

# The Contribution of Tourism to Trade and Development

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# Introduction

***Global tourism sector has grown and diversified to become one of the fastest growing economic sectors***

- Increased capacity and declining costs for air transport
- Increases in real household incomes and discretionary spending

***Multiple benefits and challenges***

- Success requires meeting economic challenges and also enhancing social responsibility and fostering transformation into the green economy to ensure the long-term sustainability



# Global Tourism Trends

***Globally, tourism is a US\$ 3 billion a day business that all countries at all levels of development can benefit from***

- Contribution to GDP exceeds 5 percent
- Annual turnover growing faster than GDP
- As an export category, tourism ranks fourth after fuels, chemicals and automotive products
- The sector has demonstrated consistent growth since 1950 with tourist arrivals have grown from only 25 million to 922 million



# Financial Crisis

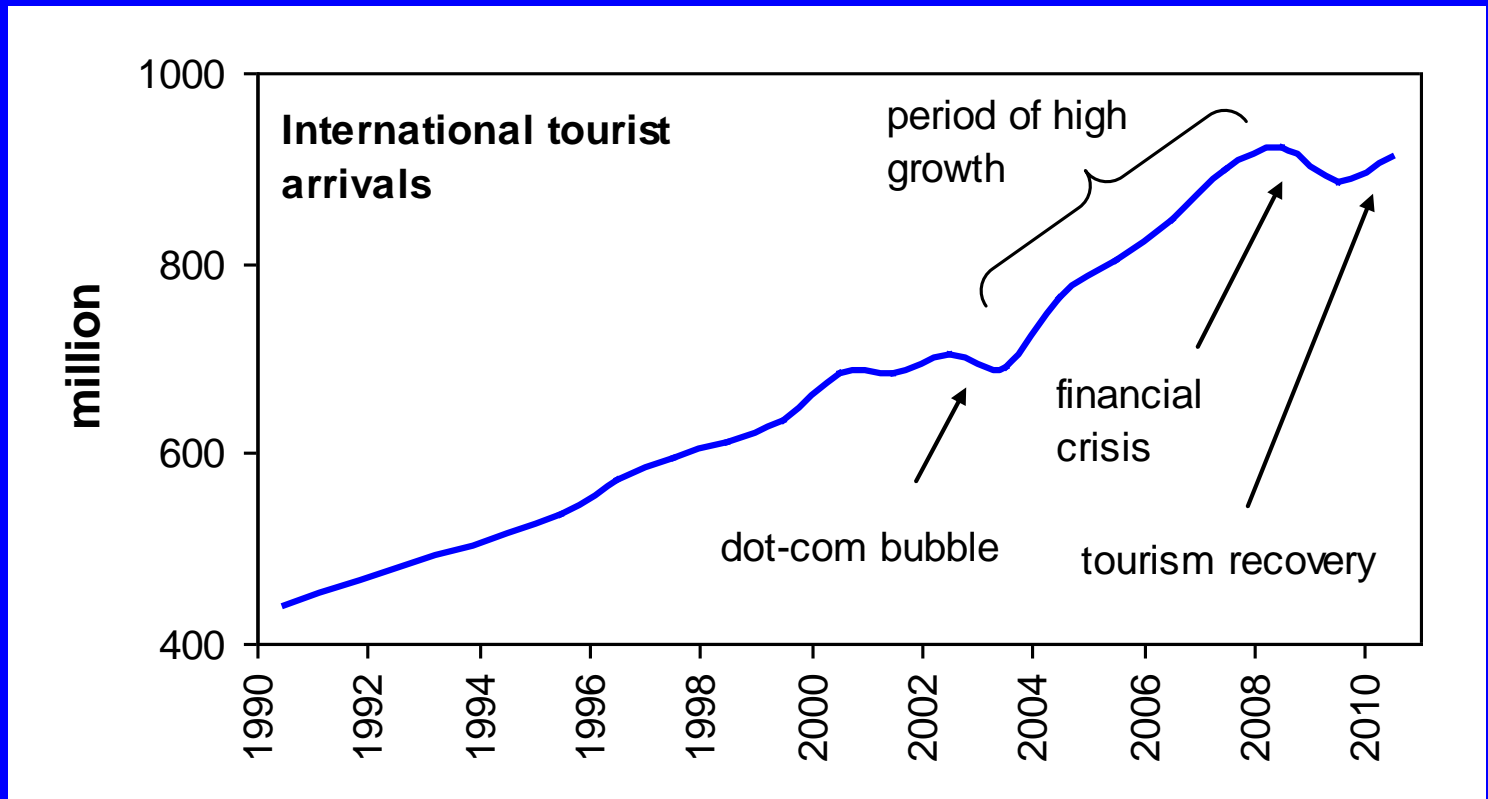
## *Impacts of the Crisis*

- An abrupt shift in tourism growth occurred in mid-2008
- From mid-2008 to mid-2009, Africa excepted, all regions recorded declines in international arrivals
- Europe and the Middle East were especially hard hit
- Overall, international arrivals in 2009 fell to 880 million, down by 4 percent from 2008
- Less affected domestic tourism has been insufficient to compensate for the falling international demand



# Global Tourism Trends

*After the financial crisis, a recovery is underway*



International tourist arrivals from 1990 through 2009 and forecast for 2010. Source: UNWTO



## *Emerging from the Crisis*

- UNWTO states that tourism returned to growth in the last quarter of 2009 and growth will continue in 2010
- Recovery partly due to fiscal, monetary and marketing support to the tourism sector by some 70 countries (including many developing countries such as Argentina, Brazil, China, Egypt, India, Morocco, Nepal, Vietnam)
- Recovery to endure over the longer term with 4 percent annual growth in international arrivals to reach 1.6 billion in 2020 – nearly 70 percent above current levels



