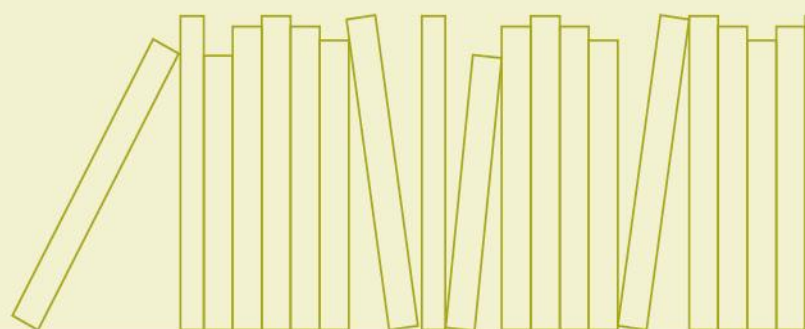


Economic Commission for Latin America and the Caribbean

## **ECLAC SUBREGIONAL HEADQUARTERS FOR THE CARIBBEAN**



# **Report of the expert group meeting on industrial upgrading and diversification to address the competitiveness challenges in the Caribbean: the case of tourism**





Economic Commission for Latin America and the Caribbean  
Subregional Headquarters for the Caribbean

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Industrial upgrading and diversification  
to address the competitiveness challenges in the Caribbean:  
the case of tourism  
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**REPORT OF THE EXPERT GROUP MEETING ON  
INDUSTRIAL UPGRADING AND DIVERSIFICATION TO ADDRESS  
THE COMPETITIVENESS CHALLENGES IN THE CARIBBEAN:  
THE CASE OF TOURISM**

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## **A. INTRODUCTION**

1. Tourism is one of the largest and fastest growing sectors of the global economy accounting for almost 10% of world employment and tourist arrivals have more than quadrupled from around 278 million in 1950 to 1,235 million in 2016. Across several Caribbean economies, particularly those driven by services, tourism is the most important economic sector with direct contribution of travel and tourism to Caribbean economies at US\$17.9 billion representing 4.8% of GDP in 2017.
2. The modern Caribbean tourism sector was developed as an important driver of economic diversification. It is structured with a specialty in mass tourism, centered on “sun, sea and sand”. Over the years, mass tourism has brought some benefits to the region, including bolstering foreign exchange earnings, employment especially of medium-level and lower skilled workers, tax revenues and earnings for farmers, taxi drivers and others. However, in recent years, Caribbean mass tourism has been losing competitiveness to other markets, especially in Asia and Latin America that provide a similar product offering.
3. The Caribbean’s share in world tourism declined from 2.5% in 2000 to 2.0% in 2013. This suggests that despite more countries in the region actively pursuing tourism as an axis of growth in the last two decades, the region’s overall share of global tourism has still fallen.
4. As the needs of the average tourist shift towards a more authentic experience embedded in the local culture, a commodity-based tourism product with little value added beyond resource endowment is not enough to satisfy this discriminating consumer. It is, therefore, critical that a thorough review, assessment, and restructuring of Caribbean tourism be conducted to meet shifting patterns of consumer demand, environmental responsibility and social inclusiveness.
5. Restructuring efforts will have to account for the fact that tourism is a complex, composite product that revolves around meeting the needs of the tourist and involves several different actors. This is because the tourism industry has now developed into an integrated global value chain with different levels of value added, governance arrangements and monetary return along its segments. The ability of tourism businesses and governments to benefit from value added in the tourism industry is directly tied to the extent these entities are able to strategically position their product in these value chains.
6. In this regard, this study aims to analyze the efforts made by three Caribbean countries – The Bahamas, Belize, and Saint Kitts and Nevis – to upgrade and diversify their tourism industries to strengthen their competitiveness in the tourism global value chain. More specifically, the primary objective is to evaluate whether upgrading and diversification is positioning the sector in these countries to make greater contribution to economic growth, foreign exchange earnings and good quality employment.

## **B. ATTENDANCE**

### **1. Place and date of the expert group meeting**

7. The United Nations Economic Commission for Latin America and the Caribbean convened an expert group meeting to discuss the findings of the study “Industrial Upgrading and Diversification to address the competitiveness challenges in the Caribbean: the case of tourism” at the ECLAC subregional headquarters for the Caribbean on 3rd May 2019 in Port-of-Spain, Trinidad. The meeting was primarily conducted via WebEx.

