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Tourism Growth in the Caribbean

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Tourism Growth in the Caribbean: The Role of Competition

Padamja Khandelwal

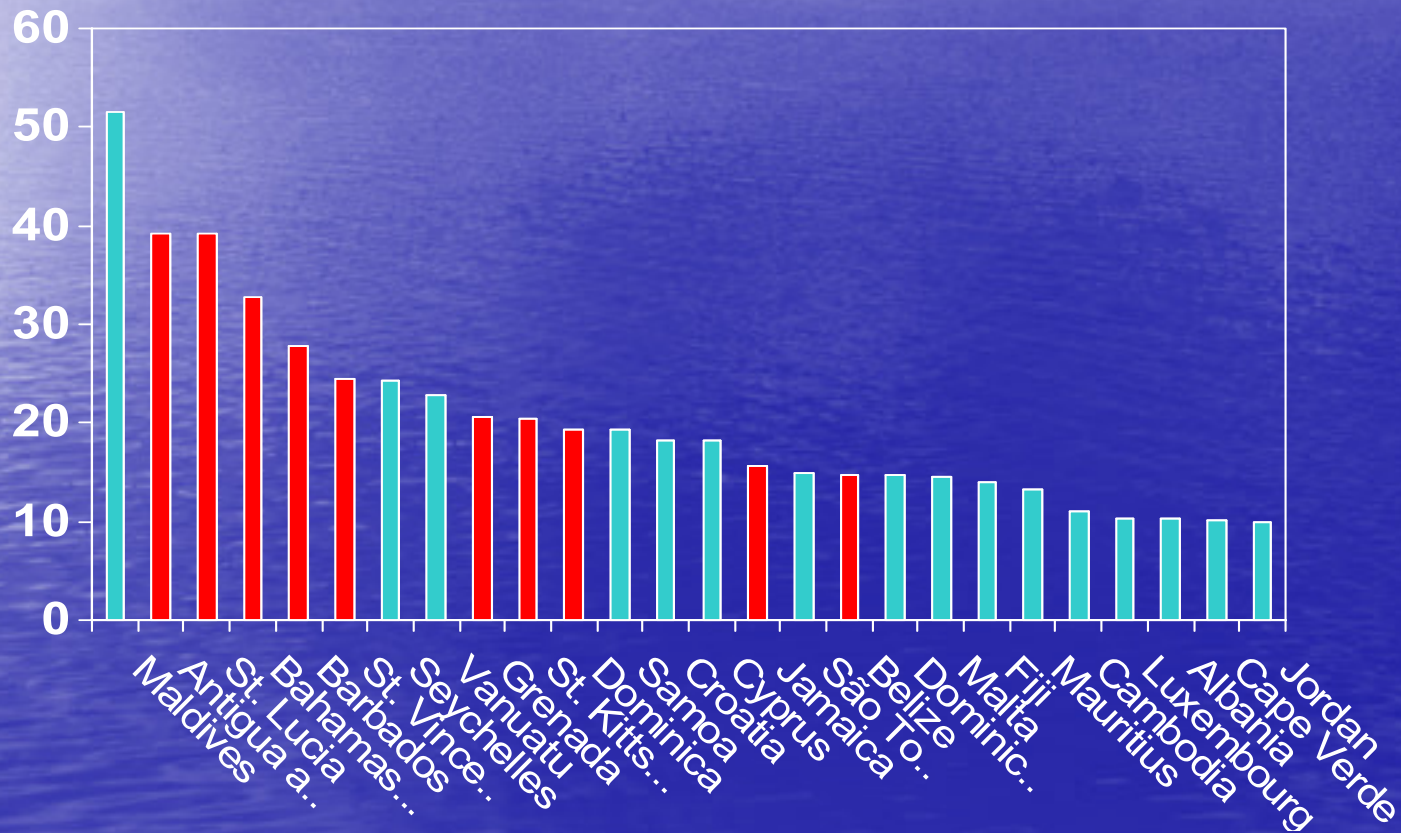
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Caribbean countries are among the most tourism intensive in the world

