
Harvard Business School

Microeconomics of Competitiveness

Tourism in Trinidad and Tobago

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Disclosure Note: Kwabena and Jan traveled to Trinidad for leisure/tourism during the project period.

Introduction

This paper analyzes the economy of Trinidad and Tobago and provides a strategic plan for developing the tourism cluster. Using the diamond model for competitiveness developed by Professor Michael Porter, we examine the strengths and weaknesses of the national economy, identify opportunities for improving the tourism cluster, and provide a set of policy recommendations to capture these opportunities.

Macro-economic overview of Trinidad and Tobago

Trinidad and Tobago (“T&T”) is a small energy-rich Caribbean economy. It has a population of 1,065,842 and a land area of 5,128 sq km (smaller than Delaware). The country came under British control in the 19th century and gained its independence in 1962. The ethnic mix of the country is approximately 40% Indian, 37.5% African, and about 21% mixed. The judicial system is based on English common law and the country has a bicameral Parliament which consists of the Senate and

the House of Representatives.¹

The Energy Curse

The country is one of the most prosperous in the Caribbean because of its energy reserves. It has the world's 43rd largest proven oil reserves and the world's 33rd largest proven natural gas reserves.² The oil and gas sector currently accounts for about 40 percent of GDP and 80 percent of exports. However, its contribution to employment is less than 5 percent.³ The reason for this discrepancy is the capital intensive nature of the energy sector and its very limited on-going skilled labor requirements. Additional unskilled labor is only employed during the initial construction phase of major investments.

However, while the boom in the energy sector has fueled the development of related service clusters, such as chemical production and financial services (Figure 1& 2)⁴, it has not led to the creation of world-class companies or institutions. Despite foreign investment in excess of \$700MM annually few sophisticated domestic energy companies have emerged. Energy income has merely financed consumption and subsidies of electricity, water and petroleum products. Local gasoline prices today are at about two-thirds of the level of neighboring Caribbean countries and electricity prices have remained unchanged for several years. These direct budgetary subsidies amounted to nearly 2 percent of GDP during FY 2004/05.⁵ Despite the government's good intentions, these

¹ CIA Factbook. Available at <http://www.ciafactbook.gov>. Cited April 10, 2006.

² Ibid

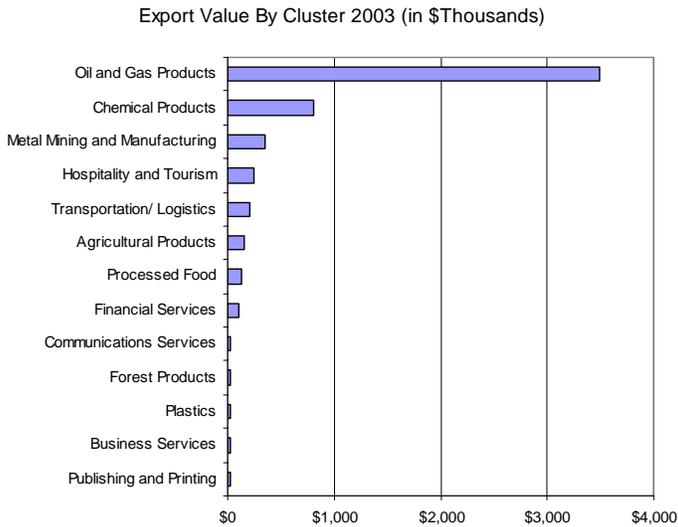
³ Economic Intelligence Unit. Country Report 2005. Available at www.EIU.com. Cited April 20, 2006.

⁴ Institute of Strategy and Competitiveness. Available at <http://www.isc.hbs.edu/>. Cited April 20, 2006.

⁵ International Monetary Fund, Country Report, Jan 2006. Available at <http://www.imf.org>. Cited April 21, 2006

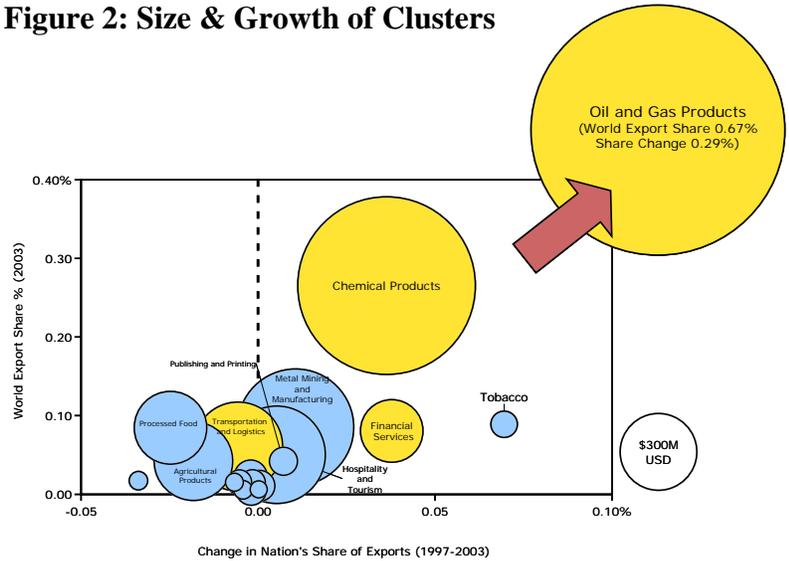
subsidies have hurt the country’s long-run competitiveness by reducing incentives for non-energy companies to become more productive.

Figure 1: Cluster Export Values



Source: *Instit. Of Strategy and Competitiveness*

Figure 2: Size & Growth of Clusters



Source: *Instit. Of Strategy and Competitiveness*

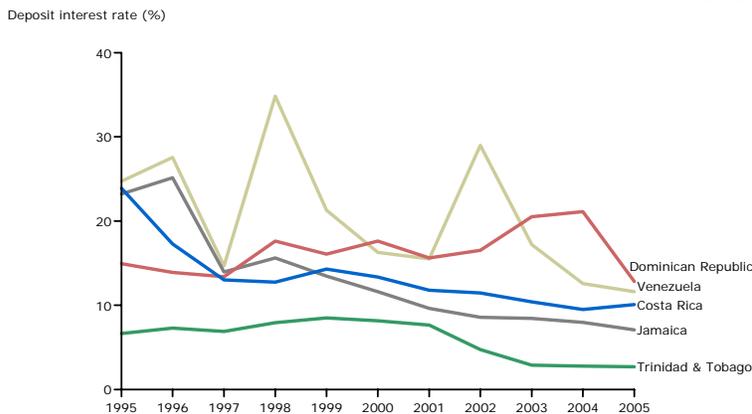
On the institutional front, the government’s activities have concentrated on creating various agencies to carry out sector development rather than improving their actual performance. Historically, the government has provided public sector jobs as a form of income redistribution – 25-30% of the country’s population is employed by the government.⁶ As a result, government institutions tend to be inefficient and bloated with overlapping responsibilities that shield institutions from accountability - it is too easy to “pass the buck”.⁷ As long as the energy bonanza subsidizes the economy, the government has little incentive to rationalize institutions and tackle difficult institutional weaknesses.

