United Nations TD/B/C.I/8

United Nations Conference on Trade and Development

Distr.: General
10 February 2010

Original: English

Trade and Development Board
Trade and Development Commission
Second session
Geneva, 3 – 7 May 2010
Item 5 of the provisional agenda

The contribution of tourism to trade and development

Note by the UNCTAD secretariat

Executive summary

Tourism has emerged as a driver not only for economic progress but also for social development. The tourism sector has deep roots in national economies producing economic and employment benefits in related services, manufacturing and agriculture sectors, thereby promoting economic diversification and strengthening developing country economies. Tourism contributes substantially to reducing poverty and empowering women, youth and migrant workers with new employment opportunities. It also helps revive declining urban areas, open up and develop remote rural areas, and promote the conservation of countries' environmental endowments and cultural heritages. However, developing countries encounter significant economic, social and environmental challenges in maximizing the gains from their national tourism industries, including the need to strengthen weak inter-sectoral linkages and reduce excessive revenue leakage from their national economies. After reviewing salient trends in the global tourism industry, this note identifies major challenges and outlines policy approaches to meet them.

Introduction

1. The Trade and Development Board, at its forty-seventh executive session (TD/B/EX(47)/4), decided that the Trade and Development Commission would address the topic of the contribution of tourism to trade and development. In recent decades, alongside increased capacity and declining costs for passenger air transportation, and increases in real household incomes, the global tourism sector has grown and diversified to become one of the fastest-growing economic sectors. Recognizing the multiple benefits and challenges of tourism, many developing countries, particularly the least developed countries (LDCs), seek to maximize gains from tourism by ensuring an enabling environment and more actively supporting tourism development. Success not only requires meeting immediate economic challenges but also enhancing social responsibility and fostering transformation into the green economy to ensure the long-term sustainability of national tourism industries.[1]

I. Global tourism trends and developing countries

2. Globally, tourism is a $3 billion a day business that all countries at all levels of development can potentially benefit from. The worldwide contribution of tourism to gross domestic product (GDP) exceeds 5 per cent and its annual turnover has been growing at a faster pace than GDP. With growing developing country participation, tourism has become a major contributor to their and growth. Globally, as an export category, tourism ranks fourth after fuels, chemicals and automotive products. 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, where it accounts for up to 40 per cent of GDP.

3. International tourist arrivals have grown consistently, from 25 million in 1950 to 922 million in 2008, with tourism receipts rising from $2 billion to $944 billion. Over this period, the fastest growth in arrivals occurred between 2003 and 2007, before falling off in 2008 and 2009 due to the energy, financial and economic crises. An abrupt shift in tourism growth occurred in mid-2008, with tourism demand falling. From mid-2008 to mid-2009, Africa excepted, all regions recorded declines in international arrivals. Europe and the Middle East have been especially hard hit. In many destinations, less affected domestic tourism has been insufficient to compensate for the falling international demand. Overall, international arrivals in 2009 fell to 880 million, down by 4 per cent from 2008.

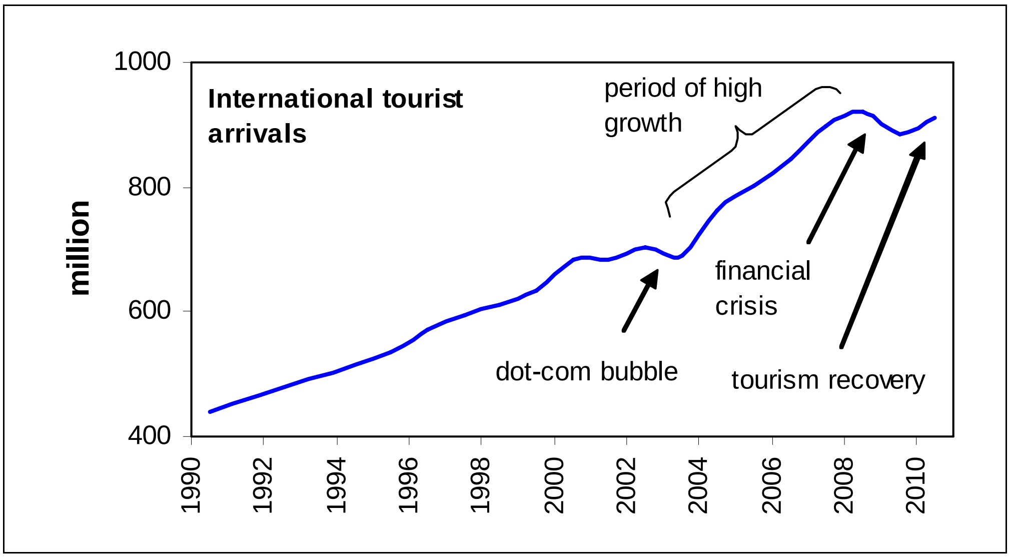
4. The World Tourism Organization (UNWTO) states that tourism returned to growth in the last quarter of 2009 and growth will continue in 2010. This recovery has been partly due to measures – through fiscal, monetary and marketing support to the tourism sector – that some 70 countries have implemented to stimulate their economies and restore growth.[2] These countries include many developing countries such as Argentina, Brazil, China, Egypt, India, Morocco, Nepal and Viet Nam. The recovery is expected to endure over the longer term with 4 per cent annual growth in international arrivals projected through 2020, when it should reach 1.6 billion – nearly 70 per cent above current levels. Europe, East Asia and the Pacific, and the Americas are projected to be the top three receiving regions followed by Africa, the Middle East and South Asia. Growth rates in Asia and the Pacific,

[1] UNCTAD (2007). Trade and development implications of international tourism for developing countries. Note by the secretariat; UNCTAD (2008). Meeting on trade and development implications of tourism services for developing countries. (TD/427).

[2] UNWTO (2009). Roadmap for recovery. Note by the Secretary-General. Document A/18/8.

the Middle East and Africa are forecast to exceed 5 per cent a year, and growth in more mature regions, Europe and the Americas, under 4 per cent. Although Europe will retain the highest share of world arrivals, its share will continue to decline from 60 per cent in 1995 to 46 per cent in 2020.