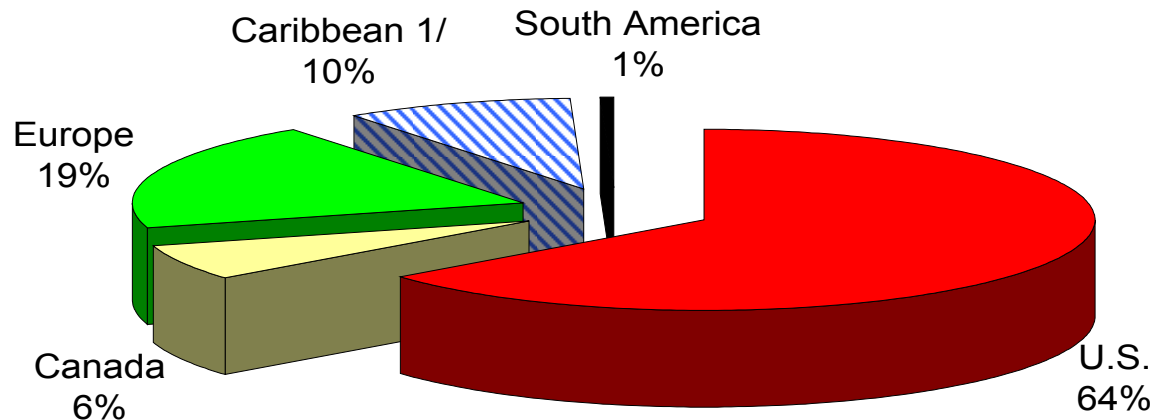
Average Travel Receipts, (in percent of GDP)



Source: IMF, International Financial Statistics.

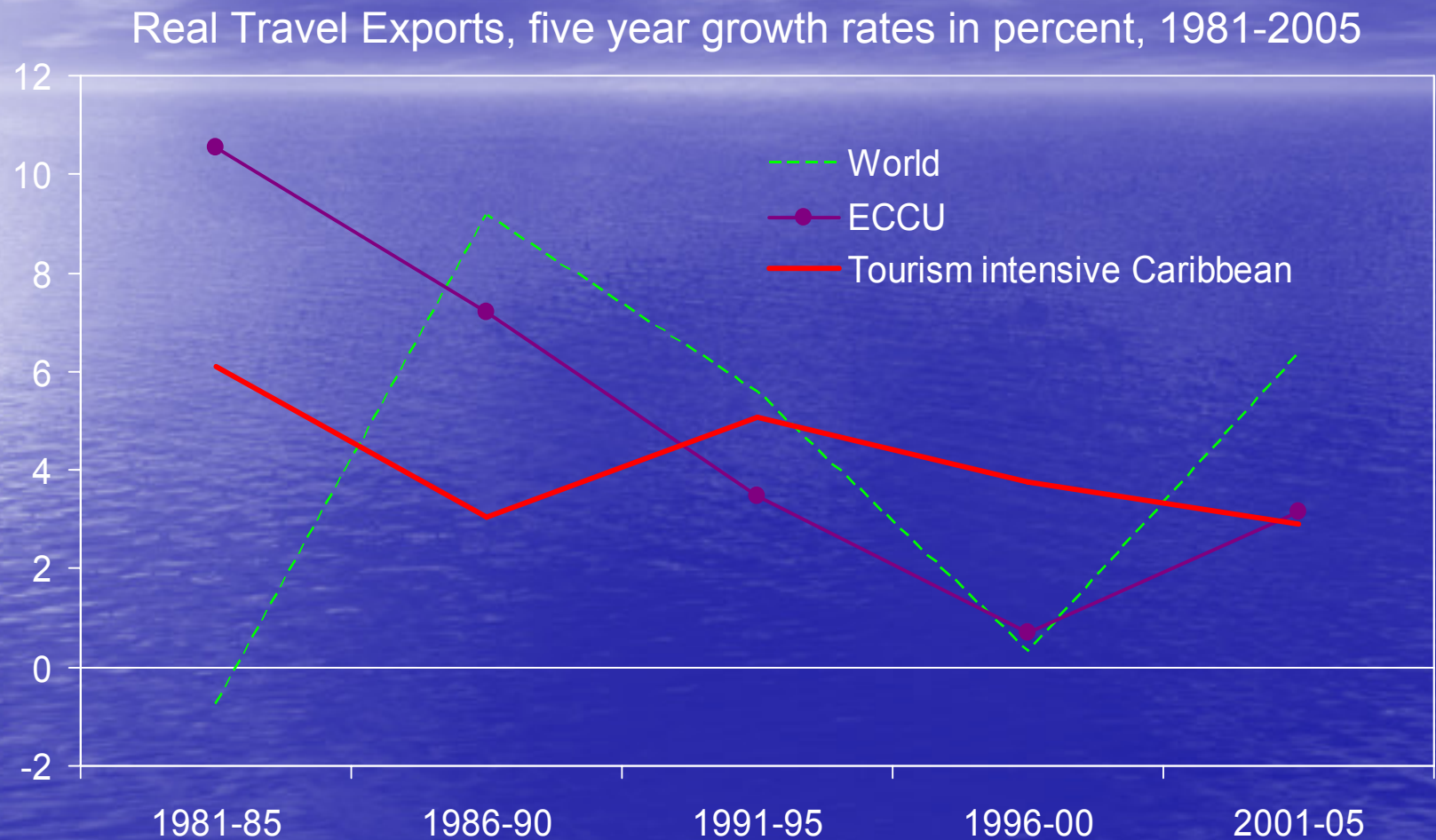
The Caribbean is dependent on a few markets

