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**MEASURING THE IMPACT
OF FOREIGN CAPITAL FLOWS
IN THE BAHAMIAN TOURISM INDUSTRY**

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by Kevin Demeritte¹

CENTRAL BANK OF THE BAHAMAS

¹The views expressed in this paper are those of the author and do not necessarily represent the Central Bank of The Bahamas. The paper should be considered as a work in progress. The author would welcome any comments on the written text or on any of the issues raised, many of which have yet to be resolved.

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SECTION I

INTRODUCTION:

Notably, there has been a significant change of direction in the Bahamian economy over the last five years. Fiscal policy has been redirected towards infrastructural development, including schools and clinics, roads, waterworks, port facilities and general physical environment, and substantial capital, both private and official, has also been invested in improving the tourism product.

The availability of these resources has been due in large measure to not only sound macroeconomic policies, but also to a strong rebound in foreign capital inflows from the lull experienced in previous periods. These inflows have been predominantly from private overseas sources, with significant concentration of investments in the tourism and industrial sectors. This private-to-private flow in the form of foreign direct investment (FDI), has provided increased levels of transfer of technology and management skills, enhanced access to external market financing of the industrial sector; improved competitiveness and efficiency within the tourism sector; and expanded employment opportunities.

The influx of external savings into the local tourism industry has been a welcome addition to the local capital stock, especially in the wake of government decision to withdraw from ownership of hotel properties, thus freeing substantial capital resources for other budgetary projects. However, increased links to the external sector by such a dominant industry invariably exposes the economy more readily to external shocks, while non-Bahamian ownership of significant proportion of The Bahamas most important sector gives some concern.

In Section II of the paper, the author briefly reviews the historical development of foreign capital inflows in the Bahamian economy, and discusses the macroeconomic situation of The Bahamas prior to the period under review. An attempt will then be made to trace the actual level of foreign capital flows to the tourism industry before highlighting administrative and regulatory changes that have encouraged increased capital inflows over the past half-decade.

Section III then explores the real impact of these capital flows on the Bahamian economy from the perspective of employment and the associated impact on the construction industry, as well as the benefits derived from improved access to new technological innovations and techniques. Additionally, these new investments will be evaluated within the context of key industry performance indicators such as visitor arrivals, length of stay and average hotel occupancy. Further, we will ask the question, is it too soon to begin measuring overall macroeconomic impact, or should we wait for a more medium-term evaluation?

Foreign investment to the tourism sector benefits from various concessions and incentives. Section IV will focus on issues relative to the trade-offs between the revenue base and economic gains and more specifically, the economic costs associated with revenue concessions provided to the industry. The question to be explored is whether this loss in revenues is adequately compensated for by the employment and tourism gains, and a generally improved economic environment.

SECTION II

FOREIGN CAPITAL INFLOWS - HISTORICAL DEVELOPMENTS

Since the early 1960s, private capital flows has always figured significantly in the development of The Bahamas. Alongside its evolution as an ideal tourist destination, and as a choice offshore financial centre, The Bahamas attracted the wealthy elite, who in many cases regarded the country as an *ideal investment opportunity*. Hotel, resorts, marinas and other tourist related facilities have been the primary recipient of foreign direct investment throughout much of the past three decades, although there has also been substantial investments in the financial services industry.

Concurrent with business investments, private capital flows into The Bahamas have included a healthy proportion of investment in second homes and real estate by wealthy individuals in both the capital, Nassau as well as the Family Islands. However, with increased restriction on foreign investment in the economy, and with renewed emphasis by the government of the day, on greater local control over all aspects of the economy, private capital inflows was effectively curtailed.

Further, emphasis was placed on a policy of “Bahamization”, in which preference was given to local residents in various aspects of economic development. Preferential policies and legislation were enacted, including the very restrictive Immovable Properties Act which, effectively barred significant levels of capital inflows, or at the very least made it very expensive and time consuming for foreign investors contemplating investing in The Bahamas.

However, during the 1980s, in addition to government policy in regards to foreign input into the local economy, the economic situation in The Bahamas was considerably less favorable for the attraction for foreign capital inflows. The international reputation of The Bahamas came under fire, while concerns regarding drugs and corruption was featured in the media. The 1991 recession only serve to exacerbate an already difficult environment as the decline in the tourism product, due in large measure to reduced arrivals from North America, forced the postponement of much needed infrastructural improvements.

FOREIGN CAPITAL INFLOWS AND THE BALANCE OF PAYMENTS

Capital inflows have always been especially important to the economic well-being of the Bahamian economy. As a small open economy, with a fixed exchange rate regime and an economy based primarily on the services rather than industrial or agricultural sectors, The Bahamas has long been dependent on capital inflows to offset persistent large deficits on the external current account.

A review of the Capital and Financial account of The Bahamas' Balance of Payments reveals that foreign capital inflows into The Bahamas over the last 5 years averaged in excess of \$140 million a year, accelerating throughout the period before peaking at nearly \$210 million in 1996. Announced inflows for the first six months of 1997 have already approached \$100 million. This is in contrast to the period immediately prior, in which inflows fell to a low of \$38 million in 1990. Further disaggregation indicates that the bulk of these funds was in the form of foreign direct investment, representing controlling interests in hotel properties. Expenditure of

this type accounted for over 75% of inflows, while the remaining proportion was allocated to renovation, refurbishment and general infrastructural improvement.

