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**LDC Export Diversification, Employment  
Generation and the "Green Economy":  
*What roles for tourism linkages?***

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD

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**World Trade Organization**

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# **LDC Export Diversification, Employment Generation and the "Green Economy": *What roles for tourism linkages?***

**Dale Honeck\***

**WTO**

**Abstract:** "Pro-poor" tourism is arguably one of the best green options for addressing LDC poverty, employment and economic diversification initiatives. Although often neglected as a serious policy option -- and consequently most of its potential still remains untapped -- tourism is the leading export for at least 11 LDCs, and the 2<sup>nd</sup> or 3<sup>rd</sup> largest export for another 11 or more. It is also a major source of new employment, especially for women, youth and the rural poor in general. While difficult to measure accurately, tourism's pro-poor impacts are directly related to the achieved level of inter- and intra-sectoral linkages.

Taking export diversification, employment generation and the "green economy" in turn, the working paper analyzes feasible LDC alternatives, reaching the conclusion (within the limits of data availability) that -- in contrast with the current overemphasis on agriculture and manufacturing -- green tourism is demonstrably one of the areas of greatest current comparative advantage and development potential for the majority of LDCs, via its extensive upstream and downstream linkages/multiplier effects, employment-generating and poverty alleviation capacities, opportunities for export "test marketing" of new products, sustainability, and largely untapped export opportunities.

An economy wide, primarily private-sector approach is an essential element for maximizing tourism benefits -- including its multiple linkages with agriculture and manufacturing -- together with a significant coordinating governmental role to minimize negative externalities. Unfortunately, there is no automatic guarantee that expanding tourism will significantly increase poverty alleviation or local employment generation: the necessary mechanisms must be explicitly included in tourism planning and implementation.

**Keywords:** LDCs, LDC Graduation, Export Diversification, Development, Comparative Advantage, Employment Generation, Green Economy, Green Tourism, Pro-poor Tourism, Tourism Linkages, Cluster Analysis, Value Chain Analysis, Poverty Alleviation, MDGs, Gender Issues, FDI, GATS, Africa, Istanbul Programme of Action (IPoA), Rio+20.

**JEL Classifications:** F13, F18, H54, H77, I38, J16, J21, J24, K39, L52, L83, O14, O19, O24, P45, Q26, Q54, Q56.

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## TABLE OF CONTENTS

<b>* I. Introduction: Responding to the Imperatives for LDC Export Diversification, Employment Generation and Sustainable Development .....</b>	<b>p. 5</b>
- A. "Blocked Structural Transition"	
- Chart I: <i>LDC Exports 2011</i>	
- (Annex I: Exports of the Least-Developed Countries by Category, 2010)	
- B. Failure to Achieve LDC Graduation	
- Table I: <i>Programme of Action for the Least Developed Countries, 2011-2020</i>	
- C. Modifying Comparative Advantage	
- D. "Deep-Rooted Scepticism" Towards Tourism?	
- Table II: <i>Classification of LDCs According to the Importance of the Tourism Sector</i>	
- E. Chapter Summaries	
<b>* II. LDC Export Diversification .....</b>	<b>p. 13</b>
- A. Linkages with Growth and Competitiveness	
- (Annex II: Growth and Volatility in Africa, 1960–2007)	
- B. Which LDC Options are Best for Export Diversification?	
- Box I: <i>Comparative versus Competitive Advantage</i>	
- Box II: <i>Comparative Advantage: The theory behind measurement</i>	
- Box III: <i>Export Competitiveness Diagnostic</i>	
- (Annex III: Basic Principles that can Guide the Formation of Successful Industrial Policy)	
- Box IV: <i>Problems with Services Statistics</i>	
- C. Infrastructure, Investment and Domestic Regulation	
- Figure I: <i>Selected Physical Infrastructure Indicators in LDCs, Other Developing Countries (ODCs) and Developed Countries</i>	
- D. <u>Export Diversification via Tourism</u> .....	p. 32
- Figure II: <i>International Tourist Arrivals, 1950-2020</i>	
- Figure III: <i>Tourism Specialization and Export Diversification</i>	
- Figure IV: <i>Tourism Sectoral Linkages</i>	
- (Annex IV: Classification of International Travellers)	
<b>* III. LDC Employment Generation .....</b>	<b>p. 41</b>
- A. "Massive" Employment Problem in LDCs	
- B. Poverty Alleviation via Employment Generation	
- Box V: <i>Summary of the Ouagadougou Plan of Action</i>	
- C. Which LDC Export Options are Best for Employment?	
- (Annex V: ILO Policy Guidelines)	
- D. <u>Tourism as "Decent Work"?</u> .....	p. 47
- Figure V: <i>Linkages between Tourism and Poverty Reduction</i>	
- (Annex VI: Globalisation and Informal Jobs in Developing Countries -- Key Findings)	
- Box VI: <i>An Example of how to Formalize Tourism</i>	
<b>* IV. LDCs and the "Green Economy" .....</b>	<b>p. 52</b>
- A. What are the Best Options for LDCs?	
- B. Adapting to the Effects of Climate Change	
- Box VII: <i>The Effect of Climate Variability on Tourism Destinations and</i>	

	<i>Operators</i>
	- Box VIII: <i>Timeline of Selected Climate Change and Tourism Initiatives</i>
	- (Annex VII: Summary of the WTTC Action Agenda)
- C.	What Role for Trade Policies and the WTO?
	- Chart II: <i>LDC GATS Commitments</i>
	- (Annex VIII: LDC GATS Commitments – Main sectors)
- D.	<u>How Viable is "Green Tourism" for LDCs?</u> .....p. 64
	- Box IX: <i>Rio+20 and Sustainable Tourism</i>
<b>* V.</b>	<b>Maximizing LDC Tourism Linkages .....p. 67</b>
- A.	How Can Tourism Linkages be Better Defined and Measured?
	- Figure VI: <i>Travel &amp; Tourism's Total Contribution</i>
	- (Annex IX: Tourism Satellite Accounts (TSA))
	- (Annex X: African LDC Travel & Tourism Total Contribution to Employment and GDP)
- B.	Tourism Cluster and Value Chain Analyses
	- Box X: <i>One Approach to Developing a Cluster Initiative</i>
	- Table III: <i>Tools to Develop a Cluster-Based Competitiveness Initiative</i>
	- (Annex XI: Value-Chain Analysis)
	- Table IV: <i>Summary of Turnover and Income Estimates across four Value Chains of the Tourism Economy in Luang Prabang, Lao PDR</i>
- C.	Growing Both Tourism Markets and Tourism Linkages
	- Figure VII: <i>Determinants of Tourism Links</i>
	- Table V: <i>Examples of Tourism Supply Chain Linkages</i>
	- Table VI: <i>AU/NEPAD Strategic Objectives in Tourism Sector</i>
	- (Annex XII: Battered Beauty: Tourism could aid Haiti's rejuvenation)
	- Box XI: <i>What are the Constraints to {African Tourism} Growth?</i>
- D.	Maximizing Employment Generation and Poverty Alleviation
	- (Annex XIII: Contribution of Tourism to Achieving the MDGs)
	- Box XII: <i>Increasing Tourism's Local Contribution</i>
	- Box XIII: <i>'Toolbox' that Governments can use to Boost Local Economic Impacts of Tourism</i>
	- Box XIV: <i>Effects of Tourism on Local/Rural Economic Development</i>
<b>* VI.</b>	<b>Conclusions: "Green Tourism" as a Necessary Requirement for LDC Graduation? .....p. 88</b>
- A.	Modifying Comparative Advantage and Maximizing Competitiveness
- B.	Why is Tourism Still Being Neglected?
- C.	Mainstreaming "Pro-poor" Tourism
- D.	Achieving the Goal of LDC Graduation
	- (Annex XIV: LDC Graduation -- Underscoring the Role of Trade)
<b>* Annexes</b>	<b>.....p. 92</b>
<b>* Bibliography</b>	<b>.....p. 111</b>

# **LDC Export Diversification, Employment Generation and the "Green Economy": *What roles for tourism linkages?***

Dale Honeck

*"The point of departure is the recognition that, after many years of lost ground, the episodes of high growth many LDCs experienced in the decade prior to the global slump were producing insufficient economic and social returns. Very few LDCs are closer to graduation. For most, production capacity in manufacturing and agriculture remains limited, exports are more concentrated in a narrow range of products, and vulnerability to external shocks is very high."*<sup>1</sup>

## **I. Introduction: Responding to the Imperatives for LDC Export Diversification, Employment Generation and Sustainable Development**

### **A. "Blocked Structural Transition"**<sup>2</sup>

Export diversification, employment generation and the "green economy" are crucially important issues for nearly all least-developed countries (LDCs) -- and directly linked to their general inability to graduate from LDC status. The UNCTAD 2010 LDC report, *Towards a New International Development Architecture for LDCs*, emphasizes that recent LDC growth has occurred primarily in natural resource-related sectors characterized by low employment creation, and insufficiently in manufacturing and services:

The overall and ongoing pattern of structural change in the LDCs can be described as a "blocked structural transition". More and more people are seeking work outside agriculture, but the pattern of structural change in output means that they cannot find productive and decent work. .... Precisely because the boom reinforced the existing specialization in (mostly non-agricultural) primary commodities, instead of spurring the expansion of labour-intensive manufactures and services, economic growth failed to translate into broad-based employment creation.<sup>3</sup> *{emphasis added}*

The report specifically highlights the linkages between structural change, employment, and poverty alleviation, stating that "The employment challenge, which is the key to substantial poverty reduction, is closely related to the pattern of structural change":

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<sup>1</sup> ILO, Report of the ILO for the Fourth UN Conference on the Least Developed Countries, *Growth, Employment and Decent Work in the Least Developed Countries*, International Labour Office, Geneva, 2011, p. xi.

<sup>2</sup> This section relies heavily on Annex I from the author's 2011 WTO Working Paper "Expect the Unexpected"? *LDC GATS Commitments as Internationally Credible Policy Indicators?: The Example of Mali*, Staff Working Paper ERSD-2011-07, 19 May 2011 (available online, at [http://www.wto.org/english/res\\_e/reser\\_e/ersd201107\\_e.htm](http://www.wto.org/english/res_e/reser_e/ersd201107_e.htm)).

<sup>3</sup> United Nations Conference on Trade and Development (UNCTAD), *The Least Developed Countries Report 2010: Towards a New International Development Architecture for LDCs*, United Nations, New York

The LDCs generally have very high population growth rates, and consequently the number of young people entering the labour market is increasing each year. Agriculture typically employs a large share of the labor force in LDCs, but agricultural productivity remains very low and the majority of farms are small, with the result that living standards for most peasants tend to be at or near subsistence levels. The sector is also less able now to absorb labour owing to decreasing farm sizes and lack of investment, including poor soil management.<sup>4</sup>

The need for greater employment opportunities is also highlighted in the 2011 report of the United Nations Secretary-General, *Outcome of the Fourth United Nations Conference on the Least Developed Countries*. Because many LDCs are still dependent on exports of unprocessed commodities [**Chart I and Annex I**], "their ability to produce efficiently is constrained and they are vulnerable to economic shocks, such as commodity price fluctuations". Consequently, as the report states, "more focus on labour-intensive production is needed to achieve structural transformation of their economies and sustainable poverty reduction."<sup>5</sup>

By contrast, based on the examples of Japan, Hong Kong, Korea, China, Singapore, Taiwan China and, more recently, Brazil and India, the 2012 World Bank book, *New Structural Economics*, notes that a small set of developing countries have been able to catch up, or significantly narrow the gap, with advanced industrial economies. By means of outward-oriented, market-friendly development strategies, these economies are able to achieve rapid economic growth as well as significant reductions in poverty. However, as the study further observes, "Although the occurrence of high, sustained growth further diversified in the 21th century to some Sub-Saharan African and Latin American countries, such growth still remains the exception rather than the rule".<sup>6</sup>

With respect to Africa specifically, the World Bank document *Africa's Future* notes that although the private sector is "increasingly attracting investment, and the climate for market-oriented, pro-poor reforms is proving robust," countries in Africa "continue to face persistent, long-term development challenges. Among them are undiversified production structure, low human capital, weak governance, state fragility, women's empowerment, youth employment, and climate change."<sup>7</sup> Consequently, as stated in the *Africa Competitiveness Report 2011*:

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and Geneva, 2010, p. 13 (available online, at <http://www.unctad.org/templates/webflyer.asp?docid=14129&intItemID=5737&lang=1&mode=downloads>).

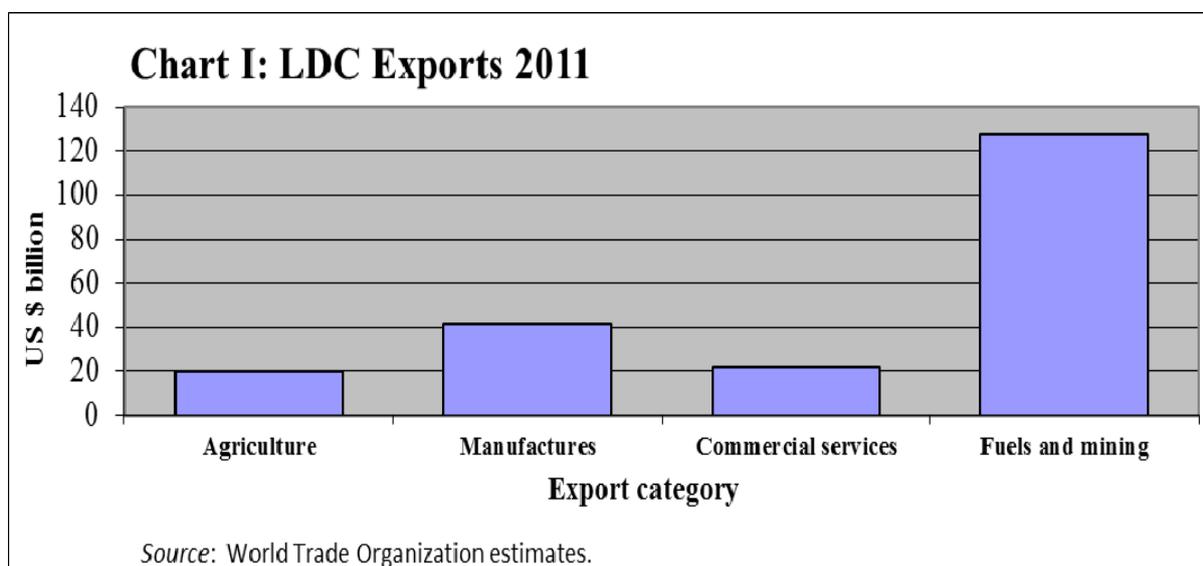
<sup>4</sup> UNCTAD, *The Least Developed Countries Report 2010*, as note 3 above, pp. 12-13.

<sup>5</sup> United Nations, General Assembly, *Outcome of the Fourth United Nations Conference on the Least Developed Countries*, Report of the Secretary-General, Document A/66/134, 13 July 2011, para. 20, p. 7.

<sup>6</sup> Justin Yifu Lin, World Bank, *New Structural Economics: A Framework for Rethinking Development and Policy*, The International Bank for Reconstruction and Development / The World Bank, 1818 H Street, NW, Washington DC, 2012, p. 2.

<sup>7</sup> World Bank, *Africa's Future and the World Bank's Support to It*, The World Bank, March 2011, p. 1 (available online, at [www.worldbank.org/africstrategy](http://www.worldbank.org/africstrategy)).

... despite improving over recent decades, Africa's share in world trade remains low, it is heavily concentrated in natural resources, and intra-African trade is particularly limited. ... Much can be gained by diversifying exports and by further opening up regional trade.<sup>8</sup>



## B. Failure to Achieve LDC Graduation

To date there have been only three examples of successful graduation from LDC status: Botswana in 1994, Cape Verde in 2007, and the Maldives in 2011. Botswana is perhaps best known as an example of growth based primarily on diamonds, while managing to largely avoid the "natural resources curse", but tourism has also played a significant role. By contrast, Cape Verde and the Maldives are both well-known as tourism-based economies.

The next LDC graduation is expected to be Samoa (in 2014),<sup>9</sup> followed perhaps by Vanuatu or Bhutan. All are well-known tourism exporters, with Bhutan in addition a rapidly growing producer and exporter of hydro-electricity. As emphasized in the United Nations' *Programme of Action for the Least Developed Countries for the Decade 2011-2020*, "It is a matter of deep concern to the international community that only three countries have graduated out of this category so far in the past three decades." Also known as the Istanbul Programme of Action (IPoA), the document further states that:

The overarching goal of the Programme of Action for the decade 2011-2020 is to overcome the structural challenges faced by the least developed countries in order to

<sup>8</sup> World Economic Forum, the World Bank and the African Development Bank (WEF *et al.*), *Africa Competitiveness Report 2011*, World Economic Forum, Geneva, 2011, p. xiii.

<sup>9</sup> UNCTAD, *Issues Note*, Experts Meeting on Challenges and Opportunities for LDCs: Graduation and structural transformation, 28 February to 1 March, 2012, Addis Ababa, Ethiopia, p. 3 (available online, at [http://www.unctad.org/sections/ldc\\_dir/docs/aldc2012\\_02\\_issue\\_en.pdf](http://www.unctad.org/sections/ldc_dir/docs/aldc2012_02_issue_en.pdf)). See also [Annex XI].

eradicate poverty, achieve internationally agreed development goals and enable graduation from the least developed country category.<sup>10</sup>

"[W]ith the aim of enabling half the number of least-developed countries to meet the criteria for graduation by 2020," the IPoA sets the specific objectives of: (a) achieving sustained LDC economic growth of at least 7 per cent annually; (b) building human capacities; (c) reducing the vulnerability of least developed countries to economic, natural and environmental shocks and disasters; (d) ensuring enhanced financial resources and their effective use; and (e) enhancing good governance at all levels.<sup>11</sup> In this regard, the IPOA establishes eight priority areas for action, as listed in [Table I].

**Table I: Programme of Action for the Least Developed Countries for the Decade 2011-2020**

**Priority Areas for Action**

*A. Productive capacity*

- Infrastructure / ▪ Energy/ ▪ Science, technology and innovation/ ▪ Private sector development

*B. Agriculture, food security and rural development*

*C. Trade*

*D. Commodities*

*E. Human and social development*

- Education and training / ▪ Population and primary health / ▪ Youth development / ▪ Shelter /
- Water and sanitation / ▪ Gender equality and empowerment of women / ▪ Social protection

*F. Multiple crises and other emerging challenges*

- Economic shocks/ ▪ Climate change and environmental sustainability/ ▪ Disaster risk reduction

*G. Mobilizing financial resources for development and capacity-building*

- Domestic resource mobilization / ▪ Official development assistance / ▪ External debt /
- Foreign direct investment / ▪ Remittances

*H. Good governance at all levels*

*Source:* United Nations, Fourth United Nations Conference on the Least Developed Countries, *Programme of Action for the Least Developed Countries for the Decade 2011-2020*, Document A/CONF.219/3/Rev.1, 23 May 2011, para. 43, p. 10.

As acknowledged in the *Issues Note* for the 2012 Experts Meeting on Challenges and Opportunities for LDCs: Graduation and Structural Transformation, held in Addis Ababa, Ethiopia, "The graduation target of the IPoA is undoubtedly a very ambitious one". The Note further points out

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<sup>10</sup> United Nations, Fourth United Nations Conference on the Least Developed Countries, *Programme of Action for the Least Developed Countries for the Decade 2011-2020*, document A/CONF.219/3/Rev.1, 23 May 2011, paragraphs 2 and 27 (pp. 1, 6).

<sup>11</sup> United Nations, *Programme of Action*, as note 10 above, para. 28, p. 6.

that, due to recent political developments, there is the possibility that the LDC group, at least in the medium-term, might in fact expand in net terms.<sup>12</sup>

### C. Modifying Comparative Advantage

*New Structural Economics* highlights the structural requirements of development, stating that "Sustained economic growth cannot happen without structural changes. ... All countries that remain poor have failed to achieve structural transformation". Regarding Sub-Saharan Africa, the book observes that agriculture continues to play the dominant role, accounting for 63 per cent of the labour force, and that the share of manufacturing in 2005 was actually lower than in 1965.<sup>13</sup> The *Economic Report on Africa 2011* concurs, stating that the "Lack of meaningful structural transformation is linked to Africa's low level of exports and of overall economic diversification".<sup>14</sup>

*New Structural Economics* postulates that a country's economic structure is endogenous to its factor endowment structure, and that sustained economic development is driven by changes in factor endowments and continuous technological innovation:

The factor endowments in a country are given at any specific time and *changeable over time*. A country's comparative advantages and thus its optimal industrial structure are determined by its factor endowments. Upgrading the industrial structure in a given country requires the upgrading of the factor endowment structure from one that is relatively abundant in labor and natural resources to one that is relatively abundant in capital, the introduction of new technologies, and the corresponding improvement in infrastructure to facilitate economic operations.<sup>15</sup> {*emphasis added*}

The book also argues that "the best way to upgrade a country's endowment structure is to develop its industries at any specific time according to the comparative advantages determined by its given endowment structure at that time". Somewhat controversially, *New Structural Economics* also advocates a strong government role:

These economists all agree that the market should be the basic mechanism for resource allocation, but that government must play an active role in coordinating investments for industrial upgrading and diversification and in compensating for externalities generated by first movers in the dynamic growth process.<sup>16</sup>

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<sup>12</sup> UNCTAD, *Issues Note*, as note 9 above, p. 3.

<sup>13</sup> Lin, *New Structural Economics*, as note 6 above, p. 3.

<sup>14</sup> Economic Commission for Africa and African Union (ECA-AU), *Economic Report on Africa 2011: Governing Development in Africa - The Role of the State in Economic Transformation*, Economic Commission for Africa, Addis Ababa, Ethiopia, p. 81.

<sup>15</sup> Lin, *New Structural Economics*, as note 6 above, p. 5.

<sup>16</sup> Lin, *New Structural Economics*, as note 6 above, p. 5. As a cautionary note, see also Deepak Lal, *Reviving the Invisible Hand: The Case for Classical Liberalism in the Twenty first Century*, Princeton University Press, 2006 (home page of Deepak Lal is available at <http://www.econ.ucla.edu/lal/>).

## D. "Deep-Rooted Scepticism" Towards Tourism?

Although often neglected as a serious policy option -- and consequently much of its potential remains untapped -- tourism is already the leading export for at least 11 LDCs, and the 2<sup>nd</sup> or 3<sup>rd</sup> largest export for another 11 or more [Table II]. It is also a major source of new employment, especially for women, youth and the rural poor in general. As noted in the World Bank's *Africa Region Tourism Strategy*:

...sustainable tourism sectors have been proven to create jobs, contribute to poverty alleviation, attract investment, stimulate private sector development, promote growth, and improve a country's international image. Mauritius, South Africa, Tanzania, and Cape Verde show how tourism can be a powerful and transformative development tool.<sup>17</sup>

**Table II: Classification of LDCs According to the Importance of the Tourism Sector in their Balance of Payments (per cent)**

LDCs in which tourism remained or became the largest export sector, 2000–2008	LDCs in which tourism remained or became the second or third largest export sector, 2000–2008	LDCs with a comparatively smaller tourism sector, but demonstrating progress in tourism performance, 2000–2008	LDCs without significant tourism up to 2008
Samoa (69.8) Vanuatu (52.1) Eritrea (51.4) Comoros (42.6) Tuvalu (34.8) Gambia (32.8) Rwanda (30.4)  Tanzania (26.0)  Uganda (20.0) Nepal (19.6) Senegal (18.7)	Sao Tome & Príncipe (34.7) Haiti (33.5) Liberia (25.5) Cambodia (19.2) Benin (15.3) Madagascar (12.1) Mali (11.5)  Ethiopia (10.7)  Yemen (8.7) Mozambique (5.9) Sudan (2.7)	Sierra Leone (10.4) Kiribati (6.3) Lao PDR (5.4) Niger (5.2) Togo (3.8) Malawi (3.6) Lesotho (3.5)  Zambia (2.8)  Djibouti (2.1) Myanmar (0.8) Bangladesh (0.5) Bhutan (...) Burkina Faso (...) Mauritania (...)	Guinea-Bissau (1.1) Burundi (1.0) Solomon Islands (0.7) Angola (0.4) Afghanistan (...) Central African Republic (...) Chad (...) Congo (Dem. Rep. of the (...) Equatorial Guinea (...) Guinea (...) Somalia (...) Timor-Leste (...)

Note: Gross tourism earnings in percentage of total exports of goods and services in 2008.

Sources: UNCTAD, based on UNCTAD, IMF and national sources. As found in *Market Access for Products and Services of Export Interest to Least-Developed Countries*, Sub-Committee on Least-developed countries, WTO document WT/COMTD/LDC/W/51, 10 October 2011, p. 15.

This view is seconded by the International Labour Organization (ILO), which states:

Hotels, Catering and Tourism (HCT) is one of the fastest-growing economic sectors in countries around the world. It is very labour-intensive and is a significant source of development and employment, especially for those with limited access to the labour market, such as women, youth, migrant workers and rural populations. It can

<sup>17</sup> World Bank, *Africa Region Tourism Strategy, Transformation through Tourism: Harnessing tourism for growth and improved livelihoods*, Version 3.0, December 27, 2010, p. ii.

significantly contribute to social and economic development and to poverty reduction in least developed countries.<sup>18</sup>

Nonetheless, as observed by the World Bank, "A deep-rooted scepticism of economic and social benefits of tourism remains, however".<sup>19</sup> One such example can be found on the website of the International Institute for Environment and Development (IIED), which states, "Yet too often tourism policies result in the majority of economic benefits being captured by foreign investors or elites, rather than flowing to local people or being re-invested into preserving biodiversity and the local environment".<sup>20</sup> Some of the reasons for this scepticism are given by the World Bank:

Although travel and tourism is primarily a private sector activity, it requires effective, coordinated public sector support in order to be sustainable. The failure to adequately plan and manage tourism can result in adverse environmental and social outcomes; it can reduce the economic benefits of tourism for resident communities.<sup>21</sup>

## E. Chapter Summaries

Taking export diversification, employment generation and the "green economy" in turn, the paper analyzes feasible LDC alternatives, reaching the conclusion (within the limits of data availability) that -- in contrast with the current overemphasis on manufacturing and agriculture -- green tourism is demonstrably one of the areas of greatest current comparative advantage and development potential for the majority of LDCs, via its extensive upstream and downstream linkages, employment-generating and poverty alleviation capacities, opportunities for export "test marketing" of new products, sustainability, and largely untapped export opportunities.

Part II of this paper carefully examines LDC export diversification, including: linkages with growth and competitiveness; which LDC options are best for export diversification?; infrastructure, investment and domestic regulation; and export diversification via tourism. Part III focuses on employment issues, specifically: the massive employment problem in LDCs; poverty alleviation via employment generation; which LDC export options are best for employment?; and tourism as "decent work"? Part IV examines LDCs and the "Green Economy", including: what are the best

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<sup>18</sup> ILO, Sectoral Activities Programme, *Poverty Reduction through Tourism*, International Labour Office, Geneva, 2011, p. 1 (available online, at [http://www.ilo.org/wcmsp5/groups/public/@ed\\_dialogue/@sector/documents/publication/wcms\\_159257.pdf](http://www.ilo.org/wcmsp5/groups/public/@ed_dialogue/@sector/documents/publication/wcms_159257.pdf)).

<sup>19</sup> World Bank, *Africa Region Tourism Strategy*, as note 17 above, p. ii.

<sup>20</sup> Nonetheless, as the IIED further notes, "However, tourism does have the ability to offer significant social and economic benefits to the world's poorest people, and to act as an incentive to conserve natural resources and areas rich in biodiversity." (International Institute for Environment and Development (IIED), web site, *Sustainable tourism*, 2011. Accessed at <http://www.iied.org/sustainable-markets/key-issues/environmental-economics/sustainable-tourism> on 21 August 2012.)

<sup>21</sup> World Bank, *Africa Region Tourism Strategy*, as note 17 above, p. ii.

options for LDCs?; adapting to the effects of climate change; what role for trade policies and the WTO?; and how viable is "green tourism" for LDCs?

Part V is on maximizing LDC tourism linkages: how can tourism linkages be better defined and measured?; tourism cluster and value chain analyses; growing both tourism markets and tourism linkages; and maximizing employment and poverty alleviation. Part VI concludes, while summarizing the main elements of the paper with regard to modifying comparative advantage and maximizing competitiveness; why is tourism still being neglected?; mainstreaming "pro-poor" tourism; and achieving the goal of LDC graduation.

## II. LDC Export Diversification

"[W]hat countries produce and export matters. The composition of output is of the first order of importance in accelerating and sustaining growth."<sup>22</sup>

"The strategy each country must follow will depend on which industry it has a comparative advantage in."<sup>23</sup>

### A. Linkages with Growth and Competitiveness

#### *Reducing vulnerability*

Together with low levels of employment generation resulting from the concentration of natural-resource intensive exports, LDCs also have major concerns about export vulnerability. As highlighted in a recent FERDI report:

Governments in low-income countries regularly express concern about the vulnerability that arises from export concentration. Volatility in export prices, sudden closure of export markets triggered by regulatory changes, entry of new competitors, supply shocks at home, all of these things, which are part of the normal course of event on international markets, take on a threatening dimension when exports are concentrated.<sup>24</sup>

For Africa specifically, the *Africa Competitiveness Report 2011* observes that, while economic growth accelerated over the past decade, overall export growth continued to lag behind that of other developing regions, thus further widening the gap. In addition, export growth has been driven mostly by mining, which represented 73 per cent of Africa's export growth between 1995 and 2008, the highest of all regions. The report emphasizes that "The lack of production and export diversification—in terms of both goods and partners—made many African countries vulnerable to external shocks."<sup>25</sup>

Increased economic growth and reduced volatility [**Annex II**] are undoubtedly the strongest motivations for export diversification. As stated by the United Nations Development Programme (UNDP), "There are both theoretical and empirical studies suggesting a positive association between

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<sup>22</sup> ILO, *Growth, Employment and Decent Work*, as note 1 above, p. xii.

<sup>23</sup> WEF *et al.*, *Africa Competitiveness Report 2011*, as note 8 above, p. xiii.

<sup>24</sup> Fondation pour les Etudes et Recherches sur le Développement International (FERDI), Céline Carrère, Vanessa Strauss-Kahn and Olivier Cadot, *Trade Diversification, Income, and Growth: What Do We Know?*, Working paper / P33, November 2011, p. 2. Nonetheless, the paper also notes, "Yet, for the academic trade economist, the view that exports diversification should be a policy objective in and by itself is not a natural one, as trade theory is based on the principle that specialization according to comparative advantage is optimal."

<sup>25</sup> WEF *et al.*, *Africa Competitiveness Report 2011*, as note 8 above, p. 4. The FERDI paper (p. 21) further notes that, although the transmission channels remain unclear, a good exploration of how export diversification helps to absorb external shocks is provided by Bacchetta *et al.* (Bacchetta, M., M. Jansen, R. Piermartini and A. Amurgo-Pacheco (2009), *Export Diversification as an Absorber of External Shocks*, mimeo, WTO).

growth and export diversification".<sup>26</sup> Ironically, continued expansion of natural resource-related exports can threaten efforts at export diversification. As noted in the FERDI report, "an expanding primary-product sector may well cannibalize other tradeable sectors through cost inflation and exchange-rate appreciation".<sup>27</sup> A recent working paper by the World Bank, *Analyzing Trade Competitiveness: A Diagnostics Approach*, concurs, stating:

... not all trade contributes to sustainable, equitable growth to the same degree or in the same way. Overdependence on commodity exports, for example, can contribute to lower long-run growth. And in the manufacturing sector, the phenomenon of "jobless growth" has been a particular concern....<sup>28</sup>

*Need for new products and new markets!*

While export diversification typically focuses on finding new products, an equally important -- but often-neglected -- aspect is finding new markets for existing products. Such markets, especially if geographically and economically unrelated to existing destinations, can be important counter-balances to fluctuations in traditional markets. As further noted in the World Bank working paper, "Research has shown that the majority of export growth at the extensive margin is achieved not through new products (discovery) but by expanding existing exports to new markets":

Most developing countries export to a relatively narrow range of markets, far fewer than developed countries exporting in the same sector. Expanding market reach in products that have already proven to be competitive in at least some export markets can offer a substantial channel for growth.<sup>29</sup> {references deleted}

Analysis of export diversification has two major aspects: the *intensive* margin and the *extensive* margin. As noted by the FERDI report, "Export concentration measured at the *intensive* margin reflects inequality between the shares of active export lines". On the other hand, "Concentration at the *extensive* margin is a subtler concept. At the simplest, it can be taken to mean a small number of active export lines. Then, diversification at the *extensive* margin means a rising number of active export lines."<sup>30</sup> As concluded by the FERDI report, "the poorest countries do less well in exploiting the available markets for the goods they produce."<sup>31</sup>

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<sup>26</sup> United Nations Development Program (UNDP), *Export Diversification for Human Development in the Post-ATC Era: Perspectives from Asian LDCs*, Edited by Selim Raihan, Ratnakar Adhikari and Kamalesh Adhikari, UNDP Regional Centre in Colombo, November 2007, p. 81.

<sup>27</sup> FERDI, *Trade Diversification, Income, and Growth*, as note 24 above, p. 19.

<sup>28</sup> World Bank, Thomas Farole, José Guilherme Reis, Swarnim Wagle, *Analyzing Trade Competitiveness: A Diagnostics Approach*, Policy Research Working Paper 5329, June 2010, p. 2.

<sup>29</sup> World Bank, *Analyzing Trade Competitiveness*, as note 28 above, p. 6.

<sup>30</sup> FERDI, *Trade Diversification, Income, and Growth*, as note 24 above, p.4.

<sup>31</sup> FERDI, *Trade Diversification, Income, and Growth*, as note 24 above, p. 11.

*Improving productivity (and competitiveness)*

*Africa Competitiveness Report 2011* observes that "In today's globalized world, a country's trade performance and export sophistication and diversification are critical indicators of its competitiveness and are drivers of economic performance". As stated in *Analyzing Trade Competitiveness*, "The economic benefits of exporting have a long-established theoretical basis."<sup>32</sup> In a related manner, *New Structural Economics* highlights the importance of improving productivity, stating:

... differences in productivity growth are the most important explanation for differences in income growth rates among countries. Over the long term, productivity growth is associated with technological and structural change, namely, to reduce the costs of producing the same outputs with better knowledge and to relocate resources from lower value-added to higher value-added industries.<sup>33</sup> {references deleted}

Looking at competitiveness more closely, *Analyzing Trade Competitiveness* observes that "Even with the benefit of preferential market access, many developing country exporters are unable to compete in global markets", and noting that LDCs, and other developing countries, face many diverse barriers, including "macroeconomic policies which distort efficient market entry and competition; poor factor conditions (cost and skill of labor, cost of capital), poor infrastructure and backbone services, and transport and logistics inefficiencies that raise production and trade costs":

... information and coordination failures and underprovision of public goods – which prevent the exploitation of scale economies and other intra- and inter-industry externalities – are the rule, not the exception, in developing countries.<sup>34</sup> {references deleted}

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<sup>32</sup> "Specifically these include static efficiency gains derived from exploiting comparative advantage and improved allocation of scarce resources, as well as dynamic gains in the more productive export sector engineered by higher competition, greater economies of scale, better capacity utilization, the dissemination of knowledge, and technological progress" (World Bank, *Analyzing Trade Competitiveness*, as note 28 above, p.2).

<sup>33</sup> Lin, *New Structural Economics*, as note 6 above, p. 146.

<sup>34</sup> "In summary, the problem goes much deeper than simply market access, but encompasses a wide range of supply-side factors that act as constraints to export competitiveness" (World Bank, *Analyzing Trade Competitiveness*, as note 28 above, pp. 2-3).