Share of Caribbean Tourist Arrivals by Market of Origin,
Average 2000–2004
(In percent of total tourist arrivals to the Caribbean)



Source: Caribbean Tourist Organization.
1/ The Caribbean market of origin includes the wider Caribbean.

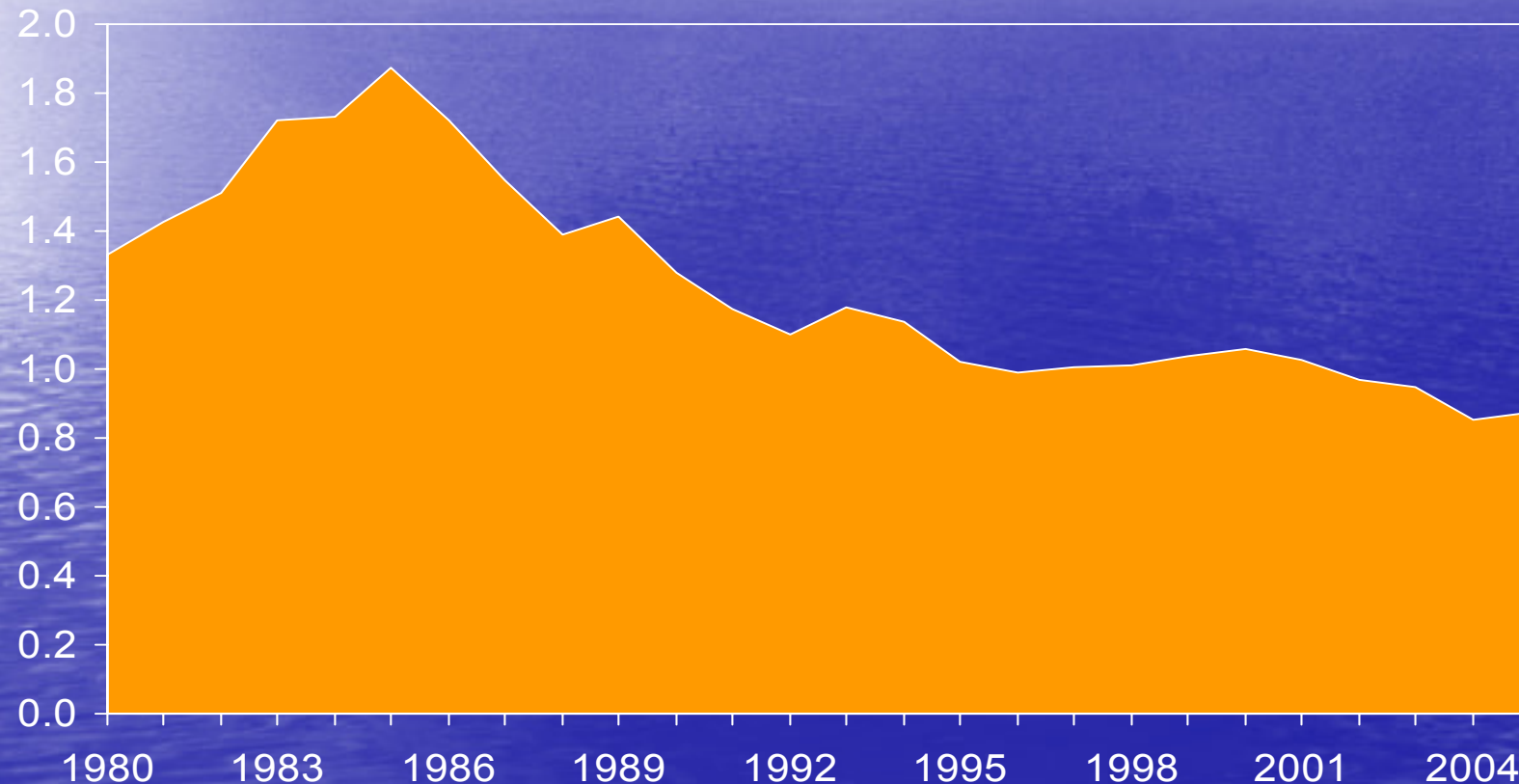