Throughout its history, The Bahamas, with minuscule levels of manufacturing, agricultural or fisheries products for exports has nevertheless been able to support a fixed exchange rate regime, with its currency, The Bahamian Dollar, at par with the American Dollar. The level of private capital inflows has always been sufficient to sustain a balance of payments position without ever having recourse to assistance from external agencies.

Table 1. Balance of Payments (B\$M)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	
									QI	QII
Financial Account	227.5	194.8	267.7	141.3	175.1	181.1	224.2	298.6	81.3	148.8
a. Private Capital Inflow	110.5	38.0	55.1	72.9	117.6	137.2	170.8	209.6	30.6	69.0
1. Equity	62.2	4.0	12.6	25.0	40.1	49.9	96.7	88.6	15.7	54.9
2. Land Purchases	16.3	16.1	12.7	13.2	14.0	9.3	32.3	24.3	6.0	6.6
3. Other Private	32.0	17.9	29.8	34.7	63.4	78.0	41.8	96.7	8.9	7.5

ADMINISTRATIVE & REGULATORY CHANGES

Beginning near the end of the last decade, major changes were implemented in the country's foreign investment policies. Various laws, regulations, policies and incentives were harmonized and placed under the jurisdiction of a single agency, with responsibility for promoting the investment opportunities in the country, engendering greater transparency, as well as streamlining the entire approval process. The local second home market was once again available to "non-residents", incentives were implemented and legislation passed to encourage private capital flows.

In the last five years, the following macroeconomic, infrastructural and policy changes were implemented to create an appropriate investment climate.

- The creation and publication of a National Investment Policy, which sets out the government's policies regarding foreign direct investment; lists areas unavailable to foreign investment; provides details regarding various incentive schemes that can be utilized to minimize "red tape" and maximize ease of investing; and list agencies, who can best assist potential investors.
- Repeal of the restrictive Immovable Properties Act and enactment of its more accommodating replacement, The International Persons Landholding Act in 1993, as well as harmonization of existing legislation to "level the playing field" between local and foreign investors.
- Passage of appropriate legislation to encourage private capital inflows in various aspects of the local economy, especially tourism, manufacturing and industry
- The creation of appropriate investment vehicles, notably International Business Companies, Limited Liability Companies, Limited Duration Companies and Limited Partnerships, to facilitate ease of company formation and investment in and from The Bahamas.
- A renewal of the government's commitment to prudent monetary policies as well as a fixed exchange rate regime, with the local and American currencies on par.

- A commitment to reestablish prudent fiscal policies, by reducing government deficits and debt to GDP ratios, streamlining and harmonizing the tariff structure and increased productivity of the civil sector.
- The implementation of policies and strategies to rehabilitate the reputation of the country in the wake of drug and corruption charges of the past decade.
- The introduction of a comprehensive package of measures, both legislative and administrative, to discourage use of the financial system for illegal activity, especially money laundering.
- Conducting three high level investment promotion tours of the Far East, Europe, Canada and South America, aimed at attracting additional investments to The Bahamas.

SECTION III

DEVELOPMENTS IN THE TOURISM INDUSTRY

As the mainstay of the Bahamian economy, developments in the tourist sector are always of paramount importance to the overall economic development of The Bahamas. Recent inflows of private capital to the tourist sector have resulted in significant improvement to hotel properties. The Government has sold all but one of its hotel properties which has been renovated and upgraded to compete with other similar properties on the Cable Beach strip. In addition, every major hotel property has either been renovated, refurbished or expanded and several have been sold to new owners who have invested additional capital.

Table 2. Tourist Data

	Stopover	Cruise	Total Exp	Stay	Days*	Occ-rate
1991	1,427,035	2,019,954	1,192.70	6.3	11,102,782	52.0
1992	1,398,895	2,139,363	1,243.55	6.1	11,123,302	52.0
1993	1,488,680	2,038,798	1,303.99	6.3	11,563,652	57.2
1994	1,516,035	1,805,607	1,332.59	6.3	11,478,763	62.5
1995	1,598,135	1,543,495	1,346.27	6.1	11,389,271	67.5
1996	1,633,105	1,685,668	1,450.05	6.3	12,070,280	70.7
1997 Q1	442,060	574,181	426.36	6.7	3,559,828	76.8
1997 Q2*	310,620	274,492	n/a	6.0	2,152,192	83.0

* (Apr-May)

The driving force behind this renaissance has been Sun International's Atlantis Hotel and Casino. Formerly owned by Resorts International, the Paradise Island property was purchased for \$100 million. Sun immediately initiated a \$150 million renovation and refurbishment project for the hotel, including a state-of-the-art water theme park and the largest outdoor aquarium and shark environment in the world. A further \$450 million was allocated for Phase 2 of the project currently underway, scheduled to add an additional 1,200 rooms and with a completion date of mid-1988. More recently, Sun has announced its decision to implement a \$250 million Phase 3, to begin in 1999. In addition to the Resorts properties, Sun also acquired three adjacent hotel properties on the Island and after completion of all phases, Atlantis is expected to have in excess of 2,500 first class room and the largest most elaborate resort in the Western Hemisphere, next to Las Vegas.

Sun International's investment in The Bahamas, though significant in its own right, was especially important for other reasons. By its commitment, Sun confirmed its confidence in the long term economic prospects of The Bahamas. Other investors who may have been hesitant

about The Bahamas saw this as a signal that the climate, conditioned by a stable economic and political regime, was conducive to foreign investment. Soon, other significant regional and international investments quickly followed. Sandals Royal Bahamian, Breezes Superclubs, and Pink Sands Hotel/Island Outpost were key property investments by Caribbean investors in The Bahamas, in addition to other long term investments in all aspects of the sector.

