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Rising tourism in the Pacific

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Pacific tourism is in the news again.

The South Pacific Tourism Organization (SPTO) released this week its latest estimate of tourist arrivals. The number of tourists who flocked to Pacific island countries (PICs) last year is 1.7 million. The figure for the previous year is 1.5 million.

Certainly, tourism to the Pacific is on the rise.

The steady rise, according to ANZ's Quarterly Review of February 2014, is an average annual growth rate of 4.9 percent during last ten years.

Tourism earnings per annum are also on the rise.

Spending by tourists is increasing more by each year. Their spending on accommodation and food and on tours as well as expenditure on handicrafts as souvenirs is estimated to be in the range of US$ 2.5 billion to US$ 3 billion. They have been growing at a much higher rate of 7 percent a year than tourist arrivals.

Support to economic growth

Tourism earnings have been a great support to PICs. In the midst of declining export earnings and rising imports as well as uncertain world economic conditions affecting aid inflows, remittances and tourism earnings have been providing the much needed foreign exchange, which buys capital goods for economic development. They provide for the much needed growth enhancing investments in both physical infrastructures such as ports and roads, and social infrastructures such as health and education.

The contribution to GDP in Fiji and Vanuatu is sizeable. It is in the range of 40 to 50 percent. Tourism contribution to GDP is the least at 5 percent in the case of Papua New Guinea.

Fiji is the number one destination in the region. It gets more than 40 percent of tourists (1.7 million), received by PICs. The number of arrivals in Fiji is more than 600,000 visitor arrivals per annum.

Tourist Arrivals

Tourism statistics reveal that tourist arrivals were around 397,860 in 2002 and in the following ten year period the arrivals reached 660,590 in 2012. The average annual growth has been around 6.3 percent. The February ANZ Pacific Quarterly says Australia accounts for 48 percent of tourists over the past five years, followed by New Zealand, as the second largest source of visitors at 16 percent. There are some noticeable changes in the structure of arrivals. Asia led by China is now emerging a new vibrant source: China has been contributing greater share: 4 percent in 2012, which is up from zero percent in 2007.

Eight airlines now fly to Fiji, compared to two in 2007. Aside from air accessibility, the primary factor contributing to growth in tourism is growth in the infrastructure developed over last ten years. They are in terms of hotels and resorts, all due to investor friendly policies pursued by government. The number of properties available to tourists in Fiji is 4.4 times the average in the Pacific.

Much of the hotel and resort development in Fiji and elsewhere in PICs has been fostered by foreign direct investment (FDI) and joint ventures. That brings us to the discussion of the role of FDI.

Role of FDI in tourism

Traditionally, FDI flows into PICs in the past were of the natural resource exploiting type, such as palm and sugar. Since the late 1980s, there had been an increasing trend in FDI inflows in service and manufacturing sectors. Fiji is no exception. In the early years of the last century, the most notable investment in Fiji was in the sugar industry, but later in the 1970s and onwards, hotel industry and development of resorts and golf courses received greater attention by overseas investors. In the late 20th century, besides advanced countries, emerging economies including Malaysia and Singapore entered the scene for investment in tourism related activities including resorts.

The FDI flows into Fiji are increasing, despite fluctuations during the coup affected years. FDI inflows were around 6 per cent of GDP during 2001-2012.

My joint study with USP economists, Markand Bhatt and Hong Chen shows strong evidence that FDI and tourism industry played positive roles. They contributed to increases in GDP as well as per capita incomes.

Besides maintaining stable political environment and strong legal institutions for protecting contractual obligations and property rights, PICs should continue to attract FDI inflows in tourism sector by offering attractive incentives and by providing assurance to overseas investors in regard to repatriation of profits. The FDI inflows, being long lasting unlike hot moneys, are growth enhancing capital flows. They promote transfer of superior management skills and technology.

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