Caribbean tourism growth has slowed



Source: IMF, International Financial Statistics; and Fund staff calculations.

Caribbean market share in tourism has declined since the mid-1980s

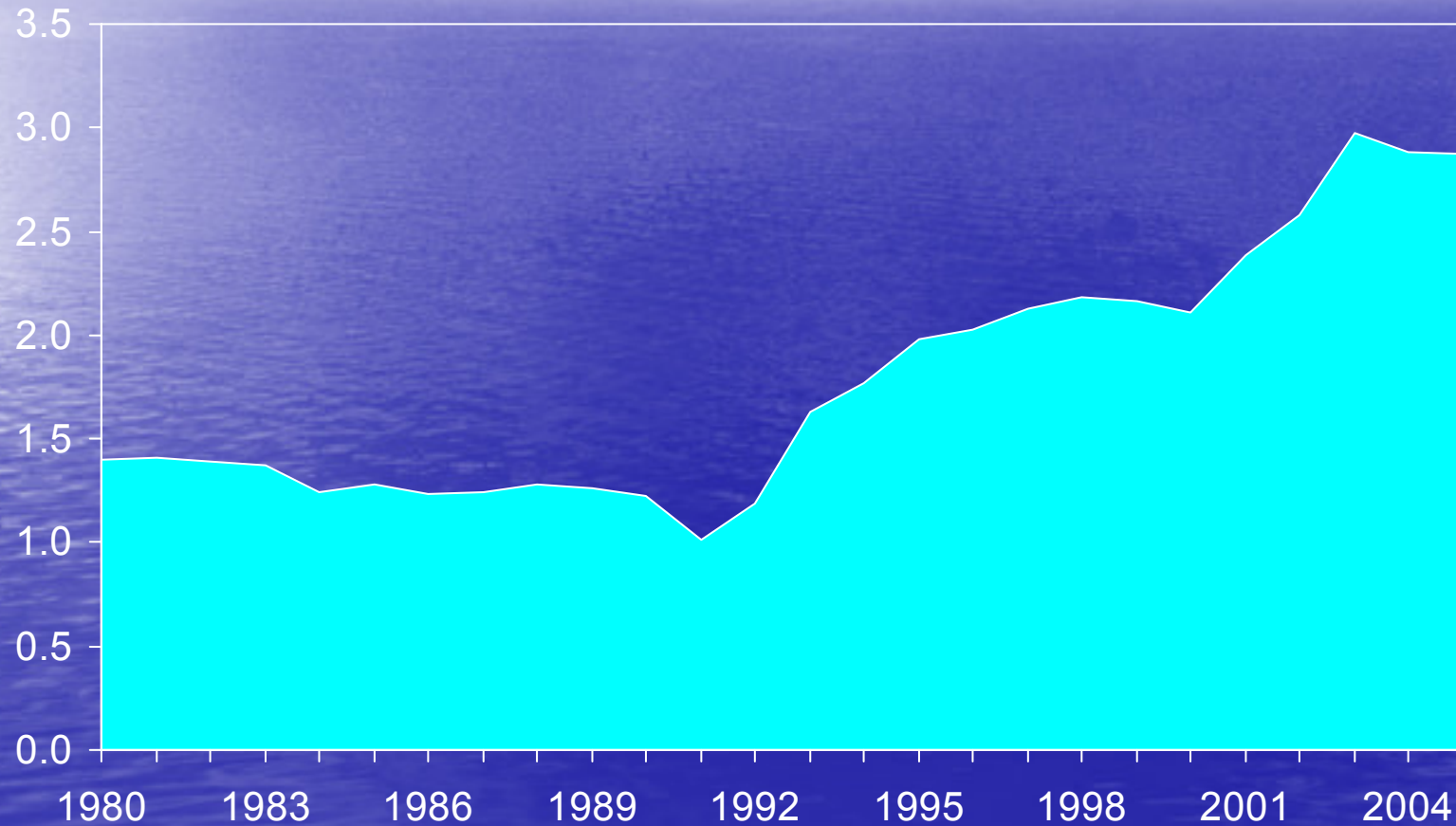
Market Share of Caribbean (In percent), 1980-2005