Table 3 below, highlights investment and developments in the cruise industry as cruise lines purchase or lease islands or cays for day long stops by their lines.

Table 3. PRIVATE PORTS OF CALL

COMPANY	ISLAND ACQUIRED/ TO BE RENAMED	ACQUISITION COST	ACREAGE	COMPLETION DATE	PROJECTED EMPLOYMENT
DISNEY CRUISE LINES	GORDA CAY (ABACO)/ CASTAWAY CAY	\$10,000 a year for 5 years (lease) Development Cost - \$30.0 million	1,000	mid-1998	N/A
HOLLAND AMERICAN LINES	LITTLE SAN SALVADOR/ HALF MOON CAY	\$6.0 million Development Cost-\$10.0m	396	end-1999	100 during construction 25 after construction
ROYAL CARIBBEAN CRUISE LINES	STIRRUP CAY	Long-term agreement with government for this Berry Island Cay			
PRINCESS CRUISES	PRINCESS CAY	Long-term agreement with government for this Cay on the tip of Eleuthera Isl.			

Note: Recent agreement signed by government for an \$8 million expansion of cruise ship berths in Nassau Harbour to accommodate mega ships and cruise liners

Tables 4 and 6 details sales of major hotel properties to foreign investors since 1992, major construction projects involving foreign capital in the sector and refurbishments and renovations to similar properties

Table 4. HOTEL SALES

<i>PROPERTY/ To Be Renamed</i>	<i>PREVIOUS OWNER</i>	<i>PRESENT OWNER</i>	<i>SALE PRICE</i>	<i>FUTURE PLANS</i>
CORAL WORLD/ <i>Crystal Cay</i>	Mike Gur	Ruffin Group	Undisclosed	Develop further into a high-end resort for guest of the Crystal Palace
NASSAU BEACH/ <i>Crystal Palace</i>	Grenada Plc.	Ruffin Group	\$21.0 million	Swimming pool, lush gardens for breakfast & restoration of restaurants
HOLIDAY INN/ <i>Atlantis Hotel</i>	Ocean Properties	Sun International	\$100.0 million	Casino, water-themed entertainment
BEST WESTERN COLONIAL/	The Oakes Family	RHK Capital	Undisclosed	Luxury five-star hotel, with 4 restaurants, 3 cocktail lounges, & meeting rooms
ATLANTIS HOTEL	John Morley	Jurkanco Beach Hotel Ltd.	\$2.0 million	2,000 seat convention center & new casino
LUCAYAN BEACH HOTEL & RESORT	Hotel Corporation	Hutchinson- Whampoa	\$19.8 million	Upscale yalching & golf resort, residential development, a signature 18-hole championship golf course, a multi-million dollar redevelopment of the surrounding area & construction
GRAND BAHAMA BEACH HOTEL & ATLANTIK BEACH HOTEL	Sun and Sea Resorts		Undisclosed	500 new rooms in addition to existing 1,350
LUCAYAN COUNTRY CLUB BAHAMA REEF GOLF COURSE				

Over the last decade, The Bahamas experienced a loss of competitiveness as an upscale destination vis-a-vis regional resort destination. This image was repaired following renovations by the Atlantis Resort and other major resorts in Nassau/Paradise Island, who offering first class accommodation and service at a premium price.

Despite the fact that almost every major property has been closed at one time or another for periods ranging from a few months to over a year for renovations, overall arrivals to The Bahamas has held steady. In addition, tourist days, which is the product of stopovers and length of stay plus cruise arrivals, has recovered (see table 2 above). In the short term, new resorts are scheduled to come on stream and formerly closed resorts to be reopened after renovations

Table 5. MAJOR CONSTRUCTION PROJECTS IN THE HOTEL SECTOR

HOTEL	PROPERTY OWNERS	# OF ADD. ROOMS	BLDG. COST	PROJECTED EMPLOYMENT	T. COMPLETION DATE	ADDITIONAL FEATURES
ATLANTIS, PARADISE ISLAND	Sun International (Sol Kerzner)	1,200	\$450 million	2,000 during construction 2,000 after construction	Mid-1998	Casino, meeting facilities, water themed parks convention facilities, ocean adventure environment
SANDALS ROYAL BAHAMIAN	Sandals (Gordon Stewart)	210	\$37.0 million	400 during construction 200 after construction	Dec-97	Honey-moon suites (103), swimming pool and an exquisite restaurant offering Japanese and Italian foods.
BREEZES SUPERCLUBS	Super Clubs (John Issa)	104	N/A	180 during construction 60-80 after construction 25-30 after construction	Late '98	Swimming pool, food outlets on the beach
PARADISE HARBOUR CLUB	Hans Peter, Ericka Kugler & Taiwanese Investors	8 apt. unit compl 108 rooms	\$20.0 million	50-100 during construction 25-30 after construction	Spring '99	Shopping arcade, health spa, tennis courts, and lagoon type swimming pool
COMFORT SUITES	High Point Development Ltd.	75	\$6.0 million	63 during construction 20 after construction	late '97 or Early	Tennis court, swimming pool, meeting rooms and a large patio deck surrounded by lush gardens
COTTON BAY CLUB*	Eleuthera Properties Ltd.	74	N/A	N/A	1999	N/A
CRAB CAY, EXUMA*	N/A	N/A	N/A	N/A 1,500 after construction	N/A	An upscale yachting environment with luxurious condominiums
BIMINI BAY HOTEL MARINA AND CASINO	Cape Group and RAV Bahamas	200	\$100.0 million	850 after construction	Late 2002	A luxury hotel & casino; 300 slip casino and residential community
PINK SANDS HOTEL	Island Outpost (Chris Blackwell)	10 cottages 20 units	\$10.0 million	140 during construction 25 after construction	Late '97	An enclosed dining room
LUCAYAN BEACH HOTEL AND CASINO	Hutchinson Whampoa	500 rooms 200 beach huts	\$120 million	N/A	Late '98	upscale yachting & golf resort

