

TOURISM AS A DEVELOPMENT STRATEGY FOR BARBADOS

by

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1. Introduction

The post-independence¹ development strategy of Barbados has concentrated on economic diversification with a focus predominantly on agriculture, light manufacturing, and tourism. As the secular terms of trade moved against primary production and a decline in the competitiveness of secondary goods occurred, sugar and manufacturing declined respectively.

By way of comparison, the other More Developed Countries (MDCs) of the Caribbean Community and Common Market (CARICOM) also pursued a policy of primary production, particularly minerals.² In 1966, Jamaica and Trinidad & Tobago had the highest per capita incomes in the region. When international recessionary conditions in the early 1980s and regional balance of payments problems created crisis situations in the region, Barbados and Jamaica intensified their tourism thrust; Guyana and Trinidad & Tobago did not. The success of Barbados' economic management strategies resulted in it earning the highest ranking among developing countries on the United Nation's Human Development Index between 1990 and 1994.

Barbados' developmental successes are grounded in its focus on the development of human resources. Given the paucity of its natural resource base, the development of human capital

¹ i.e., post-1966.

² Jamaica and Guyana, bauxite, and Trinidad & Tobago, petroleum.

was perceived as the nation's priority resource for development.³ In addition to a record of good economic management, Barbados put in place the necessary physical and social infrastructure) which served as a basis for the launch of a strong, export-oriented, services sector.

The remainder of this paper is organized as follows: In section 2, a select literature pertaining to development in Barbados is reviewed. Section 3 presents a simple model of the determinants of tourism demand and supply and shows the transmission mechanism via which tourist sector growth translates to overall economic growth. Section 4 examines tourism in the past decade 1985- present. To support the thesis of the paper some data and empirical analysis is presented in section 5 and section 6 concludes the paper.

³Successive governments since the 1950s have maintained a system of free education from the primary to the tertiary level.

2. A Brief Economic History of Barbados

In Barbados the pace of economic development over the last three decades has been quite rapid and as Worrell (1993) points out "the material basis for this economic expansion was provided by the growth of exports throughout the period". Output has fluctuated with the ability and the capacity of the foreign exchange sectors which include sugar export manufacturing and tourism.

Up until the 1970's Barbados depended almost exclusively on sugar. This sector accounted for 68% of earnings from domestic exports, 33% of GDP and provided over 15% of jobs. In the following decades with some small scale industrialization there was a conscious effort to diversify the economy based on light manufactures. At the same time tourism was accounting for 10% of GDP by 1979.

In the early 1980s economic recession hit all the major sectors and there was an overall decline in the Barbados economy of 2.1% per annum between 1981 and 1983. The manufacturing sector which performed well in the 1970s only grew by 5.3% in that triennium. Between 1983 and 1986 foreign exchange from electronic components were very high approximately 50% of earnings. With the departure of a major electronic assembly plant, the manufacturing sector was depleted.

There was growth in the economy of 3.5% from about 1986 to the end of the decade driven by tourism which had been progressively increasing as a major pillar in the Barbadian economy

by 1989 when tourist arrivals eaked. Subsequent to this in the post 1990 period the economy experienced significant decline in export earnings precipitated by the weakening of international economic activity and a consequent average decline of 3.3% in GDP.

3. Review of a Select Literature on Development Strategy in Barbados

Detailing the economic history of Barbados from 1945 to 1985, Howard (1989) underscored the importance of tourism as part of the overall development strategy for this economy. It was Howard's opinion that by 1985, "the Barbadian economy had become almost completely dependent on tourism for its survival."⁴ He was, however, careful in contextualizing his discussion by acknowledging that this increased dependence was as a result of the decline in the performance of the sugar industry, in addition to the manufacturing sector's moderate outturn. Tourism earnings generated the highest output in the hotel industry, and in other service areas, such as utilities, transport and communications.⁵ Tourism's linkages to domestic agriculture, distribution, and construction were less strong. There was significant leakage of foreign exchange earnings through importation.

⁴The ratio of tourism receipts to total GDP was close 30% and receipts to total export earnings exceeded 50% during the period.

⁵ Much of the empirical analysis in the comment has been attributed to W.E. Armstrong, S.Daniel and A.A Francis.

Employment in the tourist industry is examined as a possible contributor to the development process. Howard contended that "tourism's direct contribution to employment was not as high as that of manufacturing".