## B. Which LDC Options are Best for Export Diversification?

### *Pursuing dynamic comparative advantage*

With regard to both comparative and competitive advantage [**Box I**], the best options for LDC export diversification are undoubtedly those that maximize both income and employment for the country or region concerned, as well as opportunities for future growth and development.<sup>35</sup> Indeed, as argued in *New Structural Economics*:

The role of the facilitating state is to encourage the emergence of firms, industries, and sectors that, once launched, will make effective use of the country's *current* comparative advantage. In many poor countries, that will mean focusing on labour- and/or resource-intensive types of production activities and services.<sup>36</sup>

#### **Box I: Comparative versus Competitive Advantage**

"A country's *comparative* advantage is the situation in which it produces a good or service at a lower opportunity cost than that of its competitors. Such a condition is based on the country's possession of comparative advantage in that product or service determined by its endowment structure at any given time (Lin 2010)."

"A country's *competitive* advantage refers to a situation where domestic industries fulfill the following four conditions: (i) They intensively use the nation's abundant and relatively inexpensive factors of production; (ii) Their products have large domestic markets; (iii) Each industry forms a cluster; and (iv) domestic market for each industry is competitive (Porter 1990)."

*Source:* Justin Yifu Lin, World Bank, *New Structural Economics: A framework for rethinking development and policy*, The International Bank for Reconstruction and Development / The World Bank, 1818 H Street, NW, Washington DC, 2012, p. 108.

*New Structural Economics* observes that "developing countries that implement economic policies in contradiction with their comparative advantage tend to perform poorly and suffer macroeconomic instability,"<sup>37</sup> adding that "the failure of most developing countries to converge with advanced economies can be explained largely by their governments' inappropriate development strategies":

In the past, governments placed priority on the development of certain capital-intensive industries rather than focusing their efforts on upgrading a country's

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<sup>35</sup> In the case of natural resource exporters, this also involves optimizing current revenue use in a manner as to best help achieve these objectives.

<sup>36</sup> Lin, *New Structural Economics*, as note 6 above, p. 116. The author further notes (p. 146), "Each country at any specific time possesses given factor endowments consisting of land (natural resources), labour and capital (both physical and human), which are the total budgets that the country can allocate to primary, secondary and tertiary industries to produce goods and services. These are changeable over time, and conceptually it is useful to add both 'hard' and 'soft' infrastructure to the mix."

<sup>37</sup> "They do not exploit the benefits of globalization to the fullest. Typical features of such strategies are large budget deficits due to government support of nonviable firms, inflationary policies caused by excessive consumption, financial repression, and over-valued exchange rates in the context of low productivity" (Lin, *New Structural Economics*, as note 6 above, p. 105).

endowment structure and creating an enabling environment for the development of sectors aligned with a country's comparative advantage.<sup>38</sup>

Another concern, as pointed out in *Analyzing Trade Competitiveness*, is sectoral enclaves. Although they might contribute to employment and generating foreign exchange, they are much less likely to deliver the full benefits of exporting. By contrast, a well-integrated sector "should be in a better position to access technology and knowledge spillovers while also benefitting from greater direct and indirect employment and output opportunities". The paper further observes that "Ultimately, the aim is sustainable, broad-based economic growth, and so an important question that remains is how a country translates trade into growth and poverty reduction":

One leading indicator may be the degree to which a country's export sector is integrated with its wider economy, particularly through *forward and backward supply linkages*.<sup>39</sup> {emphasis added}

Unfortunately, "Not all sectors are equally predisposed to contribute to spillovers and broad-based economic growth,"<sup>40</sup> with natural resources based export sectors typically showing far less integration with local economies than manufacturing sectors. Although some agricultural sectors are said to offer significant potential for developing deep value chains, the constraints to competitiveness make long value chains untenable in many LDCs, "restricting exports to unprocessed or minimally processed commodities and some niche higher-value products where entire value chains can be controlled by a single agent". Consequently,:

...policies assuming that moving "downstream" is a natural progression in all industries are not supported by international experience. The infrastructure and skills needed to process raw materials are different from those needed to extract them.<sup>41</sup>

### *Trade diagnostics*

Not surprising, considerable emphasis is now being placed on diagnostic studies for analysing comparative advantage and trade competitiveness -- with varying degrees of success. Identifying and measuring comparative advantage is not a straightforward process [**Box II**], while diagnosing export competitiveness can also be complex [**Box III**]. Consequently, most studies of LDC export diversification tend to rely upon a combination of techniques.<sup>42</sup>

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<sup>38</sup> Lin, *New Structural Economics*, as note 6 above, p. 8.

<sup>39</sup> World Bank, *Analyzing Trade Competitiveness*, as note 28 above, p. 8.

<sup>40</sup> World Bank, *Analyzing Trade Competitiveness*, as note 28 above, p. 8. As already noted above, while agriculture employs a very large share of the labour force in most LDCs, productivity remains very low and most farms are small, such that living standards tend to be near subsistence levels.

<sup>41</sup> World Bank, *Analyzing Trade Competitiveness*, as note 28 above, p. 8.

<sup>42</sup> For example, with regard to Bangladesh, Cambodia, Lao PDR and Nepal, the UNDP publication, *Export Diversification for Human Development in the Post-ATC Era*, identified a number of sectors which were

## **Box II: Comparative Advantage: The theory behind measurement**

by Alan V. Deardorff<sup>a</sup>

"Revealed comparative advantage, factor content of trade and the gravity model of trade each provide useful information, even if none of them is capable of fully delineating either the nature of comparative advantage or its causes."

"**Revealed Comparative Advantage** gives the most explicit information about which products a country exports either more or less than average, and it thus provides quite a complete mapping of what a country's patterns of trade actually are. This does not tell anything about what the underlying forces generating that trade may be, however, unless one is certain that no such forces are operating except true comparative advantage. If that were the case, then further information about comparative advantage might not be needed or useful. Nonetheless, RCA is a useful tool for describing trade, and it can illuminate comparisons across countries that may be suggestive of directions for further research."

"The **Factor Content of Trade**, in contrast, focuses exclusively on one particular source of comparative advantage: factor proportions. By measuring the quantities of factors embodied in exports and imports, factor content calculations allow us to see the role that factor endowments and intensities have played in forming trade patterns. This approach is particularly useful as a guide to how trade, and changes in trade, may alter factor prices. The latter in turn are fundamental for understanding changes in the distribution of income."

"The **Gravity Model** provides a third approach to studying trade patterns, one that has not until recently been used for this purpose because most gravity estimations have been done at the aggregate level. By disaggregating trade and then incorporating various hypothesized determinants of comparative advantage in a gravity equation, however, one is able to gauge the contributions that these determinants may make to the pattern of sectoral trade."

**{emphasis added}**

<sup>a</sup>Source: OECD, *Globalisation, Comparative Advantage and the Changing Dynamics of Trade*, OECD Publishing, 2011, pp. 27, 36.

Revealed comparative advantage (RCA) appears to be the most common analytical technique for measuring comparative advantage, and is used to indicate the extent that a country's share of exports in a particular sector exceeds (or lags) the share of the same product in global exports. As emphasized in a recent World Bank publication, however, "Because high export volumes can result from subsidies or other incentives provided, including undervalued exchange rates, RCAs have been argued to be a misnomer in the sense that they are a better measure of competitiveness than comparative advantage".<sup>43</sup>

With regard to overall competitiveness, and considering that most national trade and industrialization strategies emphasize improving competitiveness, *Analyzing Trade Competitiveness*

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"selected on the basis of RCA; export prospects and their sustainability; use of local inputs; and potential for creating employment, particularly for women and other underprivileged segments of the society" (UNDP, *Export Diversification for Human Development in the Post-ATC Era*, as note 26 above, p. 84).

<sup>43</sup> World Bank, José Guilherme Reis and Thomas Farole, *Trade Competitiveness Diagnostic Toolkit*, 2012, The International Bank for Reconstruction and Development / The World Bank, p. 32.

notes it is not surprising that there exist a number of frameworks attempting to capture its determinants, including Porter's "diamond", the "pyramid" used in Ireland and the EU, the "triangle", and the "12 pillars" of the World Economic Forum's "Global Competitiveness Index". The paper further observes, however, "While all these provide useful frameworks for looking at competitiveness and have much in common, *their effectiveness is limited for several reasons*":

*First*, they focus on broad economic competitiveness rather than export competitiveness. As such, they cover some issues that may be less critical for the export environment (or too far upstream) and fail to go into sufficient detail in some issues that are particularly critical for exports (e.g. trade policy, diversification, coordination, standards).

*Second* The broad-based nature of the concept of competitiveness presents a further challenge. Even defined as simply as productivity, one can quite easily enter the realm of infinite regress when trying to trace back all the channels that may determine it. Most existing analytical frameworks focus on linking productivity – as a proxy for long term growth – and investment climate variables, often overlooking significant market and institutional failures, missing and proprietary information, externalities associated with spatial and industrial agglomeration, and coordination failures between public and private activities.

*Third*, most approaches fail to assess competitiveness at the appropriate operational level which would allow them to be effective. The typical approach is to analyze competitiveness at the national level, comparing one economy against another. In fact, a country's performance in many measures of competitiveness is determined in part by its sectoral mix. And the factors which define competitiveness are often highly sector-specific.<sup>44</sup> *{emphasis added}*

Specifically with respect to export competitiveness, *Analyzing Trade Competitiveness* focuses on two additional issues. The first is the business regulatory environment, defined as the impact of regulations, bureaucracy, and transparency (or lack of), which will support or constrain competitiveness both at the intensive and extensive margins of trade. The second issue is the "trade policy and wider macro-incentive framework in the domestic market – including trade, exchange rate, tax, and competition policy – which can establish an overall anti-export bias or alternatively promote export-oriented activity." The paper emphasizes that, "Any diagnostic should also take into account the stage of economic development of the country under assessment and / or its relative factor abundance", as well as the typical presence of multiple constraints:

Export performance is certainly not determined by any one single constraint. Instead, the constraints are likely to be multiple and intertwined, and possibly tied to cross-cutting issues such as governance or geography for which there will not be immediate policy fixes. What this diagnostic exercise nonetheless helps us with is to prioritize areas of attention, and proceed incrementally to alleviate the most binding

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<sup>44</sup> World Bank, *Analyzing Trade Competitiveness*, as note 28 above, p. 9.

constraints to export competitiveness in a world characterized by scarce resources and trade-offs among competing economic choices.<sup>45</sup>

**Box III: Possible Structure of Export Competitiveness Diagnostic<sup>a</sup>**

**I. Are the main challenges to export outcomes (growth, diversification, quality) occurring at the intensive margin or the extensive margin?**

\* If the intensive margin, is the problem with *deepening* trading relationships or export *survival*? If the extensive margin, is the problem with new *markets* or new *products*?

\* If the problem is with deepening, is it a problem with *products* or *markets*? If it is about survival is it in sectors that are *aligned with comparative advantage* or in those that *defy* it? If comparative-advantage supporting is it a problem with *specific products* or *specific markets*?

**II. If the problem is with products, is it an issue of quality or cost?**

\* If quality, is it an issue with *innovation* or with *standards* and certification? What is the role of *skills* and *institutions* in both of these?

\* If cost, is it an issue of *labor and productivity* or of *inputs (components and capital equipment) and backbone services (cost and quality of utilities, business services, industrial infrastructure, etc.)*?

**III. If the problem is with markets, is it an issue of market access, transport/trade facilitation, or proactive trade promotion policies?**

\* If market access, is it an issue of *tariffs* or *non-tariff barriers*?

\* If transport and trade facilitation, is it an issue of *location, transport & logistics* markets/services, or *customs and border-related issues*?

\* If proactive trade promotion, is it an issue of the *policies* in place or the *administration of those policies*?

<sup>a</sup>Source: World Bank, Thomas Farole, José Guilherme Reis, Swarnim Wagle, *Analyzing Trade Competitiveness: A Diagnostics Approach*, Policy Research Working Paper 5329, June 2010, p. 11.

*Addressing existing impediments as well as new options*

Together with the search for new export options, governments, the private sector and other stakeholders also need to examine the benefits of addressing known trade impediments. With regard to the formation of industrial policy [**Annex III**], *New Structural Economics* states:

The first step is to identify new industries in which a country may have latent comparative advantage, and the second is to remove the constraints that impede the emergence of industries with such advantage and create the conditions to allow them to become the country's actual comparative advantage.<sup>46</sup>

With respect to finding new markets for existing products, for example, the book observes that, "to do so typically requires overcoming some barriers to competitiveness such as transport costs,

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<sup>45</sup> The paper further states, "Several approaches, especially if combined, may offer useful guidance to the practitioner moving through a diagnostic. These are: 1. Using the evidence of macro-level regressions to develop (sector-specific) hypotheses on components of competitiveness; 2. Making use of peer comparisons; 3. Supporting the quantitative analysis with additional qualitative techniques" (World Bank, *Analyzing Trade Competitiveness*, as note 28 above, pp. 12, 14-16).

standards, or access to market information".<sup>47</sup> For Africa specifically, *Africa Competitiveness Report 2011* states that:

... the major cross-cutting policy areas that constrain Africa's competitiveness across all main industry groups include those that increase indirect costs—trade logistics and infrastructure; and those that relate to poor business environments—access to land, availability of skills, and ability to absorb technology.<sup>48</sup>

### *Regional integration*

Regional integration is another formerly neglected aspect of export diversification that is now receiving greater attention. In the view of the 2010 *Economic Report on Africa*, "Without waiting for the Doha round of world trade negotiations to conclude, intra-African trade offers opportunities for individual African countries to enlarge their markets and reap the benefits of scale and scope economies."<sup>49</sup> A recent World Bank publication observes that:

In many developing countries, regional integration has become a key means of promoting economic growth and fighting poverty. *In fact, no low-income country has managed to grow and sustainably reduce poverty without global or regional trade integration.*<sup>50</sup> {emphasis added}

In a similar manner, a 2010 joint study by the United Nations Office of the Special Adviser on Africa and the NEPAD-OECD Africa Investment Initiative, *Economic Diversification in Africa: A Review of Selected Countries*, states that regional economic communities "can lay the foundations for economic diversification by creating common markets, pooling resources, and providing a framework to coordinate the regional management of infrastructure such as transportation corridors, energy and natural resources".<sup>51</sup> Nonetheless, as noted by the World Bank:

... the multitude of PTAs is becoming cumbersome to manage for many developing countries. As agreements proliferate, countries become members of several different

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<sup>46</sup> Lin, *New Structural Economics*, as note 6 above, p. 161.

<sup>47</sup> World Bank, *Analyzing Trade Competitiveness*, as note 28 above, p. 6.

<sup>48</sup> WEF *et al.*, *Africa Competitiveness Report 2011*, as note 8 above, p. xiii.

<sup>49</sup> Economic Commission for Africa and African Union (ECA-AU), *Economic Report on Africa 2010: Promoting High-Level Sustainable Growth to Reduce Unemployment in Africa*, United Nations Economic Commission for Africa, 2010, Addis Ababa, Ethiopia, p. 15. Services-related aspects of the Doha Development Agenda negotiations are addressed in Honeck, "Expect the Unexpected"?, as note 2 above.

<sup>50</sup> The World Bank further notes, "Bilateral or regional integration can be an important engine of trade competitiveness, both for small, very poor, landlocked countries and for less regionally integrated or diversified middle-income countries" (World Bank, Jean-Pierre Chauffour and Jean-Christophe Maur, Editors, *Preferential Trade Agreement Policies for Development: A Handbook*, 2011, The International Bank for Reconstruction and Development / The World Bank, p. 1.)

<sup>51</sup> United Nations Office of the Special Adviser on Africa and the NEPAD-OECD Africa Investment Initiative, *Economic Diversification in Africa: A Review of Selected Countries*, OECD, United Nations OSAA 2010, p. 13 (available online, at [http://www.nepad.org/system/files/OSAA-NEPAD\\_Study\\_Final5Oct.pdf](http://www.nepad.org/system/files/OSAA-NEPAD_Study_Final5Oct.pdf)). Unfortunately, as the study further notes (p. 57), "Limitations exist in terms of capacities to analyse relevant issues and to devise relevant policy and regulatory frameworks at regional level. While there has been some effort to improve regional integration, programmes to boost regional economic diversification have been fairly weak."

agreements. The average African country, for instance, belongs to four different agreements.<sup>52</sup>

Another new World Bank publication, *De-Fragmenting Africa: Deepening Regional Trade Integration in Goods and Services*, emphasizes that, although regional trade integration has long been a strategic objective, the African market remains highly fragmented. There have been some successes in removing import duties within regional communities, but numerous non-tariff and regulatory barriers still raise transaction costs and limit the movement of goods, services, people and capital. Consequently, "The end-result is that Africa has integrated with the rest of the world faster than with itself." As the publication further notes,:

... enormous opportunities for cross-border trade within Africa in food products, basic manufactures and services remain unexploited. The cross-border production networks that have been a salient feature of development in other regions, especially East Asia, have yet to materialise in Africa. This is a self-inflicted wound, for *integration could provide a much-needed source of export diversification* away from minerals and hydrocarbons—not to mention of job creation.<sup>53</sup> {emphasis added}

*What roles for services?*

Despite the rapid transitions in technology and the global economy, the typical mind-set regarding LDC export diversification evidently remains fixated on manufacturing. For example, the introduction to the report of the ILO for the Fourth UN Conference on the Least Developed Countries, *Growth, Employment and Decent Work in the Least Developed Countries*, states, "Product diversification from commodities to *manufacturing* is needed to generate more employment".<sup>54</sup> {emphasis added} Another recent example comes from Paul Collier:

Africa needs to diversify its economies beyond its prolonged dependence on agriculture and the extraction of natural resources. Its agricultural productivity has stagnated and is now threatened by climate change. Its resource extraction is dynamic but fraught with evident dangers. If Africa could break into *manufacturing* it would help to create the jobs that young Africans need.<sup>55</sup> {emphasis added}

This neglect of services is highlighted in *Avenues for Export Diversification: Issues for Low-Income Countries*, which states "Services have become a major—and unfortunately often ignored—source of diversification." The missed opportunities are highly significant:

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<sup>52</sup> World Bank, *Preferential Trade Agreement Policies for Development*, as note 50 above, p. 1.

<sup>53</sup> World Bank, Edited by Paul Brenton and Gözde Isik, *De-Fragmenting Africa: Deepening Regional Trade Integration in Goods and Services*, 2012 International Bank for Reconstruction and Development/ International Development Association or The World Bank, p. xv.

<sup>54</sup> ILO, *Growth, Employment and Decent Work in the Least Developed Countries*, as note 1 above, p. 2.

<sup>55</sup> Paul Collier, *How to Really Help Africa*, [Social Europe Journal, website](http://www.social-europe.eu), 10/03/2010. Accessed at <http://www.social-europe.eu/2010/03/how-to-really-help-africa/> on 22 August 2012.

... services can contribute to growth and export diversification in several ways: (i) by expanding exports of existing services activities to existing markets and thereby growing the generally small services export sector relative to agricultural, mining, and manufacturing exports; (ii) by developing new services exports or starting to export existing services activities to new markets; and (iii) by lowering input and transaction costs to make merchandise products more competitive in international markets.<sup>56</sup>

*De-Fragmenting Africa* concurs, stating "Too often services are overlooked as a source of export diversification and discussions and trade policies are inappropriately focused on manufactures", and emphasizing that "Exports of services appear to be of particular importance for land-locked countries for whom opportunities to diversify into the export of manufactures are more limited by the high costs of transporting goods".

Indeed, over the past 10 years *exports of services from non-oil exporting land-locked countries in Africa have increased at a rate more than three times faster than their exports of goods.*<sup>57</sup> {emphasis added}

Emphasizing that "The service sector is key to economic growth, export competitiveness, and poverty reduction", a recent World Bank publication, *International Trade in Services: New Trends and Opportunities for Developing Countries*, attempts to explain the reasons for the neglect of services exports, stating "Because of the technological gap between developed and developing countries, the impression has persisted, however, that the service trade is the privilege of the countries of the Organisation for Economic Co-operation and Development and that there is nothing or little of value in this trade for the poorest countries":

Recent research and evidence have proven this to be erroneous: *any country, including the least developed, can join the club of service trade exporters and benefit from increased market opening.*<sup>58</sup> {emphasis added}

The importance of services as facilitators for agriculture and manufacturing must not be underestimated. As emphasized in the *Africa Competitiveness Report 2011*, "services in most of Africa need to be further developed since the service sector is both an important input into the competitiveness of manufactures and an engine of growth in its own right." In transport, for example, poor services infrastructure can have severe consequences:

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<sup>56</sup> Commission on Growth and Development, Paul Brenton, Richard Newfarmer, and Peter Walkenhorst, *Avenues for Export Diversification: Issues for Low-Income Countries*, Working Paper No. 47, 2009, The International Bank for Reconstruction and Development / The World Bank, On behalf of the Commission on Growth and Development, p. 23.

<sup>57</sup> World Bank, *De-Fragmenting Africa*, as note 53 above, p. 16.

<sup>58</sup> World Bank, *International Trade in Services: New Trends and Opportunities for Developing Countries*, Olivier Cattaneo, Michael Engman, Sebastián Sáez, and Robert M. Stern, Editors, 2010, The International Bank for Reconstruction and Development / The World Bank, pp. 1, 3.

Clearly, a lack of well-functioning transport and trade facilitation regimes is what is hindering many countries from becoming bigger global players. Better logistics are strongly associated with trade expansion, export diversification, and the ability to attract FDI.<sup>59</sup>

Another major reason for the neglect of services is a lack of adequate data and statistics [Box IV]. As highlighted in *Avenues for Export Diversification*, "Developing trade in services is a complicated process and many countries do not have an explicit trade in services policy or a detailed, overall plan to develop services trade":

This lack of a strategic outlook can be partly explained by the general paucity of data on services trade and the resulting absence of rigorous policy advice.<sup>60</sup>

#### Requirements for services exports

As noted in the *Africa Competitiveness Report 2011*, "Factors viewed as necessary for diversifying production and exports through export of services are similar {to those for goods}: (1) human capital; (2) infrastructure, especially pertaining to telecommunications; and (3) adequate institutions, in particular in the area of regulations and contract enforcement".<sup>61</sup> The 2012 World Bank book, *Exporting Services: A developing country perspective*, further observes that "The success of some countries in exporting services seems to be unrelated to their performance in trade in goods or to their industrial development":

In fact, service sector exports of a number of developing countries are growing faster than their goods exports and are contributing to their export diversification. Some authors have suggested a "service revolution" is occurring that offers an alternative channel for accelerated economic growth and poverty alleviation.<sup>62</sup>

*Exporting Services* "attempts to disentangle the determinants of developing-country participation in service exports and to identify strategies for export success", emphasizing that "Differences in determinants are not static and may evolve over time depending on the policy and other choices a country makes". The book "examines the role of the following factors":

- The "fundamentals," which are given in the short run but can be influenced by policy in the longer term. These fundamentals include a country's factor endowments, especially of human capital, including skills and entrepreneurial ability; natural resources and cultural endowments, such as those that attract tourism;

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<sup>59</sup> WEF *et al.*, *Africa Competitiveness Report 2011*, as note 8 above, pp. xiii-xiv.

<sup>60</sup> "The data problems are also afflicting economic analysis and inducing researchers to restrict their tools to merchandise trade data and, thus, losing focus on developments in international services transactions" (Commission on Growth and Development, *Avenues for Export Diversification: Issues for Low-Income Countries*, as note 56 above, p. 23).

<sup>61</sup> WEF *et al.*, *Africa Competitiveness Report 2011*, as note 8 above, p. 13.

<sup>62</sup> World Bank, Arti Grover Goswami, Aaditya Mattoo, and Sebastián Sáez, Editors, *Exporting Services: A developing country perspective*, 2012, International Bank for Reconstruction and Development / International Development Association or The World Bank, p. 1.

infrastructure, especially telecommunication networks that facilitate the delivery of services; and institutional quality, especially the regulatory environment for services.

- *Policies affecting trade, investment, and labor mobility in services.* A broad range of policies affect cross-border trade, such as transport and financial services; consumption abroad in health and education services; foreign investment and the participation of multinational companies in banking, telecommunications, and business process outsourcing (BPO); and the movement of individual service providers in construction and information technology (IT) services.

- *Proactive policies in services.* Such policies include those designed to promote exports, investment, or both, for example, by creating special economic zones or allowing privileged access to land, infrastructure, or imported inputs; by providing fiscal incentives for exporters and investors in the form of subsidies or tax exemptions; and by establishing other trade promotion activities, such as trade fairs and information dissemination.<sup>63</sup>

{footnotes deleted}

### *Trying to "pick winners"*

One of the risks of policies to promote comparative advantage is that governments are often tempted to try and "pick winners", frequently with negative consequences. As stated in *New Structural Economics*:

The intellectual legacy of the failure of industrial policies based on development strategies that were inconsistent with comparative advantage has certainly led many economists to conclude that it may be impossible for any government to 'pick winners' successfully.<sup>64</sup>

Indeed, as already noted, strong arguments can be made for first creating an appropriate domestic macroeconomic environment, and removing existing impediments, before attempting to promote specific products and industries. As the World Bank, observes, "Reforming public institutions and the business environment is desirable in general and usually safer than picking winners."<sup>65</sup> Nonetheless, it is also possible to argue that:

Although direct government interventions in support of specific sectors ("picking winners") have in the past been ineffective—because they were directed at sectors that were ultimately not viable or were undermined by governance issues—recent research has documented the extent to which industrial policy has been effectively applied in many advanced and developing countries to spur growth in new sectors of the economy.<sup>66</sup>

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<sup>63</sup> World Bank, *Exporting Services: A developing country perspective*, as note 62 above, pp. 3, 4. Page 5 further notes "The empirical literature confirms that service sector performance critically depends on human capital, the quality of the telecommunication network, and the quality of institutions."

<sup>64</sup> Lin, *New Structural Economics*, as note 6 above, p. 163.

<sup>65</sup> World Bank, *Exporting Services: A developing country perspective*, as note 62 above, p. 19. "Policy equality" as compared to other sectors, with regard to export- and investment- promotion incentives, etc., is also highly important.

<sup>66</sup> World Bank, *Africa's Future, and the World Bank's Support to It*, as note 7 above, p. 11.

#### Box IV: *Problems with Services Statistics*

"Trade Statistics in services is a major challenge. Without statistics, it is very challenging for countries to identify their interest in various service sectors and for policy makers to analyse and make informed policies on services. There is need to improve the methodologies used in service trade data collection."<sup>a</sup>

Although "The past two decades have seen exciting changes with developing countries emerging as exporters of services", as the World Bank observes, "the difficulty measuring trade flows and the policies that affect these flows have inhibited serious empirical research on services trade." Consequently, "Identifying the reasons for the success or underperformance of developing countries in exporting services remains challenging because of the lack of reliable data".<sup>b</sup>

##### **Inadequacies in Statistical Coverage on Trade in Services<sup>c</sup>**

<i>Mode of supply</i>	<i>Relevant data source</i>	<i>Inadequacies</i>
Cross-border trade	International Monetary Fund (IMF) balance of payment service statistics (categories other than travel)	IMF balance of payment statistics do not distinguish between cross-border supply, commercial presence (firms), and presence of natural persons (individuals) for less than 1 year.
Consumption abroad	IMF balance of payment statistics (mainly the travel category)	Travel also contains goods and is not subdivided into the different categories of services consumed by travelers. Some transactions related to this mode of supply also appear in other IMF balance of payment categories.
Commercial presence	FDI and foreign affiliate trade statistics	FDI statistics do not provide data on output (or sales); FDI definition does not match the definition of commercial presence. Until recently, foreign affiliate trade statistics existed only for the United States. Now other countries of the Organisation for Economic Co-operation and Development have started collecting such statistics using basic concepts and definitions contained in UN and others (2002).
Presence of natural persons (independent)	IMF balance of payment statistics (mostly categories other than transport and travel)	IMF balance of payment statistics do not distinguish between cross-border supply, presence of natural persons (individuals), and commercial presence for less than 1 year. Natural persons who are residents are not covered.
Presence of natural persons (employees)	Employment data from foreign affiliate trade statistics	Statistics are not yet available.

Source: Mattoo 2005.

Sources: <sup>a</sup>African Union, *Report*, African Union/RECs Workshop on Trade in Services In Collaboration with ILEAP and AfDB, 29-30 March 2012, Lusaka, Zambia, p. 5.

<sup>b</sup>World Bank, Arti Grover Goswami, Aaditya Mattoo, and Sebastián Sáez, Editors, *Exporting Services: A developing country perspective*, 2012, International Bank for Reconstruction and Development / International Development Association or The World Bank, pp. xv, 5.

<sup>c</sup>World Bank, *Exporting Services: A developing country perspective*, p. 22.

## C. Infrastructure, Investment and Domestic Regulation

### *Addressing the LDC "infrastructure and investment gaps"*

Multiple references have already been made in this working paper to the importance of adequate infrastructure, investment and domestic regulations for export diversification. With regard to exporting services, for example, the World Bank notes that, "Although success seems to be explained by a set of conditions that are difficult to replicate, common features can also be identified":

Countries in which the infrastructure for service delivery and the institutions governing services—such as regulatory frameworks—improved were, over time, able to become successful service exporters. Human capital and information technologies are crucial determinants of export success in modern services, such as business and professional services. Openness to foreign investment is also relevant because in some cases this investment provided the crucial first spark.<sup>67</sup>

Of course, adequate infrastructure and investment are highly important not only for export diversification, they are arguably even more essential for overall economic and social development, and achievement of the Millennium Development Goals (MDGs). If well-planned and regulated, much of the infrastructural services required for export diversification, including telecommunications, financial services, electricity distribution, transport, etc. can be extended to, and greatly benefit, the general population.

As outlined in the author's 2011 WTO Staff Working Paper, the LDC "infrastructure and investment gaps" are enormous [see **Figure I**], and addressing them will almost surely require a wide range of responses.<sup>68</sup> Regarding Africa specifically, the situation is especially severe: *Africa's Infrastructure* estimates Sub-Saharan Africa's annual infrastructure spending needs at about US\$ 93 billion, in order to overcome the current infrastructure gap within a 10-year period. Existing total spending was calculated at about US\$ 45 billion, and possible efficiency gains at US\$ 17 billion, leaving an annual funding shortfall of nearly US\$ 31 billion. The gap for low-income African countries is by far the largest, estimated at nearly US\$ 19 billion.<sup>69</sup>

The recent strong LDC growth did little to improve their investment situation, as noted by UNCTAD: "Investment in the LDCs as a group grew from 20 per cent of GDP in 2000 to 23 per cent in 2008. Gross fixed capital formation actually fell in 19 LDCs during the boom years of 2002-2007."

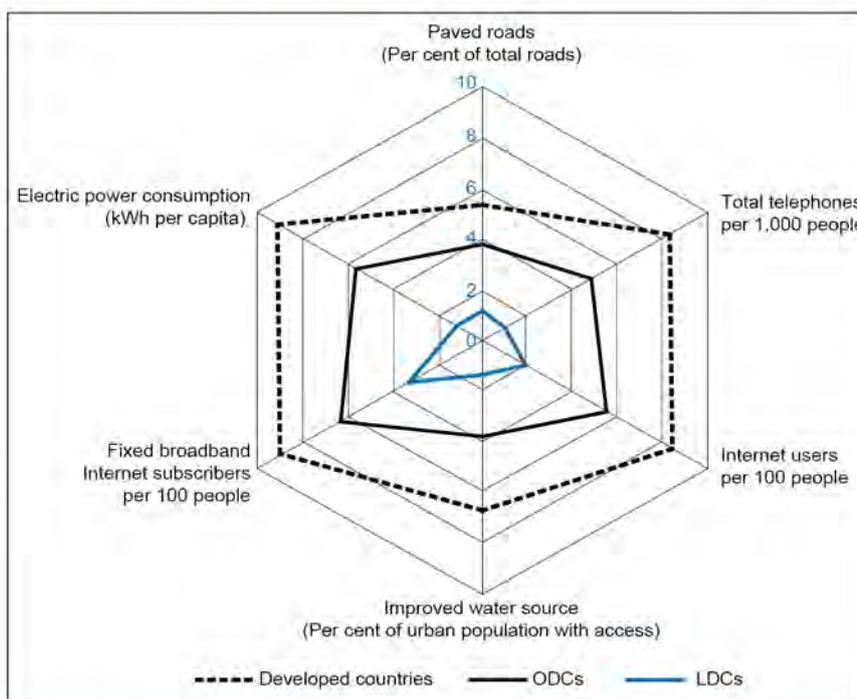
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<sup>67</sup> World Bank, *Exporting Services: A developing country perspective*, as note 62 above, p. xvi.

<sup>68</sup> Honeck, "Expect the Unexpected"?, as note 2 above. The next few paragraphs are largely taken from Honeck, *Addressing the LDC Infrastructure and Investment Gaps: Is there a role for GATS commitments?*, Bridges Africa, Volume 1, Issue 4 - August-September 2012, pp. 28-29.

<sup>69</sup> Agence Française de Développement and the World Bank, *Africa's Infrastructure: A Time for Transformation*, Vivien Foster and Cecilia Briceño-Garmendia, Editors, a copublication of the Agence

**Figure I: Selected Physical Infrastructure Indicators in LDCs, Other Developing Countries (ODCs) and Developed Countries**



Source: UNCTAD secretariat calculations, based on World Bank, *Knowledge Assessment Methodology* database, 2010.  
 Note: Indicators are normalized to range from 0 to 10 (best performers).

Domestic savings in the LDCs, excluding oil exporters, have remained constant at only 10 per cent of GDP.<sup>70</sup> An increasingly important mechanism to address the LDC infrastructure gap is public-private partnerships which, in addition to being useful funding sources, can improve efficiency and productivity.<sup>71</sup>

As highlighted in the *Outcome of the Africa Regional Preparatory Meeting for the Fourth United Nations Conference on the Least Developed Countries*, "External financial resources, including official development assistance, foreign direct investment and debt relief are urgently needed in order to augment domestic savings."<sup>72</sup> *Africa's Infrastructure* observes, however, "Only a

Française de Développement and the World Bank, 2010, p. 2. The biggest shortfalls for low-income African countries are for water supply/sanitation (about \$9 bil.) and electricity (\$7.5 bil.).

<sup>70</sup> UNCTAD, *Towards a New International Development Architecture for LDCs*, as note 3 above, p. iv.

<sup>71</sup> Agence Française de Développement and the World Bank, *Africa's Infrastructure*, as note 69 above, p. 17.

<sup>72</sup> Economic Commission for Africa and African Union (ECA-AU), *Outcome of the Africa Regional Preparatory Meeting for the Fourth United Nations Conference on the Least Developed Countries*, 8-9th March 2010, Addis Ababa, Ethiopia, p. 4. To this list should also be added the reduction of capital flight and other illicit financial flows: see, for example, Association of Concerned Africa Scholars, ACAS Bulletin 87 – *Africa's Capital Losses: What Can Be Done?*, November 19, 2012 (available online, at <http://concernedafricascholars.org/bulletin/issue87/>).

limited number of financing sources are available, and the current global financial crisis is likely to affect them all adversely."<sup>73</sup>

### *Trade liberalization and export diversification*

As noted by the World Bank, "Inward FDI may help initiate and even sustain service exports".<sup>74</sup> Research by FERDI states that "import liberalization can be taken as a positive shock on TFP {total factor productivity} which should, according to the argument discussed in the previous section, raise the number of industries with an upper tail of firms capable of exporting—and thus overall export diversification".<sup>75</sup> The *Africa Competitiveness Report 2011* emphasizes that:

FDI can be particularly beneficial for export sectors, as foreign companies help integrate developing countries into the global economy by easing access to foreign markets and including local enterprises in global production chains. Experiences from other world regions also suggest that FDI can help facilitate export diversification.<sup>76</sup>

*Exporting Services: A developing country perspective* observes that "Ample empirical evidence in the literature suggests that FDI promotes trade in the host country through introduction of new technology and management techniques, diffusion of market information, and greater market access, as well as by stimulating competition in the host country".<sup>77</sup> The Economic Commission for Africa and the African Union (ECA-AU) state that "While Africa has generally benefited from FDI inflows, concerns remain over the distribution of benefits between the origin and host economy. African countries should therefore adopt a selective approach in accepting FDI to ensure coherence between boosting FDI and pursuing their national development strategies":

Africa needs to make greater effort to attract investments that are linked to the rest of the economy, generate employment, transfer knowledge and build local capacity.<sup>78</sup>

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<sup>73</sup> Agence Française de Développement and the World Bank, *Africa's Infrastructure*, as note 69 above, p. 75.