The largest development outside of Atlantis is expected to be Hutchinson Whampoa's redevelopment Hutchinson Holdings, which invested \$88 million in the first phase of a Container Port Terminal, purchased 50% of the privately owned international airport and acquired extensive holdings in the port area. This company is expected to upgrade the Lucayan strip into a resort to rival that of Atlantis.

Table 6. HOTEL REFURBISHMENTS/RENOVATIONS

HOTEL NAME	LOCATION	ESTIMATED COST
CLUB MEDITERRANEAN	San Salvador	\$3.3 million
	Paradise Is.	\$12.0 million (phase 1)
		\$25.0 million (phase 2)
NASSAU BEACH	Cable Beach	\$12.0 million
GRAND BAHAMA BEACH HOTEL	Grand Bahama	\$5.0 million (phase 1)
Sun International Atlantis, Paradise Isl.	Paradise Isl.	\$114.5 million \$288.1 million (phase 1)
Caompass Point	Nassau, N.P.	\$1.37 million
Pink Sands	Harbour Is, Eleuthera	\$5.0 million
Superclubs Breezes	Cable Beach, N.P.	\$17.6 million
Lukkai Tropical Forest	Treasure Cay, Abaco	\$1.2 million
Sandals Royal Bahamian	Cable Beach, N.P.	\$37.6 million
Club Eleuthera	Pink Sands, Eleuthera	\$3.5 million
Sandyport Beach Resort	Sandyport, N.P.	\$6.4 million
Musha Cay	Musha Cay, Exuma	\$7.1 million
Crystal Cay Hotel	Silver Cay, N.P.	\$2.5 million
Hutchinson Properties	Grand Bahama	\$120.0 million
Nassau Marriott Crystal Palace	Cable Beach, N.P.	\$22.3 million (phase 1) \$7.3 million (phase 2)
Nassau Beach Hotel	Cable Beach, N.P.	\$12.0 million
HOLIDAY INN (Atlantis)	Paradise Is.	\$50.0 million

Employment

Outside of the public service, tourism has long been the dominant employer of the Bahamian workforce. Department of Statistics data indicate that the tourism sector has consistently employed in excess of 45% of the local workforce over the past ten years. It is an acknowledged fact that the government, through the Hotel Corporation, made use of the state-owned hotels to employ excess numbers of otherwise unskilled workers. The natural result was severe overstaffing and continued pressure on potential profits in the state dominated industry.

The government of the day saw its ownership of hotel properties as more than just an investment vehicle, but as a means to provide well-paying secure jobs for significant levels of low and medium-skilled workers. In addition to overstaffing at these properties, necessary maintenance and upkeep was neglected in the face of declining revenues and increased outlays. Exacerbated by poor service and inadequate facilities, stopover visitors to The Bahamas stagnated and repeat visitors declined. However, overall arrivals continued to increase as cruise visitors (who spend on average 1/10th per visit as stopovers) began to account for an increased percentage of total arrivals.

Therefore by the late 1980s and early 1990s, the general downward trend in the industry was fixed and reflected in declining market share, reduced levels of return visitors and the loss of a number of hotel jobs. Not only was sectoral unemployment on the rise but, due to its pivotal position in the economy, national unemployment also rose significantly. By 1992, national unemployment was officially pegged at 14.8% however, anecdotal evidence indicate a

much higher percentage especially amongst the female population. Further, workers who remained employed found their work week reduced to as few as two days.

As part of its overall economic policy to enhance the efficiency of the public sector, the Governor moved to devolve itself of the state-owned hotels. In 1993, a new National Investment Policy was enunciated, providing both foreign and local investors with a clearly defined government strategy for the development of the economy in general, and the tourist sector in particular. These actions provided effective evidence to investors of the authorities resolve to put in place a friendly investment infrastructure, and heralded a renewed interest in The Bahamas' hotel industry by foreign private capital.

However, the immediate result of the sale of many of the nation's premiere state-owned hotels to foreign investors was a significant negative impact on employment in the hotel sector. This was a direct result of the temporary closure of properties to allow for necessary renovation, refurbishment and upgrades to severely rundown facilities, as is evident in the fluctuation in available hotel rooms. Further, measures were taken to rationalize staffing levels in a number of hotels. Most of the large hotel properties have completed this stage, with the exception of recent purchases by the Hutchinson Whampoa Group, of two major hotels in Freeport, Grand Bahama and the acquisition by Sun International of two further properties including a 500 room hotel on Paradise Island, which will be renovated following its current use as housing for construction workers on Sun's new 1200 room hotel.