# Global Tourism Trends

## *The tourism recovery*

- Globally, international arrivals are forecast to grow by 3% to 4% in 2010
- International tourist arrivals grew by 7% in the first two months of 2010 worldwide (UNWTO)
- Growth was particularly strong in Asia, Africa and the Middle East
- However, although international arrivals for the first two months of 2010 were up 7% on 2009, they were still 2% below the value of the record year of 2008



# Global Tourism Trends

***One of the most promising features of the tourism's strong performance in recent years is that growth in arrivals is greatest in developing countries***

- While in 1950 the top 15 destinations absorbed 88 percent of international arrivals, this figure progressively decreased to 57 percent in 2007, reflecting the emergence of new developing country destinations
- Today developing countries account for 40 percent of world tourism arrivals and 30 percent of the world tourism receipts





# Global Tourism Trends

## *Tourism is a major contributor to developing countries' trade and growth*

- In over 150 countries, tourism is one of five top export earners. In 60 it is the number one export
- Main source of foreign exchange for one-third of developing countries and one-half of LDCs where it accounts for up to 40 percent of GDP



# Global Tourism Trends

## ***Tourism is a significant source of economic growth in developing countries***

- Tourism is their largest single services export
- Tourism accounts for a 7 percent of their goods and services exports, and 45 percent of their commercial services exports
- For LDCs only, both of these figures are higher at 9 and 65 percent respectively
- Tourism exports exhibit high export growth rates which between 2003 to 2008 was 15 percent for developing countries and 21 percent for LDCs



# Tourism & Development

## *Tourism is also a major source of employment in developing countries*

- Tourism and tourism-support activities create a high proportion of employment opportunities for low-skilled and semi-skilled workers, particularly for poor, female and younger workers
- Globally, the WTTC estimates 220 million jobs are tourism-related (8 percent of employment and 10 percent of GDP)
- Women make up 70 percent of the labour force in the tourism sector, and half of all tourism workers are age 25 or under