<sup>74</sup> World Bank, *Exporting Services: A developing country perspective*, as note 62 above, p. 11. *Analyzing Trade Competitiveness* (World Bank, *Analyzing Trade Competitiveness*, as note 28 above, p.2), observes that "openness to imports also acts as a disciplining force on domestic markets, leading to lower cost, higher quality inputs for producers". In a similar manner, the *Africa Competitiveness Report* (WEF *et al.*, *Africa Competitiveness Report 2011*, as note 8 above, p. xiv) states that "FDI inflows play an important role in improving competitiveness in African firms (both producers and suppliers) through advancing their managerial skills and technological capacities".

<sup>75</sup> FERDI, *Trade Diversification, Income, and Growth*, as note 24 above, p. 16.

<sup>76</sup> WEF *et al.*, *Africa Competitiveness Report 2011*, as note 8 above, p. 3.

<sup>77</sup> World Bank, *Exporting Services: A developing country perspective*, as note 62 above, p. 41. Nonetheless, "The literature also suggests that FDI may be detrimental for exports if it lowers or replaces domestic savings and investment or transfers technologies that are low level or inappropriate for the host country's factor proportions. Furthermore, if host countries do not meet the threshold human capital requirement or if most service exports are low in capital intensity, FDI may not influence service sector exports in a significant way". {references deleted}

<sup>78</sup> ECA-AU, *Economic Report on Africa 2011*, as note 14 above, p. 60.

The high level of perceived investment risk in many African LDCs is reflected in their typically poor ratings across a range of FDI (and other) indexes.<sup>79</sup> With respect to Africa, Paul Collier has emphasized that governments face numerous disadvantages in attracting investment, leading him to conclude that "A reforming African government thus needs instruments which accelerate the improvement in its international reputation."<sup>80</sup> Overall, *Africa's Future, and the World Bank's Support to It*, states that:

Africa's weak investment climate is caused by three main factors: (a) poor infrastructure, (b) poor business environment (policies and access to finance), and (c) insufficient technical skills.<sup>81</sup>

### *Domestic regulation issues*

Together with adequate infrastructure and levels of investment, effective domestic institutions and regulations are undoubtedly of equal (or greater) importance. As stated in *Exporting Services: A developing country perspective*, "countries with better institutions (mainly regulatory and contract-enforcing institutions) have more dynamic and larger service sectors".<sup>82</sup> Overall, as noted by the OECD:

While all relevant stakeholders should be involved in facilitating economic diversification, the role of government remains particularly important. Primarily, governments must try to improve the business climate to support economic diversification.<sup>83</sup>

The role of government is also highlighted by the ECA and AU, which states, "Sound macroeconomic policies alone cannot put African countries on the path of strong and sustainable growth. They should be complemented by structural and institutional efforts, including strengthening capacity in budget execution and reporting reforms of public utilities":

Another sector in which urgent reforms needed is the banking and financial industry. Supervisory efforts in monitoring liquidity and credit risks should be extended to all financial institutions, including the pension funds, which have grown significantly in recent years. Also, improving the business climate, including streamlining procedures and better contract enforcement, will contribute to promoting private sector development, investment, economic diversification, growth recovery, employment generation and poverty reduction.<sup>84</sup>

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<sup>79</sup> See, for example, UNCTAD's online *Country Fact Sheets* regarding FDI (accessed at <http://www.unctad.org/templates/page.asp?intItemID=3198> on 22 August 2012).

<sup>80</sup> Paul Collier, *International Political Economy: Some African Applications*, *Journal of African Economies* (2008) 17(suppl 1): 110-139 doi:10.1093/jae/ejm032, p. i126.

<sup>81</sup> World Bank, *Africa's Future, and the World Bank's Support to It*, as note 7 above, p. 10.

<sup>82</sup> World Bank, *Exporting Services: A developing country perspective*, as note 62 above, p. 204.

<sup>83</sup> OECD, *Globalisation, Comparative Advantage and the Changing Dynamics of Trade*, OECD Publishing, 2011, p. 75 (available online, at <http://dx.doi.org/10.1787/9789264113084-en>).

<sup>84</sup> ECA-AU, *Economic Report on Africa 2010*, as note 49 above, p. 75.

Other possible mechanisms to improve the domestic business climate (and the international investment ratings) of LDCs would presumably include domestic regulatory reforms to obtain higher rankings in the World Bank's *Doing Business* index -- as recently demonstrated by Rwanda, which received extensive publicity as the leading reformer for 2010.<sup>85</sup> As highlighted in *Analyzing Trade Competitiveness*:

... firm productivity is in no small part determined by public inputs to firms' production, and the good functioning of the markets in which firms operate. States can either do a very good job or a very bad job at creating the environment in which firms can efficiently obtain inputs and sell their outputs. Moreover, some of the inputs required by firms, such as infrastructure, educated workers, and sanitary/safety certifications are directly provided by the State.<sup>86</sup>

The *Africa Competitiveness Report 2011* states that "it is clear that most countries in Africa remain hobbled by regulations and other obstacles that diminish the efficiency with which goods and services are traded in their economies", and that "Much can be done in the region to inject more competition into markets and make starting a business in the region less difficult":

Given the daunting list of constraints that depress African productivity and export growth, African governments will need to (1) prioritize and sequence reforms and investments in the business environment and infrastructure in order to unleash the potential for growth in their industries, and (2) bring together policies to promote competitiveness within a coherent strategy rather than as a series of ad hoc interventions. Experience shows that, in isolation, these interventions tend to be ineffective.<sup>87</sup>

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<sup>85</sup> World Bank, *Investing Across Borders 2010*, The World Bank Group, 2010.

<sup>86</sup> World Bank, *Analyzing Trade Competitiveness*, as note 28 above, p. 4.

<sup>87</sup> The report further states that "the labor markets in most African countries are among the least flexible and least efficient in the world, as also evidenced by high levels of unemployment in middle-income countries such as South Africa, Tunisia, and Botswana, as well as very high "working poverty" levels in many of the poorest countries in the region" (WEF *et al.*, *Africa Competitiveness Report 2011*, as note 8 above, pp. 10, 13).

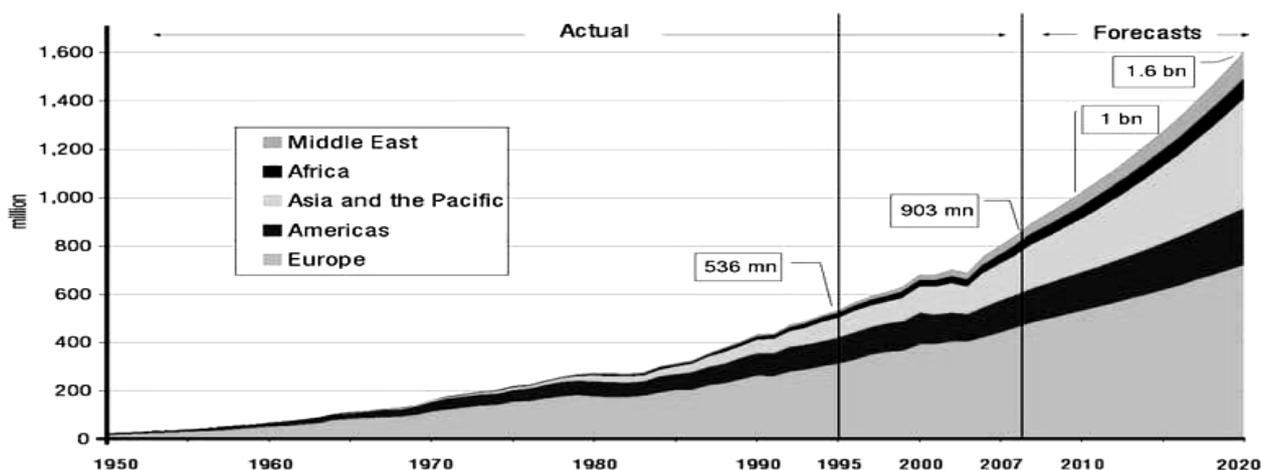
## D. Export Diversification via Tourism

### *Huge unrealized potential*

Although already one of the largest LDC export sectors and sources of employment (as noted in the Introduction), the LDC share of global tourism remains small in absolute terms [Figure II], and the current level of both inter- and intra- sectoral linkages is typically quite low.<sup>88</sup> As stated in the World Bank's *Africa Region Tourism Strategy*, with regard to Sub-Saharan Africa (SSA):

Africa has unfulfilled tourism potential. Only a handful of the 47 countries in SSA are taking advantage of their tourism potential. In most countries, raw tourism resources are not yet economically productive assets.<sup>89</sup>

**Figure II: International Tourist Arrivals, 1950-2020**



Source: World Tourism Organization, *World Tourism Highlights*, 2008 Edition, p.11, as found in World Trade Organization, *Tourism Services*, Background Note by the Secretariat, WTO document S/C/W/298, 8 June 2009, p.1.

The author's 2008 Working Paper, *LDC Poverty Alleviation and the Doha Development Agenda: Is Tourism being Neglected?*, noted that the LDC share of international tourism visitors and revenues in 2006 was estimated at only 1.4% per cent and 0.8%, respectively.<sup>90</sup> A recent WTO document, *Market Access for Products and Services of Export Interest to Least-Developed Countries*, observes that "Tourism, measured as trade in "travel" services, is the leading sector of LDC services exports, representing 54 per cent of commercial services revenues in 2010":

<sup>88</sup> See Part V, *Maximizing LDC Tourism Linkages*.

<sup>89</sup> World Bank, *Africa Region Tourism Strategy*, as note 17 above, p. 6. Page 7 further notes, "Intra-regional tourism may be the sleeping giant of SSA tourism. Already more than 10 million people are travelling across international borders every year within Africa for shopping, medical reasons, sport trips, religious journeys, business meetings and conferences, and visiting friends and relatives".

<sup>90</sup> Dale Honeck, *LDC Poverty Alleviation and the Doha Development Agenda: Is Tourism being Neglected?*, World Trade Organization, Staff Working Paper ERSD-2008-03, 12 August, 2008, p.5 (available online, at [http://www.wto.org/english/res\\_e/reser\\_e/ersd200803\\_e.htm](http://www.wto.org/english/res_e/reser_e/ersd200803_e.htm)).

Based on available data, between 2000 and 2010, receipts from international tourism in LDCs expanded by more than 14 per cent annually, higher than the growth rate observed for other developing economies (10 per cent) and double the total world average (7 per cent). Their market share (1.1 per cent of the respective world total in 2010), almost doubled in ten years, and is growing rapidly, indicating *the existence of comparative advantage* in this area of export activity.<sup>91</sup> *{emphasis added}*

Overall, the UNWTO study, *Tourism Towards 2030* predicts that "International tourist arrivals to Asia and the Pacific are projected to increase by 331 million in two decades, from 204 million in 2010 to 535 million in 2030. The Middle East and Africa are also expected to more than double their arrivals in this period, respectively from 61 million to 149 million and from 50 million to 134 million":

As a consequence, there will be increases in the global market shares of Asia and the Pacific (to 30% in 2030, up from 22% in 2010), the Middle East (to 8%, from 6%) and Africa (to 7%, from 5%), ...<sup>92</sup>

#### *Greater competitiveness than agriculture and manufacturing?*

As highlighted by the ECA-AU, "Contrasting the strong export performance of travel services with the sensitivity of Africa's merchandise trade to commodity prices demonstrates the benefits of a diversified export portfolio, to provide insulation from commodity trade volatility".<sup>93</sup> Equally important, it must be noted that the barriers to tourism imposed by trading partners are typically minimal. Indeed, the greatest barriers to increased LDC tourism exports are evidently largely self-inflicted -- through inappropriate domestic policies and the lack of sufficient infrastructure -- although the travel warnings imposed by source markets may arguably have greater negative effects in the short-run.

As noted earlier, both comparative and competitive advantage can be notoriously difficult to measure accurately; nonetheless, tourism does appear to have multiple advantages compared to agriculture and manufacturing. For example, an Overseas Development Institute (ODI) paper in 2008 stated that "ODI research confirms that most African countries are uncompetitive suppliers of agricultural products on the world market. To make international exports worthwhile, they require a

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<sup>91</sup> WTO, *Market Access for Products and Services of Export Interest to Least-Developed Countries*, Sub-Committee on Least-developed countries, WTO document WT/COMTD/LDC/W/51, 10 October 2011, p. 15.

<sup>92</sup> World Tourism Organization (UNWTO), *Tourism Towards 2030*, Global Overview, Advance edition presented at UNWTO 19th General Assembly, 10 October 2011, p. 18.

<sup>93</sup> ECA-AU, *Economic Report on Africa 2011*, as note 14 above, p. 52. Indeed, Annex II: *Growth and Volatility in Africa, 1960–2007* shows tourism exporters as predominant among the countries with the lowest volatility and highest average annual real per capita GDP growth rates.

protected market and a price level above world market".<sup>94</sup> Paul Collier, although advocating manufacturing, has acknowledged that "Since its domestic market for manufactures is tiny and fragmented by internal trade barriers, the pertinent market for African manufactures is global. But given the competition from established producers in Asia, breaking in is hard".<sup>95</sup> The *Africa Competitiveness Report 2011* further observes:

... sub-Saharan Africa's international competitiveness in individual industries, especially in manufacturing and agro-processing, has seen little improvement over the last two decades.<sup>96</sup>

With regard to African agro-business specifically, The *Africa Competitiveness Report 2011* states "There is immense potential to scale-up agribusiness in sub-Saharan Africa, as demonstrated by emerging successes in Kenya, Tanzania, and Ghana. However, this potential remains largely untapped. Sub-Saharan Africa's share of world exports in agribusiness is the lowest of all developing regions":

Africa's poor performance in export markets for agribusiness is in part explained by its slow productivity growth. Value-chain studies focusing on sub-Saharan Africa show that, while agricultural productivity improved in parts of the region, it lagged behind vis-à-vis other regions. Although farm-level unit production costs in Africa are comparable with those found in Brazil and Thailand, these farms suffer from *low levels of productivity, which in turn make agriculture economically impoverishing and technically unsustainable*.<sup>97</sup> {emphasis added}

*"Free" opportunities for "test marketing" new products and services*

Like the development process in general, LDC export diversification involves risk and experimentation. As observed by the World Bank, "exporting is an activity with very low survival rates for new entrants. This is particularly the case for low income countries, where a host of constraints – including exchange rate volatility, and search and information costs – can conspire to fatally undermine export flows in these vital early years."<sup>98</sup> The ILO emphasizes that:

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<sup>94</sup> Mareike Meyn, *The WTO Doha Round Impasse: Implications for Africa*, Overseas Development Institute (ODI), Briefing Paper 41, September 2008, p. 3. {references deleted}

<sup>95</sup> Paul Collier, *How to Really Help Africa*, as note 55 above. While the *Africa Competitiveness Report 2011* notes that "sub-Saharan Africa's exports of clothing grew threefold since 1995 to US\$2.5 billion, on average, between 2006 and 2008" (WEF *et al.*, *Africa Competitiveness Report 2011*, as note 8 above, p. 15), by comparison tourism receipts for the region were much higher, ranging from \$15.9 bil. in 2006 to \$19.4 bil. in 2008 (UNWTO data).

<sup>96</sup> WEF *et al.*, *Africa Competitiveness Report 2011*, as note 8 above, p. 15. With regard to Southern Africa, the World Bank also notes "trade in manufactures and services {i.e. other than tourism?} are more sensitive to trade barriers and trade transaction costs than trade in the resource products that currently dominate exports" (World Bank, *De-Fragmenting Africa*, as note 53 above, p. 114).

<sup>97</sup> "The international and domestic logistics costs that provide natural protection for local producers pose a significant barrier to their competitiveness when it comes to exporting" (WEF *et al.*, *Africa Competitiveness Report 2011*, as note 8 above, p. 19).

<sup>98</sup> World Bank, *Analyzing Trade Competitiveness*, as note 28 above, p. 5.

This measure is extraordinarily bad for LDCs: 47 per cent of total trade relationships disappear within a given year (36 per cent for other LICs, 30 per cent for MICs, 16 per cent for HICs).<sup>99</sup>

Perhaps the most overlooked aspects of international tourism are the numerous opportunities for low-cost "test marketing" and export promotion. As pointed out by Iza Lejárraga and Peter Walkenhorst in *Fostering Productive Diversification through Tourism*, "In effect, a consumer from a developed country who vacations in a developing country serves as a valuable signaling device about existing and potential demand in international markets":

By observing the preferences tourists reveal through their economic behavior, in particular their purchasing choices, local entrepreneurs can garner key information about the characteristics of foreign demand, such as the types of goods and services that foreign consumers prefer, the quality and technical specifications required, and the willingness of foreign consumers to pay for a particular good or service.<sup>100</sup>

Paul Brenton, Richard Newfarmer, and Peter Walkenhorst in *Avenues for Export Diversification: Issues for Low-Income Countries*, further that "Indeed, the tourist economy represents a within-the-border international market. Tourist-suppliers enjoy free information about foreign demand, a low-cost 'trial and error' process for testing new products, and attractive cost savings for establishment and internationalization".<sup>101</sup> As further pointed out by Lejárraga and Walkenhorst, "Supplying international tourists means selling to foreign consumers without incurring export logistics costs".<sup>102</sup>

Well-managed tourism provides numerous "free" or low-cost opportunities for marketing goods and services, beginning with possibilities for advertising on LDC travel websites and extending to sales and marketing opportunities at airports, hotels, domestic stores, etc. These low-cost options are especially important for LDCs: as already noted, they suffer from some of the worst survival rates for new products and new markets.<sup>103</sup> Unfortunately, these low-cost opportunities for LDC marketing are rarely fully utilized, as shown by a quick look at the typically poor shopping and exhibition

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<sup>99</sup> "It thus appears that while LDCs export a similar number of products to a similar number of markets as other LICs, the problem for them is to maintain and grow these trade relationships to a point where they reach a significant size in the export portfolio." (ILO, *Growth, Employment and Decent Work in the Least Developed Countries*, as note 1 above, p. 23).

<sup>100</sup> Iza Lejárraga and Peter Walkenhorst, *Fostering Productive Diversification through Tourism*, World Bank, *Breaking into New Markets: Emerging Lessons for Export Diversification*, edited by Richard Newfarmer, William Shaw and Peter Walkenhorst, Washington D.C. 2009, pp. 200-201.

<sup>101</sup> Commission on Growth and Development, *Avenues for Export Diversification: Issues for Low-Income Countries*, as note 56 above, p. 26.

<sup>102</sup> Lejárraga and Walkenhorst, *Fostering Productive Diversification through Tourism*, as note 100 above, p. 197.

<sup>103</sup> As previously mentioned, the World Bank has observed that export survival rates for new entrants, especially LDC entrants, are very low due to exchange rate volatility, high search and information costs, etc.

facilities in most LDC airports and elsewhere, despite the often hundreds of thousands of visitors passing through annually.

### *Tourism receipts and export diversification*

The positive linkages between tourism and growth are commonly cited in tourism research. As mentioned in a recent IMF working paper, *Tourism Specialization and Economic Development: Evidence from the UNESCO World Heritage List*, "Empirical studies that investigate the impact of tourism on growth generally find a positive correlation between tourism receipts and the growth rate, especially for poor countries". Not surprisingly, the paper finds that:

Results suggest that there is a robust positive relationship between tourism receipts (as a share of exports) and growth. An increase of one standard deviation in tourism specialization leads to an increase of around 0.5 percentage point in annual growth, everything else being constant.<sup>104</sup>

Research regarding the relationship between tourism and export diversification, however, appears to be less frequent. Nonetheless, as highlighted by Paul Brenton, Richard Newfarmer, and Peter Walkenhorst in *Avenues for Export Diversification: Issues for Low-Income Countries*, "statistical panel data analysis shows a positive correlation between tourism receipts and export diversification" [Figure III].<sup>105</sup> Lejárraga and Walkenhorst, in *Fostering Productive Diversification through Tourism*, explain these results, noting that:

If tourism provides powerful incentives for local entrepreneurship, developing countries that attract significant levels of tourism might be expected to show a greater occurrence of new products and exports.<sup>106</sup>

Lejárraga and Walkenhorst further examine the role that tourism links play in regard to the discovery of new products, stating that "Links can be defined as the network of intersectoral supply relationships between the tourism economy and the rest of the productive sectors of the domestic economy":

When such networks exist between tourism and the rest of the economic activities of the host country, it is easier for local entrepreneurs to collect the signals on foreign demand that are enshrined in the tourism economy. In this regard, tourism links serve as a mechanism for the transmission of information to local producers. *The more links that exist between tourism and the general economy, the greater the potential for international buyers and local sellers to come together—ameliorating information*

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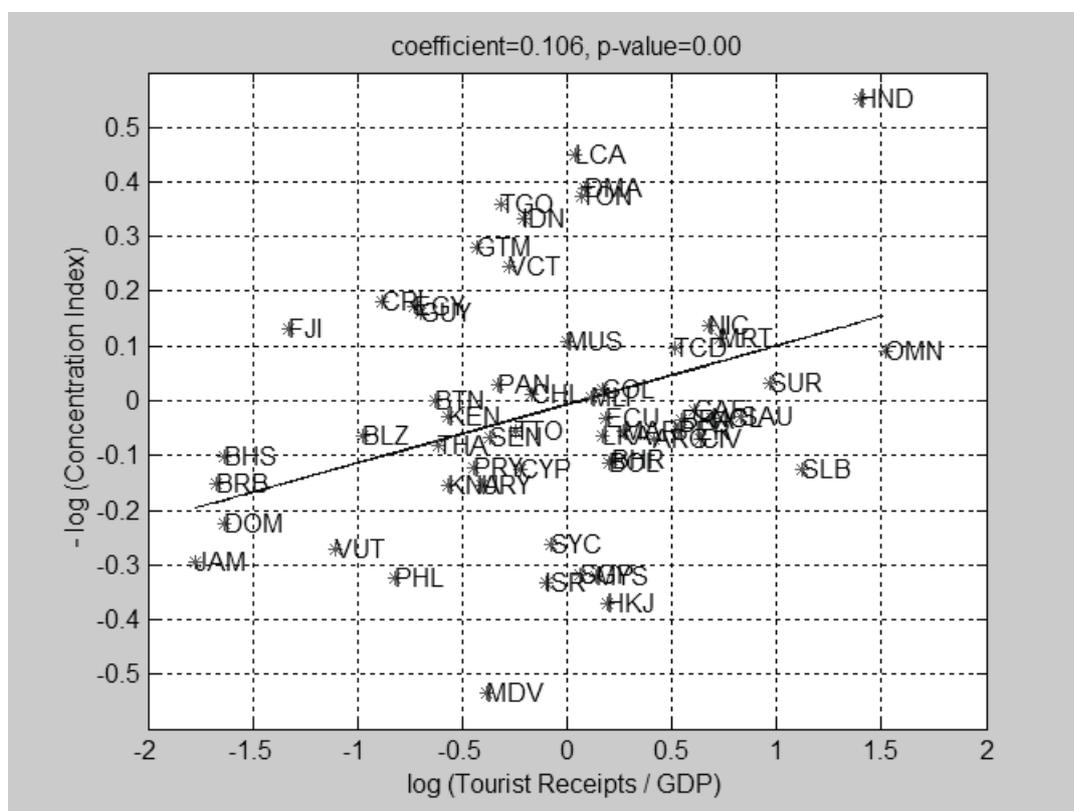
<sup>104</sup> International Monetary Fund (IMF) Working Paper, Rabah Arezki, Reda Cherif, and John Piotrowski, *Tourism Specialization and Economic Development: Evidence from the UNESCO World Heritage List*, WP/09/176, International Monetary Fund, July 2009, pp. 4, 5.

<sup>105</sup> Commission on Growth and Development, *Avenues for Export Diversification: Issues for Low-Income Countries*, as note 56 above, p. 26.

<sup>106</sup> Lejárraga and Walkenhorst, *Fostering Productive Diversification through Tourism*, as note 100 above, p. 203.

gaps and coordination failures, while leveraging the opportunities for experimentation and discovery of local entrepreneurs.<sup>107</sup> *{emphasis added}*

**Figure III: Tourism Specialization and Export Diversification (1993–2003)**



Note: Herfindahl index for 63 developing countries with tourism receipts of at least 0.05 per cent of GDP.

Source: Lejarraga and Walkenhorst (2007), as found in Commission on Growth and Development, Paul Brenton, Richard Newfarmer, and Peter Walkenhorst, *Avenues for Export Diversification: Issues for Low-Income Countries*, Working Paper No. 47, 2009, The International Bank for Reconstruction and Development / The World Bank, On behalf of the Commission on Growth and Development, p. 26.

### *An expanding range of possibilities*

Although the typical image of developing-country tourism is perhaps relaxing on an ocean-side beach, or observing animals on safari, the reality is actually far more complex, encompassing an extremely wide range of activities, including cultural, historical and religious tourism; business-related travel;<sup>108</sup> many types of nature and adventure tourism; as well as visiting overseas friends and

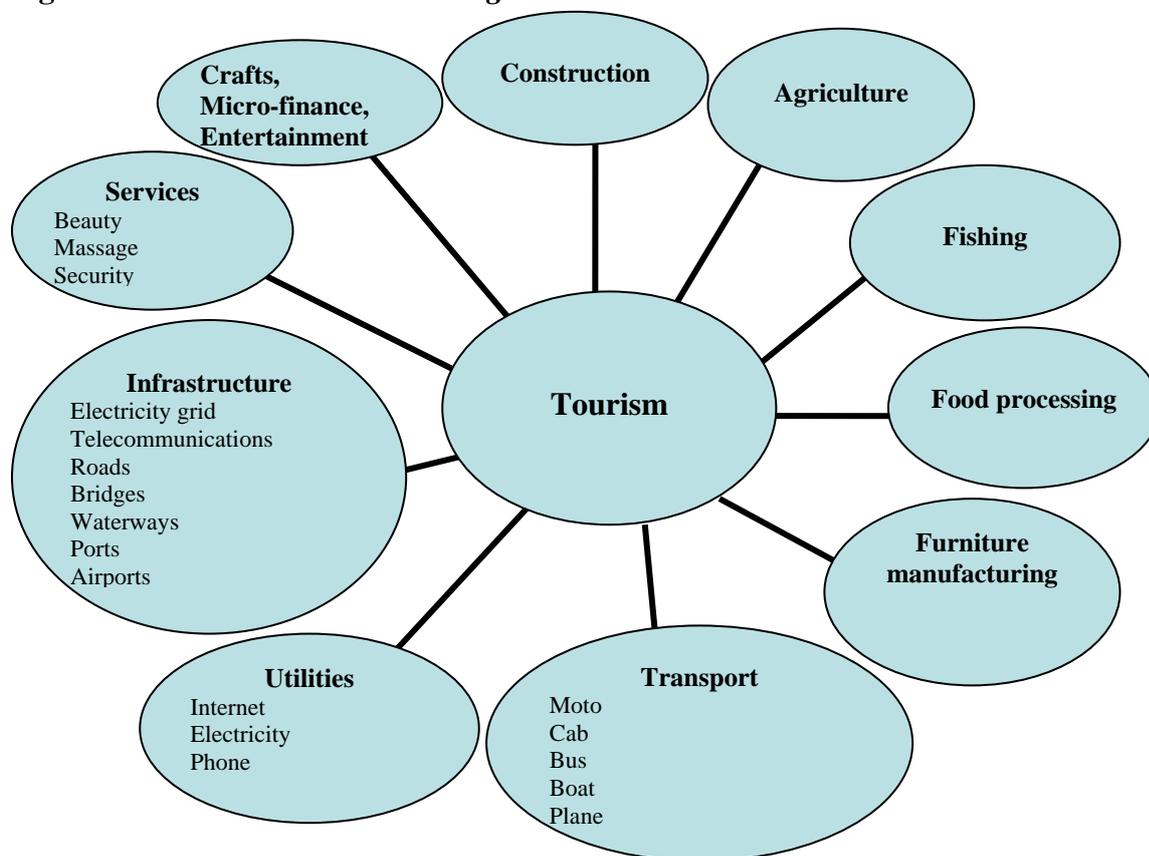
<sup>107</sup> Lejarraga and Walkenhorst, *Fostering Productive Diversification through Tourism*, as note 100 above, p. 205. On p. 204, Lejarraga and Walkenhorst note that "the question why some countries have been considerably more successful in leveraging tourism to discover new products and exports than others with similar levels of tourism activity merits further analysis". See Part V, *Maximizing LDC Tourism Linkages*.

<sup>108</sup> "Business travel is an important growth area for SSA. Unlike leisure travel, business travel flows depend on the dynamism of economic activity in the destination. Global hotel groups such as Accor, Starwood, Intercontinental, and Kempinski are planning for growth in the business travel market. Business tourists tend to

relatives [Annex IV]. In addition, for each main category there are multiple sub-categories, according to age, income level, source country, etc.

Unlike most exports, international tourism usually means that the client comes to the supplier, offering extensive export opportunities to even informal enterprises in remote and rural areas. In addition, further opportunities are offered to the many upstream and downstream suppliers to tourism businesses, including direct suppliers such as farmers (supplying food products, flowers, etc. to hotels and other tourism establishments), but extending to furnishings, equipment, and even the design and construction of tourism facilities. All these offer extensive opportunities, not only for export diversification, but for domestic economic development in general [Figure IV].

**Figure IV: Tourism Sectoral Linkages**



Source: ILO, Dain Bolwell and Wolfgang Weinz, *Reducing Poverty through Tourism*, WP.266, International Labour Office, Geneva, October 2008, p. 23.

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have a higher average daily spend and are less seasonal than leisure tourists. The development of high quality business hotels creates a large network of downstream benefits for the destination" (World Bank, *Africa Region Tourism Strategy*, as note 17 above, p. 6).

As highlighted by Iza Lejárraga and Peter Walkenhorst, "simply fostering diversification by growing tourism services may overlook a potentially even more important lever for diversification: using tourism as a vehicle to develop and diversify other parts of the domestic economy":

The key is to take advantage of the manifold links between tourism and other sectors. In addition to obvious connections to air and ground transportation, hotel accommodation, and tour-guiding services, enhanced tourism activities have upstream effects in the agrifood, handicraft, jewelry and cosmetics, and furniture and textile industries that can act as catalysts for quality improvements and economic development.<sup>109</sup>

#### *Export diversification within tourism*

Unlike most commodity or natural resource exports, tourism markets and pricing vary widely between client countries and regions, reflecting differences in income levels, travel patterns, etc. In addition, client countries rarely follow identical economic cycles, offering the opportunity for growth in visitors from one country/region to offset declines in visitor numbers or spending from another. Consequently, there are extensive opportunities for export diversification within tourism, in terms of client countries and regions, as well as regarding types of tourism activities.

As highlighted by the OECD, with respect to South Africa, "Tourism is seen as an important component of the country's economic development, because of its spill-over effects in developing infrastructure (roads and airports especially), construction of hotels and other facilities, job creation and image-building for the country as a whole."<sup>110</sup> For Africa as a whole, the *Africa Competitiveness Report* states that:

The development of the T&T {travel & tourism} sector offers significant opportunities for Africa to move up the value chain, fostering growth and development in the region. Travel & Tourism in Africa has many advantages on which to build, including price competitiveness, a strong affinity for tourism, and rich natural resources supported by efforts toward environmental sustainability.<sup>111</sup>

#### *Tourism's negative externalities: what are the risks?*

For all its positive aspects, export diversification via tourism also carries certain risks -- some of which are unique to tourism,<sup>112</sup> and others which are more characteristic of

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<sup>109</sup> Lejárraga and Walkenhorst, *Fostering Productive Diversification through Tourism*, as note 100 above, p. 197.

<sup>110</sup> OECD, *Globalisation, Comparative Advantage and the Changing Dynamics of Trade*, as note 83 above, p. 29.

<sup>111</sup> WEF *et al.*, *Africa Competitiveness Report 2011*, as note 8 above, p. xv.

<sup>112</sup> See, for example, Milena Stefanova, *The Price of Tourism: Land alienation in Vanuatu*, Justice for the Poor, January 2008 Volume 2, Issue 1 (available online, at [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2008/05/15/000333038\\_20080515033247/Rendered/PDF/436860BRI0J4P010Box327368B01PUBLIC1.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2008/05/15/000333038_20080515033247/Rendered/PDF/436860BRI0J4P010Box327368B01PUBLIC1.pdf)).

attempts at export diversification in general. At the academic (and typically theoretical) level, there is even the risk of "immiserizing growth",<sup>113</sup> but it is difficult to imagine in practice how this could be more likely than hazards such as "Dutch disease" resulting from LDC over-reliance on natural resource or commodity exports. Of course, inappropriate subsidization or other poorly designed policies and regulations could lead to a misallocation of resources in tourism, as with any other sector.<sup>114</sup>

At the applied level, despite the high long-term growth and stability of international tourism [**Figure II**], there are the very real risks of severe shocks, or even the temporary elimination of tourism exports, due to outbreaks of disease, natural disasters, political unrest or terrorism.<sup>115</sup> As shown in recent years, such events can disrupt domestic production and exports of agricultural and manufactured products as well.<sup>116</sup> Other well-known risks of tourism include potential environmental damage, social disruption from increased prostitution, or exploitation of the poorest segments of the population due to land seizures, consumption of scarce water resources, etc.<sup>117</sup> Such risks highlight the crucial importance of appropriate domestic regulation and national-level planning, as highlighted above.

In the author's view, however, the greatest risk (and source of negative externalities) regarding export diversification via tourism is undoubtedly the failure to understand -- and to plan for -- the complex, inter-sectoral nature of international tourism.<sup>118</sup> This includes the high sensitivity of tourism to government policies in related sectors, such as transport, financial services, telecommunications, etc., as well as more general policies and regulations regarding immigration procedures, investment, taxation, and even import tariffs on hotel-related materials and equipment. A "broken link" in any major part of the tourism value chain can have negative consequences for LDC exports.

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<sup>113</sup> See, for example, Bharat Raj Hazari, Jian Jing Lin, *Tourism, Terms of Trade and Welfare to the Poor*, Theoretical Economics Letters, 2011, 1, pp. 28-32.

<sup>114</sup> On Dutch disease, see for example, World Bank, Lao PDR Development Report 2010, *Natural Resource Management for Sustainable Development: Hydropower and mining*, Washington D.C., 2010. On misallocation of resources, see for example, M. Thea Sinclair, *Tourism and Economic Development: A survey*, *Journal of Development Studies*, 34 (5), June, pp. 1-51, 1998, as found in Tourism in Developing Countries, edited by Twan Huybers, Edward Elgar Publishing, 2007).