While it is expected that following the renovation and refurbishment exercises, employment levels would rebound, the more immediate results can be felt in the longer work week extending

once again to five and six days. However, properties, especially the larger ones are also expanding their facilities and offering additional rooms, which are expected to come on line over the next two to three seasons. Further, in addition to Sun International's new 1,200 room expansion currently underway, new properties, including the reopening of long dormant facilities, and investment previously on hold are expected to contribute to the increased number of rooms available and subsequent need for additional personnel. Additionally, new positions have been created, particularly at the Atlantis Hotel and Marine Park for individuals skilled in the care and maintenance of marine animals and a reef environment. Not only are these improvements expected to positively impact employment in the hotel sector, but in the overall national unemployment. This is in large measure because of the industry central position in the economy and the linkages with other activities including, restaurant and suppliers, food and products importers, transportation industry, handicraft and souvenir production and a host of individuals directly and indirectly connected to the industry.

The final arbiter of this impact is what effect if any it has had on number of visitors, expenditure per visitor, length of stay, room rates, hotel revenues and estimates of visitor expenditures. Further, visitor satisfaction, return visitors and hotel occupancy rates are at peak levels not seen in almost a decade.

As an harbinger of future prospects, the impact of private capital in the tourism industry is evident in the enhanced competitiveness of the industry relative to its regional and international competitors. Once again, The Bahamas has regained its reputation as a quality vacation experience and perhaps the premier warm weather destination in the hemisphere. Current levels

of investment in the sector and the anticipated increase in new players both in the traditional destinations of Nassau/Paradise Island and Freeport and the Family Islands are expected further entrench the current trends in investment and the benefits derived therefrom.

The increased inflow of private capital to this sector of the tourism industry has also encouraged, private flows to other aspects of the tourism market, especially Family Island and marina development. There has also been a proliferation of smaller properties by local investors catering domestic tourism.

Construction

The most significant non-industry beneficiary of the tremendous private capital inflow in the hotel sector has been the local construction industry, which is clear judging from statistics over the past eight years. The boost to this sector has three major components. Firstly, there has been a considerable boon to local contractors for renovation and refurbishment; upgrading and modernizing facilities; and the construction of new hotels including transfer of technology and innovative construction techniques, notably in the construction of Sun International's Atlantis Hotel and Marine Theme Park. It is expected that these techniques are expected to be put into full use on the second and newly announced \$200 million third phase of this project.

As hotels upgrade and modernize their facilities, competing properties have also found it necessary to keep pace in order to maintain market share. This increased demand on the construction industry, has necessitated the employment of additional personnel in this sector to meet the needs of the sector. When the demand placed on the industry by increased construction

of private homes, including foreign-owned second homes in the more upscale market, is augmented by a boost in government infrastructural development, incentives are there for the construction industry to bring in new personnel including a number of unskilled, and previously unemployable persons. This is expected to effect a general reduction in overall employment levels in addition to removing a potential source of social disruption and criminal activity engendered by large amounts of unemployed individuals in the economy.

Table 7. Construction Data

	1989	1990	1991	1992	1993	1994	1995	1996	1997	
									QI.	QII.
Building Permits										
Number	3,574	3,062	3,051	2,841	2,365	2,618	2,303	2,307	528	573
Value (BSM)	331.50	399.28	290.77	236.60	221.76	310.68	259.17	639.21	58.78	89.35
<i>of which: Residential</i>	194.93	181.65	197.64	170.68	161.11	163.14	189.12	191.45	36.35	42.60
<i>Commercial</i>	65.59	71.92	62.23	58.64	56.04	144.46	56.61	438.83	15.63	45.24
<i>Public</i>	70.98	145.71	24.70	7.28	4.61	3.08	13.44	8.93	5.80	1.51
Building Starts										
Number	1,682	1,458	1,256	1,118	1,015	999	1,040	1,100	298	315
Value (BSM)	177.64	334.92	145.03	145.38	121.03	175.28	119.26	182.24	39.92	352.42
<i>of which: Residential</i>	109.34	119.31	111.00	105.25	100.77	84.86	100.22	117.72	30.09	32.78
<i>Commercial</i>	29.21	41.72	19.54	39.17	20.22	89.68	18.15	64.27	9.26	319.64
<i>Public</i>	39.09	173.90	14.50	0.92	0.04	0.74	0.89	0.25	0.47	-
Building Completions										
Number	1,192	1,212	1,276	915	843	638	971	1,030	293	277
Value (BSM)	109.04	145.73	124.99	162.14	129.57	185.89	109.91	156.62	44.43	40.41
<i>of which: Residential</i>	83.85	83.83	93.13	81.64	78.89	85.35	77.66	91.57	32.88	36.18
<i>Commercial</i>	24.29	59.14	31.00	79.73	45.04	89.47	20.83	63.31	11.55	4.00
<i>Public</i>	0.90	2.76	0.86	0.77	5.64	11.07	11.42	1.75	-	0.23

A review of construction activity over the past eight years, especially construction permits, which are an indication of future activity, show that the industry and the outlook for employment and revenue appears especially bright as private construction gradually takes the place of completed projects in the hotel sector

Ancillary Services/Products

Improvements in the tourist sector, financed by growth of private capital inflows, has had a significant impact on many products and services both directly and indirectly related to tourism.

