



University of Aruba, Guest Lecture, 2024-25: Tourism Growth Linkages in Small Economies: Economic & Environmental Challenges

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Key Elements of the Size-Growth Relationship

Key economic characteristics of small size:

- *Small Populations* – threshold irrelevant; limited market size to support domestic economic activity.
- *Limited Resources* – limited natural resources and labour force; critical reliance upon human capital-intensive activities.
- *Limits On Economic Activity* – diseconomies of small scale and shallow value chains – raise costs, limit extent and depth of activity and reduce competition.
- *Exogenous Policy-Dependence* – limited domestic policy autonomy to deal with changes in global economic conditions.

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Implications of Small Size for Economic Growth

Implications of small size for growth:

- *'Structural' Openness to trade* – substantial asymmetries between production/ exports and consumption/imports.
- *Export-Led Growth* – domestic growth and incomes are highly dependent upon export performance.
- *Specialisation* – a strong tendency for a high degree of specialisation in specific economic activities (output/export concentration).
- *Constrained Diversification* – limited potential to diversify economic activity.
- *Exposure to External Shocks* – high dependence on global economic conditions.

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The Key Growth Sectors for Small Economies

Empirical analyses consistently identify three sectors that have been key to the strong growth performance of small economies (*Armstrong et al., 1998; Armstrong & Read, 2000, 2020; Read et al., 2012*):

- Financial Services: value added from skilled labour and low/zero tax rates.
- Tourism: limited value added from unskilled labour, reducing unemployment.
- Natural Resources: resource rents.

Manufacturing has a generally insignificant role while a focus on Agriculture is associated with much lower growth and incomes.

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The Tourism Sector in Small Economies

Tourism is of critical importance to many small economies, especially small islands, in terms of export earnings and employment. The contribution of tourism to GDP and domestic value added however, is much less significant (see Table 1).

The data show that tourism contributed more than 50 per cent of export earnings in most 'Small Island Developing Countries' (SIDs) and accounted for more than five per cent of employment in 23 (and more than 10 per cent in eight). Tourism's share of export earnings exceeded 75 per cent in nine small island economies; Antigua & Barbuda, The Bahamas, Dominica, Grenada, St Lucia and St Vincent & The Grenadines in the Caribbean along with The Maldives and Palau.

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The Tourism Sector & Economic Growth in Small Economies

An analysis of the growth benefits of tourism in small economies requires evaluation of its contribution to domestic value added and therefore to aggregate economic activity through its employment and local multiplier (linkage) effects.

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The Tourism Sector in Small Economies: Employment Effects

Increased employment is a highly visible direct impact of tourism; the share of tourism in the labour force is greater in small island economies than other small economies. Foreign investment is argued to have a greater employment impact than local investment because of its focus on upmarket hotels and resorts with higher employee to guest ratios (i.e., greater labour-intensity). Tourism productivity and wages are also generally higher than in alternative (traditional) activities, notably agriculture.

Dividing tourism's share of GDP by its share of employment reveals its skill content (productivity/wage or value added); this is extremely low generally because of its heavy reliance on low-skill employees. Expansion of tourism employment is therefore unlikely to stem out-migration by skilled workers.

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The Tourism Sector in Small Economies: Domestic Multiplier (Linkage) Growth Effects

The contribution of tourism to domestic economic growth depends upon its direct and indirect multiplier effects on demand for local goods and services. Inter-sectoral linkages in small economies however, are greatly limited by both the narrowness and shallowness of domestic economic activity.

The tourism sector is heavily dependent upon imports such that domestic growth effects are eroded by high levels of 'leakages' from the local economy. International-standard hotels often require foreign investment and expertise from global chains, including their extensive package holiday booking networks. Payments for expatriate employees and the repatriation of fees, royalties and profits lead to further leakages.

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The Tourism Sector in Small Economies: Domestic Multiplier (Linkage) Growth Effects

The growth multiplier effects of tourism in small economies are therefore often very low with only limited local value added, hence its limited contribution to GDP. A growing policy literature attempts to address ways to improve the net contribution of tourism to the economies of host countries by fostering greater local supply linkages to reduce import dependence.