## **2. Attendance**

8. Representatives from the following institutions participated in the EGM: Ministry of Tourism, Bahamas; Ministry of Tourism, Belize; Ministry of Tourism, Saint Kitts and Nevis; Belize Chamber of Commerce; Belize Tourism Board; and UWI Consulting Inc.

9. The meeting was chaired by the Deputy Director of ECLAC's subregional headquarters for the Caribbean, Mr. Dillon Alleyne. The study findings were presented by the Economic Affairs Officer, Michael Hendrickson of the EDU.

## **3. Agenda**

- Welcome remarks and introduction  
Dillon Alleyne, Deputy Director, ECLAC subregional headquarters for the Caribbean
- Overview and presentation of the study  
  
Michael Hendrickson, Economic Affairs Officer, Economic Development Unit, ECLAC subregional headquarters for the Caribbean
- Plenary discussion on presentation and study  
  
Dillon Alleyne, Deputy Director, ECLAC subregional headquarters for the Caribbean
- Closure of the meeting  
Dillon Alleyne, Deputy Director, ECLAC subregional headquarters for the Caribbean

## **C. OUTLINE OF PROCEEDINGS**

### **1. Opening of the meeting**

10. Opening remarks were made by the Deputy Director of ECLAC subregional headquarters for the Caribbean. During these remarks, emphasis was made on the importance of tourism to the development of the region. Reference was made to how the achievement of Sustainable Development goal 8.9, which speaks to devising and implementing policies to promote sustainable tourism which creates jobs and promotes local culture and products, feeds into the diversification debate.

11. Following these statements, the Deputy Director introduced the study presenter, the Economic Affairs Officer of the Economic Development Unit.

### **2. Overview and presentation of the study**

12. The presentation of the study opened with an overview of the tourism performance across the three study countries; The Bahamas, Belize and Saint Kitts and Nevis. Analysis was provided on stopover arrivals, average room rate, hotel occupancy, and cruise ship arrivals. Overall, it was determined that The Bahamas had experienced improvements in the cruise subsector while stopover arrivals were declining with slight improvements in recent years. For Belize, performance in the tourism industry continues to improve with the average room rate increasing over time. They have also found themselves in a unique space in the Caribbean given that they are currently in the discovery phase of their tourism industry. This has offered

them the opportunity to focus on lessons learned from other markets. For the Saint Kitts and Nevis economy, it was determined that stayover arrivals remain sluggish.

13. In the area of economic upgrading<sup>1</sup>, countries have primarily focused on enhanced product and process upgrading, utilizing core and periphery strategies. Core strategies which include modernizing accommodations; improving the quality of foods and beverages; certification and standards; and rejuvenating the core product of “sea, sun, and sand”. While periphery strategies entail strengthening the linkages between the core tourism product and supporting sectors and activities, including agriculture, handicraft, sports, and culture and entertainment among others.

14. Study findings indicate that there was recognition among the three target countries of the need for upgrading and diversification of the tourism products. The Member States have therefore employed some common core strategies as well as country-specific (periphery) strategies towards upgrading and diversifying their product.

15. Periphery strategies employed for Bahamas include greater focus on culture and sports tourism. For Belize, focus was placed on developing it as an eco-tourism destination with bird watching, dive and other environmental activities. Consideration is also being given to incorporating farm and other forms of tourism. On the other hand, Saint Kitts and Nevis has been pushing for further development of its yachting industry.

16. A comprehensive overview of several upgrading methods and current and potential utilization strategies for each target country was reviewed. These include upgrading methods in the areas of product, process, social, human capital, and the environment.

17. In the area of economic upgrading, it was determined that all three target countries would benefit from growth in market share. Despite increased participation in tourism across the Caribbean, there has been slippage in market share.

