



Opening up Trade in Services: Key for Tourism Growth

How does tourism affect the economy?

How to improve tourism-related services?

Have pension, will travel?

What can governments do?

How can international agreements help?

For further information

For further reading

Where to contact us?

Introduction

Tourism is one of the world's largest and fastest-growing industries and its importance for economic development is widely acknowledged. What makes tourism different from many other services is that the supplier stays where he is, and the tourist comes to him rather than the supplier taking his services to the consumer. Tourism can thus play a key role in poverty alleviation, bringing jobs for unskilled or semi-skilled workers in hotels, resorts and at cultural sites, as well as encouraging job creation in supply industries.

These are all critical contributors to growth in developing economies. But if tourism is to offer a sustainable path to poverty alleviation, policies are needed to ensure that the benefits are shared and spread to poor communities, and that measures are taken to minimise the adverse impact of tourism on the environment.

The importance of the tourist sector is reflected in the relatively liberal environment currently in place in most countries. Nearly 130 World Trade Organization (WTO) members have made commitments to open up their tourist sector, more than for any other service sector, reflecting a desire to expand tourism and attract foreign direct investment.

But there is still a great deal of scope for developing countries to expand tourism and the opportunities it offers for socio-economic development. One factor restricting such growth is a lack of adequate services and infrastructure, such as transport, telecommunications, financial services, or electric power and sewage treatment facilities. Any country wanting to boost its tourism industry also needs to be able to build hotels, provide an adequately educated and trained workforce, and advertise for tourists.

Opening up markets to trade in services and investment, could substantially contribute to the development of tourism. But any market opening needs to be properly designed and implemented, taking account of the social and environmental impact, if sustainable tourism and growth are to be achieved.

This *Policy Brief* looks at the importance of market reforms in services for tourism development. ■

How does tourism affect the economy?

The tourism sector has suffered from a lack of political and popular support in many countries because its economic importance has been underestimated. The industry and its impact can be difficult to define and measure since it comprises sellers of many heterogeneous products. The WTO’s General Agreement on Trade in Services (GATS) offers a relatively limited definition of tourism, which excludes a number of related services such as computer reservation systems, cruise ships and many other transport services, or hotel construction. International efforts to improve measurement of the economic impact of tourism led to the development of the Tourism Satellite Account (TSA), which attempts to provide a credible measure of the true contribution of tourism to a national economy.

Broadly defined, tourism could be regarded as one of the world’s largest and fastest growing industries. According to the World Travel and Tourism Council (WTTC), an organisation made up of executives from the travel and tourism industries, the contribution of travel and tourism to worldwide gross domestic product (GDP) will rise from 10.3% (USD 4,9 billion) to 10.9% (USD 9 billion) between 2006 and 2016.

The sector is a major direct employer and supports a much wider indirect employment base in supplying industries. Employment is estimated by WTTC at 234 million jobs in 2006, 8.7% of total worldwide employment or 1 in every 12 jobs. Direct employment growth in 2005 was estimated at 2.1 million new jobs, 6.5 million counting indirect job creation. Tourism is a key export for many developing countries and a crucial (often the leading) source of foreign exchange.

Box 1.

TOURISM CONSTRAINTS AND POLICY RESPONSES IN MOZAMBIQUE AND INDIA

Country	Constraint	Policy response and effects
Mozambique	Limited international air access, no provision for charter flights, inadequate domestic air transport network. Air fares account for 40% of a short holiday package.	Domestic reforms allowed new carriers to compete with the national flag, LAM but international reforms have yet to be implemented.
	Short supply of accommodation, with complex and expensive process for accessing land.	Accommodation still requires action but the problem has been recognised. The 2003 <i>National Tourism Policy and Implementation Strategy</i> calls for promoting access to land.
	Difficulties in securing financing and high cost of bank credit deter new investors.	Reforms recently introduced. By early 2007, 13 banks, including many foreign, were in operation (up from 3 in 2004), leading to an increase in bank credits for tourism by almost 140% between 2004 and 2006.
	Unreliable and high cost utilities. Tour operators supply their own power at a premium of some 240% above public tariffs.	Ambitious reforms in fixed and mobile services, leading to expanded connectivity. Gradual introduction of private participation in energy, with a pilot project in Inhambane Province with high electricity demand for tourism. Early indication of success.
	Inadequate tourism marketing and critical need for better trained personnel in the industry.	The strategic planning process calls for ways to address these issues, building on the relative strengths of the public and private sectors and the establishment of a conducive investment framework.

