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## Caribbean Tourism Fueled by Hotel Development: The Good and the Bad

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Mention the Caribbean to most people, and beautiful images of aqua blue waters and white sand beaches come to mind as they picture themselves sipping a piña colada or a rum punch on the beach. These visions are in large part accurate, as tourism is the most dominant business in the Caribbean. The Caribbean is largely the most tourism-dependent region in the world. Most of the islands have moved away from a cash-crop economy and are focusing on the services industry, primarily tourism and commercial real estate development, fueled by foreign investors.

Some islands, such as Jamaica and Barbados, have a long history of tourism development. As early as 1862 Jamaica was marketed as a health spa, and the United Fruit Company ran cruises to the island. Over the years tourism continued to increase, even during the global recession of the 1970s and early 1980s. Tourist arrivals rose 52.2 percent from 1978 to 1988.

On other islands, such as Dominica, tourism plays a smaller role in the economy. According to *The Impact of Tourism in the Caribbean Issue*, there was historically a “lack of tourist infrastructure that hindered the development of the industry.”<sup>1</sup> In more recent years, however, there has been an exponential increase in Dominican tourism—in 1985, the number of cruise-ship visitors totaled 6,602, and by 1995 the number had grown to 132,088. As a result the local government developed and built shopping facilities focused primarily on the cruise ship tourist.

In 1998, the tourism industry provided 2.9 million jobs in the Caribbean, generated \$32.5 billion in economic activity and was responsible for 31 percent of the region’s GDP. Industry estimates anticipate a contribution of \$18.7 billion to GDP by 2011.<sup>2</sup>

### **Tourism Development Fueled by Commercial Real Estate Development**

The development of hotels ranging from high-end villas to all-inclusive resorts by major companies such as Sandals and the Spanish hotel company Riu have contributed positively to the region’s economy. However, such development has raised a number of ecological concerns. There is a conundrum brewing, as tourism is one of the largest local industries, yet natural resources that draw tourists—such as coral reefs and beaches—are damaged by the ongoing expansion of the hotel industry. In Jamaica, there are approximately 3,000 species of flowering plants, 827 of which exist no where else, and 25 species and 21 subspecies of birds that are found nowhere else, with few cautionary steps being taken to protect such natural treasures.<sup>3</sup> Meanwhile, hotel

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<sup>1</sup> TransAfrica Forum. *The Impact of Tourism in the Caribbean*. Issue Brief, July 2000.

<sup>2</sup> World Travel and Tourism Council.

<sup>3</sup> Internet: “Jamaica: Flora & Fauna.”

development is on the rise, and one cannot help but wonder about the negative impact on the delicate ecology.

While in general the economic contributions of hotel development are positive, some of the industry's ramifications are questionable. For example, in Jamaica the local government relies heavily on the tourism industry and does everything it can to encourage the industry's development. The owner/operator of an approved hotel enterprise gains income- and dividend-tax relief for up to 10 years. Also the owner can benefit from a duty exemption on imports for construction or expansion of hotels.<sup>4</sup> Hoteliers are permitted to keep their money wherever they choose, so the profit often is kept in private offshore accounts. Therefore, it becomes difficult to determine what percentage of industry-generated profit is reinvested in the national economy.

### **Current Developments in Caribbean Hotel Development**

There is a resurgence of hotel development in the region, particularly in Jamaica, where there was a 17.2 percent increase in visitors over 2006. In September of last year at the 13th annual World Travel Awards, Jamaica won the title of the "Caribbean's Leading Destination," "World's Leading Cruise Destination" and "Caribbean's Leading Cruise Destination." In addition, the World Cricket Cup is being hosted by Jamaica this year, bringing even more attention to the island. Airlines such as Delta and Ryan International are increasing the number of flights. Investors are coming to the island with development plans. Jamaica has 25,000 rooms available, and within the next four years, there will be a minimum of 12,000 new rooms.

One of the most noteworthy developments is Harmony Cove, a \$2 billion resort on Jamaica's north coast. A joint venture between Harmonisation Limited and the Tavistock Group, Harmony Cove is one of the largest projects undertaken on the island. Upon completion, this 1,400-acre luxury resort will add more than 5,000 rooms, as well as multiple golf courses, spas, and restaurants and a yacht marina. The construction will generate more than 10,000 jobs, with another 10,000 for staff after completion. In addition, the Spanish chain Riu will open its fourth Jamaican property, Riu Mahoe Bay, in Montego Bay. SuperClubs reopened Breezes Runaway Bay in December of 2006 after a \$20 million renovation, increasing rooms and suites by 15 percent. Hotel Bahia Principe is opening 700 more rooms as it completes phase 1 of its renovation project.

In the Dominican Republic, Carlton Hospitality Group has arranged a joint venture that will fund a luxury resort called Atlantica. An undisclosed hedge fund will contribute the needed equity for Bahamas-based developer Kingsport Partners for the first phase of the project. Atlantica will include 230 ocean and golf estates and 3,500 residences. As

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<sup>4</sup> Internet: "Jamaica Tourism Impacts."

noted by Kenneth Herzberg, senior vice president with Carlton Advisory Services, a unit of Carlton Hospitality, “They’re building homes for \$250 to \$260 a square foot and selling them for \$600.”

### **Achieving Balance?**

While the increase in hotel development is exciting and promising, there are some other factors to consider. For example, as the influx of foreign dollars is poured into such investments, the concerns of the local people are often sidelined for the greater good of the tourism industry. Many of the same precious beaches and coral reefs that attract tourists are slowly being destroyed by sand erosion for building commercial structures. Tourism also increases pollution and consumption of seafood and local supplies.

Managing the balance of tourism with the welfare of local life in the Caribbean is a very complex issue that developers and tourists often do not consider when building or visiting hotels. The more macro issue is balancing the gains due to the development of the industry with the cost inherent in the value proposition. As Vice President Jaime David Fernandez Marabil of the Dominican Republic stated, “We must examine how we are going to get these resources to contribute to a sustainable tourism industry for the benefit of all our people.” Questions remain, such as how to achieve the balance between the service sector driven by tourism and other industries such as agriculture. Environmental concerns still loom. These issues will hopefully be brought to the forefront in the days ahead.