18. In terms of product upgrading<sup>2</sup>, it was suggested that The Bahamas consider using small and medium-sized businesses to facilitate Caribbean visitors who are typically less willing to spend on high end products usually offered in the Bahamian market. Attention is also being given to ensuring that their properties have been certified. In Belize, upgrades are being made to heritage sites, improving bathroom and electricity amenities, and strengthening transport networks. As the only English-speaking country in Central America, they have also been working towards attracting more visitors from surrounding countries such as Mexico. There is, however, need for certification to maintain the standards demanded by their visitors. Saint Kitts and Nevis have invested significantly in the cruise ship subsector. Hotels such as Kittitian Hill have also emphasized sourcing inputs from local markets. While they offer a good model for pursuing sustainable tourism, there needs to be more careful calibration of the benefit and the carrying capacity of the island.

19. While each study country has begun implementing strategies towards process upgrading<sup>3</sup>, there is more work to be done. In Belize and Saint Kitts and Nevis, there are initiatives to promote the use of ICT

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<sup>1</sup> Economic upgrading was defined as improving the productivity, value added, efficiency of production and the skill and technological intensity of products and services with the aim of increasing their competitiveness on local and international markets.

<sup>2</sup> Product/ service upgrading in the countries is based on a range of strategies and actions that are taken to improve the quality and uniqueness of the tourism product and experience along the value chain from source market to the given destination country.

<sup>3</sup> Process upgrading involves firms increasing their share of value added in existing GVCs through better organization and internal processes with the use of better technology and management systems.

to improve efficiency in areas such as the front desk, housekeeping and other services. However, there is need for operators to improve supply chain management; global companies such as Expedia and Orbitz are capturing the booking market while local hotels are not benefiting monetarily.

20. Tourism operators were recommended to consider human capital upgrading<sup>4</sup> with emphasis should not only be given not only to developing hard skills but also to soft skills that offer consumers a more quality product. In terms of social upgrading<sup>5</sup>, both Belize and Saint Kitts and Nevis have had significant growth in employment but minor growth in wages. The Bahamas, on the other hand, has neither had growth in employment nor growth in wages. Therefore, there is need for much more effort towards increasing competitiveness through growth in wages. This can be achieved through increased training and productivity. Employees can better command high wages if productivity is increased.

21. Environmental upgrading<sup>6</sup> is an area that requires some focus in order to develop the tourism sector in the Caribbean. Fortunately, the study countries have begun working towards environmental sustainability. This has certainly been the case in The Bahamas, where much attention has been given to the conservation of the wetlands and mangroves. Belize, with its range of land and coastal ecosystems, has been able to generate a boost in the tourism through environmental activities. Saint Kitts and Nevis has also focused strongly on environmental sustainability, improving public awareness and facilitating waste management and water conservation, winning a global World Travel and Tourism Council sustainable tourism award. However, much can still be done in terms of sharing information to better improve environmental upgrading.

22. Member States have also been exploring new niche tourism products to attract new clientele and tap into new markets. The Bahamas has been pursuing market diversification by making a thrust into sports tourism and exploring offering new attractions such as the deep blue on Long island. While Belize has focused on “sun, sea, and sand” tourism, there has been greater effort towards diversifying the tourism product towards the mainland through eco-tourism, diving, adventure, and leveraging opportunities in their Mayan communities.

23. The presentation concluded with a reminder on the importance of tourism entities increasing their participation in studies such as this one to ensure that decisions to upgrade and diversify the sector are based on evidence. For this study, the scope was limited by the low participation rate in the study survey. More needs to be done to curtail this trend.

### **3. Plenary discussion**

24. The representative from Belize expressed gratitude for ECLAC’s work on the study and found the information produced to be useful to tourism development initiatives being conducted in Belize. Efforts on the part of the Ministry of Tourism to upgrade the tourism industry were also outlined. These efforts include updating its tourism policy, developing a responsible tourism plan including a transportation master plan focused on airlift and infrastructure. The Ministry is currently working on developing a link between the agricultural sector and tourism including an investigation on how much local products are being consumed by hotels.

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<sup>4</sup> Human capital upgrading involves upgrading the tourism product through improvement in the quality of personal service and human interaction.

<sup>5</sup> Social upgrading is defined as the process of improving the wages and working conditions and wellbeing of workers in the sector by increasing their skills, technological knowledge and “know how” and organization of work.