- Vendors, including souvenirs vendors, hair braiders, vendors of native straw products and native arts and crafts, tour companies and taxi and limousine franchisers are all expected to reap substantial benefits in terms of increased business with the expected boost in tourist arrivals. One example has been the recent increase in executive limousine imports, which are used principally to cater to the more affluent tourist clientele.
- Reflecting agreements forged by the government, increased linkages are being forged between local producers of fruits and vegetables and hotel owners and operators for the increased use of native-locally grown fruits and vegetables.
- Increased numbers of employed workers, logging a greater number of hours per week, naturally translates to increase demand for all products and services in the economy. Overall unemployment has been reduced from a high of 14.8% in 1992 to an estimated 10.6% last year. In addition, real GDP growth which fell by as much as 2.7% in 1991 and declined on average 0.36% over the previous five years, improved by an estimated 3.0% in 1996, and is expected to increase further in 1997.
- Private capital inflows to the tourism sector through the sale of state-owned properties, contributed significantly to the overall national economic well-being through sale proceeds

being made available to the consolidated account, enabling additional funds to become available for general purposes including infrastructure development.

- Further, enhanced macroeconomic environment is reflected in the general downward trend in interest rate over the last five years and limited fall-off in international reserves despite increased current deficits.
- In addition to being able to sustain a larger current account deficit on the balance of payments and increased international reserves, redevelopments in the tourism industry are expected to have resulted in increased ability of the part of the fiscal authorities to increased its debt service ratio, retire outstanding domestic public sector loans and reduce government's contingent liabilities.

SECTION IV

INCENTIVES/CONCESSIONS

Several pieces of legislation have been enacted or updated to encourage foreign investment in the tourism sector, including The Hotels Encouragement Act, and the Tariff Act. Exemptions and concessions are often granted on a discretionary basis but have included:-

- *The right of investors to acquire publicly owned lands for approved developments on concessionary terms.*
- *Exemption from the payment of customs duties on building materials, equipment and approved raw materials.*

- *Exemption, reduction and/or postponement of business license fees and real property taxes for periods up to twenty years.*
- *Certain exemptions from immigration provisions may also be made available, allowing permits for key personnel.*
- *Exemptions, from various fees and taxes are often granted for developers of small touristic properties in the Family Islands.*
- *Apart from exemptions granted under certain programs and initiatives, discretionary exemptions are often available such as a reduction in casino taxes.*

The incentives, many of which are listed above which are available to foreign investors can also be enjoyed by local investors in targeted industries especially tourism. Table 10 at the end of the paper lists some of the local investors who have taken advantage of concessions and incentives under the Hotel Encouragement Act to construct small hotels, guest houses and fishing “villages” throughout The Bahamas.

COSTS/TRADE-OFFS

However, the economic costs associated with the granting of these concessions/incentives and legislative initiatives, not to foreign but also local investors in the tourism industry, is expected to continue to be felt in the local economy over both the medium and long-term in

terms of lost revenues and the consequent reduction in the ability of the government to continue to provide the level of goods and services previously expected.

Some social costs predicated on the above-mentioned initiatives include significant adjustment by hotel employees, as well as the unions that represent them. A new understanding must be forged between workers and employers regarding working environment and on the job expectations, which may be considerably different than previous. The realization that many hotel workers can no longer expect to retain their previous positions and remuneration levels, without increased productivity may exact a human cost in terms of job-related anxiety and its associated ills. As well as the acceptance that unlike previous state-owned hotel properties, these facilities would now be owned and operated by individuals whose primary interest would not be the maximization of employment but profits.

There is also the cost associated with having such a large proportion of the factors of production of the tourism industry concentrated in non-Bahamian hands. Lost of control over this very vital industry and concerns that the national destiny will be determined by other not native and perhaps not sympathetic to national needs and overall national development goals.

SECTION V

CONCLUSION:

SUATAINABILITY OF FOREIGN CAPITAL INFLOWS

A critical question for The Bahamas as we review the impact of this surge in capital inflows is: to what extent will internal and external developments combine to make the flow endure? Part of the answer to this question depends on the continuation of underlying trends in the

international financial sector--that is, the globalization of markets and industries and the diversification of portfolios. The growing interest of regional and international investors in The Bahamas could continue throughout the rest of the 1990s in the form of large-scale investment including investments in the hotel sector. The movement of international capital into The Bahamas has been based as much on government policy, legislative initiatives and economic growth, as on the assumption of high expected returns.

However, we can ill afford to rest on our achievements to date. Our regional and international competitors, viewing the success of the Bahamian model are likely to emulate this model in terms of addressing infrastructural constraints, which may have limited the attractiveness of these territories to international investors. Sustainability and durability also depend on internal conditions. The Bahamas must continue to implement sound macroeconomic policies, maintain a strong commitment to market oriented reform, and outward oriented services industries and strategies, likely to enhance the credibility of the country's policy makers from the stand point of international investors.

Notwithstanding the role of foreign investors, however, further efforts and policies are needed to promote increased domestic savings and adequate returns on domestic investment in the small and mid-sized hotel properties.

The Bahamas Experience: Lessons to be Learnt?

International standards for market infrastructure provided an excellent medium-term benchmark for The Bahamas and indeed the rest of the Caribbean. We as a region may need to

continue to emulate the experience of the more advanced emerging markets, especially those in Asia, which substantially improve market infrastructure in a relatively short period by leapfrogging to state-of-the-art systems.

Investors however, remain concerned with the unreliability of emerging markets in three main areas: market infrastructure (where the consequences include high transaction costs, frequent delays in settlement, and outright failed trades); protection of property rights, in particular those of minority shareholders; and disclosure of market and company information and control of abusive market practices. These are the areas that we all need to focus on in order to attract and maintain levels of foreign capital inflow enabling ourselves to achieve increased levels of growth and development. Unfortunately, there are no simple solutions to preparing capital markets for financial integration, which requires concentrated action across a broad array of areas to improve market infrastructure and the regulatory framework.