<sup>115</sup> See, for example, WTO, *Tourism Services*, Background Note by the Secretariat, WTO document S/C/W/298, 8 June 2009. With regard to the economic damage that can be caused by poorly implemented travel warnings, see also WTO, *Tourism Services*, Background Note by the Secretariat, Addendum, WTO document S/C/W/298/Add.1, 5 October 2009.

<sup>116</sup> [**Annex I: Growth and Volatility in Africa, 1960–2007**] shows tourism exporters, including LDCs, as predominant among the countries with the lowest volatility and highest average annual real per capita GDP growth rates.

<sup>117</sup> See, for example, Honeck, *LDC Poverty Alleviation and the Doha Development Agenda*, as note 90 above.

<sup>118</sup> See World Bank quote in the Introduction, p. 11.

### III. LDC Employment Generation

*"With a very youthful population structure and a fast-growing labour force, LDCs are confronted with a massive employment challenge."*<sup>119</sup>

*"There are currently more than 200 million unemployed young people in Sub Saharan Africa and 10 million more job seekers every year. The AFTFP Strategy, New Jobs for Africa, focuses on job creation in six key industries: agribusiness, construction, ICT, light manufacturing, mining, and tourism."*<sup>120</sup>

#### A. "Massive" Employment Problem in LDCs

##### *Issue of job quality*

The 2011 ILO report prepared for LDC IV, *Growth, Employment and Decent Work in the Least Developed Countries*, highlights that, while the share of wage and salaried workers in the LDCs increased from 14 to 18 per cent between 2000 and 2008, "the large majority of workers remain trapped in vulnerable forms of employment that cannot lift them above the poverty line." The report further emphasizes that:

The primary labour market challenge in the LDCs is not unemployment but productive employment and decent work for the large numbers of working poor. This is the main obstacle to the efforts to achieve the Millennium Development Goals and to set the LDCs on a sustainable development route.<sup>121</sup>

With respect to Sub-Saharan Africa specifically, the ILO states that "Large decent work deficits continue to characterize the labour market; better employment policies are needed, focusing on expanding productive employment opportunities and improving social protection". Consequently,:

High rates of economic growth are necessary to raise per capita incomes, both in view of the high growth rates of the working-age population in Sub-Saharan Africa, estimated at 2.7 per cent annually, and to address the region's large decent work deficits. In 2009, more than three-quarters of workers (75.8 per cent) were in vulnerable employment, a rate significantly exceeding all other regions except South Asia.<sup>122</sup>

##### *Consequences of blocked structural transitions*

As noted in the Introduction to this working paper, the 2010 *Economic Report on Africa* observes that reliance on a narrow range of commodities and export markets makes African export

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<sup>119</sup> ILO, *Growth, Employment and Decent Work in the Least Developed Countries*, as note 1 above, p. 44.

<sup>120</sup> World Bank, *Africa Region Tourism Strategy*, as note 17 above, p.1.

<sup>121</sup> ILO, *Growth, Employment and Decent Work in the Least Developed Countries*, as note 1 above, p. xi.

<sup>122</sup> ILO, *Global Employment Trends 2011: The challenge of a jobs recovery*, International Labour Office, ILO, 2011, p. 53. The report further notes, "Sub-Saharan Africa is also characterized by very high working poverty rates, and in 2009 around four out of five workers were among the ranks of the working poor".

earnings extremely vulnerable to volatility. The report also emphasizes that "Economic diversification away from the natural resources sector is critical for employment generation".<sup>123</sup> The World Bank concurs, stating:

... key objectives in Africa remain to diversify the export base away from dependence on commodities and implement policies that allow more people to participate in trade. This requires measures that will improve the conditions of firms and individuals in informal sectors, increasing their opportunities to interact with formal sector firms and providing a coherent route towards formality.<sup>124</sup>

The ILO notes that "Limited growth in employment in industry reflects the lack of structural transformation in much of Sub-Saharan Africa, in particular labour market transformation".<sup>125</sup> The 2010 *Economic Report on Africa* further observes that "the growth of employment in an economy depends on the sectoral composition of employment, sectoral growth rates and the output elasticities of employment in the various sectors. The implication is that employment growth in an economy depends on the aggregate growth rate as well as the sectoral composition of aggregate growth":

To accelerate the growth of employment in an economy, large sectors with high employment elasticities should be the engines of growth. In effect, structural transformation is necessary for rapid and sustained employment growth.<sup>126</sup>

As the 2010 *Economic Report on Africa* further notes, "While African economies generally grew at slightly less than the 7 per cent necessary to meet the MDGs, a major part of the inability to generate employment could be attributed to the sectoral composition of output growth":

The major source of economic growth in Africa has been the growth of natural resource-extraction sectors, which by their nature are capital-intensive and, with a few exceptions, have limited linkages to the domestic African economies. Value added in the mining sector, which employs less than 10 per cent of the labour force, grew at over 10 per cent per year, while agriculture, manufacturing and services with combined employment of over 80 per cent of the labour force, grew at less than 2.5 per cent annually in the last two decades.<sup>127</sup>

On a more optimistic note, the World Bank points out the potential opportunities present in SSA of a growing young population:

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<sup>123</sup> ECA-AU, *Economic Report on Africa 2010*, as note 49 above, p. 121. Similar arguments have been made for Bangladesh with regard to textiles.

<sup>124</sup> World Bank, *De-Fragmenting Africa*, as note 53 above, p. 3.

<sup>125</sup> ILO, *Global Employment Trends 2011*, as note 122 above, p. 54. The ILO also notes that "Employment growth for LDCs over 2000–09 was 2.9 per cent per annum, for adults 3.2 per cent per annum, and for youth only 2.1 per cent per annum, so much weaker than GDP growth." (ILO, *Growth, Employment and Decent Work in the Least Developed Countries*, as note 1 above, p.7).

<sup>126</sup> ECA-AU, *Economic Report on Africa 2010*, as note 49 above, pp. 131-32.

<sup>127</sup> ECA-AU, *Economic Report on Africa 2010*, as note 49 above, p. 132. The report also states "The combination of small size and low employment elasticities implies that growth based on rapid expansion of this sector will not generate high-employment growth. In turn, this suggests that a broad-based employment strategy will not only have to rely on higher aggregate growth but must also pay attention to its sectoral composition".

Growing and more youthful populations increase the need for more inclusive and employment intensive trade and growth and at the same time offer a real opportunity for Africa to harness an enormous potential advantage that can drive productivity and growth over a sustained period as happened in east Asia in the 1980s and 1990s and more recently in China.<sup>128</sup>

## ***B. Poverty Alleviation via Employment Generation***

The most important aspect of LDC employment generation is undoubtedly the potential for poverty alleviation. As observed by the ILO, "Not least for the young growing up in these impoverished rural households, access to productive non-farm employment opportunities is likely to offer the only viable road out of poverty."<sup>129</sup> The ECA-AU *Economic Report on Africa 2010* notes that "despite recent impressive economic performance growth had been below the level necessary for Africa to achieve the MDGs even before the crisis", stating that:

Overall employment growth has been disappointing in most African countries. Such lacklustre employment growth partly explains the limited progress in poverty reduction and other social conditions.<sup>130</sup>

As the ECA-AU report further emphasizes, "Economic diversification and equitable distribution of the benefits of growth are essential for reducing unemployment on a sustainable basis as well as progress towards poverty reduction and other broader social development goals." The report recalls the commitments made in September 2004 in Ouagadougou, Burkina Faso [**Box V**], by the Extraordinary African Union Summit on Employment and Poverty Alleviation in Africa, stating that:

Such plans are essential if countries are to enter paths of high, sustainable and employment-friendly growth. They should be supported by *sectoral, particularly industrial and labour market, strategies and policies* that aim at bridging the infrastructure gap, investing in people and improving governance.<sup>131</sup> *{emphasis added}*

In commenting on Africa's slow progress towards human and social development, the 2011 ECA-AU *Economic Report on Africa* observes that "The lack of employment creation—as said, partly due to the structural features of Africa's economies—is one of the main causes of persistent and chronic poverty":

Narrow drivers of economic growth and their capital intensity do not create jobs. Unemployed heads of poor households become risk adverse, failing to make

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<sup>128</sup> World Bank, *De-Fragmenting Africa*, as note 53 above, p. 3.

<sup>129</sup> ILO, *Growth, Employment and Decent Work in the Least Developed Countries*, as note 1 above, p. 36.

<sup>130</sup> ECA-AU, *Economic Report on Africa 2010*, as note 49 above, p. xv.

<sup>131</sup> ECA-AU, *Economic Report on Africa 2010*, as note 49 above, pp. xv, xvi.

investments in education and health, thereby reinforcing their household's marginalization from social, economic and political life. At the same time, recent increases in labour productivity augur well for long-term growth. But to translate them into high, sustainable growth, *strong measures are needed to promote the structural transformation that diversifies employment creation and ensures inclusion of vulnerable poor groups.*<sup>132</sup> {references deleted, *emphasis added*}

#### **Box V: Summary of the Ouagadougou Plan of Action**

##### ***"Creating decent jobs is the key route to reducing working poverty in Africa"***

"In Ouagadougou in September 2004, at the African Union Summit on Employment and Poverty Alleviation in Africa, African heads of State and government endorsed the Decent Work Agenda by adopting a Declaration, a Plan of Action and a Follow-up Mechanism calling for commitments by States to place employment at the centre of economic and social policies.

##### **The Ouagadougou plan of action concentrates on four areas:**

The **first** is the policy environment, and relates to the need to ensure political leadership and a commitment to create an enabling environment of good governance. This also includes better environments for resource mobilization and the development of frameworks for integration and harmonization of economic and social policies.

The **second** and **third** areas cover sectoral approaches and institutional partnership. Sectoral approaches encompass the promotion of agriculture and rural development as well as the utilization of sectors with high employment potential, while institutional partnership encompasses the building of human and institutional capacities for employment creation, international cooperation and partnership in addressing the employment agenda and strengthening cooperation among regional economic communities.

The **final** area is that of social protection and vulnerability, which implies the development of social safety nets and the empowerment for women in the labour force as well as vulnerable groups (AUC 2004).

Five years on, the first report on progress in the implementation of the Ouagadougou Plan of Action was deliberated upon by the seventh ordinary session of the African Union Labour and Social Affairs Commission (Addis Ababa, October 2009). Its report notes that while progress has been registered in implementing the Ouagadougou summit commitments, **a lot more needs to be done to alleviate poverty and create jobs.** Part of the problem cited is the diversion in resource use needed to meet the challenges of the global crisis."

**{emphasis added}**

*Source:* Economic Commission for Africa and African Union (ECA-AU), *Economic Report on Africa 2010: Promoting High-Level Sustainable Growth to Reduce Unemployment in Africa*, United Nations Economic Commission for Africa, 2010, Addis Ababa, Ethiopia, p. 171.

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<sup>132</sup> ECA-AU, *Economic Report on Africa 2011*, as note 14 above, pp. 39-40.

### ***C. Which LDC Export Options are Best for Employment?***

#### *What countries export matters*

As highlighted in the ILO report *Growth, Employment and Decent Work in the Least Developed Countries*, "The report's diagnostics suggest that what countries produce and export matters. The composition of output is of the first order of importance in accelerating and sustaining growth."<sup>133</sup> The ILO notes that successful structural transformation leading to export diversification does not result automatically from trade and financial liberalization and deregulation, and export diversification in itself is not sufficient in to generate adequate employment. Overall, a coherent set of policies in the relevant complementary areas is required. The report specifically concludes that:

The long-standing neglect of agriculture should be reversed, especially in African LDCs. Parallel to an intensification of agriculture, an increase in *non-farm wage employment and successful entrepreneurship is a core component*. Achieving a well-integrated domestic economy, with strong inter-sectoral and rural-urban linkages, is key to set the LDCs on a path of sustainable and job-rich growth.<sup>134</sup> *{emphasis added}*

The ILO report further observes that "Trade has the potential to contribute to growth in particular if combined with incoming FDI", noting that openness to trade can help LDCs to diversify out of highly concentrated production structures as it provides access to new products and markets. Again, however, the evidence suggests that positive effects of trade on growth and diversification are not automatic, and have not always materialized in recent decades with regard to LDCs.<sup>135</sup> The *Economic Report on Africa 2010* generally concurs, stating:

Generating rapid employment growth will require rapid economic growth rates above those achieved in the last decade, as well as a structural shift of the growth driving sectors of the economy away from sectors which are not labour-intensive to large and expanding highly labour-intensive sectors. In this regard, *agro-industry, labour-intensive manufacturing and services, especially service exports, are sectors to be explored and expanded*.<sup>136</sup> *{emphasis added}*

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<sup>133</sup> ILO, *Growth, Employment and Decent Work in the Least Developed Countries*, as note 1 above, p. xii. See also Ricardo Hausmann, Jason Hwang and Dani Rodrik, *What you export matters*, NBER Working paper 11905, National Bureau of Economic Research, Cambridge MA, 2005.

<sup>134</sup> ILO, *Growth, Employment and Decent Work in the Least Developed Countries*, as note 1 above, p. xii.

<sup>135</sup> ILO, *Growth, Employment and Decent Work in the Least Developed Countries*, as note 1 above, p. 21.

<sup>136</sup> ECA-AU, *Economic Report on Africa 2010*, as note 49 above, pp. 14-15.

## *Agriculture versus manufacturing versus services?*

Unlike the *Economic Report on Africa* which, as noted above, enthusiastically promotes services as a major opportunity for LDC export diversification, the ILO report *Growth, Employment and Decent Work in the Least Developed Countries* appears to do so almost reluctantly, instead devoting most of its attention to manufacturing as the preferred option. With regard to alternatives to agriculture, for example, the report states:

...sustained economic growth will require a productive transformation based on two pillars: intensification of agriculture with a focus on smallholder farmers, and a broad-based and rapid development of the non-farm sectors, with a particular focus on *manufacturing*.<sup>137</sup> *{emphasis added}*

The report's concluding recommendations concerning policy guidelines [**Annex V**] suggest promoting export and sectoral diversification, stating "Moving from commodities to *manufacturing* is needed to improve employment and decent work outcomes".<sup>138</sup> *{emphasis added}* Nonetheless, in the middle of the report, the ILO does acknowledge that "Many LDCs would *prima facie* appear to have a comparative advantage in the production of tradable services", mentioning the Maldives and Cape Verde as having "successfully developed tourism as a source of productive employment and growth". The reports further notes that "Tourism is also emerging as an increasingly important sector in a number of "continental" LDCs in both Asia and sub-Saharan Africa".<sup>139</sup>

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<sup>137</sup> ILO, *Growth, Employment and Decent Work in the Least Developed Countries*, as note 1 above, p. 35. The report also notes that "Policies will need to recognize that in most countries the agricultural population has for quite some time been caught in a poverty trap, where increasing population pressure combined with stagnant levels of production have resulted in stagnant or falling farm incomes".

<sup>138</sup> ILO, *Growth, Employment and Decent Work in the Least Developed Countries*, as note 1 above, p. 89.

<sup>139</sup> ILO, *Growth, Employment and Decent Work in the Least Developed Countries*, as note 1 above, pp. 36-37.

#### *D. Tourism as "Decent Work"?*

*How do tourism opportunities compare with agriculture and manufacturing?*

Multiple references have been made in this working paper to the need to move agricultural workers in the LDCs to non-farm employment. Regarding tourism specifically, the ILO note *Poverty Reduction through Tourism* states that "As a service industry that is very labour intensive, the HCT {hotel, catering and tourism} sector has significant potential to contribute to poverty alleviation":

The sector and its informal components provide a vast number of jobs to workers with little or no formal training: it can provide opportunities for those facing social and skills disadvantages in a way that is not always offered by other industries.<sup>140</sup>

As further noted by the United Nations Environment Program (UNEP), "Tourism is human-resource intensive due to the service nature of the industry. It is among the world's top job creators and allows for quick entry into the workforce for youth, women and migrant workers."<sup>141</sup> The extensive upstream and downstream linkages in tourism offer many types of further employment, as well as opportunities for poverty alleviation [Figure V]:

Tourism creates jobs directly and leads to additional ("indirect") employment. It is estimated that one job in the core tourism industry creates about one and a half additional jobs in the tourism-related economy. There are workers indirectly dependent on each person working in hotels, such as travel-agency staff, guides, taxi and bus drivers, food and beverage suppliers, laundry workers, textile workers, gardeners, shop staff for souvenirs and others, as well as airport employees.<sup>142</sup>  
{references deleted}

The ILO argues that "labour-management relations/social dialogue, skills development and decent working conditions are essential for providing quality service and sustainable tourism", noting that "the working conditions are frequently characterized as unsocial and irregular, including long working hours, on-call, casual, temporary, seasonal and part-time contracts, which are related to insecurity, comparatively low pay, job instability, limited career opportunities, a high level of subcontracting, substantial outsourcing, and rapid staff turnover".<sup>143</sup>

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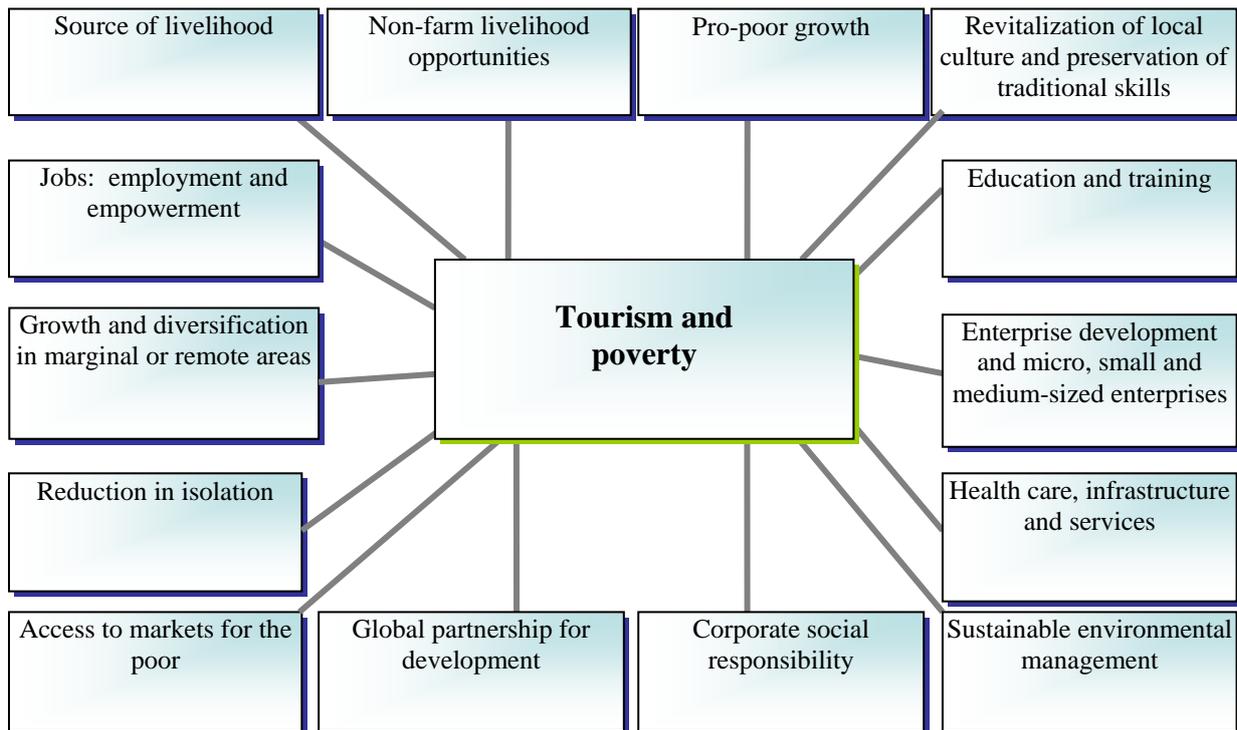
<sup>140</sup> ILO, *Poverty Reduction through Tourism*, as note 18 above, p. 1.

<sup>141</sup> United Nations Environment Program (UNEP), *Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication*, United Nations Environment Programme, 2011 (available on-line, at [www.unep.org/greeneconomy](http://www.unep.org/greeneconomy)), p. 422. UNEP further notes (p. 421), "Tourism employs more women and young people than most other sectors; providing economic benefits and independence to women is very important in terms of supporting child development and breaking the cycle of poverty."

<sup>142</sup> UNEP, *Towards a Green Economy*, as note 141 above, p. 422. "These relationships influence the many types of workplace relationships that include full-time, part-time, temporary, casual and seasonal employment and have significant implications for employment opportunities within the sector."

<sup>143</sup> ILO, *Poverty Reduction through Tourism*, as note 18 above, p. 2.

**Figure V: Linkages between Tourism and Poverty Reduction**



Source: Modification of Sheet No.3: *Tourism and Poverty Reduction - Making the Links*, Pro-poor Tourism Partnership, 2004, as found in United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), *Study on the Role of Tourism in Socio-Economic Development*, United Nations, New York, 2007, p. 76.

Obviously, comparisons between agriculture, manufacturing and services/tourism, regarding both employment opportunities and work conditions, must be made on a case-by-case basis for individual LDCs, and even for different regions within each LDC. Overall, as the ILO has noted, "in LDCs, people find work mainly in subsistence agriculture and informal economic activities, which are both characterized by low levels of productivity and earnings".<sup>144</sup> Regarding tourism specifically, Oxford Economics has observed that:

Less-developed countries tend to have higher productivity in Travel & Tourism than the economy average: employment in Travel & Tourism characteristic industries is more productive and typically involves *higher average wages than employment in agriculture or low-skilled industrial processes* that tend to dominate output of less developed economies.<sup>145</sup> *{emphasis added}*

<sup>144</sup> ILO, *Growth, Employment and Decent Work in the Least Developed Countries*, as note 1 above, p. 41.

<sup>145</sup> Oxford Economics, *Methodology for Producing the 2011 WTTC/OE Travel & Tourism Economic Impact Research*, June 2011, p. 24. Unfortunately, comparative data on sectoral LDC employment and earnings is evidently generally unavailable.

## *Tourism has greater opportunities to formalize?*

With the majority of LDC workers in low-wage agricultural and informal employment, job quality, as noted above, is a serious issue in LDCs. Not surprisingly, "To promote the transition to formality" is among the top recommendations of the policy guidelines in the ILO LDC IV report [see item 8 in **Annex V**], together with the following observations:

This requires integrated interventions that attack the multiple drivers of informality, including: job-rich growth, improvements in regulations, strengthening the organization and representation of informal economy workers, promoting entrepreneurship, skills, finance, extension of social protection, local development strategies.<sup>146</sup>

The World Bank study, *De-Fragmenting Africa*, which, as noted above, has said that increasing the opportunities for firms and individuals in informal sectors to interact with formal sector firms will help provide a coherent route towards formality, also emphasizes that "Informal sector actors must be seen as providing an enormous opportunity for growth and poverty reduction rather than simply as a source of revenue loss that must be removed".<sup>147</sup> At the same time, joint ILO/WTO research has highlighted that, at least in the initial phases, participating in international trade can bring risks for existing formal firms in LDCs and other developing countries -- especially import-competing firms -- which could obviously add to the difficulties for LDC export diversification:

The estimates presented in this study point to the possibility that, over the near term, trade opening causes informal labour markets to grow, requiring protected companies in the formal sector to adjust and to reallocate jobs and workers. Over the longer term, however, the improved economic dynamism that can be expected from more intensive trade has the potential to strengthen formal sector employment growth.<sup>148</sup>

The ILO/WTO study also noted the linkages between informality and lack of export diversification, stating "the work reported here suggests that countries with larger informal economies experience lower export diversification".<sup>149</sup> Consequently, the study states that "Policies to create conditions to support informal firms and workers – with the aim of bringing them into the formal economy over the long term – could, therefore, not only help to improve working conditions but also contribute to a significant engine of growth":

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<sup>146</sup> ILO, *Growth, Employment and Decent Work in the Least Developed Countries*, as note 1 above, p. 92. The ILO further notes (p. 91), "Informality has multiple causes and drivers in LDCs. Very low growth of formal employment, high rate of population growth, high incidence of poverty and very weak social protection drives surplus labour into informality. Urban and rural informality are characterized by low productivity, low returns, high risk and very low social protection coverage. Self-employment and vulnerable employment constitute the major categories of the informally employed, and these have been seen to be weakly affected by the high growth in LDCs. Outflows from weakly growing agriculture largely supplies informality."

<sup>147</sup> World Bank, *De-Fragmenting Africa*, as note 53 above, p. 3.

<sup>148</sup> International Labour Organization and World Trade Organisation (ILO-WTO), *Globalisation and Informal Jobs in Developing Countries*, WTO Secretariat, Switzerland, 2009, p. 13.

Regarding the improvement of enabling conditions for informal employees, policies should focus on providing: (a) support for employees to transit out of informality; (b) investment in infrastructure so as to promote productivity of informal firms and facilitate formalization; and (c) a basic network of social protection for those who continue to be employed informally. In this regard, a strong emphasis should be placed on *training facilities and programmes for informal employees*, given the strong (negative) relationship identified in this study between the level of education and the incidence of informality.<sup>150</sup> *{emphasis added}*

Key findings of the ILO/WTO study are summarized in [Annex VI]. Most interestingly, the study observes that "Informal labour markets could benefit even more from trade reforms if their products were tradable directly on international markets",<sup>151</sup> which is, of course, the situation for many LDC tourism exports. As the ILO has noted, "In several countries the development of tourism is strongly based on the informal sector".<sup>152</sup> With regard to Mali (and undoubtedly many other LDCs), it has been observed that many unskilled and semi-skilled workers are employed on an informal basis in hotels, restaurants, tourist shops (especially handicraft shops), and local transport and tour operators. A large number of informal workers are also involved in farming, selling food to tourists and in home stay operations. Concerning opportunities for formalization, it is noted that:

Most people working in rural tourism have a very low level of training, earn very little and deliver a pretty low standard of service. *Formal training should give these most disadvantaged workers access to higher wages, proper contracts and workers' rights*. Equipped with better skills they will be able to raise standards to those expected by the international visitor, thereby stimulating further growth in the industry.<sup>153</sup> *{emphasis added}*

As emphasized by the ILO, "Policies are needed to encourage the transition from the informal to the formal economy, to support micro- and small- and medium- sized enterprises, and to protect the incomes of the most vulnerable groups".<sup>154</sup> The ILO/WTO study concurs, stating "A first guiding principle is that successful integration into the world economy ultimately requires formalization of firms and jobs."<sup>155</sup> A possible example of how to formalize tourism is show below in [Box VI].

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<sup>149</sup> ILO-WTO, *Globalisation and Informal Jobs in Developing Countries*, as note 148 above, p. 9.

<sup>150</sup> ILO-WTO, *Globalisation and Informal Jobs in Developing Countries*, as note 148 above, p. 17.

<sup>151</sup> ILO-WTO, *Globalisation and Informal Jobs in Developing Countries*, as note 148 above, p. 12.

<sup>152</sup> International Labour Organization (ILO), *Toolkit on Poverty Reduction through Tourism*, International Labour Office, ILO, 2011, p. 8.

<sup>153</sup> High Impact Tourism Training (HITT), *Mali* (available online, at <http://www.hitt-initiative.org/countries/mali/>).

<sup>154</sup> ILO, *Growth, Employment and Decent Work in the Least Developed Countries*, as note 1 above, p. 4.

<sup>155</sup> ILO-WTO, *Globalisation and Informal Jobs in Developing Countries*, as note 148 above, p. 128.

## **Box VI: An Example of how to Formalize Tourism**

### ***Benefits of Registering with SLTDA***

"The Sri Lanka Tourism Development Authority is committed towards transforming Sri Lanka to be Asia's foremost tourism destination by end 2010. The SLTDA will strive to develop diverse, unique and quality tourism services and products that would make Sri Lanka a unique destination, globally. Given its vision, the SLTDA invites all tourist establishments and associates to partner alongside them in achieving this vision.

By Registering with the SLTDA, the entity will receive;

#### **1. Industry recognition**

As a registered tourism institution /service provider, related information will be listed and promoted in the SLTDA's Accommodation Guidebook and all Tourism related websites. Moreover, registered providers / institutions will have unlimited access to the online destination management system, which is currently under development.

#### **2. Exemption from paying the 3% Nation Building Tax (NBT)**

All registered institutions /service providers will be exempt from paying the government tax of 3% charged to all corporate entities.

#### **3. Financial assistance and industry support**

Registered institutions /service providers applying for loans and grants will be given all available assistance to obtain funds. Moreover industry support and assistance will be available when required. Necessary information related to regulations and changes within Sri Lanka Tourism will be notified. Assistance for obtaining grants and new /renewing of liquor licenses will be offered. Training programs for capacity building will be provided periodically. The SLTDA will also extend support to registered institutions /service providers in obtaining permits to develop the surrounding area's infrastructure, preservation of cultural heritages and protection of the environment. Registered institutions /service providers will have priority access to the Tourism Crisis Management fund, which aids disaster-affected tourist establishments during a crisis period.

#### **4. Eligibility for various incentive programs offered by SLTDA and government agencies**

Registered institutions /service providers will be given preference to the incentive programs and schemes offered by the SLTDA and other government agencies. Registered institutions /service providers will also be eligible to participate in the varied international and local trade fairs such as the ITB and WTM held periodically.

#### **5. Duty free facilities**

Registered institutions /service providers will be afforded duty free facilities on goods and services imported."

*Source:* Sri Lanka Tourism Development Authority (SLTDA), *Benefits of Registering with SLTDA*. Accessed at [http://www.slt-da.lk/Benefits\\_of\\_registering\\_at\\_sltda](http://www.slt-da.lk/Benefits_of_registering_at_sltda) on 13 November 2012.

#### IV. LDCs and the "Green Economy"

*"In its simplest expression, a green economy can be described as one that is low carbon, resource efficient and socially inclusive. A green economy can take advantage of new growth trajectories designed to be more socially inclusive, as well as responsive to poverty reduction and economic diversification objectives."<sup>156</sup>*

*"A parallel, albeit worrisome, companion in the renewed efforts to reduce global poverty has been a marked disregard for the environment and, in particular, neglect of the environmental foundations in poverty reduction strategies."<sup>157</sup>*

##### A. Best Options for LDCs?

*Are LDCs already well-positioned?*

According to the United Nations Environmental Programme (UNEP), in recent years the concept of a "green economy" has moved into the mainstream of policy discourse. Their 2011 report, *Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication*, defines a green economy as one that results in "improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities":

In a green economy, growth in income and employment should be driven by public and private investments that reduce carbon emissions and pollution, enhance energy and resource efficiency, and prevent the loss of biodiversity and ecosystem services.<sup>158</sup> {reference deleted}

The UNEP report "aims to debunk several myths and misconceptions about "greening" the global economy," stating "Perhaps the most prevalent myth is that there is an inescapable trade-off between environmental sustainability and economic progress":

There is now substantial evidence that the greening of economies neither inhibits wealth creation nor employment opportunities. To the contrary, many green sectors provide significant opportunities for investment, growth, and jobs.<sup>159</sup>

UNEP further states that "A second myth is that a green economy is a luxury only wealthy countries can afford, or worse, a ruse to restrain development and perpetuate poverty in developing

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<sup>156</sup> UNEP, UNCTAD and UN-OHRLS, *Green Economy: Why a Green Economy Matters for the Least-developed Countries*, United Nations Environment Programme, 2011, p. 3.

<sup>157</sup> "It seems that, in the complex trade-offs between economic growth, social equity and environmental sustainability, the environment has been needlessly ignored in many cases and much to the detriment of the poor themselves." David Reed, *Escaping Poverty's Grasp: The environmental foundations of poverty reduction*, World Wildlife Fund, Earthscan, 2006, p. x.

<sup>158</sup> UNEP, *Towards a Green Economy*, as note 141 above, pp. 14, 16.

<sup>159</sup> "For this to occur, however, new enabling conditions are required to promote such investments in the transition to a green economy, which in turn calls for urgent action by policy makers." UNEP, *Towards a Green Economy*, as note 141 above, p. 15.

countries," noting that "Contrary to this perception, numerous examples of greening transitions can be found in the developing world, which should be replicated elsewhere."<sup>160</sup>

Somewhat surprisingly perhaps, another publication, *Green Economy: Why a Green Economy Matters for the Least-developed Countries*, "examines the idea that Least Developed Countries (LDCs) possess the economic conditions, the natural and cultural assets, and the policy setting to embrace, if not lead, a green economy transition, which would in turn accelerate their development." The report states that "LDCs can jump start the green economy transition by maintaining and expanding the sustainable practices that already exist":

The conditions in LDCs provide a basis to pursue a low-carbon and resource efficient path of economic growth and development, anchored in *investment and policy reform* designed to enhance livelihoods for the poor, create employment opportunities and reduce poverty. The move towards a green economy would also provide an *opportunity to address the infrastructure challenges* of LDCs in a sustainable way.<sup>161</sup>  
{emphasis added}

Observing that "The 48 LDCs currently present a low-carbon profile, due to their low levels of carbon emissions," *Why a Green Economy Matters for the Least-developed Countries* states that:

Refocusing policies and investments to target sectors and areas including renewable energy, agriculture, forestry, tourism and enhanced ecosystem services can lead to the economic empowerment of low income populations, be more conducive to inclusive growth and jobs and make a significant contribution to achieving the Millennium Development Goals in the poorest countries.<sup>162</sup>

Overall, UNEP defines 11 key economic sectors "considered to be driving the defining trends of the transition to a green economy". These include sectors derived from "natural capital" (agriculture, fishing, forests, and water), as well as from the "brown" sectors of the economy (renewable energy, manufacturing, waste, buildings, tourism, transport and cities), where the report "finds large opportunities for energy and resources savings". UNEP claims that "The results of the model, presented in more detail in the modelling chapter, suggest that over time investing in a green economy enhances long-term economic performance. Significantly, it does so while enhancing stocks of renewable resources, reducing environmental risks, and rebuilding capacity to generate future prosperity".<sup>163</sup>

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<sup>160</sup> UNEP, *Towards a Green Economy*, as note 141 above, p. 15.

<sup>161</sup> UNEP, UNCTAD and UN-OHRLLS, *Why a Green Economy Matters for the Least-developed Countries*, as note 156 above, p. 3.

<sup>162</sup> UNEP, UNCTAD and UN-OHRLLS, *Why a Green Economy Matters for the Least-developed Countries*, as note 156 above, p.3.

<sup>163</sup> UNEP, *Towards a Green Economy*, as note 141 above, pp. 23, 24.

The Economic Commission for Africa (ECA) and the African Union (AU), note that "In June 2010, the 13th Session of the African Ministerial Conference on the Environment adopted the Bamako Declaration, which stressed the need to "take advantage of the opportunities provided by a growth and development trajectory that embraces the green economy model".<sup>164</sup>

### *New growth trajectories*

Among the most important of the "new growth trajectories" highlighted in *Why a Green Economy Matters for the Least-developed Countries* is rural electrification: "Bringing energy to the rural poor is one of the most important contributions that a green economy can make to LDC economies. After decades of national and global efforts, it is now becoming clear that decentralized forms of energy supply offer LDCs the most effective approach to rural energy access." The report emphasizes that:

It is only in recent years with declining costs of renewable energy technologies that the green economy has emerged as an economically viable approach to electrify LDCs' rural regions employing remote off-grid electricity generation systems.<sup>165</sup>

The report further notes that "Extending rural electrification can also help to enhance linkages between rural farming and non-farming activities, which will be a powerful mechanism of both growth and poverty reduction". Overall, LDCs are expected to benefit from more affordable access to renewable energy systems:

As the transition proceeds, high levels of demand for renewable energy technologies in developed country markets stimulate increasing innovation and economies of scale resulting in improved performance and falling prices. This makes off-grid rural electrification projects increasingly attractive to private sector investors considering community-scale hydro, biomass, wind and solar facilities; and to individual businesses and households seeking to install small renewable energy systems.<sup>166</sup>

Although, as noted above, LDCs are apparently well-positioned in the transition to a green economy, given their low-carbon profile and extensive natural capital, *Why a Green Economy Matters for the Least-developed Countries* emphasizes that "On the other hand, poorer countries are more dependent on natural resources, making ecosystem degradation, resource scarcity and climate change particularly challenging to ending poverty".<sup>167</sup>

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<sup>164</sup> ECA-AU, *Economic Report on Africa 2011*, as note 14 above, pp. 64-65.