Figure 1
Tourism's recovery from the financial crisis
International tourist arrivals from 1950 through 2009 and forecast for 2010



Source: UNWTO.

5. One of the most promising features of tourism's strong performance in recent years is that growth in arrivals is greatest in developing countries. While in 1950 the top 15 destinations absorbed 88 per cent of international arrivals, this figure progressively decreased to 57 per cent in 2007, reflecting the emergence of new developing country destinations. Today, developing countries account for 40 per cent of world tourism arrivals and 30 per cent of the world tourism receipts. Their tourism exports are driven by growing consumer interest in leisure tourism and non-traditional destinations, alongside increased business travel as their national economies globalize.

6. Figures for 2008 indicate that three quarters of all international tourists are from developed countries, and developing countries are the destination for over one third of all international tourists. About 51 per cent of all international tourist arrivals are associated with leisure tourism; 15 per cent with business travel; 27 per cent with other purposes, including family visits, religious pilgrimage, health and education; and 7 per cent are unspecified. [3] Over half arrive at their destination by air transport (52 per cent) and the remainder by surface transport (48 per cent).

7. Nearly 80 per cent of tourism is intraregional. The share of intraregional tourism ranges from over 40 per cent in Africa and the Middle East to over 70 per cent in the Americas and Asia. On the other hand, while accounting for only 20 per cent of international travel, interregional travel is growing significantly faster, at an annual pace of 3.1 per cent, nearly twice the 1.7 per cent growth rate of intraregional tourism. Long-haul travel is anticipated to grow even faster, at over 5 per cent annually through 2020, largely due to business travel between Europe, North America and East Asia.

[3] UNWTO (2009). Tourism highlights.

8. Intraregional South–South tourism represents an important channel for the future growth and development of developing countries’ tourism sectors. Additional research is needed to reveal how significantly South–South tourism can further contribute to growth and to assess how trade liberalization in major developing country integration blocs is associated with increased intraregional travel.

9. Developing countries are active tourism suppliers in world markets. For them, the sector is a primary source of income-creating jobs and new development pathways. Tourism accounts for 7 per cent of their goods and services exports and 45 per cent of their commercial services exports, making it developing countries’ largest single services export. For LDCs only, both of these figures were higher, at 9 and 65 per cent respectively. For both country groups, tourism exports exhibit high export growth rates – between 2003 and 2008 15 per cent for developing countries and 21 per cent for LDCs.

10. In 2008, France, the United States and Spain accounted for 20 per cent of world tourist arrivals. China, which ranks fourth, lead developing countries in arrivals. Turkey in eighth position and Mexico in tenth also rank highly. Other major developing country tourist destinations hosting more than 10 million tourists per year are Malaysia and Thailand. Additionally, over 20 other developing countries are among the world’s top 50 tourism destinations, and these countries have some of the world’s highest international arrivals growth rates. Among LDCs, in 2008, Cambodia led in terms of international arrivals, with over 2 million foreign tourists (increasing five-fold since 2000) followed by the Lao People’s Democratic Republic with 1.3 million. Other LDCs hosting more than a half million tourists were Nepal, Malawi, Senegal, Maldives, the United Republic of Tanzania, Uganda and Zambia.

Box 1. International tourism and the LDCs

In 23 of the 49 of the LDCs, international tourism is among the top three foreign exchange earners, and for 7 it is their single largest revenue earner, inducing significant income-multiplier effects and progress in terms of national income. By boosting per capita income and human capital, tourism has been a decisive factor supporting graduation from LDC status for countries such as Cape Verde, Maldives and Samoa. Two other small island LDCs (Tuvalu and Vanuatu) are also regarded as potential graduation cases in the light of progress that was to a large extent fuelled by tourism growth.

In 8 of the 23 LDCs where tourism gained prominence, it did so at an impressive pace (within less than two decades) and sometimes from a situation of near total absence of a genuine tourism economy. In the United Republic of Tanzania, where gross tourism receipts accounted for less than 10 per cent of total export earnings in the mid-1980s, by the middle of the current decade it has risen to become the country’s top export earner well above coffee and cotton, accounting for over 35 per cent of total goods and services exports. Similar developments have been observed in Benin, Madagascar and Rwanda, where tourism now surpasses traditional commodities.

Further success in tourism development could induce significant progress in advancing achievement of the Millennium Development Goals and graduation thresholds in at least 10 LDCs over the next decade, and tourism can be singled out as a distinct "graduation factor" in at least three LDCs (including Vanuatu) over the next 15 years. The importance of further encouraging the sector is expected to be recognized in the 2011 Fourth United Nations Conference on the Least Developed Countries.

11. Developing countries’ tourism statistics from 2006–2008 reveal significant regional and country variations in sectoral growth. Although international arrivals growth in the Americas remains moderate, in Africa, and Asia and the Pacific, they continue to exceed

expectations. In Asia and the Pacific, Cambodia, Thailand, India and Philippines are the highest growth markets. But it is in Africa, growing at a rate nearly twice the global average, where tourist arrivals are increasing most rapidly. In addition to continued growth in Africa's most popular destinations – Egypt, Tunisia, Morocco and South Africa – growth in many emerging sub-Saharan destinations – such as Angola, the United Republic of Tanzania and Uganda – have been particularly strong.

12. Growing tourism levels in developing countries have stimulated increased tourism supply capacity and higher levels of investment in infrastructure, human capital and technologies to manage and efficiently transact higher levels of tourism activity. Foreign direct investment (FDI), particularly in infrastructure services, can help support and propel the sector, particularly in developing countries where domestic resources are limited. Tourism often tops the list of services promoted by investment promotion agencies and knowledge of emerging trends in FDI can help guide countries' tourism investment policies.

