

# AID FOR TRADE AND VALUE CHAINS IN TOURISM

## EXECUTIVE SUMMARY



**T**ourist arrivals surpassed 1 billion for the first time in 2012. Despite occasional shocks, international tourist arrivals have enjoyed virtually uninterrupted growth – from 277 million in 1980 to 528 million in 1995, and 1.035 billion in 2012.<sup>1</sup>

Developing countries are playing an increasingly prominent role in this growing sector. Tourism is one of the top three exports for the majority of developing countries. It is the lead export for at least 11 least-development countries (LDCs) and is an important sector of economic activity in all LDCs that have managed to or are about to graduate out of LDC status.

The tourism sector is contributing to economic growth in developing countries - and offers significant further potential. Tourism is employment intensive and has linkages into many other parts of the economy. It contributes directly to poverty reduction - notably among women. This has been recognized by policy makers both at the national and international level.

Development strategies in LDCs and other low-income countries often highlight the tourism sector and its important potential to stimulate growth and poverty reduction. The majority of LDC Diagnostic Trade Integration Studies highlight tourism as a priority sector for growth and exports.

The significant potential of tourism for poverty alleviation has also found reflection in the discussion around the Millennium Development Goals (MDGs), notably in the context of the 2002 Johannesburg Summit on Sustainable Development.

In 2012, the significant contribution of tourism was recognized in the RIO+20 outcome document “The Future We Want”<sup>2</sup>, where it was included as a thematic area and cross-sectorial issue.

This report examines tourism value chains and the role of developing country firms within this global sector. It focuses on identifying bottlenecks that impede developing country firms from connecting to tourism value chains or that make it difficult for developing countries to reap benefits from tourism. The report notably exploits evidence collected through a joint OECD-WTO-UNWTO monitoring survey, conducted in collaboration with the International Chamber of Commerce (ICC), the International Trade Centre (ITC) and Grow Africa<sup>3</sup>.

The examined survey evidence shows that the quality of the general business environment and access to finance play a crucial role when it comes to allowing suppliers in low and middle income countries to operate effectively and to connect to global value chains. This is in line with findings in relevant empirical literature and with anecdotal evidence. Labour skills are another crucial determinant for the success of suppliers of services in the tourism sector. Although this determinant has received less attention in previous literature, the role of skills does not come as a surprise given the frequency and importance of personal contacts between service providers and clients in the tourism sector.

Openness to imports, security and a smoothly functioning visa scheme are other elements that are crucial for the tourism sector to engage in a strong and sustainable growth path. The availability and quality of infrastructure plays a key role for the development of the tourism sector because of its role in bringing tourists to the country and in allowing them to travel through the country.

In order to maximize its spill-overs to the rest of the economy, other inter-linkages matter,

<sup>1</sup> UNWTO World Tourism Highlights 2012.

<sup>2</sup> The Future We Want: <http://uncsd2012.org/thefuturewewant.html>.

<sup>3</sup> Hereinafter: Joint OECD-WTO-UNWTO monitoring survey.

like the possibility to source food from the local economy, to offer other leisure services or to sell local products to travellers. For the sustainability of the sector, aspects like the sector's environmental impact are important. Increasingly, attempts are being made to gear the sector's growth pattern towards resource efficiency, notably in terms of water and energy, thus controlling for the sector's impact on the environment.

Overall therefore, the tourism sector is a rather complex sector with multiple linkages into the rest of the economy. In order for the sector to fully exploit this potential, a careful management of the inter-linkages with other parts of the economy is necessary. In national policy making, this would require co-ordination across different ministries – most notably the tourism and trade ministry - and other relevant authorities. In the context of Aid for Trade this would require co-ordination across implementing agencies, across different target areas of aid – notably infrastructure and tourism – and possibly an increase in the typical size of aid projects targeting the tourism sector.

There is evidence that donors and implementing organizations are recognizing the need for a co-ordinated approach towards technical assistance projects in the area of tourism. A number of recent projects try to strengthen simultaneously the tourism sector itself and supplying sectors, like handicraft or agriculture. The implementation of such projects is facilitated by increased co-ordination among international agencies, notably in the context of the United Nations Steering Committee on Tourism for Development.<sup>4</sup>

Support to such multi-faceted tourism projects through the allocation of Aid for Trade could turn out to have significant benefits for beneficiary countries, notably in terms of employment creation and poverty reduction. Such projects can also have the potential to lay the fundamentals for further growth, in particular if they manage to trigger increased private sector investment.

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<sup>4</sup> For more information see:  
<http://icr.unwto.org/en/content/un-steering-committee-tourism-development-sctd>.