<sup>6</sup> Environmental upgrading refers to measures to improve the producers’ environmental performance by reducing the consumption of energy, water, and other resources, and eliminating waste in production processes to reduce their overall environmental impact of the sector.

25. Other initiatives of the Ministry of Tourism in Belize include developing a renewable energy program for hotels, establishing building codes and reaching out to indigenous communities to develop heritage sites. There has also been focus on improving industry standards for high risk activities such as diving and ziplining and monetizing their website. The Ministry has begun accepting guest information online and is now moving towards online licensing and registration. Finally, the representative emphasized the need to upgrade the infrastructure across the country.

26. A representative from Saint Kitts and Nevis indicated that the Ministry of Tourism has begun considering several recommendations proposed in the study. Most importantly, they are working on the development of a new tourism strategy as they approach the end of the 5-year cycle of the last tourism development strategy. There have also been efforts to develop the community's contribution to tourism through training workshops on microbusiness and ecological and heritage tourism. UNESCO workshops have been organized to benefit public and private sector workers. As part of their youth development thrust, officers in the Ministry of Tourism have been conducting outreach at schools to reach the future workforce and sensitize them on the needs within the tourism sector.

27. The representative from Bahamas expressed appreciation for the study and indicated that it gives the Ministry the impetus to develop a national development plan for tourism aimed at maintaining Bahamas' competitiveness. There was also an offer to share additional information on sustainable tourism from the Bahamas perspective to strengthen this aspect of the study.

28. The representative from UWI Consulting Inc., noted that the study was an important contribution to the Caribbean tourism literature. He spoke to the limitations of using indicators such as arrivals and occupancy levels to assess performance in the tourism sector. Instead, he encouraged the use of more informative indicators such as net value added, earnings on online platforms, and share of local food consumption by tourists. It was further suggested that individuals conducting tourism research should endeavor to develop more useful benchmarks to examine regional performance over time.

29. The meeting noted that Caribbean tourism was not leveraging well the four modes of supply in services trade. These modes are cross-border trade (Mode 1), consumption abroad (Mode 2), commercial presence (Mode 3), and temporary movement of natural persons (Mode 4). Across the Caribbean, much focus has been placed on Mode 2, which involves attracting visitors from other destinations to consume services provided by hotels, tour operators, historical sites and other providers. However, other modes are becoming increasingly important, and the region needs to position itself to capture market share in them.

30. Caribbean tourism businesses supported by governments need to explore opportunities in two other critical modes: cross-border supply and commercial presence. Regional businesses need to undertake the market research and investment necessary to provide cross-border services such as online travel services, consultancy and other e-services. The rapidly growing share of the market that is captured by large online platforms such as Expedia and Priceline points to the importance of this segment. There are also opportunities for commercial presence/setting up businesses in major markets in Europe and North America. Goddard Enterprises from Barbados for instance, has captured an important share of the food provisioning for airlines and Sandals has made a name for itself in the honeymoon and all-inclusive segments. It was highlighted that countries such as Saint Kitts and Nevis have been diversifying into other modes. For example, they have been exploring opportunities for local employment on cruise ships.

31. Participants raised concerns and offered suggestions related to assessing tourism performance and promoting its development. Concerns were raised on whether the ownership structure of some multinational hotels affect the purchasing strategy and their consumption of local content. It was also noted that while cruise ship facilities may be politically important, investment returns may be low.



Finally, Member States were encouraged to examine the cost associated with the economic impact of the environmental effects of tourism.

32. ECLAC was encouraged to explore the expenditure contribution of different types of tourist to Caribbean economies. For example, educational tourism may contribute more to expenditure than leisure tourism while more investment is allocated towards leisure tourism. In addition, it was strongly recommended that new metrics be developed to better assess the performance of the tourism industry. This being necessary as member States lack the resources to conduct this type of research.

#### **4. Closing remarks**

33. In closing, the Economic Affairs Officer thanked the participants for their inputs and encouraged them to forward any additional material that would be useful towards strengthening the study. Closing remarks were made by the Deputy Director who reiterated these sentiments and reminded participants of the process to request further research from ECLAC on tourism upgrading and diversification.

Annex I**LIST OF PARTICIPANTS**

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