## ***Tourism employment and the crisis***

- With an economic recovery, job growth in the sector is expected to resume with the creation of nearly 60 million new jobs by 2020
- The ILO has estimated that unemployment induced by the financial crisis comprises between 11 and 17 million workers in developed countries and between 19 and 42 million workers in developing countries
- The tourism sector can be an important source of employment for many of these unemployed workers



## *Tourism and migrant workers*

- Many workers in the global tourism industry are migrant workers
- For many developing countries, tourism services provided by their nationals working abroad results in significant remittance inflows
- Countries hosting migrant workers also benefit from tourism and travel services exports generated by the expenditures of migrant workers in their economies
- Reducing restrictions on temporary movement of all labour categories, including less-skilled labour, through multilateral, regional and bilateral trade agreements could open win-win opportunities for both sending and receiving countries



# Global Tourism Trends

## *Trade and Tourism*

- Growth in world tourism has made it a major component of international services trade
- Accounts for over 30 percent of world commercial services exports in 2008 and 11 percent of world exports of goods and services
- However, tourism is fragile. Its share of GDP and exports can fall abruptly due to global economic slowdowns, epidemics (e.g., SARS, H1N1), natural disasters (e.g., Iceland Eyjafjallajökull volcano, Haiti earthquake, etc.) and terrorism
- Air traffic disruptions from the Iceland volcano eruption have reduced yearly volume by 0.3 %
- Revenue losses for airlines as a group were especially high, equaling up to \$200 million per day



# Global Tourism Trends

## *FDI and Tourism*

- Common perceptions that a large share of FDI flows to developing countries target tourism and that foreign investment dominates their tourism industries are largely unfounded
- FDI inflows to their tourism sector account for only around 10 percent of global FDI inflows



# Global Tourism Trends

***Intra-regional South-South tourism represents an important channel for growth and development in developing countries***

- A substantial share – nearly 80 percent – of tourism is intra-regional
- The share of intra-regional tourism ranges from over 40 percent in Africa and the Middle East to over 70 percent in the America and Asia
- While accounting for only 20 percent of international travel, inter-regional travel is growing significantly faster at an annual pace of 3.1 percent, nearly twice the 1.7 percent growth rate of intra-regional tourism





# LDCs & Tourism

## *Helping LDCs to graduate...*

- By boosting per capita income and human capital, tourism can be a decisive factor supporting graduation from LDC status
- In 23 of the 49 of the LDCs international tourism is among their top three foreign exchange earners
- For seven it is their single largest revenue earner, inducing significant income-multiplier effects and progress in terms of national income



# LDCs & Tourism

## *Some examples...*

- In Tanzania, where gross tourism receipts accounted for less than 10 percent of total export earnings in the mid-1980s, by 2005 it had risen to become the country's top export earner well above coffee and cotton, accounting for over 35 percent of total goods and services exports
- Similar developments have been observed in Benin, Madagascar and Rwanda, where tourism now surpasses traditional commodities such as palm oil, vanilla, and tin ore, respectively



# Tourism & Development

## *“Linkages”*

- Tourism linkages to other economic sectors are diverse and deep
- Backwards linkages with basic infrastructure services such as energy, telecommunications and environmental services, agricultural, manufacturing and construction services
- Forward linkages with sectors supplying services consumed by tourists such as financial, telecommunications, retail, recreational, cultural, personal, hospitality, security and health services



## ***Why linkages are important***

- Strong linkages catalyse a multiplier effect that generates broad-based economic benefits at the national level as well as employment opportunities and poverty reduction at the local level
- Without strong tourism linkages such benefits do not materialise



# Tourism & Development

## *Linkages in the field:*

- An OECD study of linkages in three developing countries (Brazil, India and Indonesia) found that linkages are particularly strong for the tourism sector relative to linkage strengths for most other sectors, confirming tourism as a sector capable of stimulating broad based economic activity
- Numerous studies undertaken by developing countries with support from UNCTAD support this finding
- Many countries, including Ethiopia, Kenya, Madagascar, Mauritania and Swaziland are strengthening linkages by promoting ecotourism and community tourism