This experience, however, together with the not infrequent weakness characteristic of emerging market financial intermediaries, also suggest two cautionary notes:- First, improving the speed of project approvals for FDI as well as portfolio investments should not be achieved at the expense of the overall economic development plans of the nation. Second, despite the importance of improving investor confidence, appropriate standards of conduct, employee relations, industrial safety and workers rights should not be relegated to an afterthought.

A model for the regulation of foreign private inflows as envisioned for The Bahamas' tourism sector and applicable for overall capital market development, is based on the principles of disclosure and self-regulation currently gaining wide acceptance in emerging markets because

of its strong advantages over direct government industry involvement. But government regulation and oversight are still essential, and the state can play a crucial role in capital market as well as touristic development, in partnership with the private sector, providing the basic legal structures, for example, and fostering vital market institutions. Given the weaknesses in the regulatory systems of many emerging markets in our region and the susceptibility to “reputational risk,” the trade-off between market development and effective regulation required to develop and maintain market confidence is less pronounced than is sometimes thought.

Private capital flows has indeed been a boon to the Bahamian economy in general and the Bahamas’ tourism industry in particular and it is expected that with close cooperation between foreign investors, the local private sector and the regulatory authorities, we can continue to reap the benefits of this inflow in a prudent and productive manner over the medium and long-term. It is clear that there is inherent dangers to the local economy and national autonomy over a significant portion of the economic capacity of the country, however, at least as at the present time, The Bahamas has pointed the way in which other territories can attract and benefit from international capital flows.

Table 8
HOTEL ENCOURAGEMENT ACT*

HOTEL NAME Owner	LOCATION	Number Rooms	Project Cost	HOTEL NAME Owner	LOCATION	Number Rooms	Project Cost
Unnamed MR. LARRY MINNIS	Gregory Town Eleuthera	10	276,000	Unnamed Everette Archer	Marsh Harbour Abaco	8	24,601
Unnamed Crooked Rock Invt's Ltd	Pirate's Well Mayguana	12	253,374	Dayshell Inn Lilly Bowleg	Nicholl's Town Andros	10	83,367
Glowell Resort Wellington Lightbourne	St. Alban's Drive New Providence	25	2,780,000	Seascape Inn M.J. Enterprises Ltd.	Mangrove Cay Andros	10	125,203
Seaspray Resort Hotel Seaspray Resort Ltd	Hope Town Abaco	24	1,755,000	Tranquility Hill Fishing Lodge Raymond Mackey & Ivan Neymour	Behring Point Andros	10	229,794
Peace & Plenty Bonefish Resort Peace & Plenty Limited	George Town Exuma	16	496,584	Smith's Motel #2 Percy Smith	Cowpen Road New Providence	20	174,100
Stafford Creek Lodge Prescott Smith	Staniard Creek Andros	10	65,817	Unnamed Preston Cunningham	Cabbage Hill Crooked Island	6	17,200
Daffodil Resort Vernon Fowler	Little Creek Andros	20	236,910	Lochabar Beach Lodge Lochabar Beach Lodge	Limited Long Island	6	84,499
Lukkai Tropical Forest Beach Resort Maurice Gulson	Treasure Cay Abaco	19	1,200,000	Guana Seaside Village Roger Abney	Great Guana Cay Abaco	8	110,065
Oceania Heights Hotel Oceania Heights Resort Dev. Ltd	Moss Town Exuma	12	1,072,995	Point of View Bonefishing Camp Kayshan Investments Ltd	Fresh Creek Andros	28	926,847
Paradise Outdoors Leslie Pinder	Rock Sound Eleuthera	4	9,323	The Admiralty Court Resort The Admiral Yacht Haven Ltd	Marsh Harbour Abaco	5	85,950
Musha Cay Resort Musha Cay Dev. Co. Ltd	Musha Cay Exuma	12	7,082,741	Marsh Harbour Airport Motel Jason Swain	Marsh Harbour Abaco	7	62,663
Dolphin Beach Fisher's Bay Club Ltd	Great Guana Cay Abaco	6	176,725	Cave Cay Hotel Elsmere Investments Ltd.	Cave Cay Exuma	15	2,685,750
Great Guana Cay Reef Resort Nirob Ltd	Great Guana Cay Abaco	34	682,612	The Retreat Eco-Touristic Hotel Institute (Bahamas) Ltd	Bahama Sound Exuma	12	405,000
Unnamed Thomas Hield	Moore's Island Abaco	7	9,923	Eagles Nest Hotel Restaurant & Bar Young Eagle Star Ltd.	Duncombe Ragged Island	10	564,646
Kamalame Cove Resort	Long Bay Cay Andros	14	1,934,225	Compass Point Beach Club Island Outpost Limited	West Bay Street New Providence	27	881,601

* New hotels approved for domestic ownership since the December, 1992 Amendment substituting customs duty exemptions for refunds

