Adaptive	Improved	>50% US	3.7	8	69	65	22.0	18.9
Martinique	114					2		60	12.9	9.6
Montserrat	111					<0.5%			0.0	11.1
PR	164			>75% US		9		72	2.2	-24.0
SKN	173	Adaptive	n.a.	>50% US		<0.5%	88		0.0	12.4
SLU	264	Improved	Improved	3 or more countries		1	73	67	4.4	16.9
St Maarten	283			3 or more countries		1		65	0.0	-64.4
SVG	144	Improved	n.a				49		22.3	12.7
Suriname	21	Adaptive				1	6		0.0	15.9
T&T	145	Mismatch	Improved	3 or more countries	3.6	1	10	60	-0.5	-8.7
TCI	192			>75% US		1		54	0.0	17.0
USVI	305					1		43	-50.1	-38.0
										13.5
Keys	<US$50	P reduction, share falling							Zero, falling	Zero, falling
	US$50-150	Not value for money			Below				Single digits	Positive
	US%150-200	P falls to match quality			Avg				Double	Above avg
	>US$200	Share rises w P increase			Above				Exceptional	Over 20%

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