<sup>165</sup> UNEP, UNCTAD and UN-OHRLLS, *Why a Green Economy Matters for the Least-developed Countries*, as note 156 above, pp. 4, 6.

<sup>166</sup> "Some LDCs, including Bhutan, Nepal, Senegal and the United Republic of Tanzania, have successfully stimulated rural electrification projects by mainstreaming renewables as a central technology option in national energy strategies." UNEP, UNCTAD and UN-OHRLLS, *Why a Green Economy Matters for the Least-developed Countries*, as note 158 above, p. 6.

<sup>167</sup> UNEP, UNCTAD and UN-OHRLLS, *Why a Green Economy Matters for the Least-developed Countries*, as note 156 above, p. 6.

## ***B. Adapting to the Effects of Climate Change***

In the *Programme of Action for the Least Developed Countries for the Decade 2011-2020*, "Climate change and environmental sustainability" is one of the Priority Areas for Action, as indicated in [Table I] under category F., *Multiple crises and other emerging challenges*. The ECA and AU emphasize that "Agriculture, tourism and fisheries, which are among the largest sources of employment on the continent, have become vulnerable to climate change and other environmental risks".<sup>168</sup> UNEP further notes that:

The livelihoods of billions – from poor farmers to urban slum dwellers – are threatened by a wide range of climate-induced risks that affect food security, water availability, natural disasters, ecosystem stability, and human health. For example, many of the 150 million urban inhabitants who are likely to be at risk from extreme coastal flooding events and sea level rise are likely to be the poor living in cities in developing countries.<sup>169</sup> {references deleted}

UNEP also observes that "As in the case of climate change, the link between ecological scarcity and poverty is well-established for some of the most critical environmental and energy problems. For example, for the world's poor, global water scarcity manifests itself as a water poverty problem":

Thus, finding ways to protect global ecosystems, reduce the risks of global climate change, improve energy security, and simultaneously improve the livelihoods of the poor are important challenges in the transition to a green economy, especially for developing countries.<sup>170</sup>

### *Tourism's dual role*

With regard to tourism, the UNWTO observes that "As climate defines the length and quality of tourism seasons, affects tourism operations and influences environmental conditions that both attract and deter visitors, the tourism and travel sector is highly-climate sensitive."<sup>171</sup> [BOX VII] The UNWTO also clearly highlights tourism's dual role regarding climate change:

For tourism, climate change is not a remote event, but a phenomenon that already affects the sector and certain destinations in particular, mountain regions and coastal destinations among others. At the same time, the tourism sector is contributing to greenhouse gas emissions (GHG), especially through the transport of tourists.<sup>172</sup>

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<sup>168</sup> ECA-AU, *Economic Report on Africa 2011*, as note 14 above, pp. 49-50.

<sup>169</sup> UNEP, *Towards a Green Economy*, as note 141 above, p. 19.

<sup>170</sup> UNEP, *Towards a Green Economy*, as note 141 above, pp. 19-20.

<sup>171</sup> UNWTO, *Sustainable Development of Tourism (SDT) E-Bulletin*, Issue: No. 19, February 2011 (available online, at [www.unwto.org/sdt/](http://www.unwto.org/sdt/)), p. 6.

<sup>172</sup> UNWTO, Mini brochure, *Climate Change and Tourism*, 2007, p. 2.

### **Box VII: *The Effect of Climate Variability on Tourism Destinations and Operators***

Climate defines the **length and quality of tourism seasons** (e.g. winter sports) in different regions. Some tourism destinations are climate-dependent; since climate is the principal resource upon which the tourism industry is based (e.g. many tropical small island developing states).

Climate directly **affects various facets of tourism operations** (e.g. water supply and quality, heating-cooling costs, snowmaking requirements, irrigation needs, pest management, evacuations and temporary closures) that affect profitability.

Moreover, a wide range of the **environmental resources** that are critical attractions for tourism in many destinations are sensitive to climate variability, such as wildlife and biodiversity, water levels and quality, and snow conditions and glacier extent.

Climate also influences **environmental conditions** that can deter tourists, including infectious diseases, wildfires, algal blooms, insect or water-borne pests (e.g. jellyfish), and extreme events such as hurricanes, floods or heat waves.

Climate is also a crucial **determinant of tourist decision-making**. Seasonal climate fluctuations at tourism destinations and at major outbound markets are key drivers of tourism demand at global and regional scales. Weather is an intrinsic component of the travel experience and also influences tourist spending and holiday satisfaction."

*Source:* World Tourism Organization (UNWTO), *From Davos to Copenhagen and beyond: Advancing tourism's response to climate change*, UNWTO Background Paper, 2009 World Tourism Organization, p. 7.

The tourism sector fully recognizes the consequences of climate change. As emphasized by UNWTO, "In small island states and developing countries, where tourism is a major economic activity, any significant reduction in tourist arrivals will have serious employment impacts and generate further poverty":

Changing climate and weather patterns at tourist destinations and tourist generating countries can significantly affect the tourists' comfort and their travel decisions. Changing demand patterns and tourist flows will have impacts on tourism businesses and on host communities, as well as knock off effects on related sectors, such as agriculture, handicrafts or construction.<sup>173</sup>

Noting that tourism and travel currently account for approximately five per cent of global carbon dioxide emissions, the UNWTO acknowledges that "By 2035, under a "business as usual" scenario, carbon dioxide emissions from global tourism are projected to increase by 130 per cent".<sup>174</sup>

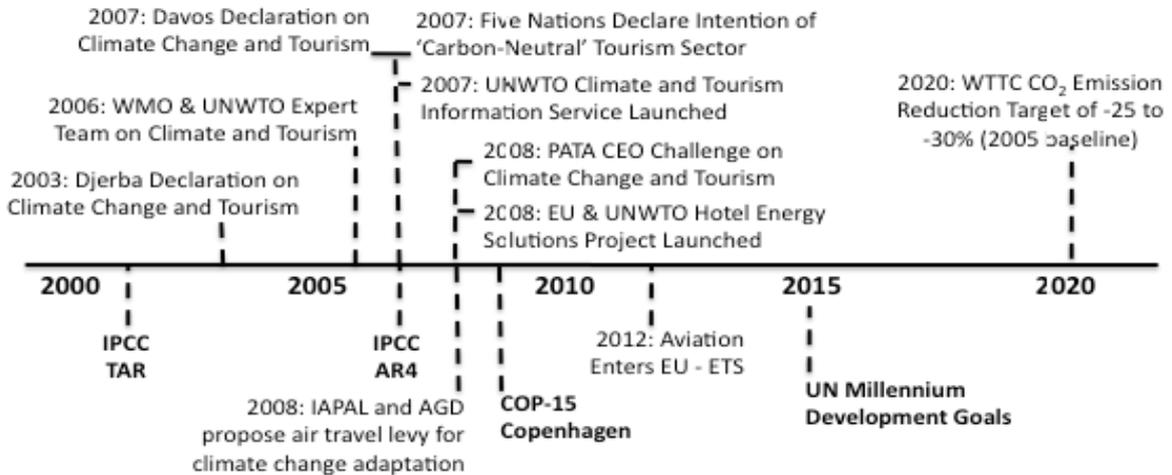
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<sup>173</sup> UNWTO, *Climate Change and Tourism*, 2007, as note 172 above, p. 2.

<sup>174</sup> World Tourism Organization (UNWTO), *From Davos to Copenhagen and beyond: Advancing tourism's response to climate change*, UNWTO Background Paper, 2009 World Tourism Organization, p. 4. The UNWTO further notes (p. 8), "The transport of tourists to and within destinations accounts for 75 per cent of all carbon dioxide emissions by the tourism sector, with air travel making up about 40 per cent of the total." {reference deleted}

Consequently, efforts to address climate change issues in tourism have been underway since at least 2003 [Box VIII].

**Box VIII: Timeline of Selected Climate Change and Tourism Initiatives**



Source: World Tourism Organization (UNWTO), *From Davos to Copenhagen and beyond: Advancing tourism's response to climate change*, UNWTO Background Paper, 2009 World Tourism Organization, p. 15.

The World Travel & Tourism Council (WTTC), representing the private sector, has accepted the necessity of addressing climate change, based on a 10-item Action Agenda [Annex VII]. As stated in the WTTC publication *Leading the Challenge on Climate Change*:

In order to realise our vision and create a low climate risk industry we intend to build on the targets set by progressive business leaders and current science by setting ourselves the aspirational target of reducing total CO<sub>2</sub> emissions by no less than 50% from 2005 levels by 2035. As an interim target we intend to reduce our CO<sub>2</sub> emissions by 30% by 2020, assuming there is an international agreement on global emission reduction, or by 25% by 2020 in the absence of such an agreement.<sup>175</sup>  
 {reference deleted}

The WTTC further notes that "While the industry has made progress in developing tools for reducing GHG emissions in transport and hospitality, they need to be further refined and additional tools developed". Such tools are especially needed by SMEs:

<sup>175</sup> World Travel & Tourism Council (WTTC), *Leading the Challenge on Climate Change*, February, 2009, p. 8. Regarding the Action Agenda, the WTTC (p. 9) states that "Progress on these actions will be tracked and reported by WTTC on an ongoing basis through a dedicated portal on our website, as well as through regular communications via the media".

Over 80% of global Travel & Tourism activity is accounted for by small to medium-sized enterprises (SMEs), many in developing countries, which often have limited access to knowledge, resources and methods of mitigating GHG and energy efficiency.<sup>176</sup>

*"Attacking the victim"?*

According to *Rethinking Development in a Carbon-Constrained World: Development cooperation and climate change*, climate change is increasingly forcing reassessment of tourism as a development model, including for LDCs, and that "the high hopes of tourism as a boost to development might require re-evaluating, as the results of the mitigation policy regime may easily be reflected in increased costs of international travel":

The current development of tourism in most countries follows pro-growth paradigms in which annual growth in arrival numbers is considered an indicator of success and a proxy for wealth transfer to poor local populations. In the light of the results presented here, the authors argue, there may be reasons to reconsider such strategies. Destinations would seem well-advised to assess their dependency on and vulnerability in regard to energy-intense tourism, and to restructure their tourism products to favour low-carbon, high value tourism.<sup>177</sup>

The publication further states that "The alternative might take the form of promoting non-traditional exports, where those can be developed, or on more heavily promoting regional, rather than long-distance, trade," but does not appear to discuss adequately whether such alternatives are actually economically viable. In a similar manner, statements such as "Aviation's share of global emissions of CO<sub>2</sub> may appear to be small, as is frequently pointed out by the International Air Transport Association (IATA), but most of these emissions are generated by the less than 2% of the world's population that participate in international aviation on an annual basis"<sup>178</sup> may be technically correct, but do not appear to consider fully the implications of air transport restrictions on countries concerned.

While reassessment of the current tourism model in the face of climate change is undoubtedly required for most LDCs -- and for the reasons noted is likely overall to be beneficial -- as generally low-carbon economies and victims of climate change there is no justification for LDCs to pay a

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<sup>176</sup> WTTC, *Leading the Challenge on Climate Change*, as note 175 above, pp. 8, 18. The WTTC (p. 19) further notes that "Practical tool kits are available to help SMEs and larger enterprises measure, monitor and reduce energy use".

<sup>177</sup> "Climate change is already beginning to affect decision-making in the tourism sector (e.g., investors, insurance companies, tourism enterprises, governments, development organisations, and tourists); and it will be a pivotal issue affecting tourism development and management in the decades ahead." Eija Palosuo, editor, *Rethinking Development in a Carbon-Constrained World: Development cooperation and climate change*, Ministry for Foreign Affairs of Finland, 2009, pp. 13, 18.

disproportionate share of the costs. Consequently, responses to climate change (e.g. regarding air transport) should not deprive LDCs of one of their most promising development opportunities, especially when virtually all of the economic alternatives, including mining and manufacturing, will have environmental consequences. As emphasized by the UNWTO:

... tourism is so important to poverty reduction and economic development in developing nations, any policies aimed at mitigating and reducing greenhouse gas emissions should be formulated and implemented in a considered way in order not to disadvantage these countries.<sup>179</sup>

### ***C. What Role for Trade Policies and the WTO?***

#### *Addressing the impediments*

As noted by the ECA and AU, "Africa's lack of energy security and self-sustainability are also a great impediment to sustainable development. Renewable energy generation, despite its significant potential, shows a dearth of development". Their report further notes:

All these challenges require Africa to make a transformation to the "green economy", which enables economic growth and human development without exposing future generations to significant environmental risks and ecological scarcities, while creating new opportunities for green growth and employment creation. The involvement of the state in green-market promotion, regulation and investment is crucial for this ultimate development objective.<sup>180</sup>

The issues of infrastructure, investment and domestic regulation, as noted above, are vitally important in regard to LDC export diversification. They are also an essential part of transformation to the green economy. Trade policies, at the national, regional and multilateral levels, are obviously part of this process. As highlighted by UNEP "To promote sustainable tourism in a green economy, the national, regional, and local economy should first provide a good investment climate, featuring security and stability, regulation, taxation, finance, infrastructure, and labour".<sup>181</sup>

At the most basic level, liberalizing trade in environmental goods and services permits access to world class technologies and internationally competitive pricing. As noted in *Why a Green Economy Matters for the Least-developed Countries*, "Targeted trade liberalization can facilitate consumer access to clean technologies at lower costs":

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<sup>178</sup> Eija Palosuo, editor, *Rethinking Development in a Carbon-Constrained World*, as note 177 above, pp. 95, 105.

<sup>179</sup> UNWTO, *From Davos to Copenhagen and beyond*, as note 174 above, p.4.

<sup>180</sup> ECA-AU, *Economic Report on Africa 2011*, as note 14 above, pp. 49-50.

<sup>181</sup> UNEP, *Towards a Green Economy*, as note 141 above, p. 438.

In general LDCs appear to have relatively high tariffs on certain environmentally-friendly products such as energy-efficient electric and electronic appliances. ... Targeted liberalization of tariffs can trigger a wider consumer access to, and use of, energy-saving products. This, in turn, could reduce the need for energy imports, lower energy related carbon emissions, and lessen households' energy bills.<sup>182</sup>

In a similar manner, trade liberalization can provide greater access to green finance, and encourage investment in infrastructure and energy. Among the stereotypes and misconceptions regarding the WTO, in addition to unspecific claims that trade damages the environment, are unsubstantiated statements that WTO commitments in tourism are harmful for LDCs.<sup>183</sup>

#### *Aid for Trade and the Enhanced Integrated Framework (EIF)*

Together with an extensive technical assistance programme, Aid for Trade and the Enhanced Integrated Framework (EIF) are among the most important WTO-related LDC trade initiatives. As noted in the joint OECD/WTO publication, *Aid for Trade and LDCs: Starting to show results*, total Aid for Trade disbursements to LDCs further increased in 2009 (most recent data) to US \$8.28 billion, with the largest shares for economic infrastructure (US \$4.08 bil.) and building productive capacity (US \$4.06 bil.).<sup>184</sup>

The Aid-for-Trade Work Programme 2012-2013, as described on the WTO website, is based on the theme of "deepening coherence", and focuses on five key areas: resource mobilization; mainstreaming of trade into development plans and programmes; regional trade integration; private sector development; and the monitoring and evaluation of Aid for Trade.<sup>185</sup> In July 2012, the WTO hosted a workshop on Aid for Trade and services, which included a session on unlocking the development potential of the tourism sector.<sup>186</sup> Overall, as *Aid for Trade and LDCs* observes, "The

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<sup>182</sup> "On average, LDCs' apply weighted average import tariff (percentage ad valorem) of 26.2 per cent on fluorescent lights (compared to a world average of 5.4 per cent), while tariffs on incandescent lights, which consume more energy and lead to more carbon emissions face import tariffs at 17.7 per cent (compared to a world average of 6.1 per cent)." UNEP, UNCTAD and UN-OHRLLS, *Why a Green Economy Matters for the Least-developed Countries*, as note 156 above, p. 11.

<sup>183</sup> An example would be the statement "The rigid WTO principles of "market liberalization" and "national treatment for all investors" are not suitable for promoting sustainable tourism. On the contrary, they endanger it" made at the 2005 WTO Public Symposium (full references -- and numerous similar examples -- are available from the author upon request). It is to be hoped that these are misunderstandings, rather than deliberate misrepresentations, of the legal complexities of WTO agreements. Nonetheless, such inaccuracies are a distinct disservice to the interests of LDCs.

<sup>184</sup> OECD/WTO, *Aid for Trade and LDCs: Starting to show results*, OECD/WTO 2011, p. 44 (available online, at [http://www.wto.org/english/tratop\\_e/devel\\_e/a4t\\_e/aid4trade\\_e.htm](http://www.wto.org/english/tratop_e/devel_e/a4t_e/aid4trade_e.htm)). Unfortunately, specific details of Aid for Trade disbursements for trade and the environment are apparently not available.

<sup>185</sup> WTO, website, *Aid for Trade*. Accessed at [http://www.wto.org/english/tratop\\_e/devel\\_e/a4t\\_e/aid4trade\\_e.htm](http://www.wto.org/english/tratop_e/devel_e/a4t_e/aid4trade_e.htm) on 31 August 2012.

<sup>186</sup> WTO, website, *WTO hosts workshop on Aid for Trade and services*. Accessed at [http://www.wto.org/english/news\\_e/news12\\_e/aid\\_12jul12\\_e.htm](http://www.wto.org/english/news_e/news12_e/aid_12jul12_e.htm) on 31 August 2012.

Aid-for-Trade Initiative aims to enable developing countries, particularly LDCs, to use trade more effectively, to promote growth, development and poverty reduction and to achieve their development objectives, including the MDGs".<sup>187</sup>

Unlike the Aid for Trade initiative, the Enhanced Integrated Framework (EIF) is exclusively intended for LDCs (including those not yet WTO members). The aim of the EIF, as stated on their website, is to support the LDCs' to build capacity to trade, to set up the structures needed to coordinate trade-related technical assistance, and to mainstream trade into national development strategies. With regard to the EIF and Aid for Trade, the website further notes that "LDCs can use the EIF as a vehicle to coordinate donors' support and to lever{age} more Aid for Trade resources, whereas donors can sign up to the EIF as a vehicle to deliver on their Aid for Trade commitments".<sup>188</sup>

One of the most important aspects of the EIF process is the Diagnostic Trade Integration Study (DTIS). As also noted on the EIF website, the DTIS "identify constraints to competitiveness, supply chain weaknesses and sectors of greatest growth and/or export potential. The DTIS includes an Action Matrix – a list of priority reforms – which is validated by national stakeholders and by the Government".<sup>189</sup>

*"Expect the unexpected"?*<sup>190</sup>

The WTO's World Trade Report 2003 highlights the importance of reliable market access, noting that "trade is likely to expand and be more profitable under conditions of certainty and security as to the terms of market access and the rules of trade".<sup>191</sup> With respect to services, the gap between the existing LDC trade openness in services and GATS commitments is now very wide.<sup>192</sup> This is particularly evident when GATS commitments are contrasted with the applied LDC investment regimes reported in the World Bank's *Investing Across Borders*, which are generally very liberal.<sup>193</sup>

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<sup>187</sup> OECD/WTO, *Aid for Trade and LDCs*, as note 184 above, p. 21.

<sup>188</sup> Enhanced Integrated Framework (EIF), website, *What is the Enhanced Integrated Framework (EIF)*. Accessed at [http://www.enhancedif.org/EN%20web%20pages/About%20the%20EIF/What\\_is{EIF}.htm](http://www.enhancedif.org/EN%20web%20pages/About%20the%20EIF/What_is{EIF}.htm) on 31 August 2012. The EIF core partner agencies are the International Monetary Fund (IMF), the International Trade Centre (ITC), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme (UNDP), the World Bank and the WTO.

<sup>189</sup> EIF, website, *How does it work*. Accessed at [http://www.enhancedif.org/EN%20web%20pages/About%20the%20EIF/How\\_does\\_it\\_work.htm](http://www.enhancedif.org/EN%20web%20pages/About%20the%20EIF/How_does_it_work.htm) on 31 August 2012.

<sup>190</sup> The next few paragraphs are largely taken from Honeck, *Addressing the LDC Infrastructure and Investment Gaps*, as note 68 above.

<sup>191</sup> WTO, *World Trade Report 2003 – Trade and Development*, Geneva: WTO, pp. 120-121.

<sup>192</sup> See, for example, Batshur Gootiiz and Aaditya Mattoo, *Services in Doha: What's on the Table?*, Policy Research Working Paper 4903, The World Bank, Development Research Group, Trade Team, April 2009.

<sup>193</sup> World Bank, *Investing Across Borders 2010*, as note 85 above.

Contrary to common misconceptions, making GATS commitments does not require full liberalisation, or even a guarantee of the status quo. Considering that, in order to attract FDI, many LDCs have already fully opened a wide range of services sectors under national laws, there may be few remaining domestic legal instruments to highlight their actual policy preferences (e.g. joint ventures). By investing part of their "policy gaps" in making GATS commitments, governments arguably can help protect their domestic "policy space" – by publicizing and making internationally binding their actual domestic policy preferences.

As shown in [Chart II] below, there is an extremely wide variation in the number of existing GATS commitments among the LDCs by subsector, ranging from over 110 (Gambia and Sierra Leone) to only 1 or 2 sub-sectors (Burkina Faso, Chad, Madagascar, Mali and Tanzania). Additionally, it is striking that, of the current 33 LDC Members of the WTO, 22 have made no GATS commitments in any type of environmental services [Annex VIII], 21 have nothing in transport services, 20 have nothing in communications services, and 19 have nothing in financial services, despite all being major infrastructural services sectors in which many LDCs are presumably attempting to attract FDI.<sup>194</sup>

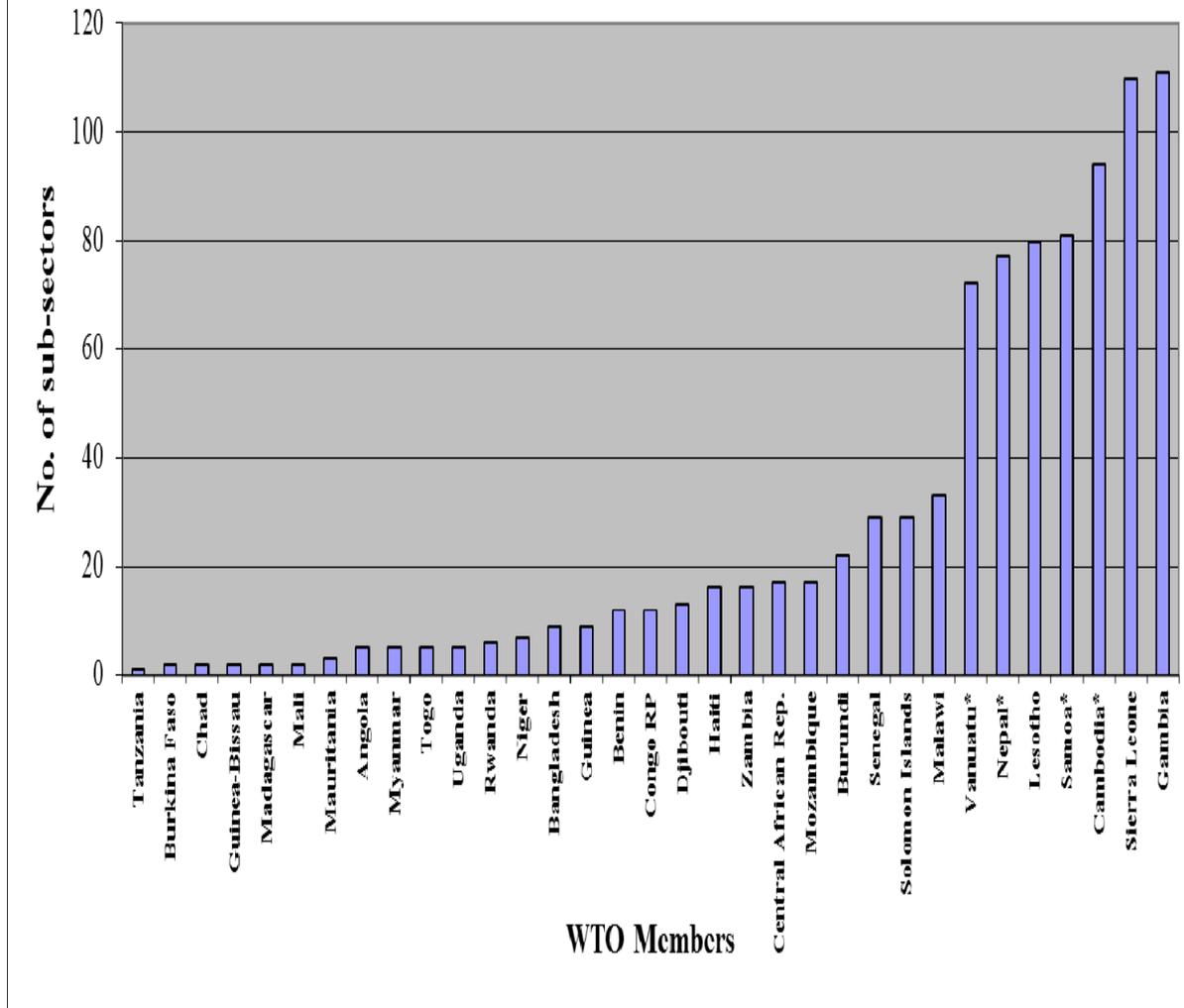
Although LDCs are "not expected" to make new GATS commitments – even partial commitments – in the current WTO negotiations,<sup>195</sup> it may arguably be in their interest to do so. By setting an internationally binding minimum level of market access, commitments can increase transparency and legal certainty, helping to reduce investors' fears of country-specific risks and justifying improved investment ratings. Depending on the wording, GATS commitments can also offer positive signals to domestic investors, e.g. by specifying a minimum level of total suppliers rather than only of foreign suppliers. For GATS commitments to be helpful, however, governments will presumably need to publicize them on investment promotion agency websites, and in negotiations with investors.

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<sup>194</sup> Cape Verde and the Maldives were LDCs when their GATS commitments were made, but are no longer considered as LDCs by the United Nations. Laos is not yet formally a WTO Member, but has agreed to make commitments in 10 of 12 major sectors, covering 79 sub-sectors.

<sup>195</sup> At the December 2005 Hong Kong Ministerial Meeting, WTO Members agreed that LDCs would not be expected to make new GATS commitments (WTO, *Doha Work Programme: Ministerial Declaration*, WTO document WT/MIN(05)/DEC, 22 December 2005, para. 26).

**Chart II: LDC GATS Commitments**



\*WTO accession country

Sources: WTO Trade Profiles, WTO website.

#### D. How Viable is "Green Tourism" for LDCs?

##### *Sustainability limits of LDC tourism?*

Despite the challenges of adapting to climate change, tourism offers very important opportunities for LDC export diversification. The tourism chapter of UNEP's report highlights that "Tourism has significant potential as a driver for growth for the world economy," noting that "In over 150 countries, tourism is one of five top export earners, and in 60 it is the number one export. It is the main source of foreign exchange for one-third of developing countries and one-half of LDCs".<sup>196</sup>

As emphasized in *Why a Green Economy Matters for the Least-developed Countries*, "LDCs are endowed with rich natural resources amenable to ecotourism, ..., making ecotourism another major green growth option for many LDCs":

Although several LDCs such as Lao People's Democratic Republic, Madagascar, Nepal and Tanzania have begun to develop the sector, *substantial opportunities remain* for others to do so as well. The variety in products offered by ecotourism, and tourism more generally, and their linkage with other economic sectors can help LDCs to strengthen and vertically diversify their economy while promoting rural community development and generating profitable businesses that conserve natural resources."<sup>197</sup> *{emphasis added}*

The 2011 UNDP *Human Development Report* states that, "Ecotourism in particular is a promising route to protecting biodiversity while enhancing livelihood opportunities for the local community. The primary challenge is to ensure equitable participation, including by women". With respect to Africa, the report gives an example from Namibia:

A recent survey found that nature-based tourism is one of several conservation mechanisms that can reduce poverty. In Namibia, for example, an ecotourism programme has protected nearly 3 million hectares of land and marine areas housing great biodiversity. Especially important for equity, the programme has improved livelihoods immensely. And with roughly 29 percent of the wealth generated by these protected areas going to labour and another 5 percent to traditional agriculture, the programme shows the potential of protected areas to reduce poverty as well.<sup>198</sup>  
{reference deleted}

Overall, the *Africa Competitiveness Report 2011*, points out that "Environmental sustainability is one of the pillars of strength for Sub-Saharan Africa".<sup>199</sup> With regard to wildlife

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<sup>196</sup> UNEP, *Towards a Green Economy*, as note 141 above, p. 414.

<sup>197</sup> UNEP, UNCTAD and UN-OHRLS, *Why a Green Economy Matters for the Least-developed Countries*, as note 156 above, p. 7.

<sup>198</sup> UNDP, *Human Development Report 2011*, Sustainability and Equity: A Better Future for All, 2011, pp. 76-77. Another example given is Vanuatu, where the report states "Similarly, an initiative to conserve biodiversity at the level of landholders in the island state of Vanuatu led to the establishment of 20 conservation sites, which reduced poaching and enhanced fishstocks and incomes for local communities".

<sup>199</sup> WEF *et al.*, *Africa Competitiveness Report 2011*, as note 8 above, p. 100.

protection, Olivier Catteneo in *Tourism as a Strategy to Diversify Exports: Lessons from Mauritius*, further notes:

... it appears that the commercial value of wildlife (as an attraction for tourists) has created an incentive for better preservation and management of environmental resources. In Zambia, the establishment of national parks helped to preserve wildlife resources essential for tourism, for example, by curbing the poaching of elephants and rhinos.<sup>200</sup>

At the June 2012 "Rio+20" meeting, the outcome document, *The future we want*, included two paragraphs on sustainable tourism [Box IX]. Recognizing the importance of well-designed and managed tourism for sustainable development, employment generation and trade, as well as the need to facilitate access to financial resources.

### **Box IX: Rio+20 and Sustainable Tourism**

#### **"Sustainable tourism**

130. **We emphasize that well-designed and managed tourism can make a significant contribution to the three dimensions of sustainable development, has close linkages to other sectors, and can create decent jobs and generate trade opportunities.** We recognize the need to support sustainable tourism activities and relevant capacity building that promote environmental awareness, conserve and protect the environment, respect wildlife, flora, biodiversity, ecosystems and cultural diversity, and improve the welfare and livelihoods of local communities by supporting their local economies and the human and natural environment as a whole. We call for enhanced support for sustainable tourism activities and relevant capacity-building in developing countries in order to contribute to the achievement of sustainable development.

131. We encourage the promotion of investment in sustainable tourism, including eco-tourism and cultural tourism, which may include creating small and medium-sized enterprises and facilitating access to finance, including through microcredit initiatives for the poor, indigenous peoples and local communities in areas with high eco-tourism potential. In this regard, **we underline the importance of establishing, where necessary, appropriate guidelines and regulations in accordance with national priorities and legislation for promoting and supporting sustainable tourism.** {emphasis added}

*Source:* United Nations, General Assembly, *The future we want*, Draft resolution submitted by the President of the General Assembly, Sixty-sixth session, Agenda item 19, Sustainable development, A/66/L.56, 24 July 2012, pp. 25-26.

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<sup>200</sup> Olivier Catteneo, *Tourism as a Strategy to Diversify Exports: Lessons from Mauritius*, World Bank, "Breaking into New Markets: Emerging Lessons for Export Diversification", edited by Richard Newfarmer, William Shaw and Peter Walkenhorst, Washington D.C. 2009, p. 189. The UNWTO concurs, stating "Tourism is an effective way of redistributing wealth and a catalyst for gender equality, cultural preservation and nature conservation. As a result, the sector is also contributing to the UN Millennium Development Goals." (UNWTO, *From Davos to Copenhagen and beyond*, as note 174 above, p. 4).

### *Can green tourism generate enough export revenue and employment?*

Even under a green economy, poverty alleviation is not a foregone conclusion. As acknowledged by UNEP, "it must be emphasized that moving towards a green economy will not automatically address all poverty issues. A pro-poor orientation must be superimposed on any green economy initiative":

In sum, the top priority of the UN Millennium Development Goals is eradicating extreme poverty and hunger, including halving the proportion of people living on less than US\$ 1 a day by 2015. A green economy must not only be consistent with that objective, but must also *ensure that policies and investments geared towards reducing environmental risks and scarcities are compatible with ameliorating global poverty and social inequity.*<sup>201</sup> {emphasis added}

Pro-poor tourism is demonstrably one of the best green options for addressing LDC poverty, employment and economic diversification initiatives. Nonetheless, analyses of environmentally sustainable tourism "carrying capacity" at the national level appear to be rare, so consequently it becomes even more difficult to compare green tourism with other available LDC alternatives. With regard to employment, UNEP emphasizes that "Green tourism has the potential to create new jobs and reduce poverty":

Travel and tourism are human-resource intensive, employing directly and indirectly 8 per cent of the global workforce. It is estimated that one job in the core tourism industry creates about one and a half additional or indirect jobs in the tourism-related economy. *The greening of tourism, which involves efficiency improvements in energy, water, and waste systems, is expected to reinforce the employment potential of the sector with increased local hiring and sourcing and significant opportunities in tourism oriented toward local culture and the natural environment.*<sup>202</sup> {emphasis added}

With respect to overall developmental issues, UNEP further notes "There is a growing body of evidence that greening tourism can lead to broad economic, social and environmental benefits for the host countries and their communities", and that "Tourism's potential for creating employment, supporting livelihoods and enabling sustainable development is huge".<sup>203</sup>

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<sup>201</sup> UNEP, *Towards a Green Economy*, as note 141 above, p. 20.

<sup>202</sup> "Under a green-economy investment scenario, tourism makes a larger contribution to GDP growth and significant environmental benefits include reductions in water consumption (18 per cent), energy use (44 per cent) and CO2 emissions (52 per cent) compared with "business-as-usual". UNEP, *Towards a Green Economy*, as note 141 above, p. 414.

<sup>203</sup> UNEP, *Towards a Green Economy*, as note 141 above, p. 416.

## V. Maximizing LDC Tourism Linkages

"Tourism's potential as a means of achieving poverty reduction is related to the fact that only some of the least developed countries in the world have significant levels of receipts."<sup>204</sup>

"Tourism research has often been so preoccupied by the extent of the value captured by international interests that the host country is forced into the unhelpful role of powerless 'victim' of globalization. But the opposite is true."<sup>205</sup>

### A. How Can Tourism Linkages be Better Defined and Measured?

*Measuring "linkages and leakages"*

One of the most common stereotypes regarding tourism as a development option is the high levels of perceived revenue "leakages," with some Caribbean island estimates running as high as 80-90 per cent. As noted by the Overseas Development Institute (ODI) and others, many of these perceptions are highly exaggerated.<sup>206</sup> Equally important, such leakages are rarely contrasted with those of the available economic alternatives, e.g. inputs costs for textile and clothing manufactures.