⁶ OTF Report “ Building the Competitive advantages of T&T” July 2004.

Fiscal and Monetary Performance

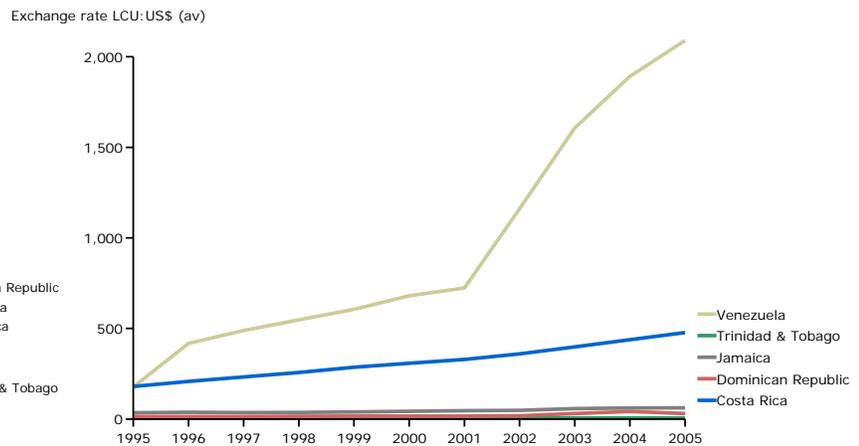
Given Trinidad and Tobago's dependence on energy, it is not surprising that their economic performance has fluctuated with the variation in world energy prices. Overall, the government has done a good job in creating a stable macroeconomic environment. On the monetary policy side, government action has been cautious and conservative – interest rates are low relative to the neighboring countries and the currency has been stable in recent years. (Figure 3&4).

Figure 3: Interest Rate Comparison



Source: Econ. Intelligence Unit

Figure 4: Exchange Rate Comparison



Source: Econ. Intelligence Unit

However, the results in terms of fiscal policy have been more mixed. The government has historically financed spending sprees with oil revenues, causing huge increases in consumption and often creating huge fiscal deficits in the process. (Figure 5).⁸ In addition, the government has not spent the money effectively. T&T ranks 79 out of 117 countries in the world on the wastefulness of government spending indicator.⁹

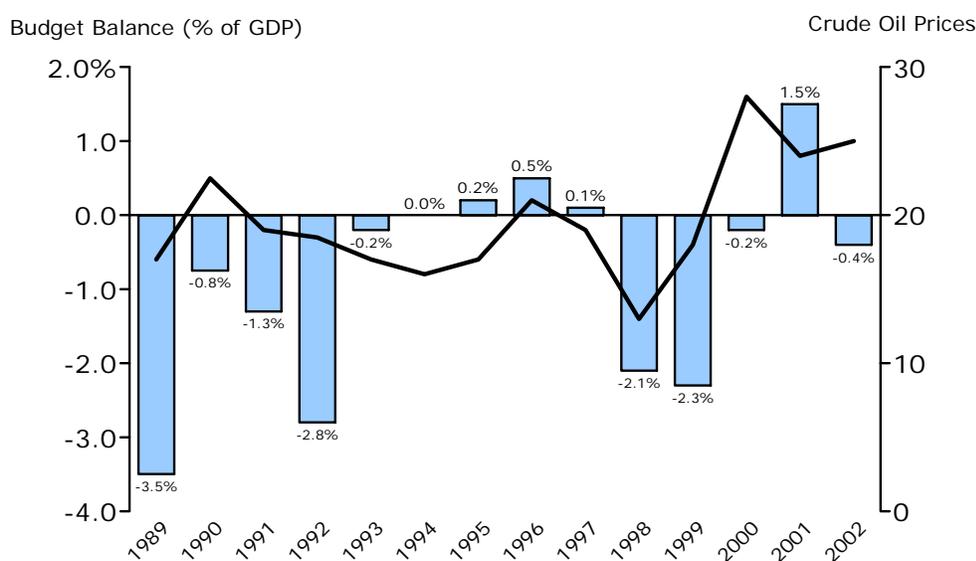
⁷ Ibid

⁸ Ibid

⁹ "The Global Competitiveness Report 2005-2006", World Economic Forum, Lopez-Claros A., Porter M.E., and Schwab K., pg 442-443. Cited April 20, 2006.

In this past year, the economy has shown strong growth due to a mix of rising energy prices and an expansionary fiscal policy. Real GDP grew by 6.5 percent. The non-energy sector has remained strong, growing by approximately 6 percent. This has led to a boom in construction in the country and the creation of numerous jobs. The unemployment rate fell to 7.75 percent, the lowest in about four decades.¹⁰

Figure 5: Effects of oil prices on government spending



Source: OTF Report "Building the Competitive advantages of T&T" July 2004

Financial markets have generally been upbeat with ample liquidity. In August 2005, Standard and Poor's raised the sovereign debt rating of Trinidad and Tobago to A-, providing a boost to the credit worthiness of local companies. Insurance, pension funds, finance companies, and mutual funds have all experienced rapid asset accumulation and stock market capitalization has approached 140 percent of GDP in 2004.¹¹

¹⁰ Economic Intelligence Unit. Country Report 2005. Available at www.EIU.com. Cited April 20, 2006

Social and Governance Indicators

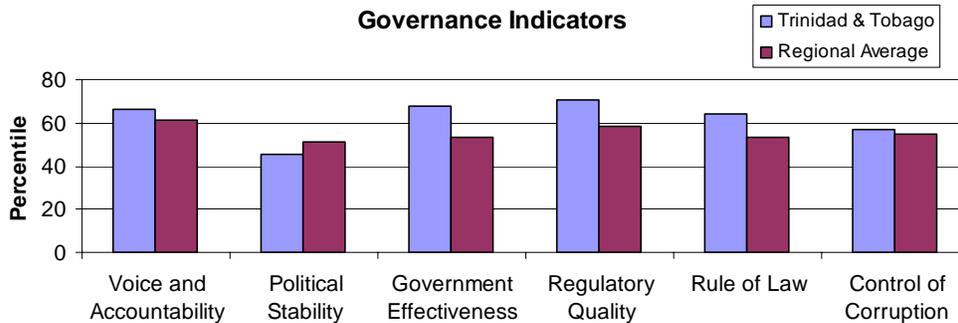
T&T's energy wealth has supported one of the higher standards of living in the region, ranking 57th on the Human Development Index (Figure 6). Similarly, the country's governance indicators place it in the middle of the pack. While Trinidad's accountability and rule of law indicators are at or above the regional average, corruption and political stability are ranked well below.

