


DEBrief

- Tourism is one of the fastest-growing economic sectors in the world, generating 10% of global Gross Domestic Product (GDP) and 30% of global services exports.
- Tourism is a key source of employment for vulnerable groups, including women, youth, and rural communities.
- An IDB Invest study analyzed how a US\$600 million private investment in the hotel industry in Jamaica could impact the economy and poverty.
- The results show that the investment, combined with an increase in foreign tourism demand, could positively impact GDP, employment and household consumption and reduce poverty by 0.3 percentage points in Jamaica.

The Economic Impacts of Private Tourism-Related Investments in Jamaica

TOURISM, ECONOMIC GROWTH, AND DEVELOPMENT

Tourism is one of the fastest-growing economic sectors, generating 10% of global GDP and 30% of global exports in the services sectors.¹ It employs one out of 10 workers across the globe, equivalent to 118 million jobs in 2017.² Tourism also has the potential to promote the economic and social inclusion of women. For example, women account for approximately 59% of hotel and restaurant employees in Latin America and 55% in the Caribbean.³

JAMAICA AS A TOURISM DESTINATION

Jamaica offers diverse natural resources and rich cultural heritage, providing a range of tourist attractions. International arrivals in Jamaica – excluding cruise passengers – have grown from around 1.7 million visitors in 2006 to 2.2 million in 2016 (2.7% annual growth rate). Together with remittances, tourism is a major source of foreign exchange for the economy and a potentially powerful tool to reduce poverty. The Statistical Institute of Jamaica estimates that the tourism industry's share of total GDP in 2015 was 7.8%.

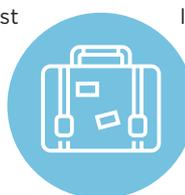
THE STUDY

A study conducted by IDB Invest assesses the economy-wide impacts of private investments in the hotel industry in Jamaica, looking at outcomes such as GDP, employment generation, poverty, and inequality. Specifically, it applies a Computable General Equilibrium (CGE) model tailored to the Jamaican economy and analyzes household-level impacts by linking the CGE model results with a microsimulation exercise using Jamaica's Survey of Living Conditions.

The study assumes a significant increase in private investments in hotels over a three-year period (US\$200 million per year from 2018-2020) and evaluates



four different scenarios with varying levels of foreign tourism spending in the 10-year period after the investments (2021-2030). Scenarios one and two (trsm10+ and trsm20+) assume that foreign tourism spending is 10% and 20% higher, respectively, than in the business as usual (BAU) scenario. Scenarios three (trsm10-) and four (trsm20-) assume a decrease in tourism spending of 10% and 20%, respectively, which could reflect the impact of a natural disaster. The BAU scenario assumes tourist arrivals have the same growth rate as GDP growth projections and per capita tourism spending remains constant.





MAIN FINDINGS

The results show that increased tourism spending due to more private investment in the sector could reduce poverty in the country by 0.3 percentage points in 2022 with respect to the BAU scenario (see trsm20+ in Figure 1). This result is equivalent to a 2.3% average annual decrease in poverty versus the BAU scenario, and it is mainly driven by a decrease in unemployment and a higher average wage. This could represent approximately 120,000 Jamaicans - about 4% of today's population- being lifted out of poverty during the 13-year timeframe.

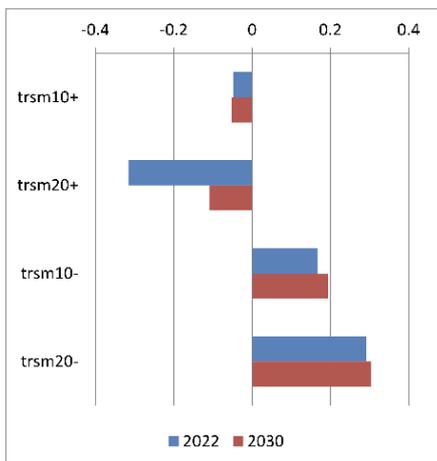


Figure 1. Poverty Headcount Impacts by Simulated Scenario

In terms of inequality, the study does not find statistically significant changes in any of the scenarios. The study also calculates impacts on GDP growth at the sectoral level. Service industries catering directly to tourists, including hotels, restaurants, and recreation activities, are strongly stimulated by the expansion

in tourism investment (see trsm20+ in Figure 2). However, upward pressure on prices and the real exchange rate due to higher tourism spending leads to reduced competitiveness and a decrease in employment and value added in manufacturing and mining, two of Jamaica's most export-oriented sectors.

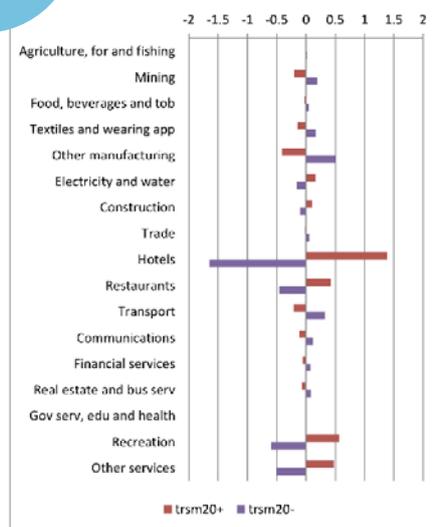


Figure 2. Average Annual Growth of Sectoral GDP by Simulated Scenario (2021-2030)

CONCLUSIONS

The tourism sector's contribution to growth, poverty reduction, and long-term development depends on complex and dynamic economic, social, environmental, and institutional linkages. The results from this study demonstrate that private tourism investment can have positive impacts on national economies. However, the reach of benefits depends on socioeconomic factors, such as the distribution of assets and skills among households, and the structure of the economy, including

the interconnections across productive sectors.

The findings show that investments in hotel infrastructure, including high-end hotels that are mostly visited by tourists from higher income countries, can bring important development impacts to local economies in developing countries. As global demand for tourism continues to grow and tourism services supply adjusts to changing preferences, it will be important to further understand what the economy-wide impacts are of different types of tourism investments e.g., all-inclusive versus limited-services hotels. Multilateral Development Banks working with the private sector have a key role to play in promoting tourism investments that encourage broader development impacts.

Additional Information

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This brief summarizes the findings of the study by Cicowiez, Martín and Romina Ordoñez (2018), "The Economic Impacts of Private Tourism-Related Investments in Jamaica", which is part of IDB Invest's Development through the Private Sector Series.

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References

- ¹ UN World Tourism Organization (UNWTO), 2017.
- ² World Travel and Tourism Council (WTTC), 2018.
- ³ Global Report of Women in Tourism (UNWTO, UN Women), 2010.

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