## *Strengthening linkages*

- Building linkages requires ensuring effective national strategies comprising policy, regulatory and institutional framework are in place with sufficient incentives to stimulate the development of supply capacity in national markets
- It is also important to address anti-competitive business practices that constrain the development of the tourism sector by increasing the costs of doing business in the country and compromising the quality of local goods and services



# Tourism & Development

## *Countries with strong linkages:*

- have developed tourism supporting infrastructure (airports, ports, roads, hospitals, banks)
- provide access to good quality basic services (financial, telecommunications, water, energy, sanitation and health services)
- are able to offer tourism products at competitive prices



# Tourism & Development

## *“Leakage”*

- The process whereby part of the foreign exchange earnings generated by tourism, rather than reaching or remaining in tourist-receiving countries, is either retained by tourist-generating countries or other foreign firms
- In many developing countries, particularly LDCs and other countries with limited economic diversification including small island developing states (SIDS), leakage remains a main challenge to be addressed





# Tourism & Development

## *Reducing leakage*

- Governments and other stakeholders can strengthen the tourism sector's backward and forward linkages within the national economy to reduce the need for imported goods and services and significantly reduce economic leakage levels
- They can also design strategies to boost the bargaining power of smaller or domestically-owned airlines, tour operators and hotels in terms of their negotiations with larger foreign tour operators and travel agencies



# Tourism & Development

## *Sustainability*

- Long-term prospects for national tourism activity depends on meeting environmental as well as economic and social objectives
- Redesigning the tourism product can minimise the negative impacts of tourism operations and activities on environmental resources

## *The rise of ecotourism*

- Ecotourism, or tourism in natural surroundings, is estimated to account for as much as 20 percent of the international tourism market
- Ecotourism is an attractive approach to sectoral development based on small-scale community-led tourism operations



## *Ecotourism in the field*

- In East Africa, most of the 1.5 million tourists that visited the region in 2000 were interested in wildlife watching. Uganda alone generated revenues for US\$ 149 million that is mostly linked to safari and gorilla tourism
- Gambia is promoting nature-based tourism (birds, butterflies and flora) from May to October during its low season for conventional tourism
- In Nepal, over 100,000 visitors per year visit the Chitwan National Park for wildlife watching, while others opt for trekking in various national parks in the Himalayas



## *Responding to climate change*

- The private sector is responding to climate change by reshaping their businesses into the green economy
- Reductions in carbon emissions from energy and transport offer opportunities for firms to reduce the carbon footprint of tourism
- A growing number of hotels have adopted energy efficiency programmes to limit emissions associated with tourists' stays
- Several airlines offer passengers the option to offset the carbon dioxide emissions of their travel



# Tourism & Development

## *Diversifying the tourism product*

- There is rising demand for complementary tourism products linked to healthcare, education, real estate, MICE (Meetings, Incentives, Conventions and Exhibitions), etc.
- Many developing countries are thus diversifying their tourism product
- For example, Medical and health related tourism is growing in a number of developing countries (notably India, Jordan, Thailand, Malaysia and Tunisia).
- In Thailand, for instance, 1.4 million visitors sought medical care in 2007, up from 500,000 in 2001, and generating US\$ 1 billion in revenue



# Tourism & Development

## *Meeting international standards*

- Growth of the tourism sector has led to increased demand for the development of international standards
- To date its work has been limited to the development of standards for specialized activities related to tourism (ISO)
- For specific market segments such as ecotourism, adventure tourism and community tourism, a plethora of voluntary standards and associated certification scheme have emerged during the past decade
- With so many schemes, there is now a need to harmonize certification programs and create an international accreditation body (Rainforest Alliance)