Source: IMF, International Financial Statistics; and Fund staff calculations.

Market share of other tourism intensive countries has doubled

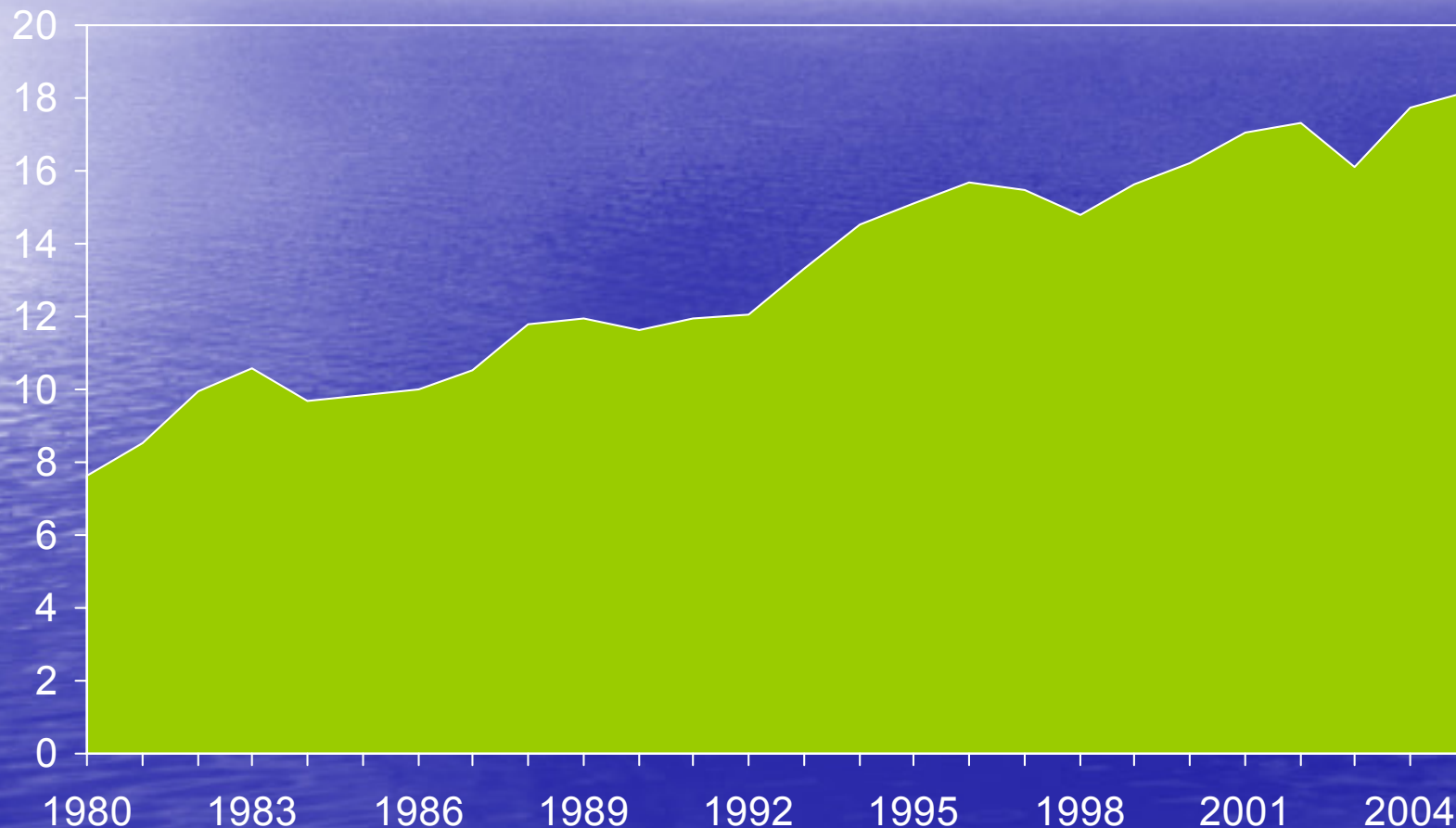
Market Share of Other Tourism Intensive Countries (In percent), 1980-2005