Figure 6: HDI and Governance Indicators

HDI Indicators

Country	HDI rank	Life Expect.	Adult Literacy	Enrolment(%)	Life Expect. Index	Education Index
Trinidad & Tobago	57.0	69.9	98.5	66.0	0.8	0.9
Jamaica	98.0	70.8	87.6	74.0	0.8	0.8
Dominican Republic	95.0	67.2	87.7	76.0	0.8	0.8
Costa Rica	47.0	78.2	95.8	68.0	0.9	0.9
Venezuela	75.0	72.9	93.0	75.0	0.8	0.9

Source: UN Human Development Index



Source: World Bank

Trinidad and Tobago suffer from social and ethnic tensions between African and Indian descendants, each group accounting for over 40% of the population. These tensions started in the middle of the nineteenth century when 140,000 indentured laborers were brought from India to

¹¹ Economic Intelligence Unit. Country Report 2005. Available at www.EIU.com. Cited April 20, 2006

work on the sugar plantations after slavery was abolished. They encountered hostility from the black population for driving down agricultural wages. The cultural divide has continued into modern times. In the years following independence, the primarily black People's National Movement (PNM) dominated Trinidad's politics, monopolizing public-sector jobs for its voters. In November 1995, the United National Congress (UNC) won elections, bringing to power an Indian-descended Prime Minister. Today, the country's diverse racial and ethnic groups co-exist peacefully, but nonviolent racial tensions continue to emerge between Afro-Trinidadians and Indo-Trinidadians. While Indo-Trinidadians and persons of European, Middle Eastern, or Asian descent tend to dominate the private sector and agriculture, Afro-Trinidadians are disproportionately employed as professionals and in the civil service, police, and military. Some Indo-Trinidadians have asserted that they were excluded from equal representation in the civil service due to racial discrimination. This tension has not yet been truly resolved.¹²

Macro-economic outlook

Fundamentally, high oil prices have led to very low expectations of recessions and easy access to credit. However, the country faces serious problems of profligate government spending and corruption, resulting from the country's historically poor management of its substantial resource wealth.

In 2002, the government launched a process aimed at transforming the country into a developed nation by the year 2020. Twenty-eight committees were established to develop strategic plans for all relevant areas and sectors. Numerous stakeholder consultations were held to ensure a

¹² Country Report on Human Rights Practices, US Dept of State. Taken from www.state.gov. Cited April 21, 2006.

participatory process. This “vision” entails accelerated economic growth, changing a government that has historically been paternalistic, energizing a complacent society, and most importantly moving away from energy–dependent revenue generation. The government has started to realize that the strategy of using energy revenues to subsidize the rest of the economy is unsustainable – energy resources will eventually be depleted, and productive capacity is not being developed from extracting those revenues. However, current development policies still lack direction on how to accomplish this diversification.¹³

Figure 7: Microeconomic Balance Sheet

Macroeconomic Environment Balance Sheet			
<i>Notable Competitive Advantages</i>	Rank/ 117	<i>Notable Competitive Disadvantages</i>	Rank/ 117
Recession Expectations	6	Government Debt, 2004	53
Nation Savings Rate	17	Judicial Independence	53
Govt. Surplus/Deficit	20	Inflation, 2004	59
Access to Credit	34	Property Rights	63
Country Credit Rating	50	Real Effective Exchange Rate, 2004	71
		Wastefulness of Govt Spending	75
		Favoritism in Decisions of Govt Officials	87

Source: Global Competitiveness Report, 2005

¹³ OTF Report “ Building the Competitive advantages of T&T” July 2004.

The National Competitiveness Diamond

T&T is a classic case of the “Dutch Disease”¹⁴. The economy that has two-tiers:

- Considerable strengths in the energy sector and closely related sectors
- Significant weaknesses in the non-energy related parts of the T&T economy, due to insufficient investment and lack of government attention

These patterns emerge very clearly when analyzing the national business environment through the diamond model, i.e. evaluating (i) factor (input) conditions; (ii) context for firm strategy and rivalry (iii) demand conditions; and (iv) related and supporting industries.

Factor (input) conditions

Rich in natural resources and beauty but poor in key social services

Factor conditions refer to: “*the nation’s position in the factors of production, such as skilled labor or infrastructure, necessary to compete in a given [country]*”¹⁵. On the positive side, T&T is endowed with abundant petroleum and natural gas being one of the largest producers of oil in the Caribbean region and one of the largest natural gas exporters in the world. T&T is blessed in its geographic location outside the path of the annual hurricanes that regularly devastate its Caribbean neighbors. T&T is also blessed with natural beauty (sun and beach) and strong bio-diversity, which derives from its small size, location, and geological relationship with South America. Finally, T&T’s population as has been noted before, consists of¹⁶: East Indians (40.3%); people of African descent (39.5%); mixed race people (18.4%); Chinese and other (1.2%); and Europeans (0.6%).

¹⁴ Dutch disease is an economic concept that tries to explain the seeming relationship between the exploitation of natural resources and a decline in the manufacturing sector. The theory is that an increase in revenues from natural resources will deindustrialise a nation's economy by raising the exchange rate, which makes the manufacturing sector less competitive. Source: http://en.wikipedia.org/wiki/Dutch_disease as accessed on 19th April, 2006

¹⁵ Source: *On Competition*; Michael E. Porter; 1998

Thus T&T is rich in cultural diversity. On the negative side, T&T has a relatively low enrollment in tertiary education, with only 6%¹⁷ of the population choosing to pursue education beyond the secondary level. This figure compares to 33%¹⁸ for Costa Rica, 9%¹⁹ for Jamaica, 23%²⁰ for the Dominican Republic and 25%²¹ for Venezuela. Furthermore, T&T ranks poorly against other middle income countries²² in terms of the reliability of its police services (where it ranks 41 out of the 47 middle income countries), incidence of common crime and violence (also 41 out of the 47), telephone and fax infrastructure (42 out of 47) and future impact of HIV (43 out of 47). Although there are a number of strengths in T&T's factor conditions, the weaknesses require significant government attention if the country is to improve its domestic infrastructure and human capital and compete effectively in the global marketplace.

Context for Firm Strategy and Rivalry

Open economy but overall competitive advantage is weak

Context for firm strategy and rivalry refers to: “*the conditions in the nation governing how companies are created, organized, and managed, as well as the nature of domestic rivalry*”²³.

T&T's rich endowment in natural resources again contributes to a number of strong positives attributes in this realm. Compared to other middle income countries, T&T is found to have an open economy with few trade barriers, ranking it 11 out of the 47 middle income countries considered.