Tourism is also a complex industry. It can generate significant economic activity through linkages with other industries, such as agriculture, manufacturing and other services. Tourism can boost demand for goods and services – food, construction, transport – from other sectors; the tourism industries that sell goods and services to tourists can also sell products to businesses in other sectors. OECD analysis finds that tourism is linked in this way to more other industries than the average services sector, suggesting that tourism may be one of the most interconnected services sectors in many economies.

In India, for example, tourism is perhaps one of the most interconnected services sectors in the economy. It is one of the largest sectors in terms of demand for goods and services from other sectors (“backward linkages”), surpassed only by manufacturing, the electricity sector, health and social work, and non-tourism-related air transport, hotel and restaurant activity. Indian tourism is also above average in generating supply of goods and services to other sectors (“forward linkages”). ■

How to improve tourism-related services?

Access to an adequate supply of goods and services can be vital to developing a successful tourism sector. If food, building materials, electricity supply or a trained workforce are in short supply or expensive, it can hamper the growth of tourism. A range of bottlenecks have been identified in developing countries that need to be addressed to strengthen backward linkages and unleash growth in the sector. Building service capacity figures prominently on the list (see Box 1).

Box 1. (cont.)

TOURISM CONSTRAINTS AND POLICY RESPONSES IN MOZAMBIQUE AND INDIA

Country	Constraint	Policy response and effects
India	Restrictive air transport policies and capacity constraints of Air India. Insufficient airport capacity.	Steps to privatise Air India and open domestic routes to new carriers. Open skies pursued and signed with Australia and the US. Resulted in more airlines operating domestically and internationally, greater private participation in airports and a boost in demand.
	National deficit of hotel rooms.	Opened FDI in tourism and took steps to improve land availability. In 2005 the Ministry of Tourism proposed to the State Governments to identify hotel sites and make them available on suitable terms. As a result, at least 50 non-Indian hotel chains planned to enter the market as of April 2007.
	Inadequate access to investment capital.	New reforms were introduced in 2005. Foreign banks are allowed to establish a wholly owned subsidiary (WOS) or convert existing branches into WOS.
	Limited promotion and marketing compared to Asian neighbours.	Promotional expenditure for tourism significantly increased since 1999/2000. The Government acknowledged the importance of increasing public-private partnerships in tourism marketing.
	Inadequate national training and education in the hospitality and catering services and more generally in the tourism industry.	Creation of the Advisory Tourism Board charged with providing policy guidelines in tourism training. 21 Government-run Hotel Management and Catering Technology Institutes and 14 Food Craft Institutes were established. The Government also recognised that more needs to be done including by promoting partnerships with the private sector.

For starters, transport services and in particular the air transport sector are key; access to destinations at reasonable prices is a precondition for the development of tourism. Physical infrastructure, including airports, harbours, accommodation, electricity and water and sewage, also needs to be in place and periodically upgraded to meet the needs of increasing tourist arrivals. Telecommunications services are another increasingly important driver for tourism development, with the IT infrastructure having a major impact on the structure of the tourism industry.

An effective financial system is also a key enabler of tourism growth, both to create a thriving business environment and for the tourist experience. Marketing and promotion are essential to generate viable levels of demand for tourism and to succeed in a very competitive world. Furthermore, tourism is highly dependent on appropriately trained human resources in all its segments. Some of these areas are, of course, not limited to the tourism industry but reflect wider development issues affecting also residents.