Notwithstanding he acknowledged the difficulty of measuring tourism's indirect employment impact on the economy.⁶

Worrell (1987), in his contribution on growth and stabilization located tourism emergence as a "leading sector" as early as the 1960s. Documenting its early growth, he credited the economy's strong record of output growth in the decade of the 1960s to tourism's robustness. This industry's continued strong performance in the 1970s was the consequence of a number of factors; among these were strong demand for Caribbean vacations by North Americans, facilitated by capacity expansion in the domestic accommodation sector. Worrell however pointed to "haphazard promotion, acute seasonality, amateurish management and casual attitudes to service" as weaknesses which detracted from the industry's overall development.

Despite the foregoing, Worrell concluded that

"of the leading tradeables, tourism most nearly lived up to the promise of 1970. The sector achieved good overall growth, in spite of a few years of contraction.

⁶ see D.I. Marshall(1978)

Both tourism's expansion and its difficulties owed most to external circumstances, mainly the fluctuation of national incomes in North America."⁷

Potter(1983) states that there is little doubt that tourism has done a great deal to stimulate the Barbadian economy . He emphasizes the role of tourism in the development of infrastructure such as the Deep Water Harbour in 1961 and the Grantley Adams International Airport in 1980.

Apart from this, he notes the economic contribution to GDP and foreign exchange which he cites were both greater than sugar and manufacturing in 1979.

Potter gives credit to the Government for adopting in the Barbados Development Plan of 1979-1983 a clause of "economic enfranchisement". The clause stated that the physical development strategy should be concerned with matching social and economic market strata . To this end the west coast of the island was explicitly designed for the high-priced hotels whilst the south coast were for the medium to lower price properties.

Notwithstanding the above he notes that there are still some costs. Tourism ,he cites, "places strong physical and demands on land beach and marine resources". Apart from the environment he acknowledges that there is much leakage of tourist-generated income through importation

⁷see Clarke , Wood and Worrell (1986)

of food and other items. In addition the foreign ownership of hotels and apartments represents further leakage.

4. A Simple Model of Tourism Demand

In order to lend some perspective to the growth in the tourism sector, there is need to examine the determinants of demand for the tourist product. This subject of tourism demand is rather complex, and can be discussed generally or specifically (with respect to the present example: Barbados); both approaches will be adopted here.

Unlike the usual model presentation of factors influencing tourism demand, Bull (1991) offered an approach based on (a) economic variables affecting the generating area⁸ - personal disposable income levels, holiday entitlements, value of currency, *inter alia*, (b) economic variables affecting the destination -general price level, quantity and quality of tourism products and (c) link variables - comparative prices between generator and destination, promotion effort by the destination, exchange rates and time/cost of travel. This approach absolves one from the need to classify some variables as "demand" or "supply," while leaving others "unclassified."⁹

⁸This refers to a source market - a place from where you attract tourists

⁹In addition it does not refer to economic versus gravity-based models; they are all subsumed.

A model for tourism demand can be written thus: ¹⁰

$$TA = f(Y_d, E, CPI, C, P_{gd}, T, Pr, Q_{tp})$$

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Legend

TA- Tourist output (proxied by arrivals),

Y_d- Disposable income (of the tourist)

E- Exchange rate

CPI- consumer price index

P_{gd}- Price (generator country to destination)

T- Time

Pr- Promotion

Q_{tp}- Quality (tourism product)

The above demand function for tourist arrivals is quite general, with the main arguments holding true for almost all tourist destinations. In particular some variables can make or break the development of an industry. In the case of Barbados I will discuss the marketing aspects, viz., price, promotion, place and product.

¹⁰For the purposes of this paper, the signs on the first partial derivatives of the various variables have been determined heuristically.

A good, consistent and relevant promotional campaign is vital to the sustainability of tourist arrivals. In the case of Barbados, none of its tourism campaigns has exhibited any of the above characteristics. Rather, the industry grew quite amorphously (except for a few specific initiatives). For many years, marketing expenditures per tourist by the National Tourism Organization in Barbados lagged those of other well established competitors (particularly Jamaica, the Bahamas and Bermuda). Notwithstanding this, the industry grew unabated (save for periods of international recession).¹¹

Beyond marketing expenditures, the quality of promotion is highly crucial.¹² Traditionally it has been said that Barbados has the highest repeat visitor rates (48%). This sentiment, coupled with a reliance on "word of mouth advertising" led to some complacency in the formal promotion of the island. This point is borne out in a recent survey¹³ where it states that the most important sources of information for the preparation of a trip are friends and relatives followed by travel agencies. Newspapers magazines and television advertising proved unimportant. One is therefore left to wonder if this is so because this is under-utilized.