[**Box IV**] explains that data and statistics on services trade are severely inadequate, and this is especially true for tourism-related sectors. The situation is complicated by the fact that tourism is, of course, not a single sector, but actually elements of many economic sectors, comprising both goods and services at the domestic and international levels [**Figure VI**].<sup>207</sup> Consequently, the importance of tourism for trade, employment and poverty alleviation is typically grossly understated, with negative consequences in regard to determining national development priorities and the allocation of development resources. As highlighted by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP):

The formulation of national tourism development policies is often hindered by a lack of data on the scope and extent of tourism's economic contribution and impact. When such data is absent, it is likely that tourism will be given an unduly low priority in the allocation of domestic resources and foreign assistance.<sup>208</sup>

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<sup>204</sup> Adam Blake, Jorge Saba Arbache, M. Thea Sinclair and Vladimir Teles, *Tourism and Poverty Relief*, Annals of Tourism Research, Vol. 35, No. 1, pp. 107–126, 2008, p. 109.

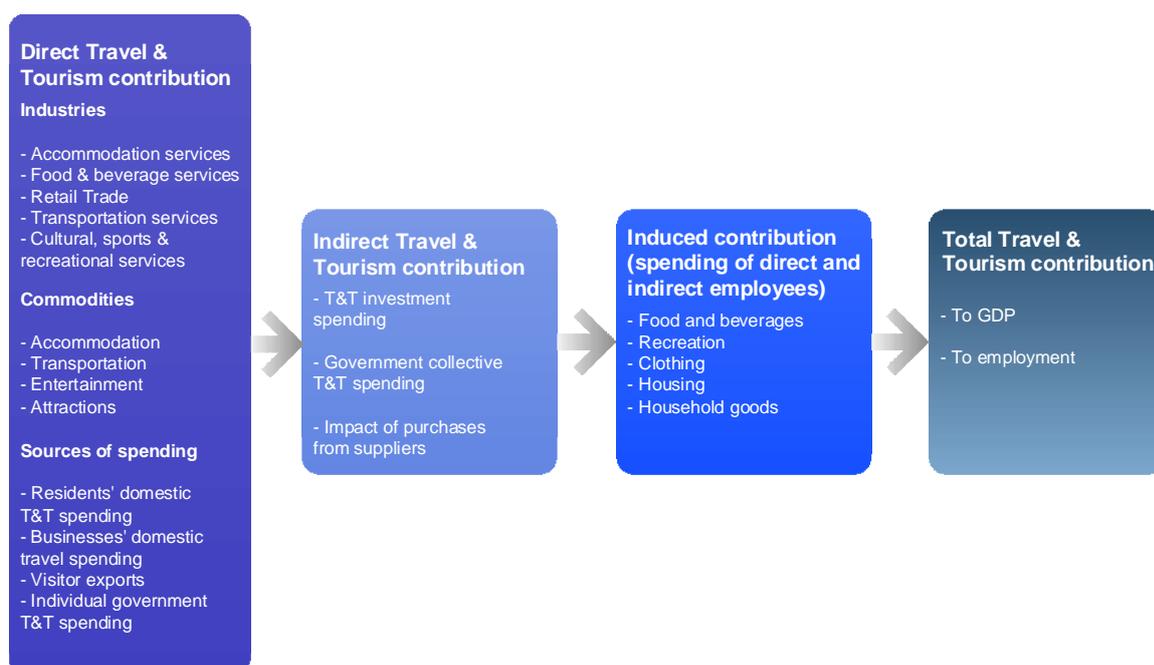
<sup>205</sup> ILO, *Toolkit on Poverty Reduction through Tourism*, as note 152 above, Chapter 1, p. 14.

<sup>206</sup> See, for example, Jonathan Mitchell and Caroline Ashley (2010), *Tourism and Poverty Reduction: Pathways to Prosperity*, ODI and Earthscan, pp. 79-83.

<sup>207</sup> In trade statistics, the most relevant tourism-related classifications are the categories of travel and transport (see World Trade Organization, *International Trade Statistics 2012*, Geneva: WTO, Definition of commercial services in the balance of payments, p. 193). Detailed information on services statistics is available on the WTO website (*Measuring Trade in Services — A training module*. Accessed at [http://www.wto.org/english/res\\_e/statis\\_e/services\\_training\\_module\\_e.htm](http://www.wto.org/english/res_e/statis_e/services_training_module_e.htm) on 27 November 2012).

<sup>208</sup> United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), *Study on the Role of Tourism in Socio-Economic Development*, United Nations, New York, 2007, p. 107.

**Figure VI: Travel & Tourism's Total Contribution**



Source: Oxford Economics (2011), *Methodology for Producing the 2011 WTTC/OE Travel & Tourism Economic Impact Research*, June 2011, p. 6.

Attempts to deal with this situation have shown limited success to date, especially with regard to LDCs. The most ambitious effort has been development of the Tourism Satellite Account (TSA), which identifies tourism as 12 separate industries [Annex IX]. Unfortunately, TSAs in practice have proven to be complicated and difficult, not least because of the need for close co-operation with other ministries and government agencies. To date, no LDCs have apparently managed to implement a working TSA.<sup>209</sup>

Ideally, the TSA could be used to model "what if" scenarios, such as the effects of market changes or shocks, as well as to help determine where investments and other resources should best be placed. As further noted by ESCAP:

Once constructed, TSAs can help to answer questions about the direct (industry) and indirect (economy) impacts of tourism on GDP and employment; the strength of linkages between tourism and other sectors of the economy; the multipliers (changes in income and employment resulting from a change in expenditure) and the leakages (proportion of tourist expenditure that does not remain in the economy).<sup>210</sup>

<sup>209</sup> WTO, *Tourism Services*, Background Note by the Secretariat, WTO document S/C/W/298, 8 June 2009, pp. 3-4.

<sup>210</sup> ESCAP, *Study on the Role of Tourism in Socio-Economic Development*, as note 208 above, p. 38.

### *Filling the data gaps?*

Even for basic tourism statistics, data is often lacking, notably for LDCs, and especially with regard to employment. The UNWTO has recently expanded their *Compendium of Tourism Statistics* to include more information regarding domestic tourism, tourism industries and employment, as well as greater international comparability.<sup>211</sup> Again, however, even this data is often lacking or incomplete for most LDCs, as summarized in tables from the 2011 *Travel & Tourism Competitiveness Report*, which compares the comprehensiveness and timeliness of national travel and tourism data.<sup>212</sup>

Efforts to address the lack of tourism statistics include technical assistance programmes by the UNWTO, as well as a recent joint study on employment statistics with the ILO.<sup>213</sup> The issues were also extensively discussed at the 5th UNWTO International Conference on Tourism Statistics.<sup>214</sup> Nonetheless, despite their obvious importance, tourism statistics (and services statistics in general) still do not yet appear to be a major priority for LDCs governments, including in the context of Aid for Trade projects and the Enhanced Integrated Framework.

As an interim step -- and to help increase awareness of the importance of tourism -- the World Travel & Tourism Council (WTTC) has prepared "synthetic" TSAs, based on econometric modelling.<sup>215</sup> The WTTC TSAs provide estimates of both the direct and indirect economic effects of tourism, including data on contribution to GDP, employment, exports and investment [**Annex X**]. Unfortunately, due to the lack of statistical data, the WTTC's TSA estimates for most LDCs are stated to be less reliable than those for other countries.<sup>216</sup>

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<sup>211</sup> UNWTO, *Compendium of Tourism Statistics, Data 2006-2010*, 2012 Edition, World Tourism Organization (UNWTO), Madrid, Spain (see UNWTO website, *Compendium of Tourism Statistics*, at <http://statistics.unwto.org/en/content/compendium-tourism-statistics>). See also UNWTO website, *TSA, Data and Indicators*, at <http://statistics.unwto.org/en/content/data-and-indicators>.

<sup>212</sup> World Economic Forum (WEF), Jennifer Blanke, Thea Chiesa, editors, *The Travel & Tourism Competitiveness Report 2011: Beyond the Downturn*, World Economic Forum, Geneva, Switzerland 2011, pp. 427-428.

<sup>213</sup> Information regarding the UNWTO's Statistics Capacity-building Programme (SCBP) is available online, at <http://statistics.unwto.org/en/content/statistics-capacity-building-programmes>, and for the joint UNWTO-ILO employment study (Sources and Methods: Labour Statistics – Employment in the Tourism Industries (Special Edition), at <http://statistics.unwto.org/en/publication/sources-and-methods-labour-statistics-employment-tourism-industries-special-edition>.

<sup>214</sup> World Tourism Organization, website, 5th UNWTO International Conference on Tourism Statistics - Tourism: An Engine for Employment Creation, Bali, Indonesia, 30 March - 2 April 2009. Accessed at <http://www.unwto.org/statistics/bali/bali.htm> on 22 August 2012.

<sup>215</sup> Oxford Economics, *Methodology for Producing the 2011 WTTC/OE Travel & Tourism Economic Impact Research*, as note 145 above. The TSAs are publicly available on the WTTC website, at <http://www.wttc.org/research/economic-impact-research/>.

<sup>216</sup> World Travel & Tourism Council (WTTC), *World Travel & Tourism: Navigating the path ahead*, The 2007 Travel & Tourism Economic Research, p. 26.

### *Direct vs. indirect effects*

As highlighted by Lejárraga and Walkenhorst in *On linkages and leakages: Measuring the secondary effects of tourism*, "Tourism is touted for having a three-pronged imprint on host economies, corresponding to its primary (direct) and secondary (indirect and induced) channels":

*Direct impacts* accrue from initial tourist spending in the tourism industry – for instance, on hotel accommodations, transportation and entertainment.

*Indirect impacts* are generated when tourist expenditures mainstream from the tourism economy to the general economy through purchases of goods and services from nontourist sectors of the local economy – for example, on food and beverages, equipment and furniture and merchandise. Finally,

*Induced effects* are attributable to the increased income of wage-earners related to the tourism economy, such as waiters, tour operators and construction workers, who in turn buy goods and services in the general economy.<sup>217</sup> *{emphasis added}*

With regard to tourism multipliers, Lejárraga and Walkenhorst further note that "Multipliers can be used to quantify the economic resonance of the secondary effects of tourism – that is, the extent of indirect and/or induced effects". Although the existence of indirect and induced tourism effects is widely agreed, measuring them is not:

Available empirical studies calculate multipliers according to differing definitions and technical approaches. This has rendered cross-country comparability of multiplier effects unfeasible. Moreover, the available calculations of multipliers of countries studied are widely dispersed in time, which adds to the difficulty of gauging cross-country differences with respect to linkages and leakages.<sup>218</sup>

Using the WTTC estimates, Lejárraga and Walkenhorst calculated the average direct and indirect Keynesian multipliers for 151 countries, grouped by income level and region, observing that "The data suggest that low-income countries' tourism is characterized by relatively modest indirect effects and higher levels of leakages. In Sub-saharan Africa, tourist spending has the largest share of leakages".<sup>219</sup>

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<sup>217</sup> Iza Lejárraga and Peter Walkenhorst, *On Linkages and Leakages: Measuring the secondary effects of tourism*, *Applied Economics Letters*, 17: 5, 417 — 421, 2010, p. 417.

<sup>218</sup> Lejárraga and Walkenhorst, *On Linkages and Leakages*, as note 217 above, p. 417. Unfortunately, similar argument can undoubtedly also be made regarding the lack of comparability of the multipliers across sectors from Input-Output Tables of upstream and downstream linkages.

<sup>219</sup> Lejárraga and Walkenhorst, *On Linkages and Leakages*, as note 217 above, p. 419.

## B. Tourism Cluster and Value Chain Analyses

In the absence of comprehensive Tourism Satellite Accounts for LDCs, workable alternatives -- for both policy analysis and coordination -- might include cluster and value chain analyses. As noted by the World Bank, these tools "help identify constraints at the sector level and rely on consultations and benchmarking".<sup>220</sup>

Of the two approaches, cluster analysis "is a more systemic approach, focusing on identifying the policy and institutional impediments to competitiveness". By contrast, value-chain analysis is, "transaction-oriented and has been widely used as a tool for identifying binding constraints in the production of specific products".<sup>221</sup>

### *Cluster analysis*

As defined by the World Bank publication *Clusters for Competitiveness*, "A cluster is a system of interconnection between private and public sector entities. It usually comprises a group of companies, suppliers, service providers, and associated institutions in a particular field, linked by externalities and complementarities":

Because of their proximity—by geography and activities—cluster constituents enjoy the economic benefits of several location-specific externalities and synergies. Such benefits include access to specialized human resources and suppliers, knowledge spillovers, pressure for higher performance in head-to-head competition, etc. Moreover, through these linkages, one cluster is inevitably linked with others and to the overall economy.<sup>222</sup>

The World Bank has compiled listings of relevant tools and approaches for developing a cluster-based competitiveness initiative [**Box: X** and **Table: III**], noting that "The first stage involves engaging cluster and policy leaders to produce an economy-wide map that shows cluster locations and their linkages with the wider economy". Overall, the Bank observes that:

Cluster initiatives can contribute to comprehensive national competitiveness efforts that include policy reform, trade capacity building, a private-public dialogue, regional economic development, workforce development, etc.<sup>223</sup>

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<sup>220</sup> World Bank, *Analyzing Trade Competitiveness*, as note 28 above, p. 14.

<sup>221</sup> World Bank, *Analyzing Trade Competitiveness*, as note 28 above, p. 15. "Value chain projects tend to have a sharper focus on helping specific beneficiaries, usually those stuck in poverty, such as producers in a certain region or farmers who are receiving low prices. Cluster projects tend to involve the entire value chain plus any entity that has the potential to influence the cluster and beyond" (World Bank, *Clusters for Competitiveness: A practical guide & policy implications for developing cluster initiatives*, The International Bank for Reconstruction and Development / The World Bank, February 2009, pp. 7-8).

<sup>222</sup> World Bank, *Clusters for Competitiveness*, as note 221 above, pp. viii, 1.

<sup>223</sup> World Bank, *Clusters for Competitiveness*, as note 221 above, pp. 1, 52, 53.

**Box X: One Approach to Developing a Cluster Initiative**

<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Stage 4</b>
<b>Cluster mapping and initial engagement</b>	<b>Diagnostics and strategy formulation</b>	<b>Implementation of strategic, policy and institutional initiatives</b>	<b>Post-project sustainability</b>
Economy-wide cluster mapping; identification and engagement with key cluster stakeholders	Apply the 10 cluster tools { <b>Table III</b> } to ascertain its competitive position, develop collaboration among cluster member and develop collective business strategies	Secure ownership from key cluster leaders in terms of time, ideas and cost-sharing; public-private dialogues on policy and institutional bottlenecks for implementation of business strategies on cluster competitiveness	Ensure that cluster can handle resources independently beyond the life of the project; do due diligence and formalize the institutional structure of the cluster

Source: World Bank, *Clusters for Competitiveness: A practical guide & policy implications for developing cluster initiatives*, The International Bank for Reconstruction and Development / The World Bank, February 2009, p. 4.

Under the *Programme of Action for the Least Developed Countries for the Decade 2011-2020* [**Table I**], one of the agreed actions by the least developed countries regarding Productive Capacity (Priority Area A) is to "Foster economic activity by promoting, inter alia, economic clusters, removing obstacles to business and prioritizing domestic and foreign investments, which increases connectedness".<sup>224</sup> UNEP further notes that "Economies of scope in the tourism sector could be achieved by means of clustering":

In the case of tourism, the conservation of the natural capital of a country has a chainable effect and complementary influence on many firms. *Clustering can strengthen backward and forward linkages* in the tourism value chain and drive sustainability in the whole industry.<sup>225</sup> {emphasis added}

From a policy coordination perspective, *Clusters for Competitiveness* observes that "Cluster analysis encourages engagement with a diverse group of stakeholders through which they may develop a shared understanding of the underlying public policy issues and act on them jointly," further noting that "Developing such a joint platform with strong ownership by the public and private sector stakeholders is often crucial in jump starting more comprehensive economic reform processes in developing countries." With regard to policy analysis, the publication notes that:

Understanding the state of clusters within an economy makes it easier to diagnose economic inefficiencies and to specify and prioritize various shortages and impediments to competitiveness and growth. It can focus attention on the unique

<sup>224</sup> United Nations, *Programme of Action*, as note 10 above, para 46.(e), p. 12.

<sup>225</sup> UNEP, *Towards a Green Economy*, as note 141 above, p. 433.

challenges that may be sector-specific and can address institutional and coordination-related issues to leverage additional benefits of positive spillovers.<sup>226</sup>

### **Table III: Tools to Develop a Cluster-Based Competitiveness Initiative**

#### **Cluster Definition**

Tool 1: Cluster Mapping

#### **Cluster Analysis**

Tool 2: Product and Market Segmentation

Tool 3: SWOT (Strengths, Weaknesses, Opportunities, Threats)

Tool 4: GAP Analysis

Tool 5: Porter's Five Forces Analysis

Tool 6: Value Chain Analysis

Tool 7: Market Trends Analysis

Tool 8: Competitive Positioning Analysis

#### **Assessing Institutional Support**

Tool 9: Old and New Institutions for Collaboration

#### **Controlling the Process**

Tool 10: Monitoring and Evaluation

*Source:* World Bank, *Clusters for Competitiveness: A practical guide & policy implications for developing cluster initiatives*, The International Bank for Reconstruction and Development / The World Bank, February 2009, p. 13.

#### *Value chain analysis*

As highlighted by the ILO, "the HCT {hotel, catering and tourism} sector has significant potential to contribute to poverty alleviation by developing a value chain approach to sustainable tourism development and reducing leakages by building linkages with other sectors".<sup>227</sup> According to the World Bank, value chain analysis [see also **Annex XI**] follows three stages:

- (i) *Process mapping* of industry chains in qualitative terms and quantitative terms by disaggregating metrics such as cost, time, productivity, and value addition along the various segments of each chain;
- (ii) *Establishing benchmarks* for performance indicators against international competition and best practices; and
- (iii) *Understanding explicitly the policy and institutional factors* underlying these performance measures.<sup>228</sup> {emphasis added}

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<sup>226</sup> World Bank, *Clusters for Competitiveness*, as note 221 above, p. viii.

<sup>227</sup> ILO, *Poverty Reduction through Tourism*, as note 18 above, p. 1.

<sup>228</sup> World Bank, *Analyzing Trade Competitiveness*, as note 28 above, p. 15.

Four examples of value chains, from the tourism economy in Luang Prabang, Lao PDR, are presented in [Table IV]. As noted by ESCAP, value chain analysis (VCA), "identifies existing value chains that can be developed further":

Gap analysis can be used to identify those income-earning opportunities that have not yet been developed locally. This can help to identify which goods and services are in demand with tourists, but are unavailable from local supply sources. With these conditions in mind, VCA can provide policy makers with information to help set priorities when considering the socio-economic impact of programmes and projects at the micro level.<sup>229</sup>

**Table IV: Summary of Turnover and Income Estimates across four Value Chains of the Tourism Economy in Luang Prabang, Lao PDR**

Sector:	Accommodation	Food and drink	Curios and crafts	Excursion and transport
Approximate annual turnover in Luang Prabang (US\$):	8,700,000	7,000,000	4,400,000	1,800,000
Percentage of income accruing to semi-skilled and unskilled workers:	6	45-50	40	33
Estimated income accruing to semi-skilled and unskilled workers (US\$):	555,000	3,000,000	1,800,000	600,000
Main types of income earners and approximate aggregate annual income (US\$):	Hotel workers: 290,000 Guest house workers: 215,000	Meat and fish producers: 2,400,000 Fresh food producers: 883,000	Weavers: 550,000 Silver and other suppliers 505,000 Silk suppliers: 265,000 Vendors: 200,000	3-wheel taxi drivers: 300,000 Boat owners: 110,000 Guides: 150,000
People categorized as poor who receive income:	Small amounts	Farmers supplying fresh produce	Silk producers, gatherers of wood products, sellers of Hmong silver	Villagers with shops, homestay and other fees
Opportunities for increased income:	Increased employment as supply of rooms and beds expands	Supplies of fresh produce on regular schedule; supply of specialty food to increase value added	Increase supply of Lao silk; make point of sale in rural areas; provide products with higher value added; provide tailor-made products	Provide more products and services in villages; increase number of village guides

Source: C. Ashley, *Participation by the Poor in Luang Prabang Tourism Economy: Current earnings and opportunities for expansion*, ODI WP273, 2006 (available online, at [www.odi.org.uk/publications/working\\_papers/wp273.pdf](http://www.odi.org.uk/publications/working_papers/wp273.pdf)).

<sup>229</sup> ESCAP, *Study on the Role of Tourism in Socio-Economic Development*, as note 208 above, p. 47.

*Clusters for Competitiveness* observes that "A value-chain approach is transaction-oriented and focuses on transactional efficiency within the chain; essentially, it is linear," and that "While clusters typically are geographically centered, value chains may span multiple geographies". Overall, the publication notes that "The value-chain analysis framework centers around three major segments that describe each production link in the value chain: source, make, and deliver. Each activity mapped in the value-chain diagram can be represented by a cost breakdown":

In addition to mapping the value chain, a VCA typically includes measurement of the chain's performance, establishment of benchmarks, and finally, analysis of the performance gaps, taking into account government and market failures.<sup>230</sup>

### C. Growing Both Tourism Markets and Tourism Linkages

As noted in Part II, export diversification involves expansion of both the intensive and extensive margins. In a similar manner, maximizing the benefits of tourism requires not only expanding tourism markets and activities, but also primary and secondary tourism linkages [Figure VII]. While efforts to grow tourism markets and activities are typically infrastructure-intensive -- involving additional aircraft, airports, hotels, etc. -- expanding tourism linkages also relies on policy coordination, the formation of clusters, value-chain analysis, vocational training and information dissemination.

#### *"Dual-use" infrastructure*

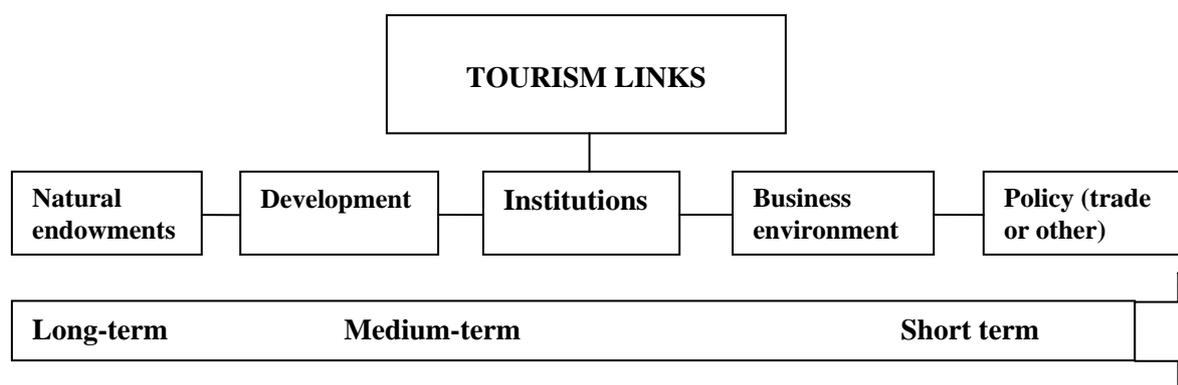
The infrastructural requirements of export diversification are also noted in Part II. If well-planned and regulated, tourism has many "dual use" aspects, in that the necessary roads, electrical power, telecommunications, airports etc. can strongly benefit local communities, rural development, and the country in general. A major example is the added air cargo capacity for exporting fresh flower, fruits and vegetables resulting from Kenya's growth in long-haul tourists arriving by air.<sup>231</sup> At the same time, tourism-related FDI can be a useful vehicle for helping to finance desperately needed LDC infrastructure investments.

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<sup>230</sup> "Value-chain analysis is conducted in two stages: (A) a snapshot of the current value chain is prepared, where all involved actors and activities are listed, and key productivity issues are highlighted; (B) informed by this, a value-chain proposal is developed, which ideally benchmarks the value chain to assess potential interventions so greater value can be added during the production process" (World Bank, *Clusters for Competitiveness*, as note 221 above, pp. 7-8, 31).

<sup>231</sup> The website for Kenya Airway Cargo notes that "Kenya Airways operates direct flights to over 26 destinations. Together with our strategic partner airlines, we provide cargo connections to over 100 destinations". Accessed at <http://www.kqcargo.com/> on 21 August 2012.

**Figure VII: Determinants of Tourism Links**



Source: Iza Lejárraga and Peter Walkenhorst, *Fostering Productive Diversification through Tourism*, World Bank, *Breaking into New Markets: Emerging Lessons for Export Diversification*, e.d. Richard Newfarmer, William Shaw and Peter Walkenhorst, Washington D.C. 2009, p. 206.

Equally important, tourism planning must also include measures to deal with expected negative externalities, such as increased competition for scarce water resources, increased risks of prostitution, potential exploitation of the poor (e.g. through loss of land rights or beachfront access), increased environmental impacts, etc.<sup>232</sup> In addition, well-planned and regulated tourism can be an import source of necessary financial, technical and managerial resources for addressing climate change, protecting the environment and accelerating overall development.

#### *Reducing leakages by increasing linkages?*

As highlighted by Lejárraga and Walkenhorst in *On Linkages and Leakages*, "Tourism expansion invariably creates demand in a broad array of economic sectors in the host economy, generating new supply opportunities for existing and emerging products", noting that "These opportunities may be captured locally or internationally, depending on the extent of linkages and leakages that characterize the relationship between the tourism economy and the general economy".<sup>233</sup>

The ILO further observes that "Although the sector can be a driver of social development and poverty reduction, and can expand local incomes though its high potential for local employment creation, its enterprises often engage in sourcing relationships with foreign suppliers, rather than seeking local supply linkages":

For most developing countries, these "leakages" in tourism expenditures and earnings are between 40 and 50% of gross tourism earnings and between 10 and 20% for

<sup>232</sup> For example, with regard to negative externalities in connection with Kenya's flower exports, see Reed, *Escaping Poverty's Grasp*, as note 157 above, pp. 9-10.

<sup>233</sup> Lejárraga and Walkenhorst, *On Linkages and Leakages*, as note 217 above, p. 417.

developed and more diverse developing countries. They can be reduced by building local cross-sectoral activities.<sup>234</sup>

ESCAP notes that "The concepts of linkages and leakages provide one way for assessing whether tourism is having a positive or negative impact in terms of whether tourism expenditures generate income, employment and government revenues within the national economy or whether the expenditures are for imported goods, thus creating leakages via imports":

In socioeconomic terms, linkages refer to the connections between the tourism industry and local suppliers of goods and services through both the formal and informal economy. Leakages refer to payments or financial flows made outside the economy of the destination country.<sup>235</sup>

ESCAP further states that "For companies in various sectors of the tourism industry, linkages are seen in business terms as the supply chain. Linkages can stimulate increased economic activity and have a positive effect on balance of payments as local products replace imported ones. The positive impact of linkages also relates to the capabilities and competitiveness of domestic firms":

Among the direct benefits from effective linkages are increased output of the linked enterprises, increased employment, improved market access, increased knowledge and a broader skill base. In addition this could improve efficiencies in productivity, managerial capabilities and market penetration. Table 10 {**Table V**} lists some of the main linkages in terms of supply chains back to local producers and sellers to three sectors of the tourism industry: hotels, restaurants and tour guide operations.<sup>236</sup>

As noted above, the typically exaggerated concern over "leakages" is one of the most commonly cited arguments against tourism from a developmental perspective. In addition to the work by ODI and others showing that leakage levels are usually less than commonly estimated, recent work by Lejárraga and Walkenhorst find that that linkages and leakages in tourism are not highly correlated:

Contrary to widely held views, the multipliers for tourism linkages and leakages are noncomplementary, as they are based on different economic concepts, so that no particular correlation is to be expected. This independence is confirmed in the empirical cross-country analysis.<sup>237</sup>

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<sup>234</sup> "(i.e. linkages with other sectors such as construction, agriculture, fishing, food processing, furniture manufacturing, handicrafts, media and entertainment, transport, utilities and services including energy and telecommunications)" (ILO, *Rural Development through Decent Work*, International Labour Office, Geneva, 2011, p. 2). Accessed at [http://www.ilo.org/wcmsp5/groups/public/@ed\\_emp/documents/publication/wcms\\_161153.pdf](http://www.ilo.org/wcmsp5/groups/public/@ed_emp/documents/publication/wcms_161153.pdf) on 21 August 2012.

<sup>235</sup> ESCAP, *Study on the Role of Tourism in Socio-Economic Development*, as note 208 above, pp. 47, 48.

<sup>236</sup> ESCAP, *Study on the Role of Tourism in Socio-Economic Development*, as note 208 above, p. 48.

<sup>237</sup> Lejárraga and Walkenhorst, *On Linkages and Leakages*, as note 217 above, p. 417.

**Table V: Examples of Tourism Supply Chain Linkages within Selected Sectors of the Industry**

Hotel companies:	<ul style="list-style-type: none"> <li>• Construction materials, such as wood, stone, straw for thatching and locally made mud bricks, giving a local style to the hotels and could enhance their attractiveness;</li> <li>• Furniture made of local wood varieties, provided its exploitation is environmentally sustainable;</li> <li>• Carpets and rugs, locally woven by traditional craftsmen and women;</li> <li>• Decorative objects designed, painted and/or produced by local artists;</li> <li>• Bed linen, tablecloths, napkins and other textile items, which need frequent replacement;</li> <li>• Food items, especially fresh produce grown by local farmers, but also some processed items such as juices, bread, etc.;</li> <li>• Laundry services, especially to replace expensive, often imported washing and/or drying equipment in small and medium-sized accommodation establishments.</li> </ul>
Restaurants and other catering establishments:	<ul style="list-style-type: none"> <li>• Furniture, tablecloths, decorative objects, etc. as listed above</li> <li>• Local food items, especially fresh produce grown by local farmers</li> <li>• Local drinks, freshly-produced juices, etc.</li> <li>• Local dishes, reflecting the local gastronomy</li> </ul>
Tour operating companies:	<ul style="list-style-type: none"> <li>• Local guides</li> <li>• Local, traditional means of transport</li> <li>• Local cultural attractions and traditional ceremonies.</li> </ul>

Source: Eugenio Yunis, "Poverty-sensitive Value Chains in the Tourism Industry", (Madrid: UNWTO, October 2006. As found in United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), *Study on the Role of Tourism in Socio-Economic Development*, United Nations, New York, 2007, pp. 45-46.

Lejarraga and Walkenhorst further observe that "Moreover, the analysis finds a positive association between the degree of linkages and per-capita income, trade openness and the friendliness of the business climate".<sup>238</sup> Consequently, policymakers should evidently pay greater attention to trade and regulatory issues. In this regard, the World Bank notes that "private sector linkage interventions will support value-chain development at local, national, and regional levels":

Once gaps in the supply chain are identified, steps can be taken in partnership with relevant public, private, and civil society stakeholders to find competitive solutions. Increasing cross-sector awareness of tourism ensures that the tourism market will be considered by other sectors of the economy. Integrating tourism into other projects builds supply-chain linkages.<sup>239</sup>

### *Regional aspects*

For export diversification in general, as noted in Part II, regional approaches are very significant. These include the New Partnership for Africa's Development (NEPAD), a programme of

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<sup>238</sup> Lejarraga and Walkenhorst, *On Linkages and Leakages*, as note 217 above, p. 417. The paper also notes (p. 420) that "an import substitution strategy has an unclear impact on the degree of leakages, but tends to reduce linkages, as domestic producers are cut off from foreign inputs and are not subject to the standard-augmenting pressure from international competition. Furthermore, a heavy-handed regulatory environment, as measured through the number of days required to start a business, is associated with lower tourism linkages and a higher degree of leakages".

<sup>239</sup> "This will be achieved through analytical and operational work including value chain mapping and analysis, partnership development (PPPs), matching grants for MSMEs, support to professional associations, and assistance with access to finance" (World Bank, *Africa Region Tourism Strategy*, as note 17 above, p.14).

the African Union adopted in Lusaka, Zambia in 2001.<sup>240</sup> The 2010 joint study by the United Nations Office of the Special Adviser on Africa and the NEPAD-OECD Africa Investment Initiative, *Economic Diversification in Africa: A Review of Selected Countries*, noted the importance of combined efforts for diversification:

... the expansion of activities in underdeveloped sectors, or indeed the development of new activities, is a significant challenge and requires a combined effort by African governments, the private sector and the international community. In addition, and in light of the small size of many African economies, a regional approach to economic diversification is imperative to reap the benefits of larger domestic markets and economies of scale.<sup>241</sup>

With regard to tourism specifically, the *Tourism Action Plan* for AU/NEPAD was adopted under the guidance of the African Ministers of Tourism in 2004.<sup>242</sup> In the introduction, the *Action Plan* recognized tourism as "one of the sectors with the greatest potential to contribute to the economic regeneration of the continent, particularly through the diversification of African economies and generation of foreign exchange earnings", stating that:

In this context, carefully considered strategic interventions in the tourism sector at the continental level have the potential to catalyse growth in other areas of the economy, for example, agriculture, horticulture and the service sector. *More importantly, the tourism sector has a huge potential to contribute to the achievement of the Millennium Development Goals (MDGs), and ultimately eradicate poverty.*<sup>243</sup> {emphasis added}

The AU/NEPAD *African Action Plan 2010-2015: Advancing Regional and Continental Integration in Africa* states that "The expansion of tourism is one of the principal engines for growth in Africa", while also acknowledging that "Africa offers considerable, albeit largely untapped, potential for tourism":

Tourism sector in Africa is still at an early stage of development. The tourism industry throughout Africa operates below international competitive standards. Africa's tourism industry provides typically seasonal, low-wage work, inadequate service, and there is significant leakage of tourism-generated revenues. *Heads of States and governments, financial institutions and the general public are still*

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<sup>240</sup> Detailed information is available on the NEPAD website, at <http://www.nepad.org/>.

<sup>241</sup> United Nations Office of the Special Adviser on Africa and the NEPAD-OECD Africa Investment Initiative, *Economic Diversification in Africa: A Review of Selected Countries*, as note 51 above, p. 3.

<sup>242</sup> Other regional tourism initiatives involving LDCs include COMESA and ECOWAS. See, for example, Tralac trade law centre, website, *COMESA Officials Mull Borderless Tourism Market* (accessed at <http://www.tralac.org/2012/08/28/comesa-officials-mull-borderless-tourism-market/> on 2 November 2012), and AllAfrica, website, *West Africa: Gambia Hosts Maiden ECOWAS Tourism Ministers' Summit*, (accessed at <http://allafrica.com/stories/201206251061.html> on 2 November 2012).

<sup>243</sup> NEPAD, *Tourism Action Plan*, July 2004. See also [Annex XI].

*insufficiently aware of tourism's economic importance for their countries.*<sup>244</sup>  
{emphasis added}

Despite including a list of strategic objectives for the tourism sector [Table VI], the *African Action Plan 2010-2015* apparently considers tourism as a future endeavour, stating that "The tourism sector is expected to contribute successfully to poverty eradication, economic growth and diversification by 2020", and that "No specific priority projects or programmes were identified to be included in the current Action Plan".<sup>245</sup>

**Table VI: AU/NEPAD Strategic Objectives in Tourism Sector**

**Objective 1** – Create an enabling regulatory environment;

**Objective 2** – Strengthen institutional capacity;

**Objective 3** – Promote tourism marketing;

**Objective 4** – Promote research and development;

**Objective 5** – Promote investment in tourism infrastructure and products;

**Objective 6** – Reinforce human resources and quality assurance;

**Objective 7** – Establish and adopt a code of conduct and ethics for tourism; and

**Objective 8** – Mobilize financial resources.

*Source:* African Union/New Partnership for Africa's Development (AU/NEPAD), *African Action Plan 2010-2015: Advancing Regional and Continental Integration in Africa*, Sectors, 2009, p. 76.