- Promoting greater local sourcing of food and drink by hotels and restaurants – substituting local brands for global ones.
- Greater consumption of local products – selling local ‘culture’.
- Greater local participation in tourism support services – airlines, taxis buses, sightseeing trips (land and sea) etc.

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The Tourism Sector in Small Economies: Environmental Impacts

Increasing environmental awareness of the impacts of tourism have stimulated the growth of sustainable and eco-tourism as well as influencing policy formulation. Analyses often focus on the impact of visitor numbers on infrastructure – roads, airports, power supplies, waste disposal etc. – as well as land-use.

Tourism increases the stress on the natural environment; many small islands possess critical landscapes, habitats, fragile ecologies and unique bio-diversities. Coral reefs and mangroves are vital defences against coastal erosion and increasingly frequent of extreme weather conditions, leading to growing concern about the environmental absorptive capacity of tourism.

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The Tourism Sector in Small Economies: Environmental Impacts

Eco-tourism is small-scale, low-impact, and socially and environmentally-responsible as well as encouraging linkages with local communities via payments for accommodation, food and transport.

While sustainable and eco-tourism have been shown to reduce tourism's adverse environmental social and impacts (a decline in the per capita carbon footprint), this has been outweighed by underlying growth in the sector. A major challenge for many small islands is that sustainable tourism necessitates a trade-off between greater local growth multiplier effects (higher value added) and lower tourist numbers coupled with reduced employment.

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The Tourism Sector in Small Economies: Environmental Impacts

Tourism is responsible for around 5 per cent of global carbon dioxide emissions, some 90 per cent of which is attributable to air travel, 50 per cent of which is civil aviation fuel consumption. Long-haul aviation is particularly problematic because most emissions occur at high altitude and so have a greater effect on the ozone layer. First Class and Business air travel produce per capita emissions three times those of Economy while private aircraft are between four and 15 times greater.

Any credible policy strategy to mitigate the full environmental cost of tourism must therefore, by necessity, eliminate long-haul air travel as essentially unsustainable since its carbon footprint dominates any gains in eco-tourism.

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The Tourism Sector in Small Economies: Environmental Impacts

Up until the 2020 Covid-19 pandemic, cruise ship tourism was the fastest growing market segment, encouraging increased expenditure on local goods and services in ports of call (although the social impacts may not be so positive).

The economic and environmental impacts of cruise ship tourism however, include discharges of hazardous pollutants and destructive non-native species. The 47 ships of *Carnival Corporation*, the world's largest cruise operator, emitted ten times more sulphur dioxide in 2017 than all 260 million cars in Europe

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The Tourism Sector in Small Economies: Policy Challenges

Many small economies face a range of critical growth challenges. The tourism sector plays an important economic role, particularly, small islands:

- It is a major source of employment, primarily low-skill low-wage workers.
- It is heavily dependent upon imported inputs with significant leakages. Active policies are needed to increase local linkages.
- It is not generally a significant contributor to value added and economic growth.
- It is often dependent upon long-haul flights and cruise shipping, with unsustainable environmental effects which require addressing.

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The Tourism Sector in Small Economies: Table 1, part 1

	Tourism/ GDP (%) 2015-17	Tourism/ Exports (%) 2015-17	Employment (‘000s) 2016-18	Labour Force (%) 2016-18	\$ Value Added per Employee 2016-18
<i>Small Island Economies (40)</i>					
Antigua & Barbuda	0.2	74.9	5.1	-	607
Aruba	0.8	68.9	14.6	-	1,418
Bahamas	1.7	76.1	52.7	6.06	3,966
Bahrain	1.4	13.5	25.2	2.90	20,010
Barbados	0.6	-	17.4	11.18	1,599
Bermuda	0.3	33.2	3.0	-	5,831
British Virgin Islands	0.3	-	2.6	-	-
Cabo Verde	0.3	56.7	36.9	14.08	149
Cayman Islands	0.3	-	3.4	-	3,230
Comoros	0.0	-	6.4	2.97	52
Curacao	-	34.9	-	-	-
Cyprus	1.5	20.7	25.8	4.22	13,339
Dominica	0.1	77.9	4.2	-	80
Fiji	0.7	46.6	41.1	11.61	868
French Polynesia	-	66.4	-	-	-
Grenada	0.1	84.0	3.1	-	283
Iceland	2.1	23.0	13.3	6.30	36,601
Jamaica	1.5	57.0	108.9	7.35	1,996
Kiribati	0.0	8.3	2.1	-	18
Macau	13.6	89.0	106.0	27.74	64,529