13. Analyses by UNCTAD indicate current FDI flows to developing countries predominantly target services. The share of annual FDI inflows to their services sector climbed from 31 per cent in 1990 to 57 per cent in 2007.[4] While it is difficult to capture the full extent of FDI flowing to the wider tourism sector in developing countries, inward FDI stock in the "hotels and restaurants" sector has risen more than six-fold, from $4.7 billion in 1990 to $29.2 billion in 2007, and for the "transport, storage and communications" sector, it has increased almost 20-fold, from $13.3 billion in 1990 to $246.3 billion. Notwithstanding these large increases, developing countries' FDI stock in tourism remains limited in relative terms. For example, their FDI stock in "hotels and restaurants" as a share of total FDI stock in their services sector is only 1 per cent.

14. Common perceptions that a large share of FDI flows to developing countries target tourism and that foreign investment dominates their tourism industries are largely unfounded.[5] Although developing countries were the target of 21 per cent of tourism-related mergers and acquisitions from 2002 to 2005, and hosted 70 per cent of tourism-related "greenfield" investments, FDI inflows to their tourism sector account for only around 10 per cent of global FDI inflows. The growing presence of large multinational hotels and restaurants in developing countries are often franchises or under management contracts without foreign equity ownership, pointing to the importance of domestic investment in the tourism sector.

15. Growth in world tourism has made it a major component of international services trade, accounting for over 30 per cent of world commercial services exports in 2008 and 11 per cent of world exports of goods and services. However, in any given year the tourism's share of GDP and exports may be affected by decreased demand associated with global economic slowdowns, epidemics (e.g., SARS, H1N1), natural disasters and terrorism.

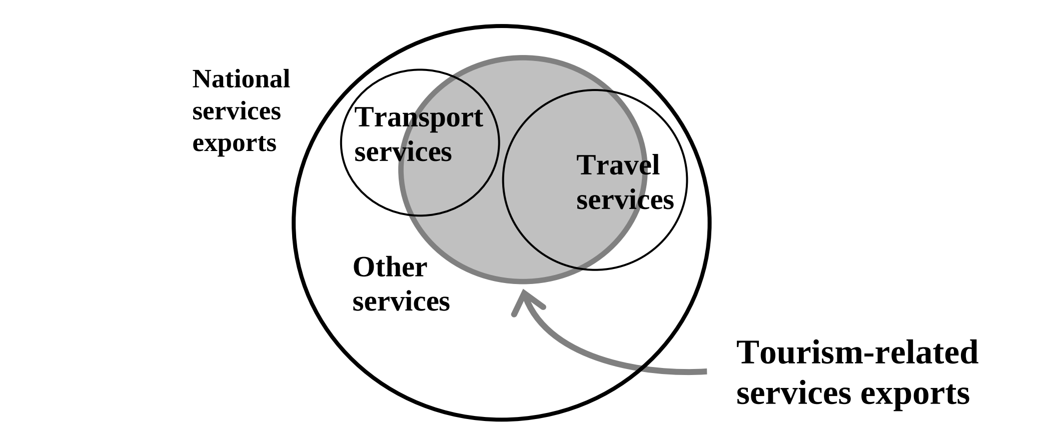
16. Comprehensive tourism data are indispensable to developing countries seeking to strengthen their tourism sectors. Travel services exports recorded in national balance of payments statistics include foreigners' expenditures for hotels and restaurants, travel agencies, tour operators and tourist guides. Yet tourism-related exports are considerably greater since the sector has strong backward and forward linkages within national economies. To more accurately gauge national tourism exports, many countries therefore

[4] UNCTAD (2009). *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development*. United Nations publication. Sales No. E.09.II.D.15. New York and Geneva.

[5] UNCTAD (2007). *FDI in Tourism: The Development Dimension.* United Nations publication. Sales No. E.07.II.D.17. New York and Geneva.

compile national tourism satellites accounts (TSA). The latter also provide estimates of purchases of goods by foreign visitors.

Figure 2
Measuring the extent and impact of tourism-related services trade



17. Guidance in compiling TSA data is provided by the International Recommendations for Tourism Statistics (IRTS), which provides the comprehensive methodological framework for collection and compilation of tourism statistics.

II. Tourism and development in developing countries

18. A vibrant national tourism sector can serve to diversify the economy and generate social and environmental benefits. However, the economic, social and environmental benefits of tourism are not automatic. Ineffectively managed, tourism can also result in social and environmental costs. Developing country governments must actively manage tourism through policies and actions aimed at maximizing the beneficial development impacts of tourism.

A. Tourism as a generator of employment

19. Growth in the sector has made tourism a major generator of employment. As a highly labour-intensive activity, tourism and tourism-support activities create a high proportion of employment and career opportunities for low-skilled and semi-skilled workers, particularly for poor, female and younger workers. The World Travel and Tourism Council reports that the industry currently provides over 220 million jobs and accounts for 8 per cent of employment, or 1 in 12 jobs, and about 10 per cent of GDP. Women make up 70 per cent of the labour force in the tourism sector, and half of all tourism workers are 25 or under. With an economic recovery, job growth in the sector is expected to resume with the creation of nearly 60 million new jobs by 2020. The International Labour Organization (ILO) has estimated that unemployment induced by the financial crisis comprises between 11 and 17 million workers in developed countries and between 19 and 42 million workers in developing countries. The tourism sector can be an important source of employment for many of these unemployed workers.

20. Many workers in the global tourism industry are migrant workers. For many developing countries, tourism services provided by their nationals working abroad result in significant remittance inflows. Countries hosting migrant workers also benefit from tourism and travel services exports generated by the expenditures of migrant workers in their

economies. Reducing restrictions on temporary movement of all labour categories, including less-skilled labour, through multilateral, regional and bilateral trade agreements could open win–win opportunities for both sending and receiving countries.

21. Despite the sector's realized and potential employment gains, concerns have been raised over poor employment conditions in some countries for workers in the tourism sector. A number of countries work with ILO to sensitize tourism employers and workers to the importance of encouraging decent work in the tourism sector, addressing decent work deficits, promoting the sector as a viable avenue for employment and enterprise creation, and attracting and retaining workers. A key international initiative towards improving employment conditions in the sector is the UNWTO Global Code of Ethics for Tourism.