## *Curbing excessive warnings in travel advisories*

- Typically issued in response to natural disasters, health crises or terrorism, travel warnings can be devastating for tourism
- One study reports that income from tourism-related industries drops rapidly by at least 70 percent whenever such alerts are issued against African countries
- Inaccurate and excessive travel warnings can have major adverse effects on tourism revenues for the countries concerned
- In 2005, the UNWTO adopted Guidelines on Travel Advisories emphasising the need for transparency and accuracy



# Tourism Policy

## *Enhancing national gains from tourism*

- Forging national tourism strategies and policies – with dedicated institutions and tourism linkages programmes
- National strategies could examine how trade and immigration policy could be tuned to reduce barriers to tourism trade
- Designing trade policies to strengthen linkages and reduce leakage
- Reducing trade barriers through the Doha Round
- Strengthening regional trade and cooperation
- Building human capacities in the sector





# Tourism Policy

***UNCTAD has many programmes providing capacity building on tourism***

- E-tourism Initiative
- Train for Trade programme
- Sustainable tourism programme within the BioTrade Initiative
- Special activities for LDCs and SIDS within the Division for Africa, Least Developed Countries and Special Programmes
- **National Services Policy Reviews**



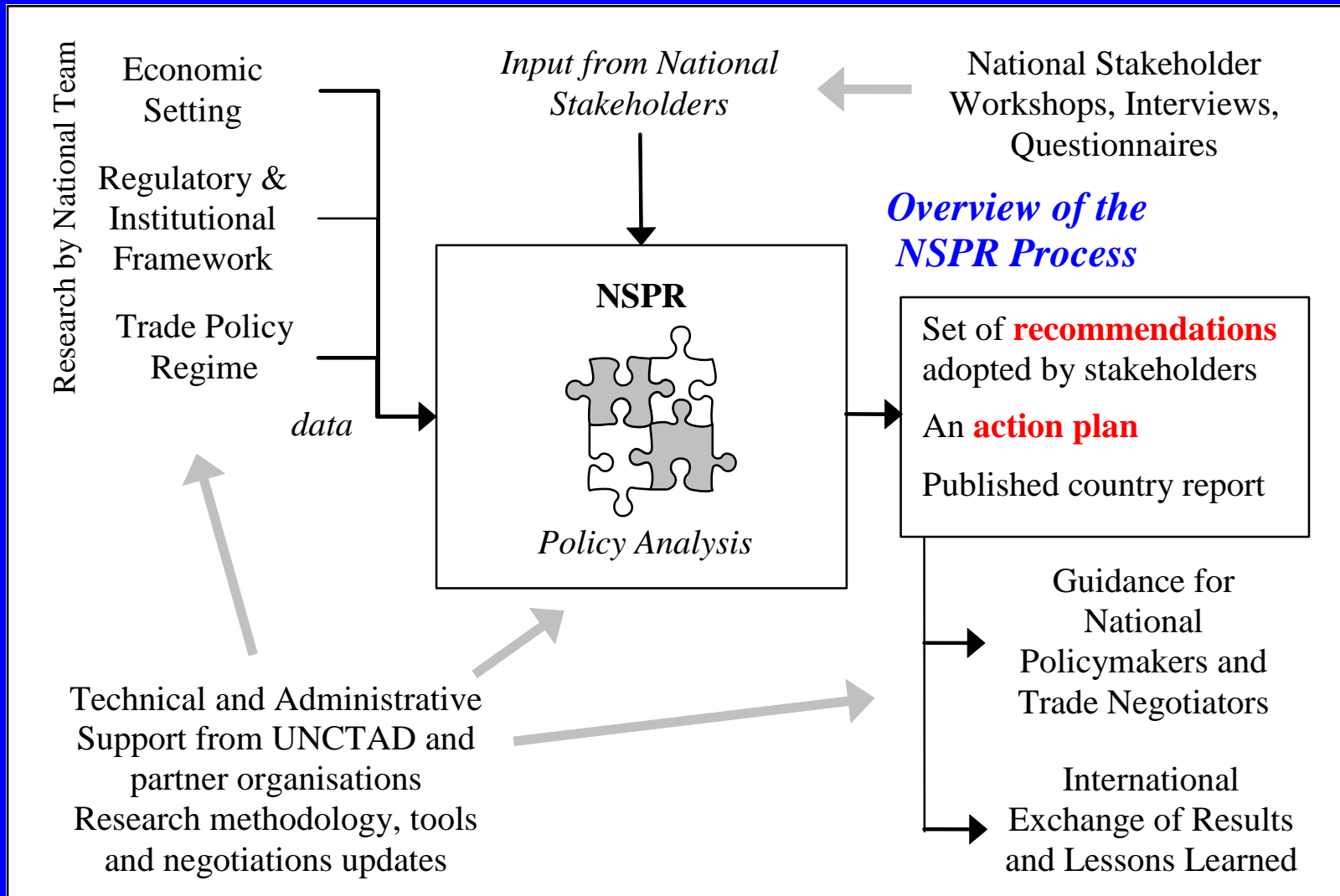
