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Item Type	event;event
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Download date	2025-05-23 21:22:03
Link to Item	https://hdl.handle.net/20.500.14394/48877

The Economic Benefits (?) of Cruise Tourism for Caribbean Destinations

Introduction

Tourism, in general, and cruise tourism, in particular, are characterized by complexity, uncertainty, and rapid change, factors which, in turn, create “messes”: “complex systems of changing problems that interact with each other. I call such situations messes. Problems are abstractions extracted from messes by analysis.... Managers do not solve problems, they manage messes” (Ackoff 1979:99-100). Such messes exist in environments which can be described as “turbulent” (Mitchell 2002), which in turn require that managers make disturbed and reactive decisions (Trist 1980). Such decisions are made in a context that is dynamic and changing, where competitors seek optimal locations (e.g., cruise ports) and attempt to get the same optimal locations (e.g., those ports with the best facilities and the most beneficial – to the conglomerate – financial situation). The consumers of the products and services of these conglomerates are both cruise passengers and, in another sense, destinations, which vie with each other to attract cruise ships to dock at their ports and, thus, boost their national and local economies – a seemingly simple answer to simple questions which, are, in reality, messes.

From the point of view of the destinations, do these products and services of cruise tourism (e.g., tax dollars, individual income, and employment) benefit their residents in environmental, social, and economic concerns? What is the balance between benefits and costs of cruise tourism for destinations? In other words, is cruise tourism “good” for the residents of cruise destinations?

Much has been written on the environmental and social benefits and costs of cruise tourism to both cruise passengers and destination residents. Little academic research, however, has analysed the true economic costs and benefits, largely because the necessary financial and economic data either do not exist or are proprietary on the part of cruise companies and/or cruise destination governments. Recent data released by the cruise industry, however, present what seems to be a positive picture for the economic benefits (in term of expenditures and employment, presumably the two major indicators of economic benefits) to Caribbean island cruise destinations. More reasoned analysis, however, demonstrates a messy picture, one which is of questionable benefit to most of these destinations and their residents.

This paper will present the results of such an analysis and suggest that the decision on the part of a potential destination to accept or encourage cruise tourism is of questionable benefit to the local economy. It is concluded that destination decision makers have tried to solve problems when they were in fact faced with managing messes – and have largely failed.

Methodology

One of the major arguments, if not the major argument, for promoting tourism development on the part of national governments is that of economic benefits, both direct and

indirect, in terms of such measures as Gross Domestic Product (GDP) (with tourism expenditures often being used as a surrogate metric) and employment. Data on total tourism expenditures are relatively available, but not on employment; the lack of basic data on cruise tourism is even more prevalent. Data on simple measures of tourism arrival numbers and tourism expenditures documented by organizations such as the Caribbean Tourism Organization (CTO) are available for Caribbean tourism destinations, although there are gaps owing to lack of or tardiness in reporting by some national organizations.

Data on the economic impacts of cruise tourism are, however, noticeably absent. The exception is the Florida-Caribbean Cruise Association (FCCA), a not-for-profit trade organization composed of 19 member cruise lines operating more than 100 vessels in Floridian, Caribbean and Latin American waters (FCCA, 2016). The FCCA has published four reports on the economic impact of cruise tourism in the Caribbean, with the final report (FCCA 2015a, 2015b) containing data on 22 Caribbean island tourism destinations. These 22 destinations are used as the sample for this chapter: Bahamas, Turks and Caicos, Eastern Caribbean (Antigua and Barbuda, British Virgin Islands, Dominica, Dominican Republic, Guadeloupe, Martinique, Puerto Rico, St. Kitts and Nevis, St. Maarten, US Virgin Islands), Southern Caribbean (Aruba, Barbados, Bonaire, Curaçao, Grenada, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago), and Western Caribbean (Cayman Islands, Jamaica).

Results

On the whole, total tourism expenditures have, for the most part, increased considerably for the sample destinations. The expenditure data, however, are reported in current (or “nominal”) currency values; that is, they represent amounts in currency (usually US dollars) spent in a particular year. With two exceptions, these data appear to present an optimistic picture of continuing growth in tourism expenditures, sometimes dramatically so. For example, expenditures in the Dominican Republic increased from US\$2860 million in 2000 to US\$5637 million in 2014, an increase of 97% in total or an average of 7.5% per year. The two exceptions to increased expenditure were the US Virgin Islands (virtually unchanged from US\$1206 million in 2000 to US\$1232 million in 2013) and the Cayman Islands (from US\$559 million in 2000 to US\$480 million in 2014, a 14.3% decrease). There is no obvious reason for the US Virgin Islands, but the decrease for the Cayman Islands may be due to the decrease in cruise visitors over this period which might in part be due to the lack of berthing facilities for larger ships.