B. Fusing tourism into the national economy

22. Tourism linkages to other economic sectors are diverse and deep. The sector requires support, for example, to build and operate hotels, restaurants and other tourism-related facilities) through backwards linkages with basic infrastructure services such as energy, telecommunications and environmental services, agricultural, manufacturing and construction services. It also has a wide range of forward linkages with sectors supplying services consumed by tourists such as financial, telecommunications, retail, recreational, cultural, personal, hospitality, security and health services. Strong linkages catalyse a multiplier effect that generates broad-based economic benefits at the national level as well as *in situ* employment opportunities and poverty reduction at the local level. Without strong tourism linkages such benefits do not materialize.

23. During UNCTAD's 2007 High-Level Meeting on Trade and Development Implications of International Tourism for Developing Countries, participants highlighted developing countries' efforts to strengthen linkages. At the meeting, many countries – including Ethiopia, Kenya, Madagascar, Mauritania and Swaziland – referred to national efforts to strengthen linkages by promoting ecotourism and community tourism. The Organization for Economic Cooperation and Development (OECD) presented a study measuring tourism linkages in three developing countries (Brazil, India and Indonesia). It found that linkages were particularly strong for the tourism sector relative to linkage strengths for most other sectors, confirming tourism as a sector capable of stimulating broad-based economic activity.[6] However, the linked nature of tourism also presents a fundamental challenge – tourism's extensive linkages make it difficult to attract private investment before all relevant linkages can be developed. It is thus seldom possible to rapidly develop a fully functional national tourism network, or even a single tourism site, in many lower income developing countries where sources of finance are scarce.

24. Building linkages requires ensuring effective national strategies comprising policy, regulatory and institutional framework is in place with sufficient incentives to stimulate the development of supply capacity in national markets. Countries with strong linkages have developed tourism-supporting infrastructure (airports, ports, roads, hospitals and banks), provide access to good quality basic services (financial, telecommunications, water, energy, sanitation and health services) and offer a tourism product at competitive prices.

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[6] OECD (2006). Services Trade Liberalization and Tourism Development. Doc. TD/TC/WP(2006)37/REV2.

Box 2. Tourism policy in China

Tourism has been an important sector in China's economy since the late 1970s, with its growth rate averaging some 10 percentage points higher than the world average. Accounting for over 4 per cent of GDP, it employs 60 million people directly and indirectly, accounting for 7.8 per cent of total employment. Despite a 3 per cent fall in international arrivals due to the financial crisis, China's tourism revenue is estimated to have grown by 9 per cent to $185 billion in 2009, largely due to China's efforts to mitigate the adverse impact of the global crisis on its national economy by expanding domestic consumption, including in the tourism sector.

The UNWTO predicts that China will be the leading inbound and the fourth largest outbound destination before 2020. The growth of tourism in China is in part attributed to its strong economic performance, which has attracted foreign business travellers to China (e.g. in 2008 they represented about 25 per cent of overnight international tourists), increased leisure tourism and rising levels of domestic tourism. Efforts made by the Government to improve the infrastructure have also paid off, by greatly facilitating travel. The Government has taken concrete steps to develop this sector. New strategies aim to increase the share of tourism in GDP to 4.5 per cent by 2015 with annual tourism revenues increasing by 12 per cent each year. Towards this objective, China will:

- Deepen reform and liberalization of the tourism sector by providing more access and a level playing field for private investors;
- Further improve tourism facilities;
- Raise service quality by implementing a Tourism Quality Upgrading scheme across the country, and raise facility standards and workers' qualifications;
- Establish a mechanism to improve destinations based on tourists' evaluations;
- Enhance vocational education and conduct nationwide training for all middle and senior management staff of tourism enterprises and by tourist guides;
- Promote energy and water conservation in the sector, decreasing water and energy consumption by 20 per cent within five years in star-rated hotels;
- Enhance water and land protection through strict enforcement of the environmental impact assessment system for tourism projects;
- Strengthen tourist safety and security by improving travel advisories and warnings;
- Increase the level of government support by focusing central government investment on the construction of tourism facilities in central and western regions;
- Facilitate access to finance and insurance by tourism service providers.

Source: China National Tourism Administration.

25. It is also important to address anti-competitive business practices that constrain the development of the tourism sector by increasing the costs of doing business in the country and compromising the quality of local goods and services. The absence of competitive

markets can greatly hinder the development of linkages to the tourism sector. For instance, the presence of monopolies in the telecommunications or energy sector can result in high prices, poor quality and erratic delivery. Lack of competition in the financial services sector leads to costly credit that raises investment costs for local tourism service providers. The absence of a competitive airline sector or domestic transport sector raises airfares and domestic travel costs. Constraints related to anti-competitive practices should be addressed through competition laws and a competition policy framework with collaboration between the competition authority, the State and the economic sectors in order to promote competition.

C. Capturing a greater share of tourists' expenditures

26. High levels of leakage can seriously undermine the positive development impacts of tourism. Leakage is the process whereby part of the foreign exchange earnings generated by tourism, rather than reaching or remaining in tourist-receiving countries, is either retained by tourist-generating countries or other foreign firms. The average leakage for most developing countries is between 40 and 50 per cent of gross tourism earnings and between 10 and 20 per cent for developed and more diversified developing countries.[7]

27. Economic leakage occurs when domestic firms in the destination country are unable to supply goods and services of adequate quality or in sufficient quantity to the national tourism sector, necessitating their import from abroad. Economic leakage can also occur when multinational tourism firms source inputs globally rather than in local markets. The net result is that substantial opportunities for income and employment multipliers in the tourism sector are lost.

28. Structural leakage occurs due to the very structure of the tourism sector itself. International tourists necessarily have their origin in foreign countries where they purchase their basic tourism product prior to travel. Purchases are generally made through intermediaries – travel agents and tour operators operating in tourists' countries of origin – that often capture a substantial share of the their clients' tourism expenditures. Even when strong linkages reduce economic leakage, structural leakage may still be significant because a large share of international tourism expenditures never reach the national economy, but are rather retained by foreign airlines, tour operators, travel agencies and hotel chains.