Barbados' continued growth, with resultant improvements in the domestic standard of living,

¹¹ See Phillips(1982)

¹² Clarke, Wood and Worrell (1986) found that promotional expenditures were insignificant.

¹³ Barbados Visitor Survey 1993/94 conducted by the Caribbean Tourism Organization in cooperation with the Barbados Tourism Authority

and an extremely high import content in the absorption mix, all impacted on the domestic price of Barbados' tourism product.¹⁴ Even if high disposable incomes lead visitors to travel to the Caribbean, Barbados may not benefit significantly if its prices are out of line with those of its regional competitors. While the reputation as a high-cost destination gives Barbados a more selective tourist, the seasonal benefits of this reputation results in low accommodation rates during off-peak periods. Beyond reputation and selective demand, location works against Barbados somewhat, as it is farther than most other regional destinations.

Airfares to Barbados have been found to be a significant determinant in the pricing of Barbados' overall tourism product.¹⁵

The tourism product can be analyzed from a qualitative (non-tangibles) as well as a quantitative perspective (amount of facilities and their relative beauty). In an environment of increasing competition, qualitative aspects are crucial to remaining competitive. In this regard congestion and related negative aspects (e.g., harassment by vendors and other self-employed individuals servicing the tourism industry), and general environmental quality enter directly into the utility function of the discriminating tourist.

¹⁴Coppin (1995) has shown this to be the case, in particular with respect to the most important component of the domestic price index: food/beverages.

¹⁵Clarke, Wood and Worrell(1986) op. cit.

5. Tourism Performance: The Past Decade

Since 1985, tourism's role in the Barbadian economy has been rather uneven. In 1989, the economy recorded its highest level of tourist arrivals (461,289). In the subsequent years (1990-1993), arrivals and gross revenues declined precipitously. When one examines the demand function presented in the previous section, it is noted that key demand arguments were the cause of the decline. Inadequate marketing and increased price competition from the emerging destinations in the region¹⁶ meant that Barbados' share of the regional tourism market shrank. In addition, there were concerns that the relative quality of the hotel product was not as good as that of regional competitors. At this time the cruise and the all inclusive hotel product were being popular and Barbados benefited from the former and converting some properties in the case of the latter. It became clear that Barbados was not a leader in all-inclusives and that a concerted effort would have to be made to convert cruise passengers to long stay ones.

During this period as well the full effects of the deregulation of the US aviation industry had set in and its attendant problems affected Barbados. First and foremost was the disappearance of Eastern and Pan Am which despite costing Barbados 50,000 seats between them was missed more for its marketing muscle which greatly assisted Barbados' marketing effort.

¹⁶Emerging destinations are new destinations which are now coming to the fore, often with a new accommodation stock, competitive prices and impressive promotions.

In addition the Gulf War of 1991 particularly resulted in a decrease in demand for travel. It is more note worthy however to observe that arrivals from the US were on the decline since 1987 and that after the War was over and other destinations recovered, Barbados did not. This fact is emphasized in the market shares . Overall Barbados tourist arrivals declined by 16% over a three year period (1990-1992). This drastic decline was due to US market whose figures dropped 27% over a four period , causing that market share to decline from 33.4% to 28.5% by 1993. (CTO-BTA,1993/94) .The combined impact of these events contributed to severe weakness in the Balance of Payments situation. Barbados recorded declines in real GDP of 3.3% and 4% during 1990 and 1991 respectively; long stay arrivals declined by 6% and 9% for the same years.

This underscores the importance of tourism as a key foreign exchange earner to the well being of the Barbadian economy.

6. Data and Empirical Evidence

6.1 A Perspective on the Tourism Industry

In 1956 at the official inception of tourism in the Barbadian Economy there were 17,289 tourists .By 1989 (the peak year of arrivals) there were 461,259. In addition 337,100 came by cruise ship(see Table 1). The major source of arrivals are the US, Canada, UK and since 1980 Continental Europe especially Germany and the Scandinavian Countries.

Table 1. Tourist Arrivals by Mode of Transportation

Year	Arrivals	
	Air	Sea
1956	17,289	N/A
1966	79,104	51,593
1976	224,314	99,406
1986	369,770	145,335
1989	461,259	337,100
1990	432,092	362,611
1991	394,222	372,140
1992	385,472	399,702
1993	395,979	428,611
1994	425,632	N/A

Source: Barbados Statistical Service

Tourism in Barbados is characterized by seasonality and December 15 to April 15 is the tourist season. From the recent survey alluded to earlier the estimated expenditure differs between the “season” months and the “off season” months. The overall daily expenditure in the summer is US\$100 whilst in the winter is US\$126. Based on the overall results stayover visitors yielded US\$522million. This represents 50% of all foreign exchange reserves.