Source: IMF, International Financial Statistics; and Fund staff calculations.

Market share of East Asia-Pacific region has doubled

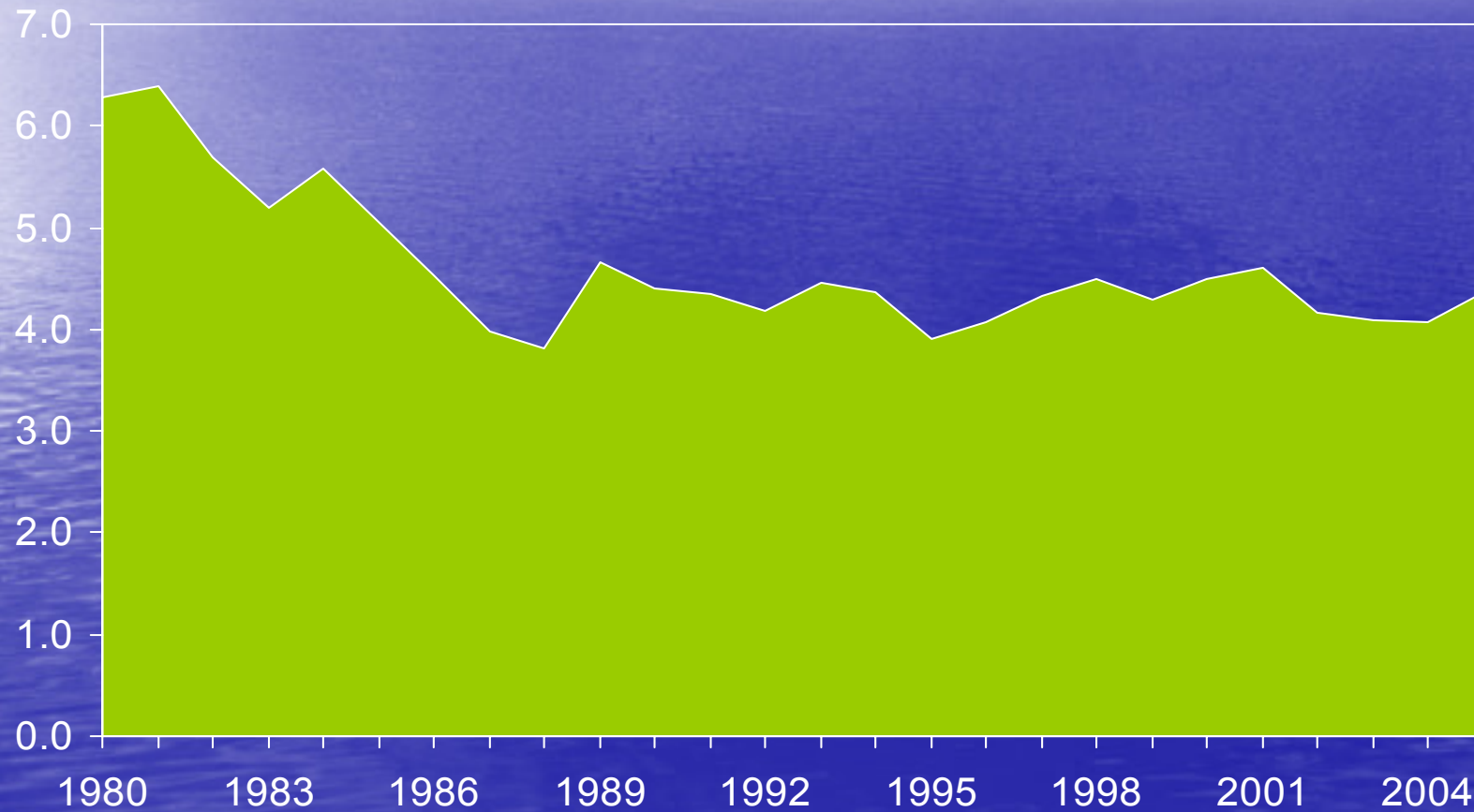
Market Share of East-Asia and Pacific Countries (In percent), 1980-2005