*Overcoming the obstacles*

Analytical capacity and policy coordination are obvious requirements for the expansion of tourism linkages,. Cluster and value-chain analyses, as discussed above, could prove particularly useful. Public policy, as noted by Iza Lejárraga and Peter Walkenhorst, "can often play an important role when there are coordination or information failures between the tourism industry and related sectors of the domestic economy":

Policy can support private sector developments and promote the availability of sufficient local supplies at competitive prices for the tourism industry. Examples of policy interventions include the organization of supplier fairs, the monitoring and enforcement of food safety standards, and the review of the incentive regime to

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<sup>244</sup> African Union/New Partnership for Africa's Development (AU/NEPAD), *African Action Plan 2010-2015: Advancing Regional and Continental Integration in Africa*, Sectors, 2009, p. 75 (available online, at <http://www.oecd.org/site/africapartnershipforum/meetingdocuments/44326734.pdf>).

<sup>245</sup> AU/NEPAD, *African Action Plan 2010-2015*, as note 243 above, p. 76.

ensure that duty exemptions for international tourism operators do not leave potential domestic suppliers at a disadvantage.<sup>246</sup>

With regard to tourism policy coordination and analysis, the recent UNDP study, *Tourism and Poverty Reduction Strategies in the Integrated Framework for Least Developed Countries* highlights that 30 of the 35 DTIS reviewed prioritize the tourism sector, noting that "This is an important message for the development community, especially in view of the low priority traditionally assigned to the tourism sector in development cooperation".<sup>247</sup> The UNDP study analyzes three levels of interventions: policy and regulatory framework; institutional support; and supply-side (enterprise) response, observing that "the DTIS focus significantly more attention on policy planning than institutional development", and reaching the conclusion that "Countries must do more to address pro-poor concerns, gender issues and sustainability considerations in tourism development".

Expanding LDC tourism involves addressing a number of significant hurdles, including unpredictable business environments, institutional weakness, and price/values mismatches [**Annex XII and Box XI**]. As highlighted by the *Africa Competitiveness Report 2011*, "evidence shows that a number of obstacles remain to improving the region's competitiveness, notably improving safety and security, upgrading health and hygiene levels, developing various forms of infrastructure, and fostering the region's human capital".<sup>248</sup>

Fortunately, as observed by Paul Brenton, Richard Newfarmer, and Peter Walkenhorst in *Avenues for Export Diversification: Issues for Low-Income Countries*, "fixed or semi-fixed factors of production, such as land, labor, or capital, have less influence on the extent of tourism linkages than is generally supposed" noting that "By contrast, variables related to entrepreneurial capital and the business environment of the host economy are of notable explanatory significance":

In particular, the level of corporate taxes in the host economy has the most significant adverse effect on the formation of linkages, in conformity with the lower-cost motivation underlying tourism-led discovery.<sup>249</sup>

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<sup>246</sup> Lejárraga and Walkenhorst, *Fostering Productive Diversification through Tourism*, as note 100 above, p. 198.

<sup>247</sup> United Nations Development Program (UNDP), *Tourism and Poverty Reduction Strategies in the Integrated Framework for Least Developed Countries*, April 2011, pp. 3, 4 and 34. See page 61 of this working paper regarding the Enhanced Integrated Framework and the Diagnostic Trade Integration Study (DTIS) studies.

<sup>248</sup> "Given Africa's many strengths, improvements in these areas will greatly enhance its ability to reap the enormous potential benefits of tourism" (WEF *et al.*, *Africa Competitiveness Report 2011*, as note 8 above, p. xv).

<sup>249</sup> Commission on Growth and Development, *Avenues for Export Diversification: Issues for Low-Income Countries*, as note 56 above, p. 27.

### **Box XI: What are the Constraints to {African Tourism} Growth?**

"Standing in the way of job creation and private sector tourism development are five inter-related constraints:

#### **1. Unpredictable Business Environments**

Political instability, high crime rates, complex visa arrangements, unsafe roads, inadequate water, poor sanitation, high cost of electricity, poor construction practices, and lack of health facilities result in unpredictable business environments.

#### **2. Institutional Weaknesses**

*Tourism is complex.* It requires coordination between multiple government agencies, private sector bodies, civil society organizations, and community stakeholders. Transportation, communications, finance, education, sanitation and immigration are just a few of the many areas where greater coordination is required. *{emphasis added}*

#### **3. Inadequate Access**

Average one-way fares in Africa are twice as expensive as those in Latin America and four times as expensive as domestic flights in the US.

In addition to air transport, the fundamental constraints to tourism in Africa are infrastructure, utilities (particularly electricity), and access to finance and to land.

#### **4. Low Level of Linkages**

Despite increasing evidence of the multi-sector benefits tourism can bring to economies across Africa, the sector is often regarded as elitist and dominated by foreign firms.

Constraints to tourism value-chain development in Africa include poor quality products, lack of tourism awareness, and a problematic business environment. There are significant opportunities for improved linkages, but in many cases local products (horticulture, produce, crafts, entertainment, transportation) are not sufficiently developed or are not of high enough quality to supply the tourism industry.

#### **5. Price/Value Mismatch**

Air transport, utilities, and access to land and to finance are constrained by the high cost of doing business in Africa."

*Source: World Bank, Africa Region Tourism Strategy, Transformation through Tourism: Harnessing tourism for growth and improved livelihoods, Version 3.0, December 27, 2010, pp. 8-9.*

## D. Maximizing Employment Generation and Poverty Alleviation

### *Economy wide focus required*

Maximizing tourism's employment and poverty alleviation opportunities requires avoiding an exclusive focus on community tourism or eco-tourism, and instead applying an economy wide pro-poor tourism (PPT) approach. This involves using value chain analysis (VCA) and other tools to analyze each link of the tourism "chain" of activities for new employment/pro-poor possibilities, including indirect as well as direct tourism activities. As highlighted by the ILO publication *Reducing Poverty through Tourism*:

Pro-poor action remains focused at the micro level. PPT should be applicable to all forms of tourism including mainstream tourism, not just a niche product such as eco-tourism or community tourism. The principles of maximizing linkages with the poor can be applied to beach resorts, urban hotels, conferences, wilderness tours, new building projects and on a national and regional scale.<sup>250</sup>

The greatest pro-poor opportunities, as documented by the Overseas Development Institute (ODI) and others, usually come from more indirect tourism activities -- most notably the supply of local agricultural products to the hotels, resorts and restaurants frequented by tourists. Taxis and other local transport, and vendor sales of handicrafts, food products, etc., are other typical examples. Further opportunities include direct employment in tourism enterprises, self-employment as tourist guides, etc., or ownership of micro- and small- scale enterprises. As noted in Part III (including Box VI), tourism may also offer greater opportunities than other sectors for bringing informal activities into the formal economy.

### *Enabling conditions for pro-poor tourism*

Enabling conditions to actually create and benefit from both existing and potential pro-poor tourism linkages (in a manner aimed at achieving the MDGs [**Annex XIII**]) obviously include adequate local infrastructural services, credit availability, education and training opportunities, supportive taxation, and appropriate domestic regulatory policies. Furthermore, as noted by UNEP, proactive policies to expand local tourism linkages could include such aspects as strengthening value chains, solidarity lending mechanisms, development bank access, establishing seed funds, etc. [**Box XII**].

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<sup>250</sup> "However, most tourism for poverty reduction initiatives remain confined to community-based tourism projects, campsites or trekking. They cannot deliver impact at a significant scale." (ILO, Dain Bolwell and Wolfgang Weinz, *Reducing Poverty through Tourism*, WP.266, International Labour Office, Geneva, October 2008, p.13.)

## **Box XII: *Increasing Tourism's Local Contribution***

1. **"Strengthen tourism value chains to back SME investment.** Destination tourism is usually stable enough to provide sufficient guarantees for investors and bankers. Long-term contracts for products and services to hotels or other "anchor" businesses create suitable conditions, and simple mechanisms to monitor performance.
2. **Expand the use of solidarity lending mechanisms** to permit groups of local suppliers to access credit and build capital. Solidarity lending (guarantees provided by a peer group) has proven successful in fisheries, agriculture, and handicrafts – all industries of critical importance to successful sustainable tourism destinations.
3. **Enhance development bank access** to individuals and small businesses that are not eligible for credit, or are involved in the provision of public services (such as protected areas management, guiding, waste management, infrastructure construction, among others).
4. **Establish seed funds** to permit new green industries to develop locally. For example, solar collectors and photovoltaic systems can be imported as complete systems, or can be assembled locally from imported components. The latter encourages local investment and promotes local economic contribution. It also permits adaptation of the technologies to better suit local tourism needs."  
{emphasis added}

*Source:* United Nations Environment Program (UNEP), *Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication*, United Nations Environment Programme, 2011, pp. 436-437.

Successful examples of expanding local tourism linkages include the Tourism-Led Poverty Reduction Programme (TPRP) of the International Trade Centre (ITC), which, as stated on the ITC website, "creates links between local producers, particularly women, and the tourism markets, thus enabling the poor rural communities to export their products, first on local national markets through the channel of tourism, and then on international markets, while adding value along the value chain". TPRP projects in LDCs to date include Benin, Mozambique and Senegal.<sup>251</sup>

Governments can play a major role in expanding tourism linkages and pro-poor impacts [**Box XIII**]. As noted above, emphasizing "dual-use" tourism infrastructure (including roads, electricity, and sanitation facilities) promotes higher levels of upstream and downstream linkages, which in turn help maximize opportunities for employment and poverty alleviation. Extending tourism-related infrastructure into local communities is typically far easier and less expensive than designing and implementing such projects independently.<sup>252</sup> At the same time, it is highly important to include tourism-related linkages into national-level infrastructure and development planning.

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<sup>251</sup> International Trade Centre (ITC), *Tourism*, website. Accessed at <http://www.intracen.org/exporters/tourism/#> on 3 December 2012. See also World Tourism Organization (UNWTO) and Netherlands Development Organization (SNV), *Manual on Tourism and Poverty Alleviation – Practical Steps for Destinations*, 2010.

<sup>252</sup> Such simple measures as allowing temporary use by the local community of back-hoes and other equipment for building tourism facilities can have substantial developmental impact (Caroline Ashley, *How can*

**Box XIII: 'Toolbox' that Governments can use to Boost Local Economic Impacts of Tourism**

**TOOL 1** -- Boosting local inputs into the hotel supply chain

**TOOL 2** -- Stimulating micro and small tourism enterprises

**TOOL 3** -- Boosting local craft and tourist shopping

**TOOL 4** -- Boosting employment opportunities of the poor

**TOOL 5** -- Facilitating destination-level partnerships

**TOOL 6** -- Diversifying the destination, including more products of the poor

**TOOL 7** -- Use government roles to influence private sector behaviour

**TOOL 8** -- Facilitate joint venture partnerships, private sector and community

**TOOL 9** -- Other ways to channel financial flows to communities

**TOOL 10** -- Addressing cultural, social and physical impacts

**TOOL 11** -- Pro-Poor policy making

**TOOL 12** -- Strategic choices: Which segments, markets, investors?

*Source: Caroline Ashley, How can Governments Boost the Local Economic Impacts of Tourism?: Options and Tools, SNV and ODI, November 2006, pp. 12-45.*

As also previously noted, "tourism planning must also include measures to deal with likely negative externalities, such as increased competition for scarce water resources, increased risks of prostitution, potential exploitation of the poor (e.g. through loss of land rights or beachfront access), increased environmental impacts, etc."<sup>253</sup> This is especially important from a pro-poor perspective, as the most vulnerable segments of the population are typically the most affected by such externalities [Box XIV]. The ILO emphasizes that:

It is most important to be aware that tourism, like any other activity, can have both positive and negative effects on people, especially the poor. It should not be assumed that PPT strategies will have only positive effects. For example, the introduction of new tourist resorts can benefit the poor through job creation, but may have negative effects through increased prices for land and commodities, or reduced access to beaches and fishing grounds. Strategies that aim to reduce poverty must assess the net impact in order to give a true picture. Future approaches need to consider net effects as well as benefits.<sup>254</sup>

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*Governments Boost the Local Economic Impacts of Tourism?: Options and Tools, SNV and ODI, November 2006, p. 49).*

<sup>253</sup> Presumably, this would include access of the poor to affordable legal protection.

<sup>254</sup> ILO, *Reducing Poverty through Tourism*, as note 250 above, p. 11.

#### **Box XIV: *Effects of Tourism on Local/Rural Economic Development***

##### **Tourism can positively affect local/rural economic development in the following ways:**

Stimulating the creation and growth of new enterprises;  
bringing an export market right to the doorstep of many sectors (businesses that start selling new products to tourists and find success can end up as exporters, so helping the economy diversify);  
stimulating the development of new infrastructure and transport services;  
going hand in hand with upgrading workforce skills (it provides incentives for local/rural people to learn new languages and customer service skills);  
contributing to the tax base of national government, and sometimes also paying fees or licences to local government; and  
providing incentives and funds for natural, cultural and historical resources to be managed in a more sustainable manner.

##### **Tourism can also have negative knock-on effects, particularly affecting the poor:**

Tourism can increase competition for water, land, and other natural resources;  
as tourism boosts demand for local/rural goods (food, land, construction), so local prices will rise, and if these goods and services are also purchased by the poor, the value of their small income goes down;  
in a small economy with a large tourism sector, the country's exchange rate can be affected;  
tourism can aggravate social tension and cultural disruption; and  
in several countries, sex tourism has grown to major proportions and is strongly linked to child and adolescent abuse, the dissemination of HIV/AIDS and sexual harassment.

*Source:* ILO, *Toolkit on Poverty Reduction through Tourism*, International Labour Office, ILO, 2011, Chapter 1, p. 15.

#### *Assessments, not assumptions!*

Unfortunately, as highlighted by the ILO's *Toolkit on Poverty Reduction through Tourism*, "There is a lack of systematic and documented monitoring of changes in poor people's livelihoods due to tourism. Neither the full range of impacts of tourism development on poverty levels, nor the before-and-after impacts of specific pro-poor measures have been rigorously assessed".<sup>255</sup> Similarly, ODI observes that "Many myths and assumptions exist about tourism and its impacts on the poor":

... policy decisions are often made on assumptions not assessments. Only recently is there a growing set of quantitative data about how different tourism economies affect the poor. These challenge assumptions and show the advantages of making assessments.<sup>256</sup>

As further noted by the ILO *Toolkit*, "tourism research has often been so preoccupied by the extent of the value captured by international interests that the host country is forced into the unhelpful role of powerless 'victim' of globalization". Using the example of Tanzania, the ILO observes that

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<sup>255</sup> ILO, *Reducing Poverty through Tourism*, as note 250 above, p. 14.

<sup>256</sup> Ashley, *How can Governments Boost the Local Economic Impacts of Tourism?*, as note 252 above, p. 3.

"To some people, the fact that Tanzania is only capturing about half of the global value chain in holiday packages sold in Europe may sound like exploitation. For a long-haul tourist destination (where the flights normally constitute about 40 per cent to 50 per cent of total package costs) this is to be expected. To a Tanzanian selling that other great export commodity, coffee, it would sound like a dream":

Each US dollar spent on a package holiday to Tanzania in Europe generates about three times the pro-poor impact (11 per cent for safaris and 12 per cent for Kilimanjaro climbing holidays, compared with 4 per cent for coffee) and five times the value for Tanzania (41–53 per cent compared with 8 per cent) compared with one dollar spent on a bag of Tanzanian coffee in Europe.<sup>257</sup>

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<sup>257</sup> ILO, *Toolkit on Poverty Reduction through Tourism*, as note 152 above, Chapter 1, p. 14.

## **VI. Conclusions: "Green Tourism" as a Necessary Requirement for LDC Graduation?**

*"In spite of their painstaking efforts and those of the international community, the LDCs' potential remains untapped, and their economies are increasingly marginalized in the global arena. These countries are at the epicentre of a continuing developmental emergency."<sup>258</sup>*

*"The experience of Mauritius, Tanzania, Rwanda, Seychelles, Cape Verde, and other destinations demonstrates that when conditions are right—political stability, good governance, enabling business environment—tourism assets can yield substantial economic gains."<sup>259</sup> {references deleted}*

### **A. Modifying Comparative Advantage & Maximizing Competitiveness**

As highlighted above by Justin Yifu Lin and others, comparative advantage should be regarded as gradually changing over time, in response to a broad range of factors. Crucially, LDCs can modify comparative advantage over the medium and longer terms, by means of deliberate policies and interventions, as elaborated in this working paper. Domestic policy coherence is one of the most essential factors for favourably shaping comparative advantage.

For maximizing competitiveness in the sectors and activities of current comparative advantage, the World Bank and others offer a wide range of diagnostic tools to identify and remove impediments. Trade and investment policies, together with appropriate domestic regulations, are among the most important mechanisms. As highlighted in the *Trade Competitiveness Diagnostic Toolkit*:

Tackling the multifaceted nature of competitiveness requires a deep understanding of the wide range of factors that can contribute to it or constrain it. As these factors are often highly endogenous and interrelated, a piecemeal approach to reform is unlikely to be effective; in practice a comprehensive approach to understanding the determinants of competitiveness is needed.<sup>260</sup>

Most LDCs have strong comparative advantage in a range of tourism activities. The essential issue is the extent to which individual LDCs -- and especially their private-sector enterprises -- are able to utilize this advantage as catalyst and leverage for export diversification and employment generation, especially in sectors not directly related to tourism. Crucial elements include taking full advantage of tourism's extensive linkages potential, as well as its multiple opportunities for low-cost export "test marketing" and product development. "Policy equality" as compared to other sectors, with regard to export- and investment- promotion incentives, etc., is also highly important.

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<sup>258</sup> United Nations, *Compact for Inclusive Growth and Prosperity*, Report of the United Nations Secretary-General's Eminent Persons Group on the Least Developed Countries, UN-OHRLLS, 2011, p. 3.

<sup>259</sup> World Bank, *Africa Region Tourism Strategy*, as note 17 above, p.2.

<sup>260</sup> World Bank, *Trade Competitiveness Diagnostic Toolkit*, as note 43 above, p. xi.

## B. Why is Tourism Still Being Neglected?

As noted in the Introduction, there remains a "deep-rooted scepticism" of the economic and social benefits of tourism, despite the extensive evidence and many national experiences to the contrary (including the information presented in this working paper). The World Bank's *Africa Region Tourism Strategy* argues that "Much of the prevailing scepticism about tourism as a development vehicle stems from a legacy of market failure". The *Strategy* further emphasizes that:

Tourism is primarily a private sector activity, but without strategic public investment, an enabling business environment, and effective policies, it is vulnerable to adverse environmental, socio-cultural, and economic impacts. Tourism is also multi-sectoral and requires careful coordination between infrastructure, finance, education and many other sectors to succeed.<sup>261</sup>

Together with measures to prevent market failures -- including effective domestic regulation to address negative externalities -- there is an obvious need for better data and statistics to deal with the scepticism and to "make the case" for tourism, as well as to accurately document its actual economic and social effects. As noted in Part V, ESCAP has highlighted that:

The formulation of national tourism development policies is often hindered by a lack of data on the scope and extent of tourism's economic contribution and impact. When such data is absent, it is likely that tourism will be given an unduly low priority in the allocation of domestic resources and foreign assistance.<sup>262</sup>

Overall, there remains the question of whether the complexities of maximizing the economic and social benefits of tourism can be achieved in some locations without significant technical and financial assistance. Such assistance can, of course, include expanding Aid for Trade allocations to tourism above the currently very low levels,<sup>263</sup> and "South-South" help from other LDCs and developing countries that have already mastered particular elements of the tourism value chain. As highlighted above, the coordination requirements for major tourism projects are extensive, and often involve hundreds of SMEs and tens of thousands of workers in rural areas lacking adequate infrastructure. At the same time, the remote locations and large scale are precisely some of the reasons why tourism has so much potential for development and poverty alleviation.

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<sup>261</sup> World Bank, *Africa Region Tourism Strategy*, as note 17 above, p.5. These aspects are extensively discussed in Part V of this working paper.

<sup>262</sup> "Tourism satellite accounts and other quantitative and qualitative analytical techniques help remedy this situation by allowing tourism to be compared to other economic activities measured in the national accounts" (ESCAP, *Study on the Role of Tourism in Socio-Economic Development*, as note 208 above, p. 107).

<sup>263</sup> As already noted, total Aid for Trade disbursements to LDCs increased in 2009 to US \$8.28 billion; of this, however, the share specifically allocated to tourism was only US \$13.3 million (OECD/WTO, *Aid for Trade and LDCs*, as note 184 above, p. 44).

### C. Mainstreaming "Pro-poor" Tourism

As highlighted by Lejárraga and Walkenhorst, "The successful broadening and deepening of links ... is an integral part of making tourism work for economic diversification".<sup>264</sup> The main requirement for maximizing the employment and poverty alleviation potential of tourism linkages, as emphasized above, is to use an economy wide approach and to avoid focusing too narrowly, e.g. only on community tourism or ecotourism in general. Instead, extensive analysis is required to determine where and at what pace the domestic tourism value chain can be expanded and optimized.

A second crucial element for mainstreaming green tourism is adequate levels of transport infrastructure, telecommunications, financing and training. Obviously, effective and appropriate legal and financial mechanisms must be created to promote the establishment of new SMEs, and the entry of informal enterprises and workers into the formal economy.

While, as already noted, reassessment of the current tourism model in the face of climate change will be required for most LDCs, they must not be forced to pay a disproportionate share of the costs. Global responses to climate change should not deprive LDCs of one of their most promising development opportunities, especially when the economic alternatives (including mining and manufacturing), will often have more severe environmental consequences.

The most essential element of maximizing the potential of tourism linkages, however, is to ensure coordinated and comprehensive policy analysis and regulatory oversight. There is no automatic guarantee that expanding tourism will increase poverty alleviation: pro-poor mechanisms must be explicitly included in tourism planning and implementation. The fact that tourism involves a wide range of sectors and activities -- that are regulated by many different ministries and governmental bodies at the local, national and regional levels -- necessitates close public/private-sector co-operation and coordination that can only be achieved by oversight at the highest governmental levels.

At the international level, co-operation and coordination are also required. An example is the nine-agency Steering Committee on Tourism Development (SCTD), coordinated by the UNWTO and including the WTO.<sup>265</sup>

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<sup>264</sup> Lejárraga and Walkenhorst, *Fostering Productive Diversification through Tourism*, as note 100 above, pp. 204, 205.

<sup>265</sup> See Steering Committee on Tourism Development (SCTD), website. Accessed at <http://icr.unwto.org/en/content/un-steering-committee-tourism-development-sctd> on 3 December 2012.

## D. Achieving the Goal of LDC Graduation

This working paper is an effort to at least partially answer the question of what further roles tourism linkages can play with regard to LDC export diversification, employment generation and the "green economy", and how these opportunities might best be pursued. Next steps for further research would be to add panel data analyses and case studies to empirically test the assumptions made in this working paper, as well as efforts to fill in missing data gaps.<sup>266</sup>

Overall, it is increasingly obvious that achieving graduation from LDC status will require significant new opportunities for export diversification and employment generation, within the context of the "green economy". Despite the lack of adequate statistics, it is also obvious that services -- both directly as an export sector and indirectly as a means of facilitating exports in agriculture, manufacturing, etc. -- are an essential element of achieving LDC export diversification objectives, while also serving as a major source of (actual and potential) new "decent employment".

Via its extensive upstream and downstream linkages/multiplier effects, employment-generating capacities, opportunities for export "test marketing" of new products, sustainability, and largely untapped export opportunities, green tourism is demonstrably one of the areas of greatest current comparative advantage for the majority of LDCs, and it can be a powerful tool to assist LDC graduation [Annex XIV]. At the same time, there is no "one size fits all" strategy, as tourism's potential must be maximized on a case-by-case basis.

For most LDCs, tourism linkages should be regarded as one of the more important elements of the development "toolbox". Regardless, however, of the specific policy options chosen by individual LDCs, the 2010 UNDP *Human Development Report* reminds us that, "On one crucial point the evidence is compelling and clear: there is much that countries can do to improve the quality of people's lives even under adverse circumstances":

.... Improvements are never automatic -- they require political will, courageous leadership and the continuing commitment of the international community.<sup>267</sup>

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<sup>266</sup> Due to time limitations, the author is currently no longer a PhD candidate.

<sup>267</sup> UNDP, *Human Development Report 2010*, 20th Anniversary Edition, The Real Wealth of Nations: Pathways to Human Development, United Nations Development Programme, 2010, p. iv.

## ANNEXES

### ANNEX I: Exports of the Least-Developed Countries by Category, 2010

(Million dollars )

	Agriculture	Manufactures	Commercial services	Fuels and mining
Afghanistan	224	134	...	0
Angola	20	503	857	50,049
Bangladesh	1,012	17,908	1,209	246
Benin	366	64	348	4
Bhutan	30	287	67	95
Burkina Faso	361	37	267	7
Burundi	90	7	7	2
Cambodia	208	4,926	1,671	7
Central African Republic	...	...	...	...
Chad	...	...	...	...
Comoros	...	...	56	...
Congo, Dem. Rep. of	...	...	291	...
Djibouti	...	...	149	...
Equatorial Guinea	...	...	...	...
Eritrea	...	...	...	...
Ethiopia	1,893	229	1,991	24
Gambia	28	4	88	3
Guinea	79	16	61	82
Guinea-Bissau	...	...	42	...
Haiti	25	554	183	0
Kiribati	...	...	...	...
Lao People's Dem. Rep.	...	...	489	...
Lesotho	45	772	44	0
Liberia	...	...	40	...
Madagascar	283	664	980	152
Malawi	849	97	137	120
Mali	279	103	356	31
Mauritania	278	0	86	1,536
Mozambique	443	72	576	1,643
Myanmar	2,306	2,290	331	3,004
Nepal	192	602	584	39
Niger	100	57	126	251
Rwanda	112	24	243	101
Samoa	13	46	158	0
Sao Tome and Principe	6	0	12	0
Senegal	587	783	939	583
Sierra Leone	...	...	60	...
Solomon Islands	213	1	104	0
Somalia	...	...	...	...
Sudan	966	84	224	9,742
Tanzania	1,175	823	2,047	1,075
Timor-Leste	...	...	28	...
Togo	217	369	289	51
Tuvalu	...	...	...	...
Uganda	974	501	1,047	111
Vanuatu	...	...	271	...
Yemen	517	334	1,460	7,527
Zambia	492	644	311	5,992

... not available.

Source: WTO Secretariat estimates.

## ANNEX II: Growth and Volatility in Africa, 1960–2007

Volatility (coefficient of variation)	Average annual real per capita GDP growth rates (%)			
	Less than 0	0–1	1–2	2+
Low (1–3)			Tanzania, United Rep. of (2.8; 1.5) South Africa (1.5; 1.5)	Botswana (1.1; 5.5) Cape Verde (2.0; 3.2) Egypt (1.6; 3.2) Equatorial Guinea (2.8; 8.4) Lesotho (2.5; 2.9) Mauritius (2.1; 3.2) Morocco; (2.1; 2.8) Seychelles (2.1; 4.0) Swaziland (2.8; 3.5) Tunisia (1.2; 3.4)
Moderate (3–6)	Central African Rep. (4.4; -1.0) Congo, Dem. Rep. of (3.4; -2.6) Somalia (4.7; -1.6)		Benin (3.7; 1.2) Burkina Faso (5.1; 1.2) Mali (4.9; 1.3) Mozambique (3.7; 1.7) Namibia (4.0; 1.1) Nigeria (4.9; 1.8) Sudan (4.3; 1.9)	Angola (5.3; 2.1) Congo (3.9; 2.8) Gabon (4.0; 2.2) Ghana (5.4; 2.9) Malawi (4.4; 2.0) Mauritania (4.2; 2.6)
High (6–10)	Djibouti (6.5; -1.5) Niger (7.8; -0.7) Senegal (9.7; -0.4)	Cameroon (6.6; 0.8) Comoros (6.5; 0.7) Côte d'Ivoire (7.5; 0.7) Kenya (9.7; 0.4) Uganda (8.2; 0.6)	Algeria (7; 1.2) Chad (8.0; 1.2) Eritrea (6.3; 1.3) Ethiopia (7.1; 1.0) Guinea-Bissau (7.9; 1.6)	
Very High (10+)	Liberia (13.8; -1.6) Libyan Arab Jamahiriya (10.7; -1.1) Madagascar (57.6; -0.2) Sao Tome and Principe (27.0; -0.3) Zimbabwe (20.6; -0.5)	Burundi (20.7; 0.3) Gambia (34.1; 0.2) Guinea (17.2; 0.2) Rwanda (26.0; 0.5) Sierra Leone (19.3; 0.4) Togo (24.1; 0.2) Zambia (69.7; 0.2)		

Note: The first entry in parentheses is the coefficient of variation (the ratio of the standard deviation to the absolute value of the average annual growth rate); the second entry is the average annual per capita GDP growth rate as a percentage.

Source: Calculations by UNECA based on World Bank, *World Development Indicators (2010)*, as found in Economic Commission for Africa and African Union (ECA-AU), *Economic Report on Africa 2011: Governing Development in Africa - The Role of the State in Economic Transformation*, United Nations Economic Commission for Africa, 2011, Addis Ababa, Ethiopia, p. 79.

### **ANNEX III: Basic Principles that can Guide the Formation of Successful Industrial Policy**

*"The first step is to identify new industries in which a country may have latent comparative advantage, and the second is to remove the constraints that impede the emergence of industries with such advantage and create the conditions to allow them to become the country's actual comparative advantage."*

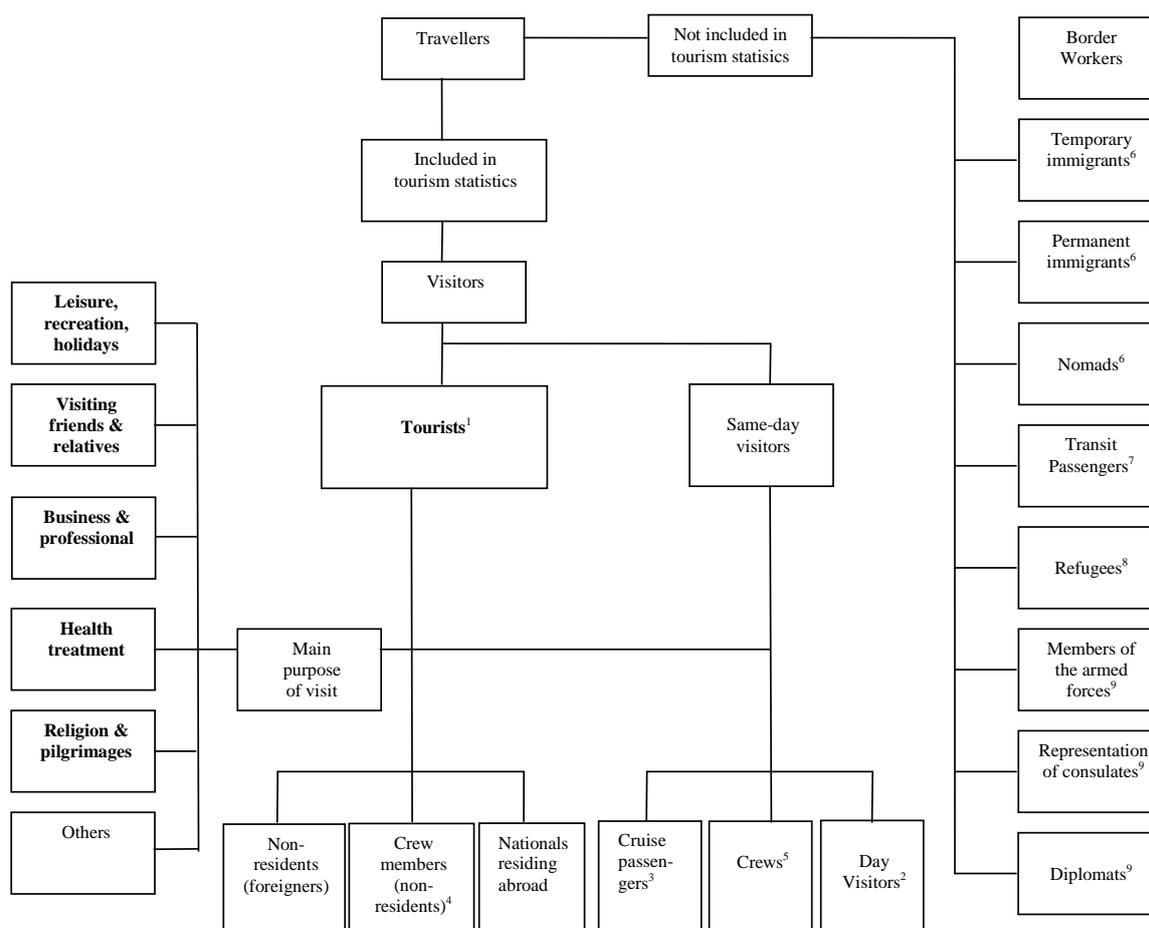
"Here, we propose a six-step process:

- **First**, the government in a developing country can identify the list of tradeable goods and services that have been produced for about 20 years in dynamically growing countries with similar endowment structures and a per capita income that is about 100% higher than their own.
- **Second**, among the industries in that list, the government may give priority to those which some domestic private firms have already entered spontaneously, and try to identify: (i) the obstacles that are preventing these firms from upgrading the quality of their products; or (ii) the barriers that limit entry to those industries by other private firms. This could be done through the combination of various methods such as value-chain analysis or the Growth Diagnostic Framework suggested by Hausmann et al. (2008). The government can then implement policy to remove these binding constraints and use randomised controlled experiments to test the effects of this so as to ensure the effectiveness of scaling up these policies at the national level.
- **Third**, some of those industries in the list may be completely new to domestic firms. In such cases, the government could adopt specific measures to encourage firms in the higher-income countries identified in the first step to invest in these industries, so as to take advantage of the lower labour costs. The government may also set up incubation programmes to catalyse the entry of private domestic firms into these industries.
- **Fourth**, in addition to the industries identified on the list of potential opportunities for tradeable goods and services in step 1, developing country governments should pay close attention to successful self-discoveries by private enterprises and provide support to scale up these industries.
- **Fifth**, in developing countries with poor infrastructure and an unfriendly business environment, the government can invest in industrial parks or export processing zones and make the necessary improvements to attract domestic private firms and/or foreign firms that may be willing to invest in the targeted industries. Improvements in infrastructure and the business environment can reduce transaction costs and facilitate industrial development. However, because of budget and capacity constraints, most governments will not be able to make the desirable improvements for the whole economy within a reasonable timeframe. Focusing on improving the infrastructure and business environment in industrial parks or export processing zones is, therefore, a more manageable alternative. Industrial parks and export processing zones also have the benefits of encouraging industrial clustering.
- **Sixth**, the government may also provide incentives to domestic pioneer firms or foreign investors working within the list of industries identified in step 1 in order to compensate for the non-rival public knowledge created by their investments. These incentives should be limited both in time and in financial cost. They may take the form of a corporate income-tax holiday for a limited number of years, direct credits to cofinance investments, or priority access to foreign reserves to import key equipment. The incentives should not and need not be in the form of monopoly rent, high tariffs, or other distortions. The risk of rent-seeking and political capture can therefore be avoided. For firms in step 4 that discovered new industries successfully by themselves, the government may award them special recognition for their contribution to the country's economic development."

*{References removed, emphasis added}*

*Source: World Bank, Justin Yifu Lin, *New Structural Economics: A Framework for Rethinking Development and Policy*, The International Bank for Reconstruction and Development / The World Bank, 1818 H Street, NW, Washington DC, 2012, pp. 161-162.*

## ANNEX IV: Classification of International Travellers



<sup>1</sup>Visitors who spend at least one night in the country visited, but less than one year.

