



**Economic and Financial Linkages in the Western Hemisphere  
Seminar organized by the Western Hemisphere Department  
International Monetary Fund  
November 26, 2007**

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## **Tourism Growth in the Caribbean**

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Presented at the Economic and Financial Linkages in the Western Hemisphere  
Seminar organized by the Western Hemisphere Department  
International Monetary Fund  
November 26, 2007

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# Tourism Growth in the Caribbean: The Role of Competition

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## Two key stylized facts

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- Caribbean tourism growth has declined by about half since 1980s
- Caribbean market share in world tourism has declined by 0.5 percentage points since 1980s.



# What the paper does and main findings

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- Paper tries to explain the two stylized facts
- Panel regression framework
- Main results
  - Real exchange rate appreciation significant in explaining the decline in tourism growth rate.
  - No evidence for competition from other destinations



# Important contribution

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- Paper addresses an important question with “potentially” significant policy implications.



# Are the magnitudes *quantitatively* important?

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- Is the decline in 5-year travel export growth rates from 6 to 3 percent over 1981-2001 quantitatively significant?
  - How does it compare to growth in trade in goods?
  - Useful to show trends in levels of travel exports (in dollars) or in percent of GDP; what does the decline in growth mean in dollar terms.
  - Share of labor force employed in tourism sector and how has it changed over time with declining growth rates



# Regression framework – omitted variable bias

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- Changes in travel costs – e.g. decline in airfares from US to Asia could divert American tourists
- Changes in lodging costs – greater competition in hotel industry in other destinations
- Economic growth interest rates in the US
- In general, global time varying shocks – omitted variable bias (2001 dummy important but not sufficient)



# Regression framework - general

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- Clustered standard errors (correlated errors over time since using high frequency data)



## Regression framework - no evidence for competition?



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- Serious reverse causality issues – tourism growth in Caribbean and other destinations.
  - Estimates could be biased upwards
  - GMM based on a rich set of assumptions – no second order autocorrelation in the error and initial conditions
  - IV strategy – try lagged growth rates to start with.



# Regression framework (contd)

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- Could try a gravity model approach (similar to trade) –
  - Used extensively in international economics literature – extended to capital, labor and aid flows
  - Trade b/w two countries as a function of distance between the two countries and population and additional controls.
  - Capture bivariate trade in services relationship
  - Can better control for conditions in exporting and importing countries; and ROW.



# Policy implications

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- Need to be spelled out
  - Is the exchange rate overvalued?
  - Other factors hindering the growth of tourism sector
    - Hotels
    - Security situation e.g. in Jamaica