How developing countries deal with these bottlenecks will affect tourism development. India for example had insufficient airport capacity, restrictive air transport capacities and capacity constraints for the national carrier Air India. It responded by opening up its domestic routes to competition, and started signing open skies agreements. The result has been more domestic and international operators, more private involvement in airports and a boost in demand.

Mozambique faced problems in financing tourism development, due to difficulties in securing financing and high costs of bank credit. It responded by reforming its financial services, so that the number of banks (including foreign banks) in operation rose from three in 2004 to thirteen in 2007, with a 140% increase in bank credits for tourism. ■

Have pension, will travel?

Tourism may also represent a way to attract other types of consumers, not just holidaymakers. A growing phenomenon in recent years has been the movement of seniors or retirees from high-income to lower-income countries, not just for holidays but to escape harsh winters or to live permanently. As baby boomers, used to travelling abroad for vacation, begin to retire and as developing countries improve their services and infrastructure, these trends are likely to continue.

The US is the largest source of retirees moving, especially to Latin American countries and this trend is on the rise. For example, it is estimated that around 1 million Americans will retire to Costa Rica in the next 10 years. In Mexico US-born senior residents increased by 17% between 1990 and 2000 with fastest growth in some municipalities (Chapala around 580%, Los Cabos 308% and San Miguel de Allende 48%). Visa statistics also show that the number of US citizens obtaining pensioner visas in Panama more than tripled between 2003 and 2005.

There are also large flows of retirees from north to south in Western Europe, and a relatively recent trend is the movement of European retirees,

particularly French nationals, to North African countries. A number of countries in South East Asia have also become key retirees' destinations. For example, it is estimated that the number of retirees in the Philippines will reach about 860 000 by the end of the decade. Medical and long-stay tourism programmes have proved successful in countries like Thailand and Malaysia in creating interest in the retirement industry.

The international movement of retirees can have a profound impact on destination countries in a similar way to tourism, contributing to their development efforts. Retirees buy or rent real estate, consume goods and services, provide employment for local workers, and can attract foreign investment and greater numbers of foreign visitors to these countries (see Box 2). At the same time, retiree flows tend to raise real estate prices and generally the cost of living in these countries.

Prior tourist experience in destination countries is only one factor potentially influencing retirees to move abroad. The lower cost of living, including real estate, medical care and other goods and services, is often a major consideration. Policies, such as special visa categories for foreign pensioners coupled with a wide range of benefits, put in place by some countries can be another powerful influence on retirees' choices to travel abroad. And, much like tourism, a well-developed service sector and infrastructure can play a major role in attracting retirees. ■

Box 2.
**THE ECONOMIC
IMPACT OF US SENIOR
MOVEMENTS TO MEXICO
AND PANAMA**

The arrival of US seniors and retirees in Mexico and Panama has affected these economies in several ways. First, retirees brought significant financial capital to their new communities and were relatively wealthy compared to locals, with at least half of them reporting a monthly income of over USD 2 000.

Although the exact impact of this inflow of capital is not clear, job creation is one of the most direct results. Retirees hire local people for a wide range of services, from housing construction to cooking, cleaning and care services. In Panama, retirees said the construction boom has shifted employment from agriculture and related activities to construction and other service sectors catering to them.

US retirees also increased demand for consumer goods in their communities, including food, furniture and computers. In Panama, a significant number of retirees are building their own houses, purchasing materials for home construction.

The presence of retirees has brought about additional benefits for local people. For instance, local developers provide electricity and water to local communities and schools when constructing high-end developments. The retirement community is also often financially charitable, helping in the aftermath of natural disasters or donating to local community causes. For example, in San Miguel de Allende there exist nearly 200 non-governmental organisations, most of which are run and supported by expatriates.

At the same time, retirees' presence significantly raised local real estate prices. Although, this provided an opportunity for investment, it put market pressure on locals.

Source: Migration Policy Institute, 2006.

What can governments do?

In the face of broadly similar challenges governments are seeking to address these issues by establishing a variety of policy responses. Research in developing countries emphasises the importance of market reforms in complementing national efforts to strengthen linkages, particularly given the significant amounts of capital and expertise needed to build service capacity. Governments are taking steps to introduce private sector provision and strengthen public-private partnerships, enhance competition and liberalise service provision.