A totally different picture, however, emerges when national inflation rates are taken into account and the current expenditure figures are translated into constant (or “real”) dollars, a measure of the true value of expenditure adjusting for the effects of price inflation. All of the destinations (including Bahamas, Dominica, St. Kitts and Nevis, St. Maarten, Curaçao, and Grenada, which all had real growth) performed below their patterns for current expenditures. The largest increase was for Curaçao, with US\$227 million in expenditures in 2000 and US\$557 million in current dollars in 2014. Reflecting the highest inflation rates in the sample, the largest decrease was for the Dominican Republic, which dropped from US\$2860 million in 2000 to US\$1984 million in real dollars in 2014 and Puerto Rico, with US\$2398 million in 2000 and US\$1898 million in 2014. This analysis leads to the conclusion that, in real terms, the generally

overall picture of seeming growth in tourism expenditures in these Caribbean destinations is not mirrored in real dollar values. The question arises as to whether there are other, more positive indicators of the economic benefits of tourism to these destinations.

Again, time series data are not readily available, but a snapshot is available in data presented by the WTTC in its numerous annual economic impact reports (e.g. WTTC, 2015). Data are available for contribution to Gross Domestic Product (GDP) and contribution to employment.

Indirect expenditures are normally two or more times the amount of direct expenditures for the sample destinations. The Dominican Republic in 2014 had the largest total contribution to GDP from cruise tourism, at US\$10,099.3 million or 16% of GDP, ranking 43rd in the world, and the smallest was St. Vincent and the Grenadines, at US\$143.7 million or 9.9%, ranking 36th in the world. Aruba, with US\$2330.2 million ranked 1st in the world with 88.4% of GDP being contributed by tourism. These data reinforce the conclusion noted that these Caribbean island destinations, although small, are proportionally among the major tourism destinations of the world, a point underlined when compared to average contribution per country worldwide of 3.1% or direct contribution and 9.8% of total contribution to GDP by tourism.

This conclusion is supported by the estimates of the contribution of tourism to employment in 2014. Again, the Dominican Republic had the largest figure for direct employment contributed by tourism at 188,000 or 4.4% of the national workforce (ranking 68th in the world) and 624,000 of total employment or 14.7% of the workforce (ranking 49th); St. Kitts and Nevis, the smallest, had 1500 in direct employment (6.6% of the workforce and ranking 21st) and 6000 in total employment (24.2% and 10th). Aruba also merits recognition here, with 16,500 in direct employment (32.5% and 3rd) and 46,000 in total employment (90.8% and 2nd).

Three destinations (Dominican Republic, Puerto Rico, and Trinidad and Tobago) have large figures for contribution to both GDP and employment, but relatively smaller proportions of the total amounts due to the large sizes and complexities of their economies, with tourism playing a much smaller role proportionally than the smaller (population) islands.

These data give a picture of how important economically tourism is to the sample destinations, but say nothing about the contribution of cruise tourism. The only available data on the economic contribution of cruise tourism by destination in the Caribbean (or any other cruise region) has been published by the Florida-Caribbean Cruise Association (FCCA, 2006, 2009, 2012a, 2012b, 2015a, 2015b) for four “cruise years”: 2005/2006, 2008/2009, 2011/2012 and 2014/2015.

Cruise tourism expenditures related to a particular destination have three sources: passengers, crew, and the cruise line. Passenger expenditures always represent the biggest proportion of total expenditures, with expenditures per capita in different ports ranging widely, presumably because of such factors as lay-over times in a port, frequency of visit to a port, and

the range of purchases and services available in a port. Crew expenditures are much less than those of passengers, but show similar patterns of variation.

In the 2014/2015 cruise year, for example, expenditures per passenger ranged from US\$191.26 in St. Maarten to US\$42.58 in Trinidad, with an overall average of US\$86.98. It is important to note, however, that the data do not indicate whether the expenditures were made by passengers on board the ship while it is in port or on land in the port destination itself. For example, shore excursion tickets are widely sold on board ship, with some major proportion of the price going to the cruise line as an agent's fee; anecdotally, this proportion is said to be as high as 40%. On average, passengers spent US\$24.04 on shore excursions; therefore, perhaps up to US\$9.62 did not go into the local economy. Similarly, cruise ships have a wide range of shops on board, often including ones with high-end luxury goods. For example, Royal Caribbean's new mega *Oasis of the Seas* includes the first-ever free-standing Tiffany & Co. Boutique at sea. With passengers spending an average of US\$29.52 on watches and jewelry per destination, some large portion of that expenditure might be spent totally on board. In both cases of excursions and jewelry, the total gross expenditure on an item or some major proportion of it, therefore, might be reported as being spent "in" that destination, but, in reality, that total amount does not enter the local economy.