# Tourism Policy

***UNCTAD's National Services Policy Reviews (NSPRs) help build national capacities to advance development of national tourism services sectors***

- In 2008-2010, NSPRs focusing on the tourism services sector in the Kyrgyz Republic and Nepal helped national stakeholders to elaborate national tourism strategies and to define action plans for their implementation
- Implementation of national action plans recently started
- Other interested countries may request similar assistance



# Tourism Policy





## *Objectives*

- Diversify economy to sustain growth
- Generate employment and opportunities for professional development
- Enhance competitiveness
- Build cross-sectoral synergies
- Attract foreign and domestic investment
- Increase exports



## *SWOT analysis*

<i>Sector</i>	
Strengths ...	Weaknesses ...
Opportunities ...	Threats ...



## ***The tourism sector under the GATS***

- Tourism services are covered by the GATS under Tourism and Travel Related Services which includes i) hotels and restaurants, ii) travel agencies and tour operators, iii) tour guides, and iv) other
- As of May 2009, 133 WTO Members, including 29 LDCs, had made GATS commitments in Tourism and Travel Related Services, more than in any other sector covered by the GATS
- Within the Doha Work Programme (DWP) many WTO Members are seeking more liberal commitments as significant barriers to market access persist in various sectoral segments and modes

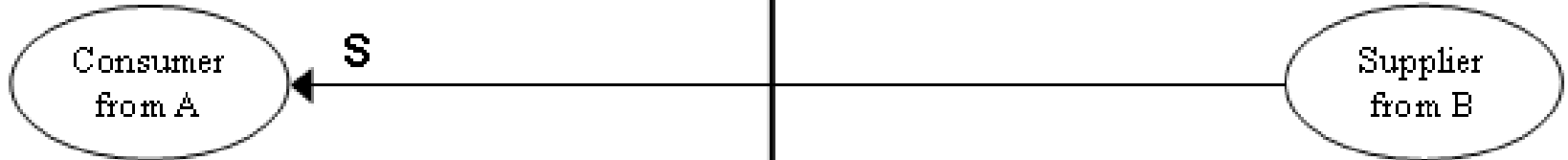
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Country A