29. In many developing countries – particularly LDCs and other countries with limited economic diversification, including Small Island Developing States (SIDS) – leakage remains a main challenge to be addressed. Some studies point to high levels of leakage in developing countries' tourism sectors. For example, studies of tourism in Gambia and the Lao People's Democratic Republic found large shares of tourists' expenditures are absorbed by international tour operators, foreign airline companies and foreign-owned hotels and restaurants, with only 14 and 27 per cent of total tourism expenditures reaching the poor living in destination areas. While the capture of even these small percentages of tourism expenditures has positive pro-poor impacts and is preferable to no tourism at all, emphasis should be placed on reducing leakage so that benefits can be increased. [8]

30. Anti-competitive business practices in national markets can significantly reduce the net economic benefits derived from tourism. Economic leakages can be significant when tourism earnings are repatriated abroad, including by foreign firms, and when levels of

[7] UNWTO (1995). Políticas de Aviación y Turismo.

[8] Mitchell J, Fall H (2008). The Gambian tourist value chain and prospects for pro-poor tourism, ODI; Ashley C (2006). Participation by the poor in Luang Prabang tourism economy, ODI.

import content in local tourism products is high. In addition, an uncompetitive local private sector may prevent an expansion of the local tourism value-chain and depress the tourism multiplier. To reduce economic leakage, destination countries need to build capacities for local investment and local production.

31. Structural leakage results from anti-competitive practices at an international level in the form of international cartels/alliances, abuse of dominant power by monopolistic providers or abuse of buying power in vertically integrated relationships. It tends to occur in the early parts of the tourism value chain, namely in the distribution of tourism services by international tour operators and the transportation of the tourists to the destination. Such practices are well documented in previous research by UNCTAD and OECD.[9]

32. Tour operators that act as “wholesalers” of package holidays tend to have a dominant position in some origin countries. And while they can bring visibility and tourists to destinations, some may use their dominant position to design contractual arrangements with “retailers” (travel agents and local suppliers) to their advantage, squeezing profits downstream. Such practices can lead to a fall in profits for local tour operators and local hotels and hence greater leakages for the destination countries.

33. Although some degree of leakage is intrinsically associated with international trade transactions, and may be a necessary cost of conducting tourism, developing countries can take actions to reduce them. Governments and other stakeholders can strengthen the tourism sector’s backward and forward linkages within the national economy to significantly reduce economic leakage levels and ensure a greater proportion of tourism expenditures remain in their domestic economy. They can also reduce structural leakage by designing strategies to boost the bargaining power of smaller or domestically-owned airlines, tour operators and hotels in terms of their negotiations with larger foreign tour operators and travel agencies. Collaboration between competition authorities of origin and destination countries can also be strengthened, especially in areas where decisions taken by competition authorities of origin countries bear on consumer welfare in the host countries and vice versa.

D. Promoting sustainability to ensure future prospects

34. In many developing countries with a sizeable tourism industry, large-scale mass tourism poses a growing threat to the preservation of cultural and environmental resources. Growing demand for land for new tourism facilities and its increased use as a repository of wastes generated by the industry are reaching unprecedented levels in some tourism destinations. Tourism’s high water and energy requirements may exceed local sustainable limits and displace other economic and social uses of limited water and energy supplies. In locales with fragile ecosystems, tourism’s negative environmental impacts can be irreversible, stressing the need for the prevention of negative impacts.

35. There are a variety of ways that governments and tourism stakeholders can make tourism more sustainable. Long-term prospects for sectoral growth depend on building adequate infrastructure and supply chains, and strengthened policies and institutions to ensure that tourism activities are carried out sustainably, meeting economic, social and environmental objectives. Proper capacity planning, zoning, environmental regulations and cultural preservation initiatives become increasingly important as the sector matures. Some

[9] UNCTAD (2002). The relationship between competition, competitiveness and development, TD/B/COM.2/CLP/30. Geneva. 23 May.; OECD (2008). Tourism in OECD countries 2008: Trends and policies.

of the main requirements for implementing sustainable tourism development include improving: (a) awareness of how environmental damage can reduce the attractiveness of destinations; (b) knowledge of principles and methods of environmental management, including energy and water conservation strategies; (c) access of tourism firms to market information and financial resources; (d) coordination between government entities and the private sector; and (e) improved infrastructure in isolated tourism sites.

36. Redesigning the tourism product itself can also minimize the negative impacts of tourism operations and activities on environmental resources. In this context, ecotourism is an attractive approach to sectoral development based on small-scale, community-led tourism operations. Ecotourism, commonly perceived to be tourism in natural surroundings, is estimated to account for as much as 20 per cent of the international tourism market.

37. With its demonstrated success in recent years, ecotourism has received attention by policymakers. Developing countries are endowed with rich natural resources amenable to ecotourism. The variety in products offered and their linkage with other economic sectors can help host countries to strengthen and diversify their economy while promoting rural community development and generating profitable businesses that conserve natural resources.

38. International organizations and donors assist developing countries to promote ecotourism. For example, UNCTAD assists developing countries to develop and support community-based ecotourism in Ecuador, Peru and Colombia.

39. Some LDCs are active in the ecotourism market. In East Africa, most of the 1.5 million tourists who visited the region in 2000 were interested in wildlife watching. Uganda alone generated revenues of $149 million that is mostly linked to safari and gorilla tourism. Gambia is promoting nature-based tourism (birds, butterflies and flora) from May to October during its low season for conventional tourism. In Nepal, over 100,000 visitors per year visit the Chitwan National Park for wildlife watching, while others opt for trekking in various national parks in the Himalayas.

E. Responding to the challenges of climate change

40. The viability of some tourism destinations remains negatively affected by climate change occurring at the global level. Climate change is expected to progressively degrade amenities in destinations ranging from low-lying Small Island States to mountain resorts. In developing countries and LDCs such as Bangladesh, Cambodia, Maldives and Myanmar, tourism activities based in coastal and river delta areas could be significantly affected by sea level rise. In Nepal and Bhutan, increasing temperatures are already beginning to melt the glaciers, negatively affecting mountain tourism.