T&T is also found to have a relatively good local equity markets which again ranks the country 11

¹⁶ <http://www.uwi.edu/territories/trinidad.htm> as accessed on 19 April, 2006

¹⁷ http://earthtrends.wri.org/pdf_library/country_profiles/pop_cou_780.pdf as accessed on 20 April, 2006

¹⁸ http://earthtrends.wri.org/pdf_library/country_profiles/pop_cou_188.pdf as accessed on 20 April 2006

¹⁹ http://earthtrends.wri.org/pdf_library/country_profiles/pop_cou_388.pdf as accessed on 20 April 2006

²⁰ http://earthtrends.wri.org/pdf_library/country_profiles/pop_cou_214.pdf as accessed on 20 April 2006

²¹ http://earthtrends.wri.org/pdf_library/country_profiles/pop_cou_862.pdf as accessed on 20 April 2006

²² Middle Income Countries as defined in *Building the Microeconomic Foundations of Prosperity : Findings from the Business Competitive Index*; Michael E. Porter

out of the 47 middle income countries. It appears that the desire to attract foreign capital into T&T to invest in energy and closely related sectors²⁴ has forced the government to rationalize the country's tax system (ranks 7 out of 47 on tax efficiency) and to institute FDI-friendly policies (ranks 9 out of 47). Such policies include setting up government institutions whose aim was to market the country and align the goals of potential foreign investors with the authorities, and thereby attract FDI investment. Unfortunately these encouraging positive dynamics are counterbalanced by fairly significant negative attributes. The main negative attribute is the fact that the overall nature of T&T's competitive advantage is very low (ranks 35 out of 47) resulting from a number of factors including a low degree of customer orientation (39 out of 47), lax anti-monopoly legislation and ineffective promotion of competition (38 out of 47) and the weak relation between pay and productivity in many of the sectors (42 out of 47). These negative attributes are capable of neutralizing the positive benefits that are obtained from oil and gas and related sectors if the right amount of attention is not given to solving these issues.

Demand Conditions

Dual economy with one side dominated by foreign direct investment

Demand conditions refer to: “*The nature of home market demand for the [country's] product or service*”²⁵ They exhibit the dual economy characteristic very clearly: demand conditions in the energy-related sectors are driven by foreign direct investment and therefore tend to be more sophisticated than those observed for other parts of the economy. For instance, T&T ranks relatively high on buyer sophistication (13 out of 47) which reflects foreign buyers as opposed to

²³ Source: *On Competition*; Michael E. Porter; 1998

²⁴ In our view, “closely-related” or “related” sectors (clusters or industries) refers to those whose development is tightly linked to that of the energy cluster, including but not limited to: transport & logistics, financial services and chemicals.

their local counterparts. Additional positives related to T&T's demand conditions are the low levels of nepotism in the sophisticated sectors (mainly energy-related) of the economy (9 out of 47) and the large and growing level of exports to neighboring countries (6 out of 47). These two positives are strongly driven by the fact that the economy is heavily dependent on oil and gas. As such in the case of the nepotism, because most of the oil and gas sector activities are funded by FDI, nepotism can be avoided and in the case of the exports, because of T&T's large reserves of oil and gas it is able to increase its exports to its neighbors. Despite these positives, the persistently small and poor domestic market and lack of protections for customers highlights the ever growing need for T&T to extend its focus outside energy and develop other parts of its economy if it is to achieve its desired Vision 2020 of a diversified economy.

Related and Supporting Industries

Development concentrated in energy related sectors

This aspect of the business environment refers to: *“the presence or absence in the nation of supplier industries and other related industries that are internationally competitive.”*²⁶ From the positive standpoint, the country has sophisticated financial markets and a very strong banking sector, which have benefited significantly from the development of the energy sector. The sophisticated financial services sector is evidenced in venture capital firms seeking to commit funds to energy and related sectors in T&T. The close relation of these positive attributes with the energy sector also means that the benefits largely accrue to the providers of the FDI that is used to fund these sectors. Naturally, these capital providers are likely to keep their T&T funds in these high

²⁵ Source: *On Competition*; Michael E. Porter; 1998

²⁶ Source: *On Competition*; Michael E. Porter; 1998

value sectors and have little incentive to invest in non-related sectors even if they have significant benefit for the country as a whole.

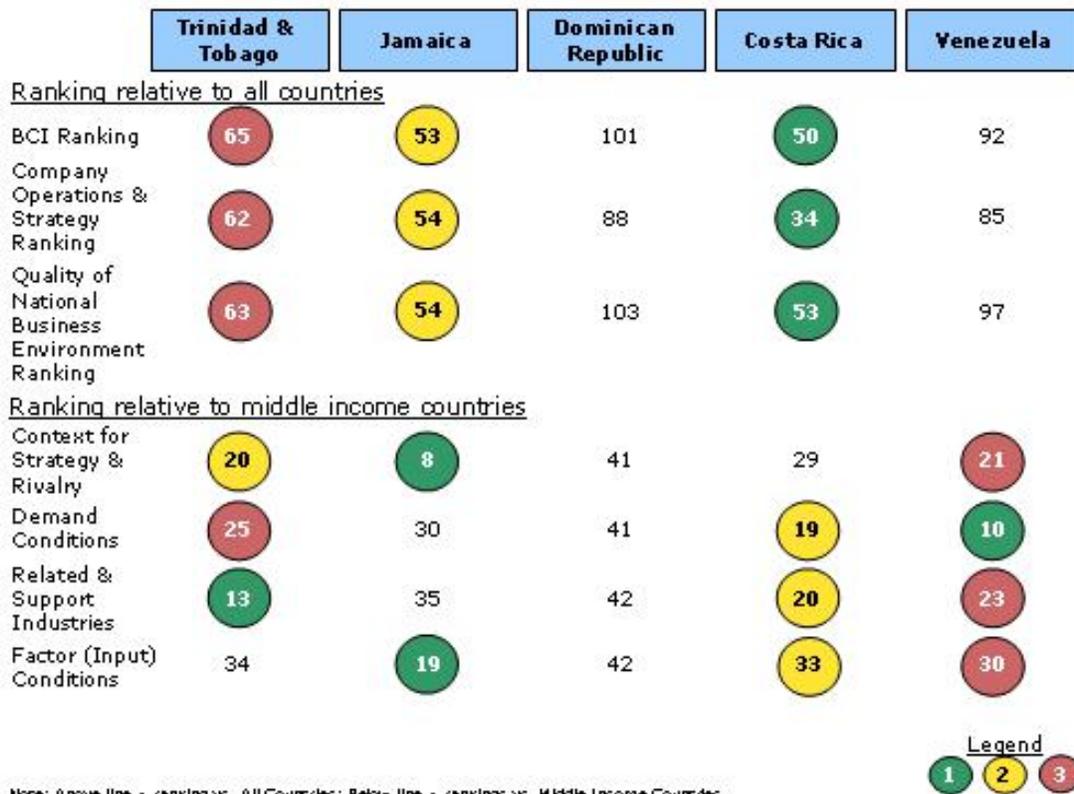
These trends have a number of negative consequences for T&T: The first is a poor capacity for innovation in the country, leaving companies to obtain technology through licensing and or imitation, and largely as a result of this, T&T ranked 39 out of the 47 countries for innovation. The second is that the scale of the investments needed to develop and maintain the energy sector is substantial, leading the T&T government to partner with foreign investors. These initial partnerships enabled foreign companies to dominate the energy sector, creating barriers for domestic firms to participate in the growth of the energy cluster. According to the OTF Group²⁷, “18 foreign companies operate in the sector through 64 subsidiaries, apart from some state enterprises and one recently established private firm”. The third consequence is that air travel to and within T&T has not received the attention it requires and as such requires significant improvement. Specifically, the government needs to focus and invest to: (i) improve travel between Trinidad and Tobago, (ii) improve airport security to allow more flights to the USA and Europe and (iii) take more control of the traffic that comes into T&T, reducing the extent to which this traffic is controlled by external carriers. Clearly these negative consequences have to be noted and addressed if the government is going to be able to leverage the prosperity of the energy sector to develop other parts of the T&T economy.