Information and data on the impact of reforms is more limited, including in light of the fact that some of them are still work in progress. But there is initial evidence that reforms are bringing about significant gains for the tourism industry. More liberal air transport policies, in particular open skies agreements are enhancing service capacity and bringing fares down, increasing access to destinations. Innovative policies are also helping to enhance physical infrastructure, which often lags behind tourism growth. In particular, partnerships between governments and developers are engaging the private sector in helping to finance the infrastructure and operate the services.

Telecommunications liberalisation, coupled with technological innovation, is significantly improving access to communications, the main lifeline of tourism. Relaxing financial services restrictions is increasing the number of banks, including foreign ones, and is leading to improved access to reasonably-priced credit for the tourism industry. Public resources are being stepped up to fund promotion and education for tourism and there is growing recognition of the need to strengthen partnerships with the private sector in both these areas to meet demand of a growing tourism sector.

Attracting investors, though, requires a supportive economic, social and political environment conducive to the private sector. At the same time, sustainable tourism development requires that the carrying capacity of tourism assets is not exceeded, thereby minimising potentially negative social and environmental impacts. Effective regulation also needs to be developed to address market failure, including competition policy and institutions, across all tourism-related services, and to progressively strengthening national capacity.

Achieving these objectives requires strong public sector management and support. Given the cross-sectoral nature of tourism, governments need to establish a comprehensive policy framework that improves the business environment and addresses the underlying economic relationships and social and physical constraints. Strong tourism agencies are needed that are capable of co-ordinating with other arms of government and other stakeholders such as local authorities, the private sector and NGOs. ■

How can international agreements help?

Regional liberalisation and collaboration initiatives are being established in tourism-related sectors, both among developing countries and between industrialised and developing economies. Notable examples are the Southern African Development Community (SADC) in Africa, the Asia Pacific Economic

Cooperation (APEC) in Asia, and the Economic Partnership Agreement (EPA) negotiations between the EU and the African, Caribbean and Pacific (ACP) countries.

Regional tourism initiatives can create larger tourism destinations and help to increase the numbers of long-term tourists. They also provide an opportunity to join forces to expand services and to achieve sustainable tourism objectives in a more holistic manner. However, in most regional initiatives negotiations are proceeding slowly and implementation has been lacking.

The high level of negotiating commitments in the tourism sector at the WTO indicates that WTO members widely recognise the important complementing role that the GATS can play in tourism development, although the complete liberalisation of the industry is far from being achieved. Even with the narrow focus of the GATS classification, there remain modal and sub-sectoral imbalances in the commitments and, most importantly, the generally low level of commitments in related sectors adds to the complexity of tourism liberalisation.

The cross-sectoral dimension of tourism has been acknowledged in services negotiations by a number of developed and developing countries, particularly in the early stages of the negotiations. The need to develop safeguards to address international anticompetitive business practices in tourism and related sectors was also noted.

Improved GATS commitments in telecommunications and financial services are among the more readily attainable goals and can significantly contribute to the growth of tourism. Although regulatory capacity constraints are more significant, there are a number of desirable initiatives that WTO members could also take in the critically important transport industry. This is particularly the case for maritime and air transport services in light of reforms that have been undertaken in recent years in these services.

Multilateral progress on waste treatment, energy and education services, while also highly beneficial for tourism development may be more difficult to attain. Yet, even in these services there is private sector activity requiring only moderate regulatory requirements. With respect to anticompetitive practices, consideration could be given to developing disciplines with a narrow sectoral focus covering tourism as defined in the GATS classification. ■

For further information

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For further reading

OECD (2007), **Services Trade Liberalisation and Tourism Development**, available at www.oecd.org/ech, under "Working Papers".

OECD (2008), **Tourism in OECD Countries 2008: Trends and Policies**, ISBN 978-92-64-03967-4, € 80, 260 pages (forthcoming).

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