THE BAHAMAS: MACROECONOMIC INDICATORS ^u

	1991	1992	1993	1994	1995	1996	1997 Q1
1. Nominal GDP Growth Rate ^u	(3.5)	0.1	(0.6)	3.1	2.3	5.1	N/A
Real GDP Growth Rate ^u	(2.7)	(2.0)	1.7	0.9	0.3	3	N/A
Nominal GDP	3,101.2	3,103.48	3,085.2	3,180.8	3,254.0	3,420.0	N/A
Real GDP	2,800.4	2,744.4	2,791.0	2,816.1	2,824.6	2,909.3	N/A
2. Inflation Rate (Average chg in RPI)	7.1	5.7	2.7	1.3	2.2	1.5	1.1
Retail Price Index (Oct/Nov 1995=100)	90.3	93.7	96.3	97.6	99.7	101.1	101.3
3. Wage Indices	N/A	N/A	N/A	N/A	N/A	N/A	n/a
4. Unemployment Rate	12.3	14.8	13.1	13.3	11.1	10.6e	n/a
5. Fiscal Accounts B\$MN							
Current Balance	(14.5)	2.6	3.7	63.0	60.9	32.9	2.9
Current Balance % of GDP	(0.5)	0.1	0.1	2.0	1.9	1.0	N/A
Overall Balance	(113.7)	(88.1)	(85.1)	(20.0)	(23.2)	(64.7)	(34.7)
Overall Balance % of GDP	(3.7)	(2.8)	(2.8)	(0.6)	(0.7)	(1.9)	N/A
Current Revenues	490.4	534.6	537.1	618.2	651.2	678.9	179.4
Current Revenue % of GDP	15.8	17.2	17.4	19.4	20.0	19.9	N/A
Current Expenditure	523.7	530.6	533.4	551.6	586.2	645.7	175.5
Current Expenditure % of GDP	18.9	17.1	17.3	17.3	18.0	18.9	N/A
Capital Expenditure	88.1	92.1	88.8	86.6	97.2	97.8	37.6
Capital Expenditure % of GDP	2.8	3.0	2.9	2.7	3.0	2.9	N/A
6. Interest Rates (%)							
Prime Lending Rate	9.00	8.00	7.25	6.75	6.75	6.75	6.75
3 months Time Deposit Rate	7.1	6.1	5.2	4.5	4.6	5.1	5.0
Weighted Average Loan Rate	15.35	15.33	14.88	14.22	13.26	12.56	13.04
7. Int'l Reserves B\$ MN:							
Gross Reserves	173.8	146.0	184.3	173.6	170.6	163.0	221.3
Changes in Reserves	14.3	(27.8)	18.3	9.3	(3.0)	(7.6)	58.3
Import Cover Ratio (weeks)	8.4	7.0	7.9	8.4	8.2	7.9	10.7
8. Monetary Base	207.0	201.0	199.4	223.5	232.0	227.2	244.2
9. B\$/US\$: Exchange Rate							
End of Period	1.0	1.0	1.0	1.0	1.0	1.0	1.0
High	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Low	1.0	1.0	1.0	1.0	1.0	1.0	1.0
10. Balance of Payments B\$ MN:							
Current Balance	(179.4)	37.5	70.5	(18.6)	(128.5)	(205.0)	47.8
Current Balance % of GDP	(5.8)	1.2	2.3	(0.6)	(4.0)	(6.0)	N/A
Capital & Financial Balance	169.5	(7.8)	(0.1)	62.6	90.7	130.8	23.3
Capital & Financial Balance % of GDP	5.5	(0.3)	(0.0)	2.0	2.8	3.8	N/A
11. Total Public Sector Debt B\$ MN.	1,309.1	1,426.8	1,537.9	1,579.5	1,583.3	1,636.0	1,645.0
of which: External	342.1	377.6	359.7	332.3	304.6	283.8	273.7
Internal	967.0	1,049.2	1,178.2	1,247.2	1,278.7	1,352.2	1,372.3
(foreign currency debt)	412.3	440.5	453.4	410.4	393.4	357.8	347.9
Debt Service Ratio	4.6%	4.9%	5.0%	5.6%	5.0%	5.2%	6.9%
Total Debt/GDP	42.2	46.0	49.8	49.7	48.7	47.8	N/A
External debt/GDP	13.3%	14.2%	14.7%	12.9%	12.1%	10.5%	N/A
12. Domestic Public Sector Debt: B\$MN ¹	896.8	986.3	1,084.5	1,169.0	1,190.1	1,277.5	1,293.9
Loans	141.2	135.0	131.0	126.6	126.7	127.9	129.3
Securities	755.6	851.3	953.5	1,042.4	1,063.4	1,149.6	1,169.6
13. Tourism							
Stopover Arrivals ('000s)	1,427.0	1,398.9	1,488.7	1,516.0	1,598.1	1,633.1	442.1
Cruise Arrivals ('000s)	2,020.0	2,140.5	2,038.8	1,805.6	1,543.5	1,685.6	574.2
Total Arrivals ('000s)	3,622.2	3,690.6	3,672.3	3,447.5	3,239.2	3,415.8	1,349.3
Tourist Expenditure (B\$m)	1,192.7	1,243.6	1,304.0	1,332.6	1,346.3	1,450.0	425.4
14. Construction							
Number of Permits Issued	3,091	2,841	2,365	2,618	2,303	2,307	528
Value of Starts (B\$'000s)	145.0	145.3	121	175.3	119.3	186.8	39.8
Value of Completion's (B\$'000s)	125.0	162.1	129.6	185.9	109.9	156.6	44.4

e=estimate

^u 5 Jan. June (1996) = five months through May

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^{1/} With the exception of public sector debt data, projections are those prepared by the IMF during the 1995 Article IV visit..

^{2/} Data for 1991-1993 are official estimates; data for 1994 onwards are IMF GDP estimates.

^{3/} There are no official estimates for real GDP, estimates are those of the IMF.

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