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**Strategies to develop effective linkages
between tourism and other economic sectors**

by

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Abstract: *Tourism is one of the fastest-growing sectors in the global economy and for those countries able to attract travel and tourism business, tourism can be a means of accelerating economic growth and providing employment, especially if strong linkages with the domestic economy are developed. Most developing countries look to Foreign Direct Investments (FDI) to drive rapid development of productive capacity, not only in the tourism sector itself, but also in other sectors with which linkages are sought. However, excessive leakages can reduce the impact of tourism and anti-competitive practices could limit the efficiency and innovation that is vital to maintaining destination competitiveness.*

How can Governments attract adequate levels of investment to build supply capacities, develop effective linkages between tourism and various other sectors, and at the same time address economic leakage and anti-competitive practices in the tourism industry? This difficult problem can be best resolved by flexible policies: while FDIs in the tourism and related sectors is important, greater emphasis has to be placed on domestic investment; and efforts have to be made to involve SMEs. Steps can also be taken to promote linkages between the tourism sector and other sectors of the economy through improved communication, targeting competitive products, more effective marketing and distribution systems and ensuring that incentive systems do not unduly limit domestic producers. Jamaica is actively seeking to develop policies to strengthened linkages between tourism and agriculture and manufacturing.

1. Introduction

Tourism is one of the fastest-growing sectors in the global economy and for those countries able to attract travel and tourism business, tourism can be a means of accelerating economic growth and providing employment, especially if strong linkages with the domestic economy are developed. The rapid development of the tourism sector, while producing significant benefits to the economy and society, also has costs. These include: leakages resulting from a high import content as well as repatriation of profits to foreign-owned business; concentration of capital in large enterprises such as large hotel chains; possible emergence of non-competitive practices as a result of market dominance, scale economies, integration and other features of large firms; threats to a sustainable environment. This paper focuses on the first three issues.

How can Governments attract adequate levels of investment to build supply capacities, develop effective linkages between tourism and various other sectors, and at the same time address economic leakage and anti-competitive practices in the tourism industry?

2. The importance of linkages

Tourism business represents a complex value chain designed to meet the needs of consumers with an ever-changing variety of lifestyle needs which translate into tourist market segments:

traditional “sea, sun and sand”, eco-tourism, adventure tourism, health and wellness, heritage, sports and more. This presents a variety of opportunities for supplying inputs to tourism entities catering to the visitor experience --- accommodations, restaurants, attractions and other services—by farmers and food processors, manufacturers, crafts persons, creative industries, distributors and other services.

In seeking to develop tourism and maximizing its impact, the strengthening of linkages with other sectors of the economy is a major task, and this usually requires investment in building productive capacity e.g of agricultural, manufacturing and service sectors so that they may more efficiently meet the sophisticated demand of the tourism sector. In many developing countries, the domestic agriculture is dominated by small subsistence and “cash crop” farming rather than commercial farming, marketing information and distribution networks are weak or non-existent, financing may be costly or inaccessible, and local suppliers may face challenges in being competitive with imports.

3. The role of investments

Because Foreign Direct Investments (FDI) is an effective way of creating major investment flows, most developing countries look to FDI to drive rapid development of productive capacity, not only in the tourism sector itself, but also in other sectors with which linkages are sought. Fiscal and other incentives are usually provided by government in order to attract FDI, and this is an initial cost to the society, which is presumably offset by the benefits of employment-generation and future tax revenues and increased earnings from tourism in general. Outflows resulting from the repatriation of profits and other capital costs as well as current payments of fees, royalties and salaries and other costs of non-national suppliers of goods and services are sources of leakage from the earnings of the tourism sector, which could be very high in countries where strong linkages with the domestic economy are absent. These can reduce the economic impact of tourism.

In order to expand supply capacity in the tourism sector, it is necessary to undertake major projects, such as the construction of large hotels, and this scale of investment is usually undertaken by large hotel chains. In a small economy—many countries that depend on tourism are actually Small Island Developing States (SIDS) – this could mean large entities becoming dominant players in the market, opening the door to anti-competitive practices that could limit the efficiency and innovation that is vital to maintaining destination competitiveness. On the other hand increased diversity in the tourism product is vital not only to enhancing the visitor experience, but also in providing wider opportunities for linkages with the domestic economy. Small hotels and tourist attractions for example, may provide viable markets for small farmers in the resort community.

4. Creating effective policies

In order to minimize the problem leakages, governments need to implement effective policies to strengthen linkages between tourism and domestic industries. Although many constraints to increased linkages can be removed in the short to medium term where productive capacity already exists, the solutions to the overall problem are hardly short-term, for key aspects are related to the structure of the economy and productive sector. Among the strategies that may contribute to strengthened linkages in the short- medium term are: improving marketing information and distribution networks (e.g. through inter-industry consultations, buyer-seller meetings, trade promotion events and expos, introduction of supplier financing etc.). The long-term structural issues of productive capacity and competitiveness of domestic industries require strategies to improve competitiveness such as; identifying suitable niche markets, technology adaptation and innovations, compliance with international standards, reduction and control of production costs.

Given that a reliance on FDI will result in net capital outflows in future years, greater emphasis has to be placed on domestic investment; the need for rapid growth of investments and productive capacity may also favour large enterprises and in a small economy—as many tourist destination countries are SIDs— this involves the risk of market dominance, monopolies and other anti-competitive practices. The involvement of Small and medium-sized enterprises (SMEs) and community-based enterprises (BDEs) should be encouraged as much as possible. They should be encouraged to take advantage of the competitive strengths of small enterprises e.g. in meeting niche markets and specialized goods and services as exists in food and beverage and creative industries.

5. Strategies to strengthen tourism linkages: Jamaica

There are many examples of initiatives that strengthen linkages between tourism and other sectors. The Government of Jamaica for example, is embarking on a major initiative to strengthen linkages. This initiative –organized under the “Linkage Hub” project-- includes facilitation of consultations and meetings representatives of the tourism industry, e.g. hoteliers, and suppliers from the farming, agribusiness and manufacturing sectors, and the development of strategies to improve market information and distribution systems. International hotel chains located in the island are also encouraged to use local products. Even before the development of this programme, many large and small enterprises in the accommodation sector are already involved in arrangements in which local farmers and community providers supply inputs for food and beverage, entertainment, furnishings and general hotel operations. The objective is to further strengthen linkages and thus increase the economic impact of tourism.

6. Conclusion

Governments and tourism authorities face a difficult problem in seeking to attract investments to expand capacity in the tourism sector while at the same time avoiding some of the costs. The tourism industry, especially in small island developing states, tends to be import-dependent, making it imperative to strengthen linkages with the local economies in order to maximize the impact of tourism. By adopting pragmatic and flexible policies the benefits of investment in tourism can be maximized and the costs minimized. Encouragement has to be given to participation of domestic investment in the tourism sector, small and community-based enterprises as participants and suppliers, and the strengthening of linkages between tourism and domestic sectors especially agriculture, creative industries and manufacturing that uses local inputs and competitively serves available niche markets.