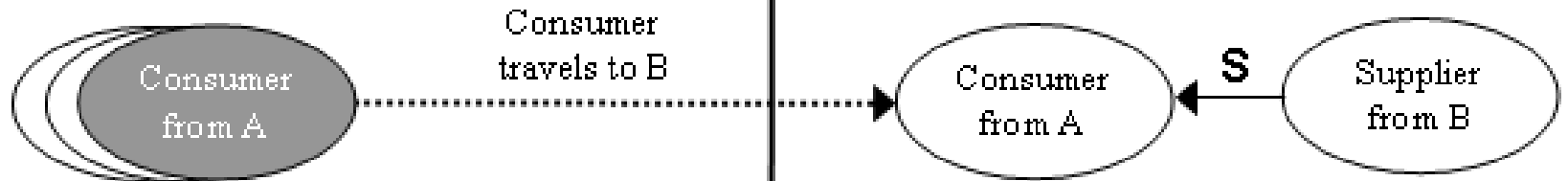
Country B

Border

**Mode 1: Cross-border supply**



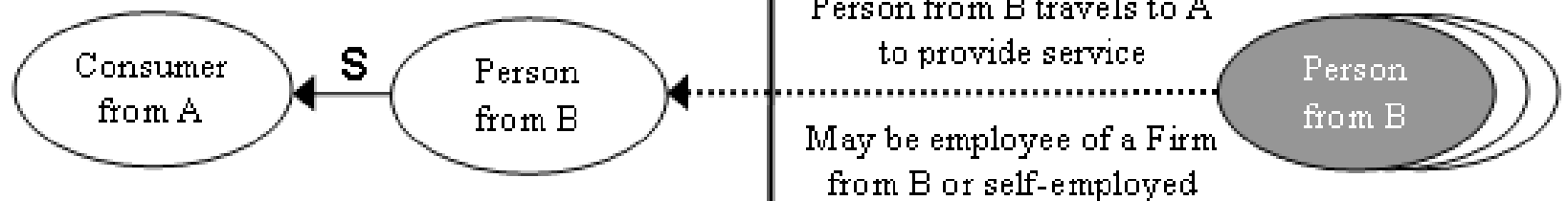
**Mode 2: Consumption abroad**



**Mode 3: Commercial presence**



**Mode 4: Movement of natural persons**



**REPUBLIC OF TERRA - SCHEDULE OF SPECIFIC COMMITMENTS**

Modes of supply (1) Cross-Border supply (2) Consumption abroad (3) Commercial Presence (4) Presence of natural persons

Sector or Sub-sector	Limitations of Market Access	Limitations on National Treatment	Additional Commitments
9. TOURISM AND TRAVEL RELATED SERVICES			
A. <u>Tourism and restaurants</u> Hotel, lodging services (CPC 6411) (star hotels only); Graded restaurants (CPC 6421-6423)**	(1) None (2) None (3) None, except only through incorporation in Terra and with maximum foreign equity capital of 51 per cent for travel agency and tour operator (CPC 7471) and 80 per cent for hotel, lodging services (CPC 6411) (star hotels only), and graded restaurants (CPC 6421-6423).	(1) None (2) None (3) None	
B. <u>Travel agency and tour operator</u> (CPC 7471)	(4) Unbound, except as indicated in the horizontal section.	(4) Unbound, except as indicated in horizontal section.	





## ***Boosting tourism through trade and cooperation agreements***

- Several regional integration initiatives specifically address cooperation on tourism
- They include regulatory cooperation aimed at facilitating Mode 4 type movement; recognition of qualifications; cooperation aimed at infrastructure building and enhancing regulatory and institutional capacity to address anti-competitive behaviour, strengthen tourism's linkages with other sectors and promote sustainable tourism development



## *Some examples of regional cooperation*

- SADC adopted a specific Protocol on the Development of Tourism in 1998. It aims to: optimize resource usage through joint development of infrastructure
- The COMESA strategy for the tourism fosters a collective and coordinated approach for regional promotion and marketing of tourism
- ASEAN countries are cooperating to promote the region as a single tourism destination and facilitate intra-ASEAN travel and freer tourism services trade



# Ways forward

## *Key issues for our discussions*

- The sector continues to be among the most dynamic in the world economy offering many development opportunities
- With strong backward and forward economic linkages tourism can stimulate broad-based growth and become a rich source of development benefits, including increased income, foreign exchange earnings, economic diversification and employment
- Effective tourism strategies, policies, regulation and enforcement mechanisms are needed, not only to generate economic benefits, but also to help prevent negative environmental and social impacts



*Tourism  
&  
Development*

UNCTAD

**Thank you for your attention**

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