41. The private sector is responding to climate change through efforts to transform their tourism businesses into the green economy. Reductions in carbon emissions from energy and transport offer opportunities for firms to reduce the carbon footprint of tourism. A growing number of hotels have adopted energy efficiency programmes to limit carbon dioxide emissions associated with tourists’ stays. Several airlines offer passengers the option to offset the carbon dioxide emissions of their travel.

F. Diversifying the tourism product

42. Although each country has unique selling points in its tourism product based on its cultural and natural assets, there is growing recognition of potential demand for complementary tourism products linked to health care, education, real estate, MICE

(meetings, incentives, conventions and exhibitions), etc. While each of these new tourism products strengthens linkages in the national economy and increases foreign exchange earnings, health-related tourism products have the advantage of being offered to individual tourists during a short visit. Increasingly, many individuals from developed countries seek medical treatment in developing countries which offer high-quality health care services at costs significantly lower than in their home country. Medical and health-related tourism is growing in a number of developing countries (notably India, Jordan, Thailand, Malaysia and Tunisia). In Thailand, for example, 1.4 million visitors sought medical care in 2007, up from 500,000 in 2001, generating $1 billion in revenue.

G. Meeting international standards

43. Growth of the tourism sector has led to increased demand for the development of international standards. The International Organization for Standardization (ISO) established a Technical Committee in 2005 on tourism and related services to allow members to develop industry standards. To date, its work has been limited to the development of standards for specialized activities related to tourism, such as adventure tourism and scuba diving. ISO members remain in disagreement over whether international quality standards for the broader tourism sector should be established. Nevertheless, there are general ISO standards – such as ISO 9000 for quality management and ISO 14000 for environmental management – which many firms in the tourism industry strive to meet.

44. For specific market segments such as ecotourism, adventure tourism and community tourism, a plethora of voluntary standards and associated certification scheme have emerged during the past decade. Voluntary standards for sustainable tourism, most notably Green Globe 21, certify tourism facilities' environmental and social performance. International efforts led by the Rainforest Alliance, an international conservation organization, currently seek to harmonize certification programmes and create an international accreditation body.

H. Curbing excessive warnings in travel advisories

45. Typically issued in response to natural disasters, health crises or terrorism, travel warnings can be devastating for tourism. Inaccurate and excessive travel warnings can have major adverse effects on tourism revenues for the countries concerned. One study reports that income from tourism-related industries drops rapidly by at least 70 per cent whenever such alerts are issued against African countries.[10] In 2005, the UNWTO adopted Guidelines on Travel Advisories, which address the procedures used when formulating and administering travel warnings, emphasizing the need for transparency, accuracy, etc.[11]

III. Forging national tourism strategies and policies

46. As many developing countries seek to open up to tourism more widely, they face the challenge of developing modern infrastructure services and tourism facilities to transport, accommodate and provide ancillary services to tourists. Challenges to address include finding ways to (a) attract foreign and domestic investment to develop infrastructure and infrastructure services while including local firms in infrastructure services development;

[10] Okumu W (2007). Security alerts and their impacts on Africa. *African Security Review.* Vol. 16, No 3.

[11] Adopted by resolution A/RES/508(XVI) General Assembly of the World Tourism Organization, Sixteenth session, Dakar, Senegal, 2005.

(b) strengthen domestic regulation and national training facilities; (c) cultivate a culture of entrepreneurship so that linkages can be identified and business-to-business links made for upstream and downstream goods and services; and (d) importantly, promote and enhance awareness of the new destinations they open to the global tourism market, including in non-traditional source markets.

47. Developing countries that have been most successful in tourism development have dedicated institutions and national tourism strategies. Among them, several LDCs have elaborated national tourism strategies in recent years, including Benin, Cambodia, Maldives, Nepal and the United Republic of Tanzania, among others. While investment promotion is a central feature in many national strategies, most also include strategies to (a) improve domestic policies, regulations and trade policy; (b) introduce incentives for investment; (c) build competitiveness by strengthening institutional support for tourism firms and workers; and (d) promote awareness of national tourism assets in regional and global markets.

48. Regulation provides a direct means for governments to promote sustainable development of the tourism sector. Comprehensive regulation, including incentives, creates a competitive business environment, establishes national quality and safety standards to be met by tourism firms, helps ensure decent employment in the sector, and promotes the protection of natural, environmental and cultural resources. National institutions can also be redesigned and enhanced to provide technical assistance on opening tourism-related businesses and meeting quality standards.

Box 3. Elaborating national tourism strategies in Kyrgyzstan and Nepal

Tourism development poses considerable challenges for both countries with transition economies and LDCs. With technical assistance provided by UNCTAD, Kyrgyzstan and Nepal have recently completed National Services Policy Reviews (NSPRs) to identify ways to further strengthen the contribution of tourism to development, and outline an action plan to advance national tourism development. Through research by national teams and consultations with national tourism stakeholders, the NSPRs revealed ways to (a) enhance tourism’s contributions to human development, employment and GDP; (b) strengthen its linkages to other economic sectors; and (c) improve the quality of, and demand for, national tourism products.

In Kyrgyzstan, stakeholders recommended:

(a) Advancing institutional development of the sector by strengthening its legal framework;

(b) Raising global awareness of Kyrgyzstan as a tourism destination for culture and leisure;

(c) Establishing a national programme to modernize tourism infrastructure;

(d) Enhancing the capacity and quality of national training institutions to increase the number of qualified tourism workers;

(e) Creating favourable conditions for the development of tourism-related sectors such as transport, banking and handicrafts;

(f) Establishing regional tourism development programmes in rural areas of the country; and

(g) Initiating environmental planning for new tourism facilities to ensure their environmental sustainability;

In Nepal, stakeholders recommended:

(a) Focusing tourism on the community level to increase tourism's contribution to poverty reduction and village/community tourism;

(b) Enhancing royalty income from trekking and mountaineering tourism;

(c) Promoting religious and cultural tourism;

(d) Introducing health and wellness tourism;

(e) Targeting specific programmes to increase tourist inflows from North America and India;

(f) Introducing Tourism Satellite Accounting into national statistics compiling;

(g) Identifying and addressing supply constraints created by a lack of human resources, technology, and quality standards; and

(h) Refining trade policies to enhance inward tourism FDI flows.