²⁷ *Building the Competitive Advantages of T&T*, OTF Group, July 2004

Overall ranking relative to peers is average

T & T's business environment ranks 'middle of the road' relative to its regional peers Jamaica, Dominican Republic, Costa Rica and Venezuela. (Figure 8.)

Figure 8: Ranking of T&T relative to its peers



Source: *Global Competitiveness Report, 2005*

Although T&T ranks relatively well in its related and supporting industries, it is surpassed by Costa Rica, the regional leader on many of the other important metrics. Costa Rica's dominance is often attributed to its government's leadership in organizing and creating a strong business environment, attracting foreign direct investment into a broad range of sectors and establishing effective institutions to facilitate innovation and sustainable economic growth.

Key clusters for development

Selecting clusters for development should follow these criteria²⁸ :

(1) “Economic impact, as measured by the size of the industry, contribution of [the] sector to GDP, number of jobs, linkages with other industries; (2) Potential for international competitiveness; (3) The presence of the five conditions for change: tension, moral purpose, leadership, insight and receptivity”

These criteria should be applied to the country’s competitive strengths so as to ascertain which clusters or sectors would have the highest potential of being successful. In reviewing T&T’s key competitive strengths, such as its open economy anchored by a competitive oil sector, , natural endowments, location and, cultural diversity, tourism stands out as the sector with very high potential to achieve the goals of Vision 2020.

The Tourism Cluster of Trinidad and Tobago

Two distinct identities, two experiences

The islands of Trinidad and Tobago are distinct in character and appeal. While this duality presents a challenge for developing a coherent strategy for the country, it also offers a tremendous opportunity to create two distinctive tourism experiences, each competitive in their own right and even more attractive if taken together.

Trinidad – Carnival country and the business hub of the eastern Caribbean

Trinidad is in many respects the dominant island, with approximately 1.2 million residents as compared to 50,000 in Tobago. It hosts all of the nation’s major onshore oil and gas operations and its capital, Port-of-Spain, is a major commercial hub in the Caribbean. Many of the largest

Caribbean conglomerates and financial institutions are headquartered in Trinidad. Not surprisingly, business travel accounts for a significant share of overall demand, driven by foreign energy-related travel as well as regional and local business. Leisure travel is also important; the well-known Carnival in February accounts for nearly 10% of annual travel to the country.²⁹

Catering to business travelers are a few large branded hotels such as Crown Plaza, Hilton, and Marriott, and a host of smaller independent hotels and guest houses. Beyond this supply of hospitality services, little organized tourism activities are offered in Trinidad. There are various local sports and entertainment-related events such as cricket tournaments, ethnic holiday celebrations and music concerts that attract significant local and often regional attendance, but these activities are difficult to access for visitors unfamiliar with obscure ticket outlets and venue locations.

Tobago – Robinson Crusoe’s island paradise

While Trinidad’s economy depends only marginally on tourism, Tobago’s is largely driven by tourism which accounts for 46% of the island’s GDP, 57% of employment and 96% of its exports³⁰. The comparable numbers for Trinidad are 14%, 17%, and 16% respectively.³¹

Tobago visitors primarily demand sun, sea, and sand, similar to many of the other tourism-focused islands in the Caribbean. While many of those islands have large resorts and hotel complexes plus smaller-scale luxury accommodations, Tobago’s supply consists of only a few resorts and a large

²⁸ *Building the Competitive Advantages of T&T*, OTF Group, July 2004

²⁹ “Trinidad and Tobago: The Impact of Travel & Tourism on Jobs and the Economy,” *World Travel & Tourism Council*, (2005).

³⁰ Ibid

³¹ Ibid

number of independent guesthouses. These services are complemented with a diverse set of tourism services, including some higher-end eco-tourism and water-related sports activities.³²

Analysis of the Cluster Diamond

Context for Firm Strategy and Rivalry

Lack of focus on and co-ordination across the industry

Lack of focus and dedication to this cluster has been demonstrated by the relatively small amount of government investment in tourism relative to other regional countries. Limited cross cluster coordination is also evident. The government has a number of fragmented agencies which overlap in functions, divide implementation efforts and fail to coordinate actions into a logical cluster-wide development strategy. For example, as many as seventeen separate government agencies and certification bureaus are often involved in one tourism development project.³³ The result is a development system which is inefficient and difficult to navigate. Despite this, no agency has been designated to help investors through this maze of government offices and red tape. This along with the limited availability of industry specific data – currently only general high-level national statistics are available – are barriers to attracting local and international investors.³⁴

Another challenge is a lack of standards across the industry. For instance, Tobago's accommodation stock is dominated by small, independent hotels and guesthouses which are difficult to monitor. 85% of hotel supply is comprised of these small, independent guesthouses³⁵. While total hotel capacity grew 63% between 1997 and 2003, the growth was primarily in these

³² Ibid

³³ "Building the Competitive Advantages of T&T," *OTF Group*, (July 2004)

small scale hotels and guesthouses. There are no five-star hotels on either island, and only seven large hotels with capacity greater than 100 rooms. In addition, without standards or quality ratings it is difficult for tourists to plan their vacations. Also, in terms of training, both the Trinidad & Tobago Hotel and Tourism Association (TTHI) and the National Training Agency (NTA) have been unable to establish internationally recognized standards for the training they provide tour guides and other service providers in the cluster.³⁶

Also, the lack of coordinated investment in tourism has slowed the development of the sector. Trinidad & Tobago trails its neighbors in the amount of investment that is channeled into travel and tourism. Travel and tourism represented only 12.6% of total 2005 capital investment in T&T, compared with 76.4% in Aruba, 66.1% in the Bahamas and 45.8% in Bermuda.³⁷

Further evidence of poor coordination can be seen in the airline sector. The Caribbean region as a whole suffers from the poor financial performance of local airlines, which stands in stark contrast to the rise of successful low cost carriers in Asia, Australia, Europe, the Middle East and North and South America³⁸. Trinidad and Tobago have two international airports, one on each island, but limited regional connections directly to Tobago. Airline connections between the two islands are operated by two carriers, BWIA West Indies Airways and Tobago Express. Tobago Express operates the majority of flights between Trinidad and Tobago, but does not have reservation links

³⁴ “Building the Competitive Advantages of T&T,” *OTF Group*, (July 2004)

³⁵ *Ibid.*

³⁶ “Building the Competitive Advantages of T&T,” *OTF Group*, (July 2004): 45.

