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The economic impact of tourism in SIDS

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ABSTRACT

Small Island Developing States (SIDS) are faced with many challenges to economic development. Tourism is seen as a viable, and sometimes, only means of economic growth. This research compares the economic impact of tourism to seven SIDS. The research employs input output analysis, linkage analysis and a CGE model to assess the macroeconomic and sectoral impacts of increased tourism in these islands. The findings show that the transportation sector remains a key sector. The tourism income multipliers show that tourism generates a large amount of economic activity but the income that remains in the destinations is often very small. The results show that taking advantage of economies of scale maybe a way to maximize the benefits from tourism.

Introduction

The United Nations declared 2014 the Year of Small Island Developing States (SIDS). SIDS are home to vibrant and distinct cultures, diversity and heritage. Tourism is a vital sector of the economies of most SIDS. This research investigates the economic contribution of tourism to SIDS. Compared to more developed countries, often due to the paucity of data, there is relatively little research into the economic contribution of tourism in these destinations. This research moves toward addressing this gap in the literature. Small Island States (SIS) and particularly Small Island Developing States (SIDS) has been the subject of much research over the last 30 years (Briguglio, 1995; Briguglio, Archer, Jafari, & Wall, 1996; Conlin & Baum, 1995; Harrison, 2003; Royle, 2001). For many small island states, tourism has become the backbone of the economy, often when there is little other economic activity. The impacts of tourism on small islands can have a more pronounced effect of the states' and

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territories economies. Several measurements for tourism intensity have been developed and applied to small island states (McElroy & de Albuquerque, 1998). For example, tourism is the single largest earner of foreign exchange in 16 of the 30 countries in the Caribbean (Croes, 2006). In 2006, Caribbean Tourism Organization members hosted 22.2 million overnight international arrivals, who spent, in total $US 21 billion. This means destinations with less than 1% of the world's population attract approximately 3% of worldwide tourism (Croes, 2011).

The obstacles to economic growth in these SIDS can be summarized under four categories: small size; insularity/remoteness; environmental vulnerability; and socio-economic factors (Briguglio, 1995; Hampton & Christensen, 2007; Milne, 1992; Scheyvens & Momsen, 2008; Wilkinson, 1989). Small size, both in population and geographical land mass, often means there are limited natural resources. The limited natural resources results in a high propensity to import goods and services, particularly capital goods. There are limited possibilities for import substitution. As a result of these characteristics, a lot of what is consumed by tourists cannot be produced locally in either sufficient quality nor quantity (Sharpley & Ussi, 2012). Small size also means the market for domestic products is small and hence a reliance on export markets. Small size also means it is difficult for domestic industries to take advantage of economies of scale. Their remoteness leads to high transportation costs and high levels of openness to international trade. This, in turn, can result in uncertainty of supply and vulnerability to price volatility and exchange rate fluctuations.

SIDS are particularly vulnerable to environmental disasters. Noy (2009), looking at a cross-section of disasters throughout the world for the last one hundred years, finds that developing countries and smaller economies face relatively large output declines following a disaster of similar magnitude than developed countries or larger economics. This, he argues, has to do with that fact that countries with lower literacy rates, institutions with poor governance, and lower per capita income are less able to withstand a disaster shock and prevent further spillovers into the macro economy. Climate change is also estimated to have a greater impact of small island states.

Socioeconomic barriers to economic growth among SIDS include a heavy reliance on foreign aid, remittances and preferential trade agreements. Because of their insularity and geographical constraints, island states have a strong inclination for in- and out-migration (Christensen & Mertz, 2010; Guan & McElroy, 2012). These nations generally have low but variable GDP growth, high unemployment and extensive underemployment. These SIDS tend to have large public sectors that can crowd out the private sector, leading to excessive bureaucracy. At times, this has led to corruption and abuse of public office. As such, many of these island states have been termed MIRAB (Migration Remittances Aid Bureaucracy) States (Bertram & Watters, 1985). Tourism development for these States is seen as a viable alternative for independent economic growth and increased standards of living.

There is relatively little comparative research on the economic impacts of tourism, especially among small island developing states. Milne (1992) conducted an earlier study on the economic impacts of tourism for five south pacific microstates, using Keynesian multiplier analysis. This study uses input output analysis, linkage analysis and a static computable general equilibrium (CGE) model to estimate the economic contribution of international tourism on the economy of seven SIDS economies. The small islands under consideration are American Samoa, Aruba, Fiji, Jamaica, Maldives, Mauritius and the Seychelles. The list comprises small island economies in the Caribbean (Aruba and Jamaica), the Pacific (American Samoa and Fiji), and the Indian Ocean (the Maldives, Mauritius and the Seychelles). The list comprises both dependent territories such as Aruba and American Samoa as well as independent nation states. The choice of SIDS is limited by data availability. Nevertheless, to the authors' best knowledge, this is the first piece of research to analyze the economic impact of tourism of SIDS is such a systematic way using a variety of economic evaluation methods.

The paper is structured as follows: the following section surveys a sample of the literature on the economic impacts on SIDS economies. The subsequent section provides some context for the seven small island economies under investigation. The data and methodology section describe the sources of data and the features of the seven input-output and CGE models. The findings section provides a comparison of the results of the models, highlighting the similarities and differences between the small island states and territories. Lastly, the conclusions section draws out implications of the research and notes several limitations of the study.