National action plans engaging the participation of a wide range of tourism stakeholders will be implemented over the course of the next three years in both Kyrgyzstan and Nepal to implement these recommendations.

Sources: UNCTAD (2010). National Services Policy Review of Kyrgyzstan and Nepal.

49. Attracting FDI remains an important requirement for the sector in those countries where domestic resources are limited. Investment requirements cover primary facilities such as hotels, restaurants and recreational amenities, as well as supportive physical infrastructure and basic services. To attract primary investment in tourism facilities, tourism development projects must meet several criteria required by private investors. Above all, projects must be set in the "right" location. Destinations must demonstrate (a) international demand and a "critical mass" of tourists and tourism infrastructure; (b) the availability of regular, frequent and low-cost air access by potential tourists; (c) the interest of tour operators to prepare and market tourism packages to mass markets; and (d) sufficient availability and depth of downstream services.

50. Effective institutions have a central role to play in encouraging private investment in the tourism sector. National tourism agencies are an important example. They help plan and coordinate both public and private investments around national tourism development strategies that progressively build supply capacities along the tourism value chain over time. Together with national investment promotion agencies, they help develop and promote an enabling environment for private investment in tourism and related sectors.

51. While both domestic and foreign private investment are the principal sources of capital for tourism facilities, investment in supportive infrastructure generally includes a large government component and may also include international development partners and several domestic and foreign investors. Transnational corporations involved in the tourism industry seldom finance infrastructure. National planning must therefore ensure that supportive infrastructure requirements for tourism are being advanced – including through public–private partnerships involving the tourism industry – to support tourism strategies.

52. A set of national government incentives for tourism investment is often used to secure investments, and these usually contain tax and import duty exemptions, import facilitation measures, promotion assistance, and subsidies and guarantees. However, according to a recent UNCTAD study, for many foreign investors, incentives may be less important than having in place the fundamentals of an enabling environment for tourism to

succeed, including the existence of high quality infrastructure, education and training policies.[12] The study also finds that, while many developing countries set attracting tourism FDI as a priority with a range of investment promotion policies, few have economic policies in place to fully benefit from it.

53. Beyond securing investment, another key objective of developing countries involves reducing leakage so that the benefits of inbound tourism can be maximized. National tourism strategies should explore how domestic firms can work collectively through national institutions and associations to reduce structural leakage. By sharing information and coordinating their negotiations with foreign tour operators, tourism firms can secure higher volumes and margins for nationally produced tourism goods and services. Economic leakage, on the other hand, can only be reduced by strengthening linkages. Governments and other stakeholders must carefully identify existing and potential tourism linkages, and develop policies and initiatives to strengthen them, with emphasis placed on ensuring pro-poor gains.

54. There are now an increasing number of developing countries that have established dedicated “tourism linkages programmes” elaborating actions required to amplify links. Activities in India harness tourism’s direct and multiplier effects for community employment and poverty eradication. In Jamaica, emphasis is placed on strengthening agro-tourism linkages. Specific efforts are also being made to strengthen key linkages through national development plans in LDCs and SIDS, including (a) encouraging domestic ownership of the industry; (b) building domestic employment in the sector, notably at higher-skill levels; and (c) promoting domestic supplies of goods and services.

55. Government actions can help catalyse the development of local supply chains by (a) strengthening productivity of the agricultural sector and its linkages to tourism; (b) providing small-scale businesses with start-up grants, education and training, and low-interest loans to stimulate small and medium-sized enterprise development; (c) encouraging hotels and restaurants to source inputs locally; and (d) relaxing zoning and licensing requirements so that small-scale businesses can participate in the downstream tourism value chain.

56. International trade offers significant opportunities to countries to develop their tourism sectors through foreign investment and to expand tourism and tourism-related exports. National strategies could examine how trade and immigration policy could be tuned to reduce barriers to tourism trade. National policies could ensure the beneficial participation of foreign investors and firms in national tourism markets and encourage tourist arrivals from regional and global markets.

IV. Boosting tourism through trade and cooperation agreements

57. Tourism markets are opened through the General Agreement on Trade in Services (GATS) at the multilateral level and regional trade agreements (RTAs) covering services at the regional level. National commitments under such agreements can play a significant role in promoting tourism, including intraregional tourism among developing countries. By reducing trade barriers, these agreements can enhance the gains from tourism trade to national economies and the firms and workers within them.

[12] UNCTAD (2007). *FDI in Tourism: The Development Dimension.* United Nations publication. Sales No. E.07.II.D.17. New York and Geneva.

A. The tourism sector under GATS

58. Tourism services are covered by GATS under Tourism and Travel-Related Services, which includes (a) hotels and restaurants; (b) travel agencies and tour operators; (c) tour guides; and (d) other. Many services linked closely to tourism are classified under different sectors such as business, financial and recreation services.

59. As of May 2009, 133 World Trade Organization members, including 29 LDCs, had made GATS commitments in Tourism and Travel-Related Services, more than in any other sector covered by GATS. Members tend to make most commitments under "hotels and restaurants" with a smaller number making commitments under travel agencies and tour operators services. Only about one half of members with tourism commitments made them under "tourist guide" services.

60. Commitments vary across modes**.** The percentage of members placing no restrictions on market access is highest for Mode 2 (consumption abroad). This is followed by Mode 1 (cross-border supply) and Mode 3 (commercial presence). Commitments are lowest for Mode 4 (temporary movement of natural persons). The percentage making no commitments ("unbound") is significantly higher for Mode 1 than for other modes, posing difficulties for the supply of travel agency and tour operator services via e-commerce, a significant export opportunity for developing countries.

61. The high number of GATS commitments in "hotel and restaurants" results because many countries making such commitments enjoy a comparative advantage in tourism, and because access conditions are fairly liberal worldwide. On the contrary, sensitive areas such as travel agencies and guides are often reserved for nationals.