Source: IMF, International Financial Statistics; and Fund staff calculations.

Market share of South-Central America and Mexico has declined

Market Share of South Central America and Mexico (In percent), 1980-2005



Source: IMF, International Financial Statistics; and Fund staff calculations.

Research Question

What factors are responsible for the decline in Caribbean tourism growth rates since the mid 1980s?

- Rise of new tourism destinations
- Price competitiveness

Literature

- Competition Literature

- Freund (2006)
- Ahearne, et. al. (2003)
- Lall, Weiss, and Oikawa (2005)
- Dimaran et. al. (2007)
- Lederman et. al. (2007)

- Tourism Demand literature

- Tsounta (forthcoming), Mwase (forthcoming)

Empirical Approach

- Panel with country-specific fixed effects (Freund, 2006, and Ahearne et. al., 2003)
- Annual data – 1986-2005
- Dependent variable: travel exports growth for 10 tourism intensive Caribbean countries.
- Control Variables: September 11, Natural disasters

Empirical Approach

Independent variables:

Percent change in the travel weighted REER – measure of price competitiveness

Real FDI – measure of supply factors

Real travel exports growth from Dominican Republic

Real travel exports growth from non-Caribbean tourism intensive countries.

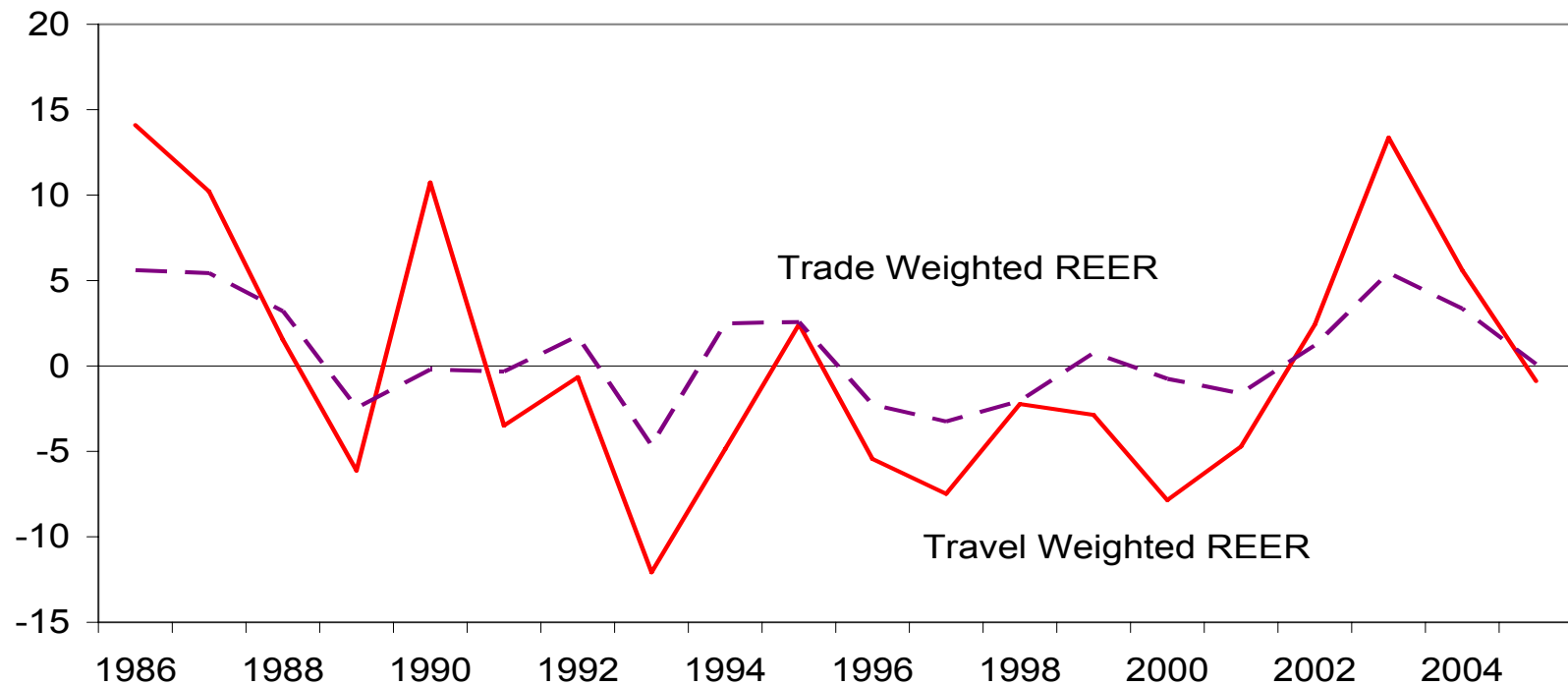
Real travel exports growth from South-Central America and Mexico

Real travel exports growth from non-tourism intensive east Asia-Pacific

Weighted real travel imports growth from U.S., Europe, and Canada – measure of demand factors

Travel weighted REER more volatile than traditional measure