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The Tourism Sector in Small Economies: Table 1, part 2

Maldives	1.5	85.7	33.9	13.15	2,133
Malta	1.7	8.6	29.7	13.50	7,166
Marshall Is	-	38.4	-	-	-
Mauritius	1.0	34.5	41.2	6.82	3,142
New Caledonia (Fr)	-	13.6	-	-	-
New Zealand	11.0	19.4	211.7	7.89	417,285
Palau	-	85.7	-	-	-
Puerto Rico (US)	2.5	-	19.2	1.70	133,027
Samoa	-	60.5	-	-	-
Sao Tome & Principe	0.15	70.8	6.9	9.77	28
Seychelles	0.4	37.3	11.8	-	480
Sint Maarten (NL)	-	73.2	-	-	-
Solomon Is	0.0	12.4	6.1	2.26	101
St Kitts & Nevis	0.1	63.4	1.6	-	372
St Lucia	0.2	81.1	19.6	19.82	201
St Vincent & Gren	0.1	75.8	2.5	4.26	160
Timor-Leste	-	60.8	-	-	-
Tonga	0.0	48.4	2.1	5.44	54
Trinidad & Tobago	0.8	7.0	23.8	3.57	7,082
Vanuatu	0.1	78.9	11.0	8.97	109

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The Tourism Sector in Small Economies: Table 1, part 3

Other Small Economies (34)

Albania	1.1	51.4	93.2	7.05	1,609
Armenia	0.5	28.4	43.5	3.16	1,243
Belize	0.3	39.2	20.9	12.04	243
Bosnia & Herzog	0.5	12.5	23.2	1.73	3,653
Botswana	0.7	8.7	26.0	2.49	4,614
Brunei	0.2	2.6	5.3	2.48	5,631
Costa Rica	2.9	19.9	104.2	4.49	16,450
Croatia	5.9	37.5	136.6	7.48	24,231
Djibouti	-	5.9	-	-	-
Estonia	1.0	10.5	26.1	3.74	10,073
Eswatini	0.1	0.7	8.6	2.36	719
Gabon	0.2	-	3.7	0.54	6,844
Gambia	0.1	46.9	41.0	5.59	32
Georgia	1.3	36.8	134.3	6.63	1,527
Guinea-Bissau	-	6.1	-	-	-
Guyana	0.1	5.8	8.4	2.64	396
Kuwait	3.3	1.4	55.5	2.35	72,820
Latvia	1.3	7.2	37.8	3.78	10,516
Lesotho	0.1	3.6	42.8	4.57	88
Lithuania	0.9	4.2	25.2	1.72	16,226

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The Tourism Sector in Small Economies: Table 1, part 4

Luxembourg	1.0	3.7	5.9	2.02	111,895
Mauritania	-	1.7	-	-	-
Moldova	0.1	13.1	9.7	0.8	831
Mongolia	0.3	6.3	32.1	2.46	1,160
Montenegro	0.5	55.0	14.6	5.63	1,757
Namibia	0.4	10.7	23.6	2.57	2,132
N Macedonia	0.2	5.4	11.7	1.23	2,035
Oman	2.2	7.0	71.3	2.76	22,323
Panama	3.5	24.3	116.3	5.90	18,425
Qatar	5.4	16.3	94.3	4.61	98,166
Slovenia	1.6	7.5	31.1	3.07	25,419
Suriname	0.1	4.3	2.5	1.17	686
Uruguay	2.2	15.0	57.0	3.25	21,310
W Bank & Gaza	-	10.5	-	-	-

Source: World Bank (2019a), *TCdata 360*, <https://tcdata360.worldbank.org/indicators/tot.direct/> [accessed, 4 December 2019]; World Bank (2019b), <https://databank.worldbank.org/> [accessed 5 December 2019]

Note: Table only includes those countries and territories with populations less than 5 million in 2018 for which data is available.

-, data not available.

Source: Armstrong & Read (2020), 'Tourism & sustainable growth in small (island) economies', in Roberts *et al.* (eds.), *Shaping the Future of Small Islands*.

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