<sup>2</sup>Visitors who arrive and leave the same day for leisure, recreation and holidays; visiting friends and relatives; business professional; health treatment, religion, pilgrimages and other tourism purposes, including transit day visitors en route to or from their destination countries.

<sup>3</sup>Persons who arrive in a country aboard cruise ships [as defined by the International Maritime Organization (IMO), 1965] and who spend the night aboard ship even when disembarking for one or more day visits.

<sup>4</sup>Foreign air or ship crews docked or in lay over and who use the accommodation establishments of the country visited.

<sup>5</sup>Crews who are not residents of the country visited and who stay in the country for the day.

<sup>6</sup>As defined by the United Nations High Commissioner for Refugees, 1967.

<sup>7</sup>Who do not leave the transit area of the airport or the port, including transfer between airports or ports.

<sup>8</sup>As defined by the United Nations High Commissioner for Refugees, 1967.

<sup>9</sup>When they travel from their country of origin to the duty station and vice-versa (including household servants and dependants accompanying or joining them).

Source: World Tourism Organization, as found in OECD, *Tourism Policy and International Tourism in OECD Countries* (OCDE/GD(97)173, Paris, 1997).

## **ANNEX V: Policy Guidelines to Promote Growth, Employment and Decent Work in LDCs**

- 1) To promote export and sectoral diversification. Moving from commodities to manufacturing is needed to improve employment and decent work outcomes.
- 2) To raise investment in manufacturing and in agriculture and promote sustainable enterprises.
- 3) To have a macroeconomic framework that explicitly takes into account job creation and poverty reduction.
- 4) No one trade policy is optimal, trade policy choices depend on the level of development, the size of the market, and sequencing and timing issues are key.
- 5) To ensure that the global economy better accommodates LDCs' trade needs.
- 6) To reduce the yield gap between domestic and median global agricultural production and invest in rural infrastructure and services.
- 7) To invest in a variety of agricultural techniques that increase productivity, returns and sustainability.
- 8) To promote the transition to formality.
- 9) To enhance investment in infrastructure and ensure that these investments are designed and implemented with the specific objective of boosting employment.
- 10) To take advantage of the significant innovations in the design and implementation of effective public employment programmes.
- 11) To increase the level of education, ensuring equal access for women and to reduce the share of the population without schooling.
- 12) To promote diversification into new technologies and higher value-added manufacturing for increased productivity.
- 13) To take advantage of South-South cooperation to transfer appropriate technologies, importing cheaper capital goods and exporting low-technology goods.
- 14) To attract domestic and foreign investment in non-traditional tradables and support learning networks between domestic and foreign firms, such as value chains, joint ventures, clusters, industrial parks and business incubators.
- 15) To promote exports and use government procurement to enlarge markets for locally produced goods in order to benefit from increasing returns, more productive employment and learning space.
- 16) To develop the potential of the informal apprenticeship system and strengthen the institutional capabilities to provide training for advanced technologies, and improved quality and effectiveness of training in order to promote productive transformation in the crafts sector and informal economy.
- 17) To extend social security to larger groups of the population, including the establishment of national social protection floor policies.

18) To commit to formulate and implement these policies through broad-based social dialogue and to improve the quality of governance and public services.

19) Improve the promotion of the ratification and implementation in law and practice of labour standards; design innovative schemes for the extension of protection to workers in the informal economy, including through more effective labour inspection systems. Effectively extend representation rights to all vulnerable categories of workers, including rural workers, women, children and indigenous peoples. Pursue time-bound programmes to combat child labour and forced labour.

20) Take advantage of ILO technical assistance to help reduce the implementation gap on international labour standards in LDC countries and mainstream international labour standards into DWCPs {Decent Work Country Programmes} and UNDAFs {United Nations Development Assistance Frameworks} with a view to achieving a progressively increasing coverage of each of the strategic objectives.

*Source:* International Labour Organization (ILO), Report of the ILO for the Fourth UN Conference on the Least Developed Countries, *Growth, Employment and Decent Work in the Least Developed Countries*, International Labour Office, Geneva, 2011, pp. 97-98.

## ANNEX VI: Globalisation and Informal Jobs in Developing Countries -- Key Findings

\* **"Integration into world markets and tackling informal employment should be considered complementary**, as formality of firms and jobs helps a country to benefit fully from trade openness, while the integration of a country into the world economy – if properly managed – can help informal workers by improving their living standards and giving them access to decent working conditions.

\* **To achieve this, the study considers three possible policy approaches.** First, successful integration into the world economy ultimately requires formalization of firms and jobs. No country can expect to reap the full benefits of its trade openness if appropriate policies are not put in place to cope with the necessary structural adjustment in the formal economy. This will require a comprehensive policy strategy that (a) enhances incentives from the point of view of both employers and workers and (b) supports infrastructure investments and institutions that facilitate transitions to formal employment, while at the same time providing basic social protection for those who continue to be employed informally.

\* **A distinction is made between policies that foster the formalization of firms and those aimed at workers.** For the former, incentives can be strengthened by lowering costs of formalization and raising benefits. For the latter, policies should focus on support for employees to transit out of informality and on the provision of basic social protection for those who continue to be employed informally.

\* **Second, trade reforms can be implemented in an employment-friendly way, making the reallocation of jobs more conducive to formal employment growth.** Even though little is known about the microeconomic aspects of the transformation dynamics following trade reforms, some guidelines have been identified that may help to make trade reforms more labour-market friendly.

\* **A gradual opening process may be necessary to allow policy-makers, workers and firms to adjust to the new environment.** Also, the development of an export-oriented sector is crucial to lowering the adjustment costs associated with trade reforms and helping workers to switch from import-competing sectors to export-oriented ones. Both regional and multilateral trade-opening can prove useful in diversifying the economy. Finally, trade reforms must be announced credibly.

\* **Third, the study stresses the importance of coordination between trade and labour market policies.** One approach has been to seek the integration of a number of core labour standards into international trade agreements. Some bilateral trade agreements contain such provisions, but little is known about how far workers in the countries concerned have actually benefited from such provisions. Another instrument to help countries adjust to trade opening is the wider deployment of policies that support labour market adjustment. This includes in particular active labour market policies, well-designed social protection and minimum wages, and skill-development policies. Finally, the trade and decent work agendas need to be implemented in a coordinated way. Social dialogue is instrumental in this respect."

**{emphasis added}**

*Source:* International Labour Organization and World Trade Organisation (ILO-WTO), *Globalisation and Informal Jobs in Developing Countries*, WTO Secretariat, Switzerland, 2009, pp. 129-130.

## **ANNEX VII: Summary of the WTTC Action Agenda**

Action Item 1: Aspire to reduce CO2 emissions by 50% by 2035 (with an interim target of CO2 emission reduction of 30% by 2020 if there is an international agreement on global emission reduction, or 25% by 2020 in the absence of such an agreement).

Action Item 2: Align efforts to produce an internationally agreed framework of standards to measure progress against GHG emission targets.

Action Item 3: Identify climate change hotspots where we operate, develop practical strategies and set an example of low carbon business, helping local communities access information on new technologies to reduce their own emissions.

Action Item 4: Support efforts to reduce emissions from deforestation and forest degradation together with partners, including the Prince of Wales Rainforest Project.

Action Item 5: Promote incentives to encourage customers to play a significant part in reducing the use of energy and lead by example with our sustainable business practice.

Action Item 6: Devote resources to explaining our climate change strategies and share our experience of exploring new low carbon technologies and sustainable approaches that mitigate GHG emissions.

Action Item 7: Develop a range of practical tools that can be used by SMEs to measure and share their CO2 emission levels.

Action Item 8: Endorse and support the latest progressive CO2 emission reduction commitments from our Members in the aviation sector, and encourage all airlines to commit to achieving at least 50% emission reduction by 2050 through a range of measures.

Action Item 9: Adopt environmental management systems to continually measure our energy use and GHG emissions, design an e-platform of best sustainability practices per segment (e.g. energy, water, solar, waste, etc.) that engage with our staff and customers, and share our progress towards meeting annual energy and emission reduction targets with all stakeholders.

Action Item 10: Target the investment community and encourage the creation of financial instruments closely linked to sustainable projects in the Travel & Tourism industry.

*Source:* World Travel & Tourism Council (WTTC), *Leading the Challenge on Climate Change*, February, 2009, p. 28.

## ANNEX VIII: LDC GATS Commitments – Main Sectors

### Summary of Specific Commitments

Countries	1	2	3	4	5	6	7	8	9	10	11	12	Total
Angola							X		X	X			3
Bangladesh		X							X				2
Benin	X						X		X		X		4
Burkina Faso									X				1
Burundi	X		X	X				X	X				5
Cambodia	X	X	X	X	X	X	X	X	X	X	X	X	11
Cape Verde*	X	X	X	X	X	X	X		X	X	X		10
Central African Rep.	X	X				X			X	X			5
Chad									X				1
Congo RP	X	X	X		X				X	X			6
Djibouti	X	X							X	X			4
Gambia	X	X	X	X	X	X	X	X	X	X	X	X	12
Guinea	X					X		X	X		X		5
Guinea-Bissau									X	X			2
Haiti	X		X		X		X		X				5
Lesotho	X	X	X	X	X	X	X		X		X	X	10
Madagascar	X												1
Malawi	X		X				X	X	X				5
Maldives*	X												1
Mali					X				X				2
Mauritania									X				1
Mozambique							X						1
Myanmar									X		X		2
Nepal	X	X	X	X	X	X	X	X	X	X	X	X	11
Niger									X		X		2
Rwanda	X				X	X			X	X			5
Samoa	X	X	X	X	X	X	X		X	X	X		10
Senegal	X	X		X			X		X	X	X		7
Sierra Leone	X	X	X		X	X	X	X	X	X	X		10
Solomon Islands	X		X				X		X				4
Tanzania									X				1
Togo			X						X	X			3
Uganda		X							X				2
Vanuatu	X	X	X	X	X	X	X	X	X		X		10
Zambia	X		X					X	X				4
<b>Total</b>	<b>22</b>	<b>14</b>	<b>15</b>	<b>9</b>	<b>12</b>	<b>11</b>	<b>15</b>	<b>9</b>	<b>32</b>	<b>14</b>	<b>13</b>	<b>2</b>	<b>168</b>

\* Cape Verde and the Maldives are no longer considered by the United Nations as LDCs.

Note: "X" indicates at least a partial commitment in the sector concerned.

#### Legend:

- 01. Business Services
- 02. Communication Services
- 03. Construction and Related Engineering Services
- 04. Distribution Services
- 05. Educational Services
- 06. Environmental Services
- 07. Financial Services
- 08. Health Related and Social Services
- 09. Tourism and Travel Related Services
- 10. Recreational, Cultural and Sporting Services
- 11. Transport Services
- 12. Other Services not Included Elsewhere

Source: World Trade Organization.

## **ANNEX IX: Tourism Satellite Accounts (TSA)**

As emphasized by the UNWTO, statistical information is the prerequisite for consistent economic analysis. Moreover, while the development component of tourism is generally accepted (i.e. a set of varied economic activities and products, many of which overlap with other industries and sectors), the lack of reliable tourism statistics and subsequent analysis of its macro-economic contribution remains an important barrier to defining and fostering tourism policies.

"Satellite account" is a term developed by the United Nations to measure the size of economic sectors that are not defined as industries in national accounts. Tourism, for example, is regarded as an amalgam of industries such as transportation, accommodation, food and beverage services, recreation and entertainment and travel agencies. The key aspect is associating tourist purchases to the total supply of these goods and services within a country.

TSA are used to provide the following data: tourism's contribution of GDP; tourism's ranking compared to other economic sectors; the number of jobs created by tourism in an economy; the amount of tourism investment; tax revenues generated by tourism industries; tourism consumption; tourism's impact on a nation's balance of payments; and characteristics of tourism human resources.

### **Twelve tourism industries are identified as part of TSA:**

1. Accommodation for visitors
2. Food and beverage serving industry
3. Railway passenger transport
4. Road passenger transport
5. Water passenger transport
6. Air passenger transport
7. Transport equipment rental
8. Travel agencies and other reservation services industry
9. Cultural industry
10. Sports and recreational industry
11. Retail trade of country-specific tourism characteristic goods
12. Country-specific tourism characteristic industries

(Each industry is defined in terms of the UN International Classification of Economic Activities (ISIC Rev.4).)

As part of the TSA development process, the UNWTO considers it essential to develop the System of Tourism Statistics (STS). STS should be understood as that part of the national statistical system providing reliable, consistent and appropriate statistical information on the socio-economic aspects related to tourism, integrated within all the economic and social statistics related to other fields, at different territorial levels. The new International Recommendations for Tourism Statistics 2008 (IRTS 2008) and 2008 Tourism Satellite Account: Recommended Methodological Framework (TSA:RMF 2008) constitute the updated reference framework for the STS. As a consequence, they should be used as a basis for harmonization, coordination and integration of available tourism statistical information.

Main sources: UNWTO, *TSA Basic concepts* (available online at <http://www.unwto.org/statistics/tsa/project/concepts.pdf>), *TSA project* (available online at <http://www.unwto.org/statistics/tsa/project.htm>), and *System of Tourism Statistics* (available online at <http://www.unwto.org/statistics/sts/description.htm>).

Source: WTO, *Tourism Services*, Background Note by the Secretariat, WTO document S/C/W/298, 8 June 2009, p. 4.

## ANNEX Xa: African LDC Travel & Tourism Total Contribution to Employment

(% share)

	2000	2005	2010	2011	2012
Angola	6.1	3.8	3.3	3	2.8
Benin	4.8	5.3	5.6	5.8	5.6
Burkina Faso	2.1	3.2	3.3	3.1	2.9
Burundi	1.9	3.2	6.8	6.5	6.1
Central African Republic	3.2	4.4	4.3	4.1	4.1
Chad	2.9	4.2	4	3.8	3.9
Comoros	11.4	7.8	6.6	6.6	6.8
Democratic Republic of Congo	1.8	2.5	1.9	1.9	1.7
Ethiopia	5.9	5.4	10.2	9.3	9.1
Gambia	11	14.2	10.5	10.9	11.1
Guinea	1.7	3.3	4.3	3.8	3.8
Lesotho	12	8.8	12.9	12.2	13.2
Madagascar	5.6	9.1	11.8	12.5	13.5
Malawi	6.4	6.1	5.1	5.2	5.3
Mali	7.8	8.2	10.1	10.5	10.8
Mozambique	3.7	5.9	6.3	6.1	6
Niger	2.5	3.7	3.8	3.8	3.6
Rwanda	4.1	5.2	7.4	7.3	7.1
Sao Tome & Principe	14.5	8.8	11.2	10.7	10.5
Senegal	7.8	9.8	10.9	10.7	10.4
Sierra Leone	3.5	8.7	6.2	6.3	6.3
Sudan	2.5	3.5	3	2.7	2.8
Tanzania	7.3	12	11.4	11.5	11.5
Togo	2.4	3.8	4.8	4.7	4.5
Uganda	7.3	7.5	7.2	7.8	7.6
Zambia	3.4	4.3	3.9	3.6	3.6

Source: WTTC estimates, Economic Data Search Tool, website. Accessed at <http://www.wttc.org/research/economic-data-search-tool/> on 27 November 2012.

## ANNEX Xb: African LDC Travel & Tourism Total Contribution to GDP

(% share)

	2000	2005	2010	2011	2012
Angola	3.5	4.4	3.7	3.4	3.2
Benin	5.5	6.1	6.5	6.6	6.4
Burkina Faso	2.4	3.7	3.9	3.6	3.4
Burundi	2.2	3.7	7.8	7.5	7.1
Central African Republic	3.7	5	4.9	4.7	4.7
Chad	3.3	4.8	4.7	4.5	4.5
Comoros	13.1	8.9	7.6	7.7	7.8
Democratic Republic of Congo	2.1	2.9	2.3	2.2	2.1
Ethiopia	6.8	6.2	11.7	10.7	10.5
Gambia	12.7	16.4	12.1	12.5	12.8
Guinea	2	3.8	4.9	4.4	4.4
Lesotho	13.9	10.2	15	14.2	15.4
Madagascar	6.4	10.5	13.9	14.8	16.1
Malawi	7.4	7.1	5.9	6	6.1
Mali	8.9	9.4	11.6	12.1	12.4
Mozambique	4.3	6.9	7.3	6.9	6.7
Niger	2.9	4.3	4.4	4.4	4.2
Rwanda	4.7	6	8.6	8.4	8.1
Sao Tome & Principe	16.7	10	12.4	12.1	11
Senegal	8.9	11.2	12.4	12.2	11.9
Sierra Leone	4	10.1	7.2	7.2	7.3
Sudan	2.8	4	3.4	3.1	3.2
Tanzania	8.4	13.8	13.2	13.3	13.3
Togo	2.8	4.3	5.6	5.4	5.2
Uganda	8.4	8.7	8.3	9	8.8
Zambia	6.5	6.9	5.5	5	5

Source: WTTC estimates, Economic Data Search Tool, website. Accessed at <http://www.wttc.org/research/economic-data-search-tool/> on 27 November 2012.

## **ANNEX XI: Value-Chain Analysis**

### **Objective**

(i) Assess linkages within the value chain of production; (ii) develop alternative strategic options and scenarios.

### **Possible outcomes**

(i) Effectively engage all stakeholders in the value chain; (ii) broaden cluster composition.

### **Risks**

Information generated may be too vague if not conducted with a strategic mind.

### **Key caveats**

This is a relatively broad tool, which offers a bird's eye view of a cluster's operations. To develop definitive business strategies, it needs to be complemented with tools such as competitive positioning, which bring more precision to the analysis.

### **Data Capture Table**

#### For a value chain snapshot

- What are the key inputs/raw materials needed to produce a good or service?
- Who are the key players/stakeholders in creating this product?
- What are the steps that transform the inputs at each stage to an output until the final product is delivered to the consumer?
- Define these key subsectors and identify their value addition.
- What are the key interactions between the stakeholders in this value chain? How many of these are formal?
- What are the contractual norms in the value chain of each subsector? What are the ordering and payment norms?
- For each of the following inputs, detailed questions on the (i) quality and quantity of product, (ii) regulatory and compliance issues, (iii) the split between imports and exports (iv) financing and capital (v) training and upgrading (vi) role of technology and R&D (vii) transport costs and logistics (viii) extent and nature of wastage:
  - Raw and intermediate materials used in the making of products
  - Primary factor inputs of land, labor and capital used in the production process
  - Utilities and other costs
  - Trade and transport in delivery of the end product to next stage in value chain
  - Marketing and distribution channels to customers for intermediate and end products

#### For a value chain proposal

- What are competitor value chains doing within the country, the continent or region and globally? What international benchmarks are used by the industry?
- How does the productivity (for labor, capital, and key inputs) of national firms in the sector compare with global & regional best practice?
- How does the capacity utilization of domestic firms in the industry compare with global & regional best practice?
- How does the technology in the sector compare with global and regional best practice?
- How do the factor costs compare with global & regional best practice (labor, capital, and key inputs)?
- What are the productivity cost, price, and time figures at each step of the value chain such as (i) output per unit labor hour; (ii) capital and equity efficiency; (iii) yield per unit of land; input conversion ratio; (iv) incremental output/input ratio; each input costs as a percentage of shipment value; (v) cost of bureaucracy and red tape; time taken to start, transact and finish business; (vi) time taken for customs clearance and export transactions?

*Source: World Bank, Clusters for Competitiveness: A practical guide & policy implications for developing cluster initiatives, The International Bank for Reconstruction and Development / The World Bank, February 2009, pp. 31-32.*

## ANNEX XII: Battered Beauty: Tourism could aid Haiti's rejuvenation

Last Updated on Tuesday, 10 July 2012 01:01 Tuesday, 10 July 2012 00:45

Written by Brian Macquarrie



Brian Macquarrie writes about tourism aiding Haiti in *Boston's Globe*:

John Gibson, a 40-year-old Oklahoman, leans back in a beach chair and watches his two children frolic in the crystalline water that laps the fine sand at his feet.

“Do I look like a towel?” he asks with a laugh as the children, 10 and 8, run toward him, dripping, shaking, and squealing with delight. In a moment, after Gibson has failed to fend off the spray, the children sprint back to the ocean on a balmy, cloudless, sun-streaked day.

Behind him, bartenders stock liquor at an outdoor cabana. On the far side of a large pool, lunch is served on a patio. Just off the beach, a fishing boat with a russet-colored sail makes its leisurely way along the coast.

If a visitor had parachuted into this place, a resort called Club Indigo, the amenities would seem indistinguishable from hundreds of upscale retreats that dot the Caribbean Sea. But this is desperately poor Haiti, and the leisure comforts of Club Indigo are only 40 miles north of the impoverished and wildly chaotic capital of Port-au-Prince.

Gibson did not visit Club Indigo for the night life. Instead, he is using its beaches for a short-term breather during a religious mission to Haiti. Nearby, Lucille Hill of Atlanta, a nurse who had come to Haiti with a US medical team, curls her hands around a rum punch.

Besides these guests, the club's expansive, manicured grounds are nearly deserted.

Two years after an earthquake is believed to have killed more than 100,000 people in Haiti, its people continue to struggle to rebuild the poorest nation in the Western Hemisphere.

Tourism will help, they hope, but even the most boosterish officials know that dream is in need of more than good intentions. The earthquake publicized Haiti's plight around the world through indelible images of suffering; cholera remains a serious, often fatal problem; and an overwhelmed government fails to provide adequate sanitation, public safety, medical care, and transportation.

Simply traveling from Port-au-Prince to Club Indigo, less than an hour's ride in the United States, can take more than three tortuous, rib-rattling hours in which battered cars and trucks fight for room on a crumbling road with pedestrians, trash, and the occasional goat.

When Joseph Zaiden, the club's general manager, said he routinely makes the trip in 45 minutes, I rolled my eyes and wondered, how, by helicopter?

Traveling anywhere in this country is an adventure, and almost always not in the positive sense of that word.

“Over the last 25 years, every time we mentioned tourism, people would say, ‘Tourists? Haiti?’” said Richard Buteau, vice president of the Haiti Tourism Association.

Now, because of the devastation caused by the earthquake, the notion seems even more preposterous for a country where US visitors routinely prepare for the trip by protecting themselves against typhoid, hepatitis, and malaria.

“Wishing for tourism and making it possible are two different things,” said Vick Ulysse, 34, a video production manager who also works as a driver, or fixer, for visiting foreigners.

Still, Buteau sees potential for an industry that, since the 1970s, has declined precipitously amid a high rate of HIV and AIDS, the migration of Haitian boat people to Florida, military coups, and other political instability. In its heyday in the late '60s to early '70s, the country was attracting about 300,000 tourists a year, and even about 100,000 before the 2010 quake.

“We have one advantage because we are starting from scratch, and we can learn from the mistakes,” said Buteau, who is general manager of the Karibe Hotel, one of the best in the country. “Changing the image of Haiti is something we have started working on.”

That makeover will be daunting, but the country’s leaders are pitching tourism as one of the four pillars of its redevelopment, along with agriculture, manufacturing, and education. The government recently launched a tourism campaign called Vivez l’Experience, or Live the Experience, whose logo features a red hibiscus, the national flower.

Haiti currently has only about 800 quality hotel rooms, according to a report in the Caribbean Journal, but has set an ambitious goal of 3,000 new rooms by 2015. Five hotels and 763 rooms are moving toward development, including a \$45 million, 173-room Marriott hotel in Port-au-Prince, the Journal reported.

To pitch the country’s potential, Haitian tourism officials have begun attending travel conventions in Miami and elsewhere to tout their tropical beaches; the French colonial architecture in Jacmel, a city that influenced the look of New Orleans; and the Citadel, a fort near Cap-Haitien that is the largest in the Americas and a UNESCO World Heritage Site.

Elsewhere, Royal Caribbean cruise line has been taking passengers since 1986 to Labadie, a private beach resort in the north. Haiti also has connections to the pirate captain Henry Morgan, who in the mid-1660s established a base at Ile a Vache, an island off the southern coast; and to Christopher Columbus, who visited Haiti on his first voyage to the Americas in 1492.

Well-known and well-meaning Americans on humanitarian visits have given Haiti, which shares the island of Hispaniola with the Dominican Republic, some adventurous appeal. They include Bill and Hillary Clinton, who honeymooned in Haiti; celebrities such as Sean Penn, Oprah Winfrey, and Matt Damon; and thousands of medical volunteers who have brought their time and skills.

As a result, Buteau said, the country has experienced a boomlet in a certain kind of overseas visitor.

“We have a huge increase in humanitarian tourists. They are tourists with a purpose,” Buteau said. “Now, we are not targeting the average American tourists. We are targeting the more adventurous tourists, the more sophisticated tourists.”

For the foreseeable future, Haiti’s logistics will be a big deterrent for casual visitors who simply want to relax. Navigating the streets of the capital is a slow-moving nightmare of few traffic rules and stop-

and-go congestion that will tax nearly everyone's patience. Locally hired drivers who know the shortcuts and the detours are a must.

Port-au-Prince has daily air connections from the United States, particularly Miami, which puts this country much closer to Americans than its Third World difficulties make it seem.

Once in the country and out of the capital, the effect is otherworldly. Poverty is stark and widespread, and remnants of the earthquake are still apparent in damaged buildings and piles of rubble. But the farmland is often beautiful, the vegetation lush, the mountains imposing, and the people friendly.

The staff at good hotels such as the Karibe speak English, but most regular Haitians speak only Creole or French. A Haitian driver who can translate is indispensable for US tourists who want to explore the countryside and interact with merchants and others.

Tourism officials know they have a deep, ready-made pool of customers: the hundreds of thousands of Haitians who have left the country to start new lives in places such as Boston, New York, and Montreal. But even they will want a certain comfort level when they revisit their homeland, Buteau said.

"The diaspora will be our first target market," Buteau said, "but you must not forget that a lot of them have been living in the United States, or Europe, or Canada, and they have become used to those standards."

Lowering expectations is essential for any trip to Haiti, where even the airport, which opened in 1965, can be an anxiety-laden maze that requires patience, guesswork, and a high tolerance for frustration.

Haiti is maddeningly primitive and seemingly directionless, but its unexpected visual gifts — a rickety truck teetering with towering piles of bananas; a long, solemn funeral procession on a dusty road; a collage of vibrant color in a makeshift market — leave a lasting, profound impression.

This is a country that is hard to navigate and hard to understand, but it is a country that teems with life in all its disarming simplicity and harsh complexity.

For the original report go to <http://bostonglobe.com/lifestyle/travel/2012/07/07/haiti-pitches-tourism-pillar-its-redevelopment/dxPn90PXwru6XLe4zjg3cI/story.html>

*Source:* African Diaspora Tourism, website, *Battered Beauty: Tourism could aid Haiti's rejuvenation*. Accessed at [http://www.africandiasporatourism.com/index.php?option=com\\_content&view=article&id=811:battered-beauty-tourism-could-aid-haitis-rejuvenation&catid=124:news-bites&Itemid=73](http://www.africandiasporatourism.com/index.php?option=com_content&view=article&id=811:battered-beauty-tourism-could-aid-haitis-rejuvenation&catid=124:news-bites&Itemid=73) on 12 November 2012.

### ANNEX XIII: Contribution of Tourism to Achieving the Millennium Development Goals (MDGs)

Goal	Contribution of tourism
1. Eradicate extreme poverty and hunger	(a) Tourism stimulates economic growth both at the national and local levels and promotes the growth of the agricultural, industrial and service sectors; (b) Tourism provides a wide range of employment opportunities easily accessible by the poor. Tourism businesses and tourists purchase goods and services directly from the poor or enterprises employing the poor. This creates opportunities for micro, small and medium-sized enterprises in which the poor can participate; (c) International and domestic tourism spreads development to poor regions and remote rural areas of a country that may not have benefited from other types of economic development; (d) The development of tourism infrastructure can benefit the livelihood of the poor through improvement in tourism-linked service sectors, including transport and communications, water supply, energy and health services.
2. Achieve universal primary education	(a) The construction of roads and tracks to remote areas for tourists also improves access for school-age children and for teachers; (b) Tourism can help local resource mobilization, part of which can be spent on improvement of education facilities.
3. Promote gender equality and empower women	(a) The tourism industry employs a high proportion of women and creates microenterprise opportunities for them. It promotes women's mobility and provides opportunities for social networking.
4. Reduce child mortality	(a) The construction of roads and tracks to remote areas for tourists also improves access to health services;
5. Improve maternal health	(b) Revenues accruing to national and local governments through taxes on the tourism industry can be used to improve health services and nutrition for young children and their mothers;
6. Combat HIV/AIDS, malaria and other diseases	(c) Tourism raises awareness about HIV/AIDS issues and supports HIV/AIDS-prevention campaigns; (d) Tourism aggravates the spread of HIV/AIDS (negative effect).
7. Ensure environmental sustainability	(a) Tourism can generate financial resources for conservation of the natural environment; (b) Tourism raises awareness about environmental conservation and promotes waste management, recycling and biodiversity conservation; (c) Uncontrolled tourism may generate negative externalities as a result of pollution, congestion and depletion of natural resources (negative effect).
8. Develop a global partnership for development	(a) Tourism contributes to the socio-economic development of least developed countries, landlocked countries and island developing countries through foreign exchange earnings and the creation of job opportunities; (b) Tourism stimulates the development of the transport infrastructure, which facilitates access to and from the least developed countries, landlocked countries and island developing countries; (c) Tourism stimulates internal and external trade and strengthens supply chains; (d) Tourism promotes the integration of isolated economies with regional and global flows of trade and investment; (e) Tourism reduces the burden on government budgets through implementation of public-private initiatives; (f) Tourism creates decent and productive work for youth; (g) Tourism provides opportunities for bilateral, multilateral and subregional cooperation among countries; (h) Information technologies play an important role in integrating tourism enterprises into global tourism markets.

Source: United Nations ESCAP, Transport and Tourism Division, Transport Policy and Tourism Section, as found in United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), *Study on the Role of Tourism in Socio-Economic Development*, United Nations, New York, 2007, p. 77.

## **ANNEX XIV: LDC Graduation -- Underscoring the Role of Trade**

Only three countries have graduated from the LDC category since it was first established in the 1970s: Botswana (1994), Cape Verde (2008) and Maldives (2011). One of the case stories submitted examines the experience of Cape Verde, which graduated from LDC status in 2008. It also highlights the need for smooth transition and on-going support for the process of economic transformation – an important conclusion for other LDCs on the path to graduation.

Overcoming Cape Verde's inherent challenges...

An archipelago of ten islands, Cape Verde faces inherent challenges due to fragmentation of its small internal market of 0.5 million people and limited, high cost transport infrastructure. Manufacturing faces cost constraints and accounts for less than 20% of GDP. Energy generation capacity is restricted and water scarce. Limited arable land and challenging climatic conditions offer unsuitable conditions for agriculture. Domestic food production is limited and the agricultural sector accounts for less than 10% of GDP. High rates of labour migration and import dependence make Cape Verde particularly vulnerable to external balance of payments shocks.

Despite these unpromising fundamentals, Cape Verde has been able to chart a course of economic growth based on structural transformation. The integration of Cape Verde into the global economy is based on the growing competitiveness of its services sector. Led by a flourishing tourist sector, services have become in recent years a driver of growth and development, accounting for over 70% of GDP. The consequent surge of receipts has also helped the country offset its current account deficit - the export of domestic goods is less than 7% of GDP. Trade as a percentage of GDP has grown from around 67% in 2005 to 89% in 2009.

...through a clear vision and priorities, which includes trade...

Progress achieved by Cape Verde has been led by long-term national development strategies which have promoted economic transformation and poverty reduction, beginning in 1990. Since 2003, the Economic Transformation Strategy (ETS) has charted a plan for transformation of Cape Verde from an LDC into an emerging country. This has been operationalised by two Growth and Poverty Reduction Strategies (GPRS) for the period 2004-2007 and 2008-2011, which emphasise the need to promote economic growth as a means to enhance the capability of the poor to increase their incomes. In May 2008, the second GPRS was finalised which set out a "Transformation Agenda" and emphasised the need to further integrate Cape Verde in the world economy so as to reap the benefits of globalisation, ensure the sustainability of social and economic development and improve the quality of life of the population.

... WTO membership as a catalyst for change...

Cape Verde's membership of the WTO was a necessary catalyst for the country's transformation and its aspirations to become an open, globally competitive market economy. The Government of Cape Verde applied to join the WTO in November 1999 and on 23 July 2008 Cape Verde became the 153rd Member of the WTO. The accession process promoted a deep legislative and regulatory transformation. For example, compliance with WTO commitments spurred the government to review its centralised structure for public procurement, and its tax and customs code.

... sustained commitment from development partners ...

Various development partners supported Cape Verde's WTO accession process, such as the EU (through its TradeCom Facility), as well as the WTO itself. More broadly, Cape Verde has enjoyed the active engagement of a broad range of bilateral and multilateral donors and south-south partners, including: the Abu Dhabi Fund, African Development Bank, Austria, Brazil, China, France, Japan,

Luxembourg, OPEC Fund, Portugal, Saudi Fund, Spain, the World Bank and others. Since 2005, Cape Verde has also benefited from a Budget Support Group (BSG) to align and harmonise donor budget support around its GPRS. OECD data shows that most external support in the categories classified as aid for trade has been directed to improving the port, airport, and road infrastructure to cater for the increased transit of merchandise, passengers and cargo (some USD 425 million from a total of USD 606 million between 2002-2008). Aid for trade has helped the expansion of the services sector.

...has encouraged investor confidence....

Sound economic management, sustained donor support for the government's economic programme and structural transformation have helped promote positive developments in private investment in Cape Verde. Net flows of foreign direct investment (FDI) have been growing consistently: from 1.6% of GDP in 2001 to 13.8% in 2008. The growth of flows of FDI surpassed aid received by Cape Verde for the first time in 2007.

...yielded paybacks in poverty alleviation and progress in achieving the MDGs...

Cape Verde graduated from LDC status at the beginning of 2008. Economic growth, accompanied by sound policies and political stability, has enabled significant progress on the Millennium Development Goals (MDGs). Cape Verde has already achieved four of the eight MDGs – primary education for all, gender equality, reduction of infant and maternal mortality – and is one of the African countries with the best social indicators. Cape Verde's poverty index recorded a sharp decline from 36.7% in 2000 to 26.7% in 2008 and progress has been made on the fight against HIV/AIDS, malaria and other diseases. Cape Verde is on track to achieve all the MDGs.

...but continued support is needed to continue this positive trend...

Exiting LDC status poses some immediate challenges. For example, losing trade preferences exposes countries to a more competitive trading environment. There is also a danger of development partners switching their focus to other priority countries. The international community recognises these challenges, and has been undertaking measures to help the graduating LDCs smoothen out their integration into the global economy. Cape Verde is enjoying continued support from key partners. For example, the European Union has established a Special Partnership Agreement, which offers access to the European market and promotes activities to reduce Cape Verde's structural vulnerabilities. Cape Verde has also secured funding from the United States under the Millennium Challenge Account, which aims at contributing to the transformation of the Cape Verdean economy from aid-dependent to sustainable, private-sector led.

#### Lessons for other LDCs

The case story of Cape Verde gives a vivid illustration of how a combination of sound economic policy making, economic and trade liberalisation coupled with WTO membership and sustained donor support can be a powerful recipe of growth and poverty reduction. Interestingly, growth in the services sector has been the main driver of economic growth in this resource-poor small island developing economy. Aid has helped the government in implementing its vision and strategy. Aid has also been directed to sectors important for trade and economic growth – creating the conditions for investment to flow.

*Source: OECD/WTO, Aid for Trade in LDCs: Starting to show results, OECD/WTO 2011, pp. 17-19.*

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