Tourism Intensive Caribbean: Real Effective Exchange Rate
(Annual Percent Change)



Sources: IMF, Information Notice System; and Fund staff calculations.

Note: An increase signifies a depreciation.

Regression results

Competition in Tourism Intensive Caribbean Countries
(Dependent variable: Travel Exports Growth, 1986:2005)

	Panel fixed effects		FD-GMM	
	Coefficient	P-value	Coefficient	P-value
<i>ΔREER</i>	0.001	0.030 **	0.006	0.037 **
<i>Real FDI</i>	0.000	0.849	0.000	0.910
<i>Travel X</i> _{Dominican Republic}	0.084	0.042 **	-0.034	0.811
<i>Travel X</i> _{Other Tourism Intensive}	0.094	0.391	0.049	0.894
<i>Travel X</i> _{South-Central America and Mexico}	0.394	0.000 ***	0.375	0.077 *
<i>Travel X</i> _{Non-tourism intensive Asia-Pacific}	0.033	0.784	0.121	0.800
<i>Travel M</i> _{major markets}	0.212	0.000 ***	0.364	0.005 ***
<i>Sept 11</i>	-0.038	0.038 **	-0.076	0.167
<i>Natural Disaster</i> _t	-0.002	0.801	-0.009	0.622
<i>Lagged dependent variable</i>			0.138	0.001 ***
C	-0.002	0.743		
No. of Obs.	200		199	
R-squared	0.54			

Note: Real data for all the travel series are in growth rates.

Robustness checks

- Hausman test
- Redundant fixed effects test
- Sargan test statistic on FD-GMM estimates
- Errors do not have unit root

Interpretation and Conclusions

- Price competitiveness is an issue
- Elasticity with respect to major markets is low, relative to previous estimates.
- Travel to the Dominican Republic and South-Central America and Mexico is complementary, not competitive.
- Other tourism intensive countries, and east-Asia Pacific destinations do not seem to have had an impact on Caribbean.