Table 2. Seasonality and Country of Origin

Year	UK	USA	CANADA	CARICOM	OTHER
1989					
Mar.	16,707	49,546	27,560	13,124	20,303
June	32,229	36,090	5,958	15,055	10,126
Sep.	40,723	31,983	8,927	20,404	11,368
Dec.	28,463	36,650	16,099	14,257	18,667
1994					
Mar.	25,901	33,212	20,645	10,165	25,819
June	34,935	22,307	8,733	13,315	18,409
Sep	33,548	27,899	8,069	17,163	22,190
Dec.	29,071	25,674	14,839	10,844	22,894

Source: Barbados Statistical Service

Table 2. Estimates of Visitor Expenditure

Year	US\$
1976	82.7
1986	338.5
1989	527.8
1990	493.5
1991	459.7
1992	462.5
1993	528.0

Source: Barbados Statistical Service

The hotel bed capacity increased significantly throughout the period from 2250 in 1963 to 11,554 in 1993. Barbados' accommodation sector comprises some 6623 rooms, 68% of which are locally owned and are low to middle income affordable properties.

The remaining 32% is foreign owned or operated (management contracts) comprises luxury hotels and villas catering to the upmarket clientele.

arrivals reveal a near perfect fit.

7. Summary and Conclusion

There is no question that tourism has made a significant contribution to the Barbadian economy.

It is often difficult to quantify fully this contribution and more important evaluate the benefits against the costs. There are environmental issues, which have negative effects that are intertemporal in nature. On the benefit side there have been foreign exchange receipts, employment(though it can be argued that after initially hiring staff the rate of job creation slows even as the number of visitors increases. It can be argued that the overall infrastructure put in place to facilitate the industry has resulted in benefits to the general population and as a result aided development.

Given the transient and capricious nature of tourism, the question of optimality remains ominous. In the case of Barbados, it is this writer's contention that in the absence of physical resources, a service becomes optimal by default. However the critical elements of effective and efficient management of human resources and innovation in product design in an ever competitive environment will determine if the Barbados' tourism industry survives in the future. Given that tourism's performance is inextricably linked to that of the overall development of the Barbados economy, a closer examination of the issues is in order, or another round of economic diversification is needed.

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Table 3. Hotel Bed Occupancy and Average Length of Stay

Year	Hotel Bed Occupancy Rate(%)	Ave. Length of Stay(nights)
1966	51.8	6.5
1976	44.7	8.5
1986	47.0	6.5
1989	62.7	7.1
1990	55.2	6.8
1991	48.3	7.0
1992	49.1	6.9
1993	51.3	7.0

Source: Barbados Statistical Service

In 1994, the tourism(the accommodation and restaurant sector) contributed 11% to GDP. Given tourism's pervasiveness in the Barbadian Economy there are a number of linkages to be made with such sectors as manufacturing , wholesale and retail and agriculture and this can revise upward the contribution notwithstanding this latest estimates indicate as much as 50 % is leaked.

6.2 Some theoretical considerations arising from the data

The study of tourism is perceived as trade in services in the international market and used by small island economies as part of an export led growth strategy. According to Kammas and Salehi-Esfahani(1992) the development of tourism could be justified using the theory of comparative advantage developed by Hecksher, Ohlin and Samuelson. they argue that given the pervasiveness of sun-sand-sea activity, small islands have an abundance of beaches good weather and therefore have a comparative advantage . Whilst the above is true , the technological gap theory proposed by Posner(1961) provides a more useful framework within which to analyze the tourism sector. It suggests that the innovating firm enjoys temporary monopoly. The firm enjoys easy access to foreign markets, then the country's exports grow but later the profits of the innovating firm encourage imitation in other countries which may demonstrate a comparative advantage in the production of the new product. Similarly a traditional destination like Barbados which possessed a comparative advantage loses it to the emerging destination. this has been borne out by the preceding sections of the paper and in the decline in Barbados' market share.

This analysis has also been extended to the literature of the destination and the resort life cycle. Here the emphasis is on the different phases of the development of the destination. Butler (1980) argues that the change in visitor arrivals to a tourism destination follows a S-shaped curve of the product cycle and he describes six stages from exploration (1956 in Barbados' case) ,development, consolidation, stagnation, and decline and rejuvenation. A plot of Barbados'