A more serious issue is "leakage" from the local economy: what is the net value to an economy of the purchase of a particular good or services after the import cost (including profit) of the item leaks out of the country and is exported to the manufacturer in the origin country? For example, some large proportion of the average US\$1.57 spent on retail liquor purchased in a destination (an amount which may seem surprisingly low, but which reflects the common policy of cruise lines forbidding passengers from bringing liquor on board in order to encourage on-board liquor purchases) leaks out of the economy on such goods as a bottle of Scotch or French wine. This is an issue even for expenditures which might appear to be "local," such as food in restaurants, with, for example, much of the cost of an imported steak leaking out. Even items for which the total purchase price might be supposed to flow completely into the local economy are often questionable; for example, anecdotal evidence suggests that some "local crafts and souvenirs" are manufactured totally or completely off-shore, as is frequently the case with destination-branded clothing, such as t-shirts. Personal inspection of items for sale in local stores has revealed the use of sea shells in the production of items which are not indigenous to regional waters, thus suggesting that they were manufactured elsewhere despite local labels (e.g., "Welcome to Island X"). Moreover, there are no data on which stores or other establishments selling goods or services are locally owned or which hire local residents; both of these factors would affect the amount of profits and wages remain in the country's economy. An additional unknown is the amount of remittance income exported out of a country by non-resident employees. In other words, who actually benefits from cruise tourist – or, for that matter, any kind of tourist – is unknown, as is the actual impact of such expenditures on local economies.

Cruise line expenditures in destinations similarly represent a wide range. Data are not available on the purchase of local goods by cruise lines or individual ships. Most cruise ships begin their cruise totally stocked with food, liquor, fuel and so on. Even in the case of destinations where cruises begin and end (e.g., Puerto Rico, Barbados), most if not all of these items are imported and may be the subject to no local taxes in duty-free zones in ports. Cruise

ships do pay for such services as dockage and tug boats, but others are often available at no cost, such as water or sewer services. Cruise line expenditures in general (which, in turn, become tax income for governments) would include a head tax per cruise passenger (usually whether or not the passenger disembarks in that destination), but not all destinations impose such a tax. When they do, it is often very low, ranging from US\$5.00 in St. Maarten to US\$15.00 in St. Vincent and the Grenadines (Cubas *et al.* 2015). It would appear that no destination charges cruise lines for such – often major and invisible – direct services such as immigration and customs personnel, police, port road construction and maintenance, with cruise lines arguing that the head tax covers those costs, let alone the provision of services such tourism education and training in local schools.

Only in a small number of destinations have cruise tourism expenditures seen impressive growth in recent years. For example, in 2005/2006, the US Virgin Islands had the highest total expenditure at US\$361.6 million; that fell to US\$344.3 million in 2014/2015. In contrast, St. Maarten saw US\$246.4 million in cruise tourism expenditures in 2005/2006, the second highest amount, compared to US\$422.9 million in 2014/2015; however, in real (2000) terms, there was only a minor increase from US\$244.2 million to US\$266.3 million for a real increase on average of only 2.2% per cruise year. Many other destinations received virtually the same or declined expenditures, whether in current or real terms.

It is clear that cruise tourism expenditures represent only a small proportion of total tourism expenditures in the destinations, although the lack of similar base years (to say nothing of inexact and varying definitions of expenditures) does not allow for exact comparison. There is, however, a great range in the gap, largely depending on the overall nature of the tourism business of particular islands. For example, St. Maarten's US\$422.9 million in total cruise expenditures in 2014/2015 was nearly half of its 2013 US\$871 million in total tourism expenditures; in contrast, the Bahamas cruise expenditure of US\$373.1 million was only about one-sixth of its total US\$2305 million. For Puerto Rico, another major tourism island, the cruise figure was US\$198.2 million, representing only about 6% of total US\$3334 million. The FAAC data include direct and indirect employment income related to cruise tourism, but there are no comparable figures for total tourism.

Comparable employment numbers are also difficult to find, but cruise tourism clearly accounts for only a small proportion of total tourism employment, both directly and indirectly (see Tables 20.5 and 20.6. The range is quite remarkable: the US Virgin Islands' 6397 cruise-related employees in 2014/2015 are about half of its 12,000 total tourism employees; in contrast, the Dominican Republic's 1914 cruise-related employees are only a fraction of one percent of its 624,000 total tourism employees.

Conclusion and Discussion

In summary, cruise tourism does provide apparently considerable expenditures and employment to these island destinations (particularly when the precarious employment situation of most of these islands is concerned), but the available data demonstrate that, with the exception

of the US Virgin Islands, no island has an economy in which cruise tourism is a major force. Destination tourism decision-makers, however, seem to continue to believe that the cruise tourism is clearly a major solution to their national economic situations when, in reality, a decision has been made to depend on the “simple” solution of cruise tourism as an economic tool rather than to recognize that cruise tourism is a complex system of changing problems that interact with each other and create a “mess” which by definition is not being well managed. This conclusion is supported by the ongoing support given by destinations for the expansion of their cruise tourism in the immediate and long-term future as witnessed by recent decisions by cruise lines and governments.

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