B. Negotiations under the WTO Doha Work Programme

62. Within the Doha Work Programme many WTO members are seeking more liberal commitments as significant barriers to market access persist in various sectoral segments and modes. Barriers mentioned include (a) requirements for commercial presence to supply mode 1 tourism trade; (b) limitations on foreign capital thresholds; (c) discrimination against foreign franchises; (d) licensing dependent on residency, citizenship or local incorporation; (e) non-transparent economic needs tests; (f) delays when seeking government approval; (g) lack of information on reasons for denying approval; (h) lack of available information on zoning; and (i) lack of means to facilitate temporary entry of skilled personnel. While some of these measures act as barrier to tourism services trade, others help advance legitimate domestic development objectives, e.g. to promote technology transfer and enhance local supply capacity.

63. In 2001, several members – Bolivia, the Dominican Republic, Ecuador, El Salvador, Honduras, Nicaragua, Panama, Peru and the Bolivarian Republic of Venezuela – proposed a draft Annex on Tourism aimed at reducing anti-competitive practices and improving use of information in the tourism sector. The draft annex proposes to tackle anti-competitive practices by adopting measures to prevent (a) abuse of market dominance; (b) discriminatory use of information networks; and (c) misleading or discriminatory use of information. The draft annex also calls for international cooperation mechanisms to ensure a pro-competitive environment in the sector in a section on access to and use of information.

64. In 2004, a group of developing countries (Brazil, Colombia, the Dominican Republic, El Salvador, India, Indonesia, Nicaragua, the Philippines and Thailand) proposed several criteria to assess the extent of commercially meaningful market access and national treatment commitments on tourism services: (a) facilitation of movement of natural persons

supplying services in tourism and recognition of their qualifications; (b) elimination of anti-competitive practices and unfair competition; (c) elimination of requirements for commercial presence; and (d) elimination of nationality and residency requirements.

65. In 2007, Colombia, Mauritius, Morocco, Panama, Thailand, Ecuador and Peru circulated a plurilateral request on tourism services to 15 high-income developed and developing country members of WTO. It called for increasing the level of bindings to reflect the status quo for tourism-related liberalization and the removal of remaining restrictions in terms of market access, national treatment and most-favoured nation exemptions, and increased access for all modes of supply for tourism and travel-related services. Target countries were also requested to make commitments with regard to procedures used for formulating and administering travel warnings, qualification requirements and procedures, prevention of anti-competitive practices and information on procedures related to movement of natural persons. The request also reaffirmed flexibilities for developing countries and stressed due regard be given to members' national policy objectives and their level of development when making commitments.

66. In the Doha Round, negotiations currently underway on a most-favoured nation waiver for LDCs aim to provide a basis for WTO members to grant preferential market access to services and services suppliers from LDCs including through mode 4. This could potentially provide benefits for LDCs' tourism industries.

Box 4. Mode 4 in the tourism sector

While many countries' WTO GATS commitments facilitate management operations through the movement of intra-corporate transferees through mode 4, the temporary movement of other tourism workers remains limited. Many developing member countries have indicated their interest in seeking more liberal access for their tourism providers and other related services providers in the form of bilateral requests, the plurilateral request on mode 4, the plurilateral request on tourism and the LDC group request on mode 4. Given the importance of tourism in providing trade opportunities for developing countries, mode 4 commercially meaningful GATS commitments are important.

C. Cooperation and liberalization at the regional level

67. A growing array of regional trade agreements has helped to stimulate services trade. Regional approaches generally cover both liberalization and cooperation. Regional approaches to market access – particularly in North–South agreements – tend to be more far-reaching than GATS. Several regional integration initiatives specifically address cooperation on tourism. They include (a) regulatory cooperation aimed at facilitating Mode 4 type movement; (b) recognition of qualifications; and (c) cooperation aimed at infrastructure building and enhancing regulatory and institutional capacity to address anti-competitive behaviour, strengthen tourism's linkages with other sectors and promote sustainable tourism development.

68. The Southern African Development Community (SADC) adopted a specific Protocol on the Development of Tourism in 1998. It aims to (a) optimize resource usage through joint development of infrastructure; (b) involve small and micro-enterprises, local communities and women and youth in tourism; (c) and to facilitate travel through easing of visa restrictions. The protocol also provides for a regional body to market the SADC region as a collective tourism destination.

69. The Common Market for Eastern and Southern Africa (COMESA) strategy for tourism fosters a collective and coordinated approach for regional promotion and marketing

of tourism. It encourages members to remove restrictions on movement of tourists, promote regional tourist circuits and coordinate tourism policies. Regional tourism policy promotes joint ventures between local and foreign entrepreneurs, conservation practices to ensure environmental sustainability, and links with sectors such as transport and communications, required to develop a complete tourism product.

70. Association of South-East Asian Nations (ASEAN) member countries are cooperating to promote the region as a single tourism destination and facilitate intra-ASEAN travel and freer tourism services trade. A working group on tourism and tourism-related services (e.g. business services, maritime transport, telecommunication and information and communication technology services) examines ways to strengthen regional tourism linkages.

71. These and many other regional initiatives provide regional platforms for inter-state cooperation to assist developing countries build regional tourism capacity, develop mutually supportive national tourism policies and promote regional tourism circuits.

V. Conclusion

72. The tourism sector continues to be among the most dynamic in the world economy, offering many development opportunities. With strong backward and forward economic linkages, tourism can stimulate broad-based economic growth and become a rich source of development benefits, generating increased income, foreign exchange earnings, economic diversification and employment. However, tourism can also contribute to environmental degradation, dislocated local communities and fragile employment conditions. Effective tourism strategies, policies, regulation and enforcement mechanisms are thus needed, not only to generate economic benefits, but also to help prevent negative environmental and social impacts.

73. Building tourism supply capacities, stimulating entrepreneurship, and attracting investment are priorities for most developing countries. Many have successfully advanced the development of the tourism sector by mainstreaming tourism into national development and economic policymaking through comprehensive national tourism strategies. This involves creating effective sectoral policies for infrastructure, employment, trade, investment, education, quality standards, and cultural and environmental protection, with a view to achieving mutually supportive sectoral policies, sustainable development and pro-poor results. In addition, trade policies must be carefully elaborated to facilitate the passage of investors and tourists, globally and regionally, to national tourism markets.