³⁷ WTTC, 2005.

³⁸ Caribbean Hotel Association, “Airlines of the Caribbean: White Paper July 2005”, www.caribbeanhotels.org, accessed April 2006.

with international booking systems³⁹. Thus, international visitors are unable to book through their tickets if their flight path involves transferring across the two islands. Without government investment in a coordinated air transport system, the development of the tourism sector will remain handicapped.

Tourism sector continues to be internally stigmatized

Despite the significant direct impacts of tourism on the T&T economy, employment in the tourism sector continues to be stigmatized. In a public address at the Caribbean Tourism Summit, the Secretary-General of the Caribbean Tourism Organization described the challenge of negative local attitudes towards tourism:

“...in spite of the demonstrable positive macro-economic impact of the industry, social and community considerations continue to raise their heads and to create negative attitudes that intrude everywhere.... What accounts for the negative attitudes we often witness? One reason is that tourism in colonial and post-colonial societies, has, for an entire century, been seen by the vast majority of local populations as continuing many of the social traditions of the plantation economy⁴⁰.”

In 2005, the tourism sector accounted for over 30,000 jobs.⁴¹ Creating a coordinated cluster development strategy can be challenging, but can create greater employment and entrepreneurship opportunities in Trinidad. Changing local attitudes towards tourism will be difficult and require spreading the economic benefits of tourism across all citizens.

³⁹ WTTC, 2005.

⁴⁰ Holder, Jean, “Meeting the Challenge of Change”, Address Delivered at the Second Caribbean Tourism Summit, Nassau, Bahamas, December 8-9, 2001.

⁴¹ “Trinidad and Tobago: The Impact of Travel & Tourism on Jobs and the Economy,” *World Travel & Tourism Council*, (2005).

Lack of external tourism reputation

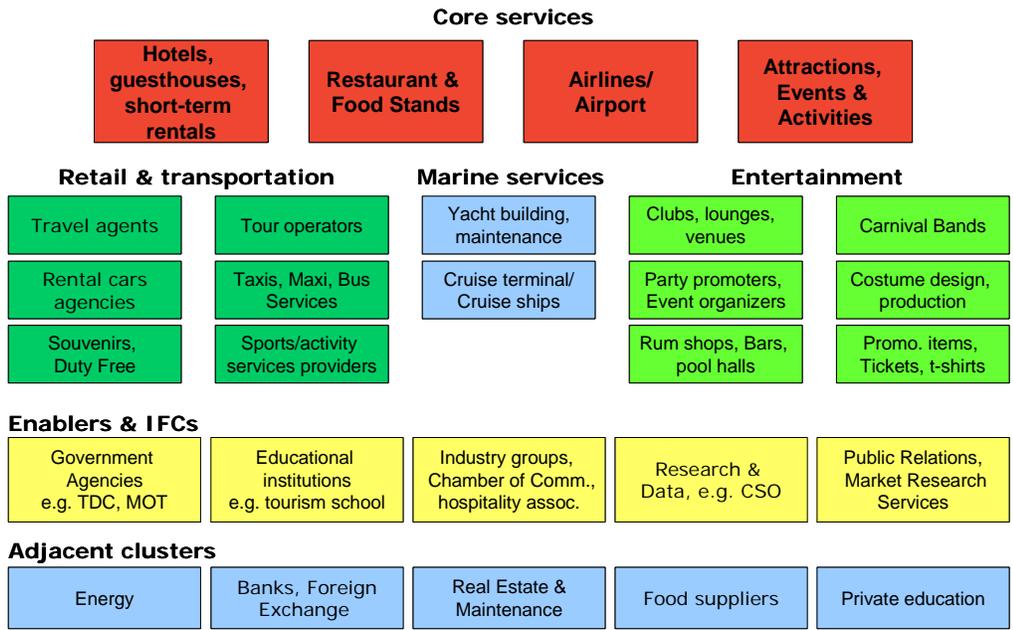
Trinidad & Tobago has not built a strong reputation in tourism, nor has it developed the attractive offerings or convenient air access (e.g. there is limited direct access from the U.S. to Tobago) necessary to attract targeted tourist segments. These factors in addition to limited ad spend have negatively affected Trinidad & Tobago's tourism reputation.

Related/Supporting Industries

Tourism-related services exist, but quality tends to be limited

Tourism is a complex product, composed of many individual services provided by a plethora of businesses. As Figure 9 below illustrates, the core components of the tourism cluster include accommodation, restaurants, air travel and events/activities. The next tier of tourism-related services includes retail and transportation services, marine services and entertainment. The cluster is supported by various institutions for collaboration, including governmental agencies such as the Tourism Development Corporation (TDC) as well as private-sector associations, research and education institutions and the central statistics office (CSO).

Figure 9: Tourism Cluster Map



Source: Team analysis

Trinidad and Tobago has the basic ingredients for a rich tourism cluster in place. However, quality of services remains a concern across the board and significant upgrades are necessary across the cluster, including innovation to develop more differentiated and higher-value services.

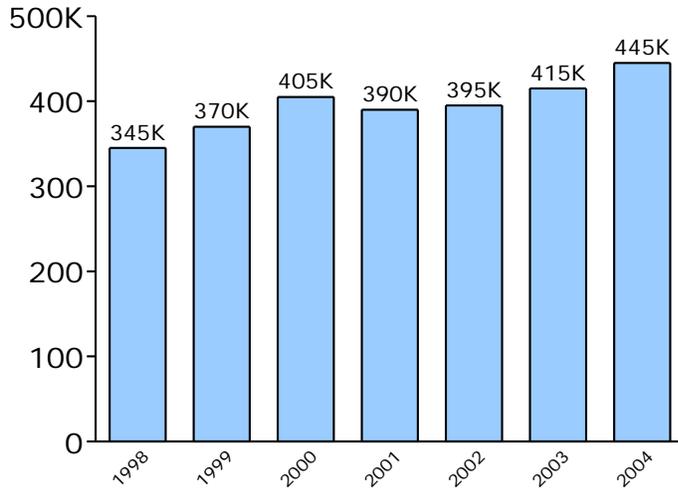
Demand Conditions

Unique, but challenging visitor patterns

Trinidad and Tobago has seen a steady growth in international tourist arrivals (see Figure 10), exceeding 400,000 annually in 2003 and 2004.

Figure 10: Tourism Arrivals

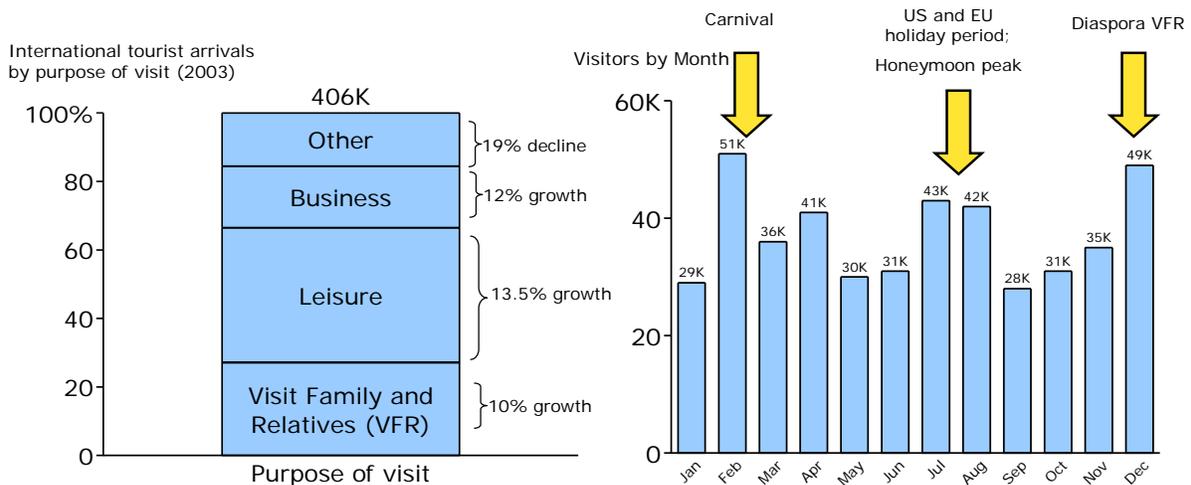
International Tourist Arrivals



Source: "Trinidad and Tobago: The Impact of Travel & Tourism on Jobs and the Economy," World Travel & Tourism Council, (2005).

The majority of visitors fall in the leisure and Visiting Friends and Relatives (VFR) categories. This split reflects itself in the demand seasonality as shown in Figure 11. Leisure travel causes three distinct peaks in demand: 1) Carnival in February, 2) end of year holidays and 3) summer break.

Figure 11: Visitor Patterns – Purpose and Annual Distribution



Source: "Trinidad and Tobago: The Impact of Travel & Tourism on Jobs and the Economy," World Travel & Tourism Council, (2005).

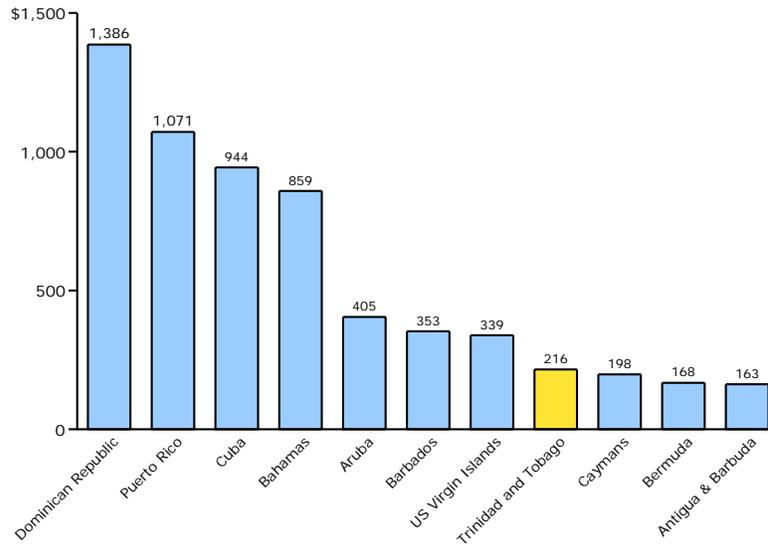
Most international visitors arrive in Trinidad and Tobago from the US and other CARICOM islands, followed by the UK and Canada. While at first glance this seems to suggest a strong demand for Trinidad and Tobago among North American travelers, this pattern stems from a large Diaspora that resides in the US, Canada and the UK and frequently returns to Trinidad to visit friends and relatives, as mentioned before.⁴²

Thus, demand conditions for tourism in Trinidad and Tobago are rather poor: 1) Diaspora visitors who tend to stay with relatives and do not demand much tourism services nor spend much on such services, 2) Regional travelers from CARICOM countries, typically lower to middle income countries, who tend to spend less and represent a less sophisticated demand than US and European tourists, 3) Domestic visitors from Trinidad represent a significant but less sophisticated demand for Tobago's tourism sector. These weak demand conditions manifest themselves in a disproportionately low spend per visitor and cement Trinidad and Tobago's low earnings from tourism compared to other islands (see Figure 12).

⁴² "Trinidad and Tobago: The Impact of Travel & Tourism on Jobs and the Economy," *World Travel & Tourism*

Figure 12: Comparative Tourism Investment

Travel & Tourism Industry GDP (\$ Million USD) 2003



Source: "Trinidad and Tobago: The Impact of Travel & Tourism on Jobs and the Economy," World Travel & Tourism Council, (2005).

Factor Conditions

Baseline resources exist to build upon

Despite underinvestment in the tourism sector, a healthy base of resources exists in Trinidad and Tobago. The World Travel & Tourism Council (WTTC), a global forum representing the leading travel and tourism companies, publishes an annual Competitiveness Monitor, ranking the competitiveness of the tourism industry in over 200 countries. Trinidad and Tobago ranks in the middle of its Caribbean competitors, and leads in two of the WTTC's eight competitiveness indices: human resources and social index. The WTTC's human resources index is a proxy for the UNDP Education Index⁴³ (representative of adult literacy rates and school enrollment), and the social index is an aggregate of the UNDP's human development index, newspaper index, PC index, and TV

Council, (2005).

⁴³ World Travel & Tourism Council, *Competitiveness Monitor*, www.wttc.org, accessed March 2006.

index⁴⁴. With this existing supply of competitive labor resources, T&T is well positioned to develop a highly skilled tourism service sector.

Limited supply of skilled service employees and management talent

While there is an existing supply of competitive labor resources, the tourism cluster has not been well positioned to attract these resources because of: (1) relatively low wages for local workers, (2) the stigma attached to this industry, and (3) the lack of training programs that meet international standards. This is particularly important since the Caribbean Single Market and Economy (CSME) will increase competition for jobs by allowing labor from other markets to work in Trinidad & Tobago.⁴⁵ The competitiveness of the tourism industry depends upon a highly-trained, professional labor force.

Inadequate tourist infrastructure

A history of limited capital investment in this sector has resulted in a stock of low quality hotels, inadequate marinas for yachting, low quality conference facilities and limited air access into the country and between the two islands. Air access has been restricted by inadequate airport facilities. For example, Piarco International Airport has been upgraded to a category 1 airport, but Crown Point Airport has not been upgraded in preparation for future demand.⁴⁶ Yet another challenge is to improve infrastructure that promotes visitor health and safety, particularly improvements to the police force.

⁴⁴ Ibid.

⁴⁵ “Trinidad and Tobago: The Impact of Travel & Tourism on Jobs and the Economy,” *World Travel & Tourism Council*, (2005).

Strategy and Recommendations

Trinidad and Tobago is ideally placed to develop a successful tourism industry which can benefit from its energy driven wealth. In order to create a successful cluster, the following key challenges must be addressed to ensure long-term sustainable development of travel and tourism in Trinidad & Tobago. Recommendations have been rated on two scales: level of priority (high, medium, low) and ease of implementation (difficult, moderate, easy).

Challenge 1: Lack of focus on and co-ordination across the industry

The government of Trinidad & Tobago must identify tourism as a cluster of economic importance and strengthen its commitment to the sector. In doing so, the government should:

1. Highlight and communicate the strategic importance of tourism to the private sector and T&T citizens. The government should undertake a “cluster image improvement” campaign, highlighting the potential benefits across all levels of the economy. The campaign may include television ads on local television and job fairs for potential tourism industry workers. This will also address the stigma of tourism employment. *(High priority/Easy)*
2. Create a comprehensive plan with specific milestones and performance measurement criteria with input from the private sector. The participation of the private sector is critical for the long term sustainability of the plan. To increase public sector support, the plan should be adopted as an act of Parliament. This will ensure a broad base of support and encourage swift action in passing subsequent laws necessary to develop the tourism cluster. *(High priority/Moderate)*

⁴⁶ “Trinidad and Tobago: The Impact of Travel & Tourism on Jobs and the Economy,” *World Travel & Tourism Council*, (2005).

3. Create a culture of statistics and accountability. The cluster development process should be data driven. Cluster level data should be collected and used to measure development relative to milestones and performance measurement criteria. *(medium priority/difficult)*
4. Rationalize the number of government agencies to reduce the bureaucracy and overlap which currently exist. We recommend creating a “one-stop-shop” for transport, lodging, and tour information geared toward tourists and a similar agency to help investors. The government must ensure that the agencies are empowered to drive cluster development by providing them with annual budgets, clear mandates, and decision rights. *(High priority /difficult)*
5. Create a business environment that encourages investment in tourism via incentives and adjustments to the tax laws. *(Medium Priority/Easy)*
6. Require industry players to meet international standards. *(Medium Priority/Difficult)*

Challenge #2: Lack of tourism reputation

1. Develop a professional marketing campaign to build cluster reputation
 - a) Work with a professional advertising agency to build a comprehensive campaign that promotes “two islands, two experiences”. Advertisements should be geared toward end-users and tour companies. Ad agencies should also find ways to leverage the potential benefit of “word-of-mouth” from the country’s widespread Diaspora. *(Medium Priority/Easy)*
 - b) Establish traveler friendly directories for lodging and tours, and establish rating standards. *(Medium Priority/Easy)*

c) Encourage small local travel companies to work together and create cross promotions. (*Medium Priority/Easy*)

d) Update website to create a traveler friendly information site. (*Medium Priority/Easy*)

Challenge #3: Visitor mix is weighted heavily toward the Diaspora and business travelers

New institutions must promote tourism product diversification to attract more leisure tourists and increase spending from Diaspora and business travelers.

1. Create product offerings that take advantage of Trinidad & Tobago's unique value proposition ("two islands, two experiences")

a) Leverage Trinidad's position as the economic hub of the CARICOM and aim to increase trip spend for business people and visiting friends and family. The strategy for Trinidad should also aim to draw non-energy business travelers by building business conference capabilities. (*High priority /easy*)

b) Design to draw a more diverse customer base of leisure travelers and increase trip spend. Potential offerings include higher-end adventure/eco-tourism, yachting/marina tourism, bird-watching and diving. (*High priority /moderate*)

Challenge #4: Limited supply of skilled service employees and management talent

Build the human capital required for travel & tourism growth

1. Build training/certification programs which meet global standards. Special focus should be placed on management level training. (*High priority/Moderate*)

2. Work to help companies bring management level compensation in-line with other sectors.

Award employees when they have been certified. (*Low Priority/Difficult*)

The government must also understand the effect of existing social welfare schemes which provide relatively unstable or unsustainable jobs (e.g. extra government jobs) which may be depleting the cluster of potential employees.⁴⁷

Challenge #5: Inadequate tourist infrastructure

Improve high priority tourism infrastructure such as air linkages, hotel quality, and conference facilities.

1. Improve Crown Point airport. (*Low Priority/Easy*)
2. Currently, the majority of tourist traffic into the country travels on foreign owned or controlled air fleets. Although lack of control over air traffic into the country leaves Trinidad & Tobago vulnerable to decisions made by these foreign carriers, locally owned BWIA West Indies Airways has had trouble economically and cannot be relied upon.⁴⁸ The government must examine BWIA's current structure and decide whether they should restructure the company or depend on foreign carriers. In the short-term, the government should enter talks with U.S. airlines to promote the creation of direct flights between the U.S. and Tobago (e.g. Miami and Tobago). In the longer term, the government may also consider entering talks with other countries in the neighborhood to build a regional airline which would benefit from more scale and allow Caribbean countries to have greater control over their air traffic. (*Medium Priority/Difficult*)

⁴⁷ "Trinidad and Tobago: The Impact of Travel & Tourism on Jobs and the Economy," *World Travel & Tourism Council*, (2005).

3. A ferry service which links the two islands is critical for the growth of the tourism cluster. Currently, the government subsidizes this service and we believe it should continue to do so. The government has also leased (on a short-term basis) an additional ferry to increase speed of service⁴⁹; efforts to increase the length of the lease or purchase the ferry should be explored. *(High priority /easy)*
4. The government should consider police reform, not only for the sector, but for its citizens. *(High priority /Difficult)*
5. Promote development of high-quality hotels and develop standards for smaller locally owned guest houses. *(High priority /Moderate)*
6. Improve existing conference facilities to entice more regional or global conferences. *(Medium Priority/Easy)*

Challenge #6: Retain the country's rich natural resources

Tobago's challenge going forward is to further grow its tourism sector in a manner that is sustainable and does not compromise the authenticity of the experience. The island's unique appeal lies in its "off the beaten path" identity, a contrast to the large-scale package tour character of its many Caribbean neighbors. In order to ensure that tourism development and environmental management are mutually supportive to guarantee that Trinidad & Tobago's rich natural resources are sustained, tourism planning should be integrated with environmental impact assessments. *(Medium Priority/Difficult)*

⁴⁸ "Trinidad and Tobago: The Impact of Travel & Tourism on Jobs and the Economy," *World Travel & Tourism Council*, (2005).

In conclusion, we find that Trinidad and Tobago is well positioned to build a successful tourism cluster. The country is endowed with unique natural attractions, an educated local workforce, and a rich and diverse culture. The government can build upon these substantial resources by partnering with the private sector to implement a cluster development strategy and achieve its desired Vision 2020 of a diversified economy.

⁴⁹ “Trinidad and Tobago: The Impact of Travel & Tourism on Jobs and the Economy,” *World